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**COMMISSION STAFF WORKING DOCUMENT**

*accompanying the*

Proposal for a

**REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL**

**amending Regulation (EC) No 1692/2006 establishing the second ‘Marco Polo’  
programme for the granting  
of Community financial assistance to improve the  
environmental performance of the freight transport system (‘Marco Polo II’)**

**IMPACT ASSESSMENT**

{COM(2008) 847 final}  
{SEC(2008) 3022}

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environmental performance of the freight transport system (‘Marco Polo II’)**

**Impact assessment**

**Lead DG:** DG TREN

**Other services involved:** DG BUDG, DG COMP, DG ECFIN, DG ENTR and EACI.

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## Executive summary

The Marco Polo programme<sup>1</sup> (2007-2013) is an instrument which helps achieve the EU Transport Policy objective of ensuring sustainable mobility in Europe. The Programme contributes to this objective by helping to reduce congestion on the roads and encouraging the use of other more sustainable transport modes. In order to do this the Programme supports projects aiming at avoiding freight transport on the roads or shifting freight off the roads to other transport modes which are more environmentally-friendly and have spare capacity, such as shipping, railways and inland waterways.

The conclusions of the external evaluation of the first Marco Polo programme (2003-2006) show that the programme is not attracting enough satisfactory proposals and therefore is not completely achieving its objectives in terms of traffic avoidance and modal shift off the roads. The Commission has analysed the possibilities for action to correct the situation.

As a part of the baseline scenario, two measures have already been taken without any need for a change in the Regulation: First, the outsourcing of the management of the Programme to an Executive Agency which is expert in managing projects, and second, the doubling of the funding intensity for projects from €1 to €2 per 500 tkm shifted or avoided, so as to attract more projects.

Both these measures and the following have been substantially discussed and informally approved with the Marco Polo Member States' committee and with the stakeholders themselves during the regular Marco Polo conferences which publicise the programme in various Member States locations.

The present assessment analyses the need to amend the legal basis of the Programme to enhance its effectiveness by examining four kinds of possible and uncontroversial measures:

- Facilitating access to the Programme by small undertakings.
- Simplifying and lowering the eligibility thresholds for projects
- Raising the funding intensity
- Simplification of the legal basis and its implementation

The choice of a complete revision of the Programme, involving political choices, is not considered a realistic option. It has been excluded from the analysis since action is required quickly in order to remedy the situation in time for the call of January 2010, and at mid-term before the end of the implementation of this programme in 2013. A complete revision of the Programme would entail a lengthy legislative process which would risk coming too late in the Programme's life span.

The choice of stopping the Programme is not considered a realistic option either since the Programme is actually achieving a considerable amount of modal shift and is part of a coherent set of measures of the EU Transport policy.

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<sup>1</sup> Regulation (EC) No 1692/2006).

The analysis reaches the conclusion that amending the legal basis by implementing all the proposed measures will bring considerable added value since it will:

- Improve the effectiveness of the Programme in terms of tkm avoided or shifted.
- Achieve a more balanced distribution of modal shift and traffic avoidance among transport modes and project types
- Simplify the legal basis and the management of the programme with the consequent reduction of administrative costs and burdens, and consequently attract more companies and smaller ones currently afraid of, or simply not equipped to manage, its complexity.
- Have positive effects in terms of multi-dimensional distribution of the effects.

## **Section 1: Procedural issues and consultation of interested parties**

### *Organisation and timing*

- The first reflection on the amendment of the regulation was tabled on 13.11.07. The approach presented then aimed at a full revision of the regulation in order to improve the performance of the Programme in terms of tonne-kilometres of freight avoided or shifted off EU roads. However, given the urgent need to act on the poor results of the Programme, the idea of proposing a limited revision with the aim to improve the Programme results and its consequent budgetary execution gained strength. For this purpose a coordination meeting took place on 20.01.08 within DG TREN, including its Director-General. A final note on the approach for the amendment was tabled on 24.4.08.
- A task force was set up within DG TREN/B4, on 11.2.08, including the EACI. The result of the work of this task force was a reflection document which was subject to a public consultation launched on 4.04.08, with a deadline for comments of 30.05.08.
- By a letter of 5.5.08, the DG TREN Director-General launched the creation of an inter-service steering group, which was established on 22.05.08, including the following Directorates-General: SG, DG BUDG, DG COMP, DG ECFIN, DG ENTR, and EACI (ENV and LS were also invited). A first meeting of this group took place on 30.05.08, with the participation of DG ECFIN, DG ENTR, DG ENV, EACI and DG TREN/A/1. The text of the Impact Assessment was submitted to the Group as it was drafted and contributions and comments were taken into account for the final text.

### *Consultation and expertise*

- One of the sources of information for the impact assessment has been the 'Evaluation of the Marco Polo programme (2003-2006)', carried out by Ecorys in November 2007. A second external expert source was the Interim report of a study by Price Waterhouse Coopers on an Impact Assessment of setting up an innovation fund for the Inland Waterway Transport sector, which includes an assessment of the effects of amending the second Marco Polo regulation.

- A first reflection paper was presented to the Marco Polo Committee meeting of 11.12.07. On 4.04.08 a public consultation was launched on the website of the EACI. A notification of this publication was e-mailed twice to a list of more than 1500 contacts, including industry representatives involved in the preparation and management of Marco Polo projects. On 28.04.08 the consultation was presented to a meeting of the Short Sea Shipping Focal Points and Promotion Network. On 23.05.08 the consultation was presented to the meeting of the Marco Polo Committee.

- The Commission's minimum standards for consultation were met since the consultation was publicised and open to the public for 8 weeks.

- The external consultation was open from 4.04.08 until 30.05.08. 13 precise questions were asked with the purpose of assessing the acceptance of the amendments proposed by the Commission. Furthermore a last open question for general comments was also included in the questionnaire. A total of 97 contributions were received. It is worth highlighting that only 12% of the respondents had not been involved or did not plan to be involved with a Marco Polo application. Furthermore, contributions came from 20 Member States plus Norway and Serbia. Therefore the added value of the contributions is quite significant. (Summary in Annex I)

The results of the consultation support the proposals of the Commission and are considered in the analysis of each proposal.

- On 18.07.08 the Impact Assessment Board gave a first opinion on the Impact Assessment. A revised Impact Assessment was requested with the following improvements:

- A clearer description of the problem.
- Clarification of the specific and operational objectives and how they relate to the problems identified.
- The report should start its options section by explaining why a more fundamental change of the Programme is not seen as a realistic option.
- The analysis of impacts should be extended to include at least a qualitative assessment of environmental and social benefits.

The initial Impact Assessment report was modified following the IAB opinion and technical recommendations, although it should be highlighted that the qualitative assessment of the environmental and social benefits was already included in the initial report, since these benefits are directly derived from an increase of the Programme's effectiveness, as explained at the start of section 5.

- On 16.09.08 the IAB gave an opinion on the revised version of the Impact Assessment, requesting the following improvements:

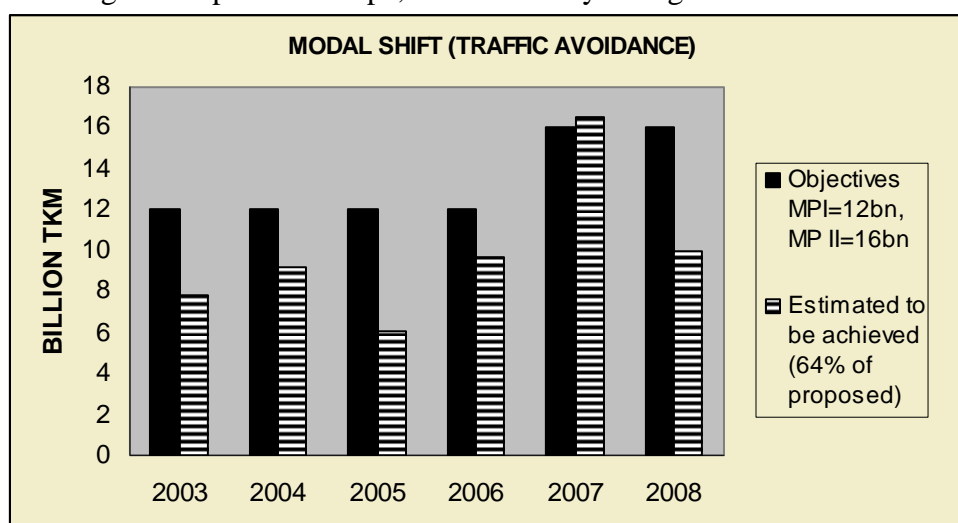
- The problem description should be strengthened further.
- The definition of the specific and operational objectives should be clarified.
- The report should provide more clarity about the costs and benefits of the programme.

The second version Impact Assessment has been modified accordingly, although it should be stressed that the possible causes of the problem have been assessed taking into account the evaluation results and stakeholder consultation.

## Section 2: Problem definition

- *What is the issue or problem that may require action?*

The second Marco Polo programme<sup>2</sup> is not completely achieving the objectives set in its legal basis in terms of modal shift and traffic avoidance. Although the Programme is actually achieving a significant modal shift, the results of the second (2008) call for proposals under the second Marco Polo programme and the results of the external evaluation of the first Marco Polo programme show that the Programme will very probably not be able to achieve its objective of avoiding or shifting a substantial part of the forecast total growth of international road freight transport in Europe, as intended by its legal basis.



Source: External Evaluation of the Marco Polo Programme (2003-2006) and estimations of two first Marco Polo calls

The implementation of the first Marco Polo programme is not meeting its modal shift target, as shown by the external evaluation, which estimates that 64% of the modal shift target<sup>3</sup> will be achieved. This figure is in fact not so bad compared with many other target-based objectives but better can and must be done! This situation is corroborated by the level of response to the second call of the second Marco Polo programme, which shows a marked

<sup>2</sup> Annex II includes a summary description of the programme and its specific kinds of projects, including the geographical distribution of the projects supported.

<sup>3</sup> 12 billion tkm a year for MP I.



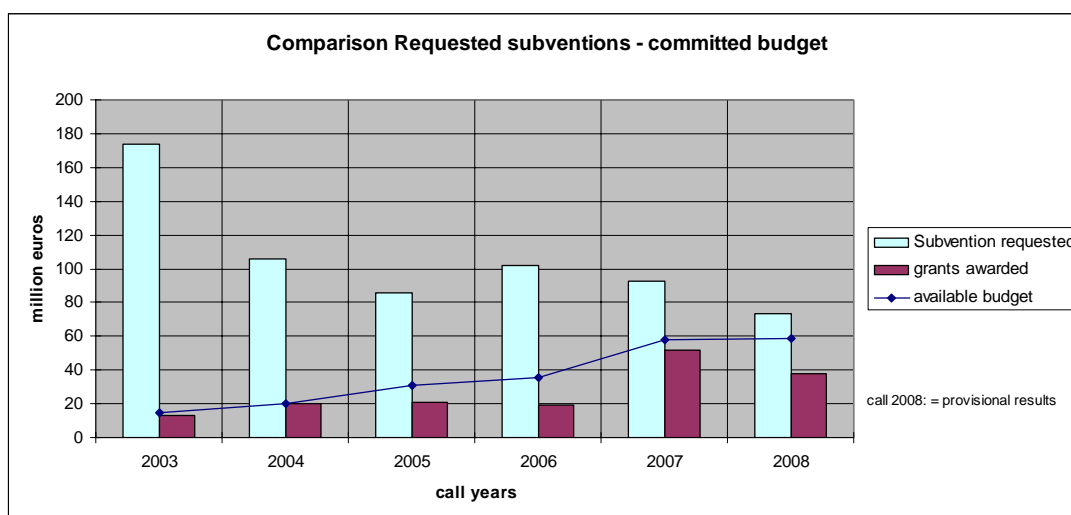
decrease of the total proposed modal shift. Furthermore the new types of actions introduced by this second Programme, Motorways of the Sea and Traffic Avoidance, have not attracted enough applications (only 9% of the proposals in 2007 and 4% in 2008).

There is a direct link between the modal shift and traffic avoidance objectives and the budgetary execution, since the Programme gives support of €1 per 500 tkm avoided or shifted off the EU roads. Therefore missing the modal shift and traffic avoidance objectives set in the Marco Polo regulation entails a substantial under-use of the available budget.

According to the latest estimations of the external savings generated by the shift to the different transport modes and the actual split of the modal shift proposed by the projects supported by the first Marco Polo programme, every Euro of the Marco Polo programme support generates external benefits amounting to €9.15 in terms of external costs saved (see Annex V). Therefore the 'lost opportunity' cost of not having fully implemented the first Marco Polo Programme can be estimated at €228 million<sup>4</sup>.

- What are the underlying drivers of the problem?

The programme is implemented through yearly calls for proposals. Over the past years the level of total subsidy request has decreased while the available budget has increased.<sup>5</sup> This clearly shows a diminishing interest in the Programme by potential applicants.



Source: EACI

The causes for this diminished interest in the programme by potential applicants are the following:

The graphical description of the problem tree of Annex III highlights which of these causes described below are tackled in the Baseline scenario (the EACI and the Marco Polo Call 2009), in option B (targeted revision of the Legal Basis) or in option C (full revision of the Legal Basis), as described in section 4.

<sup>4</sup> Only €74 million out of €102 million were committed. €28 million times 9.15 is the benefits which could be obtained ((28x9.15)-28=228 opportunity cost).

<sup>5</sup> Since the selection process requires the projects to meet strict quality criteria the level of total subsidies requested is always higher than the level of subsidy awarded.

- (1) **Lack of visibility of the Programme**, with the consequent lack of awareness by potential beneficiaries. The Commission has invested time and resources in two-yearly information conferences and attendance at events where potential beneficiaries might be present, together with the usual electronic means to reach transport operators and their associations. However, there is evidence that the Programme is not yet well known by a proportion of the potential beneficiaries. Actually the external evaluation of the first Marco Polo programme advises that the visibility of the Programme should be enhanced and a dissemination and promotion effort undertaken.
- (2) **Lack of motivation among potential beneficiaries** because of the perceived complexity of the Programme, unsuitable funding mechanisms or low funding intensity. The external evaluation of the first Marco Polo programme indeed highlights that the Programme is viewed as complex. Also the subsidy mechanism is reported to be often criticised for being too inflexible. Regarding the funding intensity, for the Marco Polo projects it has often been the case that the limit of €1 per 500 tkm shifted is a fraction of the maximum aid allowed of 35% of the project's eligible costs. All these factors are directly related with the wording of the legal basis and its implementation and are classified as follows:

(2.1) Unclear or unsuitable **scope of the programme** (Art. 3).

The regulation requires the involvement of two countries in the project and a contribution to the budget of the Programme in order to be a possible beneficiary. Some contributions to the external consultation highlight the convenience of supporting national-only projects. Also candidate and neighbouring countries have often failed to understand the conditions for being beneficiaries of the Programme. This has been shown by the information requests received by the Marco Polo help desk.

(2.2) Unclear or unsuitable **conditions for eligibility** of beneficiaries (Art. 4)

The regulation requires that applications are submitted by two undertakings established in two different Member States, with an exceptional case for links with third countries. The need to build up a consortium just to submit a Marco Polo application has often been reported as an obstacle. Actually big undertakings are teaming with their own subsidiaries to avoid this obstacle, whereas smaller undertakings are at a disadvantage.

(2.3) Unclear or over-restrictive **definition of the types of projects** (Art. 5)

The fact that 80% of the funding given by the first Marco Polo programme is concentrated in one single project type (Modal shift) and the fact that another type of action (Traffic avoidance) has never received funding raise doubts about the clarity or suitability of the definition of the types of action. (See Annex II for a complete definition of each project type).

(2.4) Unclear or unsuitable **detailed rules** concerning the procedure for submission, selection and contracting of projects (Art. 6)

The external evaluation of the first Marco Polo programme highlights that applicants perceive the formal steps for the evaluation of proposals and procedures to be followed before contract signature as complex.

(2.5) Unclear or unsuitable **funding conditions** and requirements (Annex I to the Regulation)

The funding conditions and requirements are related to the following issues:

(2.5.1) The external evaluation of Marco Polo highlights the fact that potential projects from the **Inland Waterway transport sector** have a difficult entry barrier with the existing eligibility thresholds. Because of the fragmentation of this sector it is very difficult to put together a proposal which reaches the threshold of 250 million tkm over the life of the projects. The external evaluation of the Programme recommends lowering the thresholds for these kinds of projects, which account for a significant share of the potential freight which can be shifted off the road.

(2.5.2) Following the experience accumulated with the management of the programme, it has been observed that applications for funding rarely come from **micro enterprises**. The EU transport industry is quite fragmented, above all the road transport sector and the Inland Waterway sector<sup>6</sup>. The success of the Marco Polo Traffic avoidance actions, which have not managed to secure any support in the first two calls of the second Marco Polo programme, depends to a great extent on the involvement of the road transport sector. As for the Inland Waterway sector, it possesses greatly under-used transport infrastructure which can make a significant contribution to cutting road congestion, but so far has not managed to do so, since the support for inland waterway projects is down to 7% of the first Marco Polo programme. Applying for Marco Polo support is a difficult process where the applicant has to provide extensive information about the project, the market prospects and a business plan. For a micro-enterprise, putting together such a proposal requires an investment of time and resources with no guarantee of success.

(2.5.3) The transport industry has often highlighted that the **current system of thresholds** is complicated, with different thresholds for each kind of project, and thresholds are too high in many circumstances, particularly when small Member States are involved in the projects. Furthermore thresholds are currently expressed in monetary terms and tkm terms. According to the industry, this creates confusion since the Commission has already proposed to raise the funding intensity per tkm. Additionally the current 10% specific threshold for Traffic Avoidance actions is one of the obstacles reducing the likelihood that this kind of project will manage to get any Marco Polo support. Besides that, from the legal text it is difficult to understand how this threshold can be calculated. This apparent complexity is confirmed by the results of the external consultation which show that 25% of respondents do not have an opinion on this threshold. Another 32% of contributions support the deletion of this threshold.

(2.5.4) The current **definition of modal shift** only takes into account the weight of the cargo, excluding the weight of the transport element. This calculation method penalises those projects which do not change the primary transport mode when implementing the modal shift, since not only the cargo is taken out of the roads but also the transport mode, which actually causes the congestion. Other projects which are also penalised are those which do not have fully loaded return voyages, since in the current situation empty transport elements are not considered modal shift even if taken off the roads.

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<sup>6</sup> 595.971 enterprises for road transport, 9.800 for sea transport and 9.000 for Inland waterway transport. No figures for Railway transport. Source: Eurostat.

(2.5.5) Experience with the management of the Marco Polo projects has shown that the **strict time limits for project implementation** have the consequence that many good projects which suffer initial delays end up getting a much lower subsidy than expected. Actually the external evaluation advises studying the possibility of extending the project duration for modal shift actions by offering a longer duration to projects which have suffered start-up problems. Having the possibility of an extraordinary extension of six months can give reassurance to the beneficiaries that their start-up losses will be compensated by the Community subsidy even if their projects suffer start-up delays. The Common Learning Actions, which currently has a shorter implementation period than the rest of the actions, also often find it difficult to implement their objectives in time. In both cases a possibility of extension shall be envisaged. Experience managing the Marco Polo projects has shown that Common Learning actions are also complex to arrange because of the need to bring together many interests, sometimes with more than 15 partners, to achieve a common objective.

(2.5.6) The current **conditions for support of infrastructure** in the context of Marco Polo projects are reflected in Annex I and II to the Regulation.

Annex II sets out the conditions for eligibility of infrastructure spending: that it is required by the project, completed within 24 months of start of action, the service starts within 3 months from the completion of the infrastructure works, and relevant Community legislation is respected. Furthermore this annex extends the implementation periods for all the projects with a total duration limit of 74 months and states that Marco Polo funding is incompatible with other Community funding.

Annex I sets out the conditions for funding of infrastructure depending on the different kinds of projects. For Catalyst, Motorways of the Sea, Modal shift and Traffic Avoidance projects, the funding for infrastructure is included in the 35% ceiling for funding of eligible expenses, but for Motorways of the Sea, Modal shift and Traffic avoidance projects the financial assistance for ancillary infrastructure is not capped by the maximum funding intensity of €1 per 500 tkm avoided or shifted.

Otherwise the regulation does not set any limit for financial support apart from a cumulative ceiling for public aid to infrastructure, set at 50% of the project's eligible costs.

This framework for infrastructure funding is complex, adds many exceptions and constraints to the deadlines for implementation of the projects and requires complex calculations of the final subsidy allowed to each project.

(2.6) Unclear or unsuitable **administrative procedures**.

First, the erratic date of publication of calls which results from the unpredictable length of all the numerous procedures and consultations preliminary to the call has been a problem. It is difficult for entrepreneurs to target and prepare a project (often necessitating a year's negotiations between partners) if the starting date and whole sequence of the support programme is not stable. Market changes take place, and updating proposals and partners is a costly exercise which some cannot afford to undertake for a relatively small prospect of assistance.

Second, the external evaluation of the first Marco Polo programme highlights that for some projects a failure factor was that the grant contract was signed too late. The fact that an average of 290 days is needed from the call deadline for applications until the date when the Commission financing decision is adopted, gives an idea of the length of the award process. The total duration of the current management cycle for each Marco Polo call can be broken down as follows:

- An average of 90 days from drafting of call text to Commission decision launching the call.
- 60 days delay for presentation of proposals.
- An average of 290 days from the deadline for submission of proposals to the Commission decision awarding the financial support to projects.
- An average of 30 days for signature of contracts.

All this takes the duration of the management cycle to 470 days, which is too long, not least because the beneficiaries are market operators subject to fast-changing market conditions. As stated in the external evaluation of the programme, the formal steps for the evaluation of proposals and procedures to be followed before contract signature are perceived by applicants as being complex, non-transparent and requiring a long time between contract negotiations and contract signature.

#### (2.7) Unsuitable **financing instrument**, grants

The external evaluation of the first Marco Polo programme shows that the Programme is not perceived by beneficiaries as a risk funding instrument because the payment of the aid is linked to the success of the project in terms of tkm shifted.

Because road transport has shown continuous robust growth<sup>7</sup> since the Programme was established, the lack of potential modal shift or traffic avoidance possibilities in the market can be clearly excluded as a reason for the low number of project proposals.

*- Who is affected, in what ways, and to what extent?*

The Marco Polo programme is one of the instruments to reduce congestion in the framework of a coherent transport policy strategy which includes the internalisation of external costs and the use of market-based instruments to reflect the use of infrastructure.

The mid-term review of the White Paper on Transport<sup>8</sup> estimates the total costs of congestion at 1% of EU GDP and its environmental cost at 1.1%. One of the EU transport policy instruments to tackle these costs is the Marco Polo programme. The more successful the Programme is, the less congestion and environmental costs. Therefore it is the transport industry and consequently the citizen at large that are affected. Small, medium and big enterprises are affected by the effects of congestion on the transport system, but those enterprises with simpler logistic systems and fewer alternatives to road transport are affected more. This tends to be the case of micro and small enterprises.

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<sup>7</sup> Transport of freight by road has grown by a yearly average of 3.5% for the period 1995/2006 and 4.9% during 2006. This compares to 2.8% and 3.1% respectively for the growth of freight by all transport modes. Source: EU energy and transport in figures. Statistical Pocketbook. DGTREN.

<sup>8</sup> COM(2006) 314 final.

*- How would the problem evolve, all things being equal?*

The external evaluation of the first Marco Polo programme estimates that 64% of the objective of tkm to be shifted off the road is being met. Therefore if no action is undertaken, in a context of decreasing number of applications and successful projects (see graph on page 6), then the second Marco Polo programme will in the best case achieve the same percentage of success, which would entail missing the objective to avoid or shift a substantial part of the growth, estimated at 60%<sup>9</sup>, of international freight transport by road, equivalent to 20.5 billion tonne-kilometres in absolute terms. This will have negative consequences in terms of additional road infrastructure costs, accidents, congestion, local and global pollution, environmental damage and unreliability of the supply chain and of logistics processes.

As stated in the mid-term review of the White Paper on transport, besides the continuous reflection on possible policy measures to be adopted in the future, the congestion of the EU road transport system and the environmental efficiency of the whole transport system are directly tackled with various measures which are currently being implemented or will be in the near future:

1. Measures aiming to increase the competitiveness and technical and environmental efficiency of all transport modes, particularly those which are less congested and more environmentally friendly, namely, shipping, railways and inland waterways. Currently these measures include:

Actions recently undertaken:

- Action to remove technical barriers to interoperability in the railway sector and promote rail freight corridors within transport logistics
- Freight logistics action plan

Actions to be undertaken:

- Internalisation of external costs
- Action plan for energy efficiency in transport and to accelerate the development and deployment of alternative fuels
- Review of working conditions in road transport
- Implementation of the Naiades action plan for Inland Waterways
- Developing a European ports policy
- Taking intelligent road transport systems to the market
- Deploy e-maritime systems

Actions undertaken on an ongoing basis:

- Assure the functioning of EU rules in all modes

2. Measures aiming to increase the capacity and efficiency of the whole transport system with TEN-T (Trans-European Networks for Transport) funding, Cohesion Policy funds (European Regional Development Fund and Cohesion Fund) and investments by Member States and private operators.

3. At Member State level, national schemes like the Ecobonus, in Italy, address the same issue at national level only and for a limited amount of time. In any case the Marco Polo regulation

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<sup>9</sup> PRIMES model, included in the Commission report 'European Energy and Transport trends to 2030'.

establishes a ceiling for Community assistance which takes into account national aid given to the transport link of each contract.

The recent initiative of the Commission on 'Greening Transport' aims to achieve sustainable mobility by building on previous initiatives and putting forward the internalisation of external costs, complemented with accompanying measures. In this context tackling congestion is a priority. For this purpose the Commission plans to revise the directive on infrastructure charging for heavy goods vehicles and will make funding available under the Trans-European Network programme for actions on electronic toll systems. Another element to tackle congestion will be the use of Intelligent Transport Systems for Roads, for which an action plan and a legislative initiative to create a common approach will be proposed.

The above-mentioned measures aim to achieve progressively a more efficient and environmentally-friendly distribution of freight flows among the different transport modes; but they will take a number of years to materialise and the only action at Community level aiming at encouraging a reduction of congestion in the very short term is the Marco Polo programme. In this respect it should be highlighted that the most short-term initiative to tackle congestion directly is the proposed revision of the Directive on charging of heavy goods vehicles for the use of certain infrastructures. But the transposition of this directive is only forecast for end of 2010 at the earliest and even if transposed, it will be up to the Member States to decide whether or not to levy tolls based on external costs.

Experience with the implementation of the Marco Polo programme is currently providing elements for reflection on the policy initiatives in the field of logistics and specific transport modes.

The current volatility of the oil markets, with prices rising more than 80% since May 2007 and coming down again to original levels in 4 months, will affect the transport market, but in a different way depending on each transport mode. In principle the basic effect of an increase in the prices should be a shift to more energy-efficient transport modes; this means a shift off the roads. Nevertheless, as explained in detail in Annex IV, taking into account the different weight of excise duties in the final price paid by each mode, the negative effects are expected to be bigger in relative terms for short sea shipping and inland waterway transport than for road transport. As far as rail transport is concerned it would be the least affected. A further element to consider is the low elasticity of road transport demand to price changes. The overall effect can be that two very environmentally-friendly transport modes see their relative prices vis-à-vis road transport worsen, with the consequent competitive disadvantage.

The downward pressure on the prices as a consequence of the downturn in the economic activity will provide relief to transport companies in terms of fuel costs but the downturn itself will tend to increase their unit costs because of decreasing economies of scale.

*- Does the EU have the right to act — basis in Treaty, 'necessity test' (subsidiarity) and fundamental rights limits?*

Articles 71(1) and 80(2) of the Treaty establishing the European Community set the framework for a Community intervention in international transport to or from the territory of a Member State or passing across the territory of one or more Member States.

The Marco Polo programme aims to have an impact on international road transport. Since modal shift objectives cannot be sufficiently achieved by the Member States and can

therefore, by reason of the scope of the Programme, be better achieved at Community level, the Community may adopt measures in accordance with the principle of subsidiarity as set out in Article 5 of the Treaty. In accordance with the principle of proportionality, as set out in that Article, this Regulation does not go beyond what is necessary in order to achieve that objective.

The Charter of Fundamental Rights is not affected by the proposed measures more than in the baseline situation.

As explained in Annex V the proportionality of EU action is justified since the external costs avoided are considerably higher than the cost of the intervention. In terms of modal shift, the funding intensity is set at a maximum of €2, well short of the return made through the modal shift. (€1 of subsidy saves on average €9.15 of external costs).

### Section 3: Objectives

*- What are the general objectives? What are the more specific/operational objectives?*

The **overall objective** is to help the programme achieve its general aim, namely to contribute to avoiding or shifting off the roads a substantial part of the expected growth of international road transport, estimated in 20bn tkm every year<sup>10</sup>. This can only be achieved with an increase of the Programme's effectiveness.

To help the programme to achieve its overall objective by tackling the underlying drivers of the problem, the following two **operational objectives** are envisaged:

1. Improving the visibility of the programme, and
2. Motivating potential beneficiaries to engage in projects aiming at traffic avoidance or modal shift of freight off the roads. The motivation of potential beneficiaries is achieved through:
  - 2.1 Simplifying the legal basis
  - 2.2 Clarifying the legal basis
  - 2.3 Adapting the legal basis to the transport market needs.

The two operational objectives have to be pursued together since they reinforce each other. Whilst the increase in visibility will be an objective to be pursued by the EACI, the motivation of potential beneficiaries is in the hands of the Commission as the initiator of legislative changes. The indicator to show that both objectives are achieved simultaneously is the number of tonne-kilometres avoided or shifted off the roads.

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<sup>10</sup> Smart objective: **S**pecific (increase the motivation of potential beneficiaries to present Marco Polo proposals), **M**easurable (the additional number of proposals), **A**chievable (as explained; given the constant growth of road transport and the tools available through the programme, the objectives are deemed to be achievable), **R**elevant (more proposals received mean more proposals selected and more proposals selected mean more modal shift), **T**ime framed (the objectives must be achieved during the remaining life-span of the programme) .



The operational objective of improving the visibility of the Programme is since March, 2008, the responsibility of the Executive Agency for Competitiveness and Innovation (EACI), which is managing the programme on behalf of the Commission since that date. The EACI will increase the number of yearly conferences above two, which was the case under the Commission management, will create a new visual identity for the Programme, will produce targeted promotion materials for the transport industry and will increase contacts with the project representatives, which was one of the negative aspects highlighted by the external consultation.

A necessary condition for the objectives to deliver results is that any changes proposed to the programme are adopted swiftly in order to be implemented as soon as possible. A major revision of the programme, involving changes to ambition level, the scope or the original specific objectives of the Programme, should be discarded so to avoid the agreed amendments arriving too late in the life span of the programme (2007-2013).

*Consistency of these objectives with other EU policies and, if applicable, horizontal objectives, such as the Lisbon and Sustainable Development strategies or respect for fundamental rights.*

As stated in the external evaluation report, the Marco Polo programme constitutes an appropriate strategy to contribute to an efficient and sustainable transport system. The programme is also complementary to other EC intervention options, in particular the TEN-T network grants.

The objective pursued by the measures proposed will reinforce the already existing consistency of the Programme's objectives with other EU policies.

In order to escape the adverse effects of mobility in terms of substantial growth of freight transport over the coming years, the mid-term revision of the White Paper on the Common Transport policy, of June 2006 proposes, among other measures, to continue with the policy of shifting freight towards the least polluting and most energy-efficient modes of transport.

Modal shift and co-modality are two of the current objectives of the Union's transport policy which put it at the heart of the Lisbon strategy for growth and jobs. The set of transport policy objectives where modal shift is included are also longer term in nature, balancing the imperatives of economic growth, social welfare and environmental protection in all policy choices.

The EU transport policy context is one where the internal market has already brought benefits to the road and aviation sectors and this is expected to be the case also for rail and waterborne transport in the future. Efficiency gains supported by EU policies will make rail and waterborne transport more competitive, especially on longer routes.

#### **Section 4: Description of Options**

In view of the problems faced by the Programme, four options could be considered:

Option A — the baseline, already contains a number of measures which address some of the operational objectives described in section 3.

Option B — Targeted revision of the legal basis, with a number of measures analysed below.

Option C — Full revision of the legal basis. This is not a realistic option and is excluded from the analysis since it would entail not only considering the measures of Option B, but some others involving political and possibly controversial choices. The Commission services cannot engage in this exercise, since, as referred in the objective described in section 3, a necessary condition to achieve the objectives at mid-term of the life span of the programme (2007/2013), is that measures are adopted swiftly in order to act in time for the January 2010 call. Given this constraint, a full revision of the regulation is excluded from the analysis, since, as analysed below, it would entail an analysis of policy options which would add complexity to the amendment and delay its process, bringing it unacceptably close to the end of the life span of the Programme (2007/2013).

Option D — Stopping the Programme. Also not considered, for the reasons below.

#### **Option A (Baseline) — No legislative amendments**

If no action is taken this means that the regulation will not be amended.

In any case, in order to achieve the operational objective of increasing the visibility of the Programme and motivating potential beneficiaries, the Commission has already taken two main measures:

1. Since 1.3.08 the management of the Programme has been entrusted to the Executive Agency for Competitiveness and Innovation (EACI), among other Community programmes. This entity is solely devoted to project management; therefore the management of the programme and its projects will be considerably more effective than in the policy framework of the Commission. With this measure the underlying problem driver of lack of visibility (paragraph 1 in section 2) will be tackled and also the need to clarify and simplify the detailed rules concerning the procedure for submission and selection of projects (paragraph 2.4 in section 2). The EACI will raise the visibility of the Programme with increased and more specialised human resources devoted to communication. Also, the Programme will benefit from the experience of the EACI in managing the Intelligent Energy Programme. Both aspects are highlighted in the ‘Cost-effectiveness study concerning the externalisation of management tasks related to the Marco Polo programme’, by Ecorys, 2007.

2. Following the procedure provided in letter d), point 2 of Annex I to the Regulation, the Commission<sup>11</sup> will double the maximum funding intensity from €1 to €2 per 500 tkm avoided or shifted off the roads. This change will affect three kinds of Marco Polo projects. The Modal shift, Motorways of the Sea and Traffic avoidance actions get financial support depending on the amount of tkm avoided or shifted off the roads, therefore successful projects could reap double Community funding. This change will be already effective for the call in 2009. The choice of doubling the funding intensity to €2 per 500 tkm is made on the basis of the budget available<sup>12</sup>.

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<sup>11</sup> This Commission’s proposal has obtained the approval of the Marco Polo management Committee and will go through the right of scrutiny process by 30.06.08.

<sup>12</sup> With €2 per 500 tkm and €450 million of budget, the amount of potential modal shift is 112 billion tkm. The objective of MP II is to shift a substantial part of the yearly growth of international road transport estimated at 20.5 billion tkm. Over the entire life of the Programme this entails a global objective of (20.5 times 7 years) 143 billion tkm. Therefore with a maximum of €2 subvention the Programme can still achieve 78% modal shift of the estimated total growth of international freight transport by road.

The increase in the funding intensity does not have the objective of increasing the size of the projects, but to make the programme more attractive in terms of better deficit financing for the starting years of the projects. Taking into account that the value of the maximum funding intensity was set in 2003 and the current situation of higher of transport costs due to the volatility of oil prices and the economic downturn, revising the funding intensity constitutes a needed update of the Programme. It may well be that owing to the increase of the funding intensity, and given the fixed budget available, the average monetary size of the projects will increase, but this will depend on the number of new projects attracted by the measure, since the €2 per 500 tkm is a maximum value which could be adjusted if the requested subsidy is higher than the available budget. Annex V gives a description of two possible scenarios resulting from this measure.

By doubling the funding intensity the Commission aims to tackle the operational objective of increasing the motivation of potential beneficiaries to apply for Marco Polo funding. This measure will benefit micro and small undertakings in particular because this kind of undertakings is the one with more complex access to capital and for which the Marco Polo subsidy represents a key start-up aid. In the context of the current economic downturn the increase in the funding intensity will contribute to compensate the increase in transport unit costs derived from decreasing economies of scale.

### **Option B — Targeted revision of the Legal Basis**

All legislative amendments entailing a political choice and which are excluded from the analysis are described under option C — Full revision of the Programme. Option B only contains legislative measures aiming to fine-tune the Marco Polo regulation in order to pursue the operational objective of motivating the potential beneficiaries by simplifying, clarifying and adapting the legal basis to the transport market needs.

#### **B.1 Facilitating small undertakings' access to the Programme.**

In order to achieve the operational objective of adapting the legal basis to the transport market's needs, one of the measures envisaged is to facilitate access to the Programme for small and micro undertakings. The objective *per se* is not to have smaller Marco Polo projects, but to facilitate smaller operators' access to the Programme. This can be done in three ways:

**B.1.1 — Single undertaking.** Allowing the submission of projects by a single undertaking would give Programme access for small undertakings with no networking in the transport industry. This measure would tackle the problem driver of unsuitable conditions for eligibility of beneficiaries (paragraph 2.2 in section 2) and was supported by 83% of the answers to the external consultation. Even if projects were allowed to be presented by a single undertaking, the scope of the project would continue to be a multinational transport link; therefore projects will still be international.

**B.1.2 — IWT threshold.** Setting a specific lower eligibility threshold for projects aiming to shift cargo from road to inland waterways would give better access to enterprises from the very fragmented sector of Inland Waterways Transport. This measure would tackle the

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Achieving 78% of modal shift/traffic avoidance is not an objective but the maximum which could be achieved with a funding intensity of €2 per 500 tkm shifted/avoided.

problem driver of unsuitable funding requirements (paragraph 2.5.1 in section 2). The calculation of a new lower threshold for Inland Waterways Transport is done on the basis of the following market observation: A small barge carrying 1 500 tonnes typically along the Rhine or Danube takes 5 days to do a stretch of 300 km. If this stretch is done 40 times (200 working days) per year, then the barge can implement a modal shift of 18 million tkm per year ( $40 \times 1\,500 \times 300 = 18$  million tkm). Therefore a threshold of a yearly 17 million tkm is proposed, equivalent to 50 million tkm over the entire period, 3 years maximum, of the modal shift project. The programme currently not accessible by such typical inland waterway transports will therefore become potentially interesting for this very frequent type of transport now in serious competition with road transport.

This calculation is consistent with the observations received in the public consultation, which suggest thresholds between 25 and 50 million tkm over the entire life of the project. Furthermore, lowering the thresholds for Inland Waterways is a long-standing request by the Inland Waterway sector and a specific recommendation by the external evaluation of the first Marco Polo programme. Actually the external evaluation of the Programme recommends lowering the thresholds for these kinds of projects, which account for a significant share of the potential freight that can be shifted off the road.

The interim report of the external study on the effects of amending the Marco Polo regulation on the Inland Waterway transport sector advocates an especially low threshold for this sector, highlighting that it will compound the positive effect of the increase in funding intensity of the baseline scenario.

It is furthermore proposed that the legal text should permit extending this threshold to micro-enterprises in cases where experience with the programme advises it.

**B.1.3 — Expenses refund.** Refunding the expenses incurred by micro-enterprises, as defined by Commission Recommendation 2003/361/EC, for preparation of Marco Polo proposals, would adapt the Programme to market needs since it would reduce the risk involved in bidding with uncertain results of succeeding. A lump sum would be fixed in the text of each yearly call for proposals. This measure would tackle the problem driver of unsuitable funding conditions (paragraph 2.5.2 in section 2) and was supported by 78% of the contributors to the external consultation.

If the Commission guarantees payment of the proposal costs, on condition that the project is eligible according to the terms of the call, then the micro-enterprise has a guarantee that even if the project is not selected for support, it has covered the risk of losing the cost of making the proposal.

## **B.2 Modifying eligibility thresholds**

In order to achieve the operational objectives of simplifying and clarifying the legal basis and at the same time adapting it to transport market needs, one of the envisaged measures is to adapt the current thresholds for the eligibility of proposals. This measure would tackle the problem driver of unsuitable funding conditions (paragraph 2.5.3, section 2). The measure would entail the following two sub-measures:

**B.2.1 — Minimum thresholds for projects.** In order to simplify the system of thresholds for the different kind of projects, it is proposed that:

B.2.1.1 — All kinds of projects, with the exception of Common Learning projects<sup>13</sup>, will be subject to a modal shift threshold only. This entails eliminating the current monetary thresholds and creating a threshold for Catalyst actions. A threshold of a yearly modal shift of 30 million tkm is proposed. This value is derived as a rounded-down result of a hypothetical transport service doing 100 journeys with 1000 tones over a stretch of 1000 kilometres over its entire life. Experience with the management of the Programme shows that this is the minimum size of trial for a Catalyst project to assess if the market will accept the innovation proposed. Adding a modal shift to the Catalyst projects was supported by 64% of the contributions to the external consultation. The elimination of the current monetary thresholds was supported by 70% of the contributors.

B.2.1.2 — All thresholds should be comparable for all kinds of projects when possible. This would entail eliminating the current monetary thresholds, except for Common Learning projects, which do not entail modal shift objectives, and setting the thresholds in yearly terms, since some projects may be longer than others.

Lowering the thresholds was supported by the majority of the contributions to the external consultation. The currently successful threshold for Modal Shift actions will be transformed into a yearly threshold of 80 million tkm. This figure is the rounded result of the current threshold for Modal Shift projects of 250 million tkm over the life of the project, usually three years. This threshold will continue to be applied to Modal Shift projects but also extended to traffic avoidance projects, so as to increase their chances of getting Programme support. The Motorways of the Sea projects by definition are large-scale projects (see Annex II), therefore applying the same thresholds as for Modal Shift projects would be inconsistent with the Programme's policy objectives. A threshold amounting to a rounded-up figure of five times the Modal Shift one is proposed, a yearly shift of 250 million tkm.

**B.2.2** — The current 10% **Traffic avoidance specific threshold** provided by the regulation will be eliminated.

The result of the proposed changes to the thresholds is the following:

<b>Project types</b>	<b>Current <u>project</u> thresholds</b>		<b>Proposed <u>yearly</u> thresholds<sup>14</sup></b>
<b>Modal Shift</b>	250 million tkm	€500 000	80 million tkm
<b>Inland Waterways</b>	n/a	n/a	17 million tkm
<b>Catalyst</b>	n/a	€2 million	30 million tkm
<b>Common Learning</b>	n/a	€250 000	€250 000 <sup>15</sup>

<sup>13</sup> By definition Common Learning projects do not result in a directly attributable modal shift.

<sup>14</sup> These thresholds are computed over the whole period of implementation of the project without setting any yearly rate of implementation. The minimum duration of any project aiming at modal shift or traffic avoidance is three years.

<sup>15</sup> Over the entire project.

<b>Motorways of Sea</b>	1.25 billion tkm	€ 5 million	250 million tkm
<b>Traffic Avoidance</b>	500 million tkm	€1 million	80 million tkm

**B.3 Raising the funding intensity.** In order to achieve the operational objective of adapting the legal basis to the transport market's needs, the two measures envisaged aim to increase the funding intensity indirectly by changing the modal shift calculation to include the transport element and allowing for the prolongation of projects which suffer justifiable initial delays.

**B.3.1 — Modal shift calculation.** Allowing inclusion of the weight of the transport element in the modal shift calculations would tackle the problem driver of unsuitable funding conditions (paragraph 2.5.4 in section 2) and was supported by 78% of the contributions to the external consultation.

**B.3.2 — Extension of maximum implementation period.** Allowing extension of the maximum implementation period by six months would tackle the problem driver of unsuitable funding conditions (paragraph 2.5.5 in section 2). In the case of Common Learning projects, giving the possibility to double the duration of the project to 52 months would leave the duration of this action mid-way between the Modal Shift actions (36 months) and the Catalyst, Motorways of the Sea and Traffic avoidance (60 months). Extending the duration of the Common Learning projects was supported by 62% of the contributions to the external consultation.

## **B.4 Simplification**

In order to achieve the operational objectives of simplifying and clarifying the legal basis, two kinds of measures are envisaged:

**B.4.1 — Infrastructure funding.** A simplification is proposed for the conditions for funding, with two principles: first, expenditure on ancillary infrastructure, as defined in Article 2 of the regulation, will be an eligible cost like any other, with no other limitation than compliance with the relevant Community legislation, and second, the eligible costs related to ancillary infrastructure should not be higher than 10% of the total eligible costs for the project. These changes will tackle the problem driver of unclear funding conditions (paragraph 2.5.6 of section 2) and considerably simplify the administration of the issue.

The simplification of the funding requirements for funding of infrastructure is supported by 88% of the contributions to the external consultation.

**B.4.2 — Procedures.** Following the example of the Competitiveness and Innovation Programme (CIP), it is proposed that Commission would only need to submit to the comitology process the yearly work programmes, leaving it to the EACI to deal with launching the calls and decisions on award of financial support. Currently the comitology process is required both for the adoption of the yearly work programme and decisions on award of financial support to projects.

The proposed simplification would tackle the problem driver of unsuitable administrative procedures (paragraph 2.6 in section 2).

A simplification of procedures is supported by 90% of the contributions to the external consultation.

### **Option C — Full revision of the Legal Basis**

A full revision of the Programme would entail analysis of all the measures contained in Option B plus the following:

The **scope of the programme** (problem driver in paragraph 2.1 of section 2): Enlarging the scope of the programme, to allow one-Member-State-only projects for example, would entail a major reflection to encompass other national measures and compliance with the subsidiarity principle. Although the proposed measure B.1.1 would entail allowing projects to be presented by a single undertaking, the project still needs to have an international character in its nature, namely to achieve modal shift on an international transport route.

The **definition of types of projects** (problem driver in paragraph 2.3 of section 2): The programme is implemented with five kinds of actions: Modal Shift, Catalyst, Common Learning, Motorways of the Sea and Traffic Avoidance actions. These five kinds of actions are the specific objectives of the regulation to achieve its general traffic avoidance/modal shift objective. However around 80% of the projects supported by the first Marco Polo programme are of the Modal Shift kind. Given this unbalanced result in terms of proportion of Community support given to the different types of projects, an adaptation of their definitions could be envisaged, but changing the definitions of the types of action would entail a major reflection on the policy options available for the Programme.

The **financing instruments** (problem driver in paragraph 2.7 of section 2): Marco Polo projects are currently implemented with grant agreements between the Commission and the beneficiaries. It might be that this contractual instrument is not best suited for implementing the Programme as compared with loans or other financial contracts. Actually the external evaluation includes some reflections on the fact that the support given to modal shift projects cannot be considered as decreasing the project risks, since the project partners will only receive a subsidy for every tkm which the project actually shifts off the road. However a change in the financing instrument would entail a substantial reflection on the policy options available for the Programme.

### **Option D — Stopping the Programme**

The hypothetical option of stopping the Programme is not considered since, as explained in section 2, the Programme is an integral part of the EU Transport Policy as defined in the revision of the White Paper on EU Transport policy of 2006. Furthermore, as shown in the figure on page 6, the Programme is achieving a substantial modal shift, which although not reaching the desired level, makes a relevant contribution to reducing congestion and environmental costs.

The external evaluation of the first Marco Polo programme estimates that a modal shift of 30.6 billion tkm will be realised. Although that is only 64% of the objective, it is a significant amount with a significant impact on reducing congestion. The monetary value of the reduction in external costs as a consequence of that modal shift is estimated in €560 million<sup>16</sup>.

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<sup>16</sup> 500 tkm shifted entail a saving of €9.15 in external costs, as shown in Annex IV.

## **Recommendations not taken into account**

The **external evaluation of the Programme** gave certain recommendations which have not been taken into account:

1. It advised making the ‘contribution to the reduction of road congestion’ more visible in the proposal evaluation stage, by entering it as a separate evaluation criterion in future calls and requesting more solid indications as to how a project contributes to reducing road congestion. This recommendation can be taken into account when drafting the yearly calls for proposals when further reflection on the issue is undertaken, therefore it does not entail any legislative action.

2. Because of the absence of shipping projects in the results of the 2006 Call, it was advised to sharply monitor the involvement of shipping projects in the first and subsequent calls of MP II. This has been done and no action is deemed necessary since short sea projects represented 41% and 18% of the selected projects in the first and second calls of the second Marco Polo programme.

A majority of the **contributions to the external consultation** suggest a higher funding intensity of €3 per 500 tkm for Catalyst projects. This recommendation will be taken into account for the forthcoming 2010 call, after examining the results achieved by the 2009 call with an increased funding intensity of €2 per 500 tkm shifted.

## **Section 5: Analysis of impacts**

The options are assessed according to seven criteria:

1. **Effectiveness (economic, environmental and social benefits):** The potential to improve the results of the programme (amount of tkm shifted or avoided) independently of the means needed to achieve them. It should be highlighted that because of the fact that the Programme suffers from substantial under-spending, any measure increasing the number of projects selected, without decreasing the average size of each project, will automatically generate an increase in the effectiveness of the programme in terms of tkm avoided or shifted, because most of the projects receive the subsidy depending on the actual tkm avoided or shifted. Since the Programme itself has positive economic, social and environmental effects, an increase in its effectiveness will increase those effects. As highlighted in the *ex-ante* evaluation of the second Marco Polo programme, besides the direct impact in terms of tonne-kilometres, the Programme has delivered a range of indirect positive impacts: air pollution, global warming, noise, traffic safety (accidents), congestion infrastructure, economic, social and competitiveness.

*“Air pollution, global warming, noise, traffic safety, congestion and infrastructure impacts are quantified, using marginal cost estimates from former DG TREN research (UNITE, RECORDIT, REALISE) and other sources (INFRAS/IWW, OECD). The analysis results in Marco Polo II having a positive impact on reduction of externalities of €4.98 billion<sup>17</sup>. The*

<sup>17</sup>

This value corresponds to a total expected budgetary allocation of €20 million. This entails a unitary value of €6.07 savings of external costs per euro, which would translate into a total impact of €2.73 billion with the current budget of €450 million. However, on the basis of the latest estimations of external effects saved by modal shift and the split of the modal shift proposed in the first Marco Polo programme, this value is estimated at €9.15, as shown in annex V.



*reduction in externalities is approximately 76% (as compared to the situation without Marco Polo II). It should be noted that the external impacts are not restricted to the period 2007-2013; the impacts are also valid beyond the year 2013. Therefore the calculated impacts represent the minimum value, the actual impacts are higher.*

*Employment: Marco Polo II is expected to shift employment from the road sector to alternative modes of transport, both through a direct effect (road haulage sector to alternative modes) and indirect effect (supporting industries, e.g. from truck producers to producers of rolling stock and shipyards). The net effect is determined by productivity per sub-sector and location of industries and given the multitude of effects and the different directions of effects, size of the net effect is unknown. It should be noted that Marco Polo II intends to shift the future increase in road transport to other modes of transport, leaving the current road transport sector employment opportunities intact, while creating opportunities in other modes of transport.*

*Competitiveness: Marco Polo II scores a green light on the competitiveness' traffic light test. Possible negative aspects, such as increased compliance costs and administrative burdens through tendering and monitoring and evaluation processes, and regional economic and social impacts through a redistribution of activities from the road sector to alternative modes of transport, are offset by expected foreseen positive aspects, such as lower transportation costs. These are likely to have a positive impact on production costs and positive spill-over effects to other sectors, contributing to innovation within the transportation sector and contribution to development of the internal market through the international character of the programme"*

Ex ante Evaluation Marco Polo II (2007-2013), Ecorys, June, 2004

**2. Efficiency:** The potential to improve the results of the programme compared to the means necessary to achieve them. Only negative or neutral effects on efficiency have been identified. Assessing the final positive effects of each of the measures in terms of efficiency is subject to so many uncertainties that conclusions in this sense would be misleading.

**3. Distribution of Community support among types of projects:** The proportion of support that goes to each project type and transport mode is in balance. In the first Marco Polo programme 80% of the support was given to Modal Shift projects. Any effect resulting in the improvement of the participation of other project types is considered positive, in particular for Traffic Avoidance actions, which have not received support yet. On the other hand Inland Waterway projects represent only 7% of the Community support awarded by the first Marco Polo programme. Since the objective of the Programme is ultimately to reduce congestion, a proper balance among transport modes is an issue to take into account. Inland Waterways is one of the least congested transport modes.

On the other hand the fact that traffic avoidance projects have not yet secured any Marco Polo support makes this important instrument irrelevant for reducing congestion. A better use of this instrument is therefore a relevant criterion for assessing the options.

**4. Simplification:** Depicts the impetus towards simpler calculations in the proposals and/or simpler project management.

**5. Evolution in time:** Estimation of the effects - positive, negative or neutral - of the measure over time.

**6. Non-EU effects/specific geographical effects:** Estimation of the effects on the connections of the EU with third countries and/or the concentration of effects in EU-peripheral or not yet Marco Polo favoured geographical areas.

**7. Administrative costs:** Estimation of the effects on the administrative costs needing to be incurred to manage the programme.

As calculated in Annex V, each euro of Marco Polo support to avoid or shift freight transport off the roads will have €0.15 of positive external effects in terms of air pollution, global warming, noise, traffic safety, congestion and infrastructure impacts plus other positive impacts in terms of employment and competitiveness. Therefore the increase in the effectiveness of the programme, measured in the amount of tkm avoided or shifted off the roads automatically has positive impacts in terms of environmental and social benefits, among other, amounting to €0.15 per euro of EU grant.

The impact of the different options on the EU budget is not analysed since the Programme has a fixed €450 million budget which provides funding for the projects but also the resources for the EACI management and administrative expenses. Otherwise all the options considered have no impact on the expenses incurred by the Commission in steering and controlling the Programme.

The only quantitative data available for evaluating the impacts of the proposed measures are the external effects of each tkm shifted/avoided off the road, amounting to €0.15. This overall value includes the environmental, economic and social benefits of the modal shift. Otherwise the assessment of the impacts of the measures has been done in qualitative terms.

#### **Option A — No action**

The effects of no action on the part of the Commission can be deduced from the conclusions of the external evaluation of the first Marco Polo programme, which estimates that only 64% of the objective of tkm to be shifted off the road is being met. Given the decreasing amount of subsidy requested every year (see table on page 7) and the more ambitious targets of the second Marco Polo programme<sup>18</sup> the objectives set in the second Marco Polo regulation will not be achieved (see table on page 6). This would bring negative consequences in terms of additional road infrastructure costs, accidents, congestion, local and global pollution, environmental damage and unreliability of the supply chain and of logistics processes. Currently the effects of congestion are estimated to be 1% of the EU's GDP and the cost of environmental damage around 1.1% of the EU's GDP<sup>19</sup>.

Following the latest estimations of the external savings effected by the modal shift and the split of the modal shift proposed by the projects supported by the first Marco Polo programme, every euro of Marco Polo programme support entails external benefits amounting to €0.15 in terms of external costs saved (see Annex V). This means that the opportunity cost

<sup>18</sup> The objective of Marco Polo I was to shift 12 billion tkm per year, whereas the objective of Marco Polo II is to avoid or shift a substantial part of 20.5 billion tkm per year.

<sup>19</sup> Source — 2001 White Paper on Transport: European transport policy for 2010: Time to decide.

of not having fully implemented the first Marco Polo Programme can be estimated at €28 million<sup>20</sup>.

In view of this development the Commission has already taken two early steps:

1. The management of the Programme has been entrusted to the Executive Agency for Competitiveness and Innovation (EACI), alongside other Community programmes. This agency is solely devoted to project management; therefore the management of the programme and its projects will be considerably more effective than in the policy framework of the Commission. Also, greater simplification is expected from the EACI because of streamlined internal procedures and increased human resources, allowing standardisation of management methods. This effect will increase over time since the EACI will go through an unavoidable learning process.

2. Following the procedure stipulated in letter d), point 2 of Annex I to the Regulation, the Commission will double the maximum funding intensity from €1 to €2 per 500 tkm avoided or shifted off the roads. This change will automatically make three kinds of Marco Polo actions more attractive to the potential applicants. The Modal Shift, Motorways of the Sea and Traffic Avoidance actions get financial support depending on the amount of tkm avoided or shifted off the roads, therefore successful projects will reap double Community funding.

Two scenarios can be envisaged as a consequence of the doubling of the maximum funding intensity for the 2009 Call:

1. Increase in the total yearly subsidy requested of 20% compared to 2008.

2. Increase in the total yearly subsidy requested of 60% compared to 2008. .

Taking into account the incremental costs and external benefits, the results of the doubling of the funding intensity are positive in the best (€166 million) and worst (€44 million) scenarios, as shown in Annex V, therefore doubling the funding intensity will substantially increase the Programme's **effectiveness**.

In the current circumstances of economic downturn the increase of the funding intensity will in any case contribute to compensate the increase of transport unit costs derived from diminishing economies of scale.

On the other hand, the positive effects of outsourcing the management of the Programme to the EACI, in terms of increased effectiveness, will take about two years to be felt and are difficult to assess in quantitative terms.

Even if the effects of doubling the funding intensity are significant, the objective of shifting a substantial part of the estimated international growth of road transport will be difficult to achieve with this measure alone. The most optimistic scenario, with a 60% increase in the tkm proposed in 2009, predicts a total proposed modal shift of 25 billion. Following the estimations of the external evaluation of the first Marco Polo programme, only 64% of this modal shift is finally achieved, namely 16 billion tkm. The impact of these measures on the **efficiency** of the Programme is negative since each tkm avoided or shifted off the road could cost the Community up to twice as much compared with previous years.

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<sup>20</sup> Only €74 million out of €102 million were committed. €28 million times 9.15 is the benefits which could be obtained ((28 x 9.15)-28=228) opportunity cost.

The impact of these measures in terms of **distribution of support** among kinds of projects is expected to be neutral since the measures affect all kinds of projects and transport modes in the same way and the same intensity. However the streamlined processes expected to be established by the EACI will have a positive impact on **simplification**.

The effects of these measures over **time** are expected to increase because of the learning process by the EACI and the increased competition for EU funding once the new funding intensity becomes widely known in the transport industry.

In terms of **non-EU effects/geographical distribution**, the impact is expected to be neutral, as the measures are of horizontal nature.

Even if it is not the objective *per se*, a higher funding intensity, given the limited budget, can result in an increase of the size of the projects, which in turn will result in a reduction of **administrative costs**.

## **Option B — Targeted revision of the Legal Basis**

### **B.1 — Facilitating small undertakings' access to the Programme**

**B.1.1 — Submission by single undertaking.** Allowing proposals to be presented by a single undertaking will no doubt have an effect in the number of proposals presented.

As suggested in some contributions to the external consultation, freight flows and transport companies are becoming more and more international and the management of these flows can be provided more often by the same entity. Also it has been suggested that this measure is positive, since establishing a consortium in order to apply for Marco Polo funding is often a burden and is frequently artificial. In fact 86% of the contributions favoured the measure proposed. Therefore it is expected that the results of this measure will be quite **effective** in attracting new proposals and will increase the total traffic avoidance and modal shift achieved by the programme.

The **efficiency** of the Programme will not suffer, since this measure will only change which kind of companies are actually doing the modal shift/traffic avoidance. However the measure will have a very positive effect on the **distribution of support** among project types and transport modes since the main beneficiaries of this measure are expected to be the Inland Waterway transport sector, in the first place, and the road transport sector (for traffic avoidance projects) in the second place. Representatives from these very fragmented transport sectors have often expressed their concerns about the requirement of the regulation that 'actions shall be submitted by a consortium of two or more undertakings, established in at least two different Member States'. Given that only 7% of the Marco Polo funding has benefited Inland Waterway transport services and/or traffic avoidance actions, this measure will have an effect on the better distribution of modes supported by Community funding.

In terms of **simplification** the effects will be quite positive for the applicants and the Commission, since the application and management process will be easier with fewer partners involved in the projects.

The effects of this measure over **time** are expected to remain stable because a substantial learning process will not be required.

No particular effects are expected at **non-EU level/geographical level** since small undertakings are distributed all around the EU.

The results of this measure will slightly decrease **administrative costs** since there will be fewer formal requirements for project presentation, evaluation and administration.

**B.1.2 — Specific lower threshold for IWT.** The creation of a lower threshold for projects aiming to shift cargo from the road to inland waterways is a long-standing request by the Inland Waterway sector and a specific recommendation by the external evaluation of the first Marco Polo programme.

Furthermore extending the lower threshold to micro-enterprises could be envisaged if experience with the programme advises it. The application of this low threshold for micro enterprises is expected to have a cross-cutting effect on the possibilities open to undertakings from transport sectors other than the Inland Waterway sector. This is confirmed by the contributions to the external consultation, which favoured the application of this low threshold for micro-enterprises in general.

This measure will increase the **effectiveness** of the Programme since it will attract a number of projects which otherwise would not apply.

The **efficiency** of the Programme will not suffer since this measure will only change which kind of companies are actually doing the modal shift/traffic avoidance.

Since the main beneficiaries of this lower threshold are expected to be the fragmented sectors of Inland Waterway and road transport, the measure will have a very positive effect in the **distribution of funding** among the different project types.

The measure will have a slight negative effect in **simplification** since it is creating an exceptional threshold which breaks the intended uniformity in the thresholds. The **administrative costs** are expected to be higher since smaller projects will consume less budget but with the same management time as for bigger ones.

The possibilities of **non-EU effects/geographical effects** are clear in the case of the connections between Finland and Russia, if Russia becomes a participating country in the Marco Polo programme. Otherwise the IWT sector is specific to around 12 Member States, so the measure will have specific effects in this area.

The effects of this measure over **time** are expected to remain stable since a substantial learning process is not required.

**B.1.3 — Refund of proposal preparation expenses.** The effect of this measure is difficult to estimate, but given the high level of support given to it in the external consultation, it is expected to bring many applications from micro-enterprises. The extent to which these applications will be of sufficient quality to be selected for funding is unknown, but it can be assumed that a proportion of them will have a sufficient quality level to be awarded Community support. Therefore an increase of the Programme **effectiveness** is expected. Indeed, the external study on the effects of the amendment of the Marco Polo regulation in the Inland Waterway transport sector estimates that this will be a real incentive for micro-enterprises to try and apply for Marco Polo funding. A positive effect is also expected in the **distribution of Marco Polo support** among project types, since the measure will mainly

affect the most fragmented transport sectors, i.e. Inland Waterways and road transport, currently under-represented among the Marco Polo beneficiaries. The **efficiency** of the Programme will not suffer since this measure will only change the kind of companies that are actually doing the modal shift/traffic avoidance.

The effects of the measure will increase in **time** due to the learning process in micro-enterprises and the difficulties of making the changes to the Programme known to them in the first instance.

Since this measure will attract smaller projects and adds a new procedure for refund of expenses, the effects in terms of **simplification** and **administrative** costs are expected to be negative.

No effects are expected at **non-EU or regional level** because of the general nature of the measure.

## **B.2 Modifying eligibility thresholds**

**B.2.1 — Lowering minimum eligibility thresholds.** In terms of **effectiveness** of the programme, this measure will have positive effects since one of its elements is the creation of a tkm threshold for Catalyst actions, which will now contribute to the modal shift/traffic avoidance Programme's objectives. On the other hand lowering the thresholds for Traffic Avoidance projects will attract new proposals which will translate into an increase of the modal shift/traffic avoidance achieved by the Programme.

The **efficiency** of the Programme will not suffer since this measure will only change the size of the projects which will actually do the modal shift/traffic avoidance.

In terms of the **distribution of projects** among project types, this measure will be very positive since it will give more possibilities to projects which are currently underrepresented in Marco Polo support, the Traffic Avoidance projects.

The measure will have positive effects in terms of **simplification** and **administrative expenses** thanks to a simpler and more uniform system of thresholds affecting the selection and management process.

In terms of **regional distribution** of projects, the measure will have positive effects derived from the fact that smaller Member States will have better access to the Programme with lower thresholds.

The effects of this measure over **time** are expected to remain stable since a substantial learning process is not required.

**B.2.2 — Elimination of specific 10% threshold for Traffic Avoidance projects.** Deleting this specific threshold for traffic avoidance projects will have a slight increase in terms of **effectiveness** of the Programme since it will be easier for certain projects to apply for funding and it is expected that they will do so. The **efficiency** of the Programme will not suffer since this measure will only change the size of the projects which will actually do the modal shift/traffic avoidance.

In terms of the **distribution of projects** among project types, this measure will be positive since it will provide more possibilities for a type of project that has not yet received any Marco Polo support, namely the Traffic Avoidance projects.

The measure is basically a **simplification** measure and will contribute to a slight reduction of **administrative costs** because of the simpler application and management process.

No specific effects are expected at **non-EU level/geographical level** since traffic avoidance projects can be proposed from many different geographical areas.

The effects of this measure over **time** are expected to remain stable since a substantial learning process is not required.

### **B. 3 — Raising the funding intensity**

**B.3.1 — Calculation of modal shift.** The measure proposes to include the weight of the transport vehicle in the calculations.

In terms of the **effectiveness** of the Programme, the measure is expected to have a very positive impact since it will increase the financial return of the proposals for the beneficiaries, therefore increasing the attractiveness of the Programme and consequently the number of applications. Otherwise it will open the door to projects which involve the repositioning of transport elements, i.e. empty containers returning from delivery point, and many other projects with unbalanced flows.

Including the transport element in the modal shift calculation can have a substantial negative effect on the **efficiency** of the programme since the same “freight” modal shift will actually require a higher Community subsidy.

On the other hand this measure will entail a substantial **simplification** because the calculation of modal shift will be easier and more transparent.

The effects on the **distribution of support** among projects is expected to be negative since Marco Polo support will benefit most those projects that do not involve change of transport mode.

The measure will have very positive effects in terms of **geographical distribution** since transport projects involving EU peripheral areas with an intensive export or import industry (as for example forestry industries in Finland, car manufacturing in Sweden or fresh vegetables in southern Spain) will benefit from this measure, which will allow the Programme to support shifting off the roads empty transport elements, i.e. empty containers returning from their delivery point

The results of this measure will slightly decrease **administrative costs** since calculations of modal shift and reporting of results will be made simpler.

The effects of this measure over **time** are expected to remain stable since a substantial learning process is not required.

**B.3.2 – Extending maximum implementation periods.** This measure can substantially increase the **effectiveness** of the Programme in the specific case of the implementation period for projects involving modal shift. Management experience with the Programme shows that

often these projects suffer start-up problems which delay the implementation of the modal shift beyond the project implementation period. The **efficiency** of the Programme will not suffer since each tonne-kilometre shifted or avoided will continue to cost the same in terms of EU grant.

In terms of **distribution of support** among projects, the measure is expected to be neutral since it benefits all kinds of projects.

The measure will have negative effects in terms of **simplification** and **administrative costs** since it will involve exceptional procedures to extend the duration of the contracts.

The effects are not expected to change substantially over **time**, since no specific learning process is involved and no events are expected to influence the implementation of the measure.

No effects are expected at **non-EU or regional level**, because of the general nature of the measure.

## **B.4 Simplification**

**B.4.1 — Changing the framework for infrastructure funding.** Simplifying the conditions for supporting infrastructure may attract big projects and therefore increase the tkm performance of the Programme, thereby increasing its **effectiveness**. The **efficiency** of the Programme is not expected to suffer since each tkm shifted or avoided will continue to cost the same in terms of EU grant.

Since the measure is of general nature, the effects on the **distribution of support** among projects and the **non-EU effects/geographical distribution** are expected to be neutral.

The effects are not expected to change substantially over **time**, since no specific learning process is involved and no events are expected to influence the implementation of the measure.

By definition the measure will have substantial **simplification** effects which will have a very positive impact on **administrative costs**, since the application and management of the projects will be simpler.

**B.4.2 — Simplification of administrative procedures.** The implementation of this measure will entail an improvement of the **effectiveness** of the Programme since simpler management will tend to attract more projects. The **efficiency** of the Programme is not expected to suffer since each tkm shifted or avoided will continue to cost the same in terms of EU grant.

Since the measure is of general nature the effects on the **distribution of support** among projects and the **non-EU effects/geographical distribution** are expected to be neutral.

The effects over **time** are expected to increase substantially, since the beneficiaries' perceptions will improve when they gain personal experience of the shorter procedures.

By definition the measure will have very high **simplification** effects with a major impact on **administrative costs**, namely saving one comitology process per year.



## Section 6: Comparing the options analysed

Following the assessments done in section 5, the following table summarises the effects of each of the options:

Impacts of the options							
Option	Effectiveness (economic, environment and social benefits)	Efficiency	Distribution of support among kinds of projects	Simplification	Evolution in time	Non EU effects / specific geographical effects	Administrative costs
<b>Option A — Baseline scenario</b>							
No EC action	++	--	Neutral	+	+	Neutral	+
<b>Option B — Targeted revision of the Legal Basis</b>							
<b>Measures benefiting small undertakings (B.1)</b>							
Single undertaking	+	Neutral	++	++	Neutral	Neutral	+
IWT threshold	+	Neutral	++	-	Neutral	+	-
Expenses refund	+	Neutral	+	-	+	Neutral	-
<b>Measures modifying eligibility thresholds (B.2)</b>							
Minimum thresholds	+	Neutral	++	+	Neutral	+	+
Traffic avoidance threshold	+	Neutral	+	+	Neutral	Neutral	+
<b>Measures raising the funding intensity (B.3)</b>							
Modal shift calculation	++	--	-	++	Neutral	++	+
Implementation period	++	Neutral	Neutral	-	Neutral	Neutral	-
<b>Simplification measures (B.4)</b>							
Infrastructure funding	+	Neutral	Neutral	++	Neutral	Neutral	+
Procedures	+	Neutral	Neutral	+++	++	Neutral	+++

The results of the assessment of Option A show that if no action is taken to amend the regulation, the effectiveness of the Programme in achieving its objectives will increase but the

efficiency in achieving them will decrease substantially, and even if there is an increase in the tkm achieved, the objective set in the legal basis will not be achieved.

All measures in Option B have been found to be effective, have an added value compared to the baseline and show that they complement each other. A ranking can be established considering their effects:

In the first place, the measures raising the funding intensity (B.3) are the most effective, but as with Option A, the high effectiveness is offset by a substantial decrease in the efficiency of Community intervention. Most of the added value of these measures in comparison to the baseline stems from a further increase in the effectiveness of the Programme. Additional added value comes from a simplification of the Programme.

In the second place, the measures aiming at a simplification of the legal basis and its implementation (B.4) will of course have a substantial impact in terms of simplification which will be compounded over time, with savings in administrative costs. Therefore the added value of these measures in comparison to the baseline is a substantial simplification of the Programme and a reduction of its administrative costs.

In the third place, the measures benefiting small undertakings (B.1) will above all have a positive impact by balancing the distribution of Marco Polo support over the various alternatives to road transport and the different project types. Therefore the added value of these measures in comparison to the baseline is a better distribution of the Programme grants among different transport modes, project types and geographical areas benefiting from the Programme. The increase in administrative costs derived from managing smaller projects will be offset by the relative increase in project size caused by measures raising the funding intensity.

Finally, the measures modifying the eligibility thresholds (B.2) will have a very balanced effect in terms of the basic assessment criteria, with no negative impacts on any of them. The added value of these measures in comparison to the baseline are a better balance of the Programme grants over various transport modes, project types and geographical areas benefiting from the Programme. Furthermore these measures will also add value in terms of a simplification of the Programme and a reduction of administrative costs.

### **Choice of options**

Having excluded from the analysis the option (C) of a full revision of the regulation and the option (D) of stopping the Programme, the conclusion of the assessment of the options is that action on the part of the Commission, implementing option B, has added value in terms of greater effectiveness for the Programme with substantial positive effects in terms of a better distribution of funding over types of projects, simplification and savings in administrative costs. In the case of no action by the EU the effectiveness of the programme will increase because of the non-legislative measures that are in the pipeline, but the efficiency of Community intervention will suffer.

Implementing Option B will bring benefits vis-à-vis the baseline in terms of:

- a further increase in the effectiveness of the programme, which is needed to ensure the achievement of the Programme's modal shift and traffic avoidance objectives,

- a more balanced distribution of community support among project types favouring the so far unsuccessful traffic avoidance projects and transferring congestion to traffic modes with spare capacity, notably Inland Waterways,
- a substantial simplification of the legal basis and the management of the Programme, which is very much demanded by the transport sector and highlighted in the external evaluation of the first Marco Polo programme,
- a significant reduction of administrative costs to manage the programme, as a direct consequence of simplification, which will outweigh the negative effects of increased support to smaller projects,
- a positive effect in terms of benefits for peripheral areas and non-member countries, as a consequence of favouring Inland Waterway projects in peripheral areas and allowing modal shift of empty transport units,

The assessment leading to the choice of options is fully supported by the results of the external consultation, which show a clear and significant support for all the options, except for the measure B.3.2 on the elimination of a specific threshold for traffic avoidance projects, where in any case the high percentage of blank replies confirms some doubts about the clarity of the text of the Marco Polo regulation dealing with that particular option

## **Section 7: Monitoring and evaluation**

The second Marco Polo regulation already sets a clear indicator for the assessment of the results of the Programme's implementation. The modal shift and traffic avoidance should be monitored by the Programme Manager in DG TREN and measured in terms of tonne-kilometres shifted or avoided on the roads of the countries participating in the Programme.

Traffic avoidance actions are measured in terms of vehicle-kilometres avoided, which for the effects of all calculations, converts into tkm at a ratio of 20 (1vkm = 20 tkm)

For modal shift of freight with large volume and less weight than normal, a volumetric conversion is applied: 1 tonne-kilometre = 4 m<sup>3</sup> kilometre.

However, the effects of the proposed measures will primarily be measured in terms of proposals submitted in response to the first call after the measures are implemented, as compared with previous calls. A secondary indicator will be the number of proposals selected for funding as compared with previous calls. A tertiary indicator will be the number of tkm proposed to be shifted by the proposals selected, measuring the indicative effectiveness of the Programme.