

Position Paper

Brussels, 7 September 2018

Commission Proposal on Connecting Europe Facility

COM(2018) 438 final

CER Position on CEF Proposal

1. Introduction

CER welcomes the Commission proposal COM(2018) 438 final of 6 June 2018 on establishing the Connecting Europe Facility, which is the implementing tool of the TEN-T network as defined in Regulation 1315/2013. As such it plays a vital role in mobilising the necessary resources needed to complete the core network by 2030 and the comprehensive network by 2050.

The CEF is also an important tool for the European Commission to push their policy objectives, such as greening transport and achieving efficiency gains through enhanced interoperability, and to correct for market failures, for example for projects with significant societal benefits which do not receive adequate financing from the market. The latter is especially important for the rail sector as most rail projects do not generate sufficient revenues to cover total investment costs. Typically, only 10-20% of the overall costs of a rail project can be generated through extra cash flows or savings. On the other hand, the socio-economic profitability of these projects, in terms of their positive impact on reduced greenhouse gas emissions, pollution, and increased safety, is very important.

The rail sector outlined its investment priorities for the next financial period in the CER/EIM joint position paper on MFF published in February 2018. Given these investment needs, CER is concerned that the proposed budgetary resources for transport of EUR 30.6 billion are not sufficient. This, as well as number of other comments and observations related to the CEF proposal, are outlined below.

Investment in rail infrastructure creates **EU-added value** by directly contributing to the common European objectives of decarbonisation, digitalisation, and increased competitiveness. It supports the creation of the single market with increased mobility of citizens and goods, as well as seamless mobility and accessibility for all users, in particular elderly people, persons of reduced mobility and passengers with a disability. Furthermore, it directly contributes to economic growth, jobs and cohesion.

2. General Observations

Compared to the current CEF Regulation, for which the objectives and eligibility criteria for funding are directly linked to Articles 4 and 7 of Regulation 1315/2013, the CEF proposal omits many of those links.

Article 4 of Regulation 1315/2013 defines the objectives of the TEN-T network in four clusters - cohesion, efficiency, sustainability, and increasing the benefits for its users- which are then further subdivided into cluster-specific objectives. Article 7 of the same regulation defines "projects of common interest" as projects which must contribute to the objectives listed in Article 4, be economically viable on the basis of a socio-economic cost-benefit analysis, and which must demonstrate European added value.

Given that the CEF Regulation is the implementing tool of the TEN-T network, reinserting the link to Articles 4 and 7 of Regulation 1315/2013 is essential in order for CEF to remain an efficient funding and financing tool for transport. Not just any projects should be eligible

for CEF funding, but only those which provide European added value, which are economically viable on the basis of a socio-economic cost-benefit analysis, and which contribute to the objectives of the TEN-T regulation.

3. Funding Priorities

Digitalisation of transport/ERTMS

Digitalisation should be the backbone of the transformation of railway operation and the top priority for making rail more efficient and competitive. In the joint CER/EIM position paper on MFF, the rail sector highlights the digital transformation of operations, and in particular ERTMS on board and on track, as one of the main priorities for the rail sector for the upcoming financial period. The rail sector estimates that at least EUR 15 billion are needed in EU funding for the deployment of ERTMS alone for the period 2021-2027¹.

In addition to ERTMS, other digital technologies can bring tremendous changes in the way railways are operated, making it possible to run more trains, improve reliability and boost flexibility. The transformation of operations through the combination of Automated Train Protection (ATP), Automated Train Operations (ATO) and Automated Train Supervision (ATS) will increase capacity, punctuality, interoperability, safety and in some cases output in terms of performance (speed).

As IT technology develops quickly, the digitalisation of railways should be made a priority for future investments on the existing infrastructure. Given the expected capacity and productivity gains from such investments, and considering rail's environmental advantage, investing in the digital transformation of the railways is Europe's best chance of reducing transport emissions in Europe.

While the CEF proposal supports funding for telematics applications and automation, CER feels that this deserves higher priority.

Digital Sector - 5G

The CEF proposal supports actions implementing uninterrupted coverage with 5G systems of all major terrestrial transport paths, including the TEN-T network. CER welcomes this proposal and asks to prioritize the implementation of uninterrupted 5G coverage on the core network corridors, for applications in areas such as remote monitoring of railway assets, passenger security, autonomous railway operations or digital freight.

Alternative Fuels

The CEF proposal puts a new emphasis on the development of alternative fuels and their infrastructure. This is in line with the Commission's policy objectives of decarbonizing transport, and is an important step toward climate action. CER welcomes this new priority as the deployment of electricity, hydrogen fuel and wind energy are also important for the

¹ Own estimation for the minimum need of EU funding for a period of 7 years, based on the European Court of Auditors' (CoA) assessment that deploying ERTMS on the core network (both on board and trackside) between 2017 and 2030 (14 years) would cost around €107 billion. Considering that only 6% of the core network was equipped with ERTMS in 2016, and assuming an EU co-funding rate of 30%, the EU contribution to ERTMS deployment should amount to at least: $107 \times (7/14) \times 30\% \times (66,700 - 4,000) / 66,700 = € 15 \text{ billion}$. For more information, see CER/EIM Position Paper on MFF "A Sufficient EU Budget for the best Rail System in Europe", 8 February 2018 (http://www.cer.be/sites/default/files/publication/180208_CER-EIM_PositionPaper_MFF.pdf)

rail sector. For example, since the beginning of 2018, the Dutch electrified railway network is running solely on renewable energy from wind power.

However, CER is concerned that the funding priorities in the CEF proposal to develop and deploy alternative fuels and their infrastructure are predominantly linked to the road sector. This is demonstrated in the recitals, for example by the reference to the Commission's 2017 Communication "Europe on the Move", quoted in Recital 10, or by the reference to the Commission Communication on delivering low-emission mobility in Recital 11, both of which focus exclusively on the road sector.

CER asks that funding for the development and deployment of alternative fuels should be equally accessible to all modes of transport.

4. Budget

Rail's investment priorities are focused on completing the TEN-T network and supporting the digital transformation of rail operations, including ERTMS on board and on track, for which at least EUR 15 billion are required from the future EU budget. Given this, CER feels that the proposed budgetary resources for transport of EUR 30.6 billion are not sufficient.

CER calls upon policy makers to better reflect the importance of the digital transformation of rail in the new CEF proposal by:

- introducing a recital naming the digitalisation of transport, such as telematics applications, as one of the main CEF funding objectives for the period 2021-2027
- increasing the CEF transport budget by at least EUR 10 billion
- earmarking a specific budget for actions supporting telematics applications and automation as referred to in Article 9(b)(2)

An inadequate CEF budget will delay the deployment of ERTMS and will put at risk the creation of a smart, sustainable, efficient, safe and secure transport system in Europe.

5. Grants and Blending

In the CER/EIM joint position paper on MFF, the rail sector reviewed the relevance of conventional grants and financial instruments, such as blending, for investing in rail infrastructure. The analysis showed that blending is not suitable for all infrastructure managers. In some Member States, infrastructure managers are not allowed to raise debt on the financial markets or may be encouraged by their national government to be exclusively financed by itself. In other cases, the amount of the infrastructure manager's debt may be capped by a multi-annual contract (between the infrastructure manager and the national government).

CER therefore welcomes that conventional EU grants remain the standard instrument to support rail projects in the new CEF proposal. For rail, public funding is the main pillar of railway infrastructure financing. CER further welcomes the possibility to use CEF Blending by combining EU grants and other sources of financing, such as InvestEU, and supports that the use of this tool is not obligatory.

6. Military Mobility

CER welcomes the injection of EUR 6.5 billion from the Security and Defence budget to support Military Mobility, aimed at co-funding transport infrastructure on the TEN-T

network for dual civilian-military use. However, CER regrets that the CEF proposal contains no explanation as to how this earmarked fund will function, and how it will be allocated.

CER suggests introducing more precision in the CEF proposal, starting with a definition of “infrastructure for civilian-military dual-use” to underline that the civilian use should be equally important as the military use. This should help avoid investments that are quasi military only, and add precision to ensure a fair geographic scope and balance, as well as modal.

The European Parliament draft report on the future CEF Regulation contains several amendments on military mobility. While CER welcomes the rapporteurs’ intention to add more clarity to military mobility, the proposal that any project of common interest financed by the new CEF should integrate the military mobility technical requirements is unrealistic and would lead to a cost explosion. CER asks policy makers to address this issue with urgency.

7. Cohesion Fund

With respect to the EUR 11.3 billion to be transferred from the Cohesion Fund, the Commission proposes to make 30% available immediately to all Member States eligible for funding under the Cohesion Fund, while for the remaining 70%, the national allocations of the Cohesion Fund should apply until 31 December 2023. This was managed differently under the current CEF, where for the first three years the national allocations were maintained, yet 100% of the entire envelope was allocated during the first half of the programme period, almost exclusively on sustainable transport modes.

Given the success of the current Cohesion Fund envelope managed by CEF, CER questions the need for the 30% earmarking and suggests instead keeping the same mechanism as under current CEF Regulation.

8. Conclusions

CER welcomes the Commission proposal establishing the Connecting Europe Facility but feels that the proposed budgetary resources for transport of EUR 30.6 billion are not sufficient, for the reasons outlined in this paper. Especially the digital transformation of rail operations, including ERTMS on board and on track, requires at least an additional EUR 10 billion. Also, CER asks to earmark a specific budget for actions supporting telematics applications and automation.

About CER

The Community of European Railway and Infrastructure Companies (CER) brings together more than 70 railway undertakings, their national associations as well as infrastructure managers and vehicle leasing companies. The membership is made up of long-established bodies, new entrants and both private and public enterprises, representing 73% of the rail network length, 77% of the rail freight business and about 93% of rail passenger operations in EU, EFTA and EU accession countries. CER represents the interests of its members towards EU policymakers and transport stakeholders, advocating rail as the backbone of a competitive and sustainable transport system in Europe. For more information, visit www.cer.be or follow us on Twitter @CER_railways.

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