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**Subject: State Aid SA.55025 – Italy
Prolongation of Rail Freight Transport scheme 2020-2022**

Sir,

1. PROCEDURE AND DESCRIPTION OF THE MEASURE

- (1) By electronic notification of 24 July 2019, the Italian authorities notified, pursuant to Article 108(3) of the Treaty on the Functioning of the European Union, a prolongation of the *Rail freight transport support scheme*. On 20 September 2019, the Italian authorities submitted additional information to complement their notification. The aforementioned scheme was approved by Commission decision of 19 December 2016 in State aid case SA.45482¹ and was subsequently prolonged by Commission decision of 25 October 2017 in State aid case SA.48759² (hereinafter “the existing scheme”).
- (2) The Italian authorities have provided a language waiver and agree that the present decision be adopted in English as the authentic language.
- (3) The existing scheme aims at encouraging the modal shift of freight traffic from road to rail by granting subsidies in support of rail transport operators. The level

¹ OJ C 145, 09 May 2017, p. 2
<https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:C:2017:145:FULL&from=EN>

² OJ C 442, 22 December 2017, p.5
<https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:C:2017:442:FULL&from=EN>

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of support is based on a reduction of the infrastructure charges and the external costs borne by rail transport operators³.

- (4) The Italian authorities clarified that any non-electrified parts of the network are limited to feeder lines providing operational continuity to electrified rail routes⁴.
- (5) The Italian authorities submitted additional information on the results of the operations of the existing scheme so far.

1.1. Legal basis

- (6) The legal basis of the notified measure remains Law No 190 of 23 December 2014. It is complemented by implementing decrees No 185 of 25 November 2015 (enacted by Law No 9 of 22 January 2016) and No 50 of 24 April 2017 (enacted by Law 96 of 21 June 2017).
- (7) Clarifications concerning the financial modalities of the scheme have been incorporated in implementing decrees No 16 of 7 April 2017 (covering the years of operation: 2015, 2016, 2017) and No 62 of 29 November 2017 (covering the years of operation 2018, 2019). These acts did not materially change the existing legal basis.
- (8) A text concerning the operation of the scheme for the extended period up to 2022 has yet to be approved.

1.2. Duration and budget

- (9) The notified prolongation will be executed following the principles established under the existing scheme and will be in force until 31 December 2022.
- (10) The estimated maximum annual budget of the prolonged scheme amounts to EUR 100 million.

2. ALTERATIONS TO THE EXISTING SCHEME

- (11) The notified prolongation concerns solely the existing scheme's duration and corresponding budget appropriations. All the conditions attached to the operation of the existing scheme are carried over to the period under consideration, namely the years 2020, 2021 and 2022.
- (12) The Italian authorities confirm that the proposed extension in time is necessary to keep improving the competitiveness of rail freight traffic. Compared to road freight traffic, rail freight traffic is burdened by additional costs, due to, firstly, the modal shift and, secondly, the additional freight traffic to and from terminals.
- (13) The Italian authorities explain that the justifications for the necessity and proportionality of the aid measure as described in the original decision remain valid and relevant, in light of developments in EU rail freight traffic.

³ A detailed description of the scheme's features can be found under *Section 2* of the *Letters to the Member State* published on the website of the European Commission (see footnotes 1 & 2 above).

⁴ Feeder lines stand at 2.4% of the network and represent a negligible section of the traffic volume.

3. COMMITMENTS

- (14) The Italian authorities commit to no aid being granted before the Commission has adopted a prolongation decision in the present case.
- (15) By the end of the period covered in the present decision, the Italian authorities undertake to submit an evaluation report concerning the scheme's impact in the context of cumulated results for all rail freight subsidy schemes in the Italian territory⁵.
- (16) The Italian authorities commit to maintaining the rules on cumulation of aid and suspension of aid in the event of unlawful aid⁶.

4. ASSESSMENT OF THE MEASURE

4.1. Existence of aid

- (17) No modifications have been introduced to the notified measure which alter the Commission's prior conclusion⁷, that the measure constitutes State aid within the meaning of Article 107(1) of the Treaty on the Functioning of the European Union.

4.2. Lawfulness of the aid pursuant to Article 108(3) of the Treaty

- (18) By notifying the measure before implementing it, the Italian authorities have fulfilled their obligations under Article 108(3) of the Treaty on the Functioning of the European Union.

4.3. Compatibility of the aid

- (19) The Commission's analysis confirms that the notified prolongation does not alter the original compatibility assessment regarding the existing scheme⁸.
- (20) The Italian authorities provided data in support of the necessity of the existing scheme, an assessment of the results of its application for the period 2016-2018 and data regarding the implementation of the scheme's conditions.
- (21) In its analysis, the Commission took into account the information submitted by the Italian authorities regarding the share of rail freight transport in the distribution of freight by land.

Necessity of the aid

⁵ See in particular recital 63 of the Commission's decision in State aid case SA.45482.

⁶ See in particular section 2.11 of the Commission's decision in State aid case SA.45482.

⁷ See in particular the reasoning under section 3.1 of the Commission's decision in State aid case SA.45482.

⁸ See in particular the reasoning under sections 3.3.2 – 3.3.7 of the Commission's decision in State aid case SA.45482.

- (22) Operational burdens for rail transport remain important. While Member States make efforts to limit the costs of access to railway infrastructure, railway undertakings still face uncertainty as to the future development of these access charges, where a balance needs to be struck between financing, maintenance and renewal of infrastructure on the one hand, and preserving the competitiveness of rail transport on the other.
- (23) In addition to the costs associated to rail networks, the application of standards imposed by law (safety equipment of locomotives, installation of silent brakes on wagons, training of drivers, etc.) weighs significantly on rail transport costs. There is no equivalent comparison of the same magnitude for road transport.

Table 1. - Modal split for freight transport compared to EU-average (tn-km)⁹

Mode		2014	2015	2016	2017	Change 2014-2017
Rail	EU28	18.4	18.2	17.6	17.3	- 1,10
	Italy	13.2	13.4	14.7	13.6	0,40
Road	EU28	74.8	75.3	76.2	76.7	1,40
	Italy	86.8	86.5	85.3	86.4	- 0,40

- (24) Table 1 shows that the proportion of freight transported by rail in Italy is significantly lower than in the EU 28. Table 1 also shows that the proportion of freight transported by rail in Italy over the period 2014-2017 increased slightly (+0,40 percentage point), while it decreased over the same period in the EU 28 (- 1,10 percentage points). The Commission observes that the increase in freight transport by rail has been particularly significant in 2015 and 2016, during the first two years of application of the existing scheme (this is confirmed also by the data reported in Table 3 below), illustrating an important take up in the first years of application. This suggests that rail freight operators rapidly adopted the existing scheme to expand their operations as much as possible, while after this initial period, the existing scheme did not provide sufficient incentives to develop additional rail freight operations. The Commission considers that in the absence of the existing scheme, the share of rail freight transport would have receded to similar levels as the ones recorded in 2014.
- (25) In light of the above, the Commission considers that there is a need to support freight transport by rail in Italy, and that the schemes implemented since 2015 have positively contributed to this objective.

⁹ Source: https://ec.europa.eu/eurostat/web/products-datasets/-/tran_hv_frmod

Table 2. - Freight distribution by land in Italy (million tn-km)¹⁰

Mode	2014	2015	2016	2017	2018	Change 2014-2018
Rail	20.157	20.781	22.712	22.335	22.070	+9,5%
Road	108.079	107.545	104.042	111.572	117.402	+8,6%

- (26) The data contained in Table 2 show that the volume of freight distribution by rail has increased slightly faster than by road (+9.5% vs. +8.6%) over the period 2014-2018. The Commission nevertheless observes that freight distribution by rail remains five times less important than by road.

Table 3. - Rail freight services by region of Italy 2014-2018 (million tkm)¹¹

	2014	2015	2016	2017	2018	Change 14-18
<i>Split in t-km covered</i>						
South Italy *	15.37	16.55	17.32	17.47	17.47	
Rest of Italy	28.39	28.97	29.39	29.86	29.75	
<i>Variation of t-km covered</i>						
South Italy	-	7.7%	4.6%	0.9%	0%	+13,7%
Rest of Italy	-	4.0%	2.6%	1.3%	0%	+7,9%

* including the islands of: Abruzzo, Molise, Lazio, Campania, Puglia, Basilicata, Calabria and Sicily.

- (27) The Commission further observes that the data contained in Table 3 show an increase of rail freight services over the period 2014-2018 that was twice as fast in the southern regions and the islands (+13.7%), than in the rest of Italy (+7.9%). This illustrates the positive impact of the scheme on the development of rail freight services. The Commission however observes that the development of rail freight transport slows down from 2017. The prolongation of the scheme in 2017 and 2018 nevertheless permitted to maintain the overall volume of rail freight services in Italy.
- (28) Moreover, according to the information provided by the Italian authorities, the majority of beneficiary undertakings demonstrated they were able to refrain from applying any price increases with some managing to apply discounts¹². The

¹⁰ Sourced by Italy on the basis of Eurostat data.

¹¹ Source: Rete Ferroviaria Italiana (RFI).

¹² One company reported an average price increase below 1%; five companies, including Mercitalia Rail, stated that they had not applied any increases by absorbing elevated cost; seven railway undertakings stated that they had applied discounts without quantifying them; two railway undertakings declared average charge reductions of between 2% and 3% and one company declared an average charge reduction of over 15% since participating in the scheme.

Commission therefore considers that the existing scheme provided and will still provide an incentive in the use of rail as an alternative means of freight transport, continuing to be a decisive factor in the implementation of Italy's intermodal traffic management.

- (29) With reference to aid for the use of infrastructure and aid for reducing external costs, the Commission considers that the existing scheme's contribution towards the rail mode's increased competitiveness at national level, provides realistic prospects that the traffic transferred to rail will be maintained (see recital 24 to 28).

Proportionality of the aid

- (30) For the quantification of external costs avoided through the use of freight rail in Italy, the Commission based itself on the data provided below. Considering that 97,6% of the rail freight activity in Italy concerns electrified rail with 2,4% consisting of feeder lines operating on diesel, the unit average external cost is equal to 1.12 €-cent/tkm with the external cost differential between rail and road standing at 3.08 €-cent/tkm.

Table 4. - Average external costs 2016 for EU28 freight transport by cost category and transport mode¹³.

Cost category	Freight Transport					
	Road			Rail		IWT
	LCV-petrol €-cent/vkm	LCV-diesel €-cent/vkm	HGV - total €-cent/tkm	Electric freight €-cent/tkm	Diesel freight €-cent/tkm	Inland vessel €-cent/tkm
Accidents	4.1	4.1	1.3	0.1	0.1	0.1
Air Pollution	1.2	3.4	0.8	0.0	0.7	1.3
Climate	2.6	2.8	0.5	0.0	0.2	0.3
Noise	1.1	1.1	0.5	0.6	0.4	n/a
Congestion**	11.6	11.6	0.8			
Well-to-Tank	0.8	0.8	0.2	0.2	0.1	0.1
Habitat damage	0.9	0.9	0.2	0.2	0.2	0.2
Total	22.3	24.7	4.2	1.1	1.8	1.9

** Congestion in terms of delay cost.

- (31) The Commission further observes from the data in Table 5, that the overall external costs avoided by the use of rail freight transport were equal to an average € 689 million when the existing measure was fully operational, and € 621 million in 2014, the year before the introduction of the measure. The Commission therefore observes that the corresponding environmental benefits over the period 2016-2018 increased by € 59 million when compared to the period 2014–2015, and by € 68 million per year when compared to the year before the introduction of the measure¹⁴.

¹³ Source: Handbook of external costs in transport – 2019, p.137, table 73.

¹⁴ Savings in avoided external costs of freight when compared to road: 3,08 ¢€/t*km = 0,0308 €/ t*km.

Table 5. – Freight distribution in Italy (million tn-km) and external costs (million euro)¹⁵

	2014	2015	2016	2017	2018	Average 2014-2015	Average 2016-2018
Rail freight traffic	20.157	20.781	22.712	22.335	22.070	20.469	22.372
Total external costs avoided	621	640	700	688	680	630	689

- (32) On the basis of data presented by the Italian authorities concerning aid for infrastructure use, the Commission established that a) the aid intensity concerning the total cost of rail freight transport was on average less than 10%¹⁶, b) the aid intensity concerning the reduction of external costs remained well below 50% of the eligible costs¹⁷ even when other rail freight schemes in the Italian territory are taken into consideration, and c) none of the beneficiary undertakings exceeded their individual limit of 30% of aid over their total freight rail transport costs.

Conclusion on necessity and proportionality of the aid

- (33) In view of the above, the Commission considers that the scheme fulfils the criteria of section 6 of the Railway Guidelines and of its subsection 6.3 concerning aid for reducing external costs¹⁸. The Commission therefore concludes that the scheme meets the needs of coordination of transport and is therefore compatible with the internal market pursuant to Article 93 TFEU.

5. CONCLUSION

- (34) The Commission has accordingly decided not to raise objections to the aid scheme, on the grounds that the existing scheme, as extended by means of the present notification in State aid case SA.55025, is compatible with the internal market pursuant to Article 93 of the Treaty on the Functioning of the European Union.
- (35) The Commission reminds the Italian authorities that, in accordance with Article 108(3) of the Treaty on the Functioning of the European Union, all plans to refinance, alter or change an aid scheme have to be notified to the Commission.

¹⁵ Sourced by Italy on the basis of Eurostat data.

¹⁶ The average cost of rail freight services stood at €19.73/train-km, calculated over the entire national territory, with a unit contribution of €1.83 per train-km.

¹⁷ Applying an average load of 430 tonnes of freight per train at national level (382 tonnes in the southern and island regions), the external costs differential stood at €13.24 per train km as a national average (with €11.77 in the southern regions) with aid limited to €2.50 per train-km.

¹⁸ OJ C 184 of 22.04.2008, p.13

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Your request should be sent electronically to the following address:

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Yours faithfully,

For the Commission

Margrethe VESTAGER
Member of the Commission

