Frankfurter Rundschau, Thursday, 10 February 2004 / No.34 / D/H/R/S

All out of one single pot

Just a cosmetic overhaul won't advance Germany's road financing - a basic reform of the system is overdue -

BY GERHARD P. METSCHIES

An amendment of the statutes for the German toll company VIFG is under discussion. A loan is to be used to plug the EUR 2.2 billion gap now yawning in the federal transport budget for 2004. "Renegotiations" and contractual penalties for Toll Collect are of little use, because the toll coffers of the Transport Infrastructure Financing Company (Verkehrs-Infrastruktur-Finanzierungs-Gesellschaft - VIFG) will remain empty for the time being. It is road building that is left empty-handed.

It is true that increasing federal borrowing would be the easiest thing to do. The most sensible option, though, would be to obtain loan financing for major road expansion through the capital market, at least until such time as a road financing act is drawn up on which the federal government, federal states and municipalities would have to agree, as the owners of the roads.

Reform of the system of road financing is overdue. There are seven points that have to be taken into account here. Firstly, what is so bad about the toll fund? The VIFG is a fund under the Minister of Finance, which according to federal budget law is supposed to distribute the toll income from trucks to the motorways and (with almost half the fund) subsidise the railways and river shipping. Thus, the loss of the toll not only means that the roads are suffering but also the railways are having to cut back their investment programme by over EUR 1 billion, and the expansion of the waterways is coming to a halt.

What was thought of in good times as a "traffic-diverting measure" changes to the opposite in times of a budget deficit. This form of policymaking according to the money available has the effect of creating a 'family liability', which makes all modes of transport pay when for example the Transrapid scheme in China has to be subsidised to the tune of 200 million or when technical failure of a toll system occurs. This is a domino effect that urgently calls for a change to the VIFG corporate statute.

Fees, not Taxes

Secondly, how will a new toll fund become creditworthy? The solution is to make trunk roads eligible for bank borrowing, and to pay charges into the new trunk road financing company instead of taxes. According to the responsible party and client principle, whoever pays for roads when using them and wearing them out must actually get roads for their money. To achieve this, ownership legislation is required for the roads so that the new toll fund is allowed to retain its income from charges and does not, as now, have to hand over all its ready cash to the Finance Minister at the end of the year.

This would also make a road owners' company eligible for bank borrowing and stock exchange quotation, as is already the case with the Austrian ASFINAG, which raises loans on the private capital market. Incidentally, this is not to the disadvantage of the state, which with a new road financing company under private law would make the toll liable to value-added tax.

Healthy lessons from European integration

Third, what does it mean to be fit for Europe? It is not acceptable that non-German, European toll customers on their way from A to B are supposed to get a repaired section of motorway but for the other half of their money just get a thank-you from railway operators and inland waterway carriers. Or that German toll payers get a tax refund after previously financing German pensioners with the fuel tax. The old hotchpotch of the mishmash system in German road financing is dead. This is a salutary consequence of European integration.

Following prolonged negotiations in Brussels, Bulgaria for example recently passed its new road financing act. It guarantees European compatibility in respect of the planned accession to the EU and therefore includes provision for both commitment of the income and the founding of a road financing company.

Fourth, what side-effects occur in relation to the railways and shipping? Conversion of the toll fund into a trunk road financing company could, as is often argued, disadvantage rail transport and shipping and impede the shift of traffic to other means. But the opposite is the case. Because at long last the responsible party and client principle should be introduced for subsidies, too: anyone who wants to receive subsidies at the request of the state must actually receive them from the state – and not from the competition, as has been the case until now. This provides clarity, because the subsidy principles which the citizen understands and approves of are: "whoever pays, also decides", and "if you want to decide, you have to pay".

Fifth, what happens to country roads and urban roads? Do they lose out completely? Someone travelling from A to B wants good roads from start to finish. It is a sign of the schizophrenia in the system that trucks are asked by the transport minister to pay out billions in expenditure not related to roads while the towns and cities are often not even able to offer trucks a parking space.

The vital second reform stage is the conversion of the trunk road financing company into a general road financing company. This is because the sector principle for the roadways, as applied by the World Bank for example in the rehabilitation of financially weak countries, also implies that all roads used on the way from A to B make up a kind of family. The roads with heavier traffic finance themselves first of all and then have to account for the roads with less traffic.

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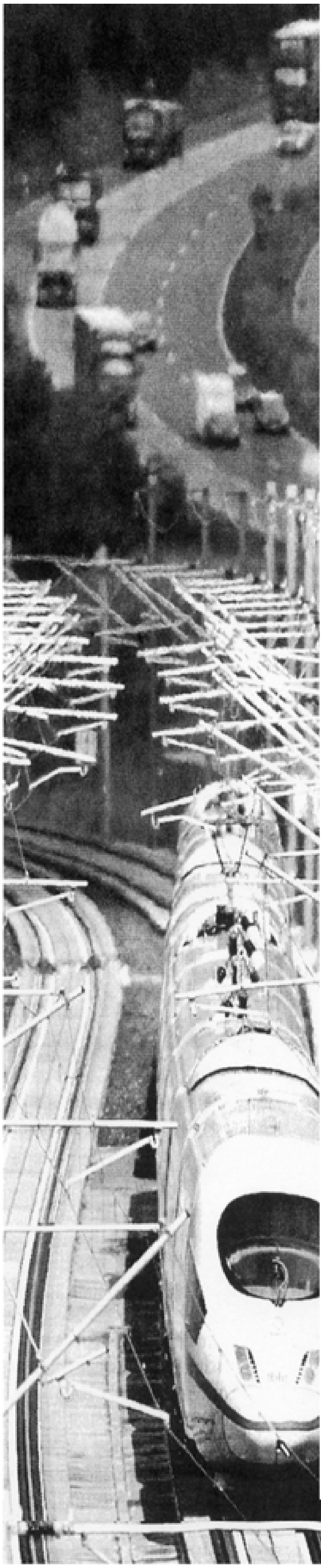

The money would thus remain in the road sector. This is a form of cross-financing which citizens accept. It would mean the end of the hotchpotch that funds all magnetic railways, motorways and railways from a single pot, even though all that they have in common is that they are all called “ways”.

Sixth, what does the required road transport association look like? Financial analysis throws light on the affair: the Federal Ministry of Transport is responsible for only a minority of German roadways, for about 38 per cent of all road expenditure, of which in turn only a proportion is spent on motorways. The towns and municipalities in contrast administer about 51 per cent and the federal states another 11 per cent or so, thus accounting for a total of 62 per cent of EUR 10.9 billion in annual road construction expenditure. The towns, which should therefore have the biggest say in the dispute over finance, have been left out of legislation completely so far.

User-revenue returns to source

The towns know that this penny-pinching in a subsystem does not solve the problem. At the local level they have already demonstrated that an integrated transport system works, and how to do it. In local public passenger transport all income is allocated to the responsible party amongst the various partners, such as trams, buses and underground railways.

Seventh, what form do the next practical steps take? The simplest thing to do to would be to rely on help from outside, like some Third Word countries do, in other words perhaps apply to the World Bank to borrow billions. This would certainly speed up the renewal of the road sector, because the redevelopers would than have to be taken seriously and would not just disappear from sight again. But self-help is better.

Even the political situation appears to be conducive at the moment. The pressure for reform is growing day by day: The claim to leadership by the BMVBW has been permanently undermined by the toll affair; in their dire financial straits, the towns and federal states are looking to have a leading say on the roadways, something they have always been entitled to on account of their majority financial interest; and finally the central government and the opposition majority in the federal state governments are seeking joint practicable reforms that can find a majority in the mediation committee at the latest.

In a new road finance company, the federal government would first bring in the vignette or toll, the federal states their vehicle taxes, and the municipalities the remains of the previous municipal transport finance law (GVFG), for commercial heavy-goods traffic in an initial round, then also for cars. Time is running out. Reform legislation must be passed in one year at most, otherwise the momentum will flag.

THE AUTHOR

Germany’s toll collection box remains empty. Hence the big gap in the traffic budget of the Federal government amounting to billions of euros.
It might be filled by a loan. But preferably the moment should be used for a basic reform of the German system for road financing, says **Gerhard Metschies**, Transport advisor to the **German Technical Cooperation GTZ** (Deutsche Gesellschaft für Technische Zusammenarbeit GmbH) and lecturer at Hildesheim University of Applied Sciences. Metschies outlines seven points for consideration.

The EU Commissioner de Palacio compared the existing German system with that of 'robber barons', where the different interest groups seek to serve themselves at random from a common pot, and recommended doing away with it. A reform strategy that takes account of these seven points would put an end to it.

(translation by gtz)

Autobahns or railways, for the state transport financing its all the same . But the present hotchpotch system turned out to be a mayor issue for German transport policy.