

CER Position Paper

The next Multiannual Financial Framework

Introduction

In the political guidelines presented by Ursula von der Leyen before the European Parliament on 18 July, the designated European Commission President is clear about the high ambitions she sees for the future European Commission when it comes to investments. A specific paragraph - 'Turbo charging investment' – declares that the next one 'will be an investment Commission', and that much efforts will be put in unlocking 'the financing needed for the green, digital and social transition'.

If on the one hand the Commission states that public investments will be needed not only *per se* but also to leverage and de-risk private capital, a solid proposal is necessary for the next Multiannual Financial Framework with sufficient public resources and adequately sized EU budget lines to support rail investments.

The European Commission is expected to put forward its legislative proposal by mid-2025, covering the years from 2028 to 2034. The present paper outlines the position of CER and describes the European rail sector objectives, its funding needs and puts forward suggestions on the size and shape of the next MFF.

KEY ELEMENTS OF THE CER POSITION

- The next MFF must first and foremost enable Member States to renew, modernize and develop railway infrastructure, which is the pre-condition to generate modal shift. This goes in particular through the implementation of **TEN-T requirements**.
- The sector calculates that EU co-funding of at least **EUR 100 bn** (through a new Connecting Europe Facility for Transport or another rail-targeted budget line that will replace it¹) will be needed as a minimum to realize the ambitions of the TEN-T Regulation.
- The next MFF should also allow for **key technological upgrades** (ERTMS, FRMCS, DAC, DCM, including IT tools for capacity allocation) for both rail infrastructure, rolling stock and operations.
- A particular focus should be set on the implementation of synchronised and harmonised trackside and onboard **ERTMS** deployment under CEF3. Similarly,

¹ While CER is aware that the next budgetary facilities could differ in few or more ways from the budgetary facilities of the current MFF, for the purposes of this document, we will refer to such budget line as 'CEF3' in short.

DAC deployment shall be ensured under the next MFF and shall be included in CEF3. For 2028 to 2033, funding is needed from both EU and Member States to cover the investment costs of around EUR 13 bn (prices 2021) for DAC deployment.

- The next MFF shall include a targeted programme for **cross-border infrastructure sections**, sufficient budget for resilient infrastructure – also covering global renewal projects - and funding for dual-use railway infrastructure in some Member States.
- The necessary scale-up of the MFF could be provided, inter alia, by **ETS revenues**, to be used for supporting sustainable mobility projects. Alternatively, if such resources remain at national level they should be better earmarked to the same investment priorities.
- In case common debt is issued, it is important that such bonds are issued as **EU Green Bonds**.

What MFF resources are needed: key investment priorities of the European rail sector to reach EU modal share target

The next MFF should be formulated in a way that its budget lines are able to address all factors that prevent the rail system from growing. Furthermore it should respond to the increasing customer demand and the challenge of transport decarbonisation. With the MFF, the EU should address the issue of congested infrastructure as well as problems related to the acquisition of rolling stock for existing and new services. Resources should be allocated for maintenance, upgrade and renewal of infrastructure as well as new rail infrastructure, rail rolling stock and technology for both. Especially, adequate financial resources for rail's key technological enablers (ERTMS, FRMCS, DCM, DAC), for their industrialisation and deployment shall also be foreseen.

I) Implementing the TEN-T-network

In EU 27 total **rail infrastructure spending**² rose from EUR 39.1 billion in 2015 to EUR 41.8 billion in 2020. In 2020, 25% of the spending was on maintenance, 27% on renewals, 28% on upgrades and 20% on investments in new infrastructure³. However, in order to implement the TEN-T Regulation, total investment needs for the period 2021-2030 are estimated at around EUR 500 billion for the TEN-T Core Network (EUR 50 billion per year on average), and at around EUR 1.5 trillion for the TEN-T Comprehensive

² National and European.

³ 8th RMMS Report, COM(2023) 510 final.

Network and other transport investments by 2050⁴. Connecting European capitals and major urban hubs via high-speed rail connections⁵ as much as offering clean rail-based logistic solutions to European industry would require further resources so that the full cost of such investments, considering the entire life cycle cost of each project, is substantial. The revised TEN-T Regulation will increase the level of the total investment needs even further. In addition, one must notice how recent studies⁶ showed that for reaching the EU goals for the development of high-speed rail traffic (doubling by 2030 and tripling by 2050) infrastructure investments are needed that go even beyond the requirements in the revised TEN-T Regulation.

When it comes to **TEN-T projects**, national budgets contributed so far to total expenditure and investment by about 69%, whereas EU co-financing accounted for merely 8%. The remaining share came from other sources, including loans, equity and self-financing⁷. When looking at the Connecting Europe Facility budget for 2021-2027 (aka CEF2), calls are regularly oversubscribed by a factor of up to five times. Already today, the funding of high-quality transport infrastructure must be rejected for purely budgetary reasons.

Despite the additional investments enabled by the Recovery and Resilience Facility, it is therefore evident that standard **public budgets – at both European and national level – are not sufficient to meet EU modal shift goals**. Worse than that, public subsidies and track access charges most of the time are not sufficient to guarantee the required level of regeneration of the infrastructure; this results in the further ageing of the railway infrastructure, in an increase of speed limits, the loss of capacity and the closure of some lines.

It must further be noted that the **Cohesion Fund** has been crucial for the upgrade of the rail network in the eligible Member States. In the future, a similar funding facility should be maintained to reduce economic disparities between Member States and to promote sustainable transport in the countries concerned.

II) Digitalize rail services as a priority by ensuring the deployment of rail's key enablers: ERTMS, FRMCS, DAC, DCM

Apart from funding infrastructure development in a way that it allows Member States to be consistent with the plan and requirements set by the TEN-T regulation, the next MFF will have to find the right solutions to **enable key technological upgrades** for rail infrastructure, rolling stock and operations.

⁴ EC (2021), Impact Assessment Report - Accompanying the document Proposal for a Regulation of the European Parliament and of the Council on Union guidelines for the development of the trans-European transport network, amending Regulation (EU) 2021/1153 and Regulation (EU) No 913/2010 and repealing Regulation (EU) 1315/2013.

⁵ See E. Letta (2024) *Much more than a market*.

⁶ See inter alia Deutsche Bahn AG et al. (2023), Metropolitan Network: A strong European railway for an ever closer union.

⁷ 8th RMMS Report, COM(2023) 510 final.

On ERTMS

- ERTMS is a key enabler to improve railway operations by providing a single European command, control and signalling system, ensuring transport reliability, increasing capacity, improving safety levels and reducing costs related to the interoperability requirements of international rail services⁸. CEF3 should provide enough resources for ERTMS trackside and onboard deployment as well as for ERTMS studies, which are essential to fulfil the obligations of TEN-T in due time. The funding approach of “unit contribution” already implemented with the current CEF should be continued with adapted funding rates and ideally a specific funding priority only dedicated to ERTMS.
- ERTMS will also be needed to ensure seamless cross-border transportation including in regions where 1520 mm networks intersect with the 1435 mm network. To achieve this, the implementation of ERTMS on 1520 mm gauge lines is imperative.

On FRMCS

- With a focus on the component of ERTMS used for operational communication, it is necessary to acknowledge the expected obsolescence of the GSM-R communication system and the role that FRMCS, a new technology based on 5G, will play in replacing it. FRMCS will enable future-proof robust performance of (radio-based) ERTMS and is also the key enabler for Automatic Train Operations (aka ATO, GoA-2 and beyond).

On DAC

- Digital Automatic Coupling (DAC) is an innovative component to automatically couple and decouple the wagons in a freight train both physically (the mechanical connection and the air line for braking) as well as digitally (electrical power and data connection). DAC is key to enable the needed increase in efficiency and transparency of rail freight and has also the potential to increase infrastructure capacity by 10 to 15%. The DAC migration phase is expected to last 6 years (2028 – 2033). It is estimated that the overall investment costs of the EU-wide DAC deployment is at least EUR 13 billion (prices 2021), and ideally full funding is needed from the EU to cover these costs. Thus, DAC deployment should be ensured under the next MFF and should be included in CEF3.

On DCM

⁸ More has to be done also to accelerate its deployment in all EU countries, thereby allowing them to benefit in full from its systemic Europe-wide deployment. According to the 2022 ERA Report on Railway Safety and Interoperability in the EU, the deployment of the ETCS on the EU railway network has been slow so far; it currently stands at about 10 100 km of railway lines in the EU-27. Deployment varies considerably among the Member States, reflecting national rail transport policy and investment priorities. ERTMS deployment on the Core Network Corridors (CNC) had reached 14% (ETCS) and 60% (GSM-R) at the end of September 2021. Compared to the 2019 deployment figures, the length of CNC lines with ETCS in operation increased by 2 020 km (3%) and the length of CNC lines with GSM-R in operation increased by 5 700 km (10%).

In 2021, CER together with several associations from the rail sector⁹ published the cornerstones of the future of Digital Capacity Management (DCM) with a Joint Vision for the Sector on DCM¹⁰. With properly implemented DCM, infrastructure managers can reduce bottlenecks through smart data management, run more trains on the existing infrastructure, better plan their maintenance works, and harmonise interoperable freight and passenger trains. Railway undertakings will have easy access to long- and short-term high-quality train paths to design and market better services to their customers. With DCM, infrastructure managers and railway undertakings will be connected to facilitate the complete capacity management process – from advance planning to the actual train run.

The next budget shall in particular take into account all the requirements foreseen by the Regulation on the use of railway infrastructure capacity¹¹, such as **IT tools for capacity allocation**, and secure funds for their implementation. In light of the new Regulation infrastructure managers and/or allocation bodies shall remain responsible for developing and operating supporting IT tools to fulfil capacity and traffic management processes. All systems should use processes and specifications based on TAF/TAP TSI and be interoperable to enable a common European IT architecture. CEF3 should provide sufficient financing for full TTR implementation, including Digital Capacity Management (DCM), and virtual ETMN as well as operation of relevant IT systems, for all market actors.

A strong call for investments is needed and such investments will be particularly effective, when one considers that increasing capacity by DCM requires only 5% of the costs compared to building new physical infrastructure. A total amount of 1 billion EUR is estimated for IMs and RUs IT developments.

III) Other key investment priorities

Railway stations are a key in achieving an intermodal and seamless transport network. However, little consideration is given to them, both in the EU regulations that govern EU funds – particularly CEF – and in successive calls for projects. Yet, investing in railways stations means contributing to realising the vision of the EU Strategy for a Sustainable and Smart Mobility by offering essential services for multimodality, promoting interconnections between sustainable transport modes and removing bottlenecks.

There is also a strong need to **better finance Research & Development & Innovation activities and the industrialisation of innovative solutions** (e.g., battery-powered, hydrogen and hybrid trains), so that the sector adopts the necessary technological

⁹ RailNetEurope, Forum Train Europe, the Rail Freight Forward initiative (RFF), European Rail Infrastructure Managers (EIM), the European Rail Freight Association (ERFA) and the Union International des Chemins de fer (UIC).

¹⁰ https://www.cer.be/images/publications/positions/211004_VisionSector_DCM_RNE-RFF-FTE-CER-EIM-ERFA-UIC.pdf

¹¹ COM(2023) 443/2

evolutions to become increasingly efficient, sustainable, and offers new solutions tailored to the needs of its customers. It is also a question of sovereignty for the European continent: RDI will enable preserving and reinforcing the competitiveness of the European rail operating community and industry and help provide economically sustainable solutions. Therefore, rail must be kept as one of the EU's priorities for research and innovation funding, and the funds which are dedicated to this priority must be increased. The industrialisation of innovation must be fully integrated into funding priorities. The institutionalised partnership Europe's Rail as a follow up to Shift2Rail is a key framework for the preparation of the future through the collaboration of the main stakeholders supported by the joint public/private funding and should be renewed in the 10th framework programme.

The rail sector would like to see that the next MFF includes a targeted programme for **cross-border infrastructure sections**: Member States often under-invest in cross-border sections because they are riskier in terms of implementation (for example because of more complex permitting procedures) and in terms of return on investments. This is why EU funding can have an even greater added value and should give more attention to support their completion, including potentially higher co-funding rates: the Brenner Base Tunnel and its related cross-border projects, the Lyon-Turin line, the Fehmarn belt crossing as well as the many cross-border sections of Rail Baltica or the new Dresden-Prague railway line among others.

Member States located in remote peripheral areas of the EU grapple with inadequate state **budgets to maintain and upgrade their 1520 gauge infrastructure** and must receive substantial support to foster seamless connectivity.

As well, the budget for **resilient mobility** and infrastructure should be increased especially since it has been included as an objective of the revised TEN-T Regulation. In particular, adaptation of rail infrastructure to climate change is key to improve its resilience.

Funding for **dual-use (civilian and military) railway infrastructure** is necessary in some countries especially for the cross-border railway links that could be used for fast and effective military cargo movement for ensuring the role of railways as means of security and deterrence in light of the changed geopolitical situation. In this regard, a clear and stable definition of the dual-use criteria to be fulfilled is essential in order to identify suitable projects at an early stage.

How to scale up the MFF

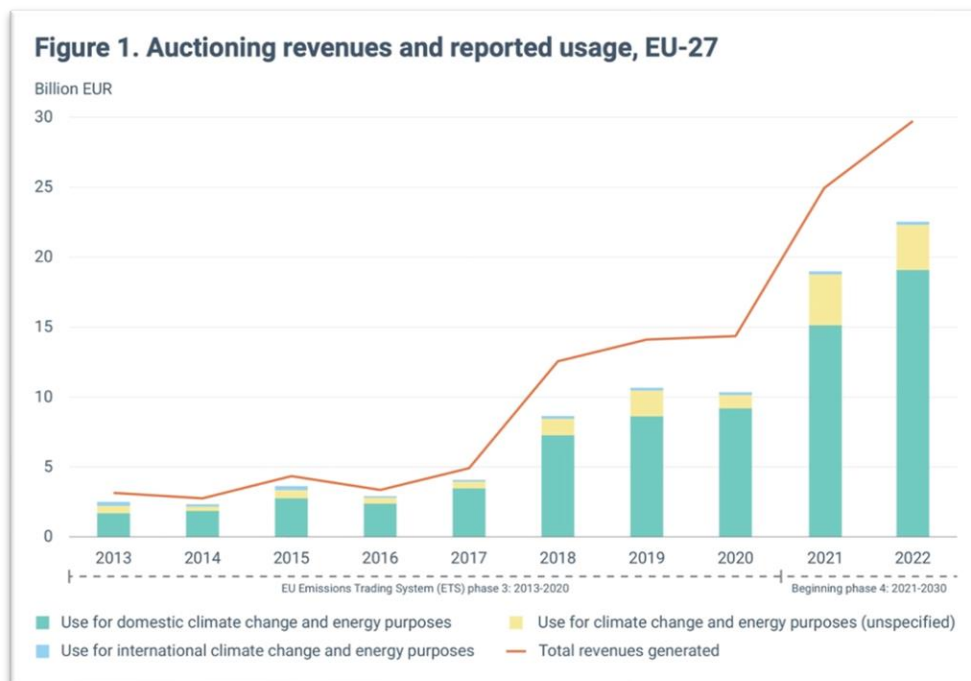
The rail sector is aware that the functioning of the next MFF could be very similar to the current one or way different, with the Commission drawing inspiration from – for example – the experience acquired with the allocation, distribution and absorption of the resources of the Recovery and Resilience Facility (RRF).

In all cases, however, to accelerate the implementation speed of the TEN-T network and enable the deployment of ERTMS, DAC and DCM, one must be aware that the MFF needs a proper scale-up in absolute terms. And that even if the budget line that will accompany the implementation of the TEN-T requirements will be increased to EUR 100 billion, not

even this increase will be able to cover the investments needed to meet the EU ambitions for rail; therefore further efforts must be made to create additional EU funding budget lines.

Good reforms at national level could help Member States **gather further own-resources** to be transferred to the EU budget, additionally to those already originating from import duties, those based on collected VAT, those GNI-based as well as the most recent ones, i.e. the contribution based on the quantity of non-recycled plastic packaging waste, in force since 1 January 2021. In fact, as one can read also in several Council recommendations to the Member States, issued in June 2024 as part of the European Semester 2024 Spring Package, Member States should make more efforts in re-adjusting the fiscal treatment of polluting economic activities and **applying affirmatively the polluter-pays principle**. This would not only allow the internalisation of external costs, but also it would allow gathering additional resources; such resources could either be earmarked at national level to less polluting activities (for example resources from road charges could be channelled to additional rail infrastructure investments, a practice that is allowed by the latest revision of the Eurovignette Directive but rarely applied) or be re-channelled to the MFF envelop as a additional own resources.

A further portion of additional resources for the MFF may come as well from re-channelling of **ETS revenues** as Union’s own resources. Under the EU Emissions Trading System (EU ETS), the majority of emission allowances are auctioned to companies participating in the EU carbon market. As carbon prices have grown significantly in recent years, so too have the revenues from these auctions – rising from EUR 5 billion in 2017 to EUR 30 billion in 2022. The major portion of it went directly to EU Member States and the remaining went to the Innovation Fund and the Modernisation Fund (EUR 3.2 billion and EUR 5.4 billion, respectively), as well as to EFTA countries and Northern Ireland.



<https://www.eea.europa.eu/en/analysis/indicators/use-of-auctioning-revenues-generated#:~:text=Total%20auctioning%20revenues%20generated%20under,directly%20to%20EU%20Member%20States.>

This increasing trend is expected to continue: the European Climate Law entered into force in July 2021, setting new binding EU-wide climate targets for 2030 and 2050; the Fit for 55 package adopted amendments to the EU-ETS Directive in the first half of 2023, including in the ETS system maritime transport from 2024 onwards; carbon pricing will be extended to fuel use in buildings and road transport from 2027. Rail transport should benefit from some of these additional resources, which could either be transferred to the MFF and be used for supporting sustainable mobility projects or be left as national budget, only better earmarked to the same investment priorities.

Before NextGenerationEU, the European Commission already issued bonds, for instance to finance loans to EU Member States and third countries, including up to €100 billion for the SURE programme to support jobs and keep people in work during the COVID-19 pandemic. To finance NextGenerationEU, the European Union is **borrowing on the markets** at more favourable rates than most Member States and redistributes the amounts. In total, until 2026 the NextGenerationEU temporary recovery instrument will gather additional resources up to €800 billion to support the economic recovery from the coronavirus pandemic and build a greener, more digital and more resilient future.

Because of past experiences, in the coming months political pressure could rise in favour of issuing **new EU bonds**, that can provide Member States with the additional funding required to invest in large infrastructure projects. The topic has been recently put forward also by Enrico Letta in its Report on the Single Market¹².

In case common debt is actually issued, we underline the importance that such bonds are issued as **EU Green Bonds**, fully allocated according to the taxonomy requirements as per Regulation 2023/2631. With it, we recommend to consider however that this will help the sector only on the condition that these Green Bonds are raised to finance capital expenditure investments that are additional to the already existing infrastructure managers' multi-annual investment plans. In doing so, the funds raised at European level in Green Bonds will be backed by infrastructure financing projects, without further reducing the envelope of green bond (backed by projects) directly issued by infrastructure managers.

Finally, expanding the scope of **InvestEU**, which has proven highly successfully in mobilising more than €500 billion between 2015-2020, could help leveraging both public and private funds through an EU budget guarantee to invest in sustainable infrastructure and rolling stock, including devices, thus helping to bridge the railway funding gap.

How should the next MFF work

¹² <https://www.consilium.europa.eu/media/ny3j24sm/much-more-than-a-market-report-by-enrico-letta.pdf>

The way in which the resources of the next MFF will be distributed and invested will define the efficiency of EU spending, and will impact heavily on the way in which sustainable mobility solutions such as the ones provided by rail will actually be able to serve the EU economy.

On the basis of past experiences, CER is able to put forward few preliminary suggestions regarding important aspects of the MFF functioning:

- First of all, it will be key to ensure a **better project transition** between the current and the next MFF. Projects successfully prepared in an earlier budgetary period must be enabled to proceed to the implementation in the next period even if rules and guidelines are changed in the meantime. To avoid losing valuable resources, where appropriate, the Commission should consider the extension of costs' eligibility of ERDF, Cohesion Fund and CEF between MFFs.
- Regarding the support that the next MFF will be able to grant to rail key technological enablers (ERTMS, DCM and DAC especially), it will not only be a matter of pure quantity of resources. Instead, the experience that Europe has with **ERTMS deployment** speaks as well of a lack of coordination between investors, an uneven distribution of financial burdens and an early-mover syndrome that prevents progress being made at adequate speed. Today the ERTMS governance is spread along a number of different bodies (European Commission, ERTMS coordinator, CINEA, ERA, ERJU), whereas a centralised EU Level ERTMS coordination should be established to strengthen the cooperation among the different institutions and stakeholders in order to (i) ensure the alignment of National Implementation Plans (NIP) with the EU programs and deadlines; (ii) facilitate a synchronised and harmonised ERTMS deployment both track-side and on-board thereby accelerating ERTMS rollout; (iii) coordinate funding resources for both track-side and on-board investment needs, fostering strategies to support cross-border traffic and increase operation with ERTMS. The centralised coordination should furthermore (iv) continue harmonising operational rules at European level; (v) facilitate a harmonised approach to development, procurement and liabilities; (vi) safeguard existing investments and assure the backward compatibility of current ETCS specifications; (vii) accelerate and where possible simplify authorisation and approval procedures (both trackside and on board) and ensure unique approach across Member States (ERTMS trackside approval).
- When it comes to **DAC deployment**, the migration phase is expected to last 6 years (2028 – 2033) and also in this case a centralised approach would be necessary to ensure a harmonised, competitive, and timely DAC deployment including the ramp-up of DAC production by the European rail industry. Three major steps are to be foreseen: (i) First, the rail freight sector needs a European master plan for the deployment of DAC and the European Commission should take the lead on this task. This master plan should include the creation of a European DAC Deployment Manager, possibly based on the example of the European Air Sector (SESAR Deployment Manager). (ii) Second, in 2024, EU funding should be made available for the “DAC Pioneer Trains” in Europe, with currently about 90 locomotives and 1500 freight wagons identified to be equipped with DAC. Based

on the DAC Sector Statement¹³ published in July 2023, the project cost is estimated at 210 M€. (iii) Third, for the conversion period from 2028 to 2033, funding is needed from both EU and Member States to cover the investment costs of at least EUR 13 billion (prices 2021).

- It will be necessary to **streamline today's different conditionalities** throughout legal and financial instruments (such as climate proofing, Do No Significant Harm conditionalities, ESG – i.e. Environmental, social and governance - criteria, technical assistance), to reduce the administrative burden, facilitate compliance and make the investment process more efficient in general.
- Railways have been among the biggest beneficiaries of RRF resources in some Member States. The methodology applied for the so-called **climate tracking** (Annex VI to Regulation 2021/241) and **digital tagging** (Annex VII to the same Regulation) descends from the Regulation on Common Provisions for ESI funds, and has been key in guiding national governments to allocate resources on newly built or upgraded rail infrastructure projects on the TEN-T Core and Comprehensive network, and beyond. A broader application of this methodology would facilitate the monitoring of spending and would ensure that taxonomy-compliant projects (such as rail ones) receive an adequate share of funding.
- At the same time, it is clear that some of **certain current coefficients must be corrected**, such as the coefficient for the calculation of the support to the achievement of climate and environmental objectives of ERTMS projects. Today, Annex VI of the Recovery and Resilience Facility Regulation ('Methodology for climate tracking') assigns 40% to ERTMS projects (line 071 of the Annex) as both the 'Coefficient for the calculation of support to climate change objectives' and 'Coefficient for the calculation of support to environmental objectives. It is clear that such coefficient is totally inadequate to reflect the contribution that ERTMS deployment can give in order to increase infrastructure capacity without increasing the actual size of the rail infrastructure.
- A methodology similar to the one applied for climate tracking and digital tagging should be developed and implemented for **tracking energy efficiency**. For any EU fund, the evaluation of the projects based on their energy efficiency should be considered as important as its sustainability and degree of digitalisation. Especially at a time when Europe is dedicating much effort to ensure its own energy independency, the energy efficiency of rail should be recognized vis à vis the other modes of transport as a well justified comparative advantage also when seeking access to funds.

Next steps

The present paper is dedicated to all relevant institutional and non-institutional interlocutors, and CER looks forward to discussing all above issues further in the upcoming months. Of course, CER will work to revise the present paper when more

¹³ <https://www.cer.be/cer-positions/dac-sector-statement-rail-freight-automation-and-digitalisation-to-meet-eu-greening-targets>

information regarding the next MFF will be made available, and further suggestions will be elaborated after the Commission proposal will be public.