

## **Contribution to the consultation process to the EC communication**

### **A sustainable future for transport: Towards an integrated, technology-led and user friendly system**

#### **1. Introductory words**

**CEE Bankwatch Network welcomes the possibility to take part in the consultation process to the paper *A sustainable future for transport: Towards an integrated, technology-led and user friendly system*. Since we are an NGO focused on public finance, we provide brief input that is linked to the policy drivers: EU cohesion policies and the EU's investment finance tool – the EIB.**

It is our belief that due to the facts provided below the future transport policy of EU must not be created in an isolated manner, but needs to reflect the wider context of the development of transport and other sectors, where the tendency to cover the “real costs” of the activities that would contribute to the harmonization of conditions between rail, road, waterways as well as air traffic will be increasingly important. Significant impacts on the demand side and shifts between the transport modes can be expected.

Here we refer to the EEA reports on direct subsidies for the transport sector and on external drivers of transport demand<sup>1,2</sup>.

Transport contributes to environmental problems such as climate change, air emissions and noise and is at the same time favoured by significant subsidies. An EEA report identifies European transport subsidies worth at least EUR 270 to 290 billion a year. Road transport receives EUR 125 billion in annual subsidies, most of it as infrastructure subsidies, assuming that taxes on road transport are not regarded as contributions to finance infrastructure. Aviation, as the mode with the highest specific climate impact, gets significant subsidies in the form of preferential tax treatment, in particular exemptions from fuel tax and VAT, which add up to EUR 27 to 35 billion per year. Rail is subsidised with EUR 73 billion per year and benefits the most from other on-budget subsidies. For water-borne transport, EUR 14 to 30 billion in subsidies have been identified.

Some of these subsidies, particularly those in road sector and aviation, are clearly counterproductive from the point of view of achieving the environmental goals of the EU.

Therefore, prioritizing by the EU on the future of the transport infrastructure sector must without doubt reflect the need for “smart” investments that will focus on contributing to the goals that go beyond the business as usual mass transport infrastructure development approach, and that will not jeopardize the EC's goals in such areas as combating climate change or implementing

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<sup>1</sup> Size, structure and distribution of transport subsidies in Europe, EEA Technical Report no. 3/2007

<sup>2</sup> Beyond transport policy — exploring and managing the external drivers of transport demand, EEA Technical Report no. 12/2008

Europe's Sustainable Development Strategy. Future EC investments need to contribute to decreasing car dependency, noise and air pollution, urban sprawl and chronic congestion.

## 2. The EU cohesion policies in transport

### 2.1 Situation overview in 2009

The Structural Funds and the Cohesion Fund are the financial instruments of European Union (EU) regional policy, which is intended to narrow the development disparities among regions and Member States. The Funds participate fully, therefore, in pursuing the goal of economic, social and territorial cohesion.

For the period 2007-2013, the budget allocated to regional policy amounts to around € 348 billion, comprising € 278 billion for the Structural Funds and € 70 billion for the Cohesion Fund. This represents 35% of the Community budget and is the second largest budget item.

22 percent of this amount (75.8 bil. EUR) is supposed to be allocated to transport infrastructure. Taken from the "cohesion-wise" perspective, the division of this amount differs in the lagging behind regions (the ratio there is 25.7% out of all allocations) and non-lagging behind regions (4.5% in the countries whose GDP is over 75 percent of the EU average).<sup>3</sup>

In the division under sub-categories, the numbers are as follows:

Railways - 31.4%, motorways - 29.9%, roads – 24% (the road infrastructure in total – 53.9%), seaports – 4.7%, multimodal transport - 2.8%, airports – 2.4%, urban transport – 2.4%, intelligent transport systems - 1.4%, inland waterways 0.8%, cycling 0.4%.<sup>4</sup>

**Table: Allocation of cohesion policy budget by categories and sub-categories, 2007-2013 (mil. EUR at current prices; % shares)**

Transport		75 774.0	22.0	100.0
Code	Sub-categories			
16	Railways	4 105.3	1.2	5.4
17	Railways (TEN-T)	18 518.6	5.4	24.4
18	Mobile rail assets	558.8	0.2	0.7
19	Mobile rail assets (TEN-T)	695.6	0.2	0.9
20	Motorways	5 133.1	1.5	6.8
21	Motorways (TEN-T)	17 482.2	5.1	23.1
22	National roads	7 659.3	2.2	10.1
23	Regional/local roads	9 775.8	2.8	12.9
24	Cycle tracks	634.4	0.2	0.8
25	Urban transport	1 793.9	0.5	2.4
26	Multimodal transport	1 635.4	0.5	2.2
27	Multimodal transport (TEN-T)	446.8	0.1	0.6
28	Intelligent transport systems	1 089.8	0.3	1.4
29	Airports	1 851.1	0.5	2.4
30	Ports	3 532.5	1.0	4.7
31	Inland waterways (regional and local)	265.8	0.1	0.4
32	Inland waterways (TEN-T)	595.6	0.2	0.8

<sup>3</sup> Source: DG Regional policy, 2009

<sup>4</sup> Source: DG Regional policy, 2009

## EU cohesion policies in place

The EU Sustainable Development Strategy<sup>5</sup> sets, among other goals, the following objectives for transport in Europe:

- Decoupling economic growth and the demand for transport with the aim of reducing environmental impacts
- Achieving a balanced shift towards environment friendly transport modes to bring about a sustainable transport and mobility system
- Modernizing the EU framework for public passenger transport services to encourage improved efficiency and performance by 2010.

The current Cohesion Fund regulation clearly incorporates clean urban transport and public transport as well as other environmentally-friendly transport investments into the scope of assistance from the Fund. Clean urban transport as well as railways, multimodal transport and intelligent transport systems are included among the promoted Lisbon categories of expenditure. However, all large-scale transport infrastructure, including motorways and airports, is also on the Lisbon list.<sup>6</sup>

The Community Strategic Guidelines for Cohesion 2007- 2013 include the promotion of “environmentally sustainable transport networks, particularly in urban areas” among the priorities for funding. The Communication “Cohesion Policy and cities: the urban contribution to growth and jobs in the regions” stresses the need to “improve the affordability, efficiency and effectiveness of public transport, as well as linking the different transport modes” and to “promote the use of cycling, walking and other alternative and ‘soft’ forms of transport” as part of an integrated transport strategy for urban areas.<sup>7</sup>

### CEE countries as the most significant recipient:

Over half of the cohesion budget amount – 177 billion EUR – will go to the ten Central and Eastern European member states (CEE10), including the latest newcomers Bulgaria and Romania.

Altogether, 55 billion EUR - 73% of the total EU funds transport funding - is allocated for transport in the Operational Programmes of the CEE10<sup>8</sup> countries for 2007-2013 (31%). This includes transport measures in all national OPs – not only in the specific OP Transport. Less than one-third of the transport funding (15 billion EUR) is to be invested in railway infrastructure and only one-tenth (5.7 billion EUR) in urban public transport. The biggest piece of the pie – 55% - goes for road construction (including motorways, national, regional and local roads). Approximately one billion EUR is to be invested in ports, another one billion EUR in air, whereas inland waterways are to receive half a billion EUR. Multimodal transport as well as intelligent transport systems are to receive together only 1.5 billion EUR whereas cycling paths will receive approximately 0.4 billion EUR.<sup>9</sup> The exact breakdown is presented in chart 3.

### Shifts in CEE in the last 15 years

In CEE countries, there has been a massive exodus of freight and passengers from rail and public transport to road over the last 15 years. Car ownership has exploded and public transport use has decreased considerably. A big part of the explanation for this development lies in the under-

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<sup>5</sup> Sustainable Development Strategy. 2006. European Council DOC 10917/06

<sup>6</sup> See Article 9(3) and Annex IV of the general regulation for cohesion policy 1083/2006.

<sup>7</sup> COM 2006(385), chapter 3.1.8

<sup>8</sup> EU10 countries include new member states without Cyprus and Malta.

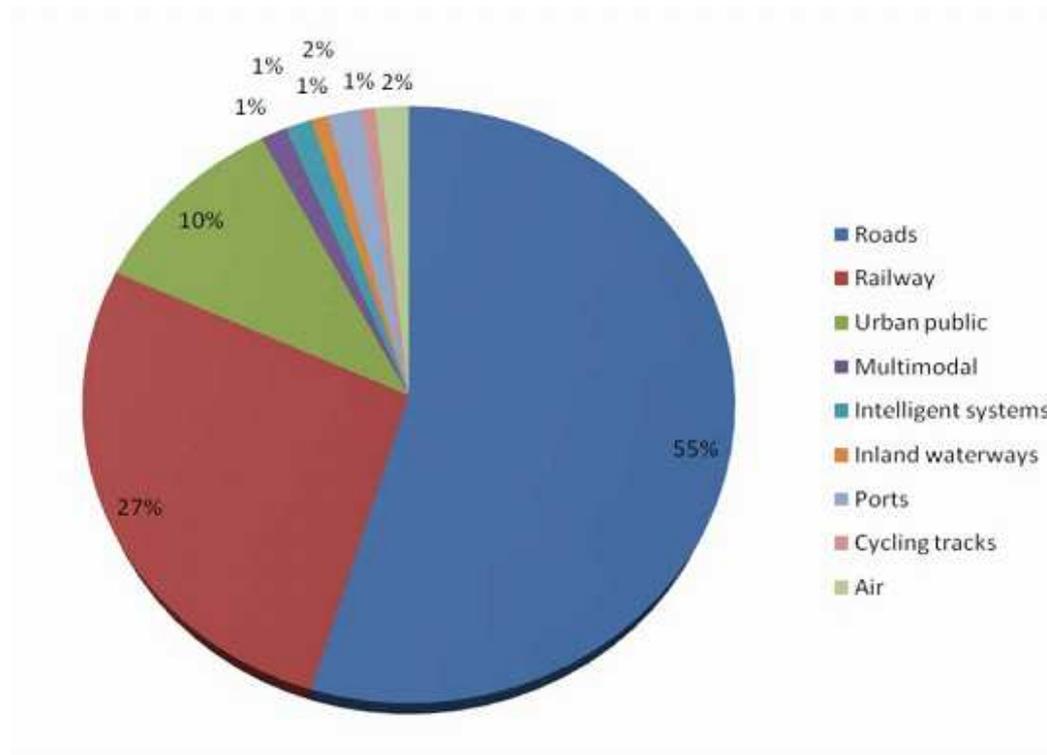
<sup>9</sup> Konecny and Medarova-Bergstrom, Do EU Funds Contribute to Climate Change Abatement in New Member States?, CEE Bankwatch Network and FoEE, June 2008

financing of public transport and railways in the CEE countries and the prioritisation of investments for road infrastructure.<sup>10</sup>

In other words, the switch from rail and public transport to cars and trucks has been subsidised by public funds. Although the share of passengers transported by public transport has declined in favour of personal cars, it is still considerably higher than in the old EU member states. For example, there are fifty tram systems in the CEE region, which is the highest concentration in Europe. Most CEE cities do have plans to modernise public transport networks and rolling stock but have been limited by the lack of funds. Therefore, many of them have been waiting for support from EU funds and the realisation of their projects is now dependent on it happening.<sup>11</sup>

Similar to public passenger transport, the share of freight transported by rail is also still significantly higher in CEE countries, despite the big declines in favour of roads. In this respect, the transport sector of CEE countries is still closer to the ideal of a balanced modal split. In 2001, the EU White Paper on Transport demanded: “Every effort must therefore be made to convince the [CEE countries] of the need to maintain the railways’ share of the freight market at a high level, with a target of around 35% for 2010.” This reflects the fact that in the EU-15, trains produce about three times less CO2 emissions per passenger kilometre than passenger cars. For freight transport, trains cause more than five times less emissions per tonne-kilometre than trucks.<sup>12</sup> The development of public transport, the limiting of private cars and the creation of pedestrian zones have been shown to reinvigorate cities and increase sales in shops.<sup>13</sup>

**Chart: Breakdown of 2007-2013 EU funds for transport in CEE-10 countries according to mode**



Source: CEE Bankwatch Network, 2008. Calculations are based on the financial allocations in the Operational Programmes for CEE-10 approved by the European Commission.

<sup>10</sup> *Paving the way for EU enlargement.* European Environment Agency, 2002.

<sup>11</sup> *Tram Systems in Central and Eastern Europe: Achievements and future needs.* UITP, 2006.

<sup>12</sup> *Overall energy efficiency and specific CO2 emissions for passenger and freight transport.* European Environment Agency Indicator Factsheet TERM 2003 27 EEA 31

<sup>13</sup> *Better mobility in urban areas.* UITP, 2003.

As a result of increasing car and truck traffic in the CEE countries, transport has been the fastest growing source of their greenhouse gas emissions.<sup>14</sup>

While their overall greenhouse gas emissions have fallen, the transport CO<sub>2</sub> emissions of the CEE10 countries soared by 40% in the 1995-2004 period. Transport is the main cause behind overall emissions rising now again, thus threatening any future emission reduction goals.<sup>15</sup>

### The role and position of public transport

Apart from lower energy consumption and greenhouse gas emissions, public transport has numerous other advantages compared with private cars. Modernizing public transport is an essential policy to avoid congestion, accidents, noise, pollution, and land take resulting from individual car transport.

Public transport is safer: the number of seriously injured and killed people per driven passenger-kilometers is 10-20 times lower for collective transport than for cars. In cities, public transport uses valuable urban space much more economically than cars: transport from home to work by a personal car, including parking, requires 20 times more space-time than by bus or tram.

In addition, cars lead to congestions that annually bring about billions of euros worth of damage to Europe's economy and are responsible for the fact that air quality and noise standards are not being met in many cities.

The mobility of large categories of people who do not have access to a car – usually lower-income or older people, women, children – is totally dependent on public transport.

The planned funding for public urban transport as compared to roads does not match the emphasis given to it in the EU cohesion policy and falls short of the needed investments. Without further major modifications, the funding support for public transport in 2007-2013 will be inconsistent as there will be only a few projects here and there; and it will be insufficient as it will not match the existing needs.

However, the analysis of allocations shows that instead of using EU funds to systematically improve public transport, the governments are planning to focus on building roads. Taken together, more than a half of all the EU funds for transport in CEE countries are to be invested in roads.

Air transport, which has the highest climate impact of all transport modes, is to receive one billion EUR subsidy from the EU funds in CEE countries. According to the European Environment Agency, air transport in the EU is already receiving a gigantic subsidy of 27-35 billion EUR every year by being exempted from fuel-tax and VAT unlike other transport modes.<sup>16</sup> Given this, any extra public funding for aviation from EU funds is not justifiable.

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<sup>14</sup> European Environmental Agency. 2003. *Europe's Environment – a third assessment*.

<sup>15</sup> European Environment Agency online data service.

<sup>16</sup> *Size, structure and distribution of transport subsidies in Europe*. European Environment Agency Technical Report 3/2007.

*Some additional data:*

*A number of studies have undermined the widespread conviction that motorways are essential to regional development and employment creation. The economic impacts can just as often be positive as negative, depending on the specific local circumstances of a given region.<sup>17</sup>*

*Experience around the world also shows that it is not possible in the long term to solve congestion problems by building ever more roads, as they generate ever more car traffic. As the European Federation for Transport and Environment puts it: "Building road infrastructure inflates transport demand just as printing money creates inflation."<sup>18</sup>*

*Furthermore, the social costs of transport, such as accidents, damage to health through air pollution and noise, and climate change impacts have been estimated at 7.3% of the EU's GDP.<sup>19</sup>*

*These costs to society are almost exclusively caused by road transport (84%) and aviation (14%). If external costs are taken into account, road transport becomes a much less attractive option and the prioritization of road-building from public resources becomes even less justified.*

## **2.2 Proposed solutions for the direction of the EU funds**

More generally EU public funding should support transport policies which focus on a demand management measures based on a combination of road pricing, modal shift, modernization of public transport, better urban planning and soft measures inducing behavioral changes based on shifting traffic to environment-friendly modes, and promoting alternatives to cars, as well as increased fuel efficiency and use of alternative fuels. Thus the overall transport intensity of the economy – volume of transport per unit of GDP – should be reduced.

### **Specifically for the EU cohesion funding:**

- **At least 75% of all transport funding from EU structural and cohesion funds should be earmarked for low-carbon and environmentally friendly transport** projects such as clean public transport, railways, inter-modal infrastructure, intelligent systems, traffic management and bicycle tracks.
- **For freight transport, EU funds should give explicit priority to the development of rail links between major cities**
- **EU funds in public transport should cover improvements both in infrastructure and rolling stock and be part of integrated transport strategies including the enhanced accessibility, frequency, quality, safety and environmental performance of the public transport services**
- **The EU should set requirements for climate proofing of financed projects**

Not to do:

- At the same time, EU funds should not aggravate the negative trends by prioritizing high-emission road transport and should phase out of the funding for the aviation transport

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<sup>17</sup> SACTRA, *The Standing Advisory Committee on Trunk Road Assessment, Transport and the Economy*, DETR, London, 1999.

<sup>18</sup> *Transport and Economy: The Myths and the Facts*. European Federation for Transport and Environment (T&E) and Stichting natuur en milieu, 2001.

<sup>19</sup> *External Costs of Transport*. INFRAS Zurich / IWW Karlsruhe, October 2004.

- Funding for roads should be primarily focused on the **rehabilitation of the existing road infrastructure** and safety improvements rather than the building of new roads and motorways.

### **3. The role of the European Investment Bank in the transport sector**

#### **3.1. Introduction**

The EIB is a policy-driven financial institution whose main task is to contribute to achieving the EU's policy objectives. In that role the EIB has a signal function. Loans from the Bank do not only serve to enable the completion of viable projects but also to indicate the EU's "stamp of approval".

The EIB is, in its own words, "a key player in financing the European transport sector". This gives it additional weight in shaping a sector where a change in direction is urgently needed.

Between 1996 and 2005, over half of the EIB's transport investments went to roads and air transport, and in central and eastern Europe this figure was over 68%. The Bank sought to address this imbalance in its 2007 transport lending policy, where it states a preference for funding modes with a low carbon intensity, such as railways, inland waterways, maritime transport, urban and intermodal transport. Recent developments indicate however an increase rather than decrease in the EIB's investments into road transport. More particularly, the Bank continues to massively support the car manufacturing sector.

Between December 2008 and 12 May 2009, the Bank approved EUR 5.7bn worth in car and truck industry loans.<sup>20</sup> By June 2009 its lending to the car industry rose to EUR 7bn, making up ten percent of the EIB's entire portfolio for this year.<sup>21</sup>

#### **3.2. Proposed EIB-related policy steps**

There is a need to dramatically improve EIB's project selection procedures to transform itself from a client-driven bank financing a series of transport projects into a truly policy-driven bank that succeeds in balancing the different transport policies of the EU, fully integrates environmental considerations into transport financing and contributes to developing more sustainable transport:

The change is needed in EIB's portfolio, which, however, also requires numerous improvements to be implemented in the procedural and process appraisal processes.

##### **Portfolio-related recommendations:**

1. The EIB shall halt investments into aviation. The aviation is the fastest growing source of CO2 emissions, the 2001 White Paper sought to control its growth, and it has been shown that its perceived economic benefits have been exaggerated – yet aviation still receives massive, unjustified public subsidies.
2. Investments in rail, urban public transport, and inter-modal transport must continue to increase and must make up the vast majority of the EIB's transport investments in each country.

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<sup>20</sup> the EIB says this is EUR 5.2bn see <http://www.eib.org/about/press/2009/2009-078-eib-board-gives-green-light-for-an-additional-eur-750m-to-support-cleaner-transport.htm>

<sup>21</sup> EIB press release of 7 April 2007

These projects may include:

- ❖ railway infrastructure and passenger rolling stock, particularly that which is aimed at improving cross-border interoperability
- ❖ integrated urban public transport systems, including innovative pricing systems such as all-in-one inter-modal travel-pass cards
- ❖ suburban and regional transport systems
- ❖ non-physical infrastructure and transport management projects such as the ERTMS (European Rail Traffic Management System) and IT solutions to improve the efficiency of logistics chains.
- ❖ inter-modal facilities

3. Maintenance or safety improvements should become a priority for the EIB financing in the road sector, followed by support for secondary road networks. In any road projects, alternatives (including the zero alternative – no construction) need to be assessed prior to the financing decision and environmental damage needs to be avoided. There must be no damage to present or planned protected natural areas. By 2010 the share of road transport investments in the EIB portfolio should be halved to make space for the development of sustainable transport modes.

4. Support to projects limiting transport growth needs to be stepped up. These may include:

- ❖ urban pedestrianisation projects,
- ❖ the construction of urban cycle path networks and other urban cycling facilities,
- ❖ projects which specifically reduce the need for the transportation of certain goods, for example local food schemes.

5. Loans should only be given to the car industry for R&D for more efficient, cleaner and safer technologies, not for manufacturing.

#### **Process-related recommendations:**

6. The EIB must prepare, in consultation with the public, its own transport sector operational policy, that will state what its transport priorities are, setting targets for them, and showing how it is promoting EU goals on transport, environment and regional cohesion.

7. The EIB's project eligibility criteria must promote environmentally acceptable transport solutions with low climate impacts and ensure that projects can be excluded from financing on environmental or social grounds. Transport projects in non-EU countries must meet the same criteria to avoid double standards and the offsetting of benefits gained in EU countries.

8. The EIB needs to set year-on-year limits and targets for reductions in the greenhouse gas emissions from its projects, both individually and cumulatively, and carry out annual emissions audits. This should include all projects resulting in traffic generation, eg. shopping centres, industry investments etc. The climate impact of a project must be assessed separately from economic costs and clear criteria should be set for excluding projects with significant GHG emissions.

9. The EIB must ensure the transparency of its projects and strong public scrutiny over them. This is especially important in PPP projects and contracts as PPP arrangements are often extremely complex.

10. The EIB must develop criteria for excluding underperforming companies and those which have been convicted of corruption.

#### **Project appraisal process-related recommendations:**

11. Projects should be based on a thorough national or EU transport strategy sharing the main goals of the EU White Paper on Transport and subject to public consultation and strategic environmental impact assessment (SEA) <sup>22</sup>. Support from the EIB, especially for TEN-T projects, must be conditional on the existence of an SEA of the plans and programmes containing the projects.

12. The EIB needs to be much more rigorous in its verification of project promoters' claims regarding environmental impacts and public participation processes. EIA processes and other public consultations need to be independently monitored by contacting civil society groups during the project appraisal process and its conclusions need to feed into the decision-making process of the EIB Board.

13. The EIB needs to interpret Article 18 of its statute literally, ie. it must not finance any project able to be financed by other sources at reasonable rates.

14. EIB shall limit its lending to carmakers to R&D for vehicle efficiency and safety.

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<sup>22</sup> Also required by art.8 of the TEN-T guidelines (884/2004/EC)