

## Assessment and Recommendations

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*Luxembourg transformed successfully its economy over several decades by evolving from steel to financial services*

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The Grand-Duchy of Luxembourg has succeeded in a profound economic transformation over the space of a few decades, moving from an economy that was essentially based on the steel industry to one that is dominated by the financial sector. Steel production still accounted for 43% of GDP in 1952 and 29% in 1970, but only 6% in 1992. At the same time, tertiary activities have continued to grow: they represented 77.5% of employment in 2004, far above the OECD average (69%). With more than 28 000 workers, the financial sector is now the country's biggest employer. As a result of its growth, the Grand-Duchy now has the highest per capita GDP in the OECD.

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*More than 131 000 people cross the border each day to work in the Grand-Duchy, which largely explains why more than 2/3rds of jobs are held by foreigners*

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This conversion rests on an economic model relying heavily on foreign labour in many sectors and especially in finance, which employs 70% of foreign workers. In 2002, 65% of salaried employees in the Grand-Duchy were not nationals of the country. Luxembourg in fact has in its population the highest proportion of foreigners of any country in the OECD: at 38% in 2004, the rate far exceeded Australia's 22%. A further unique feature is that more than 115 000 foreigners cross the border every day to work in Luxembourg, where the labour market, with unemployment rates lower than those of neighbouring countries, is attractive in terms both of job opportunities and pay.

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*These increasing flows create numerous problems in the areas of transportation and the environment, that cooperation within the “Greater Region” has not yet solved*

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With only 455 000 inhabitants in 2005, Luxembourg stands at the heart of a “Greater Region”, an industrial area of more than 11 million people that includes the bordering regions of Germany, Belgium and France: the Saar and Rhineland-Palatinate; the Walloon and the French and German-speaking communities of Belgium; and Lorraine. The complementarity of employment markets is highlighted by the growing flow of foreign workers into the Grand-Duchy, a phenomenon that poses a number of problems in terms of transportation and the environment. While there has been institutional co-operation between the Grand-Duchy and neighbouring regions since 1995 and while it is beginning to address these questions, no real strategy has been defined to date.

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*Managing these flows is a major concern for Luxembourg*

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Cross-border commuting is concentrated primarily on the capital region (Centre South), which is also the focal point for growing domestic commuting (North-South and East-West) induced by major differences in the supply and price of housing in Luxembourg City and its immediate surroundings *vis-à-vis* the rest of the country. Consequently, housing and transportation are priority concerns for the Grand-Duchy’s authorities in their approach to territorial planning. These two factors essentially determine the geographic distribution of activity within the country, where space is a scarce resource that has to be managed with the greatest care. It is clear, that the future economic development of Luxembourg will depend on a balanced deployment of these infrastructures.

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*Transportation and housing are priority sectors of the Territorial Planning Act, which comprises an “Integrated Transport and Territorial Development Concept”*

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The Master Territorial Planning Programme adopted in March 2003 on the basis of the prescriptions of the Territorial Planning Act of May 21st draws due attention on these. Transportation and housing constitute two of the four main priority areas retained for the elaboration of sector plans, alongside

natural heritage and forest spaces and Economic Activity Zones. These plans represent, with the regional development plans, major guidelines for territorial development. The priority character and interdependence of these sectors are underlined in the Master Territorial Planning Programme which allows for the creation of a new planning instrument, the “*Integrated Transport and Territorial Development Concept*” (IVL, following the German acronym). Lastly, to facilitate the implementation of these ambitious projects, an administrative reform is scheduled, with a specific role contemplated for Centres of Development and Attraction (CDAs), representing a differentiated urban hierarchy both at the national scale and within the 6 planning regions.

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*The latter, known by the name of IVL, calls for a modal split of 25% for public transportation in 2020, instead of 12% today*

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The IVL strategy is based on two contrasting scenarios to the year 2020: the “border-crossers” or “commuters” scenario and the “residents” scenario. In the first case, 75% of new jobs will be filled by border crossers, whose numbers will rise to 168 000 in a country of 511 000 residents. Under the second scenario, only 40% of new jobs would be filled by cross-border commuters and the number of residents would rise to 561 000. The first scenario assumes the continuation of current trends in cross-border flows, while the second relies on a housing policy that would “settle” a portion of cross-border workers in the country. The latter hypothesis is the one that has been selected in the housing and transport sector plans now under preparation and it is also more respectful of the environment. Under both scenarios, the modal split between public transit and private vehicles would shift from 12% to 25%, a very ambitious assumption.

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*This strategy supposes also an increased housing construction effort, on the basis of measures to relieve pressure on land prices*

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To achieve these objectives, a set of legal and fiscal measures that will encourage new construction by relieving pressure on land prices, while pursuing large-scale infrastructure works to give effect to the priority accorded public transit, is required. The fact that cross-border traffic has been rising steadily since the IVL strategy was adopted in 2004 and could well exceed forecasts to the year 2020, poses some questions. What precautions should be taken to control that traffic more effectively? What measures are most likely to have a short- and medium-term impact and what measures will

make their effect felt only over the long-term? Finally, how far can the Luxembourg authorities move in this area without closer co-operation from neighbouring regions, as part of a shared strategy?

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*These pressures can be explained by low taxes on non built plots, inducing a reduced offer of land for construction*

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Prices on the housing market in Luxembourg are high in comparison with other European countries and between 1980 and 2001 they were exceeded only by those in Ireland, Spain and the United Kingdom. The prices of building lots in Luxembourg, which showed average annual increases of 6.3% over the same period, are now by far the highest in Europe. At the same time, the rental share of the housing market is low (30%), far below the average for other countries. Finally, the supply of housing is considered inadequate and new construction is producing low-density housing tracts that are pushing urban sprawl and that pose problems in terms of the environment and public transit service. This context reflects factors that go well beyond the housing market (including high salaries and the fact that most jobs in the private sector are held by foreigners) but there is also a significant local factor: real estate taxes are low and owners tend to withhold building lots from the market. Finally, the State has a range of planning tools at its disposal, but it has to contend with a strong tradition of communal autonomy.

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*The legal and fiscal framework concerning land use, out-dated and incomplete, is evolving*

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While land prices have been rising steadily, the basic property assessment that is used, with annual adjustments, to calculate the property tax dates back to 1941. The property tax is particularly low and produces very little revenue (1.5% of communal revenues in 2005). It cannot be used as a tool to encourage new construction and indeed it gives owners an incentive to “sit on” or hoard their property. At the same time, while the right of expropriation is recognised in Luxembourg, it has been blocked by a 2003 decree of the Constitutional Court dealing with prior compensation and that obstacle can be lifted only by a constitutional amendment. Finally, the right of pre-emption, an essential tool of urban planning, does not exist in the Grand-Duchy.

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*Measures to promote new housing could meet certain obstacles so increased co-ordination in this area within the “Greater Region” is advisable*

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The possible responses are of three kinds: direct action on the supply of housing, priority to certain municipalities and measures to make the real estate market operate more smoothly. On the first point, a proposed “housing pact” between the State and the municipalities was announced in May 2006. It would provide graduated assistance to municipalities, geared to their population growth and would help finance public facilities. 39 recognised priority municipalities would receive more assistance than others. The housing sector plan, now under preparation, seeks to distribute the population in line with the location priorities established by the IVL, starting by identifying housing needs in the different regions. Efforts to implement these priorities, however, are likely to encounter problems and delays in defining and implementing local urban planning instruments such as the General Planning Programmes (PAGs). It is thus recommended to:

- Extend monitoring and forecasting of land and housing markets to the “Greater Region” level so as to derive a better measure of the impact of this sector on cross-border traffic.
- Conduct an awareness campaign among local officials to ensure that national strategic priorities are taken properly into account in the PAGs.
- Restore expropriation for public purposes as an operational tool.
- Consider creating a public land agency with broad powers, endowed with the right of pre-emption.
- Create a true property tax to encourage sale of building lots.

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*The number of cars per 1 000 inhabitants is in Luxembourg the highest in Europe and cross-border flows represent more than half of commuting...*

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The motorisation rate in Luxembourg (the number of private vehicles per 1 000 inhabitants) is the highest in Europe and internal mobility is very great: 68.6% of resident workers were employed outside their commune of residence in 2001, or nearly 20% more than two decades earlier. Growing cross-border flows account for more than half of daily commutes in the Grand-Duchy. Public transportation (train, bus, tramways) represent only 12% of trips. Reducing the number of individual trips is a national priority for limiting pollution and congestion, particularly around the capital city. Co-operation in these fields with neighbouring regions is essentially technical in nature

(exchange of traffic data) or commercial (harmonisation of fares across the border, mixed travel passes, etc.).

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*Numerous measures limiting private vehicle use could be completed by measures concerning freight or involving adjacent regions*

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The IVL sets out some ambitious transportation objectives. A significant improvement in the modal split in favour of public transit presupposes a series of measures at different levels and with different partners: municipalities, transport operators and neighbouring regions. Measures for discouraging private automobile use include the creation of additional parking lots at the border, stricter and better-coordinated management of parking in the cities, the potential introduction of toll roads around and even in the central cities and measures to encourage carpooling such as “fast lanes”. When it comes to public transit, the improvement of railway infrastructure and the frequency of service and the development of communication hubs (larger train stations, multimodal facilities) will demand a coherent and coordinated approach. The transport sector plan, now at an advanced stage of preparation, should incorporate the following recommendations, at least in part.

- Harmonise fuel taxes so as to discourage foreign drivers from using their car in Luxembourg, where prices at the pump are well below those in neighbouring countries.
- Evaluate and explain the technical, financial and organisational means needed to achieve the IVL objectives, so as to contribute to integration of sector policies.
- Conceive the future master plan for infrastructure, using a multimodal concept and with quantified objectives, taking due account of truck traffic, which adds to congestion and is an important source of greenhouse gas emissions.
- Establish a multiyear financing schedule, following identified and integrated priorities.
- Take advantage of the national umbrella structure for transportation called for in the Master Programme to strengthen co-operation with adjacent regions by creating a supra-regional transport agency.

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*The outdated governance framework does not answer the challenges of territorial planning*

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Luxembourg’s structure of governance dates from the beginnings of the 19th century. The municipalities play a key role, while the remaining

intermediate levels (districts and cantons) have only formal planning powers. Seventy per cent of Luxembourg's municipalities have fewer than 3 000 inhabitants and they generally lack the human and financial resources needed to fulfil their responsibilities. Their effective taxation power is limited by the cap on local tax rates and a highly efficient equalisation system that redistributes tax revenues in a manner independent of population size or economic activities. Co-operation between municipalities, in the form of joint technical boards ("syndicats"), allows for joint management of communal services, but the "syndicats" should by their nature be used to organise services at a broader scale. Finally, despite a range of incentives, there have been few mergers of municipalities.

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*Future territorial and administrative reform integrates needs of territorial planning but strengthened cooperation between municipalities is required, as is defining regions with critical mass...*

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The future of the commune, which in Luxembourg enjoys broad autonomy, lies at the heart of the debate over regional policy, which calls for giving greater powers to the six planning regions, within which the municipalities would then cooperate. The "integrated concept for a territorial and administrative reform of the Grand-Duchy of Luxembourg" calls for the creation of "Établissements publics de coordination régionale (EPCR)" (regional co-ordination bodies) within the six planning regions, in which there would be a representative of each commune and a regional representative of the State. This should facilitate territorial planning policy, comprising Sector Master Plans and Regional Development Plans (PDRs) established in conjunction with municipalities. One can nonetheless wonder if the regional map, within which certain regions have a very reduced population, is adequate. The following guidelines are thus suggested:

- Consolidate the role of the Centres of Development and Attraction, establishing an urban hierarchy around which the other municipalities can organise themselves. To this end, adopt a public investment policy that recognises each CDA's role in a given region.
- Continue and build upon the dynamics created by the co-operation agreements between the State and certain urban groupings (Southwest Luxembourg Metropolitan Area, Nordstad) and extend this approach to other territories (Capital Region Northwest, South Region).
- Consider a regional map vying to achieve economies of scale, due to dimensions of the territory, by regrouping the smallest regions into a single region centred on the Nordstad.

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*Civil society could be more closely associated to the definition of future guidelines, implemented by necessary mobilisation of adequate human and financial resources*

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Social dialogue in Luxembourg is based on an institutionalised tripartite model that has made its proofs. Given the fundamental impact that the changes under way (a new spatial balancing of activities, growing cross-border flows and innovative approaches to territorial planning) will have on all citizens, it would be useful to associate civil society in the major decisions that must be taken. This would lend some stability to the choices made, recognising that their effects may hardly be felt in the short-term. For these reasons it is suggested:

- To associate local elected officials more closely to the conception and definition of the above-mentioned policies so as to facilitate their translation into urban planning decisions at the local level.
- To adequately consult associations and citizens, in particular since civil society plays an important role in the elaboration of urban planning documents. This would permit to situate the choices established around the PAGs in a wider context while facilitating the implementation of Public Private Partnerships (PPPs) contributing towards the implementation of the measures considered.
- To give priority to the mobilization of the means necessary for the deployment of these strategies. The staffing and budgetary means allocated to the Directorate for Territorial Planning (DATer), which assumes numerous inter-ministerial and “Greater Region” co-ordination tasks, do not seem sufficient for this purpose. New competencies from the University of Luxembourg could be called upon for this.
- To give a strong translation both in governance terms and in means, by establishing an inter ministerial fund with multi-annual financing, that would help to leverage the projects of a multi-sector character.



### Box 0.1. **Grand-Duchy of Luxembourg: basic data**

#### **The country and the population**

**Surface area:** 2 586 square kilometres, of which 34% is forest.

**Population:** 459 500 (2004), amongst which 181 000 foreigners (39.5%).

**Population density:** 174 per square kilometre.

**Border workers:** 131 000 (January 2007).

**Languages:** Luxembourgish (Lëtzebuergesch), French, German.

**Greater Region:** The Grand-Duchy of Luxembourg is part of the Greater Region (11.2 million inhabitants), an European co-operation space which also comprises Lorraine (> 2.3 million), the Saar (> 1million) and Rhineland-Palatinate (> 4 million), the Walloon Region (< 3.2 million) with the French Community of Belgium and the German-speaking Community of Belgium (71 000).

#### **Governance**

The year 963 establishes the beginning of the history of Luxembourg with an exchange between Sigefroid Count of the Ardennes and Saint Maximinus Abbey in Trier concerning the rock known as the Bock. On the ruins of a Roman "castellum" called Lucilinburhuc (meaning "small castle"), Sigefroid began to build a castle around which, over the centuries, there developed a city fortress. The country enjoyed short periods of independence but was more often than not under the domination of the major European powers. In 1815 the Treaty of Vienna created Luxembourg as an independent State, this being confirmed by the Treaty of London in 1839.

**Parliamentary democracy:** The head of the government is appointed by the Grand Duke who is Head of State and wields regulatory power.

**European Union:** one of the six founder members of the European Union.

**Currency:** the euro.

**Districts:** 3 in number. District commissioners, who are civil servants under the direct authority of the Minister of the Interior and are appointed by the Grand Duke, serve as intermediaries between central government and the communal authorities.

**Cantons:** 12 in number. A legacy from the revolution and the Empire. The cantons have no administrative structures of their own.

**Communes:** 116 at present. Communal councils are elected by universal suffrage. Communal affairs are in the hands of a Burgomaster, assisted by a number of deputy burgomasters proportionate to the population.

**Development regions:** 6. These six development regions, which have no powers of their own, are identified by the Territorial Development Act of May 1999.

Figure 0.1. **Grand-Duchy of Luxembourg**



Source: Direction de l'Aménagement du Territoire (DATer), ministère de l'Intérieur et de l'Aménagement du Territoire (MIAT).

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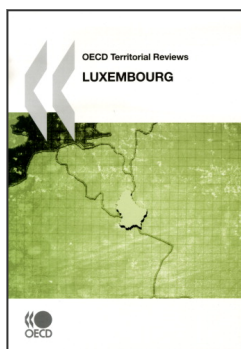
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