FINANCE OF TRANSPORT SERVICES

Available funding from DG TREN programmes for transport services is €450 million from 2007 till 2013[1]*. In 2007 the total EU contribution was nearly €50 million to all Marco Polo projects including all member-states while in 2006 was only €19 million. On average there will be approximately €65 million per year for the next 6 years. DG TREN has progressively pursued different types of partnerships with the private sector as a means of gaining access to additional resources, as well as to capitalise on the private sector's efficiency and ability to innovate.*

DG TREN Schemes

This section intends to present recent trends in DG TREN programmes for supporting transport services in terms of available funding. "Marco Polo" scheme is a major financial support for the maritime sector. "Motorways of the Sea" and "Traffic avoidance" have been covered by the Marco Polo scheme under the management of the Executive Agency for Competitiveness and Innovation (EACI). Also national governments support the transport sector via local schemes. These combined financial tools demonstrate the EU commitment to sustain its transport services competitive.

DG TREN programmes vary in terms of financial significance and actions supported. In result of recent changes, Marco Polo programme has been extended until 2013 covering specific activities such as modal shift, traffic avoidance, common learning, catalyst actions and motorways of the sea. It grants financial assistance for improving the environmental performance of the freight transport system. Actions funded under this scheme have to be international in geographic scope – these include aid for actions within a few EU member-states. It rewards projects demonstrating a real environmental benefit. The total aid granted for a project does not exceed 50% of eligible costs[2]. The programme budget is €450 million until 2013. The budget for 2008 is €57,422,000[3] while in 2007 about €50 million were invested in differing actions:

Table1: Total EU contribution, 2007

Modal shift actions	€31,960,427
Catalyst actions	€7,826,249
Common learning actions	€2,083,095
Motorways of the Sea	€6,800,000
Traffic avoidance	-
Total	**€48,669,771**

Source: http://ec.europa.eu/transport/marcopolo/projects/projects_en.htm

1 http://ec.europa.eu/transport/marcopolo/home/home_en.htm
2 Regulation (EC) No 1692/2006 of the European Parliament and of the Council
3 EU, Commission Decision COM (2008), 2014 Concerning the 2008 work programme for grants and contracts in the fields of transport and energy

“Motorways of the Sea” is innovative in terms of logistics, technology, methods, equipment, products, infrastructure or services. This action aims at encouraging very large volume, high frequency intermodal services for freight transport by short sea shipping, including combined freight-passenger services as appropriate, or a combination of short sea shipping with other modes of transport. Its budget for 2008 is €20 million. The financial assistance is maximum of 35% of the total expenditure necessary to achieve the objectives of the action[4]. In 2007 only one proposal achieved funding: Ro-Ro services from Belgium via France to Spain. The grant was nearly €7 million.

In addition to the DG TREN contribution, there are also national programmes to finance transport services in Europe. The Swiss transport policy is based on distinct objectives for modal shift and shows clearly the power of policy tools. Protection against negative effects due to heavy traffic includes measures such as transfer of transalpine freight transport from road to rail and denial of road capacity. There is an explicit modal shift target in the traffic transfer act; namely, to reduce the number of heavy goods vehicles crossing the Alps by road to a maximum of 650,000 per year until 2009. Subsidies are in the range of CHF 350 million per year (about €220 million)[5].

German authorities are committed to delivering high quality services. In Germany the financial state aid for terminal construction has stimulated the implementation of new intermodal services. Subsidies can be up to 85% of the investment including land acquisition, necessary infrastructure, buildings, equipments and costs of planning[6].

In the UK, the Department for Transport allocates waterborne freight grants (WFG), which assists companies with the operating costs of running water transportation instead of road. The funding in 2007 was £20 million to support freight transport[7].

In result, both the national authority and the EU administration provide public funding for the transport services in Europe. However the finance is limited to few millions annually and usually the application procedures are complex. “Marco Polo” case study demonstrates some of the difficulties that companies may experience in the process of establishing a start-up business with financial assistance from the EU.

[4] Regulation (EC) No 1692/2006 of the European Parliament and of the Council
[5] Federal Office of Transport, Switzerland, “Swiss Transport Policy: Shift from road to rail” http://www.greens-efa.org/cms/default/dokbin/187/187280.pdf
[6] http://www.bmvbs.de
[7] http://www.dft.gov.uk/pgr/freight/waterfreight

MARCO POLO CASE STUDY

INTRODUCTION

Private company's position is that Marco Polo subsidies are not sufficient to provoke a significant transport modal shift.

Marco Polo limits the subsidy for a project to the minimum of one of the three following values:

1/ 1 € per 500 Kilo Ton shifted
2/ 35% of the eligible costs (operating)
3/ the loss of the project during the first five years

Normally a project that is a start-up will fall under the first value. The grants are based on the calculation of 1€ per 500 Tons/Kilometre shifted.

If we consider 850 km of road avoided with a load unit of 15 tons this becomes 12,750 tons/kilometre of road traffic avoided that results in 25,5€. We consider the rate for such sea leg could be around the 800 to 900€, it means a mere 3% saving assuming all other conditions are met.

If we compare this level of subsidies with other initiatives like the Italian "*ecobonus*" that covers from 15 to 30% of the sea rates we clearly see Marco Polo grants are not the key to support the launching of new services.

Another problem was related with the obligation to return the grants if the targets submitted in the funding request were not reached. This was a double penalty to the operator whose project wasn't successful.

We did believe that the grant was helping successful services to improve slightly their results in the first years but actually it did not.

REAL EXPERIENCES

<u>CASE 1:</u> In 2003, an alliance of two shipping companies planed a Short Sea services from the North of France to a northern Iberian port. The Marco Polo subsidy was granted for €2 million subject to achieving the cargo targets for the first three years. The forecasted losses for the first year were close to €6 million. The subsidy process was abandoned and the project was discarded.

<u>CASE 2:</u> In 2006 a project was submitted to the Marco Polo program, in this case, the link was to be established between the Iberian peninsula and south of England. In this project the ship was a ROPAX ship aiming to capture accompanied cargo and targeting passenger and their cars to improve the profitability of the new service while spreading the risks on two differentiated markets.

The subsidy was for €2 million, the forecasted losses for the three start-up years were €9 million.

The project was launched in May and ran for 9 months, the decision was taken to withdraw the service as the results were not in line with the expectations, basically the gross margin fell €3 million short and operational margin was – €8.2 million vs the - €3.3 million forecasted for the first year. Again, the losses in the first year were 4 times bigger than the expected subsidy, so when the subsidy was confirmed it did not change at all the decision to cancel the project.

These two cases show the Marco Polo program was not the main driver to launch, nor a reason to continue a short sea project. An interesting research could be to identify how many new services, of a significant size, were actually launched after a Marco Polo subsidy was granted and how often it just came to support an already existing initiative.

In this context, it is recognisable that any additional public involvement in stimulating the short-sea services around the European coast will be a burden to the DG TREN budget, especially in time of government constrained environment due to the financial crisis. But it has to be mentioned that the existing public provision seems to be insufficient to encourage private companies to dedicate additional resources and start-up a new business service. It is more likely to find a solution to this problem if the public and private sectors act collectively and increase the investments via further development of public-private partnerships.