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The Common Transport Policy of the EEC

by Charles C. McKay, Münster*

A free market in the sphere of transport is to be established in the European Community by 1992. What conditions prevail today in this sector and what steps must be taken in order to establish a workable Common Transport Market?

Article 3 of the Treaty of Rome, which established the European Economic Community, not only describes the general outlines of European integration policy but also points out that a common policy is to be adopted in the sphere of transport. Unlike the Common Agricultural Policy the Common Transport Policy was left largely unspecified. During the establishment of the Treaty the member states were only unanimous in that a common policy was essential for the opening of the markets.¹ The objective of Title IV ("Transport") of the Treaty is to reduce the national sovereignty of the member states in order to guarantee undistorted and unhindered competition.

Although the founder states were unanimous in that "workable competition" was to be the cornerstone for the common integration and competition policy, the definition of "workable competition" proved problematical. Not surprisingly, a concrete description was not achieved. Workable competition can only be defined as such that best satisfies the functions of competition.²

To assess the transport markets of today it is essential to part from concepts which are set at defining optimal market structures. A more realistic and as such more operational concept is H. Grossekkettler's "Koordinationsmängelkonzept" (lack-of-coordination concept) that tries to define satisfactory workability of market competition.

Grossekkettler defines market performances which should be common to all kinds of markets. It is therefore no longer essential – as in the case of the workable competition concept – to define the markets precisely.

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Subsequently the concept has the following market requirements:³

- ☐ Market Clearing (*Markträumung*): Price variations should lead to a reduction of market stocks to a level which is economically justifiable.
- ☐ Normalisation of Rates of Return (*Renditenormalisierung*): Variations in capacities should erode high returns on investment that have resulted from capacity shortages and vice versa low returns on investment due to excess capacities.
- ☐ Erosion of Market Power Superiorities (*Übermacht-erosion*): Structural variations by means of market entries and withdrawals on the demand and supply side should lead to a satisfactory balance of power on a level as low as possible.
- ☐ Product Innovation (*Produktfortschritt*): By means of innovation, selection and imitation processes, new products should be developed and, if approved, introduced.
- ☐ Innovation of Techniques (*Verfahrensfortschritt*): By means of innovation, selection and imitation processes, new transport techniques should be developed and, if approved, introduced.

In transport markets it is at times impossible to differentiate between innovation of products and innovation of transport techniques. It therefore seems

¹ Cf. K. Stegemann: Wettbewerb und Harmonisierung im Gemeinsamen Markt, Cologne et al. 1966, p. 108.

² Cf. H.-J. Ewers: Wettbewerbstheoretische Ansätze in der deutschen Verkehrspolitik seit den Verkehrsänderungsgesetzen – Eine kritische Analyse, in: Beiträge aus dem Institut für Verkehrswissenschaft an der Universität Münster, No. 63, Göttingen 1971, p. 90.

³ Cf. H. Grossekkettler: Wettbewerbstheorie. Funktionale Marktprozesse als ordnungspolitische Gestaltungsaufgabe, in: M. Borchert, H. Grossekkettler: Preis- und Wettbewerbstheorie, Stuttgart et al. 1985, pp. 175 f.

appropriate to merge both analyses into one in order to simplify especially the empirical analysis. The overall assessment, which comprises an empirical analysis followed by a theoretical analysis, would hence become less detailed but would nevertheless remain stringent.

Grossekettler defines competition as workable and satisfactory when there are no

- ☐ long-term discrepancies between demand and supply,
- ☐ long-term shortages or excesses of capacities,
- ☐ long-term superiorities of power either on the supply or demand side,
- ☐ long-term unsatisfactory rates of product innovation,
- ☐ long-term unsatisfactory rates of innovation in the field of transport techniques.

The overall assessment employs analyses of the direction and effectiveness of market reactions. The former analyses in how far e.g. the direction of price variations is in principle able to bring supply and demand into balance (direction clause). The latter analyses in how far the extent and the speed of the price variations are able to balance supply and demand within an acceptable period of time (efficiency clause).

Market processes are considered satisfactory as long as long-term disequilibria were not apparent in the past and, on the basis of theoretical analysis, are not foreseeable in the future.

The Judgement of the European Court of Justice

Since the establishment of the EEC it has not been possible to quantify exact achievements in the field of integration. This led to a policy that is constantly influenced by restrictions and interventions by the member states.

The first phase of the European Transport Policy in the years 1958-1972 was characterised by the over-ambitious attempt to abolish all national sovereignty in the sphere of transport in the hope of establishing a Common Transport Market. The accession of Great Britain, Denmark and Ireland to the EEC in 1973 saw the beginning of the second and as such more pragmatic phase of striving for a Common Transport Market. Instead of attempting to abolish national sovereignty it was intended to adapt national interests to the needs of Europe. The amalgamation of the transport systems of the member states was to be achieved in the field of structural policy – but to no avail.

With its judgement of 22nd May 1985, the European Court of Justice introduced the third phase by coming to the conclusion that the European Council had infringed the Treaty in that it had failed to ensure the freedom to provide services in the sphere of international transport and had failed to lay down the conditions under which non-resident carriers might operate services within a member state. "Freedom to provide services" is to be understood as the elimination of all discrimination against the provider of the service on the ground of his nationality or the circumstance that he is established in a state other than that in which the service is to be provided.⁴

These decisions, taken under judicial aspects, were overdue. As far as the economic consequences are concerned it still remains unclear which steps are to be taken in order to guarantee both the establishment of workable competition on the one hand and the compliance with the demands of the judgement on the other.

Political Decisions

On 28th and 29th June 1985 the heads of state agreed in their Milan summit to establish a free market in the sphere of transport by 1992. The summit was followed by a meeting of the European Council on 14th November 1985 at which it was decided:

- ☐ to establish a free transport market without quantitative restrictions by 1992,
- ☐ to ensure a successive non-discriminatory adjustment of the bilateral quotas during the transition phase in connection with the development of Community quotas, and
- ☐ to abolish all distortions of competition during the transition phase.

These decisions were endorsed by a further meeting of the Council on 30th June 1986 where an increase of Community quotas by 40 % compounded annually was decided. An agreement to introduce an automatic increase for every year, however, could not be found so that an increase of 40 % has so far only been decided for 1987.⁵ The system of bilateral authorizations was to continue during the transition phase and to adapt as necessary to the requirements of the economy.

Especially in respect of Article 75 paragraph 1 a and b

⁴ Cf. J. Erdmenger: Die EG-Verkehrspolitik vor Gericht. Das EuGH-Urteil, Rechtsache 13/83 vom 22. Mai 1985 und seine Folgen, in: *Europarecht (EuR)*, Vol. 20 (1985), p. 379.

⁵ Cf. *Der Spediteur*, Mitteilungsblatt des Bundesverbandes Spedition und Lagerei (BSL), Bonn, No. 8, August 1987, pp. 259 f.

of the Treaty, far-reaching changes for international road transport are due. With the introduction of cabotage transports in Europe, non-resident foreign hauliers will be able to transport within member states of their choice, thus allowing new scope for development. As the economic effects of the introduction of cabotage transports are as yet unquantified, measures will have to be taken to correct market processes should a market crisis arise. The European Commission wants these crisis measures to be understood as safeguards giving both the profession and other institutions in the field of transport the possibility of planning and assessing policy decisions.

As far as the harmonization of regulations is concerned, the Council agreed on weights and dimensions, new regulations on drivers' hours and a resolution on tighter enforcement of the latter. The area of taxation still has to be dealt with.⁶

The following economic assessment of transport markets is an approach based on the "lack-of-coordination concept". The empirical data were collected under the "Market Observation System" of the Commission. Unfortunately, the data available were at times imprecise, thereby reducing the relevance of several analyses. The overall analysis nevertheless gives important insights into the market results of the past and by means of theoretical analysis gives implications for steps to be taken in order to establish a workable Common Transport Market.

Market Clearing

The first market test registers market disequilibria by analysing how closely transport tariffs resemble market prices. Market disequilibria lead either to excess demand for or excess supply of transport facilities. The following indicators can be used to assess empirically the efficiency of the tariff system:

Indicators of excess demand:

- ☐ constant or prolonged over-utilization of capacity,
- ☐ missing capacities,
- ☐ increases in own account traffic,
- ☐ increasing waiting times for consignors,
- ☐ falling transport quality.

Indicators of excess supply:

- ☐ increasing number of cases of non-compliance with tariff regulations,
- ☐ under-utilized capacities,
- ☐ increase of transport quality in cases where a mere reduction of transport prices would have sufficed to satisfy demand,
- ☐ pricing at the bottom margin of transport tariff regulations,
- ☐ long vehicle idle-times,
- ☐ below-average vehicle kilometrage.

Since markets are never in a constant equilibrium, imbalances of this kind are considered normal as long as there is a tendency to reduce the discrepancies between supply and demand within a satisfactory period of time.⁷ The balancing of supply and demand should be initiated by means of price variations which point in the correct direction – i.e. excess supply should lead to price reductions – (direction clause), and which

⁶ For further details on the political decisions in the light of the court judgement see J. Steele: Transport Policy and the European Court, in: Transport, April 1986, pp. 77 ff.; and J. Erdmenger, op. cit.

⁷ This means defining time intervals within which a reduction of the difference between supply and demand by one half should occur. These intervals can be ascertained, for example, by questioning experts or businessmen in the transport branch.

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V E R L A G W E L T A R C H I V G M B H – H A M B U R G

are substantial enough to induce the increase in demand which is needed to balance supply and demand (efficiency clause). Market malfunctions are diagnosed as soon as one of the balancing clauses is not effective and when there is no reason to believe that any future improvement will occur.

The following analysis uses two indicators to assess the market efficiency of transport tariffs:

- ☐ the rebates granted on returned shipment rates and
- ☐ the rates for outgoing and returned shipments.

Figure 1 shows the rebates on returned shipment rates paid in France, the Netherlands and Italy.⁸ The figure reveals that except for the fourth quarter of 1981 in Italy, substantial rebates were allowed. The extent of the rebates indicates that the margin of 23% for the international transport of goods between member states, which is currently in effect for most of the countries, is not able to meet market requirements. Table 1 endorses this interpretation. It shows the rates for outgoing and returned shipments.⁹ For a better understanding, one batch of figures shall be interpreted.

Line 1 shows the relation West Germany – France. For German firms in 1982 the rates for returned

shipments were 86.7% of the rates for outgoing shipments. Analogously, the returned shipment rates for French firms were only 94.6% of those for outgoing shipments.

This is a phenomenon typical to most European relations. In connection with Figure 1 the conclusion seems justified that the present margin of 23% should be increased. According to the profession, the large amount of firms having liquidity problems indicates that a lowering of the margin would have adverse effects on the firms¹⁰ (see Figure 2).

As far as inland waterways are concerned, the only data available were on North/South (N/S) traffic between the Netherlands, Belgium and France. The constant increase of quarterly average waiting days in international N/S traffic (Figure 3) indicates that the price variations are not able to balance supply and demand. A flexibilization of tariffs seems necessary.

Normalization of Rates of Return

The market analysis above demanded functional price variations according to the discrepancy between supply and demand on the basis of constant transport capacities. The aim of the following market test is to assess in how far transport capacities need to be varied in order to reach normal rates of return in the transport sector.

A shortage of capacity normally leads to an increase of rates of return in the specific branch. Conversely, excess capacities lead to low rates of return. In cases where, due to transport capacity shortages, above-average rates of return in the transport sector are achieved an increase in transport capacities should occur until the rates reach a normal level.

In order to ascertain in how far the rates of return in the transport sector are higher than normal it is necessary to subtract the rates of return in the transport sector from the overall average economic rates of return.

These three indicators, overall (e.g. the normal) economic rates of return, rates of return in the transport sector and capacity variations are needed for the analysis. As in all the other analyses the capacity

Table 1
Comparison of the Development of the Level of
Prices for Outgoing and Incoming Loads in ECU
(percent)

Connection	Firm	1982	1983	1984
DF	D	86.7	88.3	90.6
	F	94.6	96.0	94.1
DI	D	94.9	95.7	95.1
	I	88.4	88.8	90.8
DNL	D	98.6	98.1	97.9
	NL	87.1	86.9	87.5
DBL	D	98.2	97.4	97.4
	BL	91.6	93.7	94.3
FI	F	94.4	93.4	93.8
	I	85.7	89.5	93.3
FNL	F	107.7	106.7	104.5
	NL	72.3	71.5	71.3
FBL	F	94.1	97.3	96.0
	BL	93.4	107.6	99.5
INL	I	100.6	115.2	100.0
	NL	81.5	82.1	80.8
IBL	I	84.2	98.7	92.0
	BL	88.0	88.6	86.5
NLBL	NL	99.2	93.5	90.7
	BL	86.9	95.6	102.2
GRD	GR	—	153.6	169.7
GRF	GR	—	139.5	145.8
GRI	GR	—	181.8	175.9
GRNL	GR	—	134.8	162.8
GRBL	GR	—	156.4	175.8

Notes: D = West Germany, F = France, I = Italy, NL = Netherlands, BL = Belgium/Luxembourg, GR = Greece.
Source: European Commission: Europa Transport, annual report 1985, p. 45.

⁸ The remarks by the Commission reveal that the rebates given were outside the allowed margin. The prices were weighted according to average distance and tonnage as well as freight class in order to make them comparable.

⁹ Price = $\frac{\text{rates for returned shipments}}{\text{rates for outgoing shipments}}$

¹⁰ Cf. European Commission: Europa Transport, annual report 1982, p. 26.

variations should point in the correct direction, i.e. capacity increases in the case of excessively high rates of return and capacity cuts in the case of excessively low rates of return.

The specific problem in assessing transport capacities is that a differentiation is needed between static and dynamic capacities, the latter comprising turn-over times including dispatch and reloading.¹¹ In so far, detailed empirical studies are needed to distinguish between above-average, average and below-average rates of return.

The data needed to assess precisely the market reactions according to capacity variations and rates of return were not available. Implications, however, can be derived from Figure 2, and in connection with Figure 4 (utilization of rolling stock) the following conclusion can be drawn.

Since a slight decrease of firms having liquidity problems can be observed together with an increase of capacity utilization, it seems appropriate to diagnose an adjustment of capacities in the correct direction. The slow decrease of firms having liquidity problems indicates that the effectiveness of the capacity variations – that is the extent and the speed of capacity adjustment – is not satisfactory.

In connection with the conclusions on the price variations it therefore seems justified to conclude that larger tariff margins, oriented towards the development of costs, would induce faster and more efficient capacity variations. The European-wide implementation of the directive No. 3568/83 with its margin of $\pm 15\%$ from an average tariff would give reason to believe that improvements could be achieved.

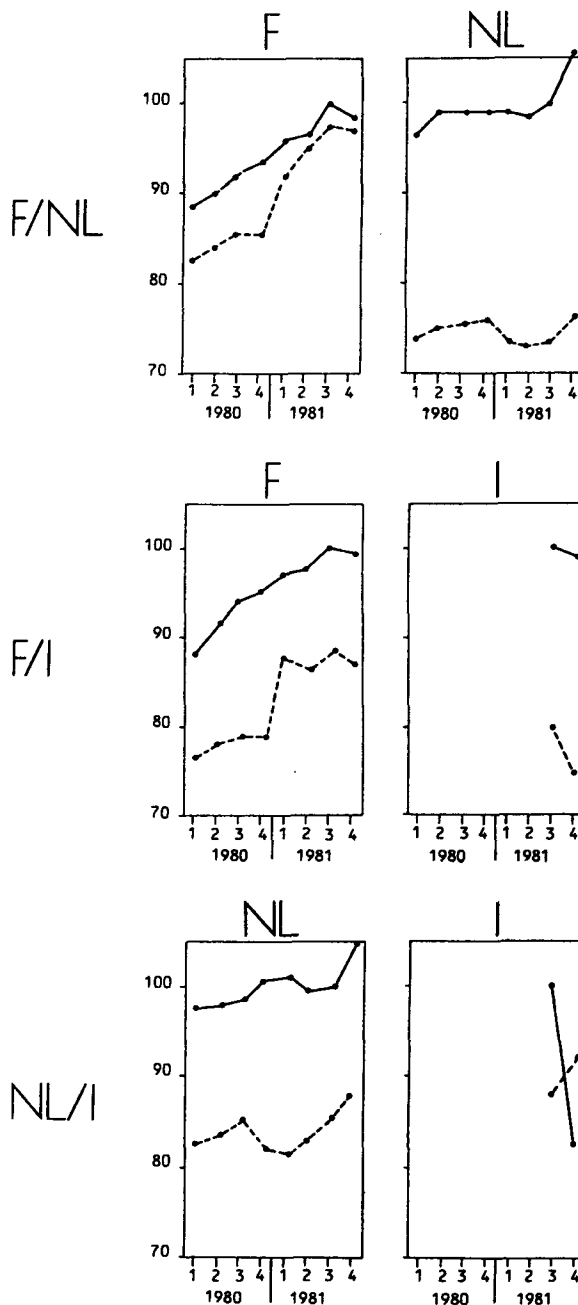
Erosion of Market Power Superiorities

The analysis of market powers is aimed at reducing imbalances of power in order to guarantee satisfactory market results. Generally, market powers both on the supply and demand side are essential for the functioning of markets. But as soon as significant imbalances occur there is the danger of market malfunctions.

Superiorities of power should be reduced by structural changes either on the supply or demand side. Market entries with subsequent increases in competition should occur preferably on the stronger

side so that a balance on the lowest possible level is reached. If structural changes on the stronger side are not possible an increase of market power on the weaker side should take place.

Figure 1
Rebates on Returned Shipment Rates



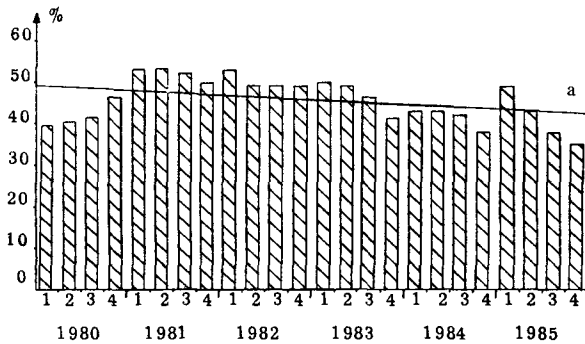
¹¹ Cf. G. B. I h d e : Transport, Verkehr, Logistik, Munich 1984, pp. 7 and 183.

— rates for outgoing shipments
- - - rates for returned shipments

Source : European Commission: Europa Transport, annual report 1981, p. 36.

Figure 2
Liquidity (EUR 10)

Percentage of Firms having Liquidity Problems



^a Trend.

Source: Europa Transport, Marktentwicklung, No. 10, p. 14; *ibid.*, No. 19, p. 24; own assessments.

Market powers are usually assessed by means of the Herfindahl index¹² but unfortunately no Herfindahl indices were available to assess precisely the power structures on the European transport markets. As far as the erosion of superiorities is concerned, the experiences of the German transport market may be of help. In the history of Germany's regulated market the number of middle-sized and small firms helped curb possible superiorities of power. Thus the regulations helped develop satisfactory market performances.

Consequently the European Policy should comprise measures to

- ☐ improve the industrial structures,
- ☐ develop productivity,
- ☐ improve the financing facilities of small and middle-sized firms.¹³

Under these circumstances a certain degree of regulation seems recommendable.

Innovation of Products and Transport Techniques

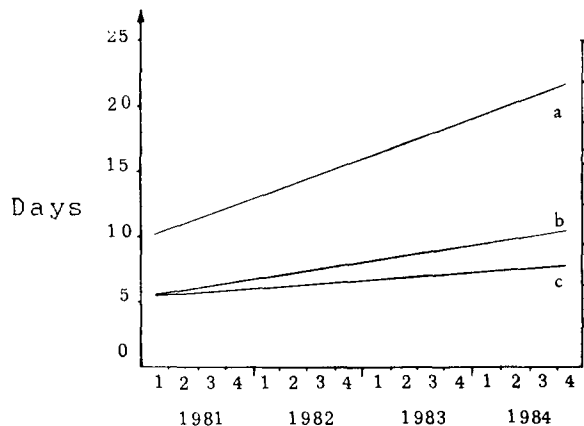
Rates of product innovation can be ascertained by registering the number of improved or newly introduced products on the market. Besides this purely quantitative analysis, the quality is assessed by the consumer, whose decision determines how long the products stay on the market. Hence, product innovation comprises

¹² Cf. H. Grosseckertler, *op. cit.*

¹³ For further details see F. v. Stackelberg: Ziele und Instrumente der Mittelstandspolitik, in: Das mittelständische Güterverkehrsgewerbe – Bedeutung und Probleme, Beiträge aus dem Institut für Verkehrswissenschaft an der Universität Münster, No. 100, Göttingen 1983, pp. 33 ff.

two developments: either improvements of quality standards, or a deterioration of quality which is accompanied by an even greater fall in prices so that a higher economic benefit is achieved by the consumer. Innovation rates are considered satisfactory as long as there is no long-term rising discrepancy between rates of innovation on the domestic market compared with foreign markets.

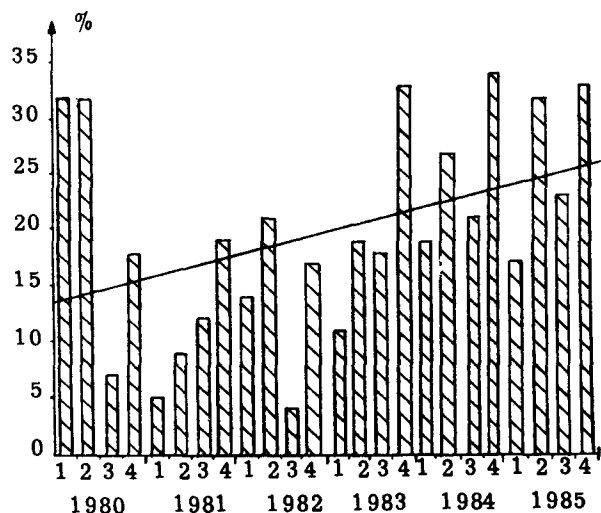
Figure 3
Trend of Quarterly Average Waiting Days in International N/S Traffic



^a France, ^b Belgium, ^c Netherlands.

Source: European Commission: Europa Transport, annual report 1984, p. 68; own assessments.

Figure 4
Utilization of Rolling Stock



Source: Europa Transport, Marktentwicklung, No. 10, p. 12; *ibid.*, No. 19, p. 22; own assessments.

Typical for all kinds of services is the difficulty in differentiating between product innovation and innovation of techniques since products and techniques are very often identical. As in the case of transport markets the product "transport" can be a simple transport from A to B or it can comprise highly complicated just-in-time procedures which need sophisticated logistical systems. The more elements the product "transport" comprises the more difficult it becomes to differentiate between innovation in the field of products and in the field of techniques. With the introduction of new logistic concepts, for example, both very often occur simultaneously.

Bearing this in mind, the following indices can be used to assess product innovation:

- ☐ the quality of logistic systems (storage, organisation, distribution etc.),
- ☐ the development of just-in-time deliveries,
- ☐ reduced insurance premiums which lead to lower transport prices,
- ☐ more reliable transport of fragile or dangerous goods.

Similarly, the following indices can be used to assess innovation of transport techniques:

- ☐ improvement of firms' internal logistic concepts,
- ☐ improved disposition of vehicles,
- ☐ increased versatility of vehicles,

- ☐ vehicle electronics,
- ☐ use of specialized vehicles.

Detailed empirical data were not available to assess the process of innovation of products and transport techniques. The information yielded by the market observation system of the Community only helped depict developments in the field of vehicle specialization. The developments in the member states, however, varied substantially, so that a stringent overall conclusion could not be drawn.

The increase of investments of firms as shown in Figure 5 indicates that innovation presumably takes place. But the rate of development indicates that progress is unsatisfactorily slow. A liberalization of the international transport market thus seems necessary to increase competition in order to promote innovation.

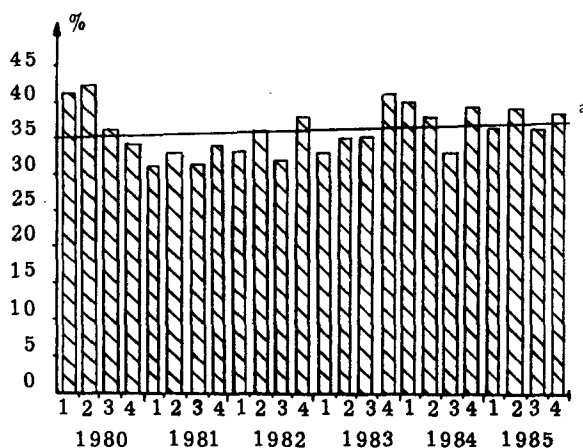
Conclusions

The following deductions seem justified:

- ☐ All analyses showed that market results have improved in recent years. In principle, a tariff system of the present kind therefore seems able to guarantee satisfactory market results.
- ☐ The speed of improvement being so slow, there is still need for more competition which can be achieved by reducing the extent of regulations in the sphere of transport. A flexibilization of tariffs seems necessary, which means implementing directive no. 3568/83 of the EEC.
- ☐ A system of reference tariffs, which de facto means fully deregulated pricing of transport, can be introduced as soon as the market processes show satisfactory results.
- ☐ Due to the danger of protectionism, bilateral quotas should be abolished.
- ☐ The introduction of cabotage transports seems possible as soon as a harmonization of regulations and conditions of competition has been achieved.

A European Transport Policy is dearly required. In the history of the EEC too many national interventions have occurred which have impeded integration and curbed competition. The market results show that there is a tendency towards satisfactory conditions. The slow progress, however, indicates the need for less national regulation and more competition. Too many imponderables still exist as to abolish fully all regulations. As in the case of curbing superiorities of market powers, regulations supporting small and middle-sized firms are required.

Figure 5
Percentage of Firms having made Investments



a = Trend.

Source: Europa Transport, Marktentwicklung, No. 10, p. 15; ibid., No. 19, p. 25; own assessments.