GLOBSEC INITIATIVE FOR SUSTAINABLE MOBILITY (GISM)

TATRA SUMMIT 2019 FOCUS GROUP: DRIVING CLEAN MOBILITY FINANCING IN CEE

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With three high-level roundtables of representative industry leaders, policymakers and top experts over the course of a calendar year, GISM has led the regional dialogue to identify a number of achievements, opportunities and barriers in the area of clean mobility development in CEE.

The purpose of this report is to convey a message and set of policy recommendations to (i) the incoming EU institutional representatives concluding the next EU budget and forging political agreement for ambitious 2030 and 2050 climate objectives and to (ii) CEE national governments finalising national energy and climate plans (NECPs).

DISCUSSION MAIN TAKEAWAYS:

- Create stronger technical assistance for CEE project development and promotion;
- Apply low carbon standards to investment project submitted to banks;
- Simplify national public procurement procedures and rules for decentralized EU financial instruments;
- CEE governments must increase their research and development (R&D) spending related to industrial competitiveness and commercialization of university research, promoting homegrown clean tech products;
- Speed up the R&D project preparation process;
- To realistically achieve the bloc's 55% goal, regional cooperation and formation of capital markets should be further developed, e.g. Danube Region, CESEC, V4
- Revisit state aid rules to boost regional competitiveness in clean technologies, e.g. Important Projects of Common European Interest (IPCEI);
- Ban new registration of old vehicles, qualify them as waste;
- Principle of no one left behind needs to be defined by just transition funding criteria and objectives;
- Overarching need for a new financial framework for the modernisation of the mobility sector that attracts private investment;
- Public funding should act as an investment catalyst together with private funding, not to be used solely as grants;
- Support building design and urban planning that would encourage clean mobility;
- Biofuels should not be forgotten but discussed in depth and with less prejudice;
- Link European transport corridors with sustainable infrastructure developments, e.g. electrification and hydrogen;
- Encourage sector coupling between buildings, transport, and energy, especially via digital applications.

POSITIVE STEPS IN CEE

The three Member States blocking an EU agreement on 2050 carbon neutrality are from CEE (Poland, Hungary and Czechia), highlighting the importance of the GISM dialogue held at Tatra Summit 2019. However, there are impactful clean transport and mobility initiatives underway in the region which should be recognized.

- **Regional:** increased policy engagement, development of clean mobility related industries, clean air fund proposal submitted at the EU ministerial level in June 2019 and supported by V4.
- **Country-specific:**
  - Romania is preparing its financial framework for national bus fleet electrification;
  - Hungary is preparing the financial framework for electrification of its national bus fleet while Budapest is home to two competing car sharing companies and BuBi (Budapest Bicycle Programme);
  - Bulgaria placed EUR 350 million in a clean air envelope which will be used to support public transport electrification and the country is home to Monbat, a major electric bicycle producer;
  - Poland is a global leader in electric bus manufacturing and is procuring e-buses;
  - Slovak government will contribute EUR 2.5 billion to the transition fund while Greenway, a regional e-charging leader, and InoBat, an electric battery, demonstration and production plant, have applied for and received European Investment Bank (EIB) funding;
  - Czech town of Třinec electrified its bus fleet while Skoda announced that by 2025 25% of its bus production will be electric.
- **Enabling conditions:**
  - Low labour cost
  - Engineering skills
  - High automotive production
  - High components for automotive industry production
  - High volume of electric, electronic and IT industries
  - Available land and agriculture
  - Coal regions suitable for industrial scale renewable energy

ISSUES TO ADDRESS IN CEE

- **Main points:**
    - Low R&D funding[1]
    - Low eligibility and demand for green money
    - Lack of capacity for green project generation and promotion
    - State aid regulation is a barrier to green investments
    - Public procurement administration procedures are prohibitively lengthy
    - Retaining adequate job opportunities in the automotive and connected sectors
    - Underdeveloped electric vehicle infrastructure
    - Continued dependence on grants is unsustainable
- **EU-level:** The current system of EU rules makes it easier for CEE governments to use EU funds allocated as grants rather than financial instruments. In many sectors financial instruments are more effective and efficient means of spending public resources compared to grants. The Commission is vocally supportive of this type of innovative financing, but practical implementation has been too complicated during the current programming period due to over-bureaucratic rules. Regulation surrounding financial instruments is burdensome, discouraging private investors from participating, excessively constrained by state aid rules and public procurement procedures that extend project lead times from months to years. Statistical treatment of financial instruments is another issue, for example when a ministry provides an ESIF grant to railways, it does not impact public debt, but if the same ESIF money is invested by a state-owned financial institution in the form of loans, it increases public debt.
- **National-level:** Since governments want to ensure full absorption of money allocated, they often prefer grants over financial instruments. The ESIF transport file tends to be awarded to established construction and grid companies to 'modernize' and expand existing infrastructure networks suffering from underinvestment. However, 'greening' of new buildings and roads to enable alternative fuel vehicles is not typically included (e.g. D4-R7 loop in Bratislava). Although a significant amount of structural funding is allocated to railways the modal share of rail has more than halved in EU-13 countries from 2000-2015.2 Outside of the major infrastructure undertakings, little remains for digitalisation or multimodal projects in CEE. Furthermore, with weaker national development banks, capital markets, and R&D centres, CEE countries hardly utilize EFSI and EU innovation funds for clean transport and sector coupling initiatives.

RECOMMENDATIONS FOR COLLEGE OF COMMISSIONERS AND INCOMING MEPS

- On financial instruments: There is a discussion of simplification of the rules scheduled for the next programming period, but it is limited primarily to centralised financial instruments, such as EFSI (InvestEU), which are implemented by EIB or international financial institutions and thus less relevant for smaller member states. CEE needs decentralised financial instruments implemented at national levels to receive the same regulatory treatment as InvestEU. Also, EC should expand eligibility criteria under operational programme for alternative fuels investments.
- On grants and financial instruments: EC's working level experts and middle management must support the use of EU funds as financial instruments rather than grants. Not only is this the only way to leverage additional private investment and 'do more with less' in the next budget planning, but it ensures a selection of quality projects tied to co-investors seeking commercial returns. Although Directorate-General for Regional and Urban Policy oversees implementation of grants by ministries as well as implementation of financial instruments by financial institutions, the two are vastly different systems and require specialization.
- On InvestEU: It is important for InvestEU to cover more cross-border green transport projects alongside structural and national funds, possibly by establishing a mandatory threshold. Member states can voluntarily match up to 5% of their budget with InvestEU projects but this should be raised to 10% and become mandatory to ensure a greater multiplier effect which is needed to achieve the high investment targets.
- On state aid: Further political discussion allowing for exemptions for clean transport, manufacturing and R&D investment is needed.
- On a clean air fund: Such a fund should exist as a complex financial and policy instrument that accelerates the uptake of clean cars, infrastructure, and production as well as clean mobility solutions on urban, intercity, inter-EU, and international levels.

RECOMMENDATIONS FOR CEE GOVERNMENTS

- Integrated clean mobility agenda: It is up to national, regional and municipal politicians, policymakers, and authorities to improve green investment conditions to stimulate demand for climate financing across sectors. This starts with national energy and climate plans (NECPs) setting clear and ambitious objectives for 2030 and enhancing inter-ministerial and sub-national interoperability and cooperation.
- Focus on research, development and innovation (RDI): Clean and smart mobility should be at the centre of infrastructure development, industrial policy and RDI to ensure future competitiveness and economic growth. In addition,
    - RDI investment mandated relative to GDP with clear objectives
    - Incentivize private investment in capital markets with more active financial institutions and national banks
    - Public funds should be invested in areas where the market is not yet capable of supporting progressive climate policy goals, e.g. renewables and e-mobility.
- Follow EIB lead: The EIB estimates that EUR 1.15 trillion of investment is needed annually up to 2030 to stay

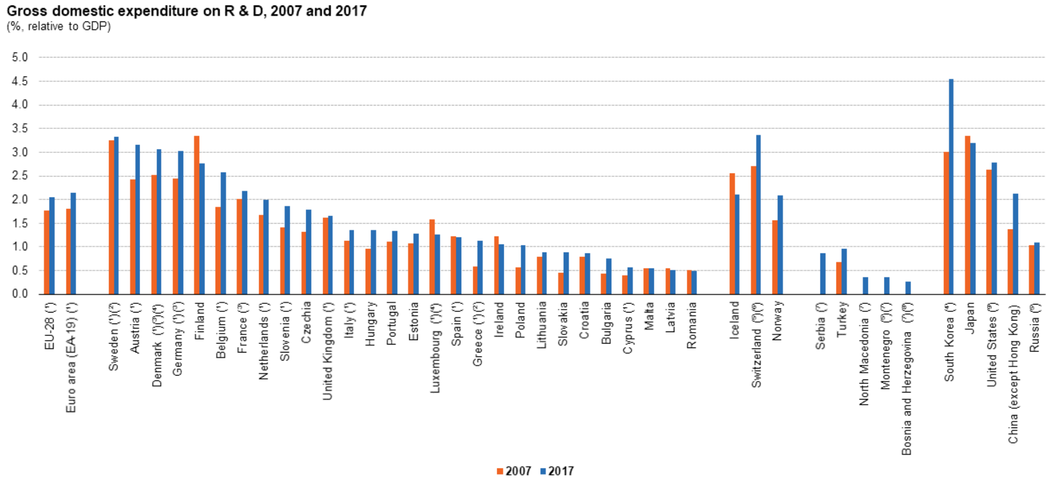
1 See Annex for graphical depiction

2 European Parliament, Research for TRAN Committee – Modal shift in European transport: a way forward, November 2018

compliant with the Paris Agreement, and that 75% of this sum will go to transport. The EIB is responding in its 2019 lending policy review, increasing the threshold of climate related financing from the current 25% to 50%, and eventually to 100% SDG-compliant by 2025.

ANNEX ON COMPARATIVE EU R&D

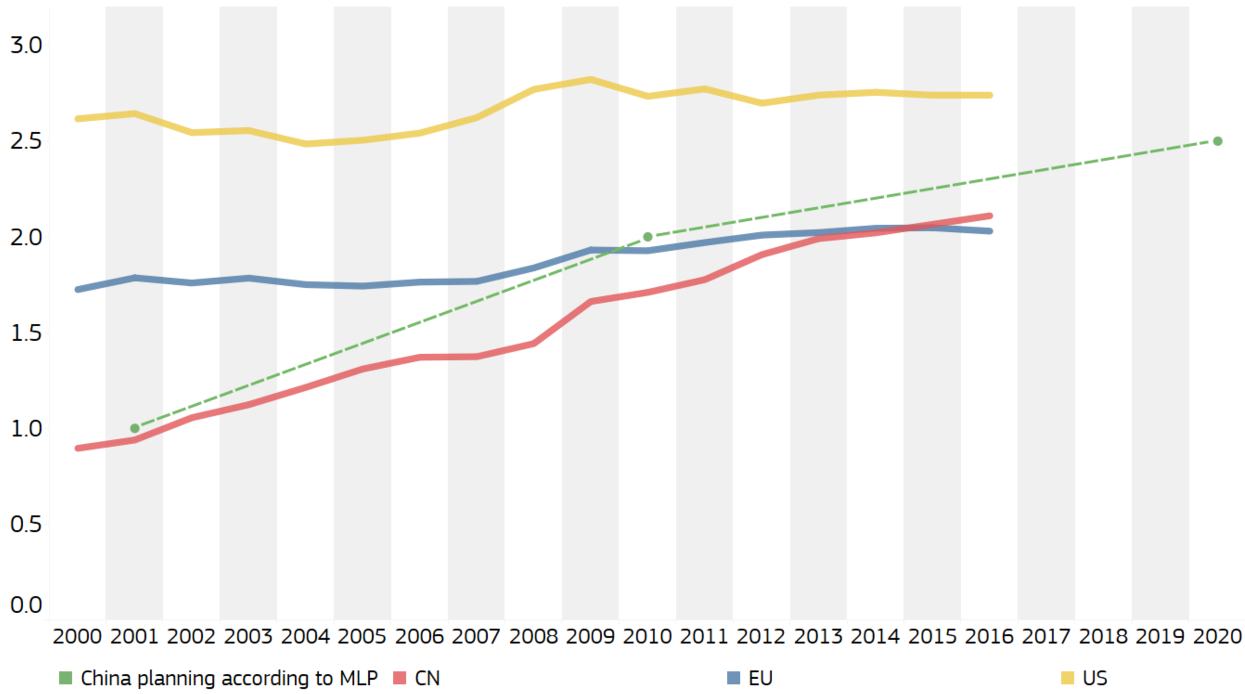
Figure 1[3]



Note: when definitions differ, see http://ec.europa.eu/eurostat/cache/metadata/en/rd_esms.htm.
(¹) 2017: provisional.
(²) 2007: estimate.
(³) 2017: estimate.
(⁴) Break in series.
(⁵) 2015 instead of 2017.
(⁶) 2008 instead of 2007.
(⁷) 2007: not available.
(⁸) 2014 instead of 2017.
(⁹) 2007: definition differs.
Source: Eurostat (online data code: rd_e_gerdtot)

eurostat

Figure 2[4]



3 Gross domestic expenditure on R&D 2007 and 2017 (Eurostat, European Commission)
4 Gross expenditure on R&D intensity in the US, EU and China (OECD)