



European Investment Bank

**EIB prepares the review of its lending policy in support of a sustainable
transport sector
Call for public views**

1. Background

In October 2007, the EIB made public its “renewed policy for lending to the transport sector” setting out guiding principles and selection criteria designed to better take account of increasing concerns of the effects of the sector on climate change, while retaining an appropriate response to the needs of mobility. The 2007 document recognises that the policy environment is dynamic and stated the EIB’s intention to review its lending policy for the transport sector on a periodic basis.

More recently, the European Commission has commenced the process of developing a new White Paper for transport covering the next decade, by publishing in July 2009 a Communication entitled “A sustainable future for transport”, preparing background material and putting in place a public consultation process. The Commission’s emphasis in this process is finding ways to satisfy rising demand for mobility in a context of growing need to meet sustainability requirements. Simultaneously, the Commission is undertaking a review of the TEN-T policy, issuing a Green Paper in February 2009, with a view to establishing new guidelines on the definition and development of the TEN-T network. It is further expected that from the review of the Cohesion Policy, where connectivity is a key driver for new infrastructure and, last but not least, from the adoption of the EU 2020 Strategy for smart, sustainable and inclusive growth, the decarbonisation of transport would emerge as a clear need in order to ensure an efficient and sustainable multi-modal transport sector in support of such objectives.

The EIB therefore believes it is an appropriate time to start its own review of the 2007 Bank lending policy to the sector. This paper sets down the main elements of the existing Bank lending policy, elaborates on themes that have taken on greater importance since 2007 and solicits views and comments on a number of topics in view of possible revision. The EIB will collect written input as of now and convene meetings with interested parties later in 2010 with a view to reviewing/updating the current lending policy by year end. Such lending policy will, in any case, remain a living document taking into account further developments, such as the revision of the Convergence policy and progress in the overarching EU 2020 strategy.

2. Short Presentation of Current EIB Transport Lending Policy¹

A number of EU policies provide the basis for the Bank’s transport lending: in addition to the environmental and climate change principles applied by the Bank in all its lending, of primary relevance to transport are development of the Trans-European Transport networks (TEN-Ts), cohesion policy, sustainable transport development as well as support to Research Development and Innovation (RDI) in the transport sector. This multidimensional approach integrates environmental considerations in all stages of the Bank’s due diligence with the aim to achieve environmentally friendly and sustainable transport systems contributing to a reduction of Green House Gas (GHG) emissions and other local pollutants.

The Bank has taken the view, in line with EU policies, that construction of efficient and adapted transport systems in the 21st century requires a sophisticated combination of all available transport modes. The challenge for EIB support to the transport sector is therefore not to discard one or the other type of intervention, one or the other transport mode, but rather to seek to optimise the strategy for action and to assure an appropriate mix of interventions to serve the complex set of policy objectives. To this end, it was necessary to define guiding principles for Bank intervention and to seek to develop operational selection criteria to assess whether potential projects meet the requirements of the multi-dimensional approach. Therefore, EIB transport lending is currently determined in accordance with a number of guiding principles and some more specific selection criteria:

¹ This section is shortened text from the original. The full document is available at <http://www.eib.org/projects/publications/eib-transport-lending-policy.htm>

Guiding Principles

- The EIB pursues an approach that strives for the most efficient, most economic and most sustainable way of satisfying transport demand. This requires a mix of transport solutions, covering all modes
- The EIB continues its strong commitment to the development of TENs. These are long-term investments with an essential role in achieving an efficient and cohesive Community-wide transport system.
- Priority continues to be given to railways, urban transport, inland waterways and maritime projects as these are intrinsically the most promising in terms of reducing greenhouse gas emissions per transport unit.
- Further emphasis is given to RDI activities with vehicle manufacturers whatever the sector involved. This focuses primarily on ensuring energy efficiency, emissions reduction and safety enhancement.
- The Bank seeks to strengthen its assessment of the consequences of its projects in terms of energy consumption.

Specific selection criteria

Means of transport

- Automotive sector. Strong support for RDI projects aligned to EU research and environmental policies. Where there is no RDI component, support to manufacturing shall be limited to projects for small, fuel efficient vehicles in convergence regions. In all cases, projects supported should be fully in line with the orientations of EU environmental and energy efficiency policies.
- Trains, Ships and Public Transport. In public transport means in general, rail and shipping, financing the manufacture and purchase of vehicles is consistent with climate change goals. Research in these sectors also merits full support.
- Aircraft. Support is given to aircraft manufacturers' RDI focused on improved safety and environmental performance but will be restricted when there is no such RDI element (following the same approach as for car manufacturing financing). In view of the effectiveness of the private sector in this area, financing of aircraft purchase will be limited to exceptional circumstances when very strong value added can be demonstrated. Examples could be connections to convergence regions if air transport is essential to secure the territorial integrity of the EU and fuel efficiency is improved.

Infrastructure

- Roads. All road projects should demonstrate appropriate economic returns. Road projects with weak economic value are avoided.
- Railways and Urban Transport, Ports and Inland Waterways. There has been a reinforcement of the "environmental sustainability" eligibility of rail and urban transport as well as maritime and inland navigation projects throughout the EU. Lending to sound projects in those sectors, even when they are neither TENs nor located in assisted areas, has been a priority. Similar principles apply outside the EU where the Bank's external mandates allow.
- Airports and Air Traffic Management. Airport projects are supported when they demonstrate high economic value, also taking into account potential future adjustments to demand including those occurring when the emission burden is carried over to consumer prices (e.g. through inclusion of airlines in the EU Emission Trading System). Air Traffic Management investments are a priority where they can show improved safety, efficiency and reduced emissions.

3. Developments since 2007

Since the introduction of the current transport lending policy, developments which have had an important impact on EIB activity include the following.

First, the European Economic Recovery Plan adopted in late 2008, led the Bank to introduce a set of actions in its Corporate Operational Plan for 2009-2011 to help address the financial crisis. The European Clean Transport Facility (ECTF) targeting RDI in the areas of emissions reduction and energy efficiency in the European transport industry was introduced at the end of 2008 following discussions at the Economic and Financial Affairs Council of the European Union (ECOFIN). The ECTF targets automotive (manufacturers /suppliers), railroad, aircraft and shipping industries, though initial financing requests focused on the automotive sector.

Second, conscious of the social, environmental and climate change challenges, the Bank issued a new Statement of Environmental and Social Principles and Standards, which, followed a public consultation procedure, was approved by the Bank's Board of Directors in February 2009. Meanwhile, the Bank has also strengthened its internal procedures aiming at maximising its Value Added to projects it finances. Such projects are requested to meet the Bank's eligibility and sustainability criteria. . In the case of transport projects, the EIB considers the scope of its project to include the indirect impact from the usage of transport assets and internalises such costs. Recently the Bank has undertaken pilot work towards establishing the necessary tools to systematically assess the GHG induced by the projects it finances.

Third, the Bank has, alone or in partnership with others, taken on an increasing role in technical assistance notably in the new Member States and outside the EU. Examples include the Bank's contribution to the Joint Assistance to Support European Projects in the Regions (JASPERS) to help new Member States prepare applications for Community grants, the Neighbourhood Investment Facility, the Western Balkans Investment Facility and the EU-Africa Infrastructure Trust Fund. The Bank's non-financial contribution to project quality is an increasingly important dimension of its overall value-added, particularly in infrastructure projects.

Other developments external to EIB since 2007 need also to be considered. As identified in the Commission's July 2009 Communication on the sustainable future for transport, a number of external trends are likely to shape the way in which the sector develops. These include: the ageing of the European population with its resulting effect on public finances and the needs for transport users; increasing scarcity of fossil fuels with a result that the stock of transport vehicles will need to become more fuel efficient and progressively adapt to alternative sources of energy; increasing urbanization posing both opportunities and challenges in the way travel demand can be met; the growing sense of urgency around climate change and transport's role both in minimizing GHG emissions and the sector's own needs in terms of adapting to new threats posed; and further globalization, entailing further transport between the EU and its external trade partners. These external trends, now recognised as key global challenges, have been integrated and are addressed by the EU2020 agenda.

There is now a widespread agreement that decarbonising of the sector should be at the centre of future transport policy in the EU. However, in contrast to ideas at the beginning of the century, there is now also an acceptance that modal shift away from the most carbon intensive modes cannot achieve the requisite emission reductions alone. The concept of "co-modality" – seeking energy efficiency and environmental improvements in all modes, each mode meeting demand in accordance with its own comparative advantage - is now broadly accepted.

Being the largest manufacturing sector in Europe, the automotive industry has been the focus of attention of industrial policy in Europe. As the largest producer of vehicles in the world, the EU's automotive industry also bears a special responsibility for ensuring that global climate change targets are met. The conclusions of the Cars 21-working group and – embedded in the Commission's Recovery Package – the ongoing European Green Cars initiative defined the EU's objectives for the sector: namely the promotion of research, development and innovation for greening road transport as well as the support of demand side measures and public procurement of low emission vehicles.

There have been many developments over the last three years with respect to EU Directives and Regulations pertaining to the transport sector. Some of these have important implications for the EIB, including: (i) Directive 2008/101/EC that extends the Emissions Trading System to the aviation sector; (ii) Regulation 443/2009 setting CO2 emission performance standards for new passenger cars; (iii) Directive 2008/96/EC requiring systematic road safety audit or inspection on the TEN-T road corridors; (iv) Directive 2007/58/EC opening up international passenger rail transport to competition; and (v) Regulation 1370/2007 on public passenger transport by rail and road.

In addition, the Commission has further recognised the value added of action at its level to facilitate improvements in the field of urban mobility. A Green Paper on the subject was issued in 2008 and an Action Plan developed in 2009 clarifying the Commission's role in the field and setting down some short and medium

term actions to support sustainable urban mobility. The EIB is currently considering the implications of this Action Plan for its own work.

The major development external to the sector has been the financial crisis and the economic and fiscal impact this has had. As economies have contracted, demand in many parts of the transport system has dropped, easing congestion on the one hand and reducing the urgency of the need for new or more efficient capacity on the other. The stimulus packages and additional borrowing that most countries have decided to undertake, combined with declining tax revenues, are likely to mean years of weak public finances and therefore even greater scarcity of public funding available for investment for the foreseeable future. A variety of coping strategies will need to be applied to address this forecast scarcity of public funding for the sector.

The goal of the European transport policy is to establish a sustainable transport system that meets society's economic, social and environmental needs and is conducive to an inclusive society and fully integrated and competitive Europe. Transforming and decarbonising the transport sector in line with these policy directions will require substantial investment. As a policy driven bank, the EIB is committed to support the EU's objectives and lend its assistance to projects and programmes which support these objectives. The Bank also plays a role outside the EU, following these same principles where applicable, and taking into account the requirements of its various mandates on financing activities outside the EU. The Commission's July 2009 communication on the sustainable future for transport provides a useful and comprehensive framework for considering future policy directions to better meet this goal. Additionally, the recently published EU 2020 agenda presents under its sustainable growth priority the flagship initiative for a more resource efficient Europe, within which feature a number of proposals to modernise and decarbonise the transport sector.

The policy directions outlined in these documents which may be of special relevance to shaping future EIB activity in the transport sector are listed below.

Infrastructure

- Greater emphasis on integration, inter-operability and efficient operation of critical bottlenecks such as cross-border sections, nodes (junctions, cities, ports, logistics platforms) plus the interconnections between modes or between high volume corridors. Infrastructure investment to reduce congestion and associated negative environmental impacts.
- Enhanced integration of investments with urban and regional development plans.
- More systematic multi dimensional assessment and subsequent ranking of projects to ensure limited investment resources are applied optimally to best meet objectives.
- Comparative preference for upgrading or improving existing infrastructure. Greater use of technology to enhance efficiency in operation of current networks.
- Identification of a revised core TEN-T network, all parts of which should display European "value added", and/or "green corridors", a set of inter-modal links specifically designed to optimise the meeting of certain high traffic demand flows. The external dimension, ie extension of the TEN-T network to neighbouring countries, is included in this discussion.
- Greater separation of freight and passenger demand flows.
- Greater exploitation of the opportunities posed by intra-European short sea shipping, the "Motorways of the Sea", greening of the fleet. The issues surrounding links with neighbouring countries and beyond are included in this discussion.

Technology

- Pursuing the reduction of GHG and other harmful emissions for road vehicles, for the aviation and maritime sectors by increasing investment in research and development to improve the efficiency of internal combustion engines (including biofuels). Development of electric, hybrid and fuel cell powered road vehicles to meet the compelling need for shift towards lower/zero emissions.
- Launch of a European "green" car initiative to promote new technologies, setting common standards and developing the necessary infrastructure support.
- Requirement for pilot projects to demonstrate feasibility and economic viability of new technologies.

- Deployment of grid infrastructure in support of electrical, such as smart grids or charging stations for battery-electric and hydrogen generation and distribution systems for fuel cell powered vehicles.
- Intelligent traffic management systems.

Issues related to sector funding and user pricing - such as tougher implementation of the principle of polluter pays through acceleration of the internalisation of external costs in all transport modes and greater recourse to the use of technology in implementing the polluter pays principle - have been also raised in this context, calling for further efforts towards:

- making the sector increasingly self-financing in relation not just to infrastructure operation and maintenance but also investment;
- mobilising EU financial instruments, including structural funds, R&D framework programme, TENs, EIB, as part of a consistent funding strategy that pulls together EU, public and private funding; and
- using market based instruments, such as emission trading, energy taxation, state aid, and wider recourse to green public procurement.

4. Topics to discuss in the context of the current Lending Policy review

Given the context of the changing economic and policy environment outlined above, EIB would welcome comments and views on any part of its current transport lending policy and how recent developments might be better reflected in the future lending policy, which would apply both to EU operations and, where appropriate, to the Bank's activities outside the EU. In particular, we would like to solicit opinions around the following topics.

- How might the Bank better contribute to “smarter growth” based on knowledge and innovation? in particular:
 - Where and how do you see R&D and innovation (new technologies) contributing to modernising and decarbonising the transport sector? How can new technology be used to encourage modal shift where this carries social benefits, and in which ways should the Bank support such trends?
 - How might the Bank better contribute to the introduction of new technology(ies) in the sector? For example, how can adoption of cleaner vehicles be encouraged to overcome their higher cost, and what tools should the Bank provide to support such developments?
 - Are there particular initiatives in which the Bank should be proactive eg the “green” car initiative?
- How might the Bank better contribute to “sustainable growth” and to a more resource efficient, greener and more competitive economy? in particular:
 - How can the Bank support the improvement of mobility in a sustainable manner while contributing to a reduction of congestion and pollution?
 - How might the promotion of energy efficiency in the various transport modes best be supported?
 - How might the Bank encourage best practice in the management and deployment of innovation in energy generation, distribution, storage and use in the sector?
 - How can the Bank play a role in the development of renewable energy in the transport sector?
- How might the Bank better contribute to “inclusive growth” fostering employment and delivering social and territorial cohesion? in particular:
 - Which strategic projects with high European value added addressing critical bottlenecks, cross border sections, inter modal nodes (cities, ports, logistic platforms) should be accelerated through Bank interventions?
 - What role might the Bank's operations in the transport sector have in fostering employment?
 - How might the Bank's activities in transport better contribute to territorial cohesion, particularly in convergence areas, peripheral regions and remote islands?
 - How transport investment (in means and/or infrastructure) may contribute towards urban and regional development?

EIB lending statistics

Sector	2007		2008		2009	
	Amount signed EUR M	%	Amount signed EUR M	%	Amount signed EUR M	%
Total EIB lending	47,800		57,625		79,102	
of which:						
Total Transport (*)	11,517	24	14,950	26	17,782	23
Air	669	6	2,614	17	1,874	11
Other	25	0	50	0	0	0
Intermodal	4	0	981	7	0	0
Maritime	582	5	313	2	2,273	13
Rail	3,971	34	2,918	20	3,036	17
Roads, Motorways	4,151	36	5,274	35	7,115	40
Urban	2,115	18	2,800	19	3,484	20
Total		100		100		100

(*) Framework loans not included

Sector	2007		2008		2009	
	Amount signed EUR M	%	Amount signed EUR M	%	Amount signed EUR M	%
Automotive			1,970	100	5,610	94
<i>Thereof : ECTF</i>	0	0	550	28	3,084	51
Aeronautics			0	0	388	6
Total		100	1,970	100	5,998	100

Notes:

Overall, lending to the sector has increased broadly in line with the aggregate increase in EIB lending (which increased substantially following the role assumed by the Bank as a response to the financial and economic crisis and in the context of the EU economic recovery plan. The allocation to individual sub-sectors reflects emphasis resulted by specific needs under the EU economic recovery package but has otherwise remained broadly stable, bearing, however, in mind that individual large projects can have a disproportionate effect in any one particular year (for example, EUR1 billion loan for the high speed rail line between Milan and Naples in 2007 and EUR1 billion loan for the A2 motorway in Poland in 2009).