For a complete TEN-T, an increased EU budget is needed

The European multiannual budget is a vital element for ensuring Europe's operation and for accelerating the transformations required for the establishment of a single market. The transport system is at the core of economic and social development and building an efficient system with a network capable to cover missing links and to provide essential freight and passenger transport links is stimulated by European financing grants. We are in the middle of the current programming period and transport is still facing challenges as grants do not seem to be able to meet the investment demand. However, the implementation of the most important financial instrument for transport, CEF, is following the right path, being an efficient and targeted instrument for Trans-European infrastructure investments.

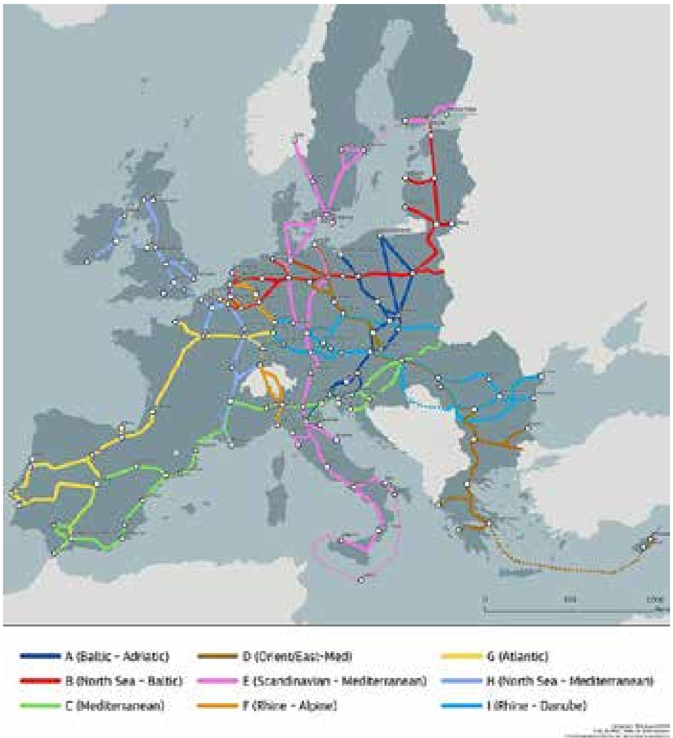
by Pamela Luica

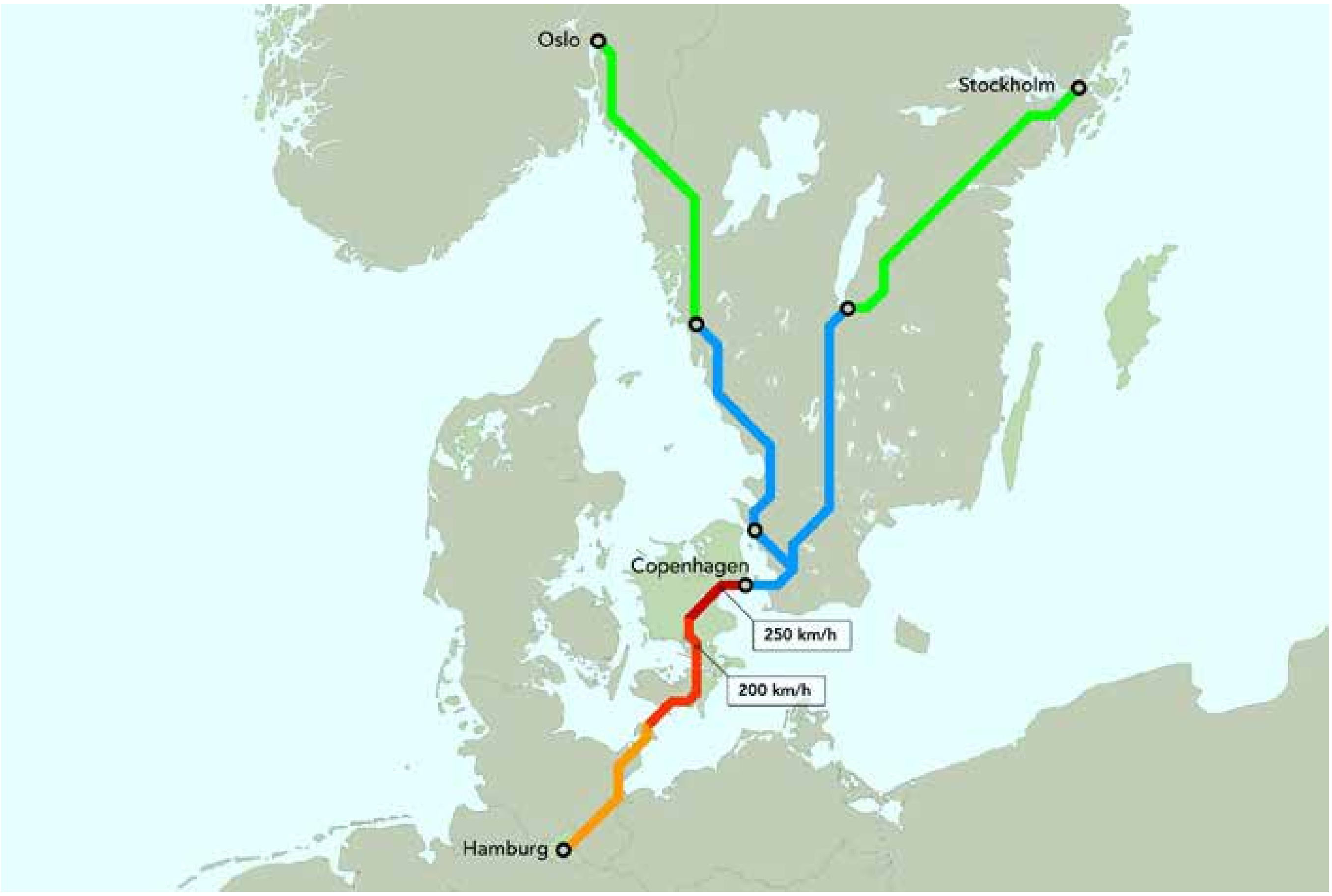
Connecting Europe Facility (CEF) is the most important infrastructure financing instrument in Europe that supports energy, telecom and transport projects. CEF's total value for 2014-2020 is EUR 30,4 billion of which transport has received the highest share, EUR 22.4 billion, energy has received EUR 4.7 billion, while telecom projects have received EUR 0.3 billion. Since the beginning of the current EU multiannual budget so far, INEA has granted the biggest share of the programme of the total CEF budget, EUR 27.4 billion. Currently, CEF supports 641 transport projects. Recently, the European Commission has announced the 2018 Transport Calls which will be closed in October. These Transport Calls will have an indicative budget of EUR 450 million to finance the objectives and priorities supported by the policy of the next 3rd Clean Mobility Package – transport digitalisation, road safety and multimodality.

In 2011, when CEF was proposed, the required investments for the three sectors (energy, transport and telecom) were estimated at EUR 970 billion. It was expected that most of these investments would be covered by the private sector, with national public support, or accelerated through regulatory measures. Also, impact assessment revealed the need to approach the market failure to fill in persistent gaps, eliminate bottlenecks and create proper cross-border links.

The Commission's proposal for CEF in 2011 consisted of a EUR 50 billion budget with a transport budget of EUR 31.7 billion (with budgets proposed for the other two segments amounting to over EUR 9 billion each). However, there were cuts in the negotiations phase on the European Fund for Strategic Investments (EFSI) to EUR 30.44 billion, the most significant cut being in the funds for telecom projects – EUR 8 billion – with the final financial grant amounting a little over EUR 1 billion). As the initially proposed budget stipulated a high investment level (compared to the final budget), clearly, there are opportunities and a potential of unlocking public and private investments if an additional EU budget would be made available to approach market failures. Currently, the CEF budget permits approaching only some of the identified market failures, such as exceeding the financing deficit with EU support.

Core Network Corridors





The financial support through CEF can finance 85% of a project for the cohesion envelope and 10-50% of a project depending of priorities and nature of the submitted action. According to the European Commission's report on CEF evaluation, in the first three and a half years, CEF deployment is on schedule, "although, it is much too early to measure results as the programme is still in its initial deployment phase". However, since the programme was launched, the projects co-financed only through CEF are in conformity with EU's ambitious objectives regarding the improved connectivity (for all the three sectors) and focusing support on public goods in the European dimension.

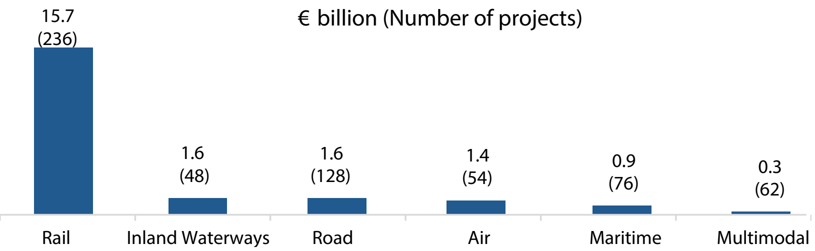
In the transport sector, priority fell on the projects which form or optimise cross-border connections which complete missing links and eliminate congestions in the network. For cross-border transport infrastructure, the financing objective of CEF Transport is 86% of the funds allocated so far, representing EUR 18.35 billion. Railway projects include Rail Baltica, which improves connections on the east-west axis, between Poland, Lithuania, Latvia and Estonia, or Fehmarn Belt, connecting Germany to Denmark through a tunnel.

CEF financing is meant to add value to developing connectivity through Europe. In transport, the programme has managed to contribute to the finalisation of the TEN-T core network (objective for 2030) and to meeting the objective of low-emission mobility. The report says that some railway infrastructure and inland waterways projects, which are long-term investments, with a lifecycle of 30-50 years, could not be launched without the European financing available through CEF. Such is the case of Brenner Base Tunnel which will eliminate congestion in the EU network, between Austria and Italy.

The largest share of CEF transport financing has been granted to projects which contribute to reducing missing links, to eliminating congestion on the TEN-T Core Network, either by building new infrastructures or by modernising or significantly rehabilitating the existing infrastructure.

CEF helps meet EU objectives with up to 81% of the total financing value (for transport) granted to low-emission transport modes, especially railways and inland waterways, enabling a significant modal change. >

Projects by transport mode



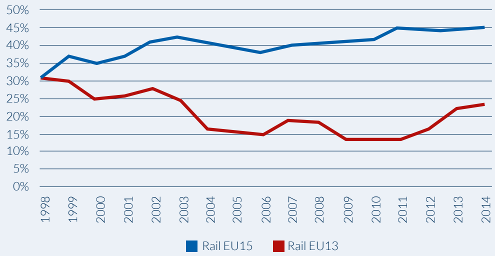
The financing mechanism

The type of funding is another element to be considered for stimulating the projects prioritised through EU policies. For example, most of the EU financing is allocated as grants (90%) which is believed to be the right approach as CEF financing refers to projects with regional, as well as EU-wide benefits, but with insufficient national financing or with one influenced by market fluctuations. This is the case for the biggest part of cross-border projects of the European transport network and "horizontal" priorities (especially ERTMS or SESAR for the air sector), but also projects for which benefits cannot be internalised. For example, the very high rates of subscriptions following the requests for proposals show a very high demands for EU grants with an available budget that drops constantly compared to the investments needs of the transport sector.

National expenditure is falling

In 2015, the % of GDP spent on transport infrastructure dropped below 0.8% in Western Europe and fell to 1.2% in CEEC. Of this, **the majority is still spent on road**.

Rail share in total national expenditure on road-rail transport investment

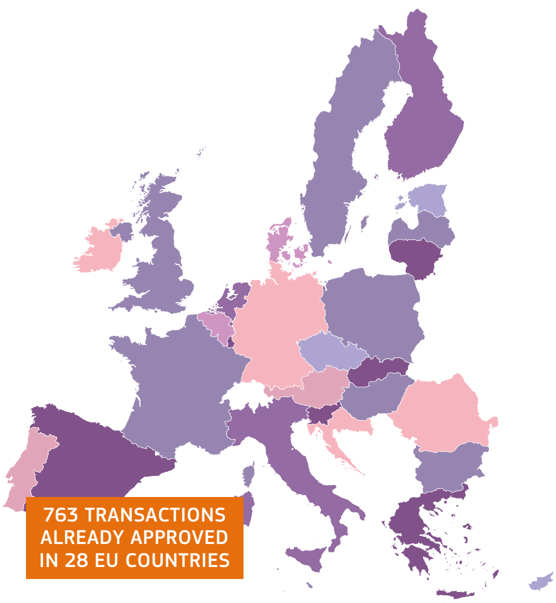


Source: ITF

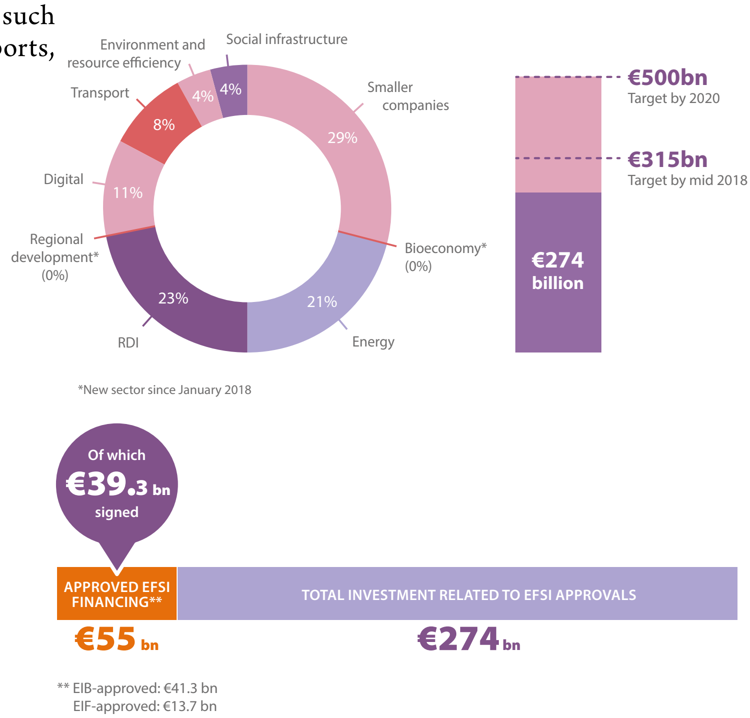
Moreover, for revenue-generating projects, CEF support can take the form of financing instruments whose budget could be used to deliver a variety of products, such as grants or debts sustained by EU-capital which helps optimise the use of public funds. In the transport sector, such projects may include the extension of capacities in ports, air-rail connections or development of infrastructure for alternative fuels. CEF Debt Instrument (CEF DI), which relies on the experience accumulated through the Loan Guarantee Instrument for Trans-European Transport, and the pillar phase of the Project Bond Initiative have inaugurated the path to using financing instruments. However, there has been a substitution effect once EFSI has been created. The use of CEF financial instrument will be taken over in the second half of the programme when the complementarity between CEF and EFSI specific financial instruments will be ensured following the request of specific orientations to CEF DI Steering Committee to ensure the efficient complementarity between the two initiatives.

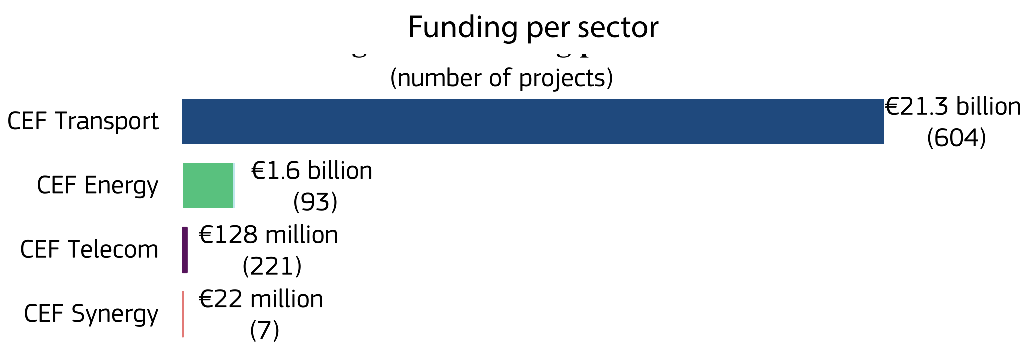
In 2017, the 'blending call' was announced through CEF, an innovative approach to allocate financing by increasing the participation of the private investment in the financing of the European transport infrastructure as alternative or addition to the financing of the European Commission's traditional grant. Within the 'blending call', this financing mix stipulates using private financing, from EFSI, EIB or national promotional banks, or from private investors to maximise the leverage effect of the implication of the private sector and the capital for delivering actions/projects. This call consolidates the complementarity between the two support schemes, while also mobilising other financing sources. "With a necessary financing of EUR 2.2 billion for this call with an indicative budget of EUR 1 billion, the first experience has been a positive one", shows the report on CEF.

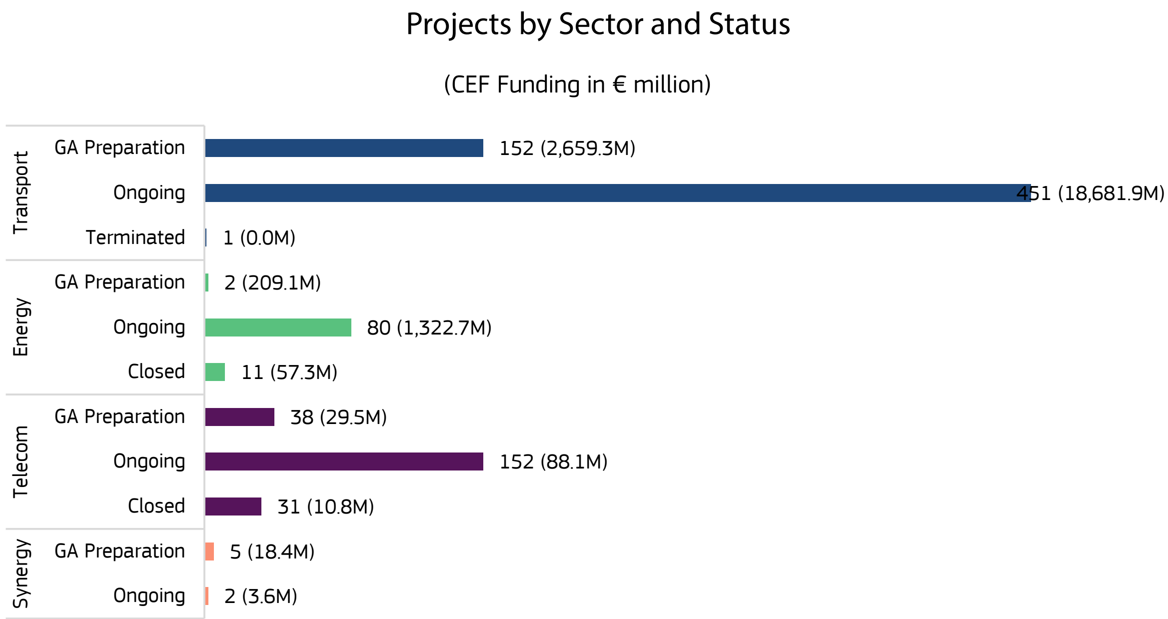
Compared to Horizon 2020, the European Structural Investment Funds (ESIF) and EFSI, Connecting Europe Facility is complementarian. In the case of Horizon 2020, it finances the projects in incipient phases, while CEF allows technological implementation on the whole infrastructure.



EFSI INVESTMENT BY SECTOR







The CEF-ESIF relation is a strong one as both target the objectives of building Trans-European networks, while ESIF provides financial support for the less developed regions and to the 15 member states eligible for financing through the Cohesion Fund. CEF focuses financing on EU integration through cross-border connections and interconnections, elimination of agglomeration and interoperability projects. Between these two instruments, in the transport sector, there is a partial supraposition regarding the railway projects located on the TEN-T core network, while EFSI is also financing the projects that are not eligible through CEF (such as road projects or those on the comprehensive network).

Moreover, for the first time, part of the cohesion budget, or EUR 11.3 billion for transport, has been carried out through direct management within CEF. The approach has been successful. 100% of the envelope has been granted in the first half of the programming period almost exclusively to sustainable transport modes.

Following the three years of Calls, 925 actions were selected, and a EUR 23.1 billion financing was allocated through CEF, the latter estimated to generate a total investment of EUR 45.3 billion into the European economy. The transport calls amounted to EUR 21.3 billion of which EUR 11.3 billion within the cohesion package and EUR 22 million were granted for transport and energy synergy actions.

The post 2020 proposed budget

On 2 May, the Commission proposed its budget for 2021-2027, considering it "a modern and pragmatical budget which shows how can one obtain improved results with less resources". At the same time, it is considered a modest budget compared with the dimension of the European economy and national budgets. "Today [May 2] is an important moment for our Union. The new budget is an opportunity to shape our future as a new, ambitious Union of 27 bound together by solidarity (...) The economic wind in our sails gives us some breathing space but does not shelter us from having to make savings in some areas. The ball is now in the court of Parliament and Council. I strongly believe we should aim to have agreement before the European Parliament elections next year," European Commission President Jean-Claude Juncker said during the presentation of Commission's proposal on the next MFF.

The Commission proposed a budget of EUR 1.135 billion in commitment credits, the equivalent of 1.11% of the EU27 gross national product and this commitment level represents EUR 1 105 billion (or 1.08% of VNB) in payment credits. The future budget for 2021-2027 is roughly similar to the current budget (2014-2020) if we include the European Development Fund too. To finance new and urgent priorities, EC says that the current financing >

> level has to be increased, as EU's sustainability, security and prosperity will be obtained through investments in research and innovation, youth, digital economy and management of borders.

Photo: SŽDC

EC's budget proposals relied on a careful examination of the sectors where savings could be made and where the efficiency level could be improved. Thus, a moderate reduction of financing for the agricultural and cohesion policy (of 5% each) was proposed. Policies will be upgraded to make sure they can produce continuous results by using fewer resources and supporting new priorities: the cohesion policy will play a major role in supporting structural results and the long-term integration of migrants.

"We invest even more in areas where one single Member State cannot act alone or where it is more efficient to act together - be it research, migration, border control or defence. And we continue to finance traditional - but modernised - policies, such as Common Agricultural Policy and Cohesion Policy, because we all benefit from the high standard of our agricultural products and regions catching up economically," Commissioner Günther H. Oettinger in charge of Budget and Human Resources said.

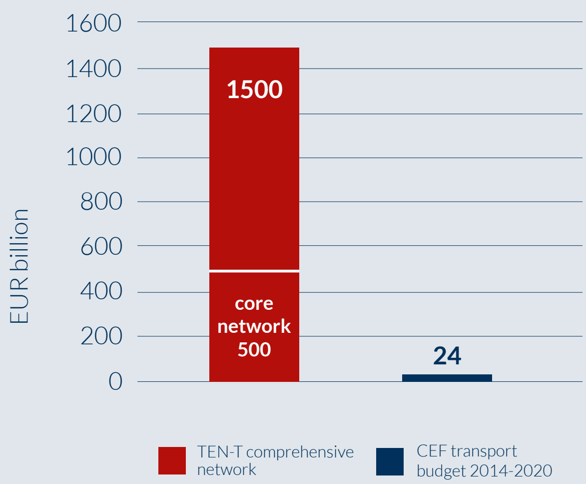
The new budget includes reducing bureaucracy for beneficiaries and management authorities by implementing more coherent norms based on a single regulatory framework, setting clearer objectives and focusing on increasing performance. This will also mean a clearer structure, adapted to priorities as funds are currently divided between too many programmes and instruments. Thus, the Commission proposed to reduce the number of programmes by over a third, from 58 to 37 (in the future budget), by regrouping new integrated programmes and simplifying the use of financial instruments.

The 2027 budget also proposes two new instruments. With a budget of EUR 25 billion, the new reform support programme will provide financial and technical support to member states to achieve priority reforms. Another instrument is the European investment stabilisation function which will help maintain the investment level in case of economic shocks and will provide back-to-back loans from the EU budget worth up to EUR 30 billion, plus a MS financial aid to cover interest costs.

The new transport budget

The total value of CEF instrument exceeds EUR 42 billion of which the budget proposal for the transport sector has a total value of EUR 30.6 billion including EUR 12.8 billion as general envelope and a EUR 11.3 billion grant through the cohesion fund. Beside this financing, the Commission proposed the optimisation of the strategic transport infrastructure to facilitate military mobility by allocating a dedicated EUR 6.5 billion budget through CEF.

Funding needed to complete the **TEN-T** network for the period 2021-2030



Source: Delivering TEN-T, Facts & Figures, DG MOVE, September 2017

"I am pleased to confirm that the Commission proposal of the new MFF reflects our high ambitions in the transport field, also within the future Cohesion Policy. If we want to make our transport fit for the future, we must solve, once and for all, the persisting bottlenecks and missing links, especially across borders. Cohesion policy will remain a decisive catalyst for sustainable transport investments," Corina Crețu, Commissioner for Regional Policy said during EP Plenary debate on the report on cohesion policy and sustainable transport.

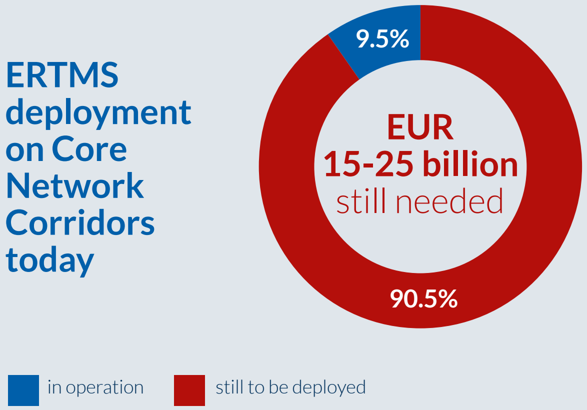
Proposed budget allocation for 2021-2027- CEF

Figures in current prices	EUR million
Total envelope for 2021-2027	42,265
Digital	3,000
Energy	8,650
Transport	30,615
of which:	
General envelope	12,830
Contribution from Cohesion Fund	11,285
Support for Military Mobility	6,500

Grants will remain the preferred methods to approaching the gaps that affect infrastructure projects. The use of simplified forms of grants will be highly promoted. Moreover, the grants will be used for blending with

Significant financial resources are required for full **ERTMS** deployment

The TEN-T Regulation requires that the Core Network Corridors must be equipped with ERTMS by 2030 and the entire TEN-T network by 2050.



Source: Delivering TEN-T, Facts & Figures, DG MOVE, September 2017

financial instruments, especially through the InvestEU Fund, or with the financing of participation or public or private financial institutions to channel investment support.
Transport is a strategic sector for EU with major impact on social and economic activities, but also on the environment, contributing to the growth of economy, continental, as well as global competitiveness, but also to creation of new jobs. According to the latest data of the Commission, this sector accounts for over 9% of EU's Gross Value Added (GVA) with transport services amounting to EUR 651 billion of GVA or 5% of EU's total GVA.
During the TEN-T Days 2018, over 40 parties interested in transport and auxiliary sectors signed the Ljubljana Declaration asking for a higher investment in the European post 2020 budget for clean and modern transport. Through this declaration, EU political factors are asked to increase CEF budget (in the next programming period) in order to meet the objectives of creating the central network between 2021 and 2030. Necessary investments amount to EUR 500 billion and this figure amounts to around EUR 1.5 trillion to complete, by 2050, the entire EU transport network (core and comprehensive) and other transport investments, such as in urban transport, digitalisation and maintenance.

Searching for the right EU rail budget

The railway sector is known as the greenest transport mode so, in conformity with EU environment and sustainable transport development objectives, this transport mode has to receive support and significant financial resources to reach EU's major targets. According to Commissioner Violeta Bulc's declarations back in 2016, EUR 403 billion are necessary by 2030, making EU's funds for the next programming period vital for the operation of the transport system. Next to CEF funds, EFSI can also support railway projects. Also, there is a huge potential in involving the private sector in railway projects.

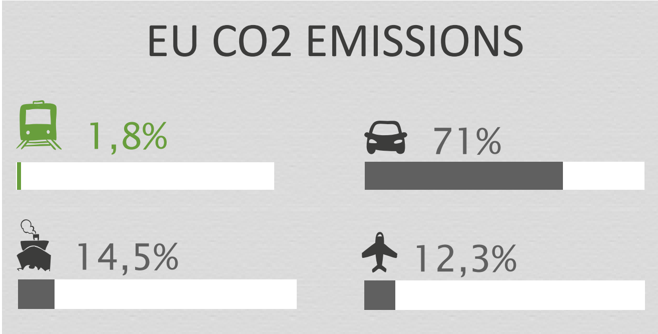


Photo: UNIFE

To create a budget that favours railway development, to significantly stimulate economic and social development, the railway sector has built on a joint position and UNIFE has prepared a document on the next multiannual budget. As UNIFE takes an active position in promoting railway development, sustainable transport and in facilitating dialogue between the industry and authorities, the association tries to increase the awareness of railway importance, a sector for which the next budget period becomes vital for meeting EU targets. In this context, Mister Philippe Citroën, Director General of UNIFE, had the kindness to answers to our questions on the need to finance railway projects and the importance of MFF post 2020.

According to the Core Network Corridor Work Plans, the required investments to complete the core infrastructure of the Trans-European Transport Network reach up to EUR 750 billion (from 2016 until 2030). If the investments are equally spread over this period, the investment level for 2021-2030 amounts to EUR 500 billion. Railways, alone, need EUR 430 billion by 2030. How can the Post-2020 MFF approach such a huge infrastructure investment when there is an even bigger challenge: "how do you fund more with less"?

Philippe Citroën: With the European Commission proposal for the next post-2020 Multiannual Financial Framework (MFF) published on 2 May, we are now entering a very challenging negotiation period: the EU Member States and the European Parliament will have to decide how much money various sectors will benefit from and how it will be spent. The upcoming Austrian Presidency of the Council of the EU will have a key role in hammering out the compromises, and the Romanian Presidency will have to conclude the negotiations in the first months of 2019.
Connecting Europe Facility (CEF), with a EUR 22.4 billion budget for Transport (over the period 2014-2020), has provided crucial support to the achievement of the TEN-T Policy objectives and the development of sustainable transport system. The rail system has been a key beneficiary of the funds available under the CEF, >

> which were increased threefold compared to TEN-T funding in the 2007-2013 period. The results achieved so far show the importance of these investments to the whole European economy. The CEF grants have played an important role in supporting projects that are essential for the implementation of the TEN-T Core Network Corridors.

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) – the Cohesion Fund and the European Regional Development Fund (ERDF). In the current programming period (2014-2020), both the Cohesion Fund and the ERDF have provided significant support to environment-friendly means of transport (i.e. investments in rail and urban transport). 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.

It is also worth mentioning that public procurement has a strong influence on how European money is being spent. The next MFF should be used as an opportunity to incentivise the Member States – when receiving support from EU Funds – to swiftly implement the 2014 EU public procurement framework, in particular the Most Economically Advantageous Tender (MEAT) principle. This would ensure that the money of European taxpayers is spent in the most efficient way, as life-cycle costing approach would sway the choice towards quality products. More quality-focused, social, and environmental criteria should therefore become determining factors in the choice of a product or contractor.

How can the EU prioritise railway transport, by providing higher financing, when there are other transport modes that will also require very high amounts?

Philippe Citroën: You rightly mention that the investment needs are huge, and it will not be possible to cover all EUR 430 billion required in the rail sector by 2030 only with the EU budget. National funding and private financing will have to play an important role, and the EU funding should complement it where it can make the most valuable contribution – in other words, where it can add the biggest EU added value.

The resources allocated to rail transport in the post-2020 MFF will play a key role in ensuring that the transport system, as a whole, efficiently supports the EU's economic growth. In the post-2020 programming period, there should be a streamlined approach for all funds being prioritised and clearly earmarked for railways, as the rail should be the backbone of a low-carbon transport system in the EU.

For the EU, tackling climate change and minimising its effects are a priority. Here, the transport sector represents around a quarter of the EU's GHG and the answer to cutting emissions is railway transport. Thus, the EU should rely on rail transport development by providing the needed investment. Do you think that the EU should clearly provide a "dedicated" financing to the railway sector? The funds can/should also be distributed in the same manner to each transport mode?

Philippe Citroën: The rail stands out as the greenest and safest mode of transport. Future EU investments in rail projects will be a crucial tool to maintain the EU's leadership in achieving the sustainability targets and the implementation of the COP21 Paris Agreement. It is important that the CEF continues to provide the grants for rail infrastructure projects. To illustrate this with numbers, I would like to emphasise the fact that rail is contributing just over 3.3% to overall global transport emissions (or less than 1% of overall emissions) while transporting 9% of world passengers and freight-tonne kilometres. Within the EU, the rail contributes to only 1.8% of the EU transport emissions.

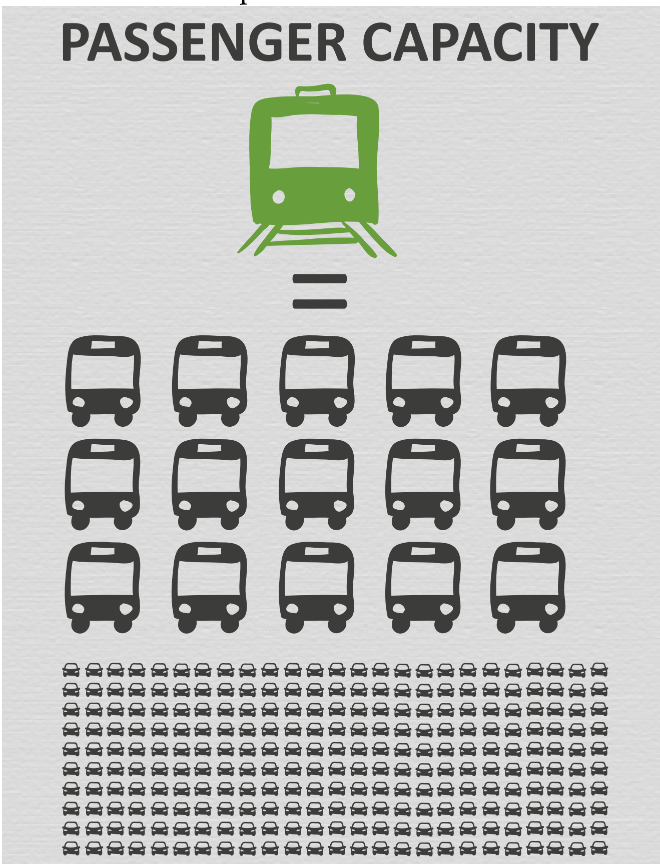


Photo: UNIFE

Also, should be there an additional committed (dedicated) financing for other transport investments such as ERTMS, ATO, ATS, as ERTMS needs additional resources in order to push forward its deployment?

Philippe Citroën: I fully agree that there should be dedicated fundings made available for the automation and digitalisation of the railway sector – both within the CEF and ESI Funds. 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. UNIFE will continue to closely cooperate with the European Commission and ERTMS European Coordinator Karel

Vinck in their continuous efforts to speed up ERTMS deployment, as well as with other European Coordinators in the development of the TEN-T Core Network Corridors.

The Reflection Paper on the Future of Finances is structured around the five scenarios, each of them having different consequences, on how much to spend and for what purpose, and where the money could come from. How would you describe the "railway position" on the future financing?

Philippe Citroën: The rail sector has been very active in developing a joint "railway position", as you say. Jointly with other major European rail sector association (CER, EIM, ERFA, UIP, and UITP Europe), UNIFE prepared a Joint Position Paper on the post-2020 MFF that clearly conveys a strong message to decision-makers: "It is important for the EU to continue investing in rail projects, particularly considering the benefits of rail transport for the economy and for society". We hope that the Joint Position Paper will serve as a good tool for policymakers when considering the transport investment priorities in the next MFF.

Although the railways need huge financial support, from infrastructure, to rolling stock and research and innovation, what are the rail industry's requests (or comments) to the EU when talking about Post-2020 MFF?

Philippe Citroën: From our perspective, CEF should continue to be the cornerstone of the EU Investment Policy in the transport sector in the post-2020 period. Financial support through CEF grants will be vital to the development of the TEN-T Core Network Corridors that are key to bridge the gaps and bottlenecks, thus increasing the competitiveness of the European rail system. UNIFE's position is that the CEF eligibility should be also extended to rail rolling stock to increase the attractiveness of rail for passengers and to support the decarbonisation of the transport system.

For UNIFE members, sustainable urban mobility is also a key topic where our companies provide cutting-edge technological solutions to the ever-increasing mobility challenges facing our cities: pollution, congestion, etc. In this context, it will be important to increase support to the urban nodes located on the TEN-T Core Network.

I would also like to stress the importance of the ESI Funds that have provided a major contribution to rail developments (both mainline and urban) all over Europe, and especially in the cohesion countries. For instance, a lot of cities in Central and Eastern European countries have been able to invest in urban rail projects. Therefore, the support from the ESI Funds should also be made available in the next MFF, including for acquiring new rolling stock. To ensure maximum efficiency of investments and to increase the absorption capacity in the Member States, the next MFF should prioritise capacity-building measures. It will be particularly important to strengthen the administrative capacity of the national implementing bodies to ensure continuity in terms of human capital and experience in the preparation of good projects.

I would also like to point out that EU investments should be managed as the continuation of a wider EU policy agenda, for instance, trade relations. Given that in the recent years some of the EU trading partners have put in place significant market access barriers, the EU grants should not be awarded to companies from countries that have decided to progressively close their own markets to European companies.

What is UNIFE's position on the next MFF relating to CEF Transport grants, ESI Funds as well as the European Fund for Strategic Investments – which financing source should mobilise additional investment since private investments in railway projects have a huge potential? What would the ideal MFF be for railways?

Philippe Citroën: To achieve the ambitious targets the EU has set for the transport sector (for instance in the 2011 Transport White Paper), grants will be needed. Most rail projects provide enormous economic and social added value. When policymakers decide to invest in a new or upgraded railway line, it is a decision that will boost the economic growth in the cities and regions that the line will connect in many decades to come. New rolling stock, new trams and metros can change the daily lives of millions of EU citizens. This is the realm of public policy, where economic and social aspects should guide the decisions, and grants are the best tool to support these policy goals. Moreover, the demand for EU funding is very strong, as shown by the 2014, 2015 and 2016 CEF Transport calls, which were all significantly oversubscribed. This very high demand and the strong project pipeline indicates that the grants budget for rail projects should be increased further in the next MFF.

The creation of the European Fund for Strategic Investments (EFSI) came with a promise of more investments for transport projects. Unfortunately, the number of projects in the rail sector so far is relatively small. EFSI has been able to finance a few rolling stock and urban mobility projects, yet there are still no tangible results with regard to rail infrastructure. The European Investment Advisory Hub should play a more proactive role in helping rail projects attract private financing.

In the post-2020 MFF, the "blending" approach of CEF and Structural Funds grants with the EFSI should be used only as an additional approach. It is clear that rail projects will need significant grant support for sustainable transport infrastructure, signalling (ERTMS) and rolling stock projects. We hope that both CEF and ESI Funds will be reinforced in the next MFF, as the needs are certainly much bigger than the available grants.

Photo: DB AG/ Kai Michael Neuhold