

Euroscope Reports

Efficient Transport System - Prerequisite for Integration

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Introduction

The common market of the European Union is based on the free movement of persons, goods, capital and services. For the realization of three out of 'four freedoms' (circulation of persons, goods and capital) transport plays a key role; moreover, efficient, swift and environmentally safe transport links have proved to be a necessity. The full achievement of these freedoms within an area as big as the EU is an ongoing process and can only be ensured if land, water and air transport operate smoothly. Free circulation in the area without internal frontiers stimulates mobility, which is added to the fast growth of passenger and freight transport in each Member State.

The demand for transport services has increased significantly. Factories are being built in suburbs, employees spend more time commuting, smaller volumes of goods are more frequently transported, incomes are greater, more and more cars are being bought, holiday travel has boomed etc. The European-wide market offers new opportunities both to persons and businesses and national economies are becoming more interdependent.

The common market in transport needs to be further developed in order to meet the rising demand for transport services. This development should proceed at an international level since many problems connected to transport growth and development are common to all Member States and have cross-border effects.

The importance of the Union's transport sector can also be proved by the following facts: it employs approx. seven million persons and accounts for 6% of the GNP¹. Investment in transport infrastructure is approx. ECU 70 billion, and private households in the EU spend 14% of their annual income for transport².

Two policies of the European Union concentrate on the transport sector: one is transport policy and the other is trans-European transport networks. By combining the two policies the Union is trying to meet the transport needs of the common market and solve transport problems of a modern European society.

This short study presents some of the main elements of the Union's transport policy and of the trans-European transport network. The analysis of the transport issues starts at the Union level and expands to Central and Eastern European countries and Croatia. However, the most challenging question is how to create a transport system for the new millennium.

¹Source: Europe from A to Z, Guide to European Integration, p. 208

²Source: Statistical Overview EU Transport, <http://europa.eu.int>

The Common Transport Policy

The transport system of a country or of a certain region should be organized in a way that would foster growth and development of that country/region. It is supposed to be safe, environmentally friendly and up to the task of realizing the overall mobility of persons and goods in the Union and to third countries, while using technical and organizational transport arrangements to facilitate transport.

Different courses of action within the framework of the Union's transport policy have been developed to meet these aims. The Common Transport Policy stands on seven pillars: internal market, integrated transport system, trans-European transport network, respect for environment, promotion of safety standards, social policies and connections with third countries.

Before the process of European integration began, the Member States had their national transport policies regulated with respect to national needs and priorities. These national policies always promoted interests of the home market and protected them when necessary (e.g. in cases of harsh international competition of transport operators). The measures used comprised of promoting national seagoing merchant fleet, subsidizing national airlines and national railways, fostered the country's basic industries and employment of home workers. The efficiency of international transport across frontiers depended on bilateral and multilateral agreements signed with other countries.

In the time of European integration transport policies could not be conducted from a national perspective any more. Moreover, the national policies proved to be too discriminatory (on the basis of nationality) and too expensive to fit into the international concept of transport, so they hindered functioning of the common transport market. Therefore, the obstacles to the operation of the common market had to be eliminated, which was done by the liberalization of the transport system. Namely, government regulation has been reduced to questions of true public interest: determining real costs of transport infrastructure, prohibiting anti-competitive agreements in the international transport market, respecting transport safety, defining technical standards, considering social insurance of the workers, planning the transport network, reducing noise and other negative environmental effects of transport.

Transport policy has always been at the top of European agenda and since the Rome Treaty (1957) is considered a common policy. The preamble to the EEC Treaty³ expressed the resolve of the partners to create 'an ever closer union among the peoples of Europe' and the main driving force for integration was generated. EEC's initial goals of establishing a common market and common agricultural, transport, competition and economic policies were gradually followed in environmental, social, regional, educational, and research and technology areas.

As far as transport infrastructure is concerned, in 1978 the Committee on Infrastructure was established and following several Council regulations, it gave support to a limited number of projects until 1994. Since the end of the eighties transport policy has developed significantly. The Treaty on European Union, signed in Maastricht, came into force in November 1993. It established the common transport market and introduced coordination procedures between the Member States and the Union. It also gave new responsibility to the Union in the matter of

³EEC Treaty, entered into force on 1 January 1958

transport infrastructure. Title XII of the Treaty requests the Union to establish the trans-European networks for energy, transport and telecommunications. In this respect the transport infrastructure policy becomes part of the wider context of infrastructure network developments in the Union.

This text will further consider the trans-European transport network, i.e. the system of interconnected transport corridors which connect Europe from East to West and from North to South.

Sustainable Mobility

Transport is exceeding capacities in the most populous and economically developed central parts of Europe and particularly in conurbations. This problem is frequently associated with road transport, but it also arises in other transport modes. The dominance of motor vehicles (see tables 1 and 2) in today's transport system causes congestion and has negative effects on the quality of life and environment.

Table 1 Goods Transport in EU

(Performance by mode)

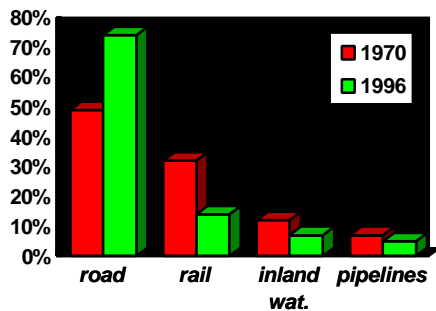
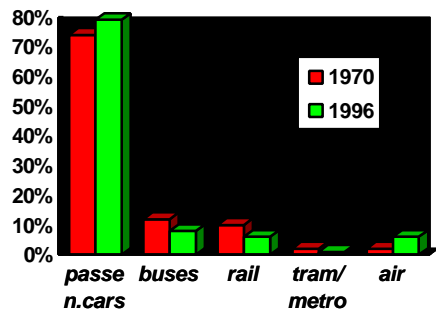


Table 2 Passenger Transport in EU

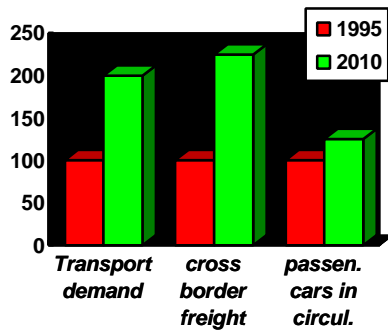
(Performance by mode)



Source: Statistical Overview EU Transport, <http://europa.eu.int>, figures adopted to nearest percent

Transport demand is forecast to nearly double by 2010 and the Union should be capable of meeting it. The following table 3 gives data on the expected growth in transport demand, freight and passenger cars.

Table 3 Expected growth in transport demand, freight and passenger cars



Source: The Trans-European Transport Network, Brussels, 1994, p.3

Not only should transport mobility be guaranteed, growing concern for a cleaner environment should also be respected. Solving this problem is of a transnational nature and it is a formidable challenge for the Union and its neighbours.

The European Union is currently working towards achieving a sustainable mobility in a number of ways including a) creating a harsh competition in the transport market, b) evaluating environmental effects of infrastructure investments and c) using telematic technology.

a) The objective of the common transport policy is to promote competition between transport operators who offer a broad range of services, but also to enable them to cooperate when using various transport modes for door-to-door delivery. Looking into the future, the role of railways, combined transport and internal waterways will increase due to the present rise in Union investment. Community promotes combined transport, in particular road/rail transport to exploit the relative advantages of these modes. For example, large freight volumes can be transported by rail over long distances, while roads are used for local distribution. Another example is of passengers flying over long distances and entering a high speed train from the airport to the town centre. In this way combined transport uses flexibility and speed of roads, and airplanes and environmental advantages of railways and waterways.

b) New transport infrastructure must be established and the old one modernized in order to satisfy rapid transport growth and reduce possible environmental damages (CO₂ emissions, climatic change, etc.) to a minimum. Therefore, planning of transport infrastructure is now more than ever subject to screening and assessments. Each decision with respect to funding infrastructure projects, from the Union budget or from European Investment Bank, depends on the projects' environmental assessments.

c) The European Community programme⁴ for research, technological development and demonstration activities promotes R&D projects. The Union promotes research and full application of transport telematics, whose impacts are used in Traffic Management Systems (TMS). Road and rail TMS are most commonly implemented and are used for avoiding congestion

⁴The Fifth framework programme of the European Community for research, technological development and demonstration activities has come into force for 1998-2002.

in towns and on motorways and for better planning of transport. Systems for combined transport are developing increasingly and they enable users to easily and safely change demanded means of transport.

Expected investment for successful implementation of TMS is approx. 34 billion ECU until 2010. The financing of this system depends on individual services, and the common aim is realization of the *user pays*⁵ principle. For countries following the common technical standards, TMS implementation will increase information flow and information management, increase efficiency and safety of the transport sector and lead to growth, competitiveness and employment.

The Union should also provide incentives for the establishment of such services by giving them a European dimension, or encouraging the integration of existing systems, where they have been developed internationally.

In December 1998 the Commission adopted the action programme "Sustainable Mobility: Perspectives for the Future", which sets out the initiatives it intends to act upon in order to ensure sustainable mobility within the EU. The programme defines the major priorities for common transport policy up to 2004 amongst which are: the completion of the single market, safety issues, environmental protection, fair and efficient pricing and economic and social cohesion.

By paying more attention to sustainable mobility issues and by adopting this action programme, the EU encourages the development of efficient and environmentally friendly transport systems, that are safe and acceptable to the Union citizens.

⁵the "user pays" principle charges all users of transport facilities (both operators and final customers) for the costs they impose, or as close as possible to the point of use. It should be applied to all major modes of transport in each Member State of the EU. (More information in Euroscope, no. 39, p. 8., available only in Croatian)

The Trans-European Transport Network

The transport system of the European Union should serve the European Single Market in an efficient and sustainable way. So far, it has not always been the case. When 15 different transport systems in 15 member states are put together, they create a "patchwork" of networks, rather than a coherent transport network. Therefore, interconnecting networks, eliminating bottlenecks, building missing links and harmonizing technical standards has proven necessary in order to achieve interoperability of each system within the whole.

The Union has been making enormous efforts to integrate individual transport networks into a new European transport system, i.e. trans-European transport network, which will: offer passengers and businesses fast and efficient transport routes and services at competitive prices, reduce congestion by directing increased transport demand towards rails, combined transport and inland waterways, connect the centre of the Union to peripheral regions and strengthen links with Central and Eastern European countries.

Projects of common interest are considered to be the constitutive elements of creating the trans-European transport network.

After Maastricht, the Union published guidelines on infrastructure projects it would subsidise. In the Proposal for a European Parliament and Council Decision on Community guidelines for the development of the trans-European transport network⁶ an ambitious plan was outlined: integrating national transport networks into a single trans-European transport network by 2010. The Commission proposal requires building 70 000 km of rail track (22 000 km of new and upgraded rail track for high-speed trains), 15 000 km of new roads (approx. 50% in peripheral EU countries), complete 58 000 km of already largely built network, corridors for combined transport and terminals, 267 airports, and networks of inland waterways and seaports.

A group of experts⁷ listed projects that were considered to be of the greatest importance for the development of the Union transport infrastructure and whose influence on growth, competition and employment was positively evaluated. All the projects listed satisfied the following criteria:

- building missing links, completing main transport routes and eliminating bottlenecks
- developing access to the network by connecting peripheral and less approachable regions to the central parts of the Union
- development and implementation of transport and transport network management and control systems.

The European Council adopted 34 preliminary infrastructure projects and five traffic management projects. However, the final choice of projects was influenced by project size, economical and

⁶COM (94) 106 final, Brussels, 7 April 1994

⁷Christopherson group made up of the personal representatives of heads of state and government under the chairmanship of Commission vice-president Henning Christopherson

financial viability, potential attractiveness to private investors and the realization period. In December 1994 the European Council in Essen selected 14 projects of common interest as Union priorities⁸:

Priority projects - Essen 14

1. High-speed train/combined transport north-south (Berlin-Nuremberg/Munich-Verona)
2. High-speed train PBCAL (Paris-Brussels-Cologne-Amsterdam-London)
3. High-speed train south (Spain-France)
4. High-speed train east (Paris-eastern France-south-west Germany, including Metz-Luxembourg branch)
5. Conventional rail/combined transport: Betuwe line (Rotterdam-Dutch/German border)
6. High-speed train/combined transport: France-Italy (Lyons-Turin-Milan-Venice-Trieste)
7. Greek motorways: PATHE and Via Egnatia
8. Lisbon-Valladolid motorway
9. Conventional rail link: Cork-Dublin-Belfast-Larne-Stranraer
10. Malpensa Airport, Northern Italy
11. Fixed rail/road link between Denmark and Sweden - Oresund fixed link (including access routes for road, rail and air)
12. Nordic Triangle (multimodal corridors)
13. Ireland-United Kingdom-Benelux road link
14. West coast main line (UK)

The selected projects clearly indicate the priorities of the Union's transport policy, namely, creating alternatives to road transport. Shown in figures, around 80% of total investment is planned for rail infrastructure projects, 9% for road-rail combined transport projects, and only 10% for road infrastructure.

All of the above mentioned projects are of a large scale and their implementation and completion depend on mobilising required finance.

The project implementation procedures need to be coordinated and the governments involved should follow the same timetable and the same transport priorities.

In June 1998 the Commission published a report⁹ on the implementation of projects for trans-European transport network development. According to the implementation phase the Essen 14 priority projects were divided in three groups: a) projects near completion (9,10,11), b) currently implemented projects (financial construction closed, 2,3,4,5,7 and 14, completion forecast 2005) and c) projects for which financing is uncertain and time scales run beyond 2005 (all other projects).

⁸Source: The Trans-European Transport Network, Transforming a Patchwork into a Network, EC, Brussels, Luxembourg, 1995, p. 16

⁹Source: COM (98) 356 final, 3 June 1998

Following the subsidiarity principle, the member states are in charge of project implementation while the Union proposes an outline of the network, implementation of the outline and tries to eliminate financial and administrative difficulties during project implementation.

Project Benefits

1. Economic benefits

Economic benefits can be direct (connected with project construction and implementation) and indirect (connected to the increased competitiveness of peripheral regions and their economies when they are brought closer to the central parts of the Union). Indirect benefits are greater than the direct ones.

Large transport infrastructure projects will secure jobs, create new ones and boost economic activity. In this way there is a reduction in unemployment, which is one of the most serious problems in the EU. Economic benefits are especially high in manufacturing, since companies receive raw materials faster and distribution of their products is smoother, compared to companies that produce and construct transport capacities, and companies which develop and produce telematic systems TMS.

2. Safer transport

According to the 1996 data¹⁰ every year in the EU around 42 000 people die on the roads and fatalities are annually decreasing by 2-3%. In the rail sector around 900 persons are killed per year and fatalities are slightly decreasing.

The new traffic management technologies will save lives due to the fact that the arrival of first aid and accident services will be faster. Drivers will be better informed about weather and traffic conditions, and will be electronically guided to alternative routes.

3. Less congestion and a cleaner environment

Congestion influences air quality. According to recent studies, the economic cost of road congestion alone is approx. 2% of GDP (see Table) of EU member states. Building new roads cannot solve the problem.

Table 4. External costs of transport (estimate in % of GDP, data for 1996)

air pollution	0.4%
accidents	1.5%
noise	0.2%
congestion	2%
total:	4% or ECU 270 billion

Source: Statistical Overview EU Transport

Using new traffic management technologies (telematic systems) such as the policy of directing traffic towards non-road transport modes (e.g. development of public transport by trams, rails etc.) and the implementation of a fair system of charging following the user pays principle, will be

¹⁰ Statistical Overview EU Transport

helpful in reducing congestion. Noise and air pollution at the current level of road transport are considered unacceptable.

In order to satisfy customer demand and the European regulations, car companies produce "cleaner" and "quieter" vehicles. It was estimated that in 2010 cars will emit 50% less carbon monoxide, 45% less nitrogenoxide and 50% less carbohydrates than in 1990.¹¹

In regard to assessing the impact of transport infrastructure on the environment, any project applying for either Community funding or EIB loans has to pass environmental impact assessment¹².

4. A wider choice of transport modes and transport routes

Travel time by fast trains from London to Paris or from London to Brussels is half of the travel time by road and directly competes with airplane travel. For inter-city travels rail is becoming a more attractive alternative to road and air transport.

Financing the Trans-European Transport Network

According to the 1994 Commission estimates, the total cost of the designed trans-European transport network is approximately ECU 400 billion¹³ until 2010, and the estimated cost of Essen 14 projects is approx. ECU 91 billion. It is a huge investment and the required funds have to be gained as quickly as possible in order to create a transport system that properly serves the European Single Market.

Finances for the Union transport infrastructure can be provided from the public sector (Union funds), private investors or Public-Private Partnerships (PPPs).

There are four sources of Union funds: the Union budget, the Structural funds, the European Investment Bank (EIB) and the European Investment Fund (EIF).

The Union budget funds are exclusively available for pre-investment feasibility studies, guarantees and interest subsidies on loan finance, but are also used to give access to much larger investment funds. Grants are allowed in justified cases, for the benefit of the least-favoured regions. ECU 1.8 billion was available from 1995 to 1999 for financing the trans-European transport network, and ECU 472 million was allocated from the 1998 budget for this purpose.¹⁴

The Union investment is mainly concentrated in the rail sector, traffic management systems and in the road sector¹⁵. In the next few years Essen 14 projects will absorb large sums of the budget because most of them will be entering the last phase of realization. Therefore, a rise in spending is necessary for the financing period 2000-2006, which is the crucial time in project completion,

¹¹same as under 8

¹² set out in the Community Directive 85/335

¹³Source: The Trans-European Transport Network, Brussels, 1994

¹⁴Commission provides financial support to trans-European networks transport infrastructure projects (europa.eu.int/en/comm/dg07/press/ip98740)

¹⁵61.82% for railways, 15.67% for traffic management and 12.52% for roads - Source- COM(98) 356 final, 3 June 1998.

Structural funds, for example the European Regional Development Fund (ERDF) benefiting the least-favoured regions and cohesion fund benefiting exclusively Spain, Portugal, Greece and Ireland, Played a key role in financing a railway route from Belfast to Dublin, a motorway in Greece and the high speed train South.

The European Investment Bank is a financial institution seated in Luxembourg, specially tailored to the needs of large infrastructure projects. Being also the major source of loan capital, it has lent money to many Essen 14 projects and made large capital loans available for the completion of the trans-European networks.

The European Investment Fund was established in June 1994 with a capital of ECU 2 billion¹⁶ partially owned by private financial institutions. Its main role has been to provide loan guarantees for TEN projects.

The public sector is a conventional source of infrastructure investment, but it is not capable of bridging the gaps in financing European transport infrastructure or even providing funds to complete priority projects within the desired timespan. Governments are unable to provide large sums of money, since their budgets are burdened by excessive deficits, which should be reduced in order to satisfy the criteria employed by the monetary union. Therefore, the Commission's objective is to attract private investors or organize Public-Private Partnerships to supply the required funds.

It is rather difficult to attract private investors, as they select projects on the basis of high financial criteria, primarily project profitability. However, the public sector considers the economical viability of a project (mentioned economic benefits for society) besides the so called financial viability (i.e. generated revenues greater than costs and an adequate rate of return).

Trans-European transport projects have relatively low estimated rates of return approx. 3-8%, long pay-back periods (first six years or longer without returns), revenues difficult to forecast, and an uncertain level of traffic flow. Private investors could be encouraged to enter these projects only if they are guaranteed shorter periods of return and minimal levels of traffic, more precise traffic forecasts and returns that reflect the risks involved.

The compromise can be found in establishing Public-Private Partnerships. In these partnerships the private sector can bring great assets to large transport projects both financially and in terms of project design and implementation if it is engaged at early stages of project planning.

Splitting risks is another advantage of partnerships, when a risk is covered by a partner who controls it more easily. For example, private investors could cover financial risks, risks of network design, traffic flow forecast, while public sector could carry administrative and regulatory risks and risks of network planning.

As additional motivation to private investors, there is a new system of charging transport infrastructure, the so called "user pays" principle. It is expected to increase infrastructure revenues and save 30-80 BECU per year.

¹⁶see footnote 8

Connecting the Network to Central and Eastern European Countries

Political and commercial ties amongst EU member states and Central and Eastern European countries (CEEC) are strengthening rapidly. Political ties are tighter due to the fact that the CEEC aim to become full members of the Union, and their relations with the Union are based on different agreements bringing them closer to full integration. From a commercial point of view, the Union is the main trading partner for CEEC, and its business cooperation with these countries has increased in importance.

The objective of extending the trans-European transport networks to the East is to stimulate employment and economic growth and also help integrate CEEC economies with that of the Union. How will the accession process affect developments in the transport area¹⁷ is a challenging question, whose significance is undoubted.

*Nothing symbolises or serves the integration of Europe better than the physical linking of transport systems and nothing is more important for the development of the applicant countries than the achievement of efficient infrastructures*¹⁸. This idea is present in the Treaty of the EU when it mentions the possible EU cooperation with third countries in promoting network infrastructure projects of mutual interest, in the Europe Agreements which foresee that a priority area for cooperation shall be construction and modernization of transport infrastructure and in the Agenda 2000 which treats the development of transport networks as one of the central challenges for the accession process.

A new phase of the Union's enlargement to the East was initiated at a European Council meeting in Luxembourg (December 1997), when a political framework for the start of negotiations with 11 candidates was formed. Following the 6+5 accession model, under screening are currently 6 "ins": Cyprus, Hungary, Poland, Estonia, Czech Republic and Slovenia and 5 "pre-ins": Bulgaria, Latvia, Lithuania, Romania and the Slovak Republic. The twelfth candidate is Malta, which reinstated its request for membership.

In order to integrate into the EU all candidates will have to physically link their transport systems with the Union's, accept the Community acquis (incl. the implementation of Community safety requirements) and prepare for their future participation in the EU institutions. In this way a Europe-wide or pan-European transport policy will be created.

The Second Pan-European Transport Conference in Crete and the Establishment of the TINA Group

Pan-European transport initiatives usually arise from three agencies, namely the UN/ECE, the European Conference of Ministers of Transport and the European Civil Aviation Conference.

¹⁷as analyzed in the Neil Kinnock, the European Commissioner responsible for Transport Policy and the TENs always stressed the importance of pan-European network in his speeches. EG. in Brussels ("Transport, Enlargement and the Countries of Eastern and Central Europe", 4 June 1996, <http://europa.eu.int/en/comm/dg07/speech/sp960604.htm>)

¹⁸the Commissioner responsible for transport, Mr. Kinnock speaking at a conference in Amsterdam on "Bridging gaps in Financing Infrastructure", 31 March 1998 (<http://europa.eu.int/en/comm/dg07/speech/sp9861.htm>)

At the second Pan-European Transport Conference in Crete 1994 the concept of corridors was evolved and nine priority projects for infrastructure development (so called "Crete corridors") were identified for further work. Besides the ministers, the participants at this conference were the representatives of CEECs, international financial institutions, leading European and international private banks and transport companies. Together they came to a conclusion that a Europe-wide transport policy should be based on the market economy with free competition in national markets, on the multimodal approach, harmonizing regulatory policies and high safety standards. These starting-points of the Europe-wide policy resemble the main elements of the Union policy, because the pan European transport network will connect the more developed Union network with the less developed networks in CEECs, and interoperability of the complete network should be ensured. The projects for infrastructure development were selected regarding different criteria including linking EU regions with the third countries and v.v., facilitating international traffic flows within the corridors, financial and administrative viability (10% rate of return and adequate financing by 2010) and promoting modally balanced transport.

Selected high priority corridors in Central and Eastern Europe (rail/road links) are:

1. Tallinn-Riga-Warsaw
2. Berlin-Warsaw-Minsk-Moscow
3. Berlin/Dresden-Wroclaw-Lvov-Kiev
4. Berlin/Nurnberg-Praha-Budapest-Constanta/Thessaloniki/Istanbul
5. Trieste-Ljubljana-Budapest-Bratislava-Uzgorod-Lvov
6. Gdansk-Warsaw-Zilina
7. Danube - (waterway corridor)
8. Durres-Tirana-Skopje-Sofia-Varna
9. Helsinki-Kiev/Moscow-Odessa/Kishinev/Bucuresti-Plovdiv

The achievements of candidate countries in the transport area are being regularly assessed. Measures supporting rail transport will be adopted gradually in many candidate countries and more attention is paid to meeting environmental and safety standards of the Union. The transport development highlights of the first group of candidates¹⁹ are as follows: in the Czech Republic the modernization of the four railway transit corridors is under way and the development of combined transport has been supported. Road and rail represents comparable percentages of total investments. Transport infrastructure modernization in Poland is concentrated in corridors II and III. Restructuring of the State Enterprise "Polish State Railways" is continuing and since 1998 infrastructure and railway operations are split. In Estonia main transport infrastructure developments are linked to pan-European corridors in the country. In 1998 investment has been

¹⁹United Nations Economic and Social Council, Economic Commission for Europe, Inland Transport Committee (Sixty-first session, 8-11 February 1999, agenda item 5) "Analysis of the Transport Situation and Emerging Development Trends in ECE Member Countries" (TRANS/1999/8)

traffic data provided by the International Road Transport Union (IRU) and the International Railways Union (UIC)

focused on the railway line Tallin-Narva (counts for 2/3 of 1998 total investment in transport infrastructure) and the road sector on 3 main routes: Tallinn-Tartu, Tallinn-Narva and the Via Baltica (totaling 16% of 1998 investments). The motorway network development programme in Hungary is one of the cornerstones of the Hungarian transport policy. Transport infrastructure modernization is concentrated in corridors IV and V. In Slovenia Railway infrastructure investment should dramatically increase in 1999, mainly due to the link project to Hungary.

In 1996, in order to prepare for the enlargement to the East, the European Commission established a group for Transport Infrastructure Needs Assessment (TINA). It was set up to oversee and coordinate the development and financing of the integrated transport network and ensure coherence with the trans-European transport network within the EU. In the 1998 TINA process the representatives of Transport Ministries from 26 countries (15 EU+11 candidates), the Commission and the TINA Secretariat endorsed an outline transport network comprising 18.030 km of roads, 20.290 km of rail track, 38 airports, 13 seaports and 49 river ports. The estimated cost of completing the network in June 1998 was approx. 90 BECU or, broken down on a country by country basis about 1.5 % of GDP forecast up to 2015.²⁰

The Third Pan-European Transport Conference in Helsinki

The Helsinki Conference endorsed an approach based on two main planning concepts -the pan-European transport corridors and the pan-European transport areas - and it also supported the idea of developing a pan-European transport network partnership covering the entire continent.

The existing framework for the pan-European transport network is the 10 pan-European corridors (**see map**) and four pan-European transport areas which have been endorsed at the Helsinki Conference in June 1997.

Map of Corridors (Crete + Helsinki)

Source: www.mvp.rh - Gospodarski pregled 3/4

After the Second pan-European transport conference, the proposals for adjustments and extensions to Crete corridors, as well as the proposals for new corridors were taken into account²¹. At this conference a new corridor X was introduced, as well as the concept of four transport areas - Barents Euro-Arctic Area, the Black Sea Basin Area, the Mediterranean Basin Area and the Adriatic/Ionian Seas Area.

Each one of these areas has specific transport requirements because each is surrounded or linked to sea basins and strongly influenced by the sea. The intention of these transport areas is to ensure the cooperation between the countries in the area concerned and the appropriate regional cooperation organisation, if it exists, when working on an infrastructure development plan for each area, and for its links with the pan-European corridors and the Union's trans-European networks.

²⁰(Source: <http://europa.eu.int/en/comm/dg07/press/ip98565en.htm>)

²¹Report on Adjustments to Crete corridors submitted by the Commission of the EC, the Secretariat of the ECMT and the Secretariat of the UN/ECE to the Third Pan-European Transport Conference in Helsinki in June 1997

Financing projects in CEECs

The main funds²² are government budgets, lending on the home financial market, user charges and Public-Private Partnerships. A private/public partnership is often the best way of approaching priority projects. Mixed financing is preferred wherever possible.

Many funds are also allocated within PHARE and TACIS programmes, international financial institutions (World Bank, EBRD) and bilateral donors.

From 2000 onwards, the PHARE programme has introduced a new large infrastructure facility. The new Investment for Pre-Accession Aid (ISPA) which the Commission has proposed should contribute ECU 500 million annually to transport infrastructure development, covering both feasibility studies and construction spending.

Governments also try to include private investors, whose interest in taking risks depends on the economic and regulatory framework for investment mainly into road and rail transport. Railways are relatively well developed in the CEECs and are the basis of transport systems. Private investors could invest in companies offering railway services and in associated infrastructural objects (e.g. hotels, petrol stations and shopping facilities on the railway stations, in seaports and airports.). In order to do this it is necessary to split rail track ownership from traffic services and possibly use new financing methods (leasing of railway equipment and wagons).

International financial institutions play a key role in financing the development of pan-European transport infrastructure. The **EBRD** signed 10 additional operations in 1998, in the amount of ECU 227 million, bringing total transport operations to over 40 projects and ECU 1.3 billion. Railways continue to provide the main focus of EBRD's activities in transport, so that four new railway operations in Hungary, Latvia, Croatia and Georgia were signed in 1998, two of them co-financed by the European Investment Bank (EIB) and two others by the World Bank. CEEC and the Baltic Countries accounted for over 70% of the commitments in 1998.

In 1998 the **EIB** signed (January-November) finance contracts in excess of ECU 6.3 billion for projects within EU. Nearly 40% of lending within the fifteen EU Member States Loans approved in 1998 for projects defined by the Pan-European Transport Conferences amounted to ECU 1.4 billion.

For road projects Hungary is a forerunner in terms of the legal situation and in terms of the number of projects under way with private participation. The first motorway project in Hungary financed with private capital was the route Vienna-Budapest, where the share of international traffic is higher than average.

²²Source for figures: UN/ECE, see footnote 19

Case of Croatia

Corridors V, VII and X as defined in Crete and Helsinki are of particular importance for Croatia, since they pass across Croatian territory and their branches will integrate the Croatian transport network into the pan-European one. The Croatian transport policy faces the challenge of creating an efficient transport system, interoperable with the neighbouring systems, which will satisfy transport needs of a wide-European society.

The transport potential within Croatia with regard to the third countries depends on Croatia's geographical position and transport infrastructure. Croatia is a Central European, Mediterranean and Danubian country situated on important transport corridors that connect the West and the East as well as the North and the South of Europe. Advantages of the Croatian position in this region cannot be realized, unless the old transport infrastructure is modernized and the new one constructed. Building roads, modernizing rail infrastructure and activating inland waterways is amongst the country's priorities regarding its integration into the pan-European transport network.

Considering the performance and the relative importance of different transport modes, sea transport has a key role in the transport of goods, and roads have a key role in passenger transport. Tables 5 and 6 cannot be compared directly to Tables 2 and 3 (respective data for the EU) since different variables and measuring methods were used. However, they can offer an idea of transport development with regard to transport modes.

Table 5 Passenger Transport in Croatia (performance by mode)

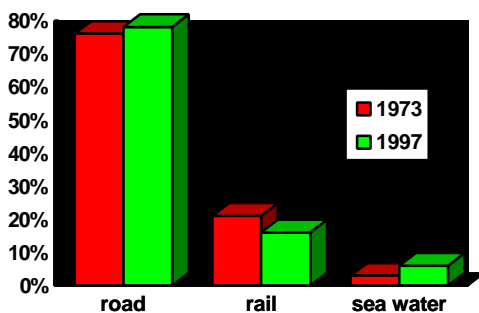
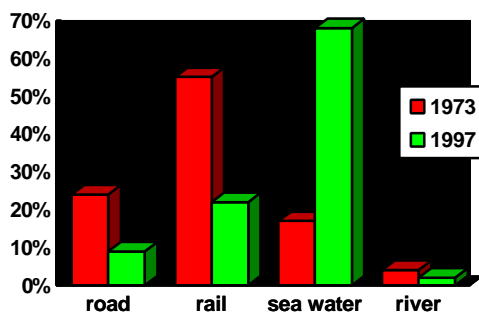


Table 6 Goods Transport in Croatia



Source: Statistical Yearbook 1998, Croatian Central Bureau of Statistics, October 1998

A closer relationship with the Union is expected in the long term perspective of Croatia.. The question of enlargement to the East and accession of Central and Eastern European countries for all the Member States means the same: "frontier-free markets for their capital, goods and services, access to world markets on terms negotiated by the Union, freedom of movement of people, the prospect of further financial support with restructuring and modernization efforts they are making at home, a stable political and economic environment for growth and prosperity, and closer social and cultural links with other European peoples"²³.

In 1996 the Union developed a Regional Approach to the countries of South-Eastern Europe, including Croatia. Now the Commission proposed a new, enhanced approach that would entail the development of a Stabilisation and Association process²⁴, which would offer tailor-made Stabilisation and Association Agreements provided that demanded political and economic conditions are fulfilled. If Croatian progress towards democracy, inter alia in the fields of media reform, electoral reform, and refugee return is positively assessed by the end of the next reporting period in November 1999, Croatia may soon be able to benefit from PHARE and its support for infrastructure investments.

The Strategy for Transport Development and Project Implementation

The Strategy for Transport Development of the Republic of Croatia was proposed to the Parliament in March 1999. Being the first document on the development of the Croatian transport sector (taking into account that the Strategy of economic development does not exist), the Proposal has been the subject of numerous discussions and assessments. Finally, it was adopted by the House of Counties at the end of October and is now being discussed in the House of Representatives.

According to the Strategy, the foreseen investment into the transport sector is 5% of the annual GDP, meaning \$20 billion until the year 2010 if growth reaches 6% as planned. The total investment would be distributed in the following way: 40% for road infrastructure, 25% for rail, 20% for sea transport and internal waterways, 5 for air transport and 10% for combined transport.

Croatian signing of the Stability Pact for South Eastern Europe and its participation in the Working Table on Economic Reconstruction, Development and Cooperation created a new impulse for transport development in a broader Pan-European context. The Pact concentrates namely on the "infrastructure projects which enhance regional and intraregional trade and cooperation, bringing together countries with a mutual interest ". In the area of transport it highlights the development of improved transport systems, the construction or modernization of

²³ "Transport, Enlargement and the Countries of Eastern and Central Europe", Brussels, 4 June 1996, <http://europa.ei.int/en/comm/dg07/speech/sp960604.htm>

²⁴ Commission Communication to the Council and the European Parliament on the Stabilisation and Association process for countries of South-Eastern Europe, Bosnia and Herzegovina, Croatia, Federal Republic of Yugoslavia, former Yugoslav Republic of Macedonia and Albania, Brussels, 26 May 1999, COM(99)235

roads and railways, and the restoration and upgrading of the navigational infrastructure on the Danube.

At the beginning of October at the conference of the “economic” Working Table in Bari Croatia presented a proposal comprised of 40 projects, all trans-border projects, which could encourage the economic development of South-East Europe. The Adriatic Highway project was presented, as one of the strategic Croatian priorities. The Adriatic Highway is a transport link connecting Trieste with Athens across Slovenia, Croatia, Bosnia and Herzegovina, Montenegro and Albania. Its length is 1157 km, 586 km passes through Croatian territory and the total cost of the project is \$5.65 billion.

According to the proposed Strategy for Transport Development, the internal priority in transport, particularly in the road sector is connecting the northern (continental) and the southern (Mediterranean) part of the country, namely Zagreb and Split, i.e. carrying out the reconstruction and modernization of the current link.

Parallel to this objective, an important priority of international importance is to build branches of pan-European corridors V and X. The motorway Gorican-Zagreb-Rijeka is being built, as well as two branches on the corridor X: 1. Slovenian border-Zagreb, 2. Slavonski Brod - FRY border.

In order to implement the defined projects, several forms of investment have been used: government budget, foreign loans (World Bank, EBRD) and concessions. The concessionary model of infrastructure funding is the most frequently used. Since transport infrastructure projects are the strongest development projects in Croatia, they attract private investors. The examples follow.

In August 1998 the Italian firm “Astaldi S.p.A” signed a concessionary contract with the Croatian Government for financing, building and exploiting the motorway from Zagreb to Gorican. They established a company with the ownership structure of 49% Government shares and 51% Astaldi shares. The completion of the Zagreb-Gorican motorway, as well as the Zagreb-Rijeka motorway (financial leaders of the project are EBRD and German development bank KfW) is expected by 2001.

The American enterprise “Bechtel investment” is the first example of the entrance of American export credit into Croatia. Bechtel has been building a transport link from Slovenia to Zagreb and Karlovac to Dubrovnik across Dalmatia.

As far as investment in rail infrastructure is concerned, the importance of railways was also stressed in the Strategy proposal. In this regard Croatia follows the European trend of avoiding congestion through increasing the role of railways and achieving a better balance of transport modes. The national railways “Hrvatske željeznice” need restructuring, so that they can develop into a modern and efficient company, where subsidies are reduced to maintenance and development of rail infrastructure.

In 1998 the Government of Croatia and the Parliament adopted a project of reconstruction and modernization of Croatian railways, which was defined in cooperation with the World Bank and EBRD. The implementation of the project will include reducing the number of employees, a reduction in operating costs, an increase in the volume of transport and revenues. An increase in investments is expected after 2003, when new trains will be purchased, bottlenecks eliminated, transport management systems implemented and electrification carried out.

Regarding air transport, Croatia Airlines plans to purchase modern planes of the “airbus” type. As far as sea transport is concerned, the objective is to build new and modernize old seaports infrastructure, increase the transport of goods, offer good credit terms to shipbuilders and invest primarily in ports Rijeka and Ploče. The central point of the inland waterway sector is the seventh corridor down the Danube, which is also defined as a strategy priority, especially because of its international character.

Transport development is a prerequisite for efficient integration into the European transport system. It can be considered as one of the steps towards approaching the European Union.

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