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REPORT

From: General Secretariat of the Council
To: Permanent Representatives Committee/Council

Subject: ***Preparation of the Council meeting (Transport, Telecommunications and Energy) on 13 March 2015***
Contribution to the EU competitiveness, growth and jobs through the Transport policy developments
- *Policy debate*

1. On 28 November 2014, the Commission presented its Communication on the Annual Growth Survey (AGS) 2015¹. In this Survey, the Commission outlines the main features of its new jobs and growth agenda and sets out what more can be done at EU level to help Member States return to higher growth levels and make progress towards sustainable development.
2. The AGS will be discussed at EU level to prepare for the Spring European Council on 19/20 March 2015. In this context, the Presidency has prepared a background paper and three questions (in Annex), to guide the exchange of views at the Transport Council at its forthcoming session on 13 March 2015.
3. The Committee of the Permanent Representatives is invited to take note of the questions drafted by the Presidency and contained in the Annex and forward them to Council for the abovementioned policy debate.

¹ Doc. 15985/14.

Presidency's background paper with questions for Ministers**I. INTRODUCTION**

The 2015 European Semester has been launched with the publication of the Annual Growth Survey (AGS) for 2015, issued on 28 November 2014, in which the Commission outlines the main features of its new jobs and growth agenda. The AGS, together with the documents accompanying it, sets out the Jobs, Growth and Investment Package as the first priority in the Political Guidelines for this Commission.

In the context of the European semester, the Latvian Presidency is planning to hold policy debates in various Council formations (ECOFIN, COMPET, TTE (Energy, Transport, Telecommunications), ENVI and EPSCO Councils) as a part of a broader debate on the policies and relevant initiatives (i.e. Investment Plan for Europe, Energy Union, Digital Single Market Strategy, Single Market and Industrial Policy). These policy debates will touch upon issues such as governance, implementation, investments and paying special attention to digital aspects. Discussions will be summarized in a joint synthesis report to the March **General Affairs Council** with a view to the March **European Council**.

A forward-looking development of infrastructure is fundamental for enhanced European competitiveness and a well-functioning single market. In the AGS, the Commission recommends a boost to investment as one of the three main pillars for the EU's economic and social policy in 2015. It is stressed that the European transport sector must modernise its infrastructure, reduce congestion and improve its trade connections to become more competitive in the global world of today.

Transport is a key to the EU economy. Evidently it enables services and industry activities in all economic sectors. Growth, jobs and investments are generated by boosting intra-EU trade as well as by expanding to foreign markets. This can only happen with a well-functioning sustainable transport network and efficient transport services, connecting all EU regions to the EU market and the global partners. The Single Market for transport must be at the core of the transport policy. The persisting technical, legal and administrative barriers that the businesses of the EU face are no longer sustainable in the competitive environment of today, and the effect of removal of these barriers must not be underestimated.

The transport sector is a growing sector, as the demand for mobility keeps increasing. The forecasted growth between 2010 and 2030 is 36% in freight transport and 23% in passenger traffic. The nature of personal mobility is altering and the demand for mobility is rising steadily. Moreover, the logistics transactions between companies continue to increase in numbers and evolve in their complexity. The revolutionary developments in the IT sector are only at an incumbent stage, yet, starting to massively transform the area of transport – the current emergence of self-driving cars and flying aerial objects ("drones") might serve as an example.

Thus, transport, by further synergies, enables other sectors to grow and improve their performance. The transport and logistics costs in the EU are estimated to be around 9% of GDP and can account for up to 16% of production costs of individual companies. Improved infrastructure and more optimal performance of multimodal logistic chains will contribute to reducing these costs.

If ways are found to innovate in these crucial logistic services to provide more intelligent, more sustainable and more efficient solutions, one can contribute significantly to the competitiveness of all economic sectors. This is all the more relevant as transport has also a strong impact on energy efficiency and climate change: no less than 32% of the EU final energy consumption and 24% of EU GHG emissions stem from the transport sector. Moreover, the sector is still highly dependent on oil (94% of energy consumed).

In the mid- and long term, it is the quality of the EU's regulatory environment and its strategic impetus which will determine the efficiency and growth potential of our transport systems, enabling the other economic sectors to be competitive and growing.

II. EUROPEAN TRANSPORT INFRASTRUCTURE: THE CHALLENGES TO BE FACED

Investing in the transport infrastructure creates jobs and contributes to Europe's growth and competitiveness. A study carried out on behalf of the European Commission² suggests that – by neglecting the investments which accrue from the trans-European transport network (TEN-T) policy adopted in 2013 – Europe would lose about 10 million jobs in the next 15 years and give away a potential GDP increase of 1,8 %.

European Parliament and Council have agreed on the European transport infrastructure "master plan" for the next decades – the TEN-T Guidelines³. Member States, other actors and the Commission are now under duty to fully implement this plan. It is, on the one hand, backed by the national infrastructure strategies and, on the other, it drives the achievement of the European policy objectives and thereby creates genuine added value. The cost is high: 650 billion € have been estimated as the necessary investments by 2030 for the completion of the core network as the strategically most important part of the TEN-T. But the socio-economic return will clearly outweigh the investment effort!

To be able to tackle the challenge, strong EU instruments have been created: to facilitate financing until 2020, the Connecting Europe Facility provides about €25 billion for grants and innovative financial instruments; the coordination instrument "core network corridors" aims at streamlining the use of resources while ensuring high-quality infrastructure development; the proposed European Fund for Strategic Investments shall help speeding up private investment in transport infrastructure and other strategic sectors of the European economy.

² "The cost of non-completion of the TEN-T", on-going, final results available in April 2015

³ The Regulation N° 1315/2013 of the European Parliament and of the Council on 11 December 2013 on Union guidelines for the development of the trans-European transport network

The core network corridor approach leads to the identification of the projects which have to be implemented until 2030 in order to complete the agreed network. This project identification is based on a comprehensive assessment across national borders and transport modes. It constitutes a key element of the process of elaborating and following up corridor work plans, and it creates a coherent basis for focusing the investments – be it from national and various European funds, or from national public and private sources. The first work plan for each corridor, submitted by the European Coordinators concerned on 22 December 2014, marks an important milestone in this process. Each project contributes to the single European network to integrate and interconnect all modes of transport, including equipment for traffic management and innovative technologies. Contributing to the implementation of this network effectively means generating and benefiting from the network effects beyond national borders.

This all-encompassing transport infrastructure approach, enabling efficient, sustainable and future-oriented transport services, entails potential economic gains in "traditional" and new areas. Building missing links at borders between Member States and along key European axes, removing bottlenecks or interconnecting transport modes in terminals is vital for the internal market and for connecting Europe with external markets and trade partners. Ensuring equivalent accessibility for all regions stimulates the emergence of businesses everywhere in the EU. New European technologies, such as the European Rail Traffic Management System or clean fuel technologies, also offer possibilities for leading positions in global markets. Not least, a forward-looking transport infrastructure policy opens doors for innovative mobility services for passengers and freight which may challenge younger and high-skilled people.

III. FINANCING THE CHALLENGES

The Connecting Europe Facility

The Connecting Europe Facility (CEF) will provide grants and financial instruments to support the implementation of the broad range of TEN-T projects – including the deployment of new technologies and innovation as well as traffic management systems for all transport modes. It will particularly focus on the core network, where key cross-border projects as well as the removal of other missing links and bottlenecks need to be tackled with priority, and where especially rail and inland waterway projects are addressed for the sake of a cleaner transport system. CEF funds shall be spent in a way to ensure synergies with the EU spending from other EU sources, notably the European Structural and Investment Funds.

The "core network corridor approach", which has taken shape throughout 2014, is inseparably linked with EU funding, notably from the CEF. The approach, which is governed under the lead of the European Coordinators and which has resulted in a first series of corridor work plans, vitally contributes to consolidating "project pipelines" for EU funding. Such "project pipelines" are backed by comprehensive corridor studies as well as close cooperation with Member States, infrastructure managers, regions and other stakeholders in the framework of corridor fora. Promoters concerned are particularly encouraged to make use of the current funding opportunities: A first call for project proposals worth €12bn was launched in September 2014. Projects received will be evaluated and selected in spring 2015 and the projects selected will be able to receive EU support from the end of 2015 over the next years.

Opportunities in the Juncker Plan

However, the budget of the Connecting Europe Facility is too limited in comparison to the huge investments needs linked to the TEN-T policy. Additional financing must be sought for in order to deliver the integrated, efficient and sustainable transport systems Europe needs to deepen its integration and increase its competitiveness.

The Investment Plan launched by the European Commission can provide new opportunities for financing the European strategic ambitions for transport. The aim of the plan is to attract liquidities of private investors in order to give a new boost to investments in European infrastructure, including transport. The financial support provided by the European Investment Bank via the European Fund for Strategic Investment (EFSI) should allow attracting investors on projects that they would not consider investing in otherwise. Such projects are typically transport infrastructure projects, notably those with positive socio economic benefit and identified revenue streams (from public sources, from infrastructure users, or a combination of both), with medium to long term returns on investments, and for which risks can be shared between the public and the private sectors.

As explained in the Interim Report of Mr Christophersen, Professors Bodewig and Secchi presented to the Transport Council on 3rd December 2014, and in line with the work done by the Task Force on Investments, transport infrastructure projects have a clear potential to benefit from the opportunities offered by the Investment Plan, in complementarity with instruments provided under the CEF or the Structural and Investment Funds.

The EFSI has the potential to contribute to the financing of TEN-T infrastructure projects mentioned above, but could also complement usefully the CEF by supporting investment in the maintenance of the network, which is a key challenge for the European transport system. Insufficient infrastructure maintenance and renewal of existing assets could also impair the effects of building new projects; it might entail the creation of new network gaps. Therefore, network expansion needs to go along with appropriate increases of budgetary provisions for maintenance – be it from public budgets or other forms, such as user charging schemes.

Some projects are already benefiting from loan or guarantee support from the EIB, for instance through the current CEF financial instruments. However, the Investment Plan will only be a success if a critical mass of transport project is using the support of EFSI. This logic requires first of all a clear change in the way transport infrastructure projects are conceived today, as they are often prepared with a view to receiving public funding rather than to attracting private investors even in revenue generating areas. Secondly, the number of projects supported with private financing can stimulate a shift from a case-by-case approach (building on tailor-made models) to an approach targeting replicability and new financing structures for transport development.

Strong assistance will, thus, be needed to support project promoters and administrations in preparing projects with a view to attracting private finance and in the financial structuring of the projects, using the examples and standards developed by similar projects, or regrouping smaller projects of same nature with a portfolio approach, in order to make it easier for investors to place their funds.

IV. INNOVATION IN TRANSPORT – AN OPPORTUNITY FOR THE EU

A wave of innovation is about to revolutionize the transport sector, driven broadly by employing new energy sources, modern electronics and information and communication technology (ICT). In the medium term this could lead to large scale automation of road transport as well as vast increases in the capacity of the existing EU infrastructure (air traffic, rail, road, water). Electric and other alternatively fuelled vehicles are conquering our roads. Those and other low-emission technologies, together with intelligent ICT transport services, are also the key for more sustainability and lower GHG emissions. The EU must embrace and stimulate these opportunities. Moreover, the technological lead gained in these areas can give EU industries an important competitive advantage also in other parts of the world. Currently, three major strands of innovation can be identified:

- Digitalisation of transport *operation* – automation of vehicles – allowing safer and more intensive use of infrastructure
- Enhancing connectivity – better transport information services increasing multi-modality and reliance in times of disruption

These two strands are facilitating the trend towards "mobility as a service".

- Re-fuelling transport – delivering long term sustainability and European fuel independence

In reality, in order to achieve its mid- and longer term objectives EU transport policy needs no less than a true paradigm shift which can only be achieved through investing in extensive research and innovation – and in policies to ensure that that innovation is actually deployed. A major emphasis of the €6.4 billion EU transport research and innovation programme under Horizon 2020 is aimed at projects addressing effective energy use and other issues of sustainability, both directly and indirectly⁴ and the opportunities of this program need to be used actively. There is a particular focus through the use of large scale demonstrations on addressing the barriers to rapid deployment of research in real-world applications. A variety of initiatives are envisaged: supporting the development of electric cars (Green Cars) and fuel cells (Fuel Cells and Hydrogen Joint Undertaking); promoting low carbon and non-polluting transport for cities (Urban and Smart Cities), ITS to facilitate more efficient road, rail, air and water infrastructure use and to support automation, and rail innovation (Shift2Rail Joint Undertaking) to achieve a transformation in rail operations and thus make modal shift attractive; optimisation of supply chains for logistics; to develop efficient and high quality infrastructure; to promote energy efficiency improvements in all modes and systems, operational improvements in aviation (SESAR Joint Undertaking, Clean Skies Joint Undertaking). In addition, other parts of Horizon2020 support research and innovation in the transport sector; the SME fund, the Energy Challenge (smart cities, fuels), the Security challenge, and in Leadership in enabling and industrial technologies (LEIT, materials, sensors etc.). To ensure that research and innovation truly delivers the outcomes needed to sustain Europe and its transport industries into the future, greater focus on long term needs is required.

⁴ The Horizon 2020 programme has been fundamentally changed to put a much greater emphasis on challenge-based research and innovation programmes, with even more near market innovation and cooperation with industry, to try and ensure a faster and broader take up of transport innovation.

Clean urban transport is a sector in which the investment needs are huge. In many urban areas, the increasing demand for urban mobility has created a situation that is not sustainable - with severe congestion, poor air quality, noise emissions and high levels of CO2 emissions, in contradiction with the environmental objectives of the EU transport policy. EFSI could support the deployment of sustainable urban mobility projects and introduction of the research results in real urban solutions.

More generally, the new financial instruments could contribute to the greening of transport through the deployment of the necessary infrastructure for “greening of transport”, for example the electrification of roads, LNG bunkering in ports, and also the deployment of more efficient traffic management systems or the development of digital platforms for better logistics chains. These projects are bringing benefits that can be used to repay, at least partially, the initial investment costs, and would fit in the logic of EFSI. They are also in line with the objective of the Energy Union: the “greening of transport” will not be possible without the adequate infrastructure, supporting the shift towards a low-carbon and less energy intensive economy. Investing in clean transport infrastructure has the potential to break the "chicken and egg" vicious cycle limiting vehicle manufacturers' investments in cleaner vehicle technologies.

The increasing global competitiveness – more and more at regional rather than country level - should be taken into consideration assessing the economic potential of transport sector versus the high investment needs. The contribution to competitiveness, growth and jobs rely in promoting the European added value and creating the integrated, efficient and sustainable transport systems in all regions of Europe, thus, facilitating more effective and sustainable connections to the global partners and customers.

In light of the above, delegations are invited to indicate their views on the following questions:

- ***How to make the European transport network more effective, forward looking and globally competitive (including by exploiting the opportunities provided by synergies with the innovation in transport, energy, and ITS)?***

- *What is the best way forward to attract private investors to transport projects, notably for the key cross-border projects and those focusing on the removal of other missing links and bottlenecks, on the understanding that risks should be shared between the public and private sectors?*
 - *The EU transport sector is facing increasing global competition. In your view, which are the major challenges such competition entails? In this context, what type of action is needed at EU level?*
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