

## Essen summit to give go-ahead to infrastructure projects

by William Engdahl

The Dec. 9-10 summit of European Union (EU) heads of state in Essen, in the heart of Germany's steel region, will be a decisive moment for Europe and for much of the world's economic perspective. A major item on the agenda will be the submission of a requested final report presenting what is now a list of 14 "priority" Trans-European Network (TEN) infrastructure projects. A preliminary proposal and a list of 11 such projects were tentatively approved in June at the Corfu, Greece summit of EU heads of state, with instructions to the Brussels-based European Commission to firm up the specifics, as well as add any new elements which meet the overall aim of the project. EU Economics Commissioner Henning Christophersen, from Denmark, was appointed to head a task force made up of national experts and EU officials to work on the final plan over the past six months.

While the projects are expected to get the go-ahead, problems of financing the projects and speeding up their implementation, as well as major problems in bringing eastern Europe into grid, remain to be overcome.

The TEN infrastructure concept, which emphasizes a series of priority high-speed rail projects linking the major industrial centers of western Europe, grew out of the December 1993 White Paper on "Growth, Competitiveness, Employment" of European Commission President Jacques Delors. That paper, addressing emergency ways to combat the recent growth of unemployment, now 12-18% in EU states, focuses on a bold plan of investment in public infrastructure which, in crucial respects, echoes the concept of American economist Lyndon LaRouche's 1990 Paris-Berlin-Vienna "Productive Triangle" proposal to link Warsaw, Moscow, and other cities in Europe, Africa, Asia, and the Middle East to the economic core of Europe in a high-speed rail grid. The thrust of the Delors proposal is to rebuild the

rotted industrial economies of Europe, west and east, and with it to provide a "technology driver" to boost urgently needed world infrastructure investment.

### The TEN strategy

The specific projects of Europe-wide TEN are aimed at linking up various national high-speed rail networks into an integrated Europe-wide infrastructure grid.

The political catalyst for advancing the ambitious TEN trans-European rail network has been the alarming recent explosion in chronic unemployment across Europe, as industries restructure, "down-size," and source out their manufacturing to cheap-labor regions in eastern Europe, Ibero-America, or Asia, leaving in their wake over the past several years a major new unemployment burden within Europe.

For every person whom EU governments can get off unemployment and back into the productive economy, it is estimated to benefit state tax revenues some \$75,000 per year, both in terms of saved outlays for unemployment and new tax revenue from employed citizens.

This is the forgotten "secret" of government infrastructure projects. If done properly, such projects repay the economy by a factor of 5-10 times their initial cost over their effective life, in terms of stimulating new enterprises along the transport corridors. By 1999, the EU estimates that activity on the 14 new infrastructure projects alone will generate at least 15 million new jobs, a significant impact on the EU's unemployment, as well as on state budgets.

### The key projects

By concentrating the public works on projects which will add a qualitative boost to the economic productivity and efficiency of the European economy, the EU states have laid

the basis for an economic locomotive which could possibly outperform most of the rest of the world in the early years of the next century.

The 14 projects have been carefully chosen, each to add a "Europe-wide" dimension to efficient infrastructure from existing national rail and other transport programs. Among the 14 priority TEN projects are:

- High-speed rail-combined transport north-south: Verona, Italy, through the Brenner Pass to Munich, Germany, and on to Erfurt and Berlin. This will link the industrial heart of northern Italy to the rapidly developing eastern part of Germany.

- High-speed rail line Paris-Brussels-Cologne, Germany-Amsterdam-London: This project will link the industrial heart of northern France to the German Ruhr industrial heartland as well as to Dutch and Belgian industrial areas.

- High-speed rail south: from Madrid-Barcelona to Perpignan, France, and from Madrid to Vitoria-Dax, France, which will integrate Spain's industrial centers into the central European industrial region.

- High-speed rail east: from Paris to Strasbourg, into Karlsruhe and the center of the south German chemicals industry, as well as a link into Luxembourg.

- High-speed rail France-Italy: from Lyon, France to the center of the Italian motor industry in Turin, this rail line creates a new economic zone between France's second industrial region and its nearest neighboring country to the east.

Since the June Corfu summit, the Christophersen task force, in consultation with member-states, added three more projects to arrive at the present 14 projects on the list. These include a so-called "Nordic Triangle" project, connecting Oslo-Stockholm-Copenhagen in Scandinavia to continental European TEN rail lines, and a high-speed rail line linking Glasgow, Scotland to southern England and the Channel Tunnel.

On Nov. 14, after years of wrangling and an adamant refusal by the "free market"-oriented government of former British Prime Minister Margaret Thatcher to allocate 1¢ for public works, the Channel Tunnel, linking England with the northeast of France, opened for commercial high-speed rail traffic. The Channel Tunnel brings Ireland and Scotland and other parts of England into closer economic relations with continental Europe. Some of the more optimistic continental Europeans hope that this might help to end England's "Island Fortress" obstructionism to most European undertakings. While that remains to be seen, the London-Paris rail line has brought travel time between the two cities down to three hours, which is competitive with air travel.

### **The crucial issue of financing**

Predictably, most of the dispute around the TEN has centered around how to pay for what is estimated by the EU to be a \$560 billion network of infrastructure investment across the 15 states of the EU over the coming 15 years. Of

this \$560 billion, fully \$300 billion is slated for high-speed rail infrastructure.

Some days prior to the Essen summit, Delors proposed to create a new Brussels public authority, under the direct control of the EU Commission, which would be able, among other things, to issue public bonds in its own name for such projects as the TEN. On Nov. 8, in a pre-meeting for the Essen summit, the finance ministers of the 12 EU member-states met in Brussels to discuss the "Delors' Bond" proposal, and, led by British Chancellor of Exchequer Kenneth Clarke, the ministers indicated their disapproval of the scheme.

According to a senior German government official close to the Essen deliberations, "It was not the issue in this case of whether or not to go ahead with the TEN projects. That has already been agreed in principle. The more subtle issue of turning over sovereign national bond-issuing powers to yet a new bureaucracy in Brussels, independent of the nations of the EU, was more the issue."

According to this source, the financing will be drawn from three major sources. "The bulk of the financing is to come from the direct budgets of the member states on whose territory that stretch of rail of the TEN lays, what we call, 'where it lays, the state pays.' The second source will be out of EU normal budget allocations in various programs. The third major source of finance will come from the European Investment Bank" (EIB).

The EIB itself, a little-known, long-term financing bank, was created in 1958 as part of the Treaty of Rome which founded the European Economic Community. At the time, it was intended to provide long-term credit for the industrialization of Italy's impoverished Mezzogiorno. With a legal borrowing capacity of some \$200 billion, the EIB is a major financial institution, comparable to the World Bank in size. Since 1989, when the Berlin Wall collapsed and the East opened, the EIB has extended some \$28 billion in loans for infrastructure development in western and, in part, in eastern Europe.

Under the mandate of the Corfu summit, the role of the EIB is to be greatly enhanced in this TEN infrastructure financing plan. One reason is that EIB borrowing does not further impact the heavily indebted national budgets of EU member states.

"At this point," EIB spokesman Adam McDonough stated to *EIR*, "financing is not the greatest problem of the TEN projects; rather, it is one of harmonizing the different transport regulatory regimes, and getting sufficient coordination across borders on design standards."

### **Going east**

But even as the western European high-speed rail infrastructure is finally moving ahead, the extension of vital high-speed rail infrastructure into the newly emerging economies of eastern Europe is moving at a dangerously slow pace. At

the same meeting on Nov. 8 of EU finance ministers in Brussels where the "Delors' Bond" scheme was vetoed, requests for greatly accelerated EU support for vital east-west rail infrastructure were postponed for later.

Road border crossings today between Germany and Poland, as well as with the Czech Republic, are so overloaded by truck traffic that delays often take 2-14 hours. Current rail links are totally inadequate. Trade flows for the past 40 years have been within the East, not east-west. Nonetheless, there are tentative first steps in this direction which show at least some appreciation of the problem.

The German government and the Berlin Senate have been active in developing the role of Berlin as the future high-speed transport crossroads north-south as well as east-west. "Berlin will become the new high-speed rail crossroads of Europe," noted a senior Bonn government official involved in the transport developments. "Not only between Scandinavia and southern Europe, but also between western Europe to Holland, and, even now, Britain toward Warsaw and points as far as Moscow."

### Main corridors agreed upon

This past March, the transport ministers of European countries met with the EU Commission and the U.N. Economic Commission for Europe in Crete, where they outlined the concept for extending the TEN into a "Pan-European" transport network. Nine "main corridors" linking eastern with western Europe were agreed upon. Of these, one-third pass through Berlin, including the potentially most important Berlin-Warsaw-Minsk-Moscow link.

Later in December, representatives of the governments of Germany, Poland, Belarus, and Russia will gather in Berlin to sign the official inter-state agreement to jointly develop the combined Berlin-Moscow transport corridor by the end of the century. Work has already begun on upgrading the rail track from Berlin to Warsaw to handle trains traveling up to 160 kilometers per hour, a major improvement in the present antiquated, slow system. The German high-speed ICE trains will then be able to travel as far as Warsaw by 1996.

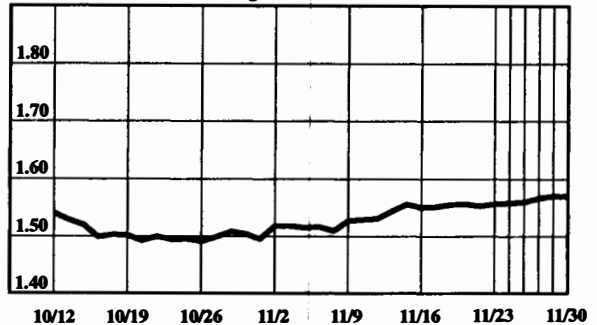
Because the rail gauge in Russia is wider than the rest of Europe, the crossing to Poland at Brest is notorious as a bottleneck, sometimes stalling rail cars for days while they are unloaded and reloaded. The new accord will incorporate a fully automated switching system of rail cabins or boxes from the Russian gauge to the Polish gauge, similar to one in use between France and Spain, enhancing trade flows enormously.

But for now, given the political chaos in Russia and the lack of capital from the EU and the West, the Warsaw-Moscow part of high-speed linkage remains a bold dream. Failure in the West to find a solution to this could come to haunt the West as Russia disintegrates into chaos, which appears to be what at least the British would wish at present.

## Currency Rates

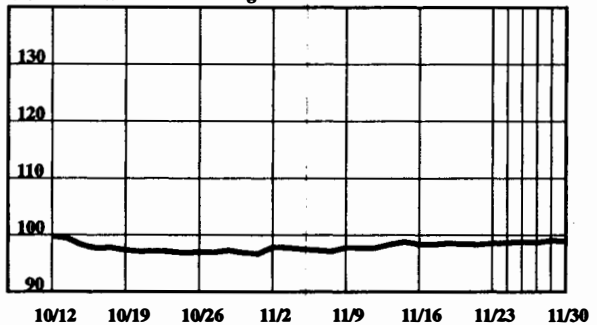
### The dollar in deutschemarks

New York late afternoon fixing



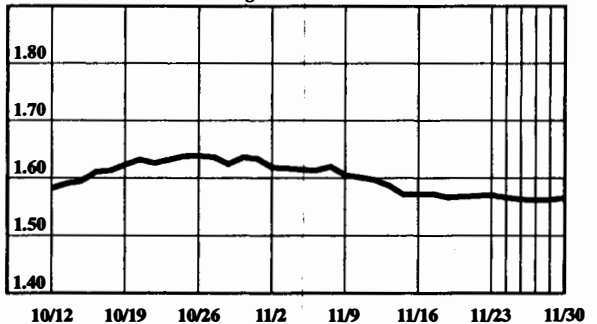
### The dollar in yen

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### The British pound in dollars

New York late afternoon fixing



### The dollar in Swiss francs

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