Promoting Rail Market Growth for Sustainable Mobility

EU funding and financing for rail projects in the 2021-2027 Multiannual Financial Framework

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About UNIFE

Based in Brussels since 1992, UNIFE is the association representing the European rail supply industry at the European Union (EU) and international level. UNIFE gathers over 100 direct company Members – from numerous SMEs to major industrial champions from all over Europe – active in the engineering, design, and manufacture of rolling stock (i.e. trains, metros, trams, freight wagons) as well as rail signalling and infrastructure equipment. UNIFE also brings together national rail industry associations from 14 European States.

Key messages:

- **Safeguard ambitious budget for CEF in the 2021-2027 Multiannual Financial Framework (MFF).**
- **Ensure that sustainable transport is an eligible priority in the ESI Funds, in particular concerning the Cohesion Fund.**
- **Promote best-price quality ratio approach in public procurement.**
- **Make EU investment programmes a lever for economic growth in the EU and reindustrialisation of Europe.**

2021-2027 MFF should increase funding for rail as the greenest and safest mode of transport

Following the European Commission proposal for the EU budget published on 2 May 2018 and the legislative proposals for spending programmes for the 2021-2027 period, UNIFE would like to use the opportunity of the negotiations between the EU co-legislators to provide the inputs and insights on how to make the EU support for rail projects across Europe ever more efficient. The negotiations should be used as an opportunity to reaffirm the important role of the **rail as the greenest and safest mode of transport – be it for mainlines, urban/suburban or freight transport**. The present Position Paper aims to address transversal issues and see how these could be reflected in the specific legislative documents defining the 2021-2027 MFF and the new investment programmes.

Investments in rail contribute to transport decarbonisation and to EU climate objectives

In view of the international climate agreement reached during the 21st Conference of Parties (COP21 in Paris in December 2015) and its entry into force in November 2016, the negotiations on the next MFF should be used as an opportunity to provide an even greater EU support for **sustainable transport policies with rail as their backbone**.

The transport sector still accounts for around a third of EU greenhouse gas emissions, which makes it the second-biggest sector, after energy, for greenhouse gas emissions. Given the increasing dependency of the EU on fossil fuel imports and its commitment to meet ambitious CO2 emissions reduction targets, the transport sector must be decarbonised. Not only does rail rely very little on imported fossil fuels, it clearly stands out for its **high energy efficiency, low specific emissions of CO2, and growing use of renewables**. Rail generates only 0.7% of total energy-related CO2 emissions while meeting 9% of global mobility demand.

The EU Funds should therefore promote rail and its interconnectivity with other low-carbon modes to help the EU achieve its climate objectives. The decarbonisation of the transport sector should mean, above all, more rail-bound public transportation solutions and further electrification of the system. Such investments, by making rail transport more efficient and more attractive, will be crucial to achieve the target of a 60% reduction in CO2 emissions in the transport sector by 2050.

In addition, the EU Funds should support the **development and market introduction of energy-efficient solutions and new vehicle concepts** like hybrid locomotives and, for track sections where electrification is not viable, battery-operated vehicles and hydrogen/fuel-cells trains.

Finally, with the political focus being increasingly directed towards connected cars, it is important to stress that automation is not an objective per se. Instead, it should serve the purpose of a more efficient and more sustainable mobility system. To address challenges arising from growing CO2 emissions and congestion, automation of rail transport and public transport in particular will be key.

Investments in rail – a key element to boost the competitiveness of the European economy

Rail provides a significant contribution to the EU economy and functioning of the European Single Market. To enhance EU's competitiveness internationally, it is therefore necessary to develop further **efficient rail system for the benefit of all EU citizens and the economy**. The resources allocated to rail transport in the next MFF will play a key role in ensuring that transport system as a whole efficiently supports the EU's economic growth.

There is an enormous need for investment in rail transport at all levels: European, national, regional and urban. The European Commission estimates that EUR 430 billion is needed in rail investment by 2030. **EU funding support to rail projects will not only help addressing the investment needs, but also provide a significant boost to various economic sectors, including the European Rail Supply Industry** – a diverse and geographically widespread industrial sector. From thousands of SMEs to major industrial champions, the European Rail Supply Industry employs approximately 400 000 people all over Europe. By increasing the demand for rolling stock, signaling systems and infrastructure, including all components and subcomponents, the investments in rail projects through the EU Funds and investment programmes will contribute to jobs and growth in this strategic sector.

Grants should remain the main funding tool for rail projects

Grants should remain the main funding tool for rail projects – be it through CEF or ESI Funds. Indeed, such projects usually do not enable a return on investment acceptable for private investors and represent long-term investments with a level of risk that requires more than financing. UNIFE therefore welcomes the fact that for the CEF the Commission states that "grants will remain the preferred means to address the gaps affecting infrastructure projects" and that "the use of simplified forms of grants will be further promoted".[1]

To have a better overview and ensure consistent business planning, in the post-2020 programming period, there should be a **streamlined approach with all funds being clearly earmarked for railways**. A clear forward-looking planning should be made available for the Connecting Europe Facility giving an overview about the planned investments. In the case of the ESI Funds, once the negotiations are being finalised on the Partnership Agreements and the Operational Programmes, an overview should be available about the planned investments in the rail sector by countries and regions.

Moreover, policy and strategic frameworks, provided by the Member states to meet the ex-ante conditionalities should be centrally monitored to avoid parallel investments into the infrastructure of several different modes of transport on the same transport corridors. This could significantly improve the efficiency of investments and rail-related project implementation speed.

EU funding should be used as a lever to give boost to the EU economy and contribute to the reindustrialisation of Europe

The EU funding should bring the maximum impetus and economic benefits for the EU Member States economies and secure industrial jobs in the EU.

The recent case of EU co-financed (85%) Peljesac bridge in Croatia being constructed by a Chinese consortium sets a worrisome precedent in the use of the EU funding that would be detrimental to the whole EU economy. The consortium is led by China Road and Bridge Corporation (CRBC), a subsidiary of China Communications Construction Company (CCCC), which itself is ownd by China Communications Construction Group (CCCG) which is a state-owned enterprise, in turn wholly owned by the State Council of China and supervised by the State-owned Assets Supervision and Administration Commission.

[1] Annex to the Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions, A Modern Budget for a Union that Protects, Empowers and Defends, The Multiannual Financial Framework for 2021-2027, COM(2018) 321 final, 2 May 2018

In this context, the next MFF should be used as an opportunity to incentivise the Member States – when receiving support from CEF, ESI Funds or InvestEU – to swiftly implement the **2014 EU public procurement framework, in particular the Articles 85 and 86 of Directive 2014/25/EU**. The European Commission and the Member States should indeed remind the contracting authorities of the existence of this provision which makes it possible to reject bids if more than 50 % of the value is added outside the EU (Article 85 of Directive 2014/25/EU)".

In addition, the EU co-legislators should consider options how to ensure that the new regulations for the CEF, ESI Funds, and InvestEU would allow the contracting authorities to exclude bidders from countries that do not respect market economy principles and do not ensure reciprocal market access for European companies.

The EU Public Procurement framework also specifies that "contracting entities shall base the award of contracts on the most economically advantageous tender" (MEAT) and that award criteria "shall be identified on the basis of the price or cost, using a cost-effectiveness approach, such as life-cycle costing". By focusing on best value procurement, more qualitative, social and environmental criteria should become determining factors in the choice of a contractor.

UNIFE welcomes existing documents providing guidance on public procurement to contracting authorities and addressing *inter alia* the MEAT principle[2], yet insists that **a specific guidance should be provided on this topic in the next MFF**. The **MEAT – understood as the best-price quality ratio – should be established as a guiding principle to all EU funding and financing tools that are relevant to the European Rail Supply Industry** (CEF, ESI Funds, InvestEU, EIB lending instruments, European Fund for Strategic Investments, EIB lending instruments) and, whenever possible, to **incentivise its use** (e.g. through a bonus system for project promoters that integrate this principle). The European Commission should create an indicator to monitor the effective use of the MEAT principle across procurement procedures in Europe, and to make available statistics and good practices to interested stakeholders.

Programme-specific remarks

- **Stronger Connecting Europe Facility**

UNIFE welcomes the European Commission's proposal to allocate EUR 30.6bn to CEF Transport, from which EUR 12.83bn would be given to the general envelope, EUR 11.285bn to the cohesion envelope, and EUR 6.5bn to enhancing military mobility. Leaving aside the military mobility envelope, the proposed CEF Transport budget represents a stagnation (from EUR 24.1bn in 2014-2020 period), which is worrying given the investment needs, which have led to high oversubscription rates to the various CEF calls to date (from 2 to 6 times the budget available, taking into account eligible projects). As a result, the programme's envelope was already almost

2 Public procurement guidance for practitioners on avoiding the most common errors in projects funded by the European Structural and Investment Funds, European Commission, February 2018; OECD/SIGMA, Public procurement Brief 9, Tender Evaluation and Contract Award 2016

entirely exhausted in 2017 (more than 90%) in the middle of the 2014-2020 period. UNIFE insists that the successful implementation of the CEF in the current period provides an excellent basis for an even more ambitious investment programme in the next period. CEF Transport grants have provided crucial support to the achievement of the TEN-T Policy objectives and the development of sustainable transport system. In particular, the CEF grants have played an important role in supporting the cross-border projects with high EU added value that are essential for the implementation of the TEN-T Core Network Corridors. In this way, by removing bottlenecks or bridging missing links in various sections of the network, CEF also significantly contributes to economic, social, and territorial cohesion.

Automation and digitalisation of the rail sector should be a clear priority in the next MFF, and there should be dedicated CEF funding made available. In particular, the **ERTMS deployment** will require additional resources in order to foster its rapid deployment (especially in the framework of the revised European ERTMS Deployment Plan adopted in January 2017) and unlock the economies of scale and efficiency gains that it will bring to the rail system. To avoid de-commitments of EU funding for ERTMS projects, a greater alignment should be ensured with the life-cycle of ERTMS projects, which can vary depending on testing and certification procedures or changes in the technical specifications and national implementation strategies. UNIFE calls for much **more flexibility in the future between project milestones and financing period**, so that funding for the ERTMS deployment would not be lost.

The CEF **eligibility should be also extended to rail rolling stock** in order to support the decarbonisation of the rail system.

It will be also important to **increase support to the urban nodes** located on the TEN-T Core Network, and to provide adequate grants support for sustainable transport infrastructure and rolling stock projects at urban level.

The CEF, as the EU funding instrument for strategic and sustainable infrastructure, is one of the key tools to reach climate change targets and it should remain so. Only support for **green modes of transport**, such as rail and inland waterways, and projects aimed at **reducing the emissions of the mobility system** should benefit from the CEF support. Simplification and streamlining of the CEF regulation is welcome, notably in terms of co-funding rates, but such changes should not be to the detriment of EU pressing objectives when it comes to decarbonisation of transport. Road transport projects should only be eligible if they relate to the deployment of alternative fuels or (with a 10% co-financing rate) to cross-border projects as it is currently the case.

With regard to the new important **military mobility** budget allocation within CEF (EUR 6.5bn), UNIFE insists on the importance of ensuring synergies between the existing investment plans on the TEN-T Core Network Corridors and the planned military mobility investments in rail connections. More information should be provided by the European Commission on the planned budget expenditures.

- **Continuous support for rail projects through EU Structural and Investment Funds**

The achievement of an integrated European transport system will also depend on the **continuous investments in the rail projects under the EU Structural and Investment Funds (ESI Funds)**. In the 2014-2020 programming period, the Cohesion Fund and the European Regional Development Fund (ERDF) have been providing significant support to environment-friendly means of transport (i.e. investments in rail and urban transport) thus providing great stimuli for the economies of the EU Member States. The EU Member States, in particular the cohesion countries, should continue to benefit from the EU Funds support for rail projects to bridge the significant investment gap.

UNIFE therefore welcomes the **earmarking of EUR 11.285bn from the Cohesion Fund to be centrally managed under CEF by INEA**, as the similar practice in the 2014-2020 period has proven to be very successful (the absorption rate of this part of the Cohesion Fund has been 100% with a high proportion of investments in rail projects). Nevertheless, UNIFE insists on the need to **complement this amount with additional investments in rail projects (be it for mainlines, regional lines, or urban rail systems) under the future Operational Programmes**.

In the context where China is multiplying its financing offers for infrastructure projects in the EU, UNIFE regrets the significant reduction of the Cohesion Fund (by 45%) and asks the co-legislators to ensure that the overall reduction of the budget resources for Cohesion policy (by 10%) would not affect the necessary investments in the rail sector. EU co-funding for sustainable transport projects should not be reduced due to the proposed budget concentration of two out of 5 policy objectives (i.e. PO 1 “a smarter Europe – innovative and smart industrial transformation” and PO 2 “a greener, low carbon Europe – clean and fair energy transition, green and blue investment, circular economy, climate adaptation and risk prevention”). Since the PO 3 “a more connected Europe – mobility and regional ICT connectivity” would receive less funding, it is important to ensure that rail projects contributing to decarbonisation of the transport sector would be eligible for support under PO2 “a greener, low carbon Europe”.

- **Additional investments for rail projects through InvestEU**

UNIFE welcomes the Commission’s continuous efforts to increase the private investments in rail sector. In this sense, it welcomes that it will be possible to use blending approach to combine grants with financial instruments from the InvestEU Fund, or with financing from public or private financial institutions. Nevertheless, UNIFE would invite the co-legislators to **carry out a thorough analysis and evaluation of the performance of the European Fund for Strategic Investments** (EFSI), because, unfortunately, the number of projects in the rail sector so far is relatively small. Moreover, additionality of these projects cannot be always clearly substantiated. Therefore, in the next MFF, **the blending approach of CEF and Structural Funds grants with the InvestEU should be used only as an additional approach**.

There is an important potential of private investments in rail projects. Innovative financing instruments such as availability-based **public-private partnerships (PPPs)** have been used in the rail sector, even more for urban projects than for mainline ones. However, their widespread use has not taken place, most likely due to the low return of investment that requires a substantial support from the public authorities promoting the project and ultimately the projects' consolidation in their debt. There should be greater incentives for projects contributing to the objectives set by the COP21, especially with regard to accounting and statistical treatment (i.e. non-inclusion in the public debt as defined in the Stability & Growth Pact).

- **Greater connectivity through EU investments in the accession countries and neighbourhood**

UNIFE welcomes the simplification of EU's external support mechanisms through the creation of a **single neighbourhood and international cooperation instrument**. UNIFE insists that it is important to continue to support EU candidate countries by providing financial support for rail projects through the **Instrument for Pre-Accession Assistance**. Given the increased presence of non-EU financing in the enlargement countries and the EU neighbourhood (particularly Chinese financing), it is important that increased amount of grants is provided to rehabilitation, modernisation of the existing railway lines, building of new lines, and acquisition of rolling stock. The existing investments under the Instrument for Pre-Accession Assistance have significantly contributed to the shortening of the travel time and savings of the maintenance costs. The EU grants support should be also used as a tool to ensure transition towards best value procurement (MEAT principle and best-price quality ratio).

For further questions, please contact:

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