EIB Transport Policy Review – Initial UK Comments

The UK welcomes this review of the EIBs transport policy, which will help to ensure EIB lending in this sector continues to add value and reinforce EU policy objectives. As noted in the review documents, a key priority of the Commission will be, and already is, the decarbonisation of transport. The Bank clearly has an important role to play in achieving this objective. We recognise the significant contribution the EIB has made to maintaining investment in the transport sector in the UK, and particularly the automotive industry, since the start of the global financial crisis.

This paper forms the UKs initial response to this public consultation on the EIBs transport sector.

General

- We are concerned to ensure that EIB’s activity in the Transport sector remains led by the economic value of the investment proposal, as well as the project’s environmental credentials.
- As noted in the review documents there is a need to balance the dual and sometimes conflicting objectives of increased transport capacity and mobility with that of environmental sustainability.
- There is a risk that capital markets may be insufficiently deep in the short to medium term to support the pipeline of projects which contribute to both these aims. The EIBs continuing support for projects that contribute to both the above policy objectives is expected to be an important mitigant to market capacity risks.

Automotive

- We would urge the EIB to consider more carefully its operational approach to lending to niche manufacturers and manufacturers of larger and premium vehicles. We are concerned that prioritisation of lending to volume manufacturers of smaller vehicles, as in the existing transport policy, implicitly rules out consideration of RDI projects by niche/premium manufactures – regardless of the environmental and technological benefits.
- We also wish to emphasise the importance of the Bank’s revised transport policy giving support both to the full range of new alternative automotive technologies and to technological developments that bring further efficiencies to the internal combustion engine.

Treatment of niche/premium/commercial vehicle manufacturers

- The EIB’s existing transport policy cites the development of energy efficient smaller cars as a key example of the kind of automotive project the Bank should support. The Bank has
subsequently made plain through the practical implementation of its Clean Transport Fund that it does not generally regard niche manufacturers nor manufacturers of premium and larger vehicles as eligible in principle for support. The basis for this approach is unclear. Whilst some have argued that projects to develop large volumes of mass-market cars might save more carbon, this fails to take account of the fact that a disproportionate amount of environmental breakthroughs in the automotive sector are made in the niche/premium sector – which then filter through into the mass market. In this context only supporting manufacturers of smaller cars seems misguided and could be seen as anti-competitive.

- In recent years, regulatory pressures and shifting consumer preferences have made carbon reduction the single biggest RD&I objective of manufacturers of niche and premium cars. Niche/premium manufacturers have a proven track record in developing groundbreaking technologies, which are subsequently adopted by volume manufacturers, either through licensing agreements or reverse engineering. Manufacturers of commercial vehicles are also committed to substantial reductions in carbon emissions. This is driving step-change innovations in key areas of automotive powertrain and design, including light-weighting, composites and hybrid & electric technologies.

- The present focus on volume manufacturers of smaller cars is also inconsistent with the EU policy objective to maintain a competitive and diverse industrial base in the automotive sector. EU carbon reducing regulation\(^1\) explicitly cites the need to:
  - “take account of the diversity of European automobile manufacturers and avoid any unjustified distortion of competition between them”, and
  - “maintain the diversity of the car market and its ability to cater for different consumer needs.”

- It is difficult to reconcile this position with the approach being taken in the EIBs existing transport policy, which is effectively denying particular segments of the EU automotive industry the competitive and long-term finance offered by the Bank.

- As part of the current review we would urge the EIB to look again at this area of its transport policy, to ensure that it is in harmony with EU policy to promote competition and diversity in the automotive sector; and to enable step-change contributions to carbon reduction to flow from a broad range of manufacturers and suppliers in the industry.

**Support for broad range of propulsion technologies**

- We welcome the Bank’s commitment to support the further development of both alternative propulsion technologies – including electric, hybrid and fuel cell technologies – and further improvements in the efficiency of internal combustion engines. This is in line with the Commission’s recently published Strategy for Clean and Energy Efficient Vehicles which

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\(^1\) Regulation EC 443/2009 (CO2 from Cars Regulation)
requires “that European research continues targeting low carbon fuels and energy efficient transport, including the improvement of conventional engines, electric drivetrains including alternative battery technologies and hydrogen technologies.”

- Finally, the EIB ‘call for views' document mentions the Commission's Green Cars Initiative and related commitments to supporting new infrastructure and promote common standards. We would welcome the Bank's involvement in supporting automotive grid infrastructure projects across a range of new technologies, including electric and hydrogen fuel cell. With regard to the setting of common standards, it is very important that EIB supports only projects which are transparent, involve both industry and government and promote full inter-operability across the EU. Narrow projects involving a small number of companies/countries could result in barriers being put up which disadvantage non-participating companies/countries and should not be supported by EIB funding.

**Aviation**

- In addition to the EIBs ongoing support for R&D in airframe and engine environmental efficiency, we see opportunities to realise efficiencies in air traffic management, through collaborative projects such as the SESAR project. The current lack of viable alternatives to fossil fuels in the aviation sector will mean that bringing greater efficiency to the operation of existing air transport networks is increasingly important. These projects clearly contribute to enhanced safety and reducing carbon emissions from the air transport sector, as well as offering high economic value where they reduce delays or increase capacity.

- We would also urge the EIB rethink its approach to financing aircraft purchases. The current guidance states that the private sector is effective in providing finance for aircraft purchase, but we find this is now not the case (and hasn't been for the last 2 years). Approximately 40% of Airbus aircraft are now financed using Government guarantees from the 3 European Export Credit Agencies (ECAs) in France, UK, and Germany. Financing of new aircraft purchases could be on a time-limited and commercial basis, and in line with environmental objectives with new efficient planes replacing old ones.

**Transport Infrastructure**

- We welcome the EIBs support for innovative and new industries where investment might be sought in the future, such as the infrastructure roll out to support electric vehicles.

- We also welcome the support the EIB provides to large-scale infrastructure projects and the important signalling effect this has to other investors. We would urge the EIB to continue to provide this kind of cornerstone funding in line with its objectives to support TENs projects, even where the project does not score highly on "smarter growth" and sustainability objectives.
Rail

- Investment to increase the carbon efficiency of rail rolling stock and in smarter signalling systems would help modernise the railway, support more efficient use of network capacity and contribute to modal shift objectives.
- Innovation and technology will be increasingly relied upon to reduce industry costs, as scope improving the efficiency of existing technology begins to decline. The EIB’s continuing support for innovation in transport infrastructure and processes will play an important part in delivering these modernisation and sustainability objectives.

Roads / highways

- We note with interest an apparent shift of emphasis in policy direction with regard transport infrastructure, in particular the increased focus on integration and interconnection; and congestion reduction and the associated negative environmental impacts. We would welcome the opportunities this may create for the EIB to consider financing more UK Highways Maintenance PFI projects, as they contribute to these objectives as well as many others noted in the revised policy directions, including notably “upgrading or improving existing infrastructure” where as before the focus seemed to be on funding new construction rather than refurbishment.
- In response to the EIBs specific call for views under ‘Topics’, under "What role might the Bank's operations in the transport sector have in fostering employment?", we would note that Highways Maintenance projects create employment directly with the contractor and indirectly with its suppliers and with local services. In addition, with regard to "How transport investment (in means and/or infrastructure) may contribute towards urban and regional development?", Highways Maintenance projects are usually linked to local or regional regeneration and in Carlisle a new road improved access to a new business park potentially providing 5,000 new jobs.