

CER REACTION TO “EUROPE 2020” CONSULTATION

(7 text pages, including 1 page executive summary)

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This **position** has been developed by CER, the Community of European Railway and Infrastructure Companies. CER membership is made of **rail infrastructure managers** (which represent more than 80% of the European rail network), **rail passenger operators** (both private and public, which represent more than 95% of the rail passenger business in Europe) and **rail freight operators** (both new entrant and historic companies, which represent more than 95% of the rail freight business in Europe). As such, it expresses a comprehensive, cross-industry perspective of the European rail community.

EXECUTIVE SUMMARY (1 Page)

In its consultation paper on the future EU 2020 Strategy, the European Commission underlines that “*conserving energy, natural resources and raw materials, using them more efficiently and increasing productivity will be the key drivers of the future competitiveness of our industry and our economies*”. CER, the Community of European Railway and Infrastructure Companies) fully agrees with the Commission’s intention and would like to make suggestions to fulfill this objective. Transport represents a significant part of total GHG emissions (23%). Therefore, reducing the contribution of transport to overall emissions is a worthy objective to strive to. This can be achieved via both “**exogenous actions**” (i.e. actions on non-transport policies which shape transport demand) and “**endogenous actions**” (i.e. actions within the transport sector itself).

Reduce transport-related emissions through actions OUTSIDE Transport Policy:

Transport is not an aim in itself. Transport is at the service of the other sectors of the economy. Therefore, up to now, transport policies (whether defined at local/regional or at national/European level) have tried to adapt to the needs of non-transport policies (housing, spatial planning, urban planning, industrial policies) which set the pace. Today, however, transport is turning from an “**adjustment variable**” into a “**constraining parameter**”. This means that non-transport policies should now more and more take into account transport-related constraints before defining their own objectives. These policies should be developed in ways which mitigate the demand for transport (notably re-orientating transport demand towards less energy-consuming solutions) and possibly reduces their sometimes excessive dependency on transport, e.g.:

- by encouraging in-house stock management and warehousing combined with mass-transport of goods rather than systematic just-in-time deliveries (*via industrial policy combined with financial policy measures on transport pricing -see below*)
- by encouraging concentrated housing rather than spread housing (*an area pertaining to housing, urban and spatial planning policies*)
- by getting production and consumption centers closer together, notably maintaining a strong European-based industry (*an area pertaining to spatial planning and industrial policies*).

Actions WITHIN Transport Policy: Reduce energy-intensity of transport itself...

Targets for absolute emissions should be established for the transport sector, with targets for specific emissions for each mode (the rail sector has already agreed such targets). Reaching this target will require that **prices, most notably for high emissions transport modes, are being allowed to raise in order to incentivise changes in behaviour**, such as a reduction of the overall demand for transport (demand mitigation) and a reduction of the transport demand for less sustainable modes (modal shift). Higher prices will also encourage technological and other innovation, especially in high emissions modes.

Support to the least environmentally-damaging and least CO₂-emitting modes, like rail, must be encouraged throughout Europe, by promoting a **healthier “financial architecture” for rail**. This must include:

1. **fair charging** for the use of infrastructure among all modes;
2. a **progressive internalisation of external costs** in transport prices for all modes;
3. **investments in the rail infrastructure** (particularly through TEN-T and Structural funds);
4. adequate compensation for performing **public service obligations**;
5. and cancellation of **historic debt**.

1. Greening the economy

Commission Work Document:

“In developing a new vision and direction for EU policy, we need to recognise that conserving energy, natural resources and raw materials, using them more efficiently and increasing productivity will be the key drivers of the future competitiveness of our industry and our economies.” (p. 3)

“Our social, economic and environmental objectives must go hand in hand if we are to deliver on our thematic priorities for 2020.” (p. 3)

*“Greening the economy [...] means using the material inputs in the economy more efficiently, becoming more productive by reducing pressure on resources. This means shifting our economy, through targeted regulation (e.g. promoting energy-efficient products and systems), through **emission trading**, tax reform, through grants, subsidies and loans, through public investment and procurement policies, and through targeting our research and innovation budgets to this end.” (p. 7)*

CO₂ emissions from transport are projected to increase by 25% from 1990 to 2020, where it is expected to fall in all other sectors. Railways are on average 3 to 10 times less CO₂-intensive than road or air transport, and are the only transport mode that has reduced CO₂ emissions (44% in absolute terms across EU-27 between 1990 and 2006). The rail sector - fully represented by CER members - is strongly committed to further do its part in the Commission's effort to lead European energy policy towards a more sustainable use of natural resources. In this respect, the rail sector has already agreed to a reduction of its “specific” CO₂ emissions by 30% between 1990 and 2020.

But, more can be done in the transport sector as a whole. By encouraging modal shift from road to rail, it is possible to achieve the goals that this consultation suggests for the next ten years. However, so far, EU policy has not always been successful in promoting this shift. Sometimes, in unexpected ways, it even seems to have taken measures that turned out to be unfavourable... for example, via the current Emission Trading Scheme (as set out in Directive 2003/87/EC):

- The EU railways are indeed directly affected by the extra costs incurred through the Emission Trading Scheme (ETS) applied to the electricity sector. Among all transport modes, rail is paradoxically most affected by the Emission Trading Schemes (as electricity generators are passing the extra costs onto the customers) or by the general trend of increase in energy prices. In contrast, road, the most CO₂-emitting mode, is not included in the Scheme at all; and whereas aviation is to be included from 2012, it will still receive around 85% of the CO₂ certificates it needs free of charge.
- In the electricity sector, all allowances will be auctioned from 2013 onwards. According to the impact assessment of the Commission, electricity prices will rise by 10-15% above their current level. Based on this impact assessment, the cost of emission trading for European railways will increase by over 400 million EUR per year.

- The existing situation distorts competition within the transport sector and acts as a ‘perverse incentive’, giving more polluting modes of transport a substantial competitive advantage. Rail is a low carbon form of transport; yet, as long as transport as a whole will remain excluded from ETS (or any other form of CO₂ and external cost charging system), higher carbon modes will remain advantaged, leading to higher emissions - directly opposite to what the ETS is intended to do.

2. The need for infrastructure and financing of alternative modes to road and air:

Commission Work Document:

“Together with the roll-out of high speed internet, the development of smart, upgraded transport and energy infrastructures contributes to multiple objectives including decarbonisation, transport safety, energy security, and the competitiveness of our network economy.” (p. 7)

CER welcomes the reference to the need of upgrading transport infrastructure. With particular regards to the Trans-European Network policy, CER believes that TEN-T is an ambitious project for which Europe’s politicians deserve credit. But the funds made available have not been sufficient to generate interest in European projects. With only 3 projects finally completed from the 30 identified, progress is rather slow. **The completion of the TEN - T network and the proper financial support to the rail priority projects are two fundamental issues** in order to promote a modern and sustainable European transport policy. According to the 2009 TEN-T Progress Report of the European Commission, one third of the investment - more than € 145 billion - will still be required after the current multi-annual period which expires in 2013. Considering the expected infrastructure costs and the leverage effect on the European economy, a substantially-increased EU TEN-T budget is necessary in the next financial perspectives 2014-2020.

Beyond TEN-T policy, particular attention must also be given to **the specific situation of Central and Eastern European Countries**. The backlog of investments in the rail infrastructure in these countries is an obstacle to the territorial cohesion of an enlarged Europe and affects the rail network beyond the lines officially included in the TEN-T network. Proper funding must be secured both at European and National level to tackle rail infrastructure needs in CEECs.

In addition, as far as rail is concerned, specific attention must be given to interoperability of the rail system. A major barrier to a true European rail system is indeed its historic inheritance of varied technical systems between European countries. Therefore, the European Union has constantly favoured interoperability through the setting up of the European Railway Agency and the adoption of regulatory texts and compulsory standards (so-called Technical specifications for interoperability). However, **decision-makers should now translate this priority into budgetary means** both to help speeding up the equipment in interoperable rolling-stock and infrastructure and to maintain a high level of rail safety in the European Union.

Apart from the necessary investments to be made in the rail infrastructure, it is regrettable that much of the railway system as a whole has been so far neglected by many National authorities. A parallel reading of Directives 91/440, 2001/14 and of the Public Service Regulation 1370/2007 shows that public authorities have a number of financial obligations towards railway undertakings and infrastructure managers operating on their territory. These obligations relate in particular to:

- **financing of rail infrastructure** (maintenance, renewal and building of new infrastructure);
- compensation of costs pursuant to the fulfilment of **public service obligations**;
- treatment of the **historic debt** of the railway sector.

So far, CER regrets that a number of member states do not comply with these obligations, and as a consequence, affected railway undertakings and infrastructure managers are **chronically underfinanced**. The lack of money has important dynamic consequences. It causes reductions in capacity, operational inefficiencies and deterioration in both infrastructure and services, leading to a loss of traffic and revenue. This reduces the ability of the railway to finance investment and maintenance, creates a vicious circle of decline, impedes the development of efficient competition and finally prevents rail from taking its rightful place in a sustainable transport system.

The issue of ‘financial architecture’, however, goes beyond the lack of financial resources for the railway sector. It also touches on the **difference of treatment between modes, in terms of how each mode pays for the use of their respective infrastructure**. In many countries, railway operator must pay very high charges to use the rail infrastructure whereas competitive modes may pay nothing at all for the use of their relevant infrastructure. This is not conducive to create a level-playing field between modes where rail could play its rightful part in a sustainable transport system.

3. Developing alternatives to road transport

Commission Work Document:

*“A rethink of transport policy will be needed in order to achieve such a comprehensive shift. Better integration of transport networks, **developing alternatives to road transport**, promoting clean technologies, and upgrading infrastructure will be essential elements. Big European projects such as Galileo, GMES, and smart road, rail (ERTMS), and air traffic management (SESAR) will play a key role in the integration of transport networks.” (p. 8)*

CER strongly supports the development of alternative to road transport. In the context of TEN-T discussions, it will be crucial to keep in mind that developing an intermodal network is different from developing several fully-stretched networks (rail, road, short sea shipping, waterways) which overlap (with some interconnections). **A truly “sustainable”, “intermodal” network can only be a network which promotes long-distance infrastructure for the most sustainable modes (rail, inland waterways, short sea shipping) while road infrastructure should be mainly designed to take care of the short-distance final leg of the transport from intermodal hubs.**

Also, one should keep in mind that intermodal transport is always the second best alternative after “sustainable unimodal transport”. Intermodality indeed implies transshipments from mode to mode which imply economic and still ill-assessed environmental costs. In addition, transshipments tend to make the transport chain more fragile. In this respect, it is too often forgotten that rail can provide sustainable door-to-door services, provided that industrial sites are connected to the railway network. Today however, in most countries, when a new industrial or commercial site is created, the road connection of this site to the main road network comes as a matter of fact, free of charge, at tax payers expense. Conversely, in all EU countries, the rail connection to the main rail network has to be paid at least partly by the customer. **Funding of rail connections of**

industrial sites to the main rail network should be encouraged in the frame of a truly sustainable transport infrastructure policy.

In this context, CER supports the Commission's view to develop alternatives to road transport.

But for this to happen, it is essential to develop a price-based policy where the **“user/polluter pays” principle** is progressively implemented, putting into practice the long discussed **internalisation of external transport costs**, to give a chance to the concept of “decoupling transport growth from economic growth” to materialise.

To this regard, CER calls for the European Commission to push for the **adoption of the 3rd Eurovignette Directive**, where external costs (including CO₂ emissions) should be included among the elements that can be charged for as part of the Eurovignette framework. As underlined by the European Environment Agency, transport's carbon footprint is a major obstacle to achieving a sustainable, low-carbon economy in Europe. 23% of all CO₂ emissions come from transport. Of these, road transport accounts for 72%, whereas rail accounts for less than 2%. And CO₂ emissions from the transport sector continue to increase by 1.7% per year. If nothing is done in terms of modal shift, this will undermine the EU climate package targets for reducing overall emissions.

4. Promote social cohesion

Commission Work Document:

*“New policies must demonstrably contribute to **social cohesion**, tackling unemployment and fostering social inclusion while securing well performing labour markets.” (page 3)*

Enhanced social dialogue can help promoting social cohesion. This is also true in transport. In rail, this can be done by drafting common minimum social rules. More generally, social conditions are very different between transport modes leading to a possible “race to the bottom”. **Harmonising social conditions between modes** will also contribute to create a better level-playing field between transport modes for a better-functioning transport system. The same applies in the field of training. Many staff in all transport modes perform key safety tasks and a good training of staff in this regard is a condition to maintain and improve the safety of the European transport system as a whole.

5. Integrate sectorial policies

Commission Work Document:

“Because of its important contribution to growth and jobs creation, and to the development of innovation, a fresh approach to industrial policy is necessary to support industry by putting the emphasis on sustainability, innovation and the human skills needed to keep the EU industry competitive in world markets. Stable and foreseeable framework conditions should help industry tackle the competitive challenges of the future. In the aftermath of the crisis, firms in several sectors will need to tackle structural excess capacities and the EU will need to facilitate restructuring in a socially acceptable way whilst maintaining a level playing field. This calls for an integrated industrial policy that promotes competitive market mechanisms and develops new sources of sustainable growth with an emphasis on innovation capacity, eco-innovation, new enabling technologies and skills. This transformation will also provide an opportunity to improve the regulatory environment, increase territorial cohesion and promote better conditions for entrepreneurship, foster the development of SMEs and support their growth potential and internationalisation.”

A “fresh” approach to industrial policy is certainly needed. But, it is essential that this approach puts the need to develop a low-carbon economy at the centre of political rethinking. In this respect, standard known recipes may be insufficient or even counterproductive. In particular, the emphasis on eco-innovation in the Commission’s work document seems to betray a somewhat **excessive trust in hypothetical “eco-technological” advances**. Technology so far has not managed to offset the growing environmental impacts linked to increasing economic activity. Also, restructuring industries to tackle expected excess capacities should be thought through carefully in the context of increasing energy prices and rapidly increasing labour costs in traditionally low-cost labour markets around the world. These ground tendencies should encourage politicians to be cautious and make them consider ways to **maintain industrial capacities in Europe** in order, among others, to limit excessive dependency on intercontinental transport.

More specifically, to develop a low-carbon economy, European and National politicians must realise that sectorial policies (industrial, housing, special planning, urban planning, development transport, financial policies...) cannot be thought and optimised separately. **Sectorial policies will need to be integrated to take into account environmental constraints and to contribute to reaching a sensible “decoupling between transport and economic growth”**. Today, transport policies (at European, national, regional and local level) are often shaped as a response to other policies (urban, industrial, spatial planning, housing policies...). Non-transport policies tend to be defined first and transport policy is then derived as an output, almost as a side-product.

However, with foreseeable higher energy and transport prices, it is to be anticipated that transport will become more a “constraining parameter” than an “adjustment variable” for other policies. Contrary to the past, non-transport policies will more and more have to take into

account the constraints and requirements of an economically- (and/or environmentally-) sustainable transport policy “ex ante”. In other words, when defining urban, industrial, spatial policies, the transport policy should come first, taking into account various sustainability criteria, as an input before defining other non-transport policy objectives. Ideas to be explored in the context of sectorial policies other than transport may be as follows.

- In industrial policy, encourage in-house stock management and warehousing rather than systematic just-in-time deliveries (to be efficient, “industrial policy” measures in this area should be supported by parallel measures within “financial policies” and/or “transport policies” regarding transport pricing, implementing the “user/polluter pays” principle)
- In housing, urban and spatial planning policies, encourage concentrated housing rather than spread housing ;
- In spatial planning and industrial policies, encourage the closer settlement of production and consumption centers.
- in development policy, encourage transfer of technologies and franchising rather than relying too extensively on the inter-continental transfer of goods.

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