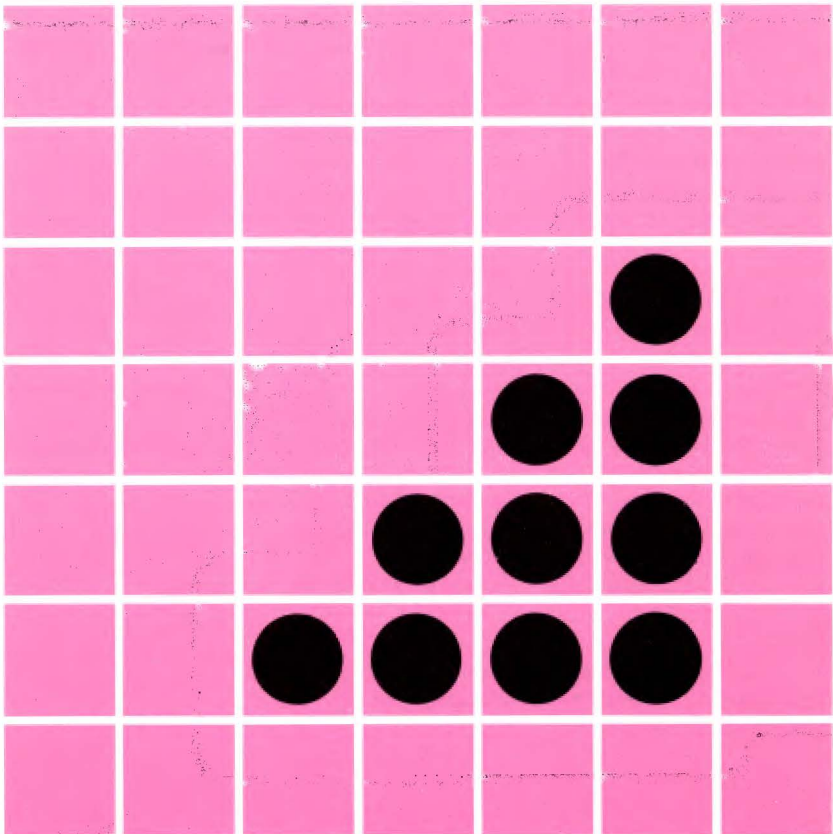


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The European Community's transport policy

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I — Why do we need a common transport policy?

A chain is as strong as its weakest link. Conversely, each separate part of the whole is important. In the case of the countries of the European Community this whole is the Common Market. The intention is to bring about the harmonious development of economic activities, an increase in stability, closer relations between the States belonging to the Community, and an improvement in the standard of living. These ambitious aims set in the Treaties of Rome require efforts to be made at all levels. If an important cog in the complex economic machine breaks down, the entire system will be brought to a standstill. If one part is not functioning properly the overall performance suffers. In the case of the Community and the Common Market, this could result for example in increased costs to the taxpayer, less social progress or greater economic insecurity.

It is therefore essential that the transport system should be organized as efficiently as possible and at the lowest possible cost to society.

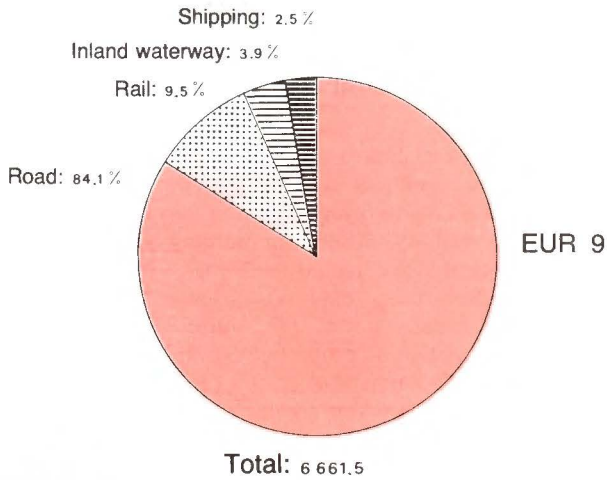
Particular mention should be made, in this connection, of the advantages of (larger) scale offered by the Community. However, common rules are needed too. Many of the advantages cannot be implemented because of established national provisions. These obstacles are rarely very significant or striking, and therefore can often be defended on the grounds that 'the traffic does flow'. Indeed it does, but if one takes a closer look it becomes apparent just how inefficient are the conditions involved. They make transport more expensive and in many cases also slow down the integration of the Community. These impediments must be removed and for this purpose, too, a superimposed common framework is essential.

In addition, the Community can also look after the interests of the Member States *vis-à-vis* third countries in cases where a single Member State would not have sufficient weight on its own or the competitive situation does not allow a national approach (e.g. because of the danger of deflection of trade). Lastly, transport is not a thing apart. The Community has developed its own policies in many areas (agriculture, industry, external trade, customs, monetary matters, environment and regional policy, etc.). There are therefore many cross-links with transport which have to be arranged in a rational manner. A common approach is also needed for this purpose.

DOMESTIC TRAFFIC

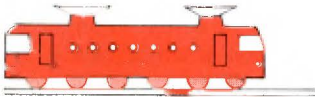
GOODS TRANSPORT BY MODE OF TRANSPORT

(million t — 1977)



Road

5 603.0



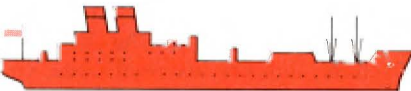
Rail

634.0



Inland waterway

257.3



Shipping

167.2



Source: Eurostat.

II — The importance of the transport sector

Virtually everyone in the European Community regularly uses some form of transport, whether it be a car, a bus or a train, going to school, to work or to the shops. Passenger transport is therefore constantly in the public eye. However, this is only one side of the coin. Goods-transport operations are carried out in many areas almost without the general public realizing. It is not always easy for the man in the street to appreciate the extremely important role of goods transport as a component part of the process of manufacturing or commerce. Nevertheless, transport costs are part of firms' overheads and therefore help determine the prices which consumers in the Community have to pay. Both elements of the transport industry therefore considerably affect the interests of each individual. Transport policy therefore concerns us all.

The fact that transport's share of the gross domestic product of the Community is greater than that of agriculture (6% compared with 5%) gives some idea of the importance of the transport sector. The number of workers employed in the transport sector is estimated at around 6 million; over a million work for the railways alone.

But the transport industry is also an important customer. Its capital expenditure is estimated to represent 11% of total private investment in the Community. As much as 40% of public investment is pumped into this sector. Major sectors of industry (motor industry, aircraft manufacture, shipyards, road building, steel producers, etc.) are therefore also dependent on its smooth functioning. In 1976, the nine Member States spent around 27 500 million European units of account (EUA¹) on the road, waterway and railway networks alone. That is more than the total tax revenue of a country such as Belgium. It corresponds to around 100 EUA *per capita* (for the Community population).

The exceptional importance of transport can also be seen in terms of its own field of operations, i.e. the carriage of passengers and goods. In 1974, around 6 500 million tonnes of freight were carried within the individual Member States, and this is likely to increase to 9 100 million by 1985. In 1974, around 394 million tonnes of freight were carried in international operations between the Member States; according to a study by the Commission of the European Communities it will be as much as 704 million tonnes in 1985 (Figure 1). Trade between the Member States has increased rapidly as a result of the integration of the Community. It has increased fourfold since 1958. Nor should we forget the importance of transport to and from third countries on which, for example, supplies of raw materials depend to a large extent. In 1970, around 100 million people travelled from one Member State to another (on journeys longer than 80 km). Theoretically, therefore, about a third of the population of the European Community crossed the national boundary once. According to the above-mentioned study, the number of journeys of this kind will more than double by the year 2000.

However, there is also a black side to the great importance of transport. Every year around 60 000 people die and one and a half million are injured in road accidents in the Member States. Transport also accounts for a very considerable proportion of the total final energy consumption.

¹ 1 EUA = (October 1980) BFR/LFR 40,57; DKR 7,82; DM 2,53; DRA 60,83; FF 5,87; LIT 1 207,64; HFL 2,75; UKL 0,58; IRL 0,67.

III — Current problems

Some of the problems arising in the transport sector are of a general nature. As in the economy as a whole, certain limits to growth have been reached, and to exceed them would be intolerable for the inhabitants of the (densely populated) Community. They concern, for example, noise and pollution, safety, territorial planning, and space requirements. In addition, the transport sector presents a number of specific difficulties of a political, economic and technical nature.

One of the major problems is undoubtedly the question of putting the railways back on their feet. In some countries, the poor financial situation of the railways is such a strain on the national budget that it is the main determinant of national transport policy. The further development of the common transport policy therefore depends to a large extent on finding a solution for this problem. The governments themselves are partly responsible for the plight of the railways.

For example, on social grounds, many governments impose service facilities which put a burden on the railways even after financial compensation. In many cases they keep the railways on a tight political leash, or provide them with only meagre capital resources. This in turn affects their modernization and the quality of the service offered, thereby reducing the railways' prospects.

Road transport, on the other hand, is confronted with the congestion of the road network. In large towns and cities and conurbations the capacity limit is being reached virtually everywhere in peak traffic. And there are many other bottlenecks, e.g. on Alpine crossings. On the other hand, it is becoming increasingly difficult to finance new infrastructure projects. In addition, the exceptional growth in international transport necessitates closer coordination with the other Member States. This also applies to customs clearance at the border. It is often still time-consuming and expensive for hauliers.

International road freight haulage is impeded by national administrative measures. The vast proportion of these transport operations require bilateral official authorizations.

As a rule they are limited in number. If, as has already happened, there is a shortage of these licences, free movement of goods and transport is being hampered. The system of bilateral authorizations also has a further drawback. Transport operations to, from or between third countries, are rarely allowed. This impedes the efficient organization of transport.

The problems of the inland waterways are completely different in character. The inland shipping fleet is too large and too old; operating firms are too small. Moreover, waterway operations are largely dependent on the fluctuating water levels of the rivers. As a result rates have tended to crumble off, and many firms have gone out of business.

Airlines operating scheduled services are almost all State corporations. It is difficult for private competitors to obtain the required licences. Price competition in intra-Community air transport is severely restricted. Tariffs are geared primarily to the business travel market. Cheap fares for private travellers still are inadequate.

Sea transport is faced with considerable competition from certain State-trading countries. On some lines these States' vessels have already captured a considerable pro-

portion of freight. Similar competitive pressure is also perceptible in road and inland waterway transport. As a result of the centralized control in the State-trading countries, private firms in the Community are competing on unequal terms.

A number of tanker disasters have alerted the public to the risks of sea transport. It has been established that safety provisions in some cases have proved to be insufficient, and that, in other cases, provisions in force were applied inadequately, or not at all. The enforcement of standards is a particular problem since sea transport is a worldwide operation.

A question which affects all modes of transport is how to overcome the increase in the cost of energy and the energy shortage. On the one hand, economizing measures are called for, and on the other hand the possibility of replacing mineral oil by other forms of energy must be considered. Another problem facing the transport sector is how vital services can be maintained in the event of oil rationing.

IV — Aims of the common transport policy

The founding fathers of the European Economic Community were undoubtedly aware of the very great importance of transport in relation to the integration of the Member States. The objective of integration necessarily entails a greater degree of division of labour between the countries, increase in trade, and greater mobility of the population. All of this involves transport. Transport policy was therefore, quite rightly, given a chapter of its own in the provisions covering the very foundations of the Community. With the exception of agriculture, it is the only chapter in the Treaty devoted to a specific branch of the economy.

Even today, the Treaty of Rome is the essential starting-point for the common transport policy. It should contribute towards the attainment of the general objectives set in the Treaty and enforce the rules laid down specifically for transport, including the provisions of the ECSC Treaty. The guiding principle therefore should be the gradual introduction of consistent arrangements in line with social and economic requirements and promoting a sound development of the transport industry itself. The transport market must be organized in accordance with the generally recognized principles of the market economy. This, however, does not preclude public intervention for reasons of overriding importance.

The Community must endeavour to ensure that restrictions to the freedom to provide services are removed. At the same time, efforts should be made to harmonize the overall framework in which the various modes of transport and transport firms operate. In this connection, we should not lose sight of the objective of optimizing the transport process with a view to increasing the competitiveness of the Community and improving the service provided to the public.

First steps towards implementation

Shortly after the European Economic Community had got going, the Commission of the European Communities prepared a plan for the organization of the common transport

market. The first initiatives date back to 1955. In the context of the European Coal and Steel Community (ECSC) the governments agreed on a set of international tariffs for the carriage of ECSC goods by rail. However, these efforts on the part of the ECSC covered only part of the transport sector. The memorandum presented by the European Commission in 1961 laid down the first comprehensive and consistent guidelines for organizing the transport sector. This was supplemented in 1962 by an action programme subsequently followed by further specific proposals.

In its plan, the Commission kept closely to the basic principles of the Treaties of Rome. The main aim was to promote the unification of the transport markets. The relevant proposals were based on the following principles : free competition, free choice of means of transport by users, equality of treatment for modes of transport and for carriers, financial and commercial independence for the firms, and the coordination of transport infrastructure. In order to attain these objectives, common rules were to be laid down covering both international transport, and freedom of establishment and operation throughout the Community. Specifically, the Commission listed the following objectives: approximation of conditions of competition; inclusion of the railways in the common arrangements concerning competition; introduction of a uniform charging system for all inland modes of transport; removal of internal restrictions on international road haulage; and coordination of infrastructure plans.

On the basis of this plan, on 13 May 1965 the Council of Ministers laid the first milestone in transport policy by adopting the Decision on the harmonization of certain provisions affecting competition in transport by rail, road and inland waterway. Even now it can be considered as having marked a breakthrough.

The main purpose of this Council decision was to remove the differences between Member States in three areas: tax, State intervention and social provisions. The Council regarded the following steps as appropriate in this context:

- (a) As regards taxation: no double taxation of motor vehicles; harmonization of the basis for calculating motor vehicle taxes; approximation of taxation rules relating to own-account operations and operations for hire or reward; harmonization of the provisions concerning the duty-free import of the fuel contained in the tanks of motor vehicles.
- (b) As regards State intervention: reductions in public service obligations; introduction of financial compensation for residual burdens and for tariff reductions on social grounds; attainment of the financial independence of the railways and the normalization of their accounts (i.e. compensation for 'abnormal' costs); abolition of subsidy arrangements relating to transport.
- (c) As regards social provisions: approximation of the provisions of Member States (excluding provisions concerning wages) concerning working conditions; and the approximation of manning provisions in transport by rail, inland waterway and road.

In the wake of this basic decision, the Council introduced a number of specific measures which to a large extent are still of fundamental importance as far as the common transport policy is concerned, e.g. rules concerning reciprocal consultation on transport infrastructure (1966); introduction of Community transport authorizations and uniform road freight tariffs (1968); first steps towards the approximation of social legislation in road transport (1969); abolition of, or financial compensation for, public service obligations; normalization of the

accounts of the railways (1969); and limitation of State aids (1970). Many other measures which the Council wanted to adopt under its 1965 decision have, however, not been implemented.

New initiatives

The accession of the United Kingdom, Denmark and Ireland marked the beginning of a new era for the Community. The Commission took this event as an opportunity to take a fresh look at the transport policy since the enlargement of the European Community to include island States made it urgent to examine the question of bringing sea transport within the common strategy. Changes had occurred in the meantime anyway. Matters concerning environmental protection, territorial planning and the quality of life had assumed greater importance. The priorities for the Community — concerning which transport policy also had a part to play — were redefined at the summit conference of heads of government held in Paris in October 1972. Negotiations on the objectives set in 1965 were bogged down — fresh impetus was needed.

In October 1973 the Commission therefore presented a communication on the further development of the common transport policy updating its 1971 plan and developing for the first time the concept of a common transport system.

The new plans were based on the same principles as before, i.e. free competition on the transport market and approximation of starting conditions. But the Commission's new strategy had an additional component to which less importance had been attached before: transport infrastructure. Decision-making in this area is usually the preserve of the public authorities who can therefore set the basic lines towards developing a transport policy; hence their inclusion in the common regulatory programme.

The Commission's new plans are much influenced by the objectives set at the Paris Summit. Even more than hitherto transport policy is regarded as a factor in social progress. In conjunction with social policy, transport policy must contribute towards the general quality of life and to an improvement in working conditions in the transport sector. In addition, transport policy can and must make a contribution towards the attainment of the Community's plans for environmental, and regional policy. The same applies to energy policy.

Coordination is also needed with regard to taxation and industrial policy and relations with third countries. Furthermore, the October 1973 communication also tackled, for the first time, and in specific terms sea transport, seaports and air transport.

The communication also contains an operating programme listing the practical measures which the Commission thinks should be introduced in the short term. Mention is made of the earlier proposals which had not yet been adopted. In addition, new initiatives are proposed, e.g. for improving the situation of the railways as a priority. The Commission takes the view that steps should be taken to attain the objective set in the Council's basic decision in 1965 of approximating national provisions governing relations between the railways and the State. The Commission also considers that closer cooperation between the railways should be encouraged. The Commission proposes a package of measures towards organizing freight transport markets for railways, inland waterways and road

transport. These proposals aim at ensuring the gradual implementation of the principles of the market economy. Governments will have the right to intervene during a transitional period. At the same time, a market monitoring system is to be introduced.

As regards infrastructure, the Commission proposed replacing the existing *ad hoc* consultations on individual projects by a regular and systematic discussion of infrastructure projects, and financial support for transport infrastructure projects of importance to the Community as a whole. The system for charging for the use of the various transport infrastructure should be completed. The Commission regarded as a first step the approximation of national taxation systems for commercial vehicles. Towards harmonizing social legislation, proposals were made concerning additional measures and improvements in working conditions in road transport and inland shipping. Further proposals were also made, e.g. concerning transport safety, over-capacity in inland shipping and freedom of establishment.

The Commission's transport policy programme was discussed in detail in the following two years by the European Parliament and the Economic and Social Committee and was substantially approved. The Council of Ministers, however, did not wish to commit itself to such a comprehensive and fundamental programme.

A few important isolated decisions were adopted and the Commission was asked to assemble the priority problems for another programme of work covering the following three years.

The Commission did this at the end of 1977 by presenting a list of priorities which in its opinion contained the most important proposals from its earlier strategy. Once again the Commission proposed action to give effect to the planned common infrastructure network and the regulation of transport markets. In so doing, it kept to its existing objectives, e.g. improving the economic situation of the railways, and approximating terms of competition.

V — What have we achieved so far?

Unfortunately, the Council of Ministers has so far adopted only a small proportion of the proposals made in the Commission's programme for transport policy plans and priorities. This is because of the extremely contradictory views and rules governing this sector in the Member States, and the fact that hardly any common denominator exists. So, for good or ill, Community transport policy was confined to a step-by-step approach. But progress it did, albeit slowly. Some of the regulations adopted on the Commission's initiative are valuable elements towards a common transport policy.

Transport networks' infrastructure

One of the sectors where progress has been made is in coordinating transport infrastructures. The road network is often congested. The flood of new cars has exceeded all expectations and outpaced all infrastructure projects. The simplest solution would be considerable expansion of the road network. However, two problems stand in the way. First, available space is increasingly restricted, and pressure on the environment increasingly severe. As a result there is growing resistance in some countries to extending

road infrastructure. The big expansion plans of earlier years are now looked at more critically than ever. The second reason why expansion of the road network often fails to materialize is the increase in costs, combined with tighter national budgets. The Community can make a contribution to solving both problems by rational planning, and financing of roads.

However, there is another important reason why transport infrastructure is of significance for transport policy. By deciding to build roads or not, the State is taking an option which decisively determines the development of the individual modes of transport and the relationship between them (complementarity of transport infrastructures). Cars, obviously, need roads or they cannot be driven. But infrastructure plans also have an indirect effect on other sectors. They affect energy consumption, road safety, environmental pollution and regional development. They are also an important factor in the growth of the regional economy, especially in peripheral areas, and in the integration of society as a whole.

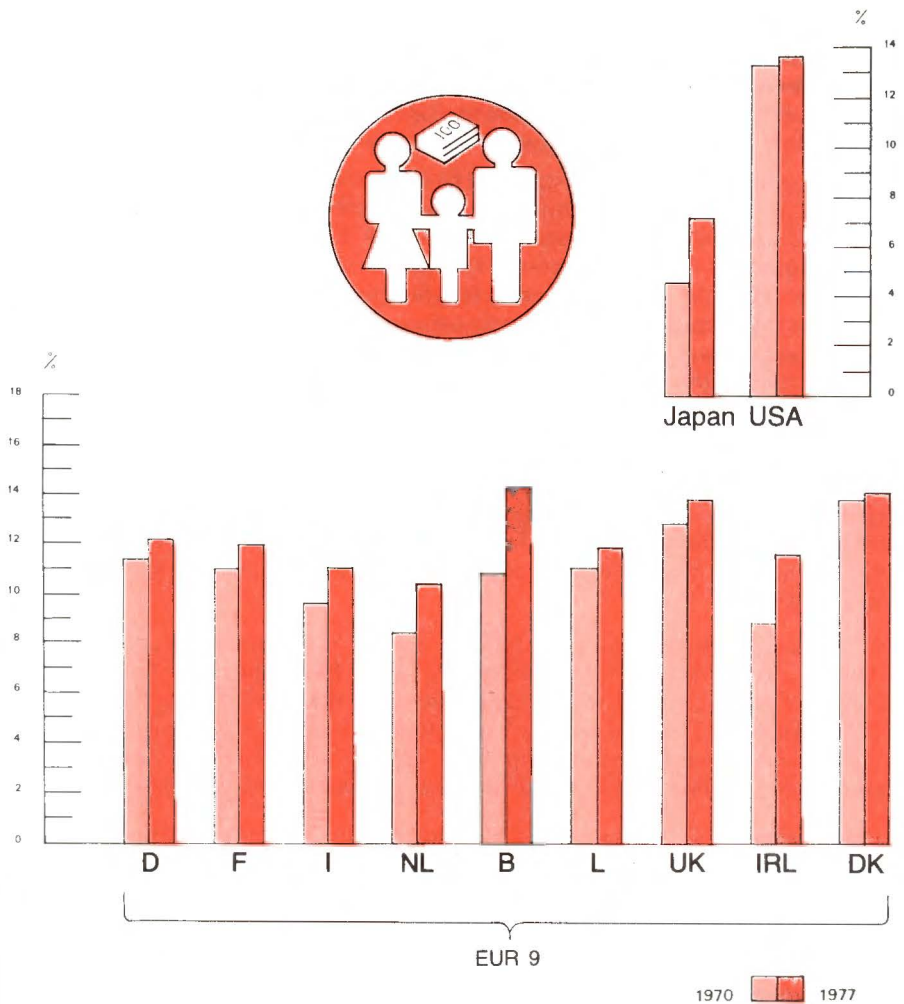
This was recognized at a very early stage. The Council of Ministers decided to introduce a consultative procedure for infrastructure investment as far back as February 1966. However, the exchange of information took place on a case-by-case basis and concerned individual projects of common interest. This did not adequately meet the Commission's transport strategy of 1973 which assigned a far greater role to infrastructure. First, regular discussions of the overall road-building programmes was considered necessary, and a common indicative plan was also to be drawn up to cover national projects to be discussed at Community level before being carried out. Common financial support for projects of Community interest was also proposed.

In 1978 the Council of Ministers, acting on proposals from the Commission, adopted a new procedure of consultation for transport infrastructure programmes and decided to set up a special committee on the subject. This provided the possibility of coordinating national planning more effectively, in both time and place, and eliminating bottlenecks more easily. At the same time, it could lead, at a later stage to planning a network of major Community axes.

Roads are an investment for the future. Future requirements must therefore be determined. The Commission has conducted a freight forecasting study for the Community (which will subsequently be extended to passenger traffic as well) along the same lines as a recent international study on passenger transport on the major European links. A list of existing bottlenecks has been drawn up, links with the new member countries have been scrutinized and specific projects such as the Channel tunnel have been analysed.

The Commission set out all its ideas in a memorandum to the Council of Ministers, pointing out that traffic within the Community will double by the year 2000; that bottlenecks will increase as a result; that traffic networks will become increasingly interdependent; that infrastructure is also a decisive factor in other economic and social sectors; and that the States are finding it perceptibly more difficult to finance road networks. In its action programme the Commission calls for a long-term master plan for the extension of the Community transport network inclusive of the most important common projects. It is also considered necessary to continue research into future traffic trends and the significance of individual road projects. The Commission also repeats its earlier proposal to support infrastructure projects of Community interest with Community funds. For this purpose, it advocates the creation of a special financial instrument (similar, say, to the Regional De-

SHARE OF TRANSPORT IN THE FAMILY BUDGET



Source: National statistics

velopment Fund). As infrastructure problems also exist for transit traffic through non-Community countries, the Commission has proposed that coordination — and possibly financial aid — might also be provided for in such cases.

Railways

In most European countries the railways are irreplaceable. The Council of Ministers has acknowledged the railways' basic importance for the general public and industry in one of its decisions. However, with their extensive organizations and extraordinary need for subsidies, the railways are also one of the Council's main problem areas. Both these factors indicate that solutions for the rail problem constitute a cornerstone of Community transport policy. The principles laid down by the Commission for the organization of the common market in transport and the attainment of other objectives also apply of course to rail traffic. At the same time, the railways have a special position in many sectors of transport policy. The railways, usually State owned, have problems of a different kind from those of other modes of transport.

The railways, once main mode of transport and pride of the State, have been overcome by the triumphant advance of road transport. Their share of the total transport market has declined. The railways' large, and hence relatively unwieldy, organizations were unable to keep up satisfactorily with the change in the transport market, or cope with new developments. The railways' financial situation deteriorated. But the State, too, is co-responsible here. Many governments have considered — and still consider — the railways as a sort of State-run, basic social institution. The railways are therefore asked to perform services of a general economic or social nature which private competitors do not normally have to shoulder. For example, the railways have to maintain unprofitable services and routes for reasons of regional policy. They are often used as a counter-inflationary instrument of economic policy (through low rates which do not cover costs), thus restricting their leeway in commercial terms.

The railways also have to bear extraordinary burdens because they have to finance their own track and installations, their employees (sometimes) have civil-service status (pension commitments!) and the State provides inadequate capital resources. The funds they receive often are determined by an uncertain budgetary situation in public sectors, and not by their actual, specific requirements. In the course of time these adverse factors have usually led to a constant, rapid rise in both railway deficits and total State expenditure on rail transport. The Member States paid some 12 000 million EUA to the railways in 1977. The difference between the railways' commercial revenue and expenditure represents about 50 EUA a year per inhabitant in the Community.

The railways' financial straits have inevitably affected their running: modernization has lagged; and this has in turn been reflected in the quality of service. To raise the standard of service their organization would have to be improved, which does not always require investment. However, if rising energy costs lead to greater use of the railways, additional money will be needed to increase their capacity.

Even in its first transport policy plan of 1961, the Commission expressly advocated improving of the financial position of the railways. In its Decision of May 1965 on the harmoniza-

tion of certain provisions affecting competition, the Council of Ministers too gave the go-ahead. In accordance with this basic decision it was decided to free the railways from the conditions imposed by the public authorities (e.g. carriage at 'social rates'). Financial compensation was to be paid for any such obligations retained. At the same time, the way was paved for the normalization of railway accounts. This means that the State is to grant compensation for any expenditure arising from historical developments and now considered 'abnormal' (e.g. pension commitments, level crossings, etc.). Later the Council also agreed on a clearer definition of other State aids. Regulation of financial relations with the State and approximation of regulations governing working conditions still have to be settled. However, the rules adopted have clarified the size of State aids and thus facilitated assessment of the actual financial situation — or losses — of the railways.

When the Community was enlarged, the Commission once again pointed out that the problem of the railways was by no means solved and demanded measures to improve the situation. The Council of Ministers responded in 1975 (i.e. ten years after the first major step) by adopting the Decision on the improvement of the situation of railway undertakings and the harmonization of their financial relations with the State. This Decision was intended not only to ensure that the railways received a fair return from the public authorities for the services they performed (as the first Decision did) but also to give them the opportunity to improve their financial situation themselves, e.g. by giving them greater responsibility.

The Council considered that greater independence was required for this purpose. This applied for instance to the appointment powers of the management, day-to-day running and commercial and financial responsibility. The railways should be run on commercial principles. Economically unjustifiable political intervention should cease. The powers of the State and the company must also be accurately defined. The railways should also be allowed to set their own tariffs. If the authorities stipulate other rates, the latter will have to pay compensation. Secondly, under the Council Decision, the railways have to submit operating plans inclusive of an investment and finance strategy in order to reduce their deficit more effectively. The States also have to draw up financial programmes. Thirdly, public aid should be more readily recognizable. Service obligations imposed on the railways, payments by the State and other financial rules (concerning write-offs, the covering of losses, distribution of profits, etc.) must be precisely defined. Fourthly, cooperation between the railways should be encouraged in order to exploit the advantages of the large common market.

To implement the specific steps laid down in the basic Decision of 1975, the Council then adopted measures on comparability between the accounting systems and annual accounts of all railway undertakings, and rules laying down uniform costing principles. The Commission, for its part, submitted the reports provided for in the Decision on the economic and financial situation of the railways, together with long-term objectives and the measures towards railway cooperation and integration. It also made proposals on the computation of rates for rail traffic between Member States.

Another focal point of common rail policy — not connected with the basic Council Regulation — is the promotion of combined road-rail transport. The Council has adopted a directive which makes it easier for transport undertakings to take part in this traffic on international routes. Experience has been positive, as a Commission study has

established. The Council has therefore been asked to extend the arrangement to non-member countries. The Commission is also examining what further scope there is for promoting combined transport.

The Commission has referred to the unsolved problems in a memorandum to the Council. Further practical proposals will follow. The aim is and remains to restore the railways to financial health.

At the same time, this is tied up with the broader concept of paving the way for Community rules in other transport policy sectors.

Organization of the internal transport market

Although the problems of the railways play a major role in transport policy, this does not mean that the Community is not active in the other sectors. Rail is only one part of the transport market, which the Council of Ministers and the Commission are attempting to organize in its entirety. Common principles must therefore be found for the market factors influencing the competing modes of transport — road, rail and inland waterway. But the circumstances described in the previous chapter cause the railways to occupy a special position in various sectors. Because of their international field of activity, sea and air transport also are an exception. Only some of the principles of a common market can be applied to them. Special rules also exist for commercial passenger transport. Most measures for organizing the inland transport market therefore apply to road freight and inland shipping.

The desired organization of the market extends, for instance, to the right to take up the activities in question, freedom of establishment, transport capacity, rates, State intervention and market monitoring. The market must operate as freely and in as healthy conditions as possible. This is by no means the case at present. There are still a large number of obstacles and restrictions to be eliminated.

Special measures for road freight transport

The freedom of movement is without doubt subject to worse restrictions in the road freight transport sector. In most cases, cross-frontier journeys require a bilateral authorization which has to be agreed between the States concerned. Several Member States have frustrated the liberalization of commercial road transport, fearing lest the competitive position of their railways might deteriorate. A relatively early start was made on surmounting existing obstacles but so far no decisive breakthrough has been achieved. Only a fraction of road freight transport between Member States — probably no more than 5% in all — so far benefits from the so-called Community quota.

As far back as 1962 the Council of Ministers took the first step towards improving access to the road transport market. The Directive then adopted on the establishment of common rules for international transport for hire or reward facilitates transport operations as it exempted various types of special carriage from the transport authorization system or at

least from the restriction on the number of authorizations. This arrangement has since been extended a number of times. It chiefly affects frontier traffic between Member States and carriage on own account. Another decisive step was the introduction of Community authorizations for the carriage of goods by road between all Member States. The number of authorizations was very low at first. Since then the quota has been regularly enlarged but is still modest, indeed well below demand. Amendment of the original Regulation means that the Community authorizations — previously valid for the whole year — could be split into shorter periods and thus used more flexibly. Also of major importance are the Council's rules for bilateral negotiations between Member States on the adjustment of the transport capacity authorized in the cross-frontier carriage of goods. Such negotiations may no longer be conducted quite arbitrarily, as was previously the case. The States must obey guidelines as laid down. The above-mentioned rules on combined road-rail transport have also led to a limited degree of liberalization.

Special measures for inland shipping

The main priority on the inland shipping market is to control transport capacity and solve the existing structural problems. Most of the undertakings operating in this sector are small, family concerns. In Belgium, France, the Netherlands and the Federal Republic of Germany more than 80% of all inland shipping enterprises possessed only one vessel in 1975. These companies found it extremely difficult to obtain capital and therefore could not keep up with technical progress. Their craft are often too small and obsolete. As a rule, the small and medium-sized companies are in a weak commercial position compared with the shippers.

Apart from the large number of competing small companies, the fleet as a whole is too large. The decline in bulk carriage of certain goods has produced over-capacity. Inland shipping's share of total carryings has dropped in recent decades. Transport capacity is also badly affected by seasonal fluctuations in transport volume and the widely varying water levels of the rivers, especially the Rhine. If these are low, vessels can carry only part of their full load. If the inland shipping industry is to meet its transport commitments, it has to maintain a reserve capacity to meet the situation, so that in 'normal' periods the fleet is larger than really necessary.

Structural problems and over-capacity have caused revenue to stagnate — mainly in the cross-frontier traffic on the Rhine, which is not subject to any State price control. Inadequate profitability has forced many firms to close down. Between 1965 and 1975 the number of inland waterway carriers in the Community dropped by around 30% to just under 16 000, as did the number of persons employed and vessels. The fleet's carrying capacity fell 10% to 14.8 million tonnes. The plight of small inland shipping concerns has caused social unrest in some countries.

The Commission put up proposals some years ago for restoring the inland shipping market to health, but the Council has not yet adopted them. The Commission is therefore drawing up new measures. Its recommendations on reducing over-capacity have been partly implemented as individual States have taken steps to scrap old, uneconomic vessels. However, there is a lack of coordination. There have already been long nego-

tiations with Switzerland on the temporary laying-up of inland waterway vessels. This would mainly ease the situation in the Rhine navigation. Short-term over-capacity now disturbing the market should be reduced by the temporary and voluntary withdrawal of vessels from service in return for financial compensation. A draft agreement has already been initialled, but it has not yet been finalized and brought into force.

An additional protocol to the State Treaty covering the international navigation on the Rhine — the Mannheim Convention — has been adopted. It restricts the current right of free navigation to the signatory States and the other Community countries; vessels from other countries will in future require an authorization. However, the amendment still requires the approval of the national legislatures and the adoption of specific implementing measures.

Other arrangements

The European Court of Justice ruled a long time ago that the Treaties of Rome guaranteed general freedom of establishment throughout the Community. This, however, is often impeded in practice by national regulations. The Council has therefore decided upon the mutual recognition of diplomas, certificates and other evidence of formal qualifications for hauliers and passenger transport operators, and measures to encourage these operators effectively to exercise their freedom of establishment. A similar regulation for inland shipping has been drafted.

The conditions for taking up activities as a haulier are directly linked with the freedom of establishment and the recognition of diplomas. The diplomas will not be comparable if the individual countries do not lay down identical requirements. The Council of Ministers has therefore adopted directives on admission to the profession of haulier and passenger transport operator and laying down uniform requirements in terms of professional competence, integrity and financial capacity of the prospective operator. A similar Commission proposal for operators engaged in the carriage of goods by inland waterway has also been drawn up.

Reference was made earlier to access to the road-haulage market. The problem of access to the market does not arise in this respect in the case of the railways which are usually State undertakings owning their respective networks. In the majority of cases international carriage by inland waterway is not impeded by national restrictions, but the domestic transport markets are normally insulated from one another. In some cases there is the tendency to subject cross-frontier inland navigation to stricter rules. The first common rules for international bus and coach traffic were drawn up in 1966 and have since been supplemented by special provisions concerning shuttle services and scheduled services.

Under Commission policy, the public authorities should intervene in the transport markets only if there is any threat to their smooth operation. However, mandatory measures on other grounds cannot be ruled out for passenger transport, e.g. to encourage use of public transport. In addition, action may be taken in serious emergencies, when there is a lasting and severe imbalance between supply and demand or in the case of serious anti-economic behaviour. To restrict State intervention on the transport market, the Council of Ministers has adopted the Regulations mentioned previously which remove public service obligations and restrict aid to the railways, inland shipping and road transport.

In order to preclude market disturbances from even arising, where possible, the Commission has devised a market monitoring system. The proposals it made to the Council have not yet been put into force officially. However, the Council did approve the Commission's intention of introducing a system of this type experimentally. The Commission is now collecting data on the goods transport markets in collaboration with the governments and the transport sector. This monitoring system should make it easier to match transport supply to demand. The experiment is to last three years, after which the Council should come to a decision on the final form which these measures are to take.

Rates are another important market factor. The Commission's ultimate objective is the free formation of rates in accordance with the principles of free competition. As early as 1968, the Council of Ministers decided to introduce bracket tariffs (with the rate freely negotiated within fixed maximum and minimum limits) for the carriage of goods by road for hire or reward between Member States. This Regulation was later replaced by an arrangement which allowed both bracket tariffs and reference rates (where the tariff has only the force of a recommendation). Common tariffs for the international carriage of coal and steel products by rail have existed since 1955. The Commission has also made proposals on the introduction of reference tariffs for inland shipping and on rate formation for other rail goods traffic.

Equal starting conditions in competition

If there is to be competition in the transport sector according to market economy principles, the individual elements of the market must really operate, and there must be no falsification of the basis of competition. In other words, there must be the same starting conditions for all. Since these do not yet exist, they have to be created. And this has to be done by harmonizing national legislations — an extremely difficult undertaking, in view of the major differences between the Member States, and one which cannot be achieved overnight. At the same time, the fact that this process has not yet been completed must not serve as a pretext for not taking steps towards a liberalization of the market.

The repeatedly cited first — and fundamental — Council Decision of May 1965 urges harmonization or adaptation of those laws and regulations which might distort competition. It is not only a matter of relations between the modes of transport but also of relations between the individual undertakings of the same mode. At that time the Council took the view that measures were necessary — chiefly in the fields of tax law, State intervention and working conditions. But technical, administrative and organizational harmonization also is involved.

The 1965 Decision provides that the specific regulations on working conditions in the individual transport modes be progressively harmonized. It refers specifically to the manning, work and rest periods, overtime, and limitations on working hours. At the same time, it makes it clear that the term 'working conditions' does not cover wages or other remuneration. On the basis of these guidelines the Commission put forward proposals for harmonizing working conditions in the road transport sector, which the Council put into force at an early date. They include, for example, uniform standards for driving and rest periods, as well as breaks, and lay down when a driver's mate must be provided. This is

important, not only from the viewpoint of social progress and equal starting conditions, but also contributes to road safety. These social regulations have since been redrafted to bring them into line with the practical experience gained in the meantime. To guarantee compliance with the rules on working hours the Council also decided that specific types of commercial vehicles must be equipped with tachographs, by means of which driving and idle time can be accurately checked.

The Commission continued along the path marked out by the Council Decision with a proposal for harmonizing working conditions and manning regulations in inland shipping. A number of measures for harmonization in the railway, civil aviation and maritime transport sectors are also under consideration.

Community action applies to training as well as to working conditions. For example, the Council has adopted a Directive on a minimum level of training for drivers of certain types of vehicles, thus making a further contribution to road safety.

In the field of tax law the transport sector has in the meantime been included in the common value-added tax system, though uniform bases for specific taxation have not yet been achieved. The Commission and the Council are basically in agreement that all transport modes must bear the actual costs of infrastructure utilization. Where specific taxes are levied on commercial vehicles or fuels, their pattern and level should reflect the need to pay for the infrastructure. The difficulty of imputing infrastructure utilization costs, which — depending on the definition — may include the cost of traffic police, of environmental protection measures or of pollution, and the great importance of those costs for the competitive position of a transport mode (road taxes can substantially decrease or increase prime costs) make the solution of this problem an extremely important, but also long-drawn-out and politically explosive, matter. Basic orientations are being initiated here.

At an early stage the Council instructed the Commission to investigate the infrastructure costs of the railways, inland shipping and road transport. And a uniform method of keeping the accounts for these costs was subsequently decided on. However, agreement has not so far been reached on the real aim of introducing common standards in respect of compensation for the utilization of infrastructures. Consultations are still in progress on the system proposed by the Commission to this end.

However, harmonization of national vehicle tax systems could be the first step towards such a system of setting tariffs for infrastructure costs. What is needed here is a harmonization of the bases of calculation in this sector. And the Commission has made proposals on this matter too. A Council directive also contributes to harmonization of tax laws — though to a far more limited extent. This Directive lays down the tax-free maximum of fuel which the tanks of commercial vehicles may contain when crossing a frontier.

In the technical field a large number of regulations have been adopted which harmonize important vehicle standards — for example, brake systems. However, they do not come directly within the scope of transport policy, but are regarded mainly as a contribution towards the removal of barriers to trade. On the other hand, it has not yet proved possible to apply the Commission's proposal for harmonization of the maximum permissible dimensions and weights of commercial vehicles, which vary from Member State to Member State. While gross vehicle weight may be 50 tonnes in the Netherlands, for example, the permissible maximum in Britain is only 32 tonnes. The problem is not confined to the

Community. Switzerland, which is important for transit traffic with Italy, allows a vehicle weight of only 28 tonnes on its Alpine roads. These major differences not only hinder transboundary traffic, they also make life difficult for vehicle manufacturers. However, progress has been made towards harmonizing national regulations on the technical inspection of motorized vehicles and trailers, for the Council has issued joint rules on this matter, which represent a further contribution to increased road safety.

Common measures have been taken in the inland waterway sector as well. The Council passed regulations for mutual recognition of national navigability licences and the Commission subsequently put forward additional proposals on uniform minimum requirements for inland waterway vessels, the introduction of a Community navigability licence and the technical inspection of vessels. These proposals are intended not only to harmonize conditions of competition but also to improve the quality of the fleets.

As already pointed out, a number of harmonization measures have been decided in the field of State aids. The aim was either to abolish these interventions or to introduce a financial offsetting system based on uniform principles. There has been little abolition of such aids, but the common measures which have been taken have brought about a mutual *rapprochement* and greater transparency of interventions.

In the field of administrative measures there is one Commission proposal of particular significance, since it affects practically all citizens of the Community: standardization of summer time. A considerable degree of harmonization between the Member States has already been achieved. The European driving licence is another objective which serves the Community citizen and could become a symbol for the Community. The first step aimed at is mutual recognition of driving licences. The Commission's proposal provides that a driving licence acquired in one Community country would be valid in other Community countries even in the event of lengthy or permanent residence there. Of course, many of the other Community measures cited — for example, mutual recognition of professional qualifications, uniform price formation, freedom of establishment and the like — have a direct or indirect harmonizing effect.

Sea transport

In the last few years Community transport policy has developed fastest in a sector where no-one expected it: sea transport. There are several reasons for this. The expansion of the Community gave added importance to the maritime shipping sector, for some 85% of the Community's foreign trade is now carried by sea. In 1974 the European Court of Justice laid down that sea transport is not exempt from the provisions of the Treaty of Rome. The pressure of competition from certain State-trading countries increased. The developing countries pressed for a worldwide regulation of liner traffic. Pollution by tankers increased.

For a long time maritime shipping seemed to be excluded from Community action, for the specific provisions of the EEC Treaty are not automatically applicable to it. Indeed, Article 84 states that the Council may, acting unanimously, decide whether, to what extent and by what procedure appropriate provisions may be laid down for sea and air transport.

However, once the Court of Justice had issued its judgment, maritime shipping could no longer be ignored. The general rules had to be applied, and these cover such important areas as, for example, competition and the right of establishment.

After lengthy negotiations, the UN Conference on Trade and Development (UNCTAD) agreed on a Convention on a Code of Conduct for Liner Conferences. The initiative for this agreement came from the developing countries, which were seeking a larger share in the world's shipping business. The core of the code is a cargo allocation system replacing the free choice of vessel existing previously. Under this system 80% of the volume of goods carried in vessels of the liner conferences between two States is divided equally between the shipping companies of those two countries, while the remaining 20% is available to ships of any flag, if participating in traffic as members of the liner conference. For various reasons — the main one being the preference given to national flags — the code was incompatible in this form with the Treaty of Rome.

As the countries of Eastern Europe acquired an increasing share of the shipping market, protectionist measures began to come into force all over the world.

The brunt of this development was borne by Community shipowners, who began to demand protective measures.

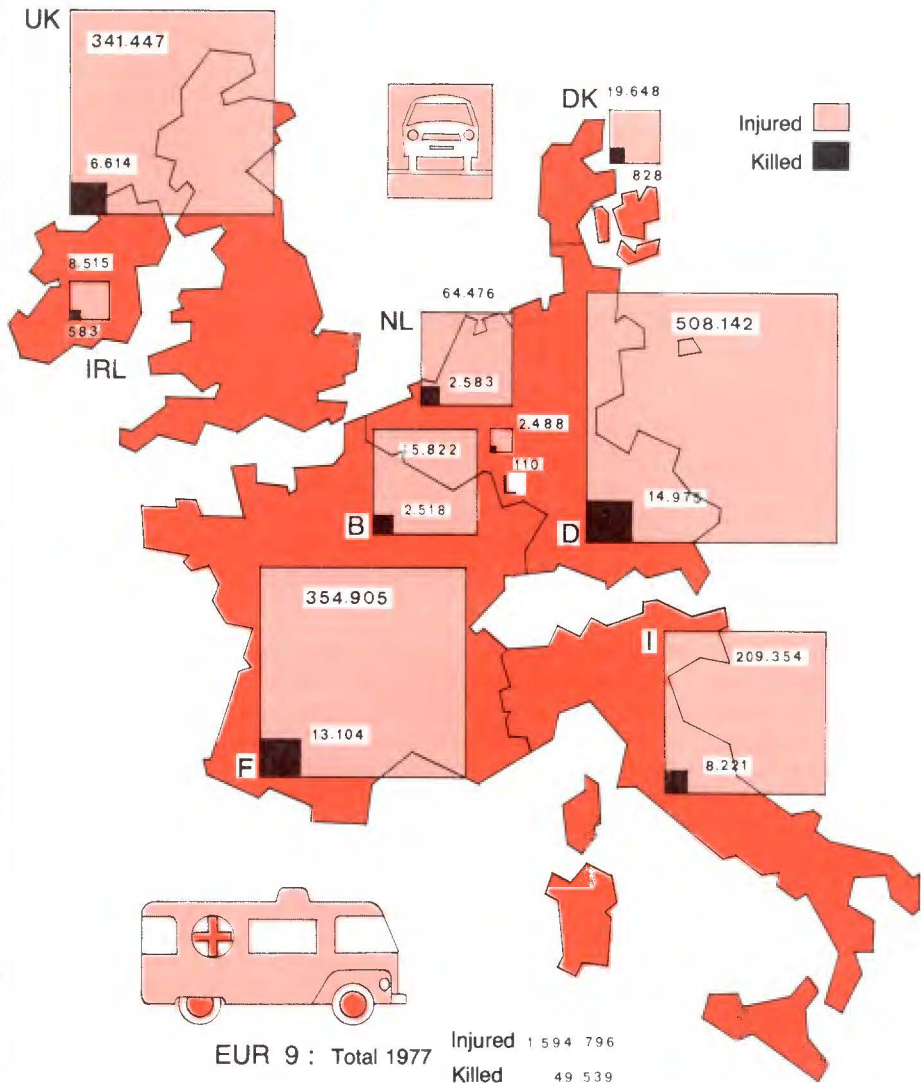
Against this background, readiness to tackle the problems of maritime shipping grew within the Community. The Commission provided a basis for this by investigating the situation and submitting a comprehensive report to the Council. The Council took its first decision in this field in 1977 on the basis of Article 84, introducing a consultation procedure for arriving at a common approach to non-Community countries and in international organizations. Like the later decision on information regarding specific liner traffics, this is to be seen in connection with competition from specific State-trading countries — a matter which will be dealt with separately.

The Community's decision on the UN Code of Conduct was not easy to make. On the one hand the code deviates from market economy principles. On the other, however, it stems the trend towards unilateral or bilateral allocation of cargoes and could limit the inroads made by the merchant fleets of the State-trading countries. Some of its provisions had to be made compatible with the EEC Treaty, but in the end the Member States agreed to apply the agreement with certain reservations. It was agreed to apply a 40:40:20 ratio for the allocation of cargoes where developing countries are involved as a form of aid to the development of their shipping industries. However, the Member States did not apply this allocation system to the shipping of goods between themselves, but retained freedom of choice according to market economy principles. The same applies — on a basis of reciprocity — to shipping between the Member States and other OECD countries.

The Council Decision on the Code contains another important factor in that it indirectly accepts the liner conferences and the agreements between their member shipping lines which restrict competition (for example, on rates, cargo quotas or the choice of ports to be served). In view of the EEC Treaty's provisions on competition, which forbid the formation of cartels, this is by no means a matter of course. The Commission will therefore submit proposals to the Council in connection with the Decision on the application of EEC rules of competition to sea transport.

ROAD TRAFFIC ACCIDENTS

(EUR 9 — 1977)



Source: Eurostat.

In the meantime a number of developing countries have begun demanding a bulk cargo allocation system similar to the UN Code of Conduct for liner trades. For this reason the Member States could be facing new problems in the near future which will require a common solution.

A number of spectacular accidents involving tankers have brought two other aspects of shipping policy — safety and protection of the environment — more and more to the fore. The public and the politicians were alarmed by such incidents as the wreck of the *Amoco Cadiz* off the French coast in 1978, which polluted the beaches of Brittany with more than 200 000 tonnes of crude oil. There was agreement that something would have to be done.

In the last few years the risk of accidents involving tankers had clearly increased. For three main reasons. In the first place, the consumption of oil and, consequently, the volume of oil being transported have risen rapidly. Between 1945 and 1979 tanker tonnage increased fifteenfold to some 370 000 000 dwt. In 1978, 1 700 000 dwt of oil were transported by sea, bearing in mind that 1 litre of oil can pollute 1 000 000 litres of water. Secondly, the size of tankers has increased significantly. The average tanker today is some 100 000 dwt, the largest some 500 000 dwt — many times the volume in earlier days. Finally, sea transport in general has increased and the danger of accidents has risen steeply in such difficult or narrow waters as the English Channel.

The growing number of tanker collisions has brought to the fore the safety and environmental question of how safety can be increased and how oil pollution can be removed. The Community has been concerning itself with both these topics. As its first move, the Council drew up an action programme in 1978 for controlling and fighting oil pollution. The introduction of stricter traffic rules for busy shipping routes, the raising of the standard of tankers and their equipment and the improvement of shipboard working conditions (important because of the dangers of overtiredness, for example) are seen as starting-points for an accident prevention programme.

But shipping is an international business. Restrictions imposed by some countries may lead to trade, and perhaps vessels too, being switched to others. And even if all the Member States adopt the same safety measures, the question arises whether shipping companies in the Member States can and should be required to adopt stricter safety measures — and assume higher costs — than are customary in the rest of the world.

This could promote what is already a trend: registering vessels in non-European countries with particularly favourable operating conditions, i.e. under flags of convenience.

The aim of the Council and the Commission is, therefore, to promote safety on a worldwide basis, through the various international organizations, where a number of agreements have been drafted. The drawback is that some of them have not yet been ratified and some of them are being very slackly applied. The Community's first step in this sector was therefore aimed both at ratification and at stringent and uniform application of these rules. The Council has recommended ratification of the International Convention(s) for the Safety of Life at Sea, the Prevention of Pollution by Ships, Standards for Merchant Ships, the Training of Seafarers, Certificates of Competence for Seafarers and Rest Periods Aboard Ship.

But safety measures require rapid exchange of information on substandard ships, and coordination of controls.

Where international agreements are not applicable or contain loopholes, they had to be supplemented by the Community. The Council has adopted, for example, a Directive on the use of qualified high-sea pilots in the North Sea and the minimum requirements for tankers using Community ports. Such vessels are obliged to report to the authorities before entering a port all irregularities which could carry a safety risk. The Council has also called on Ireland and Italy to accede to the agreement on minimum requirements for shipping which was signed at The Hague in 1978 by the other Member States (and Sweden and Norway). This agreement lays down that all vessels in port may be inspected and, where they fail to meet these requirements, detained or ordered out.

The adoption of other common rules is also under discussion. These are concerned, for example, with working conditions on board of Community vessels, the dismissal of seamen and improvement or extension of in-port inspections of vessels.

The example of ship inspections showed that shipping and port problems are interlinked. Ports being vital elements in the transport system as a whole, the Commission has also taken action in this sector, setting up a special working party which is carrying out studies in cooperation with the port authorities and examining the possibilities for joint action. Studies have already been carried out on the administrative structure and financing of ports and further studies in greater depth are planned. The Commission is likewise considering steps to increase safety and decrease pollution in ports, as well as proposals intended to improve their competitive situation.

The problems arising out of the competition from State-trading countries in the maritime shipping sector are dealt with on page 28 ff.

Civil aviation

The civil aviation market is a worldwide one. Most European airline companies are State-owned and practically hold a monopoly within national boundaries. At the same time, national authorities decide on the licensing of additional airline companies and negotiate flying rights with other countries. This means that civil aviation is substantially influenced by government decisions. Furthermore, the application of the specific transport provisions of the EEC Treaty to civil aviation — as to maritime shipping — are made dependent by Article 84 on a specific decision by the Council. For all these reasons civil aviation initially played no part at all in common transport policy.

However, the European Court of Justice's judgment of 1974 stressed that civil aviation is not exempt from the rights and obligations of the Community and that the general rules of the Treaty of Rome must be applied to this sector as well. In the light of this judgment the Member States came round to the idea that there was little point in applying these rules without developing coherent ideas on how this was to be done.

Some ideas on the subject came from the airlines themselves, for there had been a number of new developments in international air travel. The increase in charter flights, currency changes, occasional airline over-capacity and the decline in the influence of the International Air Transport Association, IATA (under whose auspices international rates are negotiated) had led to increased price competition in several sectors, though not in respect of air travel

within the Community. The US Government, in particular, urged greater competition, stating that its aim was to reduce air fares and thus make air travel available to a broader section of the population. The result was that in travel between Europe and North America (the most important route for Community airlines) a new type of operation combining elements of both charter and scheduled flights came about.

Its advantages are scheduled departures, and a low fare. On the other hand the frequency is lower, comfort is less, and there is no advance booking or guarantee of a seat. The new formula was well received and the airlines acquired a new clientele. The question then arose whether and to what extent air travel within the Community might not follow this example.

In the light of this changed situation the Council therefore commissioned a working party in 1977 to examine the problems of civil aviation. In 1978 the Council approved an action programme containing nine priority topics: reduction of aircraft noise, simplification of formalities (particularly for air freight), application of uniform technical standards, regulation of competition legislation and State aids, mutual recognition of crew licences, improvement of working conditions, the freedom of establishment, improvement of inter-regional air services and mutual assistance in the event of accidents. At the same time the Council endorsed closer relations with the international civil aviation organizations.

The Commission went into the matter in greater depth with an extensive report on the contribution which the Community might make to the development of air transport. This report points out a number of shortcomings in the existing set-up, noting that international air transport is regulated almost totally by bilateral agreements — a fact which impedes the opening of new routes and encourages concentration on the links between the major airports, as well as upholding certain national restrictions. The report also found that the general level of fares on scheduled flights was too high, that alternatives in respect of fares and in-flight services were too limited and that reactions to the needs of private travellers were insufficiently flexible.

Although charter flights have become a firmly established factor in air travel within Europe — leading to price competition between charter airlines on the one hand, and between charter and scheduled airlines, on the other, they have not brought about price competition between scheduled airlines, as they have on the North Atlantic route.

Competition between the airlines did not take place in the area of fares but in quite other areas, particularly service, an approach which does not help to reduce costs or make price reductions possible. Although a few steps towards price reductions were taken in the meantime, the airlines still concentrate mainly on business travellers. These are prepared to accept relatively high fares, since this is not necessarily the most important consideration for them. However, such a policy does not help those sections of the public for which the price is important. On the other hand, the fact should not be overlooked that some airlines are in financial difficulties, and that a few of them are operating at a loss as it is. A price reduction would probably attract more business overall, but it could aggravate the problems of some airlines. That is why it must be made possible at the same time for the airlines to increase their performance, and reduce their costs.

The Commission therefore takes the view that there should be four main objectives.

The first is to set up an efficient intra-Community network tailored to the interests of the passenger, unimpeded by national restrictions and offering the lowest possible fares to all types of passenger. This means more liberal treatment for charter traffic; new scheduled flights; and a broader range of cheap fares. Implementation of these demands can be facilitated by common rules for competition, aids, freedom of establishment, stabilization of the currency rates used for fixing fares and compensation in the event of overbooking (when a passenger is 'bumped' off a flight).

The second objective is to establish or restore the airlines' financial equilibrium by lowering costs and increasing productivity. Simplification of customs and administrative formalities and the harmonization of technical standards can make a contribution in this area.

The third objective is the improvement of social provisions for employees and the elimination of the remaining obstacles to the free exercise of an occupation throughout the Community. This boils down to the working conditions of flying and ground personnel and mutual recognition of professional qualifications, licences and the like in all the Member States.

The fourth aim takes account of general economic and social interests, including improving safety, rationalizing energy consumption, improving protection of the environment, developing the aircraft industry or promoting regional policy.

In the meantime the Council has adopted the Commission's first proposals. It endorsed a joint consultation procedure based on that already in use in the maritime shipping sector and providing the Member States with an opportunity to coordinate their attitudes towards non-Community countries and in international organizations. The Council also adopted a directive on the reduction of aircraft noise, which makes the registration of aircraft dependent on a noise certificate and sets deadlines for the retirement of aircraft without such a certificate. The use of noisy aircraft for which this certificate has not been issued is permitted only until the end of 1986 (until 1988 in exceptional cases).

The Commission's report also aims at stimulating a dialogue with all interested quarters on the common civil aviation policy. The knowledge derived from this dialogue would be used as the basis for further measures. The Commission intends, for example, to submit proposals to the Council on the application of the EEC rules of competition to the air transport sector.

At the same time consultations are continuing on the action programme for priority goals.

Competition from certain State-trading countries

In recent years the transport sector has been increasingly plagued by a problem long known to other economic sectors: unfair and harmful competition from firms in a number of State-trading countries. Although it is international sea transport which has been particularly affected, road haulage and inland shipping are also becoming increasingly involved. The Community is hence forced to take steps to protect its interests which are threatened although it stands in principle for a free market economy.

Comecon countries, especially the USSR, the German Democratic Republic and Poland, have greatly expanded their fleets in recent years. The reasons for this are probably

economic but may also be political and military. As they have expanded they have also made inroads into international sea transport, profiting from the fact that international shipping is still largely uncontrolled by national laws and thus accessible to anyone.

With the help of massive State intervention the shipping companies of these State-trading countries quickly captured a large share of bilateral traffic to and from these countries. By 1976 Soviet ships accounted for over 60% of shipping between the Soviet Union and the United Kingdom, for 75% between the Soviet Union and the Federal Republic of Germany and for approximately 80% between the Soviet Union and Belgium. In the same year East European ships effected 95% of the shipping operations between the Netherlands and Comecon.

It did not take these countries very long to infiltrate liner trades between third countries ('cross trades'). In trade between Europe and the United States they have grabbed business equivalent to about a quarter of the tonnage carried by the traditional liner conferences. They now carry 35% of the goods on the Northern Europe/Mediterranean liner trades, 25% on the Northern Europe/South America trades and over 20% on the Mediterranean/Gulf of Mexico trades. Comecon fleets have also gained a strong foothold in the East Africa and Far East trades.

The inroads made by Eastern bloc fleets have been at the expense of Community shipping companies. Competition had as its background two different economic systems: the free market economy and the State planned economy. Western shipowners have been at a distinct disadvantage. Comecon countries' foreign trade is conducted by State-owned companies which usually import on an fob (free on board) basis where the supplier's responsibilities and costs end at the ship's board. They export, on the other hand, on a cif (cost-insurance-freight) basis (all costs including freight up to the port of discharge). In both cases the State-trading countries choose the carrier and, of course, opt for their own ships. Originally they used these terms to save foreign currency for their own ocean freight but now use them to obtain additional foreign currency (of which there is always a shortage because of their constant trade deficit). In this manner they have succeeded in capturing a major share of bilateral traffic.

Foreign currency is undoubtedly also Comecon's aim in its efforts to infiltrate transport operations between third countries. Since they cannot use fob/cif terms here they compete by price. State-trading fleets consistently operate at lower freight rates. The differential is so great that Western shipowners claim them to be dumping prices. Community shipping lines are at a great disadvantage from the outset because State-trading fleets do not have to fix their prices according to criteria of profitability (but may give priority, e.g., to political or economic goals) and have a price edge owing to lower wage and other costs. In contrast to practice in State-trading countries, Comecon shipping companies are also allowed to own subsidiaries and participations in Community countries, which greatly improves their purchasing potential.

Since cut-throat competition is most evident in shipping the Community has concentrated its efforts here initially. The Commission has made a study of how far State-trading countries have penetrated the liner trades, the methods they have used and the effects on the Community's shipowners. It has come to the conclusion that joint action must be taken to contain this negative trend. The above-mentioned consultation procedure for harmonizing relations between Community and non-Community countries, and for determining a com-

mon position in international organizations, could be resorted to here with a view to gathering first fact-finding exchanges.

The Member States' positions must in such conferences therefore be aligned before discussions are held. The Member States must provide details of their relations with non-Community countries and of the working of their agreements if the problems involved are of common interest.

The Council has gone even further, adopting two measures concerning the activities of certain non-Community countries in sea transport and the collection of information about the composition of liner traffic in certain shipping areas. The Member States will thus set up a system enabling them to obtain any information which might be of interest about the activities of shipping companies in liner trades between the Community and East Africa and Central America. These provisions apply both to non-Community and Community ships. The information required includes details of the date of arrival and departure of vessels, the tonnage and type of cargo and — where possible — the freight rate. All this, the Council hopes, will give a better idea of the situation and problems in shipping. It is to be sent to the Commission every six months and will be discussed by the Member States jointly in the planned shipping consultations.

The results will also serve as a basis for any joint counter-measures the Community might take. Under these measures the Council may unanimously decide that the Member States take joint action against individual non-Community countries or a group of non-member countries. The measures taken will vary according to the relevant national laws. The Commission does, however, intend to submit proposals for common measures against the malpractices of certain non-Community countries.

Road haulage and inland shipping face similar problems (for similar reasons) as shipping. In 1975 only 7% or so of the road-haulage business between the Community and Comecon was accounted for by Community carriers. The reasons for this minimal percentage are again the use of fob and cif terms, price and cost differentials and the lack of return loads. Eastern bloc road hauliers (particularly those of Hungary and Bulgaria) have also made inroads into trade between third countries (e.g. Western Europe and the Middle East).

Western inland waterway operators (i.e. from the Federal Republic of Germany and Austria) have been faced so far with the greatest competition from the Eastern bloc, particularly on the Danube. Experience has not been encouraging. The share of both these countries in the Danube fleet has dropped to just under 10%. German and Austrian operators on the Danube can only compete thanks to State subsidies, one of the reasons being that international Danube freight rates have only been increased once since 1955 despite rising costs.

Completion of the Main-Danube waterway in 1985 will mean that there will soon be a link between the two major European river systems and easy access from one river to another. Under current international rules (the Mannheim Convention) anyone may operate on the Rhine provided he satisfies a number of technical conditions. International transport rates may also be freely agreed. For these reasons Community inland shipping operators fear that once the Main-Danube waterway has been opened Comecon carriers will also invade Rhine shipping (in which they are already fairly active) and may create unfair competition for Community carriers.

The Community, therefore, is extending protection to both these modes of transport. The Council has, as mentioned above, already adopted an additional protocol to the Mannheim Convention under which any future vessels from non-Community countries (i.e. countries which are not contracting parties or members of the Community) will in future require authorization to operate on the Rhine. The Commission intends to propose common rules for admission to the market in order to protect inland waterway operators on other waterways and road hauliers against the practices of State-trading countries.

Trade with non-Community countries

The problem of increasing competition from State-trading countries highlights the importance of relations with non-Community countries. As a major importer and exporter the Community naturally has an exceptionally large volume of road and passenger traffic to and from non-member countries. It is also in the interests of foreign trade to ensure that transport operations are conducted smoothly. Intra-Community transport, on the other hand, also affects non-member countries. The routes through Austria and Switzerland are the main links with Italy. Trade with a future Community member, Greece, will mean that goods will have to be carried through other countries.

It has always been one of the Community's aims to open up relations with other countries, so that plans to facilitate transport operations and to make the transport market as accessible as possible should not be confined to the Community's borders. It is also essential to coordinate, for example new technical developments at international level. Finally, it is also the Community's aim to have a common policy in transport — as in other sectors — *vis-à-vis* non-member countries.

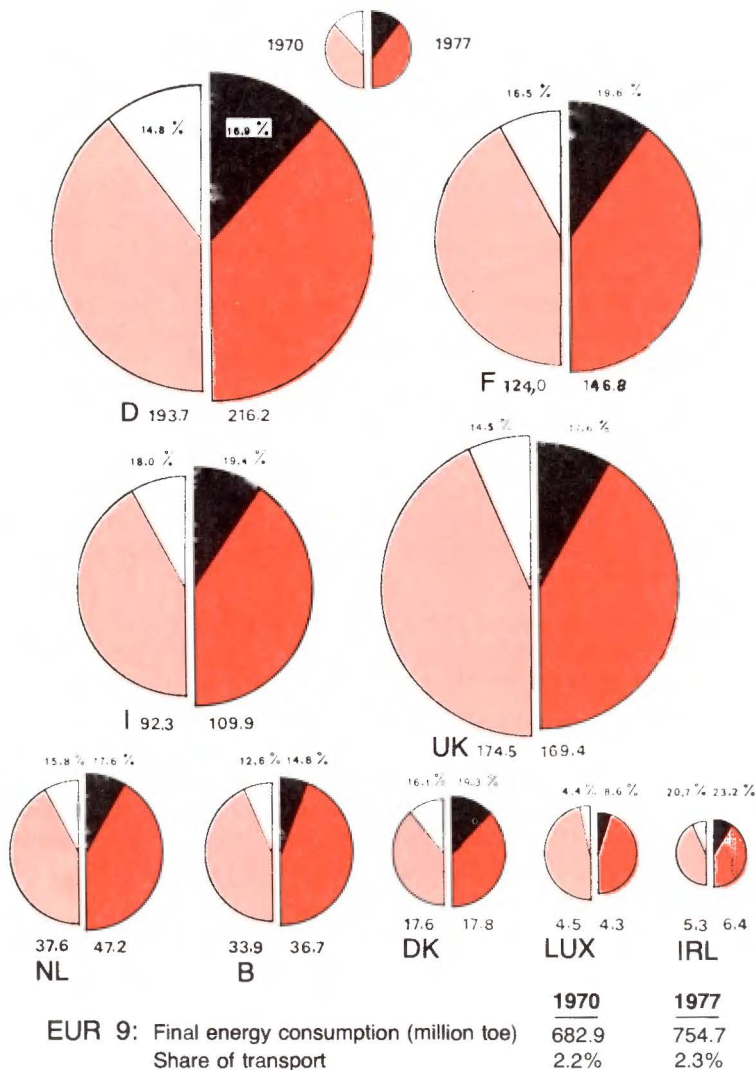
These principles can be implemented in two ways: by direct negotiation, or participation in international organizations. The Commission's activities in these two areas have developed much more than was assumed, e.g., in the 1973 transport policy programme.

The Community has been involved since 1975 as an independent negotiating and contractual partner in negotiations with non-Community countries towards an agreement governing the international carriage of passengers by coach and bus. The Commission is also conducting negotiations with Switzerland on the temporary and voluntary laying-up of inland waterway vessels described above. Discussions with Switzerland on an additional protocol to the International Rhine Convention (Mannheim Convention) have been successfully concluded.

The Commission has also made a proposal to the Council for negotiating with several non-member European countries on combined road/rail transport by extending Community rules to transport operations to and from other countries. The system of financial support for important infrastructure projects proposed by the Commission may also prove beneficial to transit traffic through non-Community countries. The convergence of traffic through some non-member countries has raised the problem of transit charges which some States have introduced or are thinking of introducing because of the strain on their road network. Here too, the Commission is trying to ensure that the Community's interests are identified. On the question of transit problems with some non-Community countries, the Commission will shortly be holding exploratory talks with Austria and Yugoslavia which may lead to contractual agreements between the Community and these States to facilitate

SHARE OF TRANSPORT IN FINAL ENERGY CONSUMPTION

(million toe)¹



Source: Eurostat.

¹ **toe: ton oil equivalent.** This unit makes it possible to express in comparable fashion and hence to totalize the different energy sources in terms of their equivalent calorific values. The standard used is the calorific value of one ton of oil.

transit traffic. A large part of the talks will be devoted to the problem of linking up Greece to the Community transport market and the application of Community transport rules to future intra-Community traffic to and from Greece.

The Commission also holds regular discussions with various non-Community countries, particularly European countries, to coordinate transport matters as far as possible with them, for example, on shipping, road traffic or summer time.

In the past few years the Community has also intensified its relations with international organizations dealing with transport matters, e.g. the European Conference of Ministers of Transport (ECMT), UN bodies such as the ECE, UNCTAD and IMCO, the Organization for Economic Cooperation and Development (OECD), the European Civil Aviation Conference and the Central Commission for the Navigation of the Rhine. It is only logical that the Community should play an increasingly greater role in international conferences in the transport sector, e.g. in the North-South conference or the UN Conference on the Law of the Sea. The Community has played a major role in other areas, including the UN Code of Conduct for Liner Conferences. The Community's approval of this agreement, which is particularly important for the developing countries, virtually paved the way for its implementation. The Community has joined a number of other international agreements (concerning sea and road transport) (e.g. on safety at sea and the working conditions of drivers). A number of similar rules (on the carriage of perishable goods, sanitary checks in rail and road haulage transport, containers, etc.) should also be mentioned.

Border crossings

Although the private motorist usually has little trouble in moving from one Community country to another, commercial traffic still finds border crossings a time-consuming, and hence costly, business. The reasons for this lie in administrative rules and organization of national authorities, and inadequate infrastructures.

Despite an improvement in certain areas the customs procedures which commercial traffic often has to undergo are still one of the main obstacles to speedy expeditions from one country to another. They usually involve a time-consuming and meticulous examination of documents and — often — examinations of the goods carried, and health and veterinary inspections. Outdated national rules prevent these procedures from being carried out in the country itself. In addition the actual customs procedures themselves are in many cases extremely complicated. Traffic at some borders repeatedly is also being affected by strikes or similar action.

Border crossings in the Alps are also particularly difficult because of inadequate facilities, delaying transit operations between Italy (and Greece in the future) and other Community countries. Not only the road and rail networks can no longer cope with the increased volume of traffic, but also their facilities such as customs sheds, car parks or shunting yards and, in some cases, even their waggon and locomotive fleets are inadequate. Cooperation by transit countries such as Austria, Switzerland and soon Yugoslavia too is required to solve these problems.

The Commission is currently making a detailed study of weak points at borders and will later submit specific proposals for their improvement. Removing these barriers to crossings, however, will be a slow and difficult process, because they are due to various factors and, as we have seen, differ from one case to another.

Dwindling energy resources

Energy conservation has become the prime concern of the Community which is heavily dependent on expensive oil imports, a fact recognized by the Heads of Government of all the Member States. Transport can be no exception to this rule, for it is a major factor in energy consumption (an estimated 16% of final energy consumption in the nine Member States is accounted for by the transport industry).

There are two aspects to the energy crisis. On the one hand, imports will become increasingly more expensive as prices of oil and other imported fuels rise, and this will have an adverse effect on trade and the balance of payments. It is, therefore, essential to reduce our dependence on imports (also in order to preserve the Community's freedom of action). Higher energy costs could, however, be offset by greater productivity. On the other hand, oil may become scarce. The only solution is to make greater use of alternative energies or take steps to save energy. A scarcity of oil may have a disturbing effect on the economy and transport and make it necessary to draw up priority allocation plans.

Energy savings can be made in all transport sectors. According to a study carried out for the Commission (Saint Geours report), between 20% and 35% savings could be achieved by the year 2000. Possible savings of 15% by 1985 are projected by Brussels on the basis of other studies. Whether these can be achieved depends on the energy consumption of cars which are the greatest single energy consumers. Over 80% of the oil consumed by the transport sector within the Community is accounted for by road transport, around 10% by air transport, 4% by inland waterway transport and about 2% by the railways (for which other energies are more important). Private cars account for approximately 70% of road traffic consumption.

Savings could be achieved at all levels by, better organization, e.g. forming car pools, improving rail timetables and air schedules, or ensuring that vehicles do not return unladen. Energy consumption could certainly also be reduced in all modes of transport by technological development, e.g. reduced air resistance and vehicle weight, and developing less thirsty engines. Further savings could be made by controlling traffic flows, improving driving habits (reducing speed) or route planning. The energy balance could be improved by switching from private to public transport which uses energy more efficiently. Rail transport would be particularly suitable if we were simply concerned with reducing oil dependence without regard for other forms of energy, since only some of the electricity consumed is produced by oil-fired power-stations.

It is clear from this description of areas in which energy savings could be achieved that the Community still has much to do. The Member States took the first steps in the wake of the 1973/74 energy crisis, when summer time was introduced in various countries and maximum speed limits were lowered on motorways. Summer time is not, however, the same everywhere and speed limits vary. Clearly the Community's first task is to harmonize such national measures.

The Community can also play a role in promoting research projects towards reducing energy consumption. Since a large number of national projects have already been undertaken the Commission's first task will be to exchange information on and coordinate projects and, if appropriate, to work out common rules.

These developments are concerned with reducing energy consumption but efforts must also be concentrated on spreading any actual shortage as fairly as possible. Certain types of transport are essential to the population and the economy. The list is long, ranging from transport of the sick, through deliveries to retail shops to supply of raw materials for industrial production. Transport must thus be put at the top of the energy priority list. An order of priority must also be established within the transport sector for the allocation of fuel. Private cars are obviously not as important from the energy policy viewpoint as commercial or public transport, for example. A serious shortage of oil would thus mainly affect private transport, as was seen in the 1973/74 energy crisis, when several Member States introduced a Sunday ban on private vehicles. Although the Member States would be primarily responsible for fuel allocation in the event of a crisis the Commission would at least have to ensure that there was no discrimination against other States.

The rising cost and growing shortage of energy have also prompted developments which may affect transport policy as a whole. In some countries governments have given greater encouragement to public transport, the railways in particular. Traffic should as far as possible be transferred from road to rail. In this context the railways will have to be made more attractive and their capacity should be increased — which requires investments. If the State provided more funds for railways money probably would be saved in other areas. This would have repercussions on other modes of transport, and individual national measures of this kind may also affect other Member States. The Commission is keeping an eye on these long-term repercussions of the energy crisis. The consequences must be discussed with the Member States and coordinated at an early date.

VI — Looking ahead to the enlargement of the Community

Just as the accession of Denmark, Ireland and the United Kingdom marked a decisive new era for the Community and for the common transport policy, so too the future enlargement of the Community will make its impact. The new Member States will of course adopt existing rules but the framework will change. Soon Greece, Portugal and Spain will undoubtedly be co-determining the course of policy.

A development of general significance is that the accession of the new partners will push the Community's sphere of influence towards the Mediterranean area, giving the Community access to the Middle East (via Greece) and North Africa (via Spain and Portugal). Trade between the old and new Member States will undoubtedly expand. But not overnight. The three new Member States already sell over half their exports to the Community. The security which the Community will provide for their economies should also encourage industrial developments in these peripheral States of Europe and hence lead to a more widespread division of labour. This, hand in hand with the expected increase in imports, will expand trade. Their accession may, however, also lead to changes in the pattern of trade. Italy and France, for example, which are the main fruit suppliers, will in

the future share the market with the new members, where agriculture is of major importance. This does not imply, however, that industrialization is not well advanced in these countries.

It should also be remembered that the new members are remote from the other Member States. This could in theory benefit combined road/rail transport or ferry or container transport (provided the organizational and technical problems can be solved). The rules already adopted or planned for combined transport would play an extremely useful role here. On the other hand, road haulage is the most flexible form of transport, and may offer significant advantages in the initial development stage of the new Community relations. The Community's efforts to achieve greater freedom of movement in road transport, greater safety and more uniform conditions of competition will be important here.

Another problem (road congestion), however, will unfortunately become more acute. Enlargement of the Community will increase transit traffic through the central Member States of the Community. Existing bottlenecks will become even worse, causing problems, especially in the Alps, which also will affect non-Community countries. This will enhance the difficulties in harmonizing (and possible financial support for) road construction. There also is a serious shortage of modern road networks in the applicant countries. The Commission therefore pointed out in its memorandum on transport infrastructure that account should also be taken of the new members.

The importance of shipping in transport policy also should increase with the enlargement of the Community since Greece in particular has a large fleet. Greece has always been a keen supporter of unrestricted shipping and will certainly promote this aim in shipping policy.

This applies particularly to the upholding of market economy principles in bulk shipping, hotly disputed by some Third World countries. A large number of Greek ships operate in this specific sector.

It should, however, be remembered that the accession of these countries will also mean that transport interests will be spread over a wider area, and that current differences between Member States will be accentuated. It thus probably will not be easier to reach common decisions. On the other hand, enlargement will improve the Community's opportunities on the international scene, will give its transport policy more impetus, and open up new opportunities for transport operators in the Community.

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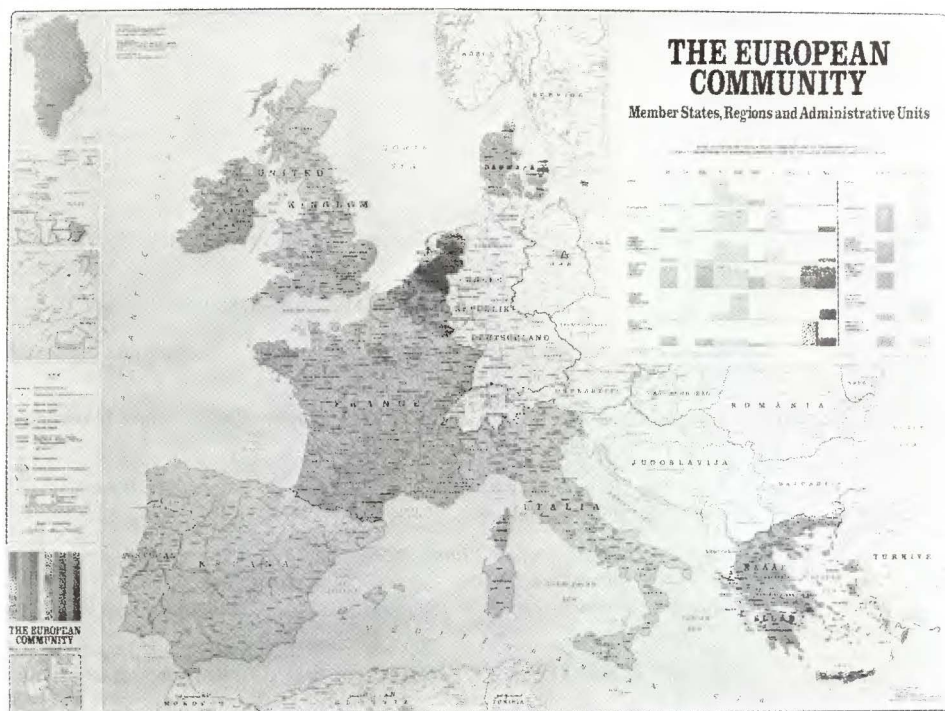
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This brochure outlines the transport sector and how it is integrated into the European Community. The transport sector, which contributes 6% of the Gross National Product (as compared with 5% for agriculture) and employs 6 million people, plays an essential part in the exchange of goods between the Member States.

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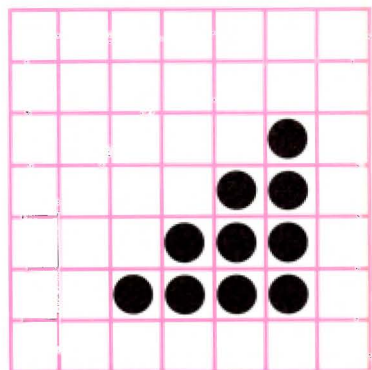
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