

PROPOSAL FOR A REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL ON THE GRANTING OF COMMUNITY FINANCIAL ASSISTANCE TO IMPROVE THE ENVIRONMENTAL PERFORMANCE OF THE FREIGHT TRANSPORT SYSTEM

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UNICE POSITION

INTRODUCTION

UNICE welcomes and fully supports the objective of the Marco Polo programme to fight against road congestion and to improve the environmental performance of the transport system as a whole.

UNICE particularly welcomes measures to overcome structural market barriers that “impede the efficient functioning of the markets, the competitiveness of short-sea shipping, rail, or inland waterways, and/or the efficiency of transport chains making use of these modes”. The proposed *catalyst actions* are therefore supported by UNICE, as are the *common learning actions* aimed at “improving co-operation for optimising working methods and procedures in the freight transport chain”.

UNICE has serious reservations, however, as far as the *modal shift actions* are concerned. It is of the opinion that handing out financial support for setting up transport operations is not an effective way to induce modal shift. Moreover, the environmental objectives and benefits of this approach are unclear and doubtful respectively.

Below, we will briefly explain the content of the Commission proposal, list our general conditions regarding EU support for the Marco Polo actions, clarify our reservations about the *modal shift actions* and present an alternative approach.

THE COMMISSION PROPOSAL

With the Marco Polo programme, the Commission aims at obtaining a practical and market-oriented instrument that supports both the Community’s fight against congestion in the road freight sector and its ambitious goals to improve the environmental performance of the transport system as a whole.

To that end, Marco Polo aims to shift the whole aggregate growth of international road haulage to railway, inland waterway and short-sea transport, an estimated 12 billion tkm per annum as of 2007 (direct, indirect and induced modal shift volume).

Marco Polo envisages three types of action:

Modal shift action: “any action directly and immediately shifting freight from road to short-sea shipping, rail or inland waterways, without being catalyst actions”.

The minimum threshold for modal shift actions is € 1 million (30% of the costs) during 38 months. Marco Polo foresees 41 modal shift actions, which should each shift 500 million tkm from road to rail, short-sea or inland waterway transport. Total budget from 2003-2007: € 41 million. UNICE considers that the minimum threshold is rather high. It could be lowered and still aim at an average of € 1 million per action.

Catalyst action: “any innovative action aimed at overcoming Community-relevant structural barriers in the market for freight transport, which impede the efficient functioning of the markets, the competitiveness of short sea shipping, rail, or inland waterways, and/or the efficiency of transport chains making use of these modes”.

The minimum threshold for catalyst actions is € 3 million (35% of the costs), but it can amount to € 15-20 million. The maximum contract duration is 50 months, 15 catalyst actions are foreseen which should each shift about 400 million tkm. Total budget from 2003-2007: € 66 million. Here too, UNICE considers that the threshold is rather high.

Common learning action: “any action aimed at improving co-operation for optimising working methods and procedures in the freight transport chain, taking into account the requirements of logistics”.

Common learning actions can be supported with € 500,000 (50% of the costs). The maximum contract duration is 26 months. Marco Polo foresees 8 of these actions, whose induced impact would shift 400 million tkm per year.

According to the draft regulation, support for modal shift actions will be based on the estimated amount of tkm shifted from road to non-road modes. Every shifted 500 tkm will be rewarded with one Euro of Community support.

UNICE CONDITIONS REGARDING EU SUPPORT FOR MARCO POLO ACTIONS

As stated above, UNICE welcomes and fully supports the objective of the Marco Polo programme to fight against road congestion and to improve the environmental performance of the transport system as a whole. In order to reach these objectives, Marco Polo aims to shift goods from road haulage to railway, inland waterway and short-sea transport. The underlying premise is that these alternative modes, on average, generate fewer external costs than road transport, and that society would therefore benefit from this shift. The problem with this general approach is, that although non-road modes may on average generate fewer external costs, the only way to really assess what (combination of) transport mode(s) is most environmentally friendly, is to assess the individual transport chain, taking into account loading factors, distance, engines, energy sources, different types of emissions, etc.).

UNICE would require the following conditions to be met for it to support the Marco Polo actions:

1. They should be market-oriented
2. Distortions of competition between or within transport modes should be avoided or be kept to an absolute minimum
3. They should be cost-effective
4. They should be restricted in time and limited as a percentage of the total cost
5. They should include initiatives for better environmental performance of any transport mode and for transport reduction.

Seen against the blueprint of the Marco Polo programme, we have to conclude that many of these conditions are not met:

1. They should be market-oriented

The division of the market between the different transport modes is a result of the choices that are made by transport users. This choice is affected by many factors: availability, cost, flexibility, punctuality, reliability, etc. If the market share of a transport mode, such as railway, declines, it means it cannot live up to the expectations of the customers concerning the combination of these factors. Measures to open markets to competition, and measures to overcome structural market barriers (for example through standardisation of loading units, harmonisation of administrative procedures in ports, or interoperability of networks) can clearly help to raise the service quality and reduce costs in these transport modes. They are what we would call market-oriented and help to make the non-road modes more attractive to the customer, thus affecting the latter's choice.

It is questionable, however, whether handing out subsidies for starting non-road transport operations will affect his choice. The programme should therefore strongly focus on catalyst actions and common learning actions, which can improve the overall market conditions and perspectives. If these improve, the market operators will no doubt make use of it, without the need for public funding for start-up operations.

2. Distortions of competition between or within transport modes should be avoided or be kept extremely minimal

The Commission indicates that the PACT programme has generated sufficient experience to avoid unacceptable distortions of competition, but UNICE considers that it would benefit the transparency of the programme if the term "unacceptable" could be defined more clearly and precisely by the Commission.

Additionally, although UNICE would favour different objectives (i.e. real environmental objectives) and therefore different measuring systems anyhow (see item 5), UNICE considers that the proposed set-up for deciding on the amount of support for the different types of actions, contains various elements that unnecessarily distort competition.

The subsidies are based on the alleged difference in external costs that are caused by the different transport modes. In order to minimise distortions of competition between transport modes, they should also take the current cost-coverage of each of them into account. Because if a given transport mode generates twice as many external costs as a rival mode, but also pays twice as much as the rival mode, subsidies are not justified and unacceptably distort competition.

Secondly, although it is stated that rail generates substantially more external costs than inland waterway and short-sea shipping, the subsidy for all three is the same, namely 1 Euro per 500 tkm shifted from road to either of the other transport modes. If the objective is to promote the use of the cleanest modes, this should be reflected in the reward system, i.e. demanding more shifted tkm from rail than from inland waterway and short-sea shipping.

3. They should be cost-effective

In order to judge whether the proposed actions are cost-effective or not, there have to be clear objectives. This is exactly what is lacking in the proposal. All we have is an objective to "shift the whole aggregate growth of international road haulage to railway, inland waterway and short-sea transport, an estimated 12 billion tkm per annum as of 2007 (direct, indirect and induced modal shift volume)". If this succeeds, then we may know if the programme has been cost-effective in obtaining that result, but we will not know if the programme has been cost-effective in obtaining its environmental goals, since these have not been specified nor quantified; they are not planned to be measured either.

Secondly, if cost-coverage is not taken into account, it is impossible to assess the net benefit to society as a whole. Because if subsidies only take external costs into account, and not the coverage of those costs, it could happen that although total caused external costs are reduced, total net payment actually goes down as well, implying a net loss to society as a whole.

4. They should be restricted in time and limited as a percentage of the total cost

Although this condition seems to be adequately covered, UNICE will refrain at this moment from giving an opinion on the amount of the subsidies, their duration and their percentage of the total cost of the operation. It is difficult to judge to what extent these actions will distort competition without knowledge of the specific projects. This is why UNICE considers it very important that representative organisations of transport providers and transport users will be involved in the evaluation of the proposals, in order to feed the evaluators with market information with a view to avoiding and minimising distortions of competition.

5. They should include initiatives for better environmental performance of any transport mode and transport reduction

The programme has no in-built incentives to improve the environmental performance of the different transport modes. It only aims at improving the overall environmental performance through modal shift. The problem with this general approach is, as pointed out above, that the only way to really assess what (combination of) transport mode(s) is most environmentally friendly, is to assess the individual transport chain.

Specific modal shift actions could therefore qualify for support and at the same time not meet the overall aim of improving the environmental performance of the transport system. Because if a road trip is being replaced by a combined road/rail trip, it will depend on the distance (usually longer), the train engine, energy source, the loading factor, etc., for this to actually improve the environmental performance. Likewise, finding an alternative in short-sea shipping may mean fewer CO₂ emissions, but possibly a deterioration in other emission types. Which are most important? It has not been defined. Moreover, if the objective of the programme is to improve the environmental performance of the transport system, how will the Commission explain to the European taxpayer that it funds short-sea shipping whilst it could have funded *cleaner* short sea shipping?

These problems would be avoided if clear environmental objectives were defined, expressed in terms of reduction of specific pollutants. Measures in road transport can also result in substantial environmental benefits. Eco-driving for example, can make a big contribution to reduction of fuel consumption and CO₂ emissions. And how about projects that do not shift but actually reduce transport? Experience from the Netherlands has shown that there is interesting potential for reducing the need for transport by changing a product, its packaging or the production process. Any of these initiatives would meet the aim of the Marco Polo programme, namely improved environmental performance of the transport system, but would fail to qualify for the modal shift criterion. UNICE therefore favours a more flexible approach for Marco Polo that does not a priori exclude any transport mode, and that at the same time sets clear environmental objectives and corresponding funding conditions.