

Greening EU transport spending

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This paper demonstrates why and how the EU should use the opportunity of the upcoming review of the EU budget to move its €13bn-a-year transport spending in a greener direction.

Transport is the only sector that has seen its greenhouse gas (GHG) emissions increase over the past two decades. Under business-as-usual projections this trend will continue; transport GHG emissions are expected to grow by 74% between 1990 and 2050¹.

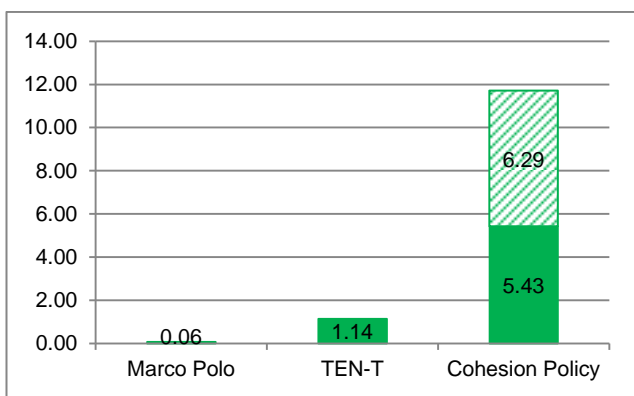
In March 2011, the European Commission's White Paper on transport committed to a 70% cut in carbon emissions from transport compared with 2008, and a 20% cut by 2030².

In this context, EU funding for transport investment should be refocused to become a powerful tool for helping to deliver these cuts.

The paper first describes why current transport spending is making things worse and how the EU's financial regulations are to blame. It then proposes two concrete solutions.

Current EU infrastructure funding

Fig.1 The different sources of transport funding, yearly average in 2007-2013, in billion Euros. TEN-T spending is in green.



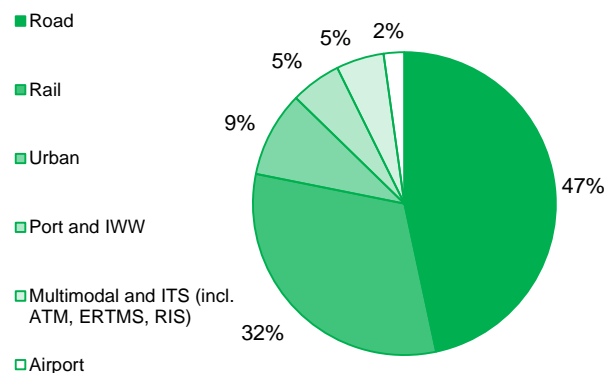
The EU currently spends around €13bn a year on transport. This is a significant amount of money by itself; but there is a multiplier effect in that this money leverages national investment. Various EU financial instruments contribute but 'cohesion' funds dominate. Around 50% of the money goes to projects that form part of the trans-European transport network (TEN-T); as well as the €1.1bn-a-year TEN-T budget, €5.4bn

of cohesion funds are given to TEN-T projects every year (see fig. 1).

As different regulations currently apply to each individual fund, there is no coordination of the different funding sources, neither in terms of modal split nor the methodology for the selection of projects.

Funds don't favour clean projects

Fig.2 Modal distribution of EU funding for transport projects (TEN-T and Cohesion funds) for the financial framework 2007-2013



The argument is often made that because the lion's share of TEN-T funding goes to the rail sector, this is enough to ensure the sustainability of transport investments. This assumption is wrong because the transport spending from cohesion funds (representing ten times the level of funding) heavily favours roads. As a result, almost 50% of the current EU investment in transport projects is allocated to road and aviation(see fig.2).

The huge proportion of road projects in particular can at least partly be explained by the fact that the regulation on cohesion policy³ makes road projects much more attractive. See below.

Problem 1: Cohesion fund rules discourage user-pays, hence rail too

Structural and Cohesion Funds are not centrally and directly managed by the European Commission. Members States are responsible

for defining implementing programmes, whose purpose is to outline the money allocation between the different policy areas and recipients. The previously mentioned Regulation 1083/2006 sets the rules on how this should be done.

Article 55...

One of the rules in this Regulation is that the EU co-funding rate has to be lowered for projects which generate revenues (Article 55). Applicants estimate the future revenues of a project and deduct them from the EU co-financing.

Although this provision is justified for different sectors of the economy, it is highly counterproductive for transport.

... and its consequences

It effectively means that every euro paid by the users is deducted from the EU grants. This discourages Member states from making users pay for transport infrastructure (and external costs), which is a cherished EU policy principle.

This has two effects.

The first is that it discourages Member States from introducing road pricing.

The second is that it encourages spending on roads over rail. This is because EU legislation makes track access charges mandatory for rail⁴, but merely optional for roads (Eurovignette Directive)⁵. In turn this means road projects can receive much higher EU co-funding rates.

Problem 2: sustainability not part of financing rules

Up to now, projects have been assessed though a socio-economic angle in order to check whether their realisation needs public support and whether the results will have a sufficient enough economic impact to justify the use of public funds. Projects are also assessed by testing whether public money is really needed, in other words, whether the private sector could not possibly finance it itself. And of course they are tested on EU value added – i.e. that it is necessary for the EU to step in because there are broader-than-national benefits.

All these tests are valuable and necessary, but none of them structurally integrate sustainability. The Environmental Impact Assessment (EIA) is presently the only environmental safeguard for

EU transport expenditure. But EIA results are not binding and have little or no impact on financial decisions.

Solution 1: encourage, don't discourage, user-pays strategies

In the upcoming revision of the EU cohesion policy, the European Commission should redefine Article 55 for the transport sector.

In addition, it should more generally encourage the development of a methodology for the selection and implementation of transport project that should be common to all EU funding streams (TEN-T programme and cohesion policy). In order to avoid unbalanced situations between the different modes of transport, one pillar of this new methodology could be the systematic application of the “user-pays principle”.

Solution 2: stimulate cleaner projects through higher EU co-funding

The EU 2010 Communication on the budget review⁶ has confirmed the EU objective of prioritising public support for the financing of public goods and areas where EU action adds value.

Climate change is transport's biggest cross-border externality; therefore ‘carbon-proofing’ of transport investment is one of the best ways to create EU value added.

The EU should adopt a state-of-the-art methodology ensuring that the environmental impacts of all EU funded transport projects are assessed so as to guarantee that EU funds are only used to stimulate clean and efficient infrastructure.

Carbon-proofing is key

The core idea of carbon-proofing lies in the fact that the applicant will have to pass an additional and independent test to evaluate the climate performance of their projects (in terms of GHG emissions).

The instrument should assess the CO₂ emissions arising from operation, but ideally also include construction and maintenance of the infrastructure. The exact details of the carbon-proofing methodology should be developed, approved and published by the Commission services after a transparent process involving all competent experts and

stakeholders; quantification of rebound effects should take a central role in the process.

This document should be the basis for a mandatory analysis of the performance of the project, carried out by an independent expert committee and published prior to any funding decision in order to ensure due process and transparency.

The cleaner it is, the more funding it gets

With very limited resources compared to the need for investment in the overall EU transport network⁷, it is highly important for the EU to ensure that public money is spent on projects with the best socio-economic and environmental potential. Therefore, T&E recommends using the results of the carbon-proofing process as a basis to reward projects in accordance to their climate performance: projects with the best carbon performance should enjoy preferential co-financing rates.

In order to provide enough flexibility to public authorities and project managers, incentives could be based on a bonus/malus system as shown in the example in the table below.

Results of the carbon proofing test	Proposed bonus-malus
Very negative carbon balance, negative socio-economic impacts, and questionable EU added-value	0% co-funding – project is not eligible
Negative carbon balance	- 15%
Neutral carbon balance	0%
Positive carbon balance	+ 10%
Very positive carbon balance	+ 20%

This table is illustrative and does not constitute a definitive policy proposal

Such a system provides a clear incentive for applicants to choose the most carbon-efficient solutions in order to benefit from a higher co-funding rate. Moreover, it encourages the project managers to propose and implement

concrete solutions to increase the efficiency of their projects in order to benefit from more attractive EU financial support. These solutions could be designed along the routes and nodes of the core project and could include congestion charging systems in cities connected to the core project, support for public transport, including renewal of rolling stock, park & ride systems, projects implementing ITS, freight consolidation centres, intermodal hubs, etc.

With the new 70% reduction target for transport GHG emissions, TEN-T projects have failed to deliver, cohesion funding heavily focusing on carbon intensive modes of transport and discouraging user-pays infrastructures such as rail, a major rethink of EU policy for transport funding is needed.

Encouraging, not discouraging, user-pays projects and integrating the carbon performance of both TEN-T and cohesion projects into financial decision-making are crucial elements of such a rethink.

The cleaner a project is, the more money it should get from EU funds. This paper offers two practical solutions to turn this vision into reality.

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¹ Skinner, I., et al. (2010). EU Transport GHG: routes to 2050? – Towards the decarbonisation of the EU's transport sector by 2050.

² European Commission, COM(2011) 144 final – White Paper: Roadmap to a Single European Transport Area – Towards a competitive and resource efficient transport system

³ Council Regulation 1083/2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund

⁴ Directives 91/440/EEC and 2001/14/EC as amended.

⁵ Directive 1999/62/EC on the charging of heavy goods vehicles for the use of certain infrastructures, as amended.

⁶ European Commission, COM(2010)700 final – The EU Budget Review

⁷ The Commission White Paper evaluates the cost of EU infrastructure development at over €1.5 trillion for 2010-2030