

Plans to channel billions of euro into EU infrastructure projects have been hailed by their architects as a way of boosting the faltering European economy. But will they really make a difference? **Alasdair Murray** reports

# A BRIDGE TOO FAR?

**The Brussels summit in December 2003 will forever be associated with the EU's humiliating failure to reach agreement on a constitution.**

Barely noticed amid the rows over voting weights and tax powers, heads of government did secure two important deals: they finally ended a bitter two-year dispute over the location of a series of EU agencies and EU leaders rubber-stamped a plan to kick-start growth across Europe.

made it clear that they did not entirely share Tremonti's vision. Privately, they argued that the Tremonti wish-list of projects was based more on the need to appease certain Italian interest groups than on a clear assessment of economic value.

In particular, the Italian's government proposal to build a bridge between Sicily and mainland Italy provoked widespread scepticism. Some governments also expressed concern

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The 'European Action Plan for Growth' was intended to be one of the centre-pieces of the Italian EU presidency. Italian Finance Minister Giulio Tremonti unveiled the plan to great fanfare in June 2003, claiming it would stimulate job creation and boost the faltering EU economy.

Tremonti's proposal envisaged the Union channelling up to €70 billion a year into major infrastructure projects such as road and rail links. In rhetoric at least, the plan suggested a return to the Keynesian-influenced public-works projects which had fallen out of favour after the 1970s.

However, other EU governments quickly

about the EU's ability to fund the new projects at a time when a number of euro-zone countries were struggling to adhere to the terms of the stability and growth pact.

The Italians insisted that little, if any, new public money would be needed to fund the projects, despite the misleading claims that the EU intended to spend up to €700 billion on the Tremonti plan.

However, several member states also questioned the philosophy of the Tremonti proposal. Germany and France, backed by Britain, prepared a counter-proposal which argued that if the EU was going to make new infrastructure

investments, these should be targeted at new technologies, such as broadband or digital television, rather than transport projects.

France and Germany argued that such investment was in line with the Union's commitment to meet the economic reform goals agreed at the Lisbon summit in 2000.

Meanwhile, economists claimed that the growth action plan would only have a negligible impact on European growth rates. Tremonti's action plan could even prove damaging, they warned, if it distracted the EU's member states from the more urgent task of reforming their labour and product markets.

As a result, the European Commission was charged with drawing up a package which would satisfy all sides. In October last year, it presented a "long list" of some €220-billion worth of projects. The Council of Finance Ministers (Ecofin) subsequently whittled down the list of proposals to just 56, worth a total of €76 billion.

It is this watered-down package which

EU leaders signed off at their summit in December.

The Action Plan for Growth is certainly not what the Italians had in mind when they put forward the original proposal in the summer of 2003. "Modest and feasible" are the words which Commission President Romano Prodi used to describe the final deal.

EU investment will amount to just €10 billion a year, which represents only 0.05% of the Union's GDP. The proposal is also couched in cautious language about respecting the rules of the stability and growth pact and not raising public borrowing.

In addition, the text refers to the need to ensure the European Investment Bank, the EU's financing arm, does not suffer from overstretch in trying to make loans to an array of risky new projects. In future, the EU will be able to fund up to 20% of a project from public funds (the Italian proposal would have allowed funding of up to 30%).

Moreover, the final project list is an incoherent affair, reflecting the need to include something for every member

state in order to win agreement on the package.

The EU has given the green light to some 56 projects in total, of which 31 are transport-based, 17 are in the energy sector and eight are in high-speed communications.

The transport projects are heavily focused on rail, including new high-speed train links across the Franco-German, Franco-Belgium and Franco-Spanish borders. The EU is also supporting plans to build 'motorways of the sea', designed to speed up Europe's busy shipping lanes.

Member states have refused to back the Sicilian bridge project, although they will supply funds for the Brenner tunnel through the Italian Alps. Plans to build a high-speed rail link between Brussels, Luxembourg and Strasbourg – of chief benefit to busy Eurocrats – were also quietly dropped.

The energy projects, such as a new North Sea gas pipeline and proposals to improve cross-border electricity supplies, were a relatively late addition to the action plan. The EU is responding to fears about the security of energy supplies following a series of power cuts, most notably in Italy.

Meanwhile, the high-tech projects include plans to speed up the roll-out of broadband cabling and the Galileo satellite positioning system. Member states have also asked the European Investment Bank to increase its support for EU venture capital funds, which help fund high-tech start-up companies, by €500 million.

What all the projects do have in common is that they are already well-advanced in terms of planning. Indeed, the vast majority represent long-standing EU ambitions which the Union has already pledged to undertake, whether as part of the Trans-European Networks action plan or its sixth framework plan for research.

This latest action plan thus reflects the EU's past failure to achieve its infrastructure goals. For example, EU heads of governments agreed to develop

'This latest action plan reflects the EU's past failure to achieve its infrastructure goals'



**Tremonti: claimed the plan would stimulate job creation and boost growth**



Photograph: Reuters

**Rare success: the Øresund link is one of the few EU cross-border infrastructure projects which have actually been completed**

Trans-European networks (TENs) at the Essen summit nearly a decade ago.

The aim was to upgrade cross-border infrastructure and encourage businesses and consumers to take advantage of the newly created single market.

At the time, EU member states identified 16 priority projects, at an estimated cost of €400 billion. But only three have ever been completed: the Øresund bridge/tunnel link between Denmark and Sweden, a high-speed train link between Brussels and Marseilles, and the development of Malpensa airport in northern Italy.

The EU has completed just 2,000 km out of a planned 12,600 of high-speed rail links. Work on some key links, such as upgrading the west coast mainline in the UK, has barely started.

One reason for the delays is that the Union has struggled to persuade the private sector to back its grand infrastructure projects. Such

cross-border schemes are technically complex and financially risky. The fact that at least two member states must be involved can also create legal confusion and sometimes results in a lack of project leadership.

The European Investment Bank can employ its good credit rating to offer the inducement of cheap loans, but not to the extent that a defaulting company could threaten its financial health. Sometimes the proposed projects are simply not financially viable.

As part of the new action plan, the Commission has vowed to tackle these problems. It has identified a number of administrative and regulatory barriers to successful cross-border projects.

For example, the Commission will soon bring forward a proposal to create a single legal structure for risk capital throughout the EU, which should improve the transparency of large infrastructure contracts.

It will also examine how public/private partnerships are treated by the EU's common procurement rules and will accelerate work revising the guidelines for state aid granted to small and medium-sized enterprises.

Finally, the EU has devised a new guarantee instrument, applicable only to interest payments on infrastructure loans. The Union hopes that this will encourage more banks to release funds for cross-border projects.

The Commission has promised to draw up a progress report in 2007, including an estimate of what impact the action plan has had on economic growth.

The reality is that it will make, at best, a tiny contribution to EU growth. But if the Commission can help remove the main obstacles to investing in cross-border projects – improving the EU's ability to modernise its infrastructure – the action plan could help raise the Union's underlying growth rate in the longer term.