

**Economic and Social
Council**Distr.
GENERALTRANS/WP.5/2000/3
7 July 2000

Original: ENGLISH

**ECONOMIC COMMISSION FOR EUROPE
INLAND TRANSPORT COMMITTEE**

Working Party on Transport Trends and Economics
(Thirteenth session, 18-20 September 2000,
agenda item 5 (b))

DEVELOPMENTS REGARDING TRANSPORT POLICIES

Analysis of Problems Encountered during Implementation of Market Economy Principles in the Transport SectorNote by the secretariat**1. INTRODUCTORY REMARKS**

The purpose of this document is to summarize the information reported by transition countries on the reform process to market conditions in the transport sector, in the context of the activities undertaken by the Working Party of Transport Trends and Economics (WP.5) on this subject since 1996.

The interest of WP.5 on regulatory measures has primarily relied on the positive effects that such measures could have on the needs for transport infrastructure¹. The basic concept is that infrastructure needs could be reduced by means of the parallel implementation of a regulatory policy that combines strategies aiming at an improved use of the existing infrastructure, such as the following ones:

- Developing spatial structures, production technologies and distribution methods that reduce traffic demand.
- Improved division of labour.
- Promoting environmental-friendly transport modes and intermodality.
- Improving the efficiency of transport operations (interoperability, higher degree of use of vehicles, lower costs).
- More efficient management of existing infrastructure capacities (upgrading by technical innovations, improved allocation of demand, maintenance and repair management...).

An exhaustive table of regulatory measures is included as an annex to this document.

These strategies should be considered within an integrated concept aiming at reducing, at the same time, the cost-effectiveness ratio of the transport sector and infrastructure needs. Furthermore, it should be kept in mind that a regulatory policy must also be co-ordinated at the international level; otherwise, new barriers could be erected for the integration of countries in a European economy. In this sense, there is an opportunity for WP.5 to identify and to

¹ With this purpose, the report "Assessment of Effects of Regulatory Measures on the Needs for Transport Infrastructure" (TRANS/WP.5/R.82/Add.1), based on a study undertaken by the Institute of Transport Economics, University of Cologne, was examined and endorsed by the Working Party at its session held on 30 September-2 October 1996 (TRANS/WP.5/20, para.45).

encourage the implementation of a certain array of measures by all the countries concerned, as an output to this review.

ECE transition countries have been asked to provide information on their transport regulatory policies in two different contexts:

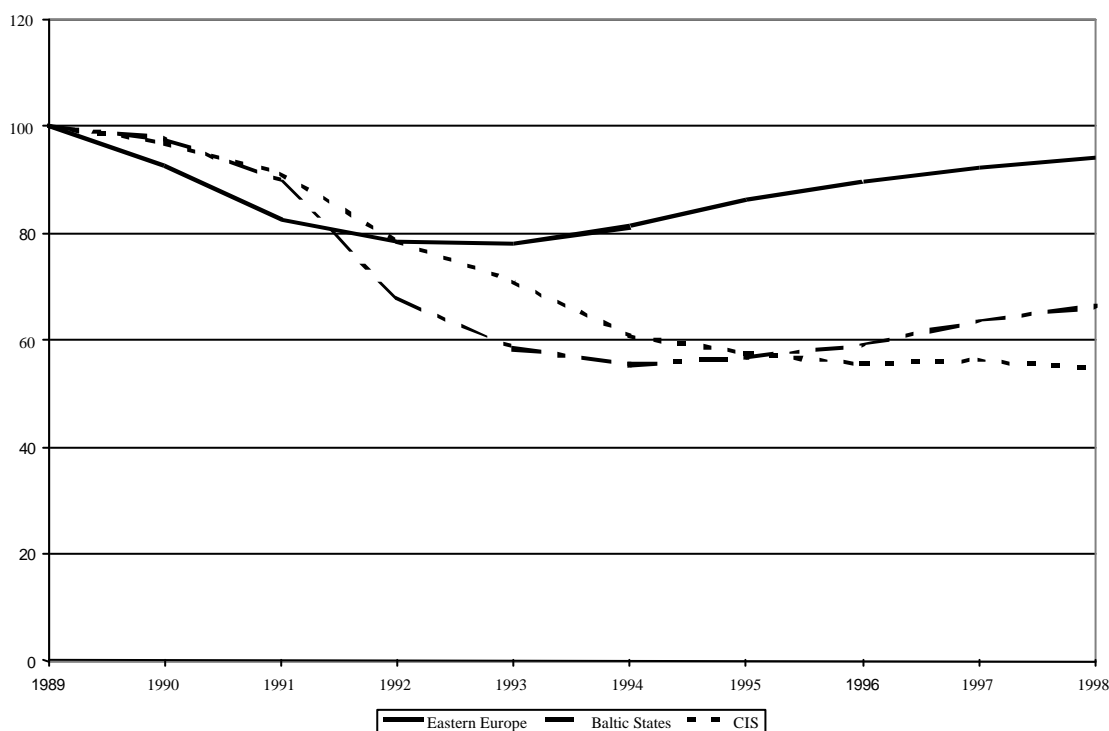
- The monitoring of progress towards market economy in the inland transport sector (answers were circulated in TRANS/WP.5/1998/3 and Add.1, and TRANS/WP.5/1999/4).
- The identification of barriers encountered in the application of market principles in the inland transport sector (answers were circulated in TRANS/WP.5/1999/3 and Add.1).

Valuable additional sources of information have been:

- The Economic Survey of Europe, issued by the ECE.
- The ECMT publication on intercity transport markets in countries in transition (round table 106).
- The Phare study on the conditions for the progressive integration of European Inland Transport Markets (1998).
- The survey on implementation of the Helsinki declaration, reproducing answers to the ECMT secretariat provided by Belarus, Croatia, Georgia, Russian Federation and Turkey (CEMT/CS/INT(99)8).

This document summarizes the information thus far provided to the ECE secretariat, highlights the progress made to date, and the main barriers encountered in the privatization process.

Figure 1: Real GDP in ECE transition countries (1989= 100). ECE Survey



2. RECENT TRANSPORT DEVELOPMENTS IN COUNTRIES IN TRANSITION

Countries in transition have faced a very deep recession since 1989. Since 1994, signs of stability and even of marked economic recovery have been identified in Central and Eastern European Countries (CEECs), particularly in Poland, and the Baltic States. On the contrary, economic decline continues in most of the CIS region. Prospects for substantial growth have not materialised yet. Figure 1 shows GDP trends in the transition economies.

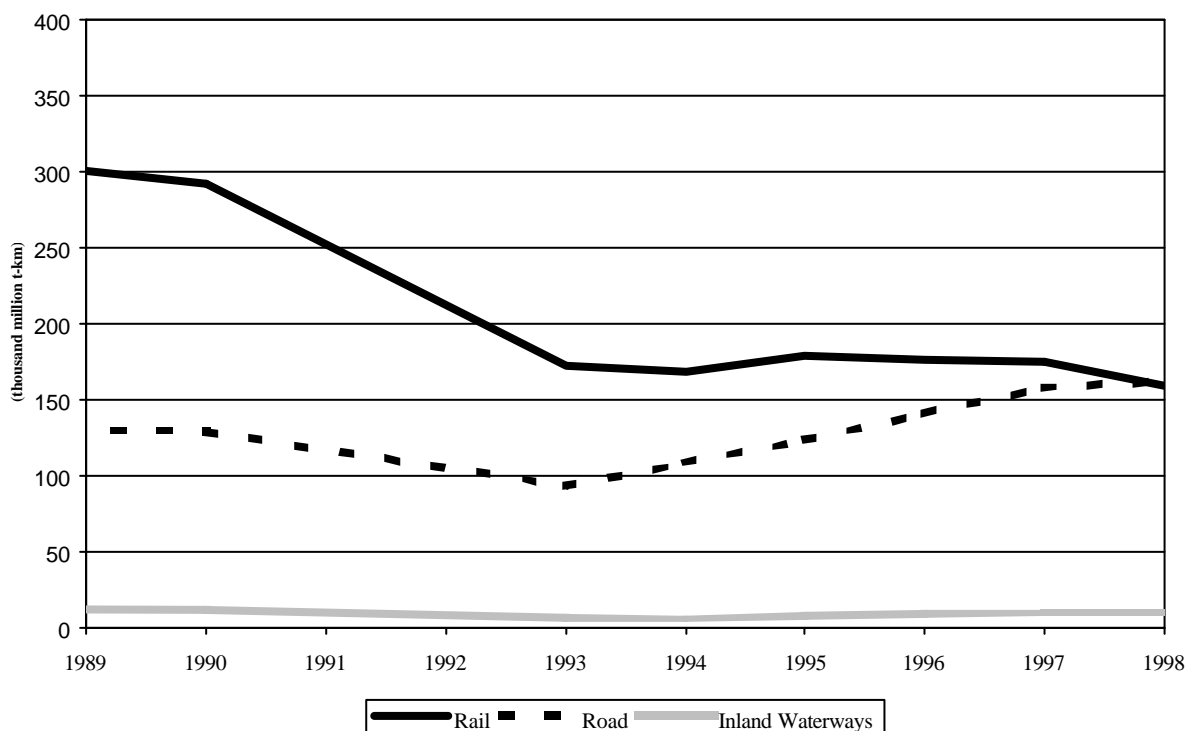
Transport figures in transition countries seem to be also stabilizing, after the sharp decline in the early nineties. It is interesting to note that there has been a remarkable shift in the direction of traffic flows, which are now predominantly oriented to the developed market economies (mainly Western European countries).

The geographical structure of trade has continued to evolve, particularly in CEECs, with further growth in trade with the West, at the expense of trade with other transition countries (table 1). On the contrary, trade trends in the Russian Federation have stabilized in the last years. Accordingly, international flows may be expected to expand regularly in the years to come.

Table 1 Geographical breakdown of the transition countries' trade

1989	CEECs		Russian Federation	
	Imp	Exp	Imp	Exp
Transition countries	36.4%	44.4%	27.6%	26.6%
Developed market economies	44.0%	42.6%	50.1%	41.8%
Developing economies	19.5%	13.0%	22.3%	31.6%
1995	CEECs		Russian Federation	
	Imp	Exp	Imp	Exp
Transition countries	25.3%	25.8%	15.5%	16.8%
Developed market economies	65.8%	64.5%	69.5%	60.6%
Developing economies	8.9%	9.7%	15.0%	22.6%
1998	CEECs		Russian Federation	
	Imp	Exp	Imp	Exp
Transition countries	19.7%	23.6%	12.6%	18.7%
Developed market economies	70.4%	70.5%	67.5%	59.9%
Developing economies	9.8%	5.9%	19.9%	21.4%

Figure 2: freight transport trends in CEEC and Baltic countries (Source: ECMT)



Although this announced expansion of transport flows has not occurred yet, the sharp downtrend in freight is now levelling, as the economy stabilizes. Nevertheless, rail continues experiencing further traffic reduction (see figure 2).

The prospects to very high growth in international freight have not materialized. In spite of a sharp increase in the value of imports and exports since 1994 (see figure 2), particularly in CEECs, international inland traffic flows have grown at a much more modest rate. This is the case, for example, of Hungary (table 2), a country that due to its geographical position should play a key role for transit: actual figures are quite modest, and the share of transit in international transport has not passed the level of 25%. Probably, there are still formidable barriers to the development of inland transport: the distances involved, the poor quality of the rail and road networks, the difficulties of crossing frontiers are such that some traffic prefers alternative solutions (including maritime transport) rather than taking the central European overland routes. In the case of traffic between the Russian Federation and the European Union, further difficulties arise, particularly the need for rail transshipment operations at the frontiers of the CIS, and the safety concerns linked to inland transport in the former USSR.

Table 2: international traffic by road: Hungary (Source: Hungarian Ministry of Transport)

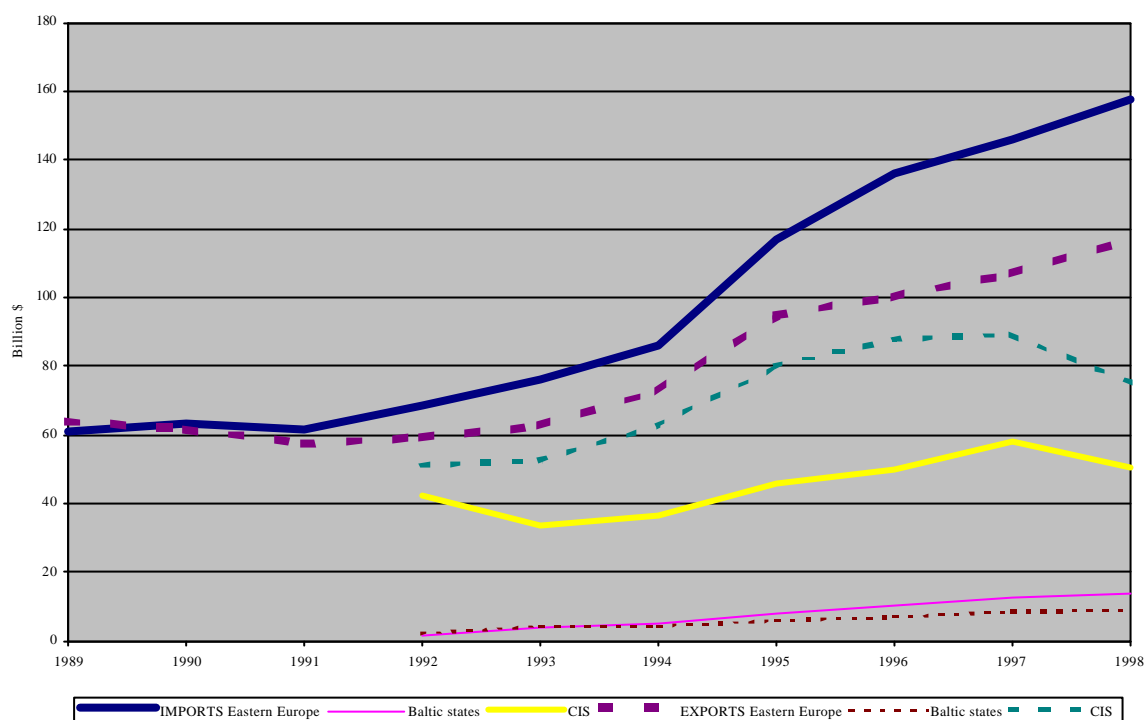
	1991	1992	1993	1994	1995	1996	1997	1998
Road share (%)								
imports	14%	22%	20%	22%	22%	22%	24%	26%
exports	29%	29%	37%	37%	34%	43%	39%	40%
transit	41%	52%	62%	59%	57%	65%	63%	61%
total	26%	34%	35%	36%	35%	40%	39%	39%
Transit share (%)								
imports	40%	34%	45%	44%	38%	41%	37%	37%
exports	30%	35%	31%	32%	38%	35%	38%	39%
transit	29%	31%	24%	24%	24%	24%	25%	24%
total	100%	100%	100%	100%	100%	100%	100%	100%
Total No. lorries								
imports	194	241	247	306	313	338	385	554
exports	263	290	282	351	421	503	569	773
transit	450	591	482	544	482	547	642	652
total	907	1122	1011	1201	1216	1388	1596	1979
Share of foreign road hauliers (% total number of lorries)								
imports	41%	50%	55%	55%	54%	49%	49%	39%
exports	44%	47%	49%	52%	57%	52%	51%	53%
transit	97%	96%	94%	96%	96%	96%	97%	96%
total	70%	73%	72%	73%	72%	69%	69%	63%

Although the volume of inland transit traffic is still modest, compared to its potential, some countries do have an important transit role, particularly the Baltic States. Their ports were traditionally entry and exit gates for the USSR, and this situation has not changed with the independence of the Baltic States. The Baltic ports have therefore remained vital for the Russian Federation. The Baltic States are trying to expand further their transit role by different means, such as increasing the number of road transport permits agreed by the Russian Federation or developing new ferry connections with Germany (thus avoiding the bottleneck of the Polish road network).

3. INTRODUCING MARKET PRINCIPLES

The main pending issues in the privatization process of the transport sector are not much different from those of other economic sectors: the need to consolidate the newly emerged private sector, the privatization of some major national enterprises, and major restructuring difficulties for unprofitable public enterprises.

Figure 3: merchandise imports/exports in transition countries



The problems encountered in introducing market principles in the transport sector are quite different for each mode, as well as for freight and passenger services. The transport field in the planned economies was traditionally based on major National State Enterprises (NSEs), which controlled entire sectors, and also on large lorry fleets integrated within industrial enterprises for own-account, short distance transport. The opening-up of the economy resulted in a quick transformation of the road sector, with an enormous number of very small private undertakings (one or two lorries) that suddenly sprang up. This fragmented structure is typical of the development of a new private sector in the economy. These undertakings are still very weak, not ready to compete with foreign operators, unable to offer more sophisticated services within the logistic chain and very poorly co-ordinated. The next steps in the transition process should be oriented to improve efficiency, be setting-up alliances among small undertakings, helping them to develop logistic services, and to reform and update management practices. This should be encouraged by the development of a more suitable institutional framework, which in some countries is already being set up.

The main approach in the case of major national road transport undertakings has been to split them up into regional or specialized entities. But even when this is done, it is difficult to find private purchasers, especially in the public passenger transport field. Other undertakings have been completely dismantled by selling the vehicles to their drivers. However, international road haulage NSEs have often been kept as they are, with the aim of privatizing them.

Although the information provided by the Governments is not homogeneous, it does give an idea of the general trends in the privatization process. Generally speaking, privatization has moved quicker in road haulage (and inland navigation haulage). Sole proprietors account for a large part of this new private sector: in Hungary, for example, 36855 out of 40783 organizations are dedicated to freight transport by road. The privatization process has not reached the same extension concerning the performance of these operators: in Hungary, private operators merely perform 25% of the total t-km by road². The figures for passengers typically show even lower percentages. This seems to confirm that large parts of the market are still pending to be privatized.

Freight transport by road has proved generally easier to be privatized than passenger transport. One extreme case is Poland, which, although it has succeeded in privatizing 92% of the freight market (in t-km), still keeps 87% of the passenger market (in pass-km) in the public sector (mainly through the State bus company PKS). This is probably an indication of the difficulties to privatize these services while keeping them with the historical low fares.

² According to information recently received from the Hungarian Ministry of Transport, in 2000 all the road freight transport sector in Hungary had been privatized, including international haulage.

Restructuring the other modes is much more difficult, particularly as regards the railways. Management is still mainly production- rather than demand-oriented, traffic flows are declining and overmanning has not been solved.

Market principles in the rail sector are far from having been introduced. Some countries (mainly Poland and Romania) have made initial steps in the direction recommended by the EU directives: separation of infrastructure and operation, and establishment of the basis to allow in the future other undertakings to make use of the infrastructure. The slow pace taken by the railway reform in the West has probably discouraged transition countries to undertake further reforms.

Many of the problems faced by the railways are driven by changes in its external environment, in particular in the economic conditions and structure in the CEECs. Labour productivity in the CEEC railways is around 1.5 times less than that found in the EU³, even allowing for purchasing power differences. Structural changes in economies mean that traffic growth is coming from sectors not traditionally served by rail. High levels of passenger and freight growth are unlikely in the short to medium term. The CEEC railways do not have much power to manage their own operations and business and, therefore, respond to changing market conditions and expectations. Without such powers any attempt to address customer issues and needs is likely to be cosmetic only, and railways will continue failing to meet the new needs and aspirations of their potential customers. An additional problem is the "wage time-bomb": average labour costs in the CEEC railways are, on average, less than a third of those in the EU, and increases in wages in the CEEC railways to EU levels will result in increases in operating costs of between 2 and 4 times, equivalent to additional costs of between 13 and 26 billion Euro by 2020. Economically strong countries such as the Czech Republic, Hungary, Poland, Slovak Republic and Slovenia, all of them with railways that have poor cost efficiency are those most concerned by this problem. This situation may be different in Baltic countries according to the information received from Latvia, as productivity ratios there are high, reform is being pushed, and they benefit from the high transit traffic demand generated by the Russian Federation.

The underlying problem facing the CEEC railways is that they fundamentally remain production-orientated companies, operationally controlled and led, in a more competitive and dynamic market.

An additional problem, common to the road and rail sector is the lack of adequate fleets to handle the traffics. In the case of the road, the average age of the vehicle fleet is well above EU's standards, and its composition does not match with the transport demand, particularly for international transport. The rolling stock of railway undertakings lacks specialised units, and has suffered from poor maintenance for many years.

The combined transport sector has not adequately developed thus far. One reason for this is that typical distances for international transport in the region do not make this mode competitive. Additionally, there is a lack of rolling stock and infrastructure equipment to efficiently handling containers and swap bodies. Nevertheless, there are also good opportunities for the development of combined transport, particularly in CEECs:

- railways have lost traffic and, consequently, are not being run to capacity;
- road haulage continues to face major problems: border-crossing delays, bottlenecks, lack of logistic services... which result in poor efficiency;
- road infrastructure is being upgraded at a slow pace; if the sharp increase in transport demand that has been anticipated so many times finally occurs, the road will have many difficulties to absorb it.

The prospects for the development of combined transport seem to rely primarily on the constraints on road transport. The main markets identified for combined transport expansion are the routes between CEECs and the Russian Federation (which in the past carried a high volume of container traffic), the rolling road (especially for Baltic Sea and Black Sea traffic), the routes towards the EU, and domestic traffic in the largest CEECs (mainly Romania and Poland). In any case, the development of combined transport is uncertain and will need an all-round effort from CEECs (establishment of a network of high-performance facilities, institutional and legislative frameworks favouring rail and combined transport, etc.).

4. THE EMERGENCE OF TRANSPORT POLICIES TO COMPLETE THE TRANSITION PROCESS

Transition countries are now facing the challenge to consolidate the process by setting up the microeconomic structure that will complete the transition to a market economy. This consolidation should have as a goal the

³ According to the PHARE study "Improvement of competitiveness of rail transport in CEECs" (Halcrow et al, 1999).

attainment of more efficient transport systems in each mode, the establishment of fair competition among transport modes, and the balance between transport growth and its impact on the natural and human environment.

Some countries have partially reported on their initiatives in this field. The licensing system is under review in some countries, and monitoring of the conditions laid down in the licenses is being improved (including the revision of the laws on road transport and traffic in Kyrgyzstan, new fundamentals for the regulation of road transport activity, forwarding and combined transport in the Russian Federation; a new vehicle taxes act in Estonia, laying down the rules for taxation of heavy goods vehicles, harmonized with EU's standards. Lithuania passed new rules on road transport licensing in 1997. The new Polish law on road traffic (passed on 20 June 1999) has been followed by a set of Executive Acts covering technical requirements and technical inspections for vehicles. Poland is also establishing a Road Transport Inspector, with the support of the German and French services. The facilitation of international services is being promoted in the Balkan region through the SECI project on the facilitation of border crossing for rail and road. Hungary is making some efforts to improve monitoring of the road transport market (including updating the statistical information system). Accession countries are generally compelled to annul the prohibition of cabotage for foreign trucks, generally within some period of grace. Most countries have already eliminated most of the barriers to free contractual tariffs for freight transport services.

New codes and charters have been passed for the conversion of railway administrative bodies into corporate entities in Kazakhstan. Accession countries are moving in the line marked by the EU's directives for railway reform. Within its regulatory and control duties, the Hungarian Government is trying to promote combined transport, the extension of railways, inland waterways and the implementation of logistic centres. Transport projects in Hungary try to promote a more balanced regional development.

Therefore, the transition process is changing its character, from privatization to efficiency. In this sense, any further monitoring of the process should focus on the following areas:

- State initiatives to support self-reform in the road transport sector (particularly through the co-operation among small enterprises and the development of downstream logistic services, modern accounting practices... The State should play here a role to support self-reform in the sector).
- Privatization of remaining large state-owned enterprises (mainly those dealing with international haulage). The remaining enterprises for privatization usually present the highest challenge: unprofitable services, large organizations, subsidies...
- Competition development, including the licensing of foreign operators (cabotage), and the establishment of transparent, non-discriminatory tax systems for domestic and foreign hauliers.
- Development of intermodal competition, with measures to promote rail and combined transport and to limit the development of road haulage.
- The renewal of the transport fleet, in order to comply with the EU vehicle regulations, and to better respond to market needs (increase use of large road tractors of light utility vehicles, as well as vehicles suitable for non-accompanied combined transport;
- Renewal of rolling stock of railway undertakings.
- Development of combined transport facilities.
- Enforcement of social and technical standards in the road sector
- Improvement of the reliability of transport statistics.
- Customer-oriented co-operation between railways (development of new services for international transport).

According to these emerging needs, any further activity of WP.5 in transition countries should probably give particular attention to:

- Promotion of intermodal competition.
 - Spatial development initiatives for the attainment of less transport-demanding economic structures.
 - Improvement of the efficiency of transport undertakings, particularly the development of new services within the logistic chains.
-

ANNEX. Policy mix of regulatory measures in the context of policy concepts for transport

Strategy	Regulatory variables	Instruments
Traffic avoidance	Prices and taxes	road pricing fuel taxes energy and CO ₂ -taxes
	Regional regulations	decentralized structures in location locations of transport infrastructure facilities
Changing modal split	Prices and taxes	road pricing fuel taxes vignettes energy and CO ₂ -taxes
	Market regulations	promotion of intermodal transport deregulation of transport markets free access to railways privatization of interfaces social regulations
	Traffic management	intermodal cooperations optimization of transport chains freight distribution centres improvement of interfaces
	Technical regulations	technical dimensions of containers and swaps technical operating systems organizational standards
Efficiency of transport operating	Traffic management	cooperations car pooling optimization of transport chains internal transport organization logistical structures freight distribution centres telematics
	Technical regulations	vehicle dimensions and weight dimensions of containers and swaps standards in information
	Market regulations	deregulation of transport markets opening own account transport opening access to railway cabotage social regulations
	Prices and taxes	road pricing fuel taxes energy and CO ₂ -taxes