



Impact of Transport Infrastructure on International Competitiveness of Europe

Newsletter no 3 – April 2014

Editorial

Welcome to the third issue of the I-C-EU Newsletter.

This newsletter provides information on the I-C-EU project progress, important upcoming events and other news. It is addressed to the I-C-EU network, policy makers and the scientific community.

The I-C-EU consortium has planned to publish four issues during the 2-year project period. Each issue is available both in PDF and accessible HTML format via:

<http://www.i-c-eu.eu/newsletters/index.htm>

The third issue contains a brief project presentation, some findings of the current period, some inputs from stakeholders, past and upcoming events.

What is I-C-EU?

I-C-EU is a 2 year FP7 project that studies the relationship between transport infrastructure and competitiveness, by exploring the state-of-the-art of the methodology and assessment tools for public and private investments in transport infrastructure. The project explores and further develops the current assessment methodology. The existing framework for policy intervention will also be analysed and some improvements will be proposed. The practical use of this improved framework will be tested on a representative set of transport projects.

I-C-EU will provide recommendations to the European Commission for interventions, in order to enhance the international competitiveness of Europe as well as between its countries and regions. The project started in October 2012 and will finish in September 2014.

The project will produce three main outputs:

- A synthesis of the relationship between transport infrastructure investment, competitiveness and economic growth
- An improvement of the methodology used to assess the impacts of transport infrastructure investments especially on competitiveness and economic growth
- A synthesis of recommendations on assessing EU policy in transport infrastructure investments in respect of competitiveness and economic growth





Some findings between July 2013 – March 2014

Towards a trend of micro-macro modelling

We identified a trend over the last years combining micro and macro models used to estimate the wider benefits of investments in transport infrastructure. More data, better computers and importantly, better theory facilitate the inclusion of more micro elements into macro models¹ so that policy-focused models have at last become 'complete'.

A similar trend exists in the scientific literature, where traditional macro modelling at country and regional level has been expanded with similar models based on micro data. Traditionally, such data comes from surveys and other samples. Currently, census data offers complete datasets that can be mutually linked. For economics, this has led to the inclusion of linked micro datasets, such as the Linked Employer-Employee Data (LEED). Such trend may allow researchers to refine and enhance any type of model, and it is difficult to foresee which model benefits most from this interaction.

Employment effects and agglomeration economies as wider economic impacts (WEI)

Review of case studies on the treatment of wider economic impacts (WEI) has revealed how most of the efforts in the current practice in Europe are devoted to the inclusion of employment effects and agglomeration economies.

On the one hand, consumer concentration generates agglomeration economies due to the existence of economies of scale in distribution and logistics. On the other hand, transport infrastructure improvements may also modify workers behaviour. First, a better matching between workers and firms may increase the productivity. Moreover, new workers may appear in the labour market affected by changes in the commuting costs. Therefore, on the supply side improvements in transport infrastructure reduce commuting time; increase the number of potential workers. On the demand side, firms may gain productivity from a better matching with the labour market.

The reduction of transport costs allows moving final products from one region to another with a reduced need for storage space and distribution, increasing the competition level of regions and reducing the deadweight loss associated to non-competitive markets. Transport is also needed to move inputs affecting businesses decisions on location what may generate agglomeration economies because of economies of scale in the spatial dimension.

All these effects may have impacts at aggregate level if there is mobility of factors between regions. Transport infrastructure is an essential element too for the mobility of workers, consumers, input factors and products, but it is not the only aspect. Legal requirements and some barriers to entry may condition and affect the final magnitude of effects.

The risk of double counting of effects: changes in housing markets and job creation

The identification and monetization of wider economic impacts is a difficult task. This fact increases the possibilities for double counting of effects, in particular in the assessment of housing markets changes and job creation. For example, when housing market is competitive there might be no need to consider changes in housing rental market which are just a reflection of other direct effects (e.g. travel time savings). Other controverted examples are the inclusion of job creation during the project as part of the benefits instead of costs and the inclusion of job as given by the Keynesian multiplier effect.

¹ Wegener M., 2011, "From Macro to Micro—How Much Micro Is Too Much?" *Transport Reviews* 31 (2): 161–177

EU Policy role in improving international competitiveness in Europe

Improving the competitiveness of the European economy remains a valid concept, which means that there is a need to know what actions and instruments should be used within the policy framework to improve the EU position in changing world economy and on the global market.

Some EU policies have direct and strong impacts on the flagship initiatives for the implementation of the “Europe 2020 Strategy”. The aim of some initiatives corresponds to several policy goals. Analysis of the different policies gives insight in the action area for each initiative. For example, in the initiative ‘Innovation Union’, the main actions are related to EU research and innovation policy. ‘A Digital Agenda for Europe’, is implemented mainly through single market policy, research and innovation policy and enterprise policy. However, it is difficult to point out the most important policy for ‘Resource-efficient Europe’ initiative, because the majority of analysed policies have direct or indirect impact on this initiative.

Not all competitiveness factors can be equally controlled by the EU policies

It is important to determine to what extent competitiveness and its underlying factors can be affected by the use of policy instruments. We divide competitiveness factors into three broad categories: infrastructure endowment and accessibility, human resources and productive environment.

I-C-EU has identified three main forms of relationships that exist within the individual measures of EU policies influencing its competitiveness. These were *complementarity*, *additivity* and *synergy*.

However, the EU is not a homogeneous entity in terms of competitiveness. Large disparities exist among Member States. The identification of thematic drivers of competitiveness and their associations with different types of regions have significant implications for policy making and investments.

What do people say?

We organized the I-C-EU Midterm Workshop on Monday 16 September 2013 at FEDEA, Madrid. We have received a lot of important messages from experts, industrial partners, and policy makers during the workshop, among others:

- We need to improve the CBA methodology towards inclusion of the WEI due to the political ramifications, i.e. we need a new assessment standard. This standard should allow comparisons between projects and investments and should be as scientific as possible in order to avoid politically motivated choices and hidden agendas.
- We realize that current CBAs are made in such a way that the benefits are often overestimated. In order to improve CBA appraisal practice, we need to make CBAs public and by doing so both transparency and comparability goals could be achieved.

Past events

- Jan Kiel (Panteia) presented I-C-EU results in his paper titled “*Het verband tussen bereikbaarheid en concurrentiepositie. Lapwerk of maatwerk?*” at the Colloquium Vervoersplanologisch Speurwerk 2013 (<http://www.cvs-congres.nl/>), 21-22 November 2013 in Rotterdam, the Netherlands.



- Ofelia Betancor Cruz (FEDEA – ULPGC) was one of the speakers at the G.A.R.S. Workshop in cooperation with IATA organized 11-12 November 2013 in Geneva, Switzerland. She gave a speech on the role of wider economic impacts in the assessment of transport infrastructure investments in Europe, based on I-C-EU results.
- I-C-EU has participated in the European Transport Conference 2013, organized in Frankfurt, Germany, 30 September – 2 October. Jan Kiel from Panteia gave a presentation on *The Impact of Transport Investments on Spatial Competitiveness*
- Jan Kiel from Panteia presented a paper on I-C-EU project entitled *Impacts of infrastructure projects on competitiveness* at Transport Research Arena 2014, 14 – 17 April at La Defense, Paris. Some other I-C-EU project partners were present and had the opportunity to have a discussion on I-C-EU.

Upcoming events

Invitation to Final Conference

The I-C-EU team organizes its final workshop entitled: “*Capturing the impacts of Transport Infrastructure Investments on Competitiveness*” in September 2014 in Brussels. A ‘save-the-date’ announcement and tentative agenda will become available in the coming month.

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- Panteia, business unit NEA, The Netherlands
- VU University Amsterdam (VU), The Netherlands
- Fraunhofer Center for Maritime Logistics and Services (CML), Germany
- Uniwersytet Gdański (UG), Poland
- Fundación de Estudios de Economía Aplicada (FEDEA), Spain



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