

EU-Financed Peripheral Large-Scale Infrastructure Projects and the White Elephant Syndrome: the Example of Rail Baltica

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Abstract: *The present article revolves around the question of the appropriateness of “the white elephant syndrome”² to characterize the nature of the planned trans-Baltic railway project Rail Baltica in terms of its initial financing, long-term profitability and symbolic importance. Whereas in general the expected outcome of the project goes well together with the EU Cohesion Policy goals, in its concrete application Rail Baltica could serve as an example of the tendency of politicians and public servants to institutionally lock in to certain irrational choices about publicly financed mega-projects, thus making it possible to speak about the white elephant syndrome. Can the effects of internalization and Europeanization change the nature of Rail Baltica?*

Keywords: “White elephant” syndrome, European Union, structural funds, infrastructure, public policy

Introduction

The process of political decision-making about carrying out projects with large socio-economic impacts to society should be based on measurable and realistic visions and calculations of the costs and potential direct and indirect benefits or losses of the project. On the European Union (EU) level, the coordinated implementation of infrastructure projects in the framework of the Trans-European Transport Network is expected to contribute to the effectiveness of the overall EU transport system and to enhance economic growth, competitiveness and employment in Europe. At the same time, the past experience with

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² In the current article “the white elephant” metaphor refers to a large infrastructural investment (often in the form of partial gift from central authority) whose cost of maintenance is not in line with its value. It is accepted for political or symbolic reasons and it cannot be sold under normal circumstances (Girginov, 2010, Papanikolaou 2013, Prasser 2007).

high-speed railways in the EU enables to point to the tendency of both the overestimation of project revenues and the underestimation of costs related to the establishment and maintenance of high-speed railway tracks, and generally to the non-responsiveness of the project to the actual needs. One of the latest big scale projects in the sphere of transportation is the attempt to better connect the three Baltic States to the European railway network. So far, railways have not been a priority for these small states, not domestically, but even more clearly internationally.

In this light, the paper focuses on the question of whether, contrary to the expectations, the Rail Baltica (RB) project as a part of the EU North Sea-Baltic corridor could turn into an infrastructural “white elephant” and become a burden for the Baltic countries. Thus, the primary focus of the paper will not touch the immediate cost-benefit analysis of the project, but rather the question of how realistic are the hopes that this project of solidarity will actually be economically and socially viable. If the project is over-dimensioned, will there be a possibility for a downscale? If not, i.e., RB will not be economically viable (including enhanced security) and remarkable public investments can be wasted and constant subsidies still required. From a practical perspective it is also important, who will bear these costs, the Member States or the EU and what is the role of EU subsidies? How could one make sure that they will be truly socially useful and not give a push for over-dimensioned projects? In its turn, drawing especially on the contradictory findings and assumptions of the publicly commissioned studies, this paper could and will not put forward an alternative calculation. Instead, it concentrates on the procedural and institutional traps and problems that characterize the planning and implementation phases of the Rail Baltica project.

From the theoretical perspective, the article discusses two apparently competing but inherently complementary perspectives. The first one focuses on whether it is justified for the EU (and for the governments of the Member States) to intervene into market-based solutions. An allocation of resources in a significantly deviating manner from their efficient market solution is contrary to the primary aim of the European single market and its competition policy. Large infrastructure projects like the RB, while appropriate and beneficial in the core countries, tend to become unsuccessful in the EU peripheral states. Even indirect effects and benefits might not save such projects. The second perspective relies on the broad justification of any regional policy. In a supranational polity like the EU, the question of uneven development of sub regions is a crucial aspect that needs an adequate response in terms of regional policy measures.

Present study will revolve around the question of the appropriateness of the metaphor of “white elephant” to characterize the nature of RB in terms of its initial financing, long term profitability and symbolic importance.

The analysis will be conducted on two levels, by first assessing the expected outcomes of RB against the criteria of “the white elephant syndrome” and secondly evaluating its expected business performance on a four-level scale in terms of the project’s survivability with and without donations. More precisely, we will assess which of the following four categories applies to the RB best: a) It is a profit-oriented project which is sustainable to generate profit when the initial investment is included in the price of the service; b) It is a partially profitable project which is sustainable when the maintenance costs are included in the service price, but

the initial investment needs to be excluded; c) It is a project which is not directly profitable in terms of covering the initial investments and the maintenance costs, but the benefit for society is expected to come from the internalization effect by additional tourism, investors, etc; and can be measured in terms of indirect financial benefits; d) It is a project which is profitable merely for the contractors and for state budget of the target countries in its construction stage, but is not profitable in any previously described combination in terms of direct or indirect financial income. It needs not only additional financing through-out its lifecycle but also the coverage of the indirect losses. Its main importance and necessity can be explained in terms of security needs, environmental gains and symbolic importance.

1. Theoretical dilemmas in association with large-scale infrastructure projects

1.1. Neoliberal perspective in evaluating public infrastructure projects

The classical liberal economic theory considers competition as a precondition for the operation on market forces. Goods and services are subjected to competition and their price is determined by market demand and supply. Accordingly, markets are expected to emerge spontaneously and be self-regulating, pricing mechanisms should reflect fairly the value of goods and services, and state interventions in the economy are undesirable (Thorsen 2009, 3). Likewise, also today's neoliberals affirm the principle of free market mechanism, promote free-trade policies and support free movement of capital and labour whilst being against the interventionist measures to redistribute wealth or to influence the business cycle (Smith 2016).

The current decade has seen the ideology of neoliberalism having significantly declined in importance due to the setbacks of the recent economic and financial crises. Among other things, these setbacks clearly go to show that due to market failures some goods or services may prove to be unprofitable for a private company but may still provide larger socio-economic benefits or other general gains to society. Their benefits would be clear while their offering on a commercial basis is not feasible. The theoretical concept that captures this situation is known under the name of non-internalisable benefits (Veebel and Ploom 2018). Some services like infrastructure, while not immediately profitable in the market, are still necessary for ensuring a wider and stronger basis for growth and can be economically beneficial on a wider societal scale. Yet, the very same phenomenon is also a problem that makes large infrastructure objects a delicate topic that need careful consideration. A project that cannot be viable through an ordinary market mechanism of selling a service to clearly definable customers necessitates a much more complex analysis of wider beneficiaries that are remote and whose benefits may defy easy calculation.

The role of non-internalised benefits of transport connections can be illustrated by the example of aviation, where an airline can contribute to the local employment and increase tax revenues, bring tourists who boost country's exports, give access to businessmen to make direct investments to the national economy, contribute to wider cultural relations and make countries and regions prosper (Crocioni and Newton 2007, 152).

On the other hand, drawing on the studies focusing on previous infrastructural projects the internalisation effect for a region and society may not appear (Prassner 2007, 50). In

certain cases, existence of infrastructure may not have an internalising effect also for industrial development: if there are no transit flows or local industrial potential, additional railway will not make them appear.

There is also a second complication with projects where social benefits tend to dominate the cost-efficiency calculation: while appearing to be in balance in the planning stage, these projects need systematic subsidies to cover the deficit between actual revenues and operational costs. Baltic States have already experienced severe problems with national airlines providing social services but needing growing subsidies for everyday functioning (Veebel, Ploom and Kulu 2015).

1.2. The Institutional Perspective

Next to market failures, the possibility of government or administrative failures should also be considered. The theory of government failure focuses on the rational public policy processes and argues that a government failure may arise when government has created inefficiencies because there was no need for the intervention or the intervention was not efficient enough to generate greater net benefits (Le Grand, 1991; Vining and Weimer, 1990; Dollery and Worthington, 1996; Winston, 2006; etc.). As argued by Winston (2006), empirical results suggest that welfare costs of a government failure may be considerably higher than that of a market failure. For example, he points to some policies that have forced the US economy to incur costs both in situations where no serious market failure existed, or where resource allocation was not improved as a result of government intervention.

Government failure is caused by the following factors: a) self-correcting nature of certain market failures which makes government intervention unnecessary; b) short-sightedness, inflexibility and conflicting policies of government agencies; and c) political forces that allow well-defined interest groups to influence elected and unelected officials to initiate and maintain inefficient policies that enable the interest groups to accrue economic rents (Winston 2006, 4).

Government failures can also be explained by neoinstitutional theories which argue that rules and norms tend to dominate over actual goals and broader gains, and that decision-making is dominated by institutional habits, procedures, norms and compromises that prefer expectable, rational, continuing, regulated and less risky choices. To this effect, the institutional approach partially overlaps with the concept of path dependence, which relies on a statement that “history and experience matters” (Eilstrup-Sangiovanni 2006, 194-195). In particular, path dependence describes a situation where the probability of a subsequent event is linked to the earlier actions of stakeholders. Ackermann explains path dependence as a cyclical process where current alternatives are limited or affected by past decisions (Ackermann 2001, 22). This approach relies on the argument that it is difficult to withdraw or to “step aside from the well-known road” due to scale effects, positive externalities or other factors (Döring and Rose 2002, 11). This could lead to a “lock-in” situation: the entry of a system into a trapping region which it cannot escape without the intervention of some external force or shock. To quote Paul A. David (2000), “path dependent systems may thus become locked in to attractors that are optimal, or that are just as good as any others in the

feasible set, or that take paths leading to places everyone would wish to have been able to avoid, once they have arrived there”. This brings us back to the above-mentioned example of a state that once it has started investing in a large-scale infrastructure project, would see it difficult or irrational to stop it or altogether withdraw from it.

1.3. The White Elephant syndrome

The white elephant syndrome is one of the institutional effects that appear when political motivations over-rule the economic ones. A White Elephant is a metaphor for an investment or partial gift whose cost of upkeep is not in line with how useful or valuable the item is. From a business perspective, white elephant refers to an unprofitable investment, property or business that is so expensive to operate and maintain that it is difficult to actually run it with positive cash flow, make a profit or sell it under the initial price (Girginov 2010, 16 and Papanikolaou 2013, 6). To be more specific, these are cases where there is a clear discrepancy between the unrealistic and overly ambitious intentions involving the building of large projects on the one hand, and an inability to subsequently manage and exploit them in a sustainable way on the other hand. These are acts of vanity, megalomania and ostentation inconsistent with the reality in small countries. This kind of behaviour could also be described by the neologism micromegalismus (Papanikolaou 2013, 6). Crucially, projects that tend to become White Elephants require considerable post-completion maintenance and support and other lasting valuable resources that could be used elsewhere. Such projects, because of their status, size, and complexity too often disrupt effective project management practices in their original scoping, assessment and implementation, and fail to have clear purposes or functions (Prasser 2007). Related studies such as the one carried out by Mangan&Dyreson (2010) and Flyvberg (2007) point out the scale of budget overrun and significant financial surcharges beyond the originally planned costs, as the reason to use the symbol of white elephant. In the planning and constructing stage prestige is seen more important than economic rationality. In most cases when the White Elephant syndrome appears, the project managers are not using pilot or test project options, arguing that previous tests are not possible, are too expensive or that there is not enough time. Prassner (2007), Syvret&Syvret (1996), Papanikolaou (2013) and Scott (2007) describe White Elephant Syndrome consisting the following components:

- 1) It is a gift or a partial gift offered to local authority, introduced as a symbol of integration and progress. The receiving side will receive the gift and bear only some of the costs. Following the delivery or completion, the White Elephant will be growingly resource consuming.
- 2) The White Elephant has no market value and cannot be sold under normal circumstances.
- 3) Does not consist of any modern, client-oriented or rational technology: it is huge, outdated and non-adaptable for local needs.
- 4) It is often supply rather than demand-driven – “we can build it”, rather than we need it, often expressed in the “build it and the clients will come” syndrome.

5) Poor project governance with little separation between project management and project client resulting in excessive interference in design, budgets, and management; limited initial or independent evaluation of the project's viability so that expectations are exaggerated, optimistic, or unspecified; it is unclear which level of certainty and trustworthiness the project plans and preliminary assessments have.

6) Timeframes are compressed, uncertain, or established to meet election cycles, with little accompanying consultation with relevant stakeholders has taken place.

7) High level of misinformation, that decision-makers face, whether to build and which are the risks. The results are costs overruns and/or benefit shortfalls.

2. Rail Baltica: Chronology and main characteristics of the project

Even if through their domestic or Baltic efforts the railway connections have stayed rather underdeveloped, connectivity between Eastern and Central Europe, and especially with some prominent European capitals has been a longstanding priority in the Baltic political rhetoric. It would mean better integration with neighbours, access to potential markets, etc.

To start in chronological order, the idea of a modern direct railway connection between the Baltic countries and the rest of Europe was for the first time officially envisioned in 1994. The political document was called "Vision and Strategies around the Baltic Sea 2010: Towards a Framework for Spatial Development in the BSR" and was adopted by the representatives of Belarus, Denmark, Estonia, Finland, Germany, Latvia, Lithuania, Norway, Poland, the Russian Federation and Sweden. Further steps on the road to integrate the Baltic countries with the European railway network were conducted in the early 2000s through the project of regional spatial planning and development (Rail Baltica: Project description 2016). In 2003, four countries – Estonia, Latvia, Lithuania and Poland – agreed on the key aspects of conducting further studies for making investments in the RB project.

When the Baltic countries joined the EU in 2004, they defined the implementation of the RB project as the main regional challenge in the transport sector (see, Baltic Council of Ministers 2005, 2) and the project was included in the list of priority projects according to the proposal of the European Commission (Rail Baltica: Road of the future 2016). As regards Estonia, in 2005 the Rail Baltica project was also included into the National Spatial Plan Estonia 2030+.

Potential difficulties in implementing the project have been highlighted at the regional level already in the report submitted by the Baltic Council of Ministers in 2005 (see, Baltic Council of Ministers 2005, 15). The report pointed to low north-south traffic flows during that period, railways interoperability (the difference of gauge between the railway networks of the Baltic countries and those of Poland and Germany), and competing with the road and air transport.

In 2006, the joint declaration on the implementation of the RB project was signed between Estonia, Latvia, Lithuania, Poland and Finland, and in 2010 all five countries reinforced the interest previously shown at the governmental level and signed a memorandum of political

will to continue with the project. Another joint declaration was adopted by the Prime Ministers of Estonia, Latvia and Lithuania on 10 November 2011. The declaration set the objective to create the new Trans-European railway route Rail Baltica linking Helsinki, Tallinn, Riga, Kaunas, Warsaw and continuing to Berlin (The Rail Baltic Project 2015).

The project took a major step forward in 2015 when the European Commission approved funding for three projects, prioritizing: 1) studies and works on different sites in Estonia, Latvia, and Lithuania, 2) development of the EU standard gauge railway line in Lithuania from the border with Poland to the Latvian border, 3) upgrade of the existing railway line in Poland, to the EU standard gauge line. The project was foreseen to be financed from the Connecting Europe Facility (CEF) and the costs of the three projects were estimated to be in total 734 million euro. In 2016, the European Commission approved funding for Rail Baltica in the amount of 202 million euro from the Connecting Europe Facility (CEF) as part of a second round of funding. In 2017, the project was in a planning phase: the initial costs-benefits analysis have been conducted, all three countries have agreed on the further procurement model, mutual responsibilities in implementation of the project and some technical distribution, such as VAT distribution for the project (The Baltic Course 2016). As of 2017, the planned features of the Rail Baltica railway connection consisted of:

- a) The north-south railway route with a total length of more than 750 kilometres serves as a connecting link between Scandinavia, the Baltic countries and the Western Europe.
- b) Based on the current estimates, the new railway route will be completed not earlier than in 2025 and would be operational with full load for 2035.
- c) The railway is double-track and uses the European standard gauge 1,435 mm. The railway connection is planned for both passenger and freight transport. Trains are powered by electricity, making the transportation environmentally friendly.
- d) Trains can travel at speeds of up to 240 km/h, but in most areas the speed will be 160km/h.
- e) Total costs are estimated to be 5.8 billion euros from which 1.1 billion are expected to be paid by the Member States (Klava 2017, 12). The planned initial investments are 1.9 billion Euros from which the Estonian share will be 570 million euros, Latvian 650 million euros and Lithuanian 675 million euros. The cost-efficiency calculations are difficult to estimate by the inability to define the exact amount of the initial investment of the national governments (e.g. in the case of Estonia the range has been between 270 million euros and 600 million euros).
- f) The summarized financial loss is expected to be 4.1 billion euros while the total socio-economic profit is expected to be 18 billion euros. While perceived as socially beneficial, the RB will need subsidies for initial investment, later renewal and everyday maintenance.

In terms of market situation, the main competitors of RB are Nordica and airBaltic, respectively Estonian and Latvian national airlines, of which particularly the latter is expected to benefit the most since due to its relative size, the partly low-cost carrier pricing model and the large nomenclature of routes the Riga airport will be made easily accessible to the Lithuanian and Estonian clients. The difference with the present situation will be clear – at the

moment airBaltic needs to provide the costly feeding routes between Riga airport and Vilnius, Kaunas and Tallinn. The two mentioned flag carriers are supported by national governments and offering starting prices equal to expected RB ticket prices. A further competitor is the coach company Lux Express that operates with more than 50% lower prices than the ones foreseen in the RB business plan. In terms of Riga-Tallinn pricing, volumes and competition situation the picture would look as following (Ernst & Young 2017): in year 2035 the number of passengers from Tallinn to Riga is estimated to be 628 000 (in average is 700 passengers per day); Rail Baltica would offer a 2-hour trip for 38 euros while Lux Express is servicing currently a 4-hour trip for 17 euros and airBaltic asks 28-64 euros for a 1-hour trip. To be profitable, the volumes of cargo and passengers are expected to grow substantially. It seems that Ernst & Young expects the cargo volumes to be supply based as no source of industrial or transit growth is explained, leaving an impression that the existence of railway is the main factor impeding larger industrial production and transit (Rail Baltica Global 2017, 11).

3. Is Rail Baltica a profitable project or one suffering from the White Elephant syndrome?

3.1. According to the available assessments, how well the RB meets the market economy criteria?

Although good connectivity between Eastern and Central Europe, and in particular access to some prominent European capitals, has been a longstanding priority in the Baltic political rhetoric, the local efforts to improve and develop the existing railway connections have stayed rather underpowered, indicating both the lack of profitability and governmental readiness for guaranteeing long-term subsidies. In addition, so far, the railway network in the Baltics has mostly been serving freight transport, especially of Russian origin and only recently there has been also a noticeable rise in passenger transport services, but with a help of state subsidies.

Although the RB project has its roots in the early 1990s, the first comprehensive cost-benefit analysis of the project was conducted only in 2011. The report was conducted by the AECOM Limited (Rail Baltic Final Report 2011). In the report, under certain assumptions, the financial analysis of the project indicated a positive cumulative cash flow in all years estimated and, therefore, the project was assessed as financially stable. However, the financial indicators of the investment showed negative results without the EU funding. Eventually, the report stated that *“there should be no need for subsidies during the operational period, although in order to help stimulate initial demand, in particular for freight traffic subsidies may be helpful during the start-up period.”* It also indicated that on a country level, best results are expected for Estonia, as passenger benefits are accrued by having three stations (Tallinn Central, Tallinn Airport and Pärnu) in comparison to a single station in Latvia and two in Lithuania (by now, the situation is changed as far as a special line to Riga Airport is also included in the project). In addition, freight demand was estimated to be high as a result of the large flows from Russia and Finland. Construction costs were estimated to be relatively lower also in case of Estonia. However, the political aspect was seen in the report as „a serious factor in the future of this project both in terms of the desire of the EU to link the Baltic countries with the rest of the

EU using a standard gauge railway and in terms of the individual Baltic countries whose development could be stimulated by this project“ (Rail Baltic Final Report 2011). The report published in 2014 by the Directorate-General for Internal Policies (European Parliament) highlights the export/import figures as a cause of concern and discusses different scenarios that could not be positive for all the countries involved in the project. The study suggests that trains may be relatively full from east to west (from Russia to Germany or to the Baltic countries) or north to south, but not on their return journeys, which does not make it cost-effective (Directorate-General... 2014, 42).

At the national level, local experts in Estonia also argued that the AECOM analysis was based on both unreasonable assumptions and unrealistic expectations as regards the volume of the passenger and goods transport (Tammistu 2016, Neivelt 2014), questioning the reasonability behind the selection of the particular route of the railway connection (Humal 2016) and stressing that today the results of the survey are definitely outdated (Lend 2016). Likewise, local experts have stressed that the sources for covering the annual operating costs and capital costs of Rail Baltica are unclear and that also the already existing railway network in the Baltic countries should be maintained next to the construction of the Rail Baltica high-speed railway (Koppel 2017, 50).

A more recent analysis of the costs and benefits of the project has been published in April 2017. In contrast to the earlier AECOM report, the new report by Ernst & Young, while more realistic on the revenue side, is simultaneously more optimistic, and the optimism is mostly based on the economic developments in Finland. The final report published on 24 April 2017 indicates that the market analysis and forecast modelling shows a clear potential for the Rail Baltic project both in terms of passenger and freight flows and the potential is sufficiently balanced; however, without public cofinancing the Rail Baltic project is not financially viable and its discounted net revenues do not cover discounted investment costs over the life-cycle of the project, partially attributable to the infrastructure charging principles stipulated by the EU transport policy. However, following the initial investment, the infrastructure manager is foreseen to reach a breakeven point in the year 2031 and could be financially sustainable from this point on, the annual revenues from railway undertakings exceed the annual operating costs (Rail Baltica Global... 2017). The report also stresses that due to uncertainty with regard to the EU Cohesion and CEF policy after 2020, the project cofinancing aspects have been presented as sensitivity scenarios and exact financing strategies will be elaborated in further studies (*Ibid.*). As one of the authors of the study, Nauris Klava, stresses, the main change from AECOM study is that “connecting with Europe” ceases to be the aim at least for the Estonians and Latvians. The analysis also indicates that the construction stage is seen as economically profitable, while the operational stage is seen only socially profitable, while financially complicated (Klava 2017, 12).

However, both of the economic reports conducted in 2011 and 2017 appear to suffer from the overestimation of project revenues (Veebel 2017). A railway connection already exists between the three Baltic countries and their capitals but it has not found much use. This raises the question of where would all the extra passengers and freight needed in order to make the project profitable and reasonable come from. As to freight transport, at least in the Baltic Sea dimension, there exist good ports and seaways. Admittedly, the high-speed

aspect of the project has foremost been related to passengers. Thus, the original purpose of the Rail Baltica project has been seen in a further extended connection for passengers with Central Europe, particularly with Germany. Nevertheless, for passengers, modern flight connections are more economical in terms of time and price.

When combined with the expected internalisation effect the assessments often assume that the added value of the RB should and could not be measured in euros, but in its wider impact to the local economy. Nevertheless, the Baltic States already have national airlines with the same aim in terms of passenger transport and there also exists a functional railway from Tallinn to Vilnius. The advantages over existing solutions are presented, but in a relatively simplified way: e.g. all passenger costs are calculated from capitals, while in practice many passengers need to travel first about 200-300 kilometres before reaching to the closest RB station. The calculations can likewise be questioned as e.g. the comparative prices of airline tickets seem to be selected from the most expensive options and, once again, the price comparison is made only with trips beginning in RB stations, and not considering that more than 50% of the Baltic population are not living in the RB station cities and due to underdeveloped public transport networks might have difficulties in reaching these stations.

In terms of cargo, it is also expected that all of the existing railway cargo moves from the old Russian-standard railway to new European standard railway. A crucial issue, within the RB cost/revenue assessments there should also be counted the maintenance and other costs of the state-owned infrastructure and public transport companies (like national airlines). It is vital as far as these companies and services cannot survive without state donations, and the subsidies have also been justified as contributing to the life-line connections to Europe and providing large non-internalisable benefits. So, basically by financing the RB the Baltic States will necessarily hit the market of their own national airlines (as well as the Polish LOT). There is a belief that a general optimism will boost the use of RB for cargo, but it is hard to forecast which cargo group will exactly be interested in RB options when compared to the already available cheap sea transport and the existing slower and cheaper railway,

In the case of RB none of the assessors have seen the project as fully able to survive under market conditions or to attract private investors. Nevertheless, none of the assessors has admitted that the project may be unprofitable in any of its stages even if one includes the internalization effect. The AECOM assessment is closest to the second option, stressing that the project is sustainable when the maintenance costs are included but the initial investment is excluded from the service prices. Thus, if the national governments together with the EU will set up the infrastructure, it is expected to be able to last independently. The Ernst & Young analysis is closest to the third option, admitting that the project is unable to generate sufficient business income to cover its maintenance costs even when the initial investment is made. Hence, lifetime subsidies are needed. At the same time, the societies should go for the project as the non-internalisable benefits, environmental effects and social benefits are higher than the subsidies required.

There are also further circumstances that need to be taken into consideration: if the internalisation effect and Europeanization are part of long term profitability calculation, the owner and operator(s) of the railway should also start to prepare to meet the EU competition policy rules for state aid having effect on market competition (as it is expected that many

bus, and some plane travellers will choose RB). Thus, there may be a further possible trap awaiting. If RB is able to attract travellers with the help of state aid it will be illegal, and if they will not be able to attract travellers or freight, then the project is unable to meet its initial aim. The worst-case scenario with Rail Baltica would be that first the initial construction costs for Member States will grow near or more than 100% compared to the available evaluations, and after the completion the operational costs will also be higher than expected and will still be growing during the life cycle.

3.2. Meeting the White Elephant criteria

Since the start of the project RB has been introduced as a symbol of European integration, a good cooperation initiative with local governments and a sign that Europe needs and addresses the Baltic needs. It has supposedly also introduced a symbol of progress and a proof that in the EU also peripheral areas can enjoy modern technology and infrastructure, even when the planned technology is in general from 20th century and the capacity does not exactly meet local needs.

In the 2000s, after the transit volumes started to increase in the Baltic countries, the rather emotional argument of “belonging to Europe” was supplemented by a practical need to develop regional transportation options and improve the quality of services. More specifically, in the second half of the 1990s, in the light of the EU membership perspective of Estonia, Latvia and Lithuania, as a result also of a favourable geopolitical location of the Baltic countries, trade and traffic between the Baltic countries and the Western Europe started to increase significantly. In the 1990s Lennart Meri, the former President of Estonia, pointed out a number of times a wish to ‘take a train from Tallinn to Germany and to be in Berlin in seven hours’, like it was in his childhood (Meri 1999, 1). The last evaluation of Ernst & Young however states clearly that the main focus is on local travels between Tallinn-Riga-Vilnius not the symbolic link to Berlin and Paris.

The “build and they will come” syndrome is evident in both of the assessments: the needed transit and cargo volumes are also not yet existing. Even when the existing Baltic railways are suffering from poor volumes it is expected that the new clients will appear despite the prices being higher and the economies being growingly service- not industry-oriented. The existing railway needs anyway maintenance costs and will take away some (not speed dependent) trade flows which will make profitability complicated. Actually, the trade flow needs to grow to get even the existing railway to a balance point. Compared to the present, RB will create a situation where the maintenance costs grow remarkably while the trade flows will still depend from the market needs and the industrial capabilities. Based on the assessments, so far, the main benefit for the Baltic States will be the RB infrastructure itself. As it seems, none of the assessors have been focusing on specifying the level of certainty and trustworthiness of the project plans. For taxpayers, both the general volumes and shares of the national governments have been steadily growing. The assessors, however, have only brought out the cost for an average operational year (2035), thus not touching the question of the potentially growing costs during the years of use.

Rail Baltica is developed by the European regional development funds, no private

investors or local governments have seen this project as economically attractive. However, the measurable financial gains will end up with large non-local companies building and supplying the relevant equipment of RB, while the local companies are only expected to assist the project and are planned to gain social and environmental benefit. At the same time, local Member State governments are supposed to cover roughly 30% of the initial costs. Should the White Elephant scenario become real, it would make them effective net-payers. The independent critical assessors have also emphasized that the benefits will mainly be related to the construction stage of RB. While certain optimistic aspects, like social and environmental gains are presented, it remains unclear who and how will cover the life-long gap between RB income and the actual maintenance and management costs. Instead of opting for a reliable analysis and adjusting the project to the needs of real life, the institutions have opted for the plan they have initially chosen. This clearly refers to emotional arguments, institutional motives and path dependence that could, in principle, lead to an irrational allocation of resources and to a “lock-in”-situation. In case rational and measurable arguments run out, the symbolic ones tend to take over: ‘It is our only stable road connection to Europe’ and ‘the current offer is unique’ (Hololei 2018 and Kallas 2017).

On a more specific scale, similar railways running in Sweden or Portugal have not been used for efficiency analysis or for avoidance of too optimistic calculations. The Baltic States themselves have a rather calming experience with regard to high internalisation effect in parallel with low direct income with national airlines. For example, Air Lituania and Estonian Air have gone bankrupt and airBaltic is functioning with massive injections of state aid only.

Conclusions

From the historical and geographical perspective, the starting point for finding support to RB-type projects is challenging. First, since the invention of railway, none of the powers ruling the Baltic States has seen any need for a massive Trans-Baltic railway neither in economic nor security reasons. Second, also the geographical argument is generally negative as long as business-oriented cargo railways in parallel to the sea-line are rear as competition with ferries takes away the profitability.

At the same time, the railway network in the Baltics has mostly been serving freight transport, especially of Russian origin. And only recently there has been noticeable a rise in passenger transport services. In this context, better railway connections and services between the Baltic States, and indeed with the Eastern and Central Europe do not seem an illogical development. Furthermore, the project fits nicely into the current European integration model which has stability and security as its primary aims. It would bring better connectivity and enhance economic growth.

Rail Baltica is expected to boost the cargo volumes in terms of local production and transit as well as the passenger numbers. Still, the Baltic economies are growingly services-oriented, transit from Russia is showing historically low levels since regaining the independence, and even local civil servants are expected not to use RB for their visits to Berlin, Paris and Brussels. This has not precluded claiming RB as the most vital component and a central

variable making Baltic foreign trade and transit to grow and boosting passenger numbers. Unfortunately, no other pre-conditions have been introduced to make those processes appear rational. It is also hardly understandable how a railway parallel to the sea and starting from a sea port could have a high transit value. Indeed, it should start with the question of whether there will be available sufficient cargo and passenger volumes to make RB work. To be profitable, RB would evidently need to be connected: the idea of a possible tunnel between Tallinn and Helsinki has also been one of the arguments to support the railway.

However, one cannot turn a blind eye to the fact that RB was presented first as an economically viable project on its own, i.e. viable on a commercial basis. As it turned out by the findings of the second assessment, this rationale is grossly misleading. This is a problem not only content-wise but also in terms of public relations. Is the management of RB project reliable as such? Also, it appears that the management of the project has not been fully aware of the need to include right away into the analysis the difference between straightforward commercial and non-internalisable economic benefits (presented in Ernst & Young study, but significantly absent in the AECOM study).

As the current study argued, RB cannot be seen as a financially profitable project or even as reaching the balance point in between the operational costs and revenues. A crucial aspect of the discussions surrounding the project is revealed in the fact that the critique has so far not been about whether the RB is needed or not, but how to make it more useful, optimal and profitable. The relative ignorance of the project management and the national governments to follow any of these suggestions, or even to discuss it seriously indicates that the project is suffering from the White Elephant syndrome.

There are also further circumstances to be paid attention to: if the internalisation effect and Europeanization are part of long term profitability calculation, the owner and operator(s) of the railway should also start to prepare to meet the EU competition policy rules for state aid having effect on market competition (as it is expected that many bus and some plane travellers will choose RB). Thus, there may be a possible trap awaiting. If RB is able to attract travellers with the help of state aid it will be illegal, and if they will not be able to attract travellers or freight, then the project is unable to meet its initial aim.

In terms of the “white elephant” syndrome criteria, most of the aspects listed by the theoretical sources were met, some are yet to be assessed when the project moves forward to the construction stage. It is already evident though that the politicians of the Baltic States have shown a tendency to anchor to the RB project and make it appear a national dream.

The worst-case scenario with Rail Baltica would be that first the initial construction costs for Member States will grow near or more than 100% compared to the available evaluations, and after the completion the operational costs will also be higher than expected and will still be growing during the life cycle. As the subsidies grow, the project will inevitably lose its prestige and the national governments might attempt to sell it with a fraction of the actual costs. This last option, even if following a popular model, might turn out as the costliest one, for besides all the above-mentioned costs, the state subsidies will have to cover the profits of the new owner.

To sum up, it is expected at the EU level that the coordinated implementation of

infrastructure projects within the EU core network contributes to the effectiveness of the overall EU transport system and enhances economic growth, competitiveness and employment in Europe. Subsidizing large-scale railway infrastructure in its peripheral Member States assumes the need for a public authority to step in and fund activities that the private sector finds too risky or straightforwardly unprofitable to invest in. Although by way of bearing such costs the EU hopes to enhance economic development outside its metropolises and thus to bring growth and welfare, this has often not been realised in practice.

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