



I-C-EU project mid-term workshop

EU Policy and Issues of Competitiveness

16 September 2013 – FEDEA, Madrid, Spain

Minutes mid-term workshop at FEDEA

EU Policy and Issues of Competitiveness



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Agenda

Time	Programme	Speaker	Moderator
8:45-9:15	Registration		
9:15-9:30	Welcoming	Ignacio Conde-Ruiz (Deputy Director of Fedea)	Christophe Heyndrickx (TML)
9:30-09:45	Introduction to I-C-EU	Joko Purwanto (TML – Project Coordinator)	
	Session 1: OVERVIEW OF RESULTS OF FINALISED TASKS		
09:45-10:00	Current progress and status	Joko Purwanto (TML – Project Coordinator)	
10:00-10:20	Issues of competitiveness and overview of its indicators	Martijn Smit (VU) Pilar Socorro (FEDEA)	
10:20-10:50	<i>1st Coffee break</i>		
10:50-11:15	Case studies and effects of infrastructure project assessment practice revision in Europe regarding impacts on competitiveness	Ofelia Betancor & Aday Hernández (FEDEA)	Joko Purwanto (TML)
11:15-11:40	Review of transport and economic models and ex-post analysis of transport & economic model results	Jan Kiel (Panteia)	
11:40-12:05	Review of EU policy approach to improve international competitiveness of Europe	Barbara Pawlowska & Aleksandra Kozlak (UG)	
12:05-13:00	<i>Lunch</i>		
	Session 2: INPUTS FOR THE I-C-EU PROJECT		
13:00-13:25	EU Strategy in assessing impacts of investment on growth and competitiveness	Andries Brandsma – Joint Research Centre (EU)	Moderator: Ralf Fiedler (Fraunhofer CML)
13:25-13:50	Developments in national transport appraisal practices	Peter Mackie – ITS Leeds	
13:50-14:15	Applying models to assess the impacts of investments on competitiveness: options and limitations	Barry Zondag – Significance	
14:15 – 14:30	<i>2nd Coffee Break</i>		
14:30 – 16:00	Panel discussion on EU policies	Panellists: three speakers from the previous session plus Marco Ponti (Advisory Committee)	Moderator: Henri de Groot (VU)
16:00 - 16:20	Wrap-up and closing	(TML – Project Coordinator)	

Participant list

Name	Institution	Signature
Ofelia Betancor	FEDEA	
Przemyslaw Borkowski	Uniwersytet Gdański	
Andries Brandsma	DG JRC	
Henri De Groot	Vrije Universiteit Amsterdam	
Ralf Fiedler	Fraunhofer CML	
Oana Gherghinescu	ERA	
Andrzej Grzelakowski	Gdynia Maritime University	
Andres Felipe Guzman-Valderrama	ETSI Caminos, Canales y Puertos	
Aday Hernandez González	FEDEA	
Christophe Heyndrickx	TML	
Jan Kiel	Panteia	
Aleksandra Kozlak	Uniwersytet Gdański	
Lutz Kretschmann	Fraunhofer CML	
Peter Mackie	ITS Leeds	
José Manuel Vassallo	ETSI Caminos, Canales y Puertos	
Anna Matas	Universita Autònoma de Barcelona	
Eduardo Pallardó Comas	Ministerio de Fomento	
Barbara Pawlowska	Uniwersytet Gdański	
Enric Pérez	Abertis	
Marco Ponti	Politecnico di Milano/TRT	
Joko Purwanto	TML	
Victor Sanchez Saura	ETT SAU Deloitte, Madrid	
Martijn Smit	Vrije Universiteit Amsterdam	
Pilar Socorro	FEDEA	
Veerle Vranckx	TML	
Barry Zondag	Significance	
Sebastian Hyzyk	EIB	

Minutes

Welcoming (J.I. Conde-Ruiz)

Mr. Conde-Ruiz, deputy director of FEDEA, welcomed us in the FEDEA offices and gave us a short introduction on the company. FEDEA is a research centre set up in 1985 and committed to produce objective and independent economic analysis. The main founding purpose of FEDEA is to have a positive influence on society, by carrying out and publishing research on relevant economic and social issues. FEDEA is currently one of the main economic think tanks in Spain, with both national and international impact. Their study results are placed (in English and Spanish) on their web and blog and they organize several workshops.

Introduction to I-C-EU, and current progress and status (J. Purwanto)

J. Purwanto gave a general introduction about I-C-EU project and the current project progress. He also presented the results of questionnaire as well as the first workshop results which have been summarized in the Deliverable 2.2.

He explained that among the most important preliminary findings the project has come up with is the definition of competitiveness. The project has taken a position to choose for a “narrow” definition of competitiveness, namely,

“the extent to which firms in a particular region can compete with those elsewhere.”

Despite this position, the project will always take the wider definition into consideration, i.e. *“an economy is competitive if its population can enjoy high and rising standards of living and high employment on a sustainable basis.”* Two-third of questionnaire respondents thinks that this “wider” definition is more relevant for the project than the narrow one.

Questionnaire respondents have agreed also that the current state of the art regarding the assessment of the impact of infrastructural projects on competitiveness and growth is not well developed and not robust enough. Respondents have also added some more factors which are considered as competitiveness drivers, i.e.: accessibility, education level and sustainability. They think also that the following aspects should be included in the indirect and wider economic impact: agglomeration effects, job creation, reduction of externalities, impacts on services and commodity price level, equalization of development chances for new member states, housing market, impacts on spatial location or business pattern, and so on.

Respondents suggest that two following transport infrastructure investments will enhance the international competitiveness of Europe: (i) investment that intervenes in two terms interconnectivity / interoperability / intermodality and capacity limitation/bottlenecks, (ii) investment that will reduce road transport costs, (iii) investment in global scale transport infrastructure projects such as TEN-T, (iv) projects that have international/interregional scope, (v) investment in regulation/harmonization, etc. Questionnaire respondents also emphasize some other activities in the field of EU transport policy, namely economic instrument such as fair and efficient pricing, institutional reforms, integration within modes, between the different sectors; infrastructure management; and liberalization.

Finally J. Purwanto also presented what the consortium has been producing during the first year of the project in term of deliverables and what can be expected now to be released in the incoming months.

He closed his introduction by explaining the workshop programme. In the first session, consortium will present the summary of results produced by the different project work package. In the second

session external presenters will show their related works. The workshop will be closed by a panel discussion focusing on EU policies.

After J. Purwanto's presentation, P. Mackie, a member of the Advisory Committee asked if the project relies more on micro or macro-economic methodology.

J. Purwanto replied that at on one hand the project defines competitiveness itself and review all methods which is ranging from New Economy Geographic to computable general equilibrium point of view. On the other hand the project also deals with assessing the role of cost-benefit analysis (CBA) which can never be underestimated. In other words the direct effects are really relevant and the project cannot neglect this.

M. Ponti commented that the relationship between micro and macro is evident, i.e. in CBA we can have the marginal opportunity of cost or fund and in the meantime, the overall macro approaches might give us conflicting results.

C. Heyndrickx commented (based on the tables distributed by P. Mackie) that only Sweden is currently using the economic uplift of the shadow price of economic funds which means that Sweden acknowledges that it costs something to get something out of it. These values (macro) can actually be included in the CBA analysis (micro).

P. Mackie commented that some people believe in the bottom-up (micro) approach while others believe more in macro approaches.

J. Purwanto added that the WP4 will assess the practice of CBA to find the weaknesses and to give advice on how to modify assessments.

Issues of competitiveness and overview of its indicators (M. Smit and P. Socorro)

M. Smit presented what have been done in the first work package on methodology. Starting from Lengyel's triangle he explained how the consortium has opted for a definition at firm level, i.e. the narrow definition. The consortium has found that at firm level, the definition is clear while in territorial or wider level the definition is more general, large but somehow unclear. The definition at firm level is also more useful in term of scientific use. He emphasized also the importance of infrastructure roles in expanding regions while at the same time making a remark that it is not the infrastructure per se that is important. The work package 1 is now preparing the D1.4 that contains methodological improvement to capture impacts of transport infrastructure. In this deliverable, examples and also critical assessments of existing work will be provided (partly building on meta-analyses). This will result in a discussion of pros and cons of various evaluation techniques and also discuss how the various approaches provide potentially complementary insights and also how they vary in terms of feasibility. In the last deliverable the consortium will look at methodological improvement to capture impacts of transport infrastructure to competitiveness.

Following M. Smit presentation, P. Socorro presented the D 1.3 that contains description of the main indicators of competitiveness and regional growth in the economic literature. The deliverable as well as her presentation is divided in three parts: (i) a general overview of the different indices used in the literature, among others the IMD's world competitiveness and the WEF's Global Competitiveness indices, (ii) indicators of national and regional competitiveness in relation to transport infrastructure investment, and (iii) empirical evidence regarding some factor that influence competitiveness and economic growth (meta-analysis).

M. Ponti reminded that the last workshop (January 2013 in Leuven, Belgium) has among others revealed the impression that transport (infrastructure) itself is not that important. It seems to us that

transport cost of the firm is more relevant than the infrastructure. P. Socorro confirmed that thing and added that we cannot isolate transport infrastructure without taking into account other factors.

P. Mackie suggested to also show data about the proportion of input from the public sector (government) and the private sector (firms). According to him not only firms benefit from infrastructure but also administration (for example due to ease of travel) therefore maybe their benefits should also be considered while discussing costs and benefits of transport projects. He also added that the entrance of new firms created dynamism but also increased competition. This way, competition may kill also firms. The same for regions: some regions will win and some will lose. Political correctness is also an aspect where should put attention when discussing about competitiveness related policies.

C. Heyndrickx brought in question on the weight of transport cost, i.e. if transport costs are only a small share of costs for firms in the developed countries, why are we spending so much money in transport infrastructure?

B. Zondag commented that the question is “do we spend too much or not”. Infrastructure, according to him, is less important than other sectors, education for example.

V. Sanchez Saura added that transport costs are still among the important factors, i.e. we have to look at the fact of the closed relationship between spatial distribution of population with richness or GDP/per capita, i.e. transport costs are among the factors that people consider when choosing where to live. Center regions of Europe have access to the markets easily while the situation is different for the other regions.

O. Gherghinescu commented that according to Krugman we cannot simply borrow competitiveness definition from firm level to regional. She asked how this will be applied in the project. She also asked how this project positions itself in relation to the definition, i.e. does it stick to productiveness? Or is the welfare component included in regional competitiveness definition in the project? Does it pay attention to sustainability, inclusive growth? Do we see transport infrastructure and associated services as a factor by itself or supporting other factors necessary for location?

Jan Kiel replied that those questions will be replied in his presentation later on.

O. Betancor commented that as a researcher, transport infrastructure is very important, i.e. if we think about welfare we have to be very careful where we put our valuable money. She suggested that using CBA is one of the most powerful tools to assess where we can use it in transport infrastructure.

Case studies and effects of infrastructure project assessment practice revision in Europe regarding impacts on competitiveness (O. Betancor)

O. Betancor gave a presentation on the case studies in WP2: 25 projects were analysed and they included investment assessment. The consortium has reviewed the assessment practice in Europe regarding impacts on competitiveness and growth and make revisions. The consortium concluded that there was a gap between literature and practice.

She explained that the consortium has developed a screening methodology to select the cases to use in WP3. 12 of 25 projects include the treatment of wider economic impacts.

The consortium has also remark the existence of some case studies where very positive direct results (CBA) analysis are also accompanied with a wider economic impact (WEI) analysis. In most of the case the WEI have been done due to the nature of the funding bodies. For example in the case of Crossrail, the funding bodies would like to see wider economic effects since they are the authority of the area (London Metropolitan).

The consortium remarked that difficulties might appear due to accessibility to data and model. Further analysis would be done using econometrical estimation approach. For example the density of employment will be estimated as function of population, level of car ownership, retail level, existence of high speed rail, etc.). At the end a couple of cases will be selected to do an econometric estimate on employment/tourism.

V.S. Saura (Deloitte) would like to confirm that according to Ofelia WEI analysis is not needed when the direct effects analysis results are positive. He asked also if the results of WEI analysis are always positive.

O. Betancor replied that it is not necessarily but once we have negative direct effects, we should move into the wider effects. This is only one of the criteria. And there might be some other criteria whether we have to proceed with WEI analysis. She also added that there is a high risk to double counting in the assessment of the practice of the moment (impact of employment during the construction phase and later) .

B. Zondag commented that the biggest impacts with CBA are often found in the core of the country due to the density. Many WEI are already included in (extended) CBA.

O. Betancor confirmed that but reminded that there is always risk of double counting wherever extended CBA is included.

M. Ponti asked if the consortium has ever found negative direct results with CBA among the case studies.

O. Betancor confirmed but only a few of them.

M. Ponti asked if technical mistakes have been found.

O. Betancor also confirmed this.

M. Ponti commented that differentiation of the costs is one of those mistakes. He suggested that we should be aware that there might be conflicts of interest if the analysis is not independent. You have to give weight for this. It is then crucial that we use the same assessment methodologies for all projects.

P. Mackie suggested that project consortium links these projects to the triangle diagram that M. Smit showed at the beginning. He also suggested having a good mix of different project which supposed to do different things.

A. Matas asked about the criteria used to select the projects.

O. Betancor replied that the availability and access to the projects' assessment data and the balanced of the different modes and geography have been the criteria in selecting case studies.

Review of transport and economic models and ex-post analysis of transport & economic model results (J. Kiel)

J. Kiel presented the current progress and results of Work Package 3 (Model Review). He explained that a clear definition of competitiveness is essential in the use of models to assess impacts of transport infrastructure investment. Competitiveness in this project has a spatial aspect, for example a country or region. Different literature has shown a different conception of competitiveness in spatial term, see for example the debate started by Krugman, Dunn, etc.

Lengyel's pyramid, improved later on by Gardiner et al. has shown accessibility as one of the sources of competitiveness. Accessibility is an indicator that may represent competitiveness in models. To measure accessibility we have four types of indicators: infrastructure based, location based, person based and utility based indicators. In the WP3, the consortium has set up several criteria for an accessibility indicator that can best represent competitiveness.

The next step in WP3 is linking transport investments and economy. It is necessary for the review of the different transport and economic models. A complete wider economic impact analysis seems to require a combination of the different models in order to capture the different aspects of accessibility and indirect or wider economic effects. The WP3 will do some modeling exercises with more or less 5 case studies.

H. De Groot suggested to make a clear distinction between attractiveness and competitiveness. We are mainly looking at realizations (realizations= looking at productivity model) with competitiveness while attractiveness puts more concerns on the possibilities (potential).

J. Kiel agreed on that. He added that we should distinguish between ‘attractiveness’ that relates to potential which is more quantitative and ‘competitiveness’ that relates more to qualitative matters.

P. Mackie would like to see for some important models, some sort of description of what behaviour the model proposes to estimate and what behaviour it doesn’t, for example, making a checklist of which effects will be captured by any model, etc by using the Pyramid model

J. Kiel will see whether this is feasible in the context of the project.

O. Gherghinescu asked if the different modes of transport are represented in the model. Each mode has a specific context of the market. She asked to distinguish between two market situations, i.e. the one with a more open and free market and the one where we still have barriers. The different situations might cause different impacts on environment and safety.

J. Kiel replied that models being reviewed cover all modes. The consortium will take all modes into consideration in order to be complete.

Review of EU policy approach to improve international competitiveness of Europe (B. Pawlowska & A. Kozlak)

B. Pawlowska presented the current works that have been done by the consortium in terms of EU policy. She explained that the main objective of this part of work has been to perform a systematic and comprehensive review of EU policy approach to the enhancement of international competitiveness of Europe. The consortium wanted also to provide a broad review of horizontal and sectoral policies especially from this point of view. The consortium has started the task to make a focus on targets adopted in 2010 ‘Europe 2020 Strategy’ as a key EU policy document aimed at enhancing EU competitiveness. The strategy is subtitled “A European Strategy for Smart, Green and Inclusive Growth” and accordingly, its priority strategies are: smart growth; sustainable growth; inclusive growth. Carrying out our work in this area we have assumed that we analyse individual initiatives looking at how various sectors and horizontal policies conduce to the implementation of their goals. Therefore, we were able to determine which policies and how they affect the implementation of the objectives of individual initiatives.

Having provided an overview of the EU policies contributing to achieve the goals of Europe 2020 as the next step of our work we have decided to specify and describe the most important determinants of Europe’s competitiveness in the context of the analysed EU policy measures. It was not an easy task to indicate them appropriately, as it is widely known that not all factors influencing competitiveness are susceptible or sensitive enough to the impact of policy measures and their instruments.

In main report flagship measures of each category were overviewed, while the detailed description of them can be found in Annex 1. Additionally we offered in Annex 2 the overview of

examples of measures from different sub-categories implemented in practice to present what kind of effects can be expected.

Our next task was to identify the relationship between the various EU policy measures and three main types of interactions between policy measures was described: complementarity; additivity and synergy. Analysing these relationships we noticed that complementarity of EU policy measures is a typical value of EU policy evaluated over previous decades. Synergy effects are mainly noticed for measures related to increasing capacity and quality of infrastructure, investment in human capital-training and lifelong learning as well as improving entrepreneurship environment. And additivity is a characteristic relationship for measures connected with increasing internationalisation level. It is worth to stress that as our I-C-EU project concerns on transport we wanted to emphasize this aspects in our research and because of that we've put more attention to transport issues. One section of our report is dedicated to cross-relations among different EU policy interventions and transport infrastructure investments. Transport facilitates realization of undertaken actions within different policies, but also activities within other policies influence implementation of transport policy goals especially in the infrastructure area.

Conclusions of task 4.1: significant finding is that not all of the factors of competitiveness can be controlled equally by the policies and activities undertaken within them. So because of that it is important to determine what factors and to what extent can be affected by use of policy instruments. EU is not a homogeneous entity in terms of competitiveness. For policy making and investment, large disparities exist among Member States thus the need to identify thematic drivers of competitiveness and their associations with different types of regions has significant implications.

M. Ponti made a remark that a dimension is missing i.e. environment. In the transport sector: if we made a lot of technological innovation for example in term of automation in the transport sector, we would at the end diminish the number of jobs. We have to focus more on implicit results/contradictions. Also there is a need of more critical approach to EU polices. Not always the action undertaken within the different policies have positive effects. It should be also stressed.

B. Pawlowska replied that the main task of this deliverable was just the review. We agreed with the statement that not always the effects are positive but this should be taken into account in the next step: recommendations. Not all objectives in EU polices are compatible. Key issue is how to combine them in the best way.

P. Mackie also added an example of how the objective of increasing efficiency of transport might mean a decrease of employment.

P. Borkowski commented that in his opinion this case of employment level decrease might occur but only at short time. In the longer term, labour level might increase more due to the indirect effects of the increasing efficiency of transport.

O. Betancor concluded that we need to be more critical. She said that we should not afraid to make constructive criticism when formulating the recommendations at the end of the project.

EU Strategy in assessing impact of investment on growth and competitiveness **(A. Brandsma)**

Andreas Brandsma made a presentation on EU Strategy in assessing impact of investment on growth and competitiveness. He started by saying that the crisis is the main concern of the EC now. EC's objective at the moment is a stable EU economy.

RHOMOLO is a spatial regional economic model of JRC for evaluating the macro policy choices. Regions are also represented in the model which was initially based on a Dutch model that has been extended to a European level. Rhomolo model was developed to assess the impacts of EU Cohesion Policy (ECP). Geography in RHOMOLO: a matrix of bilateral trade costs between all 267 NUTS2 regions.

RHOMOLO is a regional model that analysis the agglomeration impact or spatial dispersion based on three mechanisms: mobility of capital, labour and vertical linkage.

Scenario construction consists of three steps i.e. aggregation/imputing the spatial dimension of ECP expenditures and translating them in to trade cost reductions.

The model considers the spatial aspect among others by using real distance, based on the core of the regions which is represented in kilometres in crow flight. They have taken into account that these are not transport kilometres.

Brandsma also explained some model's limitations such as the empirical equation being use, incomplete data at regional level and so on. However so far apart from Rhomolo, there is no EU-wide model with regional dimension available for to assess impacts of Cohesion Policy. Empirically the regional economic modeling should start with collecting more/better detailed data at regional level.

O. Betancor asked if Canary Islands were not included in the map.

A. Brandsma replied that they are in the data set.

J.M. Vassalo asked if GDP could change also due to the decreasing commodity prices that happen because of decreasing trade costs. A. Brandsma confirmed this. He added that Rhomolo has the GDP and price data for each sector in each region. Rhomolo always finds a new equilibrium with the new price setting.

Development in national transport appraisal practices (P. Mackie)

P. Mackie presented his work in comparing appraisal practices of transport projects in the different countries. In this work ITS-Leeds was requested by the DfT to update the HEATCO study that is about 10 years old. But with limited budget and time, they have just looked at 7 Anglo Saxon nations for the comparison. Overall conclusion is that CBA is a mature framework with some fairly well established values and weights but there are some challenges.

Some other lessons learnt from the work are as follow:

- CBA has broadened out quite substantially the last three years to include also reliability, comfort and crowding, fitness and health,
- There is an aspiration to move from transport CBA to total economy CBA,
- Environmental: progress towards the use of money values for noise, local pollution CO2, etc. However, environmental assets are still considered as difficult area (landscape effects, ...)

Peter Mackie made also a remark that distributive impacts is also important and not to be confused with efficiency impact analysis.

M. Ponti asked whether CBA is a leftist or a rightist tool.

P. Mackie replied that once Pinochet's advisor stated, "let's find out the willingness to pay of every economic unit of the system, it doesn't matter if you are rich or poor". CBA could be a tool of capitalism or appalling socialism or something in between.

Applying models to assess the impacts of investments on competitiveness: options and limitations (B. Zondag)

B. Zondag explained that CBA is much more popular at local level in the Netherlands to give them a reason to say no or to reject an investment plan. When we try to capture accessibility we use different factors/indicators.

The direct benefits are the output of the transport model. But the progress with the European transport models is so far still less than hoped for (each time different consortia to update models) and the other models are based on the results of those transport models. So are the results for the indirect effects reliable, since they are based on the direct effects?

In the other hand, national and regional models suffer less from aggregation problems. They have more realistic assumptions on the size of indirect effects.

Panel discussion on EU policies

Wider economic benefits issues

H. de Groot opened the panel discussion with an introduction. He asked to the panelist the magnitude of the wider economic effects. He asked also if we have to look into the distributional effects (not only the aggregate effects), spatial dimension (underestimation of the effects on the core) and commercial effects related to the people that are being affected. B. Zondag replied that in order to illustrate the link between the direct impact (transport system) and the indirect impact (wider impact other sector) we need to get more insights and to go to the lower level. A. Brandsma commented that when we do want to have some economic activity on all places, time and scale is important. Heterogeneity in space specific effects is there, but it will be changed within five years. So we don't have to pay not too much attention to this.

P. Mackie added that due to the economic crisis, the challenges now are: methodology with transport benefits, values, external economies. We can have a proposition with excellent direct effects, internally consistent, but nowadays this is not enough. People ask more and more for the assessment of indirect effects (and WEI). We have now the gross value added approaches that make projects look better. In consequence, CBA is nowadays challenged. In UK CBA is now being marginalized as there is a trend to assess projects based on their impacts on GDP. P. Mackie also added how assessment of distribution effects is far more difficult in comparison to efficiency assessment.

M. Ponti commented that we should also look for tools to help setting priorities are the core of decision making. As priority we have to advice the commission to set standards for this. Current quality of evaluation of transport projects is rather lacking. We need general standards/within the sector/within the modes, to have a better decision mechanism. We need to avoid black box effects, i.e. have to give them a transparent tool that the Commission can understand for further discussion use. He added that implicitly income distribution issue is captured in the shadow cost of labor. M. Ponti suggested to do at least a rough analysis would be very important to tackle this distribution issue. He emphasized however that a standard is needed for this purpose.

J. Kiel asked about the black box problem whether transport models should be transparent. Transparent models that do not mean that decision makers will understand them. They are more interested in the story behind the figures we present. Transport modeling -how simple we make it- will

never be so simple that politicians can easily understand and ask the validity of the different model's parameter...M. Ponti: be aware of possible hidden agendas

B. Zondag said that there is very detailed documentation on models for scholars but not useful for decision makers. There are also different levels of transparency of models. Our challenge will be to explain in normal words what happens in a model to policy makers.

P. Mackie added that role of the model "translator/interpreter" is important. We cannot expect the EC to understand such a model. In fact we need to well written a 25 page document that should be readable and understandable by the decision makers.

C. Heyndrickx said the CBAs are made in such a way that the benefits may be underestimated (was in the call text of the proposal). He asked if the panellists think that it often is underestimated.

B. Zondag commented that overestimations are more normal than underestimations.

H. De Groot suggested that we keep on using CBA to rank the projects.

C. Heyndrickx suggested that CBAs of projects should be public, which is almost not the case.

M. Ponti commented that benefits are almost always overestimated and costs underestimated

P. Mackie commented that the relationship between industrial economics and transport economics makes him feel uncomfortable. We might have to apply similar methodology to a specific sector in different areas of the EU. The big unknown is to know how KPMG organizes its offices around Europe and how the behaviour of big companies works. Intra firm office decisions relating to transport differ from industrial sector behaviour.

A. Brandsma commented that if we are involved in setting standards...not many people are very versatile in CBA's. CBA depends on the scale of things. According to him for the EC it should be on European or world level instead of regional and national.

O. Betancor asked how we should see the process of assessment, i.e. do we have to focus first on the direct effects of the solution of a problem? Transport policy is in the most cases made to solve a specific problem such as congestion and not as a mean to increase GDP and therefore CBA and direct effects is still really important.

B. Zondag replied that to solve congestion we can use the transport models. There is not much discussion about the indirect effects. Development effects in other regions give more problems since there is no congestion.

P. Mackie commented that we have three levels of decision making: strategic goals then lower level programs, still lower: construction of a bridge, etc. Transport policy measures might be only linked to direct effects but they are almost always a part of the biggest strategy that relates directly to welfare. CBA is indeed a good tool within a program. The analysis has to be geared to the goals.

M. Ponti commented that the shadow cost of labour is still there. If we take that into account, we get other results. We also have the opportunity cost of public funds that influence the results. We cannot avoid these factors, so they should be part of the standards.

J. Kiel asked to B. Zondag if we need data for modelling, would there be enough data available in practice.

B. Zondag replied that data might not be available at European level, but for some regions, yes, at a micro level.

J.M. Vassalo asked if we will have to add all these wider effects to the CBA because we are trying to give the politicians what they are looking for.

P. Mackie replied that as priests and guardians of the truth and we attempt to forward that to the decision makers. We want to obtain the best estimate of what a transport project will do for/to the

people of interest. Another view of CBA is that some politicians think we are going to do something to solve something and that researchers should do a CBA to convince someone else to co-fund a project.

Use of models

H. de Groot asked panellist about the calibration issue i.e. fine-tuning the results of the empirical studies into the model is a challenge. Second subject H. de Groot asked is the back casting issue that we do that way too little. And finally he asked if we should have several models or one model.

A. Brandsma commented that calibration problems in order to make a good methodology/standard based on experiences with previous models, we need to have the tool inside and understand it, or we cannot explain the results that we present. You have to be aware what is / what is not covered by the model. Main use of the model is showing the alternatives and the outcomes.

B. Zondag commented that we cannot have one model including everything. But we might have a framework idea on how models communicate with each other. It is also important to perform, sensitivity analysis, even at the most simple way, should be conducted.

P. Mackie replied that objectives of transport projects are too different to use/make one model. He added also that data is expensive, and that is one of the real main problems. In England there are no regional accounts/data. We have surveys, but what does that mean?

J. Kiel commented that we need to also look at future scenarios. That is more our real work. When we back cast, we have real evidence about what happened in the past and gives an insight in the model.

CBA analysis

M. Ponti asked a question, i.e. what did the EC say about marginal opportunity cost of public funds? Not much. He suggested considering more financial aspect by using for example theory of option value. For example we can use it in the case of two projects with identical costs but one with a reversible technology. This approach will roughly translate into two different alternatives when the traditional CBA will give exact the same results. However we need to work more to develop this area.

M. Ponti also added that we have in fact one standardized factor in assessing income distribution i.e. rate of discount where we can go on in this direction. He made also a remark that the title of the project is problematic, i.e. competition and investment, both are intermediate things. M. Ponti is preparing a paper on the European Policy in a new Elsevier Journal "Case Studies in Transport Policy", edited by Rosario Macario. B. Zondag commented that he agreed with M. Ponti that we need to set standards. With standards, it will be easier for us to compare projects. The challenge is to limit your standards i.e. to determine what the essential ones are.

P. Mackie asked if the political will for large international types of intervention on a large scale, will stay the same as now in the future. He also remarked frustration from the part of the European tax payer, i.e. the EC is investing in trans-European network projects but is not willing to invest in French regional airport regulation. There is an inconsistency in behaviour.

P. Borkowski asked what should be this standard, i.e. should we extend the CBA with wider economic benefits or should we separate both?

J. Kiel added that we could for example include CO2 calculations into CBA than it should be possible for wider economic benefits as well

O. Gherghinescu reminded the existence of two level of decision making: strategic levels and the operational level where the CBA is used. The CBA should not be the driver of a policy. What should come first? Is it the strategy or the tool to support this (CBA)?

Jose added that we are looking more to internal development and the main regions, because the economic growth depends more on big cities. Every country is trying to grow. He asked how the project will keep balance in its research to the growth of big cities.

A. Brandsma confirmed the existence of the battle of interests where standards are becoming a subject of that battle.

P. Mackie suggested that we have to engage with the difficult issue and try to assess the wider economic impact. Concerning strategy and supporting tool (CBA), according to him strategy outline should be formed before the CBA. However the outcome of the analysis should still have impact. It is then the importance to make CBA public. We should try avoid prior political commitment (before CBA results). He also reminded that competition between cities in European will go on and the project should be aware of this.

M. Ponti pointed out the possibility of manipulation of results, i.e. hidden agendas are at cost of the democracy (like elections). Role of the analysis is to open the dialogue and provide transparent, objective (scientific) view. it lets to reduce hidden agendas. The theory of economic regulation is based on hidden agendas. There is an urgent need to review or to cope with the main problem of the project, i.e. the title as ‘competition’ is an intermediate goal’ and investment is an ‘intermediate tool’.

B. Zondag commented on standardization, i.e. standardization should eliminate the extremes of practice. We should also ensure that CBA should be performed as early as possible in the decision or strategy making process.

Wrap up (C. Hendrickx)

C. Heynrickx made some elements of conclusion:

- The project needs to ensure the coherence of the different deliverables, i.e. link more the input and output of the different deliverables.
- The project needs to link the case studies back to the Lengyel’s triangle.
- The project should realize that it is hard to make a good model. A model is never an absolute truth. We should use a model appropriate for what we want to analyse at the level we want to analyse.
- On distribution effects we might need some models like SGE. But we should be aware that this kind of model cannot always give us the right amounts for the benefits. However they can give the right distribution of the benefits. In reality distribution is an issue.