

August 2003

POSITION PAPER



The European Union Road Federation

**“Building and financing a Trans-European Network
at the service of Europe’ citizens”**



Introduction

The European Union Road Federation (ERF) is the organisation that coordinates the views and concerns of Europe’s road sector. Our members represent a wide cross-section of the major stakeholders active in the construction, equipment and operation of Europe’s road network and we are therefore in a privileged position to provide input on road transport policies.

The ERF is expressing its concern over the recent proposals outlining the European Commission’s long-term strategy towards building and financing a European transport system and how these proposals relate to the true transport challenges of an enlarged Europe.

By triggering a countdown to Europe-wide road charging and steering public funds overwhelmingly towards rail projects with no clear economic horizon, the European Commission has taken a political option which needs to be assessed, discussed and ultimately explained to Europe’s citizens. This paper provides a first step towards achieving this needed debate.

Executive Summary

The last weeks have seen the European Commission orchestrate a series of proposals outlining a long-term strategy towards building and financing a European transport system. These proposals must be assessed bearing the following questions in mind : Do they address the real needs of Europe's citizens ? Do they provide an adequate answer to the transport challenges of an enlarged Europe ?

The ERF believes these proposals share a strategic coherence and cannot be examined separately :

- a first package of proposals advocates financing tomorrow's transport infrastructure system with measures geared at promoting the role of the private sector through Public Private Partnerships and a pan-European electronic toll system applicable both to commercial (2005) and private vehicles (2010).
- new "priority projects" selected for public funding by the Van Miert group feature an overwhelming majority of high-profile rail links, implicitly leaving road infrastructure financing to the private sector.
- A final proposal calls for an alignment of national road tolls Vehicles in the form of a revised "Eurovignette directive" applicable to Heavy Goods over 3.5t.

Financing, taxpayers and the environment

Everybody agrees it is high time Europe finds a viable, long-term solution to the financing and operation of our transport network without hiding behind the environmental concerns that have prevented a transparent debate for years.

Unfortunately, these "honest" environmental concerns overlooked that 1) most exhaust emissions are concentrated in urban areas, that 2) serious scientific research questions the nature and source of climate change, that 3) some of the so-called "environmentally-friendly" modes of transport also obtain their energy by seriously emitting CO2 and imply important levels of land use, and that 4) the implementation of technological progress has already significantly improved transport's overall environmental performance.

If the debate is about finance, and the European Commission has decided to propose funding the Trans-European Transport Network by raising taxation, this should be openly explained to the taxpayers. The Commission's option is of a political nature which deserves due respect but demands an adequate level of consultation with the relevant stakeholders and a proper analysis of the other options on the table

Food for thought

If the generalisation of tolls to finance transport infrastructure does indeed constitute Europe's best bet for the future, an open debate is needed in a number of areas:

- ✓ Should new road taxes be introduced without a detailed assessment of current charges already levied by the Member States ?
- ✓ What are the financial implications of a generalised toll system to exports in Europe's peripheral countries ?
- ✓ What levels of service will be guaranteed to Europe's motorists - above all on state-owned motorways which apply tolls ?
- ✓ When will the benefits of private sector involvement be extended to all transport modes ?
- ✓ How are tomorrow's transport challenges in an enlarged Europe being met with today's proposals ?

The ERF's Position on building and financing a Trans-European Network at the service of Europe' citizens"

1. A new Community framework

The idea to provide a European framework for the development of a well interconnected transport network is hardly a new one (it has an entire article devoted to it in the 1992 Maastricht Treaty), but rising cross-border transport and the enlargement process are only now giving a new sense of urgency to the Trans-European Network (TEN) programme. How else can one explain that only 20% of the "specific projects" adopted for Community funding in 1996 have been completed ?

The European Commission's objectives are laudable enough : to build, modernise and interconnect Europe's major transport modes in a context where public investment in transport infrastructure has dwindled to less than 1% of GDP, with existing Community resources scattered among a host of projects with limited European significance.

The Commission is also faced with a daunting and indissociable challenge, namely to identify credible sources and stable mechanisms of funding which will help raise the EUR 500 billion that an efficient, complete and interoperable European transport system requires in an enlarged EU.

To overcome both these hurdles, the European Commission has orchestrated over the last months a series of proposals outlining a long-term strategy towards building and financing a European transport system at the service of the Union's citizens. For the sake of clarity, these recently issued proposals are listed below:

- ✓ Communication from the Commission "Developing the trans-European transport network: Innovative funding solutions - Interoperability of electronic toll collection systems" and Proposal for a Directive of the European Parliament and of the Council on the widespread introduction and interoperability of electronic road toll systems in the Community (23 April 2003),
- ✓ Report of the High Level Group on the Trans-European Transport Network (chaired by Karel Van Miert, 27 June 2003),
- ✓ Proposal for a Directive of the European Parliament and of the Council amending Directive 1999/62/EC on the charging of heavy goods vehicles for the use of certain infrastructures (24 July 2003).

2. The question of funding

The first package of proposals¹ advocates financing a modern and efficient transport infrastructure system with measures geared at promoting the role of the private sector through Public Private Partnerships and a pan-European electronic toll system applicable both to commercial (2005) and private vehicles (2010).

While some of the worst aspects of the underlying ideology appear to have been relegated to the cardboard boxes of history, it is nevertheless clear that the funding options described in the proposals perpetuate the myth that widespread transport charging can solve today's financial constraints, curb transport accidents and even clean the planet.

In a previous position paper², the European Union Road Federation (ERF) made a clear case against the idea that charging was an effective or realistic way of reducing road-related externalities. Not only is the road sector a net contributor to public finances (representing up to 10% of total fiscal income in at least two Member States) and one of the largest sectors of employment in Europe (6-7% of total EU workforce), it is highly debatable whether fiscal policy can achieve the desired result of decreasing pollution, congestion and road accidents. Our conclusion was that while a comprehensive debate on the source and usage of road taxation was needed, current thinking was unacceptably biased, lacked scientific support, provided no guarantee of fiscal neutrality and would inevitably lead to disparities between Europe's regions.

On paper at least, the European Commission's proposals to encourage Public Private Partnerships (PPPs) through EC-backed loans and a revision of European company law have merit. PPPs, the Commission argues, are a viable but under-used option for financing transport infrastructure in Europe, and measures are therefore required to make them more attractive both to private investors and reticent Member States.

Experience suggests that where toll-based concessions have been implemented, they have led to a much higher degree of cost recovery from road users and have paved the way to a better class of networks both in terms of infrastructure maintenance and service to the motorists.

A good example of the possibilities offered by PPPs is the contract negotiated in 2003 between the UK's Department for Transport and the concession-owner of the Darrington-Dishforth A1 motorway where the contractor is paid on a sliding scale depending on the average speed and volume of traffic using the road : deductions are made if breaches to the minimum quality of service occur, or if the average speed falls below a given threshold, which encourages the infrastructure manager to conduct maintenance at off-peak hours and to attend to incidents quickly. In Chile, tolled network operators are compensated on the basis of their road safety performance levels using indicators which distinguish which parameters fall under the responsibility of the concession-owner.

While the current proposals put these PPPs back in fashion (a sensible move), they do not sufficiently address why construction on most of the high-profile projects suggested in the initial 1996 TEN guidelines published under Commissioner Kinnock has not even started.

¹ Communication from the Commission "Developing the trans-European transport network: Innovative funding solutions - Interoperability of electronic toll collection systems" - COM(2003) 132 of 23.04.2003

² Road Charging, is it fair ? (December 2002 – available at www.erf.be)

3. Building tomorrow's Trans-European Network

The European Commission now recognises that “transport infrastructure plays an essential part in the proper functioning of the economy since it enables economic growth potential to be increased through economies of scale and network economies” – a welcome shift from the European Council’s unrealistic aims to achieve a decoupling of economic and transport growth³.

In order to achieve a better concentration of European transport infrastructure funds, the European Commission set up in January 2003 a high-level advisory group chaired by Karel van Miert, a former Commissioner, and comprising representatives from Member States, the Accession Countries and the European Investment Bank (EIB). The group spent the next six months examining over one hundred projects on the basis of their trans-national importance, their capacity to eradicate bottlenecks and their contribution to Europe’s sustainable development objectives.

Despite its avowed intention to consider Europe’s transport system as a unity in itself irrespective of individual modes, the high level group has returned with a list of projects of “European significance” which features an overwhelming majority of high profile rail or mixed-rail links⁴ (including a Mediterranean high-speed rail link and the Lyon-Turin freight link to relieve the Mont Blanc tunnel).

The Van Miert Group has thus deliberately chosen to ignore a warning made by the European Parliament that the previous TEN projects **focused too much on certain modes of transport** which “are not economically viable and thus provide only a limited alternative to road and air transport [...] Projects should concentrate on establishing the most appropriate transport link and this would not always necessarily be rail⁵”. The TEN programme and its associated financing mechanisms were never designed as an ideological tool at the service of the Commission’s unrealistic modal split targets.

The ERF also believes that the Group’s recommendations **do not sufficiently go beyond the magma of national interests** and fail to give a truly European answer to tomorrow’s transport challenges in an enlarged Europe. Promoting modal shift is an objective which should have stood well behind other goals such as addressing the road safety concerns (for instance through a comprehensive Black Spot eradication programme) and mobility needs (by completing well-chartered “missing links”) that will undoubtedly arise when 100 million citizens from Europe’s accession countries take full benefit of an enlarged single market.

³ Gothenburg Council Conclusions, 15-16 June 2001

⁴ Full list of priority projects in appendix 1

⁵ European Parliament report on the proposal for a European Parliament and Council decision amending Decision No 1692/96/EC on Community guidelines for the development of the trans-European transport network, 23 April 2002.

4. A case of double taxation : the road haulage sector

With rail getting the lion's share of the 208 billion Euro TEN priority project programme, it is increasingly clear that Europe's public funds will henceforth be steered almost exclusively towards projects with no clear economic horizon, **leaving road and motorway infrastructure financing to the private sector and triggering a countdown to Europe-wide road charging.**

Heavy Goods Vehicles are the designated guinea pigs of this new vision with the proposed "Eurovignette" Directive⁶ (now applicable to all utility vehicles of more than 3.5t) which purports to provide a level "paying field" for the road transport sector.

As it stands, the Eurovignette directive leaves an important number of financial parameters to the discretion of Member States and constitutes as such **a dangerous "Pandora's Box"**. In particular, there is no formal obligation to maintain existing levels of transport taxation, merely a recommendation that existing annual circulation taxes (ACT) should be correspondingly reduced or withdrawn altogether, despite significant (and varying) vehicle purchase and ownership taxes in many Member States and high access costs to Europe's road network for periphery regions.

A literal interpretation of the Directive would also see the integration of costs (such as those resulting from congestion and accidents) to **road sections where they are in fact the least likely to occur**. It is a well-known fact, for instance, that motorways – Europe's fastest roads – are also its safest with an accident rate four times lower than on conventional roads.

Finally, the Eurovignette directive will now apply to road sections not formally part of the Trans-European Network (such as parallel or access networks) where road users will not benefit from any services or maintenance guarantees in exchange for the new road charges levied. Indeed, once the Directive is implemented, Member States will remain free to provide **varying levels of services** with little or no guidance from the Commission. As a case in point, a 2002 Norwegian Road Directorate report found that only 4% of the national Main Road Network (which accounts for 50% of road traffic) met the 15 quality criteria it had itself defined. On such criteria as road alignment, safety, air & noise pollution and road width related to daily traffic, 58% of the network was deemed "not acceptable".

While the ERF is pleased to note that some of its earlier recommendations⁷ on road charging have been adopted insofar as road taxation is essentially reinvested in road infrastructure and that unscientific environmental considerations are not included in the final calculation of transport costs, the **revised Eurovignette proposal still falls short of offering a fair deal to road users.**

In particular 1) the absence of limitations to multimodal "mark-ups" within "sensitive" regions, 2) the lack of clear definitions of the levels of safety and service that State-owned tolled motorways would offer to users, and 3) the absence of any impact assessment of these measures for Europe' peripheral economies are as many warning signals that the Directive constitutes **a case of double taxation for the road haulage sector.**

⁶ COM(2003) 488 of 23.07.2003 : Proposal on the alignment of national systems of tolls and of user charges

⁷ "Improving the Environmental Performance of the Freight Transport Sector", an ERF Position Paper available at www.erf.be

5. A political option that needs to be explained to European citizens

Everybody agrees it is high time Europe finds a viable, long-term solution to the financing and operation of our transport network. Indeed, while the ERF acknowledges this positive move from the European Commission, we must recall that a transparent debate on financing has been hidden for years behind environmental concerns.

Unfortunately, these “honest” environmental concerns overlooked that 1) most exhaust emissions are concentrated in urban areas, that 2) serious scientific research questions the nature and source of climate change, that 3) some of the so-called “environmentally-friendly” modes of transport also obtain their energy by seriously emitting CO₂ and imply an important land use, and that 4) the implementation of technological progress has already significantly improved transport’s overall environmental performance.

If the debate is about finance, and the European Commission has decided to propose funding the Trans-European Transport Network by raising taxation, this should be openly explained to the taxpayers. The Commission’s option is of a political nature which deserves due respect but demands an adequate level of consultation with the relevant stakeholders and a proper analysis of the different political options on the table. Indeed, one of these options is to establish both the costs and deadlines required to shift inefficient public monopolies to free market competition and learn from the experience of a number of successful sectors (private toll operators, trucking companies).

6. Time for a real debate on the Trans-European Network

If the generalisation of tolls to finance transport infrastructure does indeed constitute Europe’s best bet for the future, an open debate is needed in a number of areas:

- ✓ Should new road taxes be introduced without a detailed assessment of current charges already levied by the Member States ? *The independent Committee of infrastructure managers set up under the Eurovignette Directive could publish annual public reports on road-related income and expenditure arising from the application of the Directive as part of its reporting duties to the Commission and to Europe’s taxpayers.*
- ✓ What are the financial implications of a generalised toll system to exports from peripheral countries ? *In the absence of these crucial economic measurements, Member States must be given the option of applying derogations to the proposed calculation costs to reflect existing transport taxation levels and high access costs for Europe’s periphery regions.*
- ✓ What levels of service will be guaranteed to Europe’s motorists – above all on state-owned motorways which apply tolls ? *The Eurovignette Directive should include a reference to a compulsory schedule of conditions ensuring that a consistently high degree of road user services are defined and applied on all tolled road sections.*
- ✓ When will the benefits of private sector involvement be extended to all transport modes ? *The Commission’s proposals should include a clear reference to the necessary transition scenario (costs and deadlines) to free-market competition for Europe’s remaining public monopolies.*

- ✓ How are tomorrow's transport challenges in an enlarged Europe being met with today's proposals ? *The ERF urges the European Commission to reassess the Van Miert report taking into account considerations which go beyond modal shift objectives and to invite stakeholders to an institutional debate on the aims of the Trans European Network in the context of an enlarged Europe.*

Appendix 1
High-Level Group on Trans-European Transport Networks
List of priority projects

- Galileo satellite navigation project;
- Elimination of bottlenecks on the Rhine and Danube;
- Motorways of the sea;
- Mixed railway line (freight/passengers) Lyon-Trieste-Ljubljana-Budapest, including the Lyon-Turin and Venice/Trieste-Ljubljana projects;
- Mixed railway line Berlin-Verona-Napoli/Milan-Bologna, including the Brenner Tunnel project;
- Mixed railway line Greek/Bulgarian border-Sofia-Budapest-Wien-Praha-Nürnberg;
- Mediterranean High Speed Railway lines : Lisbon-Porto-Madrid; Perpignan-Montpellier; Montpellier-Nîmes; Irun-Dax; Dax-Bordeaux; Bordeaux-Tours sections;
- Mixed railway line Gdansk-Warszawa-Brno/Zilina;
- Mixed railway line Lyon/Genova-Basel-Duisburg-Rotterdam/Antwerp, including "Iron Rhine" between the port of Antwerp and the Ruhr;
- Mixed railway line Paris-Strasbourg-Stuttgart-Wien-Bratislava;
- Interoperability of the high-speed rail network of the Iberian Peninsula (including high-speed rail link between Vigo and Porto);
- Multimodal links Ireland/UK/Continental Europe including notably the Cork-Dublin motorway project and the Cork-Dublin-Belfast rail link;
- Rail/road Bridge over the strait of Messina;
- Fixed link rail/road across the Fehmarn Belt;
- The Nordic Triangle : Helsinki-Vaalimaa motorway and Vainikkala-Helsinki rail link;
- Multimodal connection Portugal/Spain with the rest of Europe;
- Motorway Greek/Bulgarian border Sofia Nadlac(Budapest)/ (Constanta);
- Motorway Gdansk Katowice Brno / Zilina Wien.