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**POSITION PAPER
(updated edition)**



The European Union Road Federation



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

Introduction

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

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

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

Executive Summary

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

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

- a first package of proposals published in April 2003 advocated financing tomorrow's transport infrastructure system with measures geared at promoting the role of the private sector through Public Private Partnerships and a pan-European electronic toll system applicable both to commercial (2005) and private vehicles (2010).
- in July 2003, the revised "Eurovignette directive" called for an alignment of national road tolls based new methodologies for cost evaluation and cross-financing,
- Two months later, the European Commission has now formally proposed a revision of the TEN guidelines which adopts a new list of "priority projects" and increases maximum Community funding to 30 percent of the overall project cost .

Financing, taxpayers and the environment

The TEN construction programme and funding options described in these proposals reflect ideological choices which perpetuate the myth that widespread road charging combined with massive investment in rail projects can solve today's financial constraints, curb road accidents and even answer our environmental concerns.

Everybody agrees it is high time Europe finds a viable, long-term solution to the financing and operation of our transport network without hiding behind the environmental concerns that have prevented a transparent debate for years. Unfortunately, these "honest" environmental concerns overlooked that 1) most exhaust emissions are concentrated in urban areas, that 2) serious scientific research questions the nature and source of climate change, that 3) some of the so-called "environmentally-friendly" modes of transport also obtain their energy by seriously emitting CO2 and that 4) the implementation of technological progress has already significantly improved transport's overall environmental performance.

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

Food for thought

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

- Beyond modal split objectives, what criteria do the Commission's choices reflect ?
- Should new road taxes be introduced without a detailed assessment of current charges already levied and of their expected impact on Europe's periphery economies ?
- When will the benefits of private sector involvement be extended to all transport modes ?
- What levels of service will be guaranteed to Europe's motorists - above all on state-owned motorways which apply tolls ?

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

A new Community Framework

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

The European Commission's objectives are laudable enough : **to build, modernise and interconnect Europe's major transport modes** in a context where public investment in transport infrastructure has dwindled to less than 1% of GDP, with existing Community resources scattered among a host of projects of limited European significance (see chart 1). However, these objectives are also intrinsically contradictory: Member States are requested to invest massively in new network capacities but are also expected to preserve the environment, make best use of existing infrastructure and ensure the economic viability of their investment choices. As a result of this absence of a clear vision, TEN schemes are bound to reflect territorial approaches (i.e. covering national spaces uniformly) over more rational approaches such as economic profitability, integration of transport modes or technically adapted solutions.

Europe is also faced with a daunting and indissociable challenge, namely to identify credible sources and stable **mechanisms of funding** which will help raise the 600 billion Euros (including 220 billion Euros for the "priority projects" alone) that an efficient, complete and interoperable transport system requires in an enlarged Europe. In particular, aligning the transport infrastructure of Accession Countries to EU standards will require significant financial investments currently evaluated at 100 billion Euros – a considerable figure given the collective GDP of Central and Eastern Europe. Preliminary simulations by the European Commission on the "priority projects" indicate that the private sector has the capacity to contribute up to 40 billion Euros, while the remaining 180 billion Euros will have to be financed by national and Community budgets over the next 10 years.

Finally, **sustainable development preoccupations** now play an increasing role in shaping Europe's transport policy. As a signatory to the Kyoto protocol, Europe must curb emission of pollutants and greenhouse gases including those generated by the transport sector as a whole. Congestion of the transport networks and unacceptable levels of road fatalities also represent an undeniable socio-economic burden which European transport policies can contribute to reducing.

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

- Communication from the Commission “Developing the trans-European transport network: Innovative funding solutions - Interoperability of electronic toll collection systems” (23 April 2003), which advocates financing tomorrow’s transport infrastructure system with measures geared at promoting the role of the private sector,
- Proposal for a Directive of the European Parliament and of the Council amending Directive 1999/62/EC on the charging of heavy goods vehicles for the use of certain infrastructures (24 July 2003), which aligns national road tolls based on the adoption of new cost evaluation methods and provides a basis for cross-financing under certain conditions,
- Proposal for a Decision of the European Parliament and of the Council amending Decision 1692/96/EC on Community guidelines for the development of the Trans-European Network which adopts a new list of “priority projects” (based on the Van Miert High Level Group conclusions) and increases maximum Community funding to 30 percent of the overall project cost.

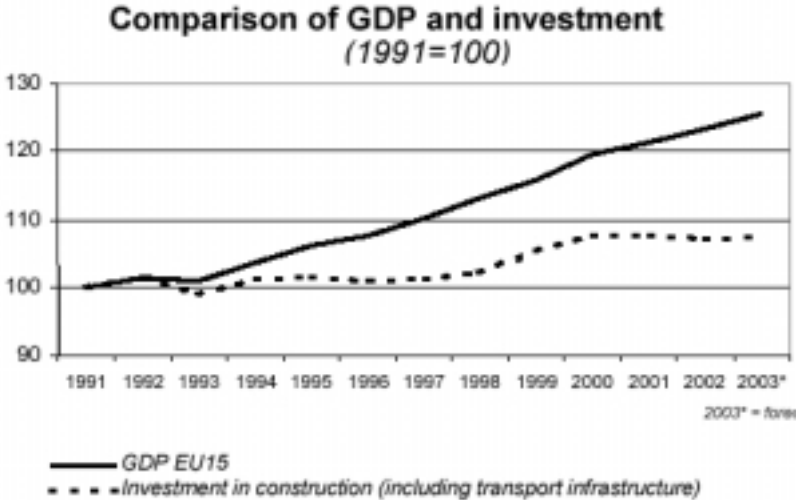


Chart 1 : compared growths GDP Transport infrastructure investment (source : FIEC)

Building tomorrow's Trans-European Network

The European Commission now recognises that “transport infrastructure plays an essential part in the proper functioning of the economy since it enables economic growth potential to be increased through economies of scale and network economies” – a welcome shift from previous unrealistic aims to achieve a decoupling of economic and transport growth¹.

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

Despite its avowed intention to consider Europe’s transport system as a unity in itself irrespective of individual modes, the high level group has returned with a list of projects of “European significance” which features an overwhelming majority of high profile rail or mixed-rail links - including the 11 billion Euro Lyon-Turin freight link to relieve the Mont Blanc tunnel – and which have now been adopted and completed by the European Commission

The European Commission has thus deliberately chosen to ignore a warning made by the European Parliament that the previous TEN projects **focused too much on certain modes of transport** which “are not economically viable and thus provide only a limited alternative to road and air transport [...] Projects should concentrate on establishing the most appropriate transport link and this would not always necessarily be rail²”. The TEN programme and its associated financing mechanisms were never designed as an ideological tool at the service of the Commission’s unrealistic modal split targets.

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

¹ Gothenburg Council Conclusions, 15-16 June 2001

² European Parliament report on the proposal for a European Parliament and Council decision amending Decision No 1692/96/EC on Community guidelines for the development of the trans-European transport network, 23 April 2002.

The question of funding

In order to address the financial needs generated by its transport investment choices over the next years (see chart 2), the European Commission has identified three pillars:

- **increased Community participation** : the Commission will now be able to finance up to 30 percent of the overall project cost and provide Community guarantees to insure against political risks and shifting national budget priorities,
- **greater mobilisation of private capital** : the Commission is providing the basic framework (both administrative and technical) for European Public Private Partnerships with a view to raising as much as 60 percent of project costs from the market,
- **road user charges** : part of the charges paid by heavy goods vehicles today and passenger cars tomorrow will be earmarked for cross-subsidies in "sensitive areas".

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

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

However, the European Commission itself recognises that it cannot expect to raise more than 20% of the total expected amount from private sources and it is increasingly clear that these investment choices will be paid for by the European taxpayers, either through the general public budget (which road-related taxes already massively contribute to) or through direct road user charges.

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

The revised Eurovignette directive is a clear illustration of this trend. As it stands, the proposed Directive applies a blanket fiscal measure to Europe's Member States with no consideration for existing fiscal burdens or increased transport costs already borne by economies at the periphery of the European Union. Member States, on the other hand, will remain free to provide varying levels of services to road users with little or no guidance from the Commission despite the legal obligations set out in Article 154 of the Maastrich Treaty.

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

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

Finally, the Eurovignette directive will now apply to road sections not formally part of the Trans-European Network (such as parallel or access networks) where road users will not benefit from any services or maintenance guarantees in exchange for the new road charges levied. Indeed, once the Directive is implemented, Member States will remain free to provide **varying levels of services** with little or no guidance from the Commission.

A 2002 Norwegian Road Directorate report found that only 4% of the national Main Road Network (which accounts for 50% of road traffic) met the 15 quality criteria it had itself defined. On such criteria as road alignment, safety, air & noise pollution and road width related to daily traffic, 58% of the network was deemed “not acceptable”.

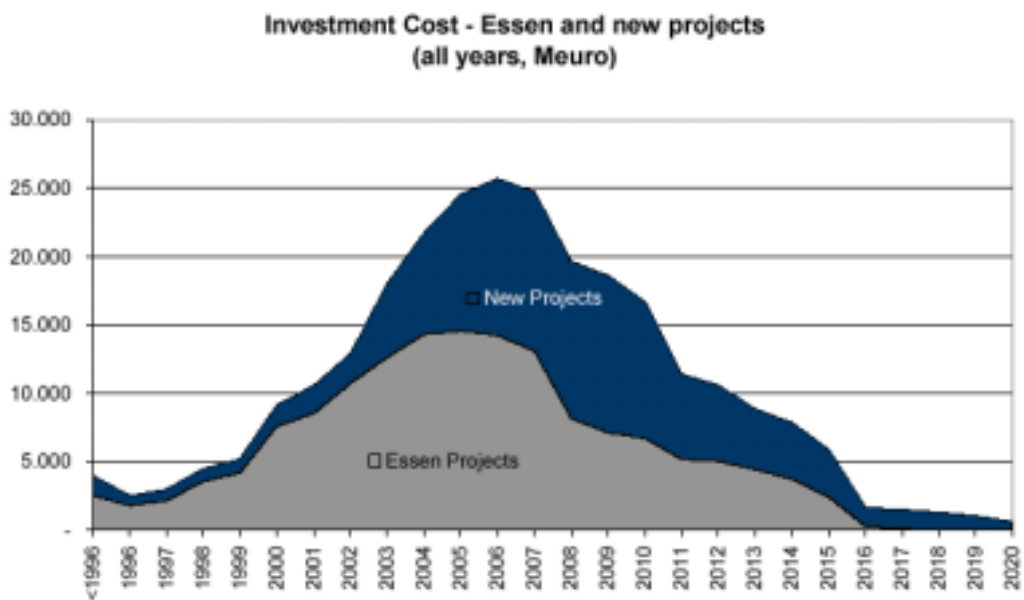


Chart 2 : Yearly estimated cost of TEN programme (source : European Commission)

Financing, taxpayers and the environment

The TEN construction programme and funding options described in the proposals perpetuate the myth that widespread road charging combined with massive investment in rail projects can solve today's financial constraints, curb road accidents and even answer our environmental concerns.

The ERF has argued against the idea that charging was an effective or realistic way of reducing road-related externalities³. Not only is the road sector a net contributor to public finances (representing between 10% and 20% of total fiscal income depending on the sources) and one of the largest sectors of employment in Europe (6-7% of total EU workforce), it is highly debatable whether fiscal policy can achieve the desired result of decreasing pollution, congestion and road accidents. While a comprehensive debate on the source and usage of road taxation is needed, current thinking is unacceptably biased, lacks scientific support, provides no guarantee of fiscal neutrality and will inevitably lead to disparities between Europe's regions.

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

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

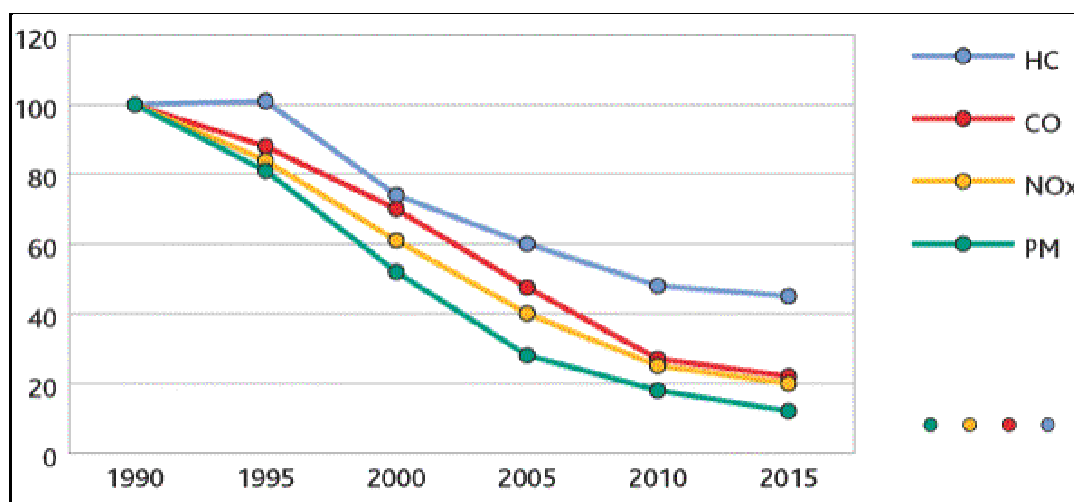


Chart 3 : Emissions from road transport 1990-2015 (source : ERF, IRU, Auto Oil II)

³ ERF Position Paper : "Road Charging, is it fair ?" (December 2002)

Time for a real debate on the Trans-European Network

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

The Trans-European Network priorities need to be re-evaluated to ensure that they adequately reflect the transport challenges of an enlarged Europe :

- Projects should be based on a comprehensive set of criteria that take into account **efficiency** (cost-benefit analysis), **sustainability** (evaluation of environmental effects), and **cohesion** (minimum levels of accessibility to the network, job creation, social cohesion, European competitiveness) objectives.
- New road taxes should only be introduced **following a detailed assessment** of current charges already levied by the Member States and of their expected impact on periphery economies and transport costs.
- The Transport system should be seen as a unity. Currently, **the treatment given to different transport modes varies considerably**. For instance, the Community guidelines recognise the benefits of private sector involvement in infrastructure construction and operation - a regular occurrence in the road sector - but tolerate persisting state monopolies in other transport modes. Costs and deadlines for a progressive shift to free market competition need to be established.
- **Uniformly high levels of services and safety** must be the basis of a European transport policy that truly places the user at the heart of its choices. It is high time to look beyond modal split objectives and attempt instead to apply existing service level assessment tools to the Trans-European Network.

As the voice of the European road, the ERF urges the European Commission to invite stakeholders to an institutional debate on the aims of the Trans European Network in the context of an enlarged Europe.

The European Union Road Federation

The ERF is a non-profit association which coordinates the interests of thousands of organisations and institutions working in the road sector all over Europe. It is an active and well-established organisation with long-standing commitments to achieving policies and programmes that recognise the socio-economic benefits of roads to society and which will contribute to improving road networks, both in the European Union and in neighbouring countries.

For further information on the activities of the ERF :



ERF

President Building
106, Avenue Louise
B-1050 Brussels

Tel : +(32) 2 644 58 77

Fax: +(32) 2 647 59 34

E-mail: info@erf.be

<http://www.erf.be>

Position paper authors

José Papí, Secretary General

Brendan Halleman, Director of Communications