

The Impacts of the 2004 Enlargement  
*in the Area of Transport*

**Annex 2: Reports of Workshops and Seminar**

STATUS Final version

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## Workshop Budapest April 24 2007

**Workshop: “Strategic opportunities and threats that enlargement has created for road transport and combined transport in Hungary”**  
*April 24 2007, Budapest, Hungary*

### Participants:

- Nicole Versijp (EC DG TREN)
- András Székely (Ministry of Transport)
- Gyorgy Bozán (Road Directorate)
- Arpád Sipos (KKK)
- András Lukács (Clean Air Action Group)
- Tamás Fleischer (MTA)
- István Molnár (TMBH)
- Gergely Bognár (Bellville Rodair Int.)
- Zsuzsanna Pócza-Véger (Volán Egyesülés)
- István Tomcsányi (Hungarokombi)
- János Berényi (KTI)
- Gábor Csányi (IRU)
- Jesper Martner (COWI Denmark)
- Hvid Erling (COWI Denmark)
- Bruno van Zeebroeck (TML)
- Jan Coen van Elburg (RebelGroup Advisory)
- Emil Evenhuis (RebelGroup Advisory)
- Sigrid Schenk (RebelGroup Advisory)
- Huub Vrenken (RebelGroup Advisory)
- László Bús (COWI Hungary)
- Péter Dalos (COWI Hungary)
- Tibor Vincze (COWI Hungary)

### Programme:

- |               |  |
|---------------|--|
| <b>9.00.</b>  | Greeting, the purpose of the Workshop (Nicole VERSIJP, European Commission, DG TREN)                               |
| <b>9.10.</b>  | Introduction to the study "Impact of Enlargement" and purpose of the Workshop (Emil EVENHUIS, RebelGroup Advisory) |
| <b>9.50.</b>  | Review of the process towards accession  |
| <b>10.30.</b> | Development in infrastructure supply   |

<b>11.15.</b>	BREAK
<b>11.30.</b>	The perspective of the operators
<b>12.15.</b>	Impacts on transport demand
<b>13.00.</b>	Discussion and conclusions
<b>13.15.</b>	Lunch / Taxi transfer to the Trófea Grill Restaurant / Free discussion

## Introduction

*Mr. Vincze welcomes all participants.*

*Mrs. Versijp explains about the purpose of the study.*

The enlargement of the EU with 10 new member states has been of an unprecedented size, both in number of countries as in the size of EU legislation. Because the EU had already completed the internal market, the *acquis* has grown considerably in size, also in the area of transport.

There has been a study on the expected impacts of EU enlargement on transport in 1999.<sup>1</sup> Moreover, until the accession in 2004 there was a standard mechanism for following the acceding countries. However, after that the EC lost the overview. This is the reason for conducting this study

We would like to know what happened in terms of positive and negative effects, in markets, institutions, level of implementation and enforcement, both from the part of the new member states as from the part of the EU. The objective is both to look back on what happened and to learn lessons for the future. This workshop has as a main purpose to learn from Hungarian experiences.

*Mr. Van Elburg introduces the study team and the program for the day.*

*Mr. Evenhuis provides an overview of the study and the preliminary findings presented in the interim report.*

## Review of the process towards accession

Mr. Bozán:

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<sup>1</sup> "Cost and benefits of enlargement" (1999)

3 years was a short time given the road requirements and the capacity both in number of people in order to establish more effective controls on weights and to spend money on maintenance of the roads. Actually, we are a little behind on this work.

Mr. Székely:

My point of view is that the differences between countries require country specific solutions. We have made the decision to take over the legislation earlier than necessary in order to make it possible for hauliers to prepare for the new requirements.

The biggest problem today is the mismatch between supply and demand, which means that there is often excess supply. Deriving domestic carriers from foreigners who operate with different competition conditions like different salaries, wages, tax rules etc.

We have the feeling that the requirements and controls for carriers for the new member states are stricter than for the old EU 15. The legislation on market competition, focused on creating a level playing field does not work optimally when the carriers from the old member states are not held as strictly to the same legislation. The situation of the domestic carriers business has become more difficult now by the extension of the EU, entering RO, BG.

Hungary made the decision to prolong the transition period for cabotage to 2009 (which is the maximum). Maybe 4 or 5 Hungarian companies are now in the hands of EU companies and are therefore also active in the domestic market.

Mr. Csányi provides a short presentation about the hauliers' point of view

The number of domestic companies decreased by 14%. 66% of these companies are capital scarce, self employed operators. This is why the cabotage prohibition period is important.

In the international market the number of companies and vehicles doubled, combined with the increased capacity in other CEE countries this led to a large increase in capacity.

The effects are that the supply driven market changed to a demand driven market: there is a fight over clients, i.e. by price competition. Market operators are now asking for stricter controls in order to filter out the companies working illegally. This is because equal competition standards are required. It is quite remarkable that the companies itself are asking for stricter controls

*(Mr. Bozán reacts: we are right now not capable of answering to this demand for stricter rules, due to the new load of legislation that is coming or way from the EU.)*

57% of transport operators are private entrepreneurs, 32% of trucks are operated by private entrepreneurs. Thanks to EU harmonization Hungarian operators meet all the EU requirements. However, these operators are capital scarce. We are therefore expecting a realignment of the market within 1-2 years: companies will become subcontractors, there will be a further concentration of the market.

Current and future factors that will be of influence are:

- Accession of Bulgaria and Romania leads to further capacity increase
- Convergence program and economic policy
- Uncertainty of fuel prices and fuel excise duties (of which the EU minimum is 302, but the Hungarian charge depends a lot on the exchange rate)
- New road user charges in EU and Hungary (interoperability of the different systems, which could lead to different charges)
- Driver shortage and problem of the new supplies
- New driving and resting time rules
- EU revision of access to the market and profession
- Shift of the production to East
- Cabotage opening from 2009

Mrs. Pócza-Véger:

The number of railway passengers is decreasing due to a shift to road. The Hungarian transport contracts will end in the year 2012. In 2004 both state and local level closed contracts with current operators to exploit the market without competition. The maximum duration of these contracts is 8 years, so until then it is not really necessary to make a transition.

Mr. Tomcsányi:

Our company had 110.000 lorries in 2002-2004. A negative consequence of the accession has been that road transport is actually cheaper, which makes combined transport less attractive.

80% of our clients are Bulgarian and Romanian (about 60.000 lorries), we are worried about the effects from 2007 onwards. To estimate these effects, we prepared a study for the Ministry Of Transport.

There is a program to decrease our subsidy of EUR 3.5 million in a period of 3 years to zero. An upside is that the cost of road transport will increase due to intensified controls (within the 3 year period). On the side of rail we have to work more effectively, the interoperability of European systems (locks, driver requirements) is a problem. It is important at this time to receive help from the Commission (not only Marco Polo) for instance due to possible accession of Turkey, which has a large road sector. If this does not happen, after this accession in 3-4 months the Hungarian road network will deteriorated. I would like to suggest to write about some ideas about how to deal with the changing market for combined transport in the report, given the pressure of the

road sector. There are now 12 railway companies, of which some are private and a railway association has been founded. The Hungarian railway will privatize within 1 year.

### **Development in infrastructure supply**

#### *Mr. Lukács provides a short presentation*

The EU has provided funds for the construction of motorways, in our opinion these funds have not been spend well, especially from the environmental viewpoint. Moreover, the Worldbank has concluded it is much more important to rehabilitate existing roads than to build new ones, and on the basis of that point does not provide any more loans for new road construction. The EU and the EIB have been undermining this policy.

State subsidies for trucks are combined 2.5 billion HUF. This is because:

- Road is exempted from VAT (there is no such construction for rail).
- There are reduced efforts on border control lead to tax and custom evasion, moreover there has been illegal transport of waste from Germany to Hungary
- Punishment of violation of road safety regulation is weak or non-existent, while EU legislation is good, but implementation is failing due to lack in capacity
- Cross subsidies in rail transport lead to the deterioration of both the rail goods and passenger market. In the new system, the charges for rail a so high that even goods transport is not profitable. Hungarian charges are the highest in the EU. The Hungarian government has already closed 14 branches of rail and is planning to close down almost half of the railway lines. The increase in ticket prices for passenger transport have led to a drop in demand of 14%.
- There is a tax evasion on fuel, because neighboring countries have lower fuel prices which leads to fuel tourism.

There should be limits on the amount of fuel that can be brought in tax/custom free from non-EU countries. The EU is spending much of its funds allocated to Hungary in the period of 2007-2014 on the construction of new motorways. This is happening in a sector which is already disproportional subsidized by the government. We should make the users pay, not only from an environmental point of view but this also makes sense from the economic point of view. The sponsoring of the EU is interfering with the user pays principle.

There is a large improvement in state the international vehicle fleet, which has a downward effect on emissions. However, this effect is annihilated put off by the increasing number of trucks.

#### *Mr. Siposs provides a short presentation*

There have been several concession toll ways, but due to high prices a large part of the trucks used the parallel road (for the M1: 80%, for the M5: 75%). Prices for the M1 were about 2.5 times higher than the EU average.

The expenditure of construction of new roads compared to the maintenance of old ones has been out of balance (i.e. the maintenance is lagging).

Our main challenge is to find an economically reasonable system for toll charges: which network scale, which system for price increases, for different vehicle categories. The framework of the new policy can be described as: proportionality and equity in all dimensions. User charges should cover infrastructure costs, and gradually include externalities as well. There will be a proportional burden for frequent and infrequent users, vehicle categories according to cost generation share, prevent diversion to lower level roads. We prefer gradual implementation, from the bigger to smaller users. The system of enforcement should be economically feasible; an example for us is Czech Republic. Here we would like to make use of EU experiences. It is difficult to make forecasts (about revenues from charges) due to the changing circumstances, of which EU legislation is one.

*Question to Mr. Fleischer: do you think it is possible for the Hungarian administration to introduce the system of charging to within 1-2 years?*

What is missing is a central idea, the information I have seen shows a constantly changing view. A transport policy is necessary to underline the measurements used.

*Question to Mr. Siposs: why are you introducing a system which catches up with the EU level within 15 years, given that the railways have 3 years to accommodate to surviving without the subsidies?*

This system is mostly to accommodate the passenger cars, given their purchasing power. We do not think that the current network can deal with a jump in prices. Moreover, the toll charge level has only a small effect on the modal split.

## **The perspective of the operators**

Mr. Bognár

Due to charges, hauliers are avoiding the motorways, which is a problem of near villages. Sometimes there is a decision between time (longer traveling time through Slovakia) and cost (higher charges through Austria). Due to the many companies in the market, there is pressure from the larger companies on prices and therefore cost cutting. A lot of small companies which saw opportunities in the market went bankrupt because of the market pressure. Now that the number of companies is decreasing, the possibility to charge customers is opening.

From April 11 onwards, customers can be punished if their demands are not compliant with EU regulation, which could also solve part of the problem. Romanian hauliers are not a big threat to the Hungarian market, because they have a problem with permits. Other countries, for instance Slovakia, are more of a threat for instance due to lower fuel prices. We are now in the same position as the Austrians were when Hungary accessed the EU. My opinion is that we have a good chance because we have some cost advantages.

*Mr. Berényi provides a short presentation about combined transport*

Hungary has a delegate position in the Carpatian Basin; a corridor function with 2-3 possible corridors. Bordering 7 countries, and being a relatively small country, Hungary is very dependent with respect to regulations.

The Hungarian economy is flourishing due to accession; however, this is happening at the cost of the environment. Consequently, the combined transport is partly winner, partly loser. Railway volume has almost halved, mostly Wels-Sopron and vice versa has almost disappeared by rail. What is working, is the south border.

Mr. Bús

National development program has been drawn for 2007-2013. About 6 billion euro of funds are dedicated to the development of transport operations.

Priorities are:

- Improving the international accessibility (4 billion)
- Improving regional accessibility (1 billion)
- Linking modes of transport and improving intermodality (179 million)
- Improving urban and suburban community transport (819 million)

Mr. Fleischer

It is a myth that nothing is missing but the money. There are no structural problems. One should always ask what the bigger picture is in which these investments take place.



## Workshop Riga May 3 2007

### *Workshop “Railway transport in the Baltic States”*

*May 3 2007, Riga, Latvia*

#### **Participants:**

- Jānis Eiduks (Director of Railway Department, Ministry of Transport)
- Imants Kaupe (Head of Road Strategic Planning Unit, Deputy Director of Road Transport Department, Ministry of Transport)
- Juris Iesalnieks (Director of State Railway Administration)
- Guntars Jansons (Strategic Development Director of State JSC “Latvian Railway”)
- Ivars Sormulis (Chairman of the Board, AS “Baltijas ekspresis” (private freight transport provider))
- Ģirts Verners (Executive Director of the Association of Latvian Transit Business)
- Andris Dunsķis (Director of State Railway Technical Inspectorate)
- Steponas Bernotas (Director of AS “Baltijas tranzīta serviss” (private freight transport provider))
- Linda Baltiņa
- Edgars Kreits (AS “Pasažieru vilciens” (passenger transport provider) Head of the Board, Member of Board)
- Osvalds Lucāns (Director of “Gulbenes-Alūksnes bānītis” (private passenger transport provider))
- Andris Gūtmanis (President of Latvian Transport Development and Education Association)
- Aivars Jaunzems (Member of the Board of Latvian Transport Development and Education Association)
- Jānis Pētersons (Chairman of the Society of Latvian Railwaymen)
- Gunārs Teivāns (Deputy Chairman of the Society of Latvian Railwaymen)
- Raita Karnīte (Director of the Economic Institute of Latvian Science Academy)
- Emil Evenhuis (RebelGroup Advisory)
- Huub Vrenken (RebelGroup Advisory)
- Jesper Mertner (COWI Denmark)
- Karsten Pedersen (COWI Denmark)
- Arturs Berzins (COWI Latvia)

#### **Programme:**

<p><b>9.30</b></p>	<p>Introduction of the study ‘impact of enlargement’ &amp; Purpose of workshop (Emil EVENHUIS, RebelGroup Advisory)</p>
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<b>9.45</b>	The issues from Latvian perspective:retrospective on the process towards accession (Latvian Ministry of Transport)
<b>10.30</b>	Developments in rail transport
<b>11.15</b>	The actual impact on railway transport (KARSTEN PEDERSON, COWI Denmark)
<b>12.00</b>	LUNCH
<b>13.00</b>	Practice of rail freight transport.
<b>14.45</b>	Conclusion and closure by consortium

### **Process towards accession**

*Presentation by Jānis Eiduks (Director of Railway Department, Ministry of Transport)*

The railway system in Latvia, like Estonia's and Lithuania's, historically is part of a large railway system in CIS and beyond, rather than of the EU system. Up to 1991 it was an integrate part of the Soviet rail system, with common infrastructure dimensions – 1520 mm gauge width - and other technical parameters, legal system and shared traffic organisation. After independence in 1991 the function of the wide gauge Baltic railway system continued to be the providing of hinterland connections of the Baltic seaports, mainly for transit traffic. This traffic flow represents an important income to the national economies.

The position of the Baltic railway system as part of this very large international railway system makes it critically different from the isolated Iberian railway system. East-West traffic would have no advantages of adopting EU-rules, more likely it would need measures to reduce disadvantages. Only North-South traffic would benefit, however current traffic volumes are negligible compared to the East-West traffic.

From the beginning of the negotiations with EU Latvia tried its best to implement common EU-legislation. It was transposed into national law with additional rules for obtaining more clarity. Two state institutes (rail administration and inspectorate) were established and the existing state railways was reorganised. The splitting up of the railway company was a difficult process, because of the relation with CIS-system and the existence of shared assets with Baltic and CIS countries and because of the valuation of the assets. Moreover the financial relationships (obligations as well as attitudes) with banks changed.

The result of the efforts is full implementation of the first railway package, with neutral infrastructure management and capacity allocation, clear and undiscriminatory infrastructure charging and separated accounts between freight and passenger

transport. In this respect Latvia is ahead of some of the EU-15-countries, e.g. the ones in which infrastructure management is placed in holding companies of (former) national railway undertakings. Latvia also partly introduces the 3<sup>rd</sup> Railway Package, namely the rules on certification of Railway undertakings.

The “first bad experience” in the implementation process concerns the issue of TSI (Technical Specifications for Interoperability). A major cause was a lacking understanding of the rules and their consequences. This lack of understanding was not only a Latvian problem, but also observed in other countries. It also appeared in several technical assistances, which did not bring about a consequent and coherent picture. A growing understanding of the TSI-regulation has led to the conclusion that much of TSI-regulation is redundant and unproductive for the Baltic 1520 mm system. The MOT’s of the Baltic States have expressed their worries to European Railway Agency (ERA) about the TSI where it concerns the Baltic 1520 mm system. The regulation is an amendment of a system which actually has always been functioning well.

Further remarks on the transposed EU-regulation:

- Legal barriers remain concerning state rules for recognition of rolling stock for the wide-gauge-system. Latvia would support a common EU regulatory framework, based on an agreement between EU and CIS.
- For international East-West trade all private Latvian operators need to involve LZ, (Latvian state railway enterprise), because the Russian rail operator does not accept direct relations with other Latvian rail companies. This is no problem in current practice, because there are good relationships between the present private railway operators and LZ. (This is in distinction to most other EU-States, where rail reform brought about much resistance from the state railway enterprise. The Latvian monopolist supported the regulatory change in 1998. This can be explained by the fact that market entrants – mostly port operators - are also important customers to railways. Since the legislation was implemented there has been only one Court case.)
- The regulation addresses public authorities to amend the system and set up new institutions, however with no financial backing.
- The state also has the task to create transparent regulation for all and draw network statements which must provide transparency to any EU railway undertaking.
- It was never discussed how to preserve existing traffic and how to develop new markets. The regulation hardly leaves freedom for developing a national transport strategy.

## **Developments in railway transport**

*Presentation Guntars Jansons (“Latvian Railway”)*

- From a business viewpoint the reform brought many new opportunities. Its objective is growth of the role of railways: more carriers can attract more cargo and passengers. The competition leads to market redistribution and therefore puts pressure on efficiency, by which rail will remain a competitive mode of transport. The optimism about these impacts was a reason for supporting liberalisation.
- In practice the yielding of new opportunities is possible, but needs funds.
- A threat in Latvia is the co-existence of 2 systems and 2 sets of rules. TSI-rules could imply that measures are implemented on top of the two current systems. Caution is required in the implementation of the rules.
- The tension between the obligation to transpose EU-legislation into national law and the will to develop a strong rail market was insufficiently acknowledged. There has been no clear policy about the rail system in the future.
- Through economic development demand for transport services increases but it will also pressure costs of production of services, which again pressures efficiency. All these impacts do not occur by themselves however, but need guidance(?)
- In the development of TSI procedures of implementation should be different. One must take reality into account. Most freight wagons in the Baltic States are in a common pool, inherited from railways in the former Soviet system. The technical specifications of these wagons differ from EU-standards on gauge width, but on other characteristics as well. There are good reasons to allow for different sets of standards in the Baltic States, to allow for the dual railway system. A task force currently looks into the consequences. Latvia would like to see that rules for the wide-gauge system are put in a European Framework. Latvia also likes to have a vision developed on how future synchronisation of the systems is envisaged. This then must be considered in the development and a gradual implementation of the TSI in the network.
- It is an obligation to have parameters exactly described in a unified document in order to allow for market entrance for operators e.g. from other EU-countries, which are not yet familiar with the Baltic system.

#### *Passenger transport*

Passenger transport in Latvia consists of:

- international EU transport, being transport in relation with Lithuania, some of which passes through to CIS
- international transport to non-EU countries, which directly connects to CIS
- domestic transport. This is the largest segment in Latvia. The domestic network is a narrow gauge network.

#### Remarks

- All passenger transport segments are only feasible if there is public budgetary support.

- In international transport there are agreements with neighbouring countries about the sharing of costs and revenues and about tariffs. These agreements need to be well-balanced.
- The domestic services are allocated via public service contracts, which in Latvia are the responsibility of the road transport directorate. The contracting is in open competition. There are fixed rules for infrastructure charging, which bidders need to account for.
- Public transport services by rail are concentrated around Riga.
- Problems in passenger transport are lack of rolling stock and deficient maintenance of rolling stock.
- Traction is shared with freight transport, which generates more income and therefore is preferred if there is scarcity.
- Cross-subsiding between freight and passenger transport is not possible anymore.
- Total transport demand has been increasing, however services have not been intensified.
- To some extent there is unlevelled competition between bus and rail transport because buses are not charged for infrastructure use. (comment ... Eurovignet; fuel tax?)

*Presentation by Edgars Kreits (AS "Pasažieru vilciens")*

- Company is involved in domestic transport services. Demand mainly consists of commuter traffic in the region of Riga. The company saw an increase of demand of 5% per year since 2000. The company has average profits of about 3.5%, but also had to withdraw one of its lines because it could not bear infrastructure costs.
- Revenues are sufficient to cover all costs, including maintenance of rolling stock, which on average is 30 years of age. The company is increasingly capable of improving its financial position and finance its investments. It received grant for regional development from the EU for modernisation of electric trains and for modernising 68 wagons in the period between 2006 and 2008.
- Since accession rail faces more competition from private cars, which have increased in number, and from bus transport. The competition causes downward pressure on the tariffs, while cost increases cause upward pressure.

*Presentation by Osvalds Lucāns (Director of "Gulbenes-Alūksnes bānītis")*

- Company is small, using old rolling stock, some of which is for the purpose of tourism on one of its lines. The services in this region mainly have a social function, implying also relatively high public financial contributions via public service contracts. Train tariffs are lower than bus tariffs. Rail however can not maintain high service levels in this region, which implies that business is marginal.

*Railway infrastructure charges*

- The allocation of charges to passenger and freight traffic is an ongoing discussion. The issue became more critical after energy prices increased and rail operators were faced with high cost increases. What can the market bear?
- Currently infrastructure maintenance costs are fully covered by charges. With much of the railway infrastructure only scarcely used the charges are high.
- Infrastructure charges in the Baltic States seem high if compared to other EU countries, however part of the difference can be explained by different calculation bases (trainkm versus tonkm). Another disadvantage in the Baltic States is certain diseconomies of scale due to the fact that the networks are relatively small.

### **Impacts of Enlargement**

*Karsten Pederson (COWI) gives presentation on impacts on railway transport of enlargement*

*Reactions of participants:*

- The high market share of recent entrants is stressed: 30%, one of the highest shares in EU.
- None of the entrants is affiliated to the former state monopoly, unlike in other EU-countries, like Poland.
- About 40% of rolling stock is privately owned, while the other 60% is drawn from a commonly owned pool of wagons.
- Infrastructure charges increase year by year, which requires a political solution. It needs reconsideration which part of the maintenance costs should be covered by the State, because the market seems to be not capable of absorbing all infrastructure charges, so there is a risk that freight tariffs will cause a drop in demand.
- In Latvia the prices in passenger transport are far below elsewhere in Europe, sometimes less than 10 %.
- Meanwhile costs for rolling stock and infrastructure maintenance have arrived at the same level as in Europe. Also energy prices are on EU-level, after entry to the EU, when the Baltic States lost privileged discounts from their Russian energy suppliers. The labour scarcity in the sector and the inflation rate will also continue to increase wage costs. (The labour scarcity is partly caused by labour migration to EU-15, particularly UK and Ireland.) The conclusion is that the production costs of rail services in the Baltic States are converging rapidly to e.g. cost levels in Germany.
- Meanwhile raising tariffs in passenger transport seem an inappropriate measure because railways would fail in their social function. It is not yet feasible to have price rises accompanied by improved service levels.

### **General discussion / final remarks**

- Criticism on the public transport system in Latvia is the lack of coordination between railways, regions and municipalities. The consequence is that some public transport services compete with each other, while on other places services are completely

lacking. Connections between different modes are not thought through. There is a lot of potential for improvement on these points. This problem also existed before accession, but it seems to have worsened since responsibilities have become more separate.

- The attitude before 2004 was: “we will see what happens”. Because of the multitude of changes which occurred in society consequences were difficult to forecast. It was expected that the access to European funds in and beyond the accession process would mitigate risks. However, for example no one had foreseen the labour scarcity caused by emigration.
- In general, NMS adopted rules of which nobody knew the consequences. Statistics show high economic growth rates, but one should be aware that these rates include substantial funding from the EU. Several industries (e.g. metallurgic industry, fishing industry) are in worse positions since accession, causing serious socio-economic problems in certain regions. Living standards could be preserved with limited state aid, which however is in conflict with EU-regulation.
- Policies and regulation need to be applied in all EU-states. There is hardly room to consider particular situations. “The same medicine is applied for different diseases.” It would be good to evaluate the impacts of policies before accession. In the current process, transition periods are only meant to postpone regulation. It is worthwhile to consider possibilities for “trying regulation and policies” to see how they work out in practice.
- The distribution of the EU-funding was dictated by government institutes, which not always had an eye for the actual needs.
- Much of the EU-funding is given under the condition that projects have added value for the EU. Since funding is often shared financing these projects also have need of national resources, leading to deficiencies in the funding of projects with purely national dimensions. Too much national government spending is dictated by EU-policies. In practice the prioritisation caused e.g. that many regional roads needed to be closed.
- Latvia implemented the railway acquis without delay and liberalisation of railways is a fact. In other EU countries operations and infrastructure management is still in one holding company.
- Looking backward, one can conclude that there may have been some “over promising” in the adapting of EU-legislation. Money would be spent in a different way if Latvia would not need to obey EU-conditions. An example of inappropriate spending is in the wiring of wide-gauge railway infrastructure, which required application of ECTS-standards, while it cannot be expected that this safety system will be functional on that infrastructure.
- Poland is the east border of EU 1435 mm gauge rail system and therefore could be considered as the east border of EU rail. It is point of discussion whether it makes sense for Latvia to follow a EU-defined strategy for the development of rail transport. Lithuania hooks up to the European strategy, but Lithuania is bordering the 1435 system, while Latvia is on 400 km distance.

- Problems may have been avoided by better communication between different stakeholders (Latvian Ministries, EU, actors involved in technical assistance, et cetera). It appeared that different interpretations about the regulation were possible. Discussions about consequences of reform, long-term impacts, possible ineffectiveness or undesired effects were rare.

## Seminar Brussels June 27 2007

### *Seminar “Transport and Enlargement”*

*June 27 2007, Brussels, Belgium*

#### Programme:

<b>9.30</b>	Registration and coffee
<b>9.45</b>	Opening of Seminar - 'Connecting Europe - The challenges of enlargement in the transport sector' by Matthias RUETE, Director-General DG Energy and Transport
<b>10.15</b>	Outcomes of the Study on the Impact of the 2004 Enlargement in the area of Transport by Jan Coen VAN ELBURG, RebelGroup Advisory
<b>11.00</b>	Coffee break
<b>11.15</b>	Tuning in on impacts on Road and Rail:
<b>11.15</b>	Presentation by Hubert LINSSEN, IRU
<b>11.30</b>	Presentation by Paul GUITINK, CER
<b>11.45</b>	Discussion
<b>12.15</b>	Lunch
<b>13.30</b>	Panel discussion with Zoltán KAZATSAY, Deputy Director-General DG Energy and Transport; Roberts ZÍLE, Member of the European Parliament; Peep PETERSON, ETF; Michel DE BRUIN, Eunite; Hubert LINSSEN, IRU; and Paul GUITINK, CER
<b>13.30</b>	Views of respective Panel Members on the Impact of Enlargement
<b>14.00</b>	Suggested agenda for further integration from study
<b>14.15</b>	Discussion among Panel Members and with audience
<b>15.45</b>	Conclusions (by Seminar Chairman)
<b>16.00</b>	End

**Opening of the day** by the Chairman of the Seminar: Roel Gans (Dutch Ministry of Transport)

The EC has initiated this study. Today we discuss some preliminary conclusions and recommendations, on which we welcome your views to be able to draw the final report.

**Opening of the Seminar** by Zoltan Kazatsay (DG TREN)

Mr. Kazatsay was involved in the accession negotiations with Hungary for the Hungarian Government.

The accession was a formidable task. We can now say that the accession was a success in terms of economic development, both for the NMS as for old Europe.

Transport was an important issue during the accession negotiations. With 75 million new Europeans inhabitants and the increase of territory by a third there was an integration challenge. Furthermore, transport accounted for about 10% of total GDP in the EU.

Transport acquis poses a large volume of legislation and a large burden on national administrations for implementation. On the side of the EU, there is a challenge in checking whether the requirements are actually met.

The acceding countries have received financial support by means of Phare and ISPA funds. These funds included technical assistance for institutions and financial assistance for investments in infrastructure. In 2003 it was estimated that the required investment in infrastructure for the NMS was about 100 billion or 22% of the GDP of the NMS combined.

During the accession regular annual reports were published which tracked the status of the NMS. However, after the accession, the EC lost the overview of the impacts for both NMS and the EU as a whole.

This study is therefore performed in order to gain insight in the impacts of the enlargement in the transport sector. This is also important as a learning experience for new prospective members of the EU, such as Croatia and Turkey.

**Outcomes of the Study** by Jan Coen van Elburg (RebelGroup Advisory)

Mr Van Elburg has been involved during the accession process as a legal consultant to a number of technical assistance projects.

Purpose of the study:

- Evaluate the impact of the 2004 enlargement of the EU transport market
- Present lessons learned for future enlargements
- Formulate recommendations for further integration within EU-27

#### Approach:

- Statistics
- Interviews with stakeholders
- 14 case studies
- 2 workshops in Riga and Budapest
- This seminar

#### General Trends:

- Near tripling of legal standards during negotiations
- Trade flows have increased substantially between 1999 and 2005
- Freight transport in NMS increased substantially, more so than in the EU15
- While rail freight transport is now stabilizing, road freight transport is growing
- Therefore, the modal shift is changing: road is gaining a larger share
- Passenger transport is also growing
- In passenger transport there is also a shift to road

#### Main impacts:

##### Road:

- High growth in road haulage, particularly in international transport
- Higher efficiency due to reduction in border delays
- Labour shortages in NMS
- At first domination of NMS drivers, but now balancing back again
- Road sector is developing in NMS: now offering professional quality logistic services
- EU-15 companies settled in NMS to take advantage of market potential
- Road fatalities have reduced but are still twice as high as in the EU15
- Fleet renewal in domestic transport is slow
- More traffic has led to more emissions, but the forecast is that this will bend and start to decline (except for CO<sub>2</sub>, which is an issue for all MS)

##### Railways:

- Decline in most NMS, but now stabilization
- Legislative and social reform went relatively smooth
- Implementation through organizations is slow but progressing
- In the freight railway market new private operators are emerging
- Operational bottlenecks persist
  - Maintenance backlogs in infrastructure and rolling stock
  - Financial problems of railway undertakings
  - Time consuming procedures at borders
- High infrastructure charges in NMS, especially for freight transport
- Combined transport has collapsed after enlargement, was often used to circumvent quota for road transport

#### Inland waterways and Maritime:

- Inland Waterways: Little impact because long tradition of international transport and blockade Danube
- Maritime: strong growth of turnover in seaports in NMS: about 6% annually since 2000 (EU15: about 3%)
- Maritime safety: better Flag state control and Port state control; Malta and Cyprus have moved of the black list of the paris MoU to the white list

#### Air Transport:

- Strong growth of air (passenger) transport: traffic more than doubled between 2000 and 2005 (against 25% growth in EU15)
- Safety and security: little change due to international standards
- For some NMS, accession has encouraged liberalization of the market

#### Conclusion: an unbalanced success:

##### Success because:

- Legal framework in NMS is mostly up to date with latest EU legislation
- Transport and traffic have grown substantially, particularly in road, aviation and maritime transport
- International road transport in NMS has developed into professional logistics industry
- Liberalisation of air carrier market has led to a wider choice and lower fares
- Emissions from road transport, except CO<sub>2</sub>, are starting to decrease
- Road safety improved, despite strong growth mobility
- The status of the maritime fleet improved, while hardly any ships reflagged to a state outside the EU
- No major social conflicts erupted, despite substantial changes and dynamics

##### Unbalanced because:

- Focus has been on transposing legislation, sometimes at the expense of implementation in real life
- Development of national priorities and strategy seems to have been neglected at times
- Infra developments are very much behind developing needs
- Railway sector and local public transport still vulnerable
- Intermodal transport suffered a collapse in NMS
- Growth of road transport leads to increased emissions of CO<sub>2</sub> and congestion, tools to address this are hard to apply

### **Tuning in on impacts on Road and Rail**

*Presentation by Hubert Linssen (IRU)*

Mr. Linssen addressed challenges that we face today in the road sector, without distinguishing between old and new members. He considered that there was no more need to differentiate between the 27 Member States.

The EU transport sector should now focus on priority areas where administrative and financial resources should be allocated:

- Fine tuning and simplification of EU legislation, for instance market access and access to the profession, commonly understood rules and uniformly applied practices
- Sometimes a need for bolder proposals, for instance on diesel legislation
- Implementation and enforcement deserves special attention. This was outside facilitation and harmonization mainstream. This is usually at national or even regional level. Exchange of information is still at its infancy.
- The market is underperforming, legislation is underachieving. Efficiency is blocked due to administrative barriers.
- The organized road sector can be a party in future processes
- Challenges of harmonization, especially in the area of enforcement, should be dealt with in cooperation with the industry, who is willing and able to do so
- Example: accreditation of training institutes
- Road transport relations with neighbouring EU countries are a neglected issue of the last decade which will pose bottlenecks in the future. Here, more initiative of the EC is necessary.
- With proper attention these challenges can be overcome.

*Presentation by Paul Guitink (CER)*

EU rail policy objectives:

- Address modal imbalance
- Introducing prices that reflect all costs
- Rail market opening/liberalization
- Modern interoperable international railway corridors

Contrary to what was said by the research consortium, alignment to the *acquis* in the railway sector led to big challenges in dealing with the railway labor redundancies.

Strategic railway issues

- Key problem is the financial instability of CEEC railways: total capital decreased from 28 to 4 billion, while debts increased from 3 to 12 billion. These debts are usually historical debts. A solution is necessary in order for incumbent railways to be able to compete, this is not a level playing field.
- Rail freight can no longer pay for passenger services and the network. Governments relied on cross-subsidization and are not used to allocating significant budgets to the rail sector. Governments must choose between: terminating obligations or accepting to pay financial compensations for obligations.

- Fair competition between the different transport modes: pricing mechanisms are still distorted. What is needed is harmonized principles for infrastructure charging based on user/polluter pays.
- The level of investments in transport infrastructure has fallen in all MS to less than 1% of GDP, but the economic development of Europe needs new solutions to solve the funding problem.

Conclusions:

- Increasing transport demand, decreasing financing of both road and rail (under-financing)
- EC has analysed the problems but not offered solutions
- Way out: step by step internalization of external costs, and earmarking of funds for infrastructure investments

Main challenges for new MS:

- Implementation of EU legal framework and establishing financial stability:
  - Cross subsidies
  - Infrastructure charges
- EU support for rolling stock investments for regional passenger services. Intensive work is needed: preparation of projects and co-funding on the basis of the strength of the business case, not the state budget
- EU support for infrastructure investment: 14 billion is available from the EU cohesion policy and TEN-T budget. But the challenge is to absorb these funds before 2015. Intensive work to be done by the railways:
  - development plan for the whole network (also international),
  - identify investments needed,
  - start project implementation now,
  - prepare extra project proposals for stand-by.

**Panel Discussion** with Zoltan Kazatsay, Roberts Zile (MEP and former Latvian Minister of Transport), Peep Peterson (ETF), Michel de Bruin (Eunite) Hubert Linssen and Paul Guitink

Mr. Zile

- Capacity building is important, but the technical assistance some times led to confusion: For example, in Latvia there were two packages [I think he was talking about Phare assistance projects], one from Deutsche Bahn and one from SNCF (France), which promoted very different models for the restructuring of the railway sector.
- There had been no research on the impact of the third railway package on the NMS, while this package was adopted days before accession. This was inappropriate

towards the new MS, who were confronted with new legislation, which was not tailored to their specific situation.

- In charges for airports there is much to be done for member states in order to create transparent charges. [I think the point he was trying to make was that this legislation was also geared towards the mature aviation market and large airports of the EU-15, while it had little relevance for the NMS.
- Improvement on legislation on CO2 emissions – The plans to introduce emission rights trading in the aviation sector should also take into account the different starting position of the aviation sector in the NMS. Otherwise this legislation could work out very detrimental for them.

#### Mr. Peterson

- Impacts of enlargement on the labour market in road transport: while the differences in wages are being levelled, the working conditions for drivers from NMS and from EU-15 are quite different. This is a problem that needs to be addressed
- There is a huge shortage of drivers in the whole EU27 and now we are looking at drivers from abroad such as the Ukraine. So this is now a common issue for the EU, where formerly the EU15 were afraid of Polish drivers taking over the market
- The level of correct implementation of the acquis is also a common problem for the EU, not only for NMS. For instance in the UK, where there is political resistance for implementing the third railway package.

#### Mr. De Bruin

- We do not really observe shortages on the labour market, it has just become a little more difficult to attract and keep drivers
- EU companies are still moving to Eastern Europe to benefit from lower labor cost, so we think that this is still an important issue

#### Mr. Van Elburg presents topics for discussion with the audience

Lessons learned for future integration:

- Attention to capacity building and practical application of standards instead of transposition of legislation
- Precisely defined transition periods accompanied by a concrete implementation plan are to be preferred above transposition of rules without correct implementation
- Both for EU27 and for future accession: simplification and consolidation of the acquis is crucial

Further integration of EU27

- A fair, predictable, interoperable and transparent charging system for infrastructure use (road, rail and aviation)
- Lifting borders for railway and inland waterways

- An equal level playing field for road transport through enhancement of the level of checking and enforcement throughout the EU27
- NMS should be allowed to develop an infrastructure funding strategy that generates maximum value for society, also in case this implies that TEN-T projects receive less funding priority

The accession in the area of transport was a success. An explicit Post Accession Strategy should however become an explicit part of the White Papers follow up, in order to address imbalances that occurred in/following the 2004 enlargement.

#### Highlights of Discussion between panel members and audience

##### *Process of accession:*

- NMS had to go to a rather painful road in order to join the systems of the EU.
- The NMS did not have a say in the legislation that they had to transpose, even though it was developed during the accession. They could listen but not be heard.
- The legislative system was designed to serve a rather sophisticated market in the EU. It is more difficult for legislation to draft legislation that serves different levels of sophistication
- Many worries before enlargement in the area of transport, but enlargement turned out to be a success
- Problems for rail in EU-15 and NMS are more or less the same.
- Important issue not yet addressed: mental change accession countries has to go through.

##### *Developments in transport sector:*

- There is indeed a shortage of drivers
- The biggest problem is the lack of investment in infrastructure, both new and maintenance of existing infrastructure
- In Hungary there is the impression that developments in road safety are not positive, which is contrary to what is in the report.
- A practical recommendation for stimulating rail freight transport: we had a very good experience of the overnight express (even though this is abolished due to bureaucraties). The concept was to let a freight train ride behind a passenger train, from Rotterdam to Switzerland, now in only 10 hours. Shippers were very interested, and it is they who determine the mode of transport.
- EU legislation is aimed at liberalization of the railways and supporting modal shift to rail, but when you look at NMS this is not working out. Which effects are due to the collapse of the planned economy and which are due to the EU legislation? This is an important question that is being asked at least in the NMS.
- We might look at other parts of the world to see how to encourage modal shift to rail than the EU, since compared to NMS, the EU is not a good example, since this area is more concentrated on road.

- Road and rail should not compete but work together. This is an issue of the EU in general, not of the enlargement in specific.

*Comments on study:*

- The study is primarily descriptive, not analytical enough. For instance with twinning projects, we already went to the limits since some countries were just not willing to accept.
- What would be valuable is not to state that we should focus on administrative capacity but country comparisons. There is a focus on Hungary and Latvia and this should be broadened. Not to create a beauty contest but to look at lessons learned and best practices.
- The users of transport are not represented in this study. Examples of phrases:
  - “solving the financing problems of railways”: this is a value judgement, since railway companies by now should be able to solve their own problems. This is not the task of the EU.
  - “address imbalances in favor of road such as charging”: it should be recognized that road is efficient and serving its purpose and it is not logical to undermine this sector by favoring rail.
- Look at efficiency and performance of transport sector as a whole since its function is vital to the EU economy.
- Perspective not only on impacts in NMS but also EU-15. We should indeed also look at impact in EU-15: How have living standards in EU-15 been affected, and how does this relate to rise in living standard in NMS

**Conclusions of the Seminar** by Roel Gans

- Much discussion on road/rail transport: I think that the new way of looking at it should be in terms of win-win and not in terms of competition
- This session was a working session and your comments will be used to enrich the report
- A suggestion for further research might be a comparison between countries
- The current research focuses on the effects in the NMS, more focus can be on the effect in the old MS. To contribute to misconceptions that may exist.
- The discussion was open and frank and therefore helpful.