

TRANSPORT / EUROPE #4



FROM THE COVID CRISIS TO RECOVERY PLANS: THE STAKES AND CONSEQUENCES FOR TRANSPORT SYSTEMS

European panorama

At two sessions, in December 2020 and March 2021, the OPSTE experts compared the ways in which their respective countries handled the Covid pandemic. Due to the economic slowdown, the limits on people's mobility (lockdowns, curfews, limitations on travel distances and movement between regions and countries), the encouragement of teleworking, etc., transport systems were substantially disrupted.

Issue 3 of the Transport / Europe bulletin already considered the long-lasting modifications of mobility practices which we are likely to see at the end of the pandemic. We must now extend this thinking about the long-term outlook by analyzing the national and EU-level recovery plans that are now being designed and validated, particularly with regard to transport.

From a political standpoint, these new elements are in contrast with the criticisms directed towards the EU (Council, Parliament and Commission together) regarding certain limitations in its handling of the Covid pandemic (the slowness of its initial reactions, the hesitations of its vaccine purchasing policies, the difficulties in coordinating the restrictions applied by each Member State to cross-border movements, etc.), even though it managed to implement a collective approach to avoid competition between countries and to ensure equitable distribution of the vaccines in proportion to the populations.

The European recovery plan, both in its processes and its scope, constitutes in and of itself a milestone in the construction of the European Union. The initiative stems from May 2020, when the Next generation EU project was established. For the first time in its history, the EU decided to issue common debt, in the amount of 750 billion euros borrowed collectively on the financial markets to be redistributed between the Member States.

Its main component is the «Recovery and Resilience Facility,» in the amount of 670 billion euros, attributed according to the national plans designed by the Member States and sent to the Commission for discussion and approval. In February 2021 a draft ad hoc regulation according to the co-decision procedure between the Parliament and the Council was adopted. These funds will be used in two ways, combining subsidies (312 billion euros) and loans (360 billion euros). 70 % of the funds must be committed as of 2022 as a function of the rates of unemployment of each country, and the remaining 30 % will be committed later on as a function of the impact of the crises on the GDP. On this basis, the national amounts, indicative for the moment, will be established, according to which Spain and Italy will be the first beneficiaries (with 70 billion euros) ahead of France (40 billion euros).

There is a double earmarking for the allocation of the funds: at least 37 % must go to investments for



ecological transition and 20 % for digital transition (in compliance with the «double transition» which was the basis for the European Green Deal). In a sense, this means taking advantage of the crisis to accelerate the transitions. Furthermore, the «Country Specific Recommendations» elaborated by the Commission during the European semester should be included in the national plans.

The calendar is the submission of the plans by the Member States in April 2021, followed by an evaluation period of two months and then lastly the adoption by the Council with a qualified majority. To examine the plans, the Commission formed a dedicated «task force.» The Parliament has no veto power over the national plans, only a capacity for dialogue with the Commission. After approval, each State will receive an advance of 13 % of the total amount, then the other funds will be paid as the projects are undertaken. The entire system, and in particular the Commission's authorization to borrow, must be approved by each national Parliament.

For the current OPSTE financial year, the fact that this vast operation is from the outset of EU origin is favorable for comparison of the situations specific to each country, included within the same conceptual framework and within the same calendar. Switzerland, a member of the European Economic Area but not of the European Union, is not involved in these initiatives. It is however also impacted by the Coronavirus and is reacting to it: the comparison is different but sheds additional light on the overall situation.

From a political standpoint, and even before considering their content, we observe that the preparation

of the recovery plans occupied a very variable place in the national political debates. It is true that the amount of European support is considerable. It allows for the undertaking of actions that would previously have been unthinkable and thus brings with it substantial stakes. The debates led to no less than a change of parliamentary majority and government in Italy, while in Spain the discussions focused above all on the sharing of responsibilities and funds between the Central Government and the autonomous communities, while in other countries, France for example, the recovery plan was included in an overall appreciation of the management of the health and economic crisis. Even if the distinction is more or less explicit, several phases emerge, with some overlap, and with some gaps depending on the countries.

The national plans, coordinated with the European plan, aim first of all to help with the recovery of economic activity after the recession triggered by the health crisis. The experience of the international financial crisis which began in 2008 shows that recovering from a macroeconomic shock of such size takes several years. The aim is to reduce the substantial rise in unemployment, to create jobs (particularly for young people), and to limit company bankruptcies by using the traditional technique of increasing public spending. As such, in terms of transport, rescue actions have been taken here and there through subsidies, loans or recapitalization of the major operators (train operators, airline companies) and urban transport networks strongly impacted by the crisis and to the search for a new economic model.

Beyond the recovery (or simultaneously with it), the program aims to undertake or to reinforce structural

changes, investments in the future in technologies and new infrastructures towards an ecological and energy transition (electro-mobility, replacement of fleets of road vehicles, charging stations, hydrogen), rail modernization (particularly to support modal shifts), etc. Do all countries have a sufficient number of relevant projects which are ready to be undertaken?

Lastly, in some countries the focus is on industrial transformations (particularly Germany, where automotive industry is in a process of conversion to electric vehicles), while elsewhere the plan includes a major social component (for example in Italy with programs for education, health, employment policies, equality between men and women, public services) and a regional component (support for the Mezzogiorno).

While we can hope to get out of this health crisis through vaccination, the Covid pandemic and its handling (medical, health, social, economic, political), and the stimulus measures to accompany this represent a particular turning point. A renewed legitimacy of massive public intervention emerged, on the national and EU levels, breaking with the rules of «good management» which were in effect up until now and more or less respected (in particular the European Fiscal Compact). The rescuing of the economy and employment have involved macro-economic stimulus, itself oriented towards structural changes, those which underpin the European Green Deal and which are also present in the political agenda of most European countries: the fight against climate disruption, the digital transition, and also the quest for

a balance between sustainable development and social and territorial equity. All transport systems are directly and massively connected to these prospects.

Michel Savy

Director of the OPSTE

Emeritus Professor at Université Paris Est

This OPSTE newsletter has been produced with contributions from:

Antoine Beyer, *University of Cergy Pontoise*

Vincent Bourquin, *Haute école d'ingénierie et d'architecture de Fribourg*

Jan Burnewicz, *University of Gdansk*

Bertil Carstam, *consultant, Stockholm*

Laurent Franckx, *Federal Planning Bureau, Brussels*

Rafael Giménez-Capdevila, *Catalan Geographical Society*

Seraphim Kapros, *University of the Aegean*

Barbara Lenz, *Deutsches Zentrum für Luft- und Raumfahrt (DLR) /Humboldt Universität zu Berlin*

Cristina Pronello, *Politecnico di Torino*
and **Cécile Combette-Murin**, *TDIE*.

The articles by OPSTE experts reflect only the authors' views.

To receive the Observatory's publications,
please e-mail: opste@tdie.eu

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GERMANY

In Germany, the 130 billion-euro recovery plan covers a very broad spectrum. Companies receive aid to offset their losses of sales linked to the pandemic and to retain their employees, paid on a part-time basis and thus protected from unemployment. These aid packages were extended until September 2021. There is also support for municipalities, which are in charge of numerous social measures. A decrease in VAT (from a base rate of 19 % to 16 % and respectively from 7 % to 5 % over the period from July 1 to December 31, 2020 for a decrease in tax levies of 20 billion euros) goes in the direction of increasing the purchasing power of households, with no measurement yet of the effects on the economy as a whole. In the same spirit, child benefits have been paid in order to stimulate consumption.

the transformation of automotive industry with the use of electricity and hydrogen, the installation of catenaries on highways, pursuing further progress with electric batteries, and support for synthetic fuel and biofuel technologies.

In the field of transport, exceptional support was provided to Lufthansa and Deutsche Bahn and other public transport operators, who were strongly impacted by the crisis. Facing massive decreases in the number of passengers¹ and losses of income, they nevertheless maintained the volume of their transport at a high level and even undertook additional expenditures in order to reinforce the hygiene measures, etc. The announced aid of 2.5 billion euros is widely considered to be insufficient.

BELGIUM

The process which led to the drafting of the Belgian recovery plan reflects the institutional structure of the country. In October 2020, the federal government issued a call for projects with all governments and federated entities of the country. The negotiations which followed the submission of a first list of projects led in January 2021 to an agreement for the distribution of the financing between the federal government and the three regions, based on a list of 89 projects sent to the European Commission. As the amount of the expenses proposed to the Commission exceeded what had been planned (respectively 6 and 8 billion euros), discussions for an adjustment were undertaken. The final version was validated by the European Commission at the end of June.

In all, 920 million euros were allocated to transport and to mobility. The main beneficiary projects (reflecting the distribution of responsibilities between the federal government and the regional governments) are:

- On the federal level, the rail infrastructure (including the digitalizing of services for users), and tax incentives for private and semi-public charging stations for electric cars.
- For Wallonia, the reinforcement of multimodal transport, the Liège tram, the Charleroi light metro, a Bus Rapid Transit in the Mons-Borinage region, the installation of intelligent traffic lights, the creation of bicycle lanes and the deployment of electrical charging stations.

Priorities of the German recovery and resilience plan

Source : Federal Ministry of Finance, German Resilience and Recovery Plan (Draft). Berlin, December 2020, p.18

The year 2020 also allowed for an exceptionally high average rate of savings, as households had sufficient income and the precaution measures linked to Covid prevented people from traveling, going to restaurants, etc. How can these savings be reinjected to stimulate economic activity?

A substantial budget (50 billion euros) will go to innovation and industry with the development of a hydrogen sector, quantum technologies and artificial intelligence. This will involve in particular supporting

¹ Passenger levels which were still at only 60 % of the level from before the crisis, with major differences between large cities and rural regions, as of the date of the OPSTE experts' meeting in March 2021.

- For Flanders, the ordering of green buses, the reinforcement of the cycling infrastructure and the installation of charging stations (public and semi-public).
- For the Brussels-Capital Region, electric buses and cycling infrastructure.

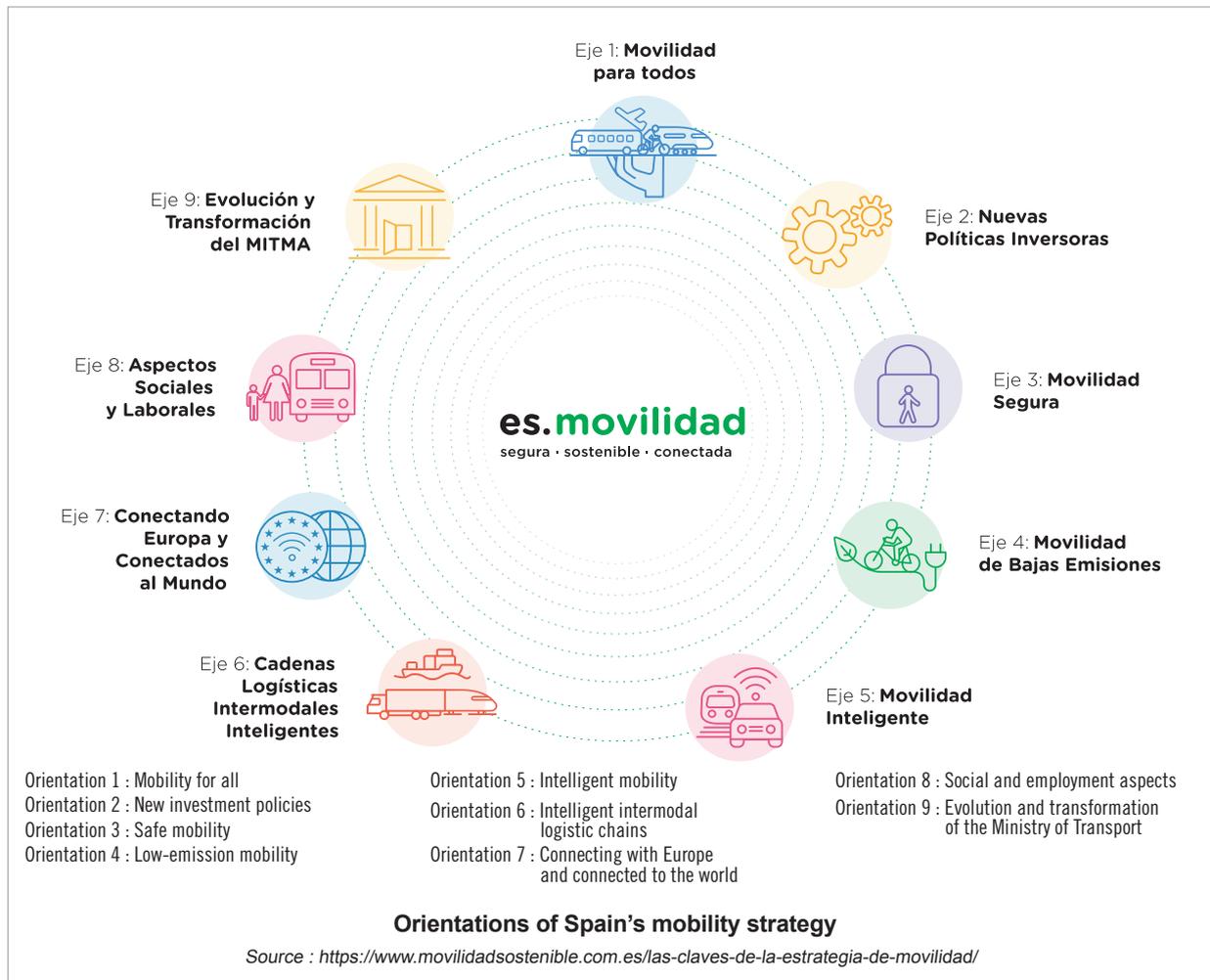
SPAIN

Before considering a recovery plan, the Spanish government launched an economic stimulus plan, as the crisis had particularly impacted activities that are primordial for the country, such as tourism. This was intended to save companies that were in deficit and to support local authorities, which are also public transport organizing authorities. An amount of 7 billion euros was announced, 2 billion of which were solely for the Balearic and the Canary Islands, which were particularly impacted. However, companies involved in the road transport of merchandise did not have access to these funds, while some of the sectors that they serve had sharp drops in their activity.

In 2020, the Ministry of Transports undertook ambitious strategic thinking on «safe, sustainable and connected» mobility looking ahead to 2030, organized with nine orientations. The orientation law which is supposed to implement this strategy was still in preparation at the time of the editing of this newsletter.

At the time of the adoption of the recovery, transformation and economic resilience plan, referred to as «Spain can» (España puede), approved in October 2020 but published in April 2021, the Spanish government stated that half of the amount would be managed on the central level and the other half by the local authorities. The debates initially focused on the distribution of the funds more than on their use, with institutional mistrust between local authorities and the general administration of the State in the background.

The European plan Next Generation EU represents 140 billion euros for Spain (including non-reimbursable fund transfers and credits), or equivalent to 4 % of the GDP. The plan is to spend it between 2021 and 2026, with a non-reimbursable 72 billion euros to be committed





between now and 2023, a time frame coinciding with the current legislature (the expenditures are to be justified by 2026 at the latest). This is an important opportunity to transform, among other things, the model of mobility, particularly urban mobility, as part of an effort to limit climate change and to adapt to its effects, with the development of more healthy and inhabitable areas. But does the country have enough projects ready to undertake such expenditures within such a short time frame?

FRANCE

In France, the decrease in GDP in 2020 was of the order of 200 billion euros. The impact of the slowdown of economic activity and the lockdown on households was very uneven: on the one hand, the disappearance of precarious jobs and work, for example «odd jobs» of young people, increased poverty and recourse to social aid programs, food banks, etc.; on the other hand, wealthier people spent less on going out, travel, etc. and accumulated savings evaluated at about 200 billion euros, which the government would like to mobilize to contribute, when the time comes, to stimulating the economy.

The government intervened strongly to compensate for certain effects of the slowdown of activity due to the Covid-19 pandemic. Even if they overlap somewhat, we can distinguish three phases in these actions:

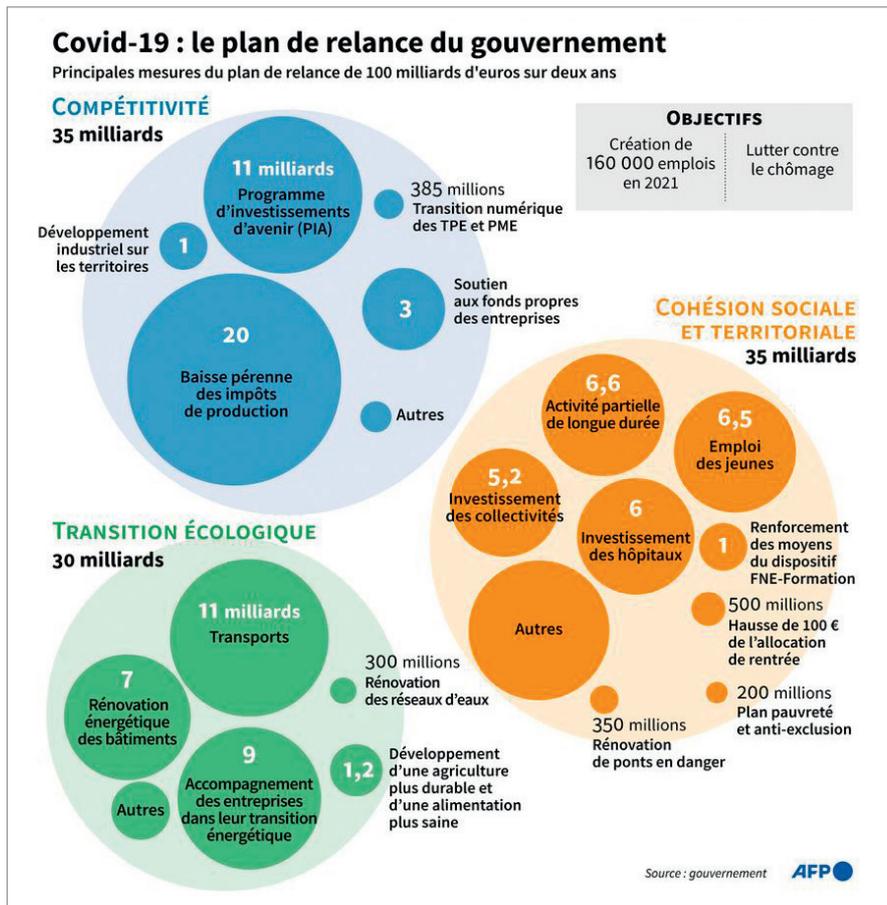
- The protection of companies and employees (with the postponement and exoneration of social security contributions, compensation for partial unemployment, the providing of guaranteed loans). An amount of 490 billion was allocated, including one third in the form of direct aid and two thirds in loans guaranteed by the State.
- Support for the sectors most impacted (tourism,

automotive industry, aviation, local stores, etc.). The amount of 45 billion euros was broken down into 18 billion for tourism, 15 billion for aviation, 8.5 billion for automobiles, 4 billion for high-technology activities and startups.

- Lastly, recovery and investment (industrial relocation, job creation and decarbonization of the economy). The 100 billion-euro plan announced in September 2020 includes 40 billion to come from the European recovery plan. It is broken down between competitiveness, innovation and the relocation of companies (35 billion euros), the energy transition (30 billion) and social cohesion (35 billion, with the themes of solidarity between generations and between territories).

Transport is the first theme of the «energy transition» component of the recovery plan, with an amount of 11 billion euros. It includes several action orientations:

- Railroads are receiving 4.7 billion euros for the regeneration of the national rail network (2.3 billion), the offsetting of regulatory changes such as the abandoning of glyphosate for weed control along tracks (1.5 billion), the renovating of minor lines, the better taking into account of the needs of rail freight in the scheduling of infrastructure upkeep work, the securing of level crossings, the elimination of high noise areas, and the implementation of station accessibility for people with reduced mobility. There are also ordinary loans for the restarting of night train routes, the acceleration of the State-Region Plan Contracts (CPER) for minor lines, and support for freight.
- «Everyday» transport is receiving 1.2 billion euros, with an unprecedented acceleration for the development of cycling networks, the development of rail transport around major urban centers through the establishment of «Metropolitan Area Express Trains», the establishment of new public transport lines with dedicated corridors and continuation of the development of multimodal interchange hubs.
- The greening of ports, with facilities to promote the energy transition, the electrification of docks, the establishment of stations for refueling with liquefied natural gas (LNG) and hydrogen.
- Various infrastructure projects will be accelerated, such as the development of electrical charging stations, the acceleration of modal transfer for travelers (reserved lanes, park and ride facilities, multimodal interchange hubs, control equipment for reserved lanes and Low Emission Zones [Zones à faibles émissions, ZFE]), the regeneration



and modernization of the river transport system, the development of the rail link between Lyon and Turin, the modernization of maritime traffic surveillance infrastructures, the overhaul of the digital system for maritime affairs.

- The greening of the vehicle fleet (purchase incentives, etc.) is receiving 2 billion euros.
- The development of a green hydrogen sector in France is receiving 2 billion euros in the short term (between 2021 and 2022) and 7 billion between now and 2030.
- The sectors of automotive industry (faced with the transition towards electro-mobility and the robotization of manufacturing) and aircraft manufacturing are receiving 2.6 billion euros for investment and innovation support.

From a strictly political standpoint, the debates on the recovery took place in autumn 2020 but the measures proposed met with few challenges, while 140 billion euros had been devoted to support for employees and companies. In the implementation of the plan, in coordination with the European Union, it will be necessary to monitor the convergence with certain national policies, particularly the proposals

of the Citizen Convention for the Climate which have been sent to the Parliament to be included in law. Most of the funds will be managed by the Government, but in a decentralized manner, under the authority of « recovery sub-prefects,» while 16 % of the total will be managed by the local authorities. % du total seront gérés par les collectivités locales.

GREECE

Like the other countries of Europe, Greece is involved in the fight against Covid, and precaution measures such as lockdowns are contributing to decreasing the number of cases.

The recovery plan is still in the preparation phase, before the arbitration of the negotiations between the Ministers and the Prime Minister. The announced amount is 32 billion euros, including 5.5 billion in the first tranche. Among the 300 actions under consideration, many are continuations of policies that were already begun and which have no direct relationship with the pandemic. There are two major orientations: the digitalizing of the economy and “green development.”

70% of the first tranche of 5.5 billion euros will go to support business activity and 30 % will go to reforms for a more autonomous economy (with the production of green energy, energy savings by insulating buildings, the burying of electrical cables, etc.), and the digitalizing of the public administration. There are also plans to build two highway sections to complete the program that is now in progress.

ITALY

In Italy, the preparation of the recovery plan began under the previous government with a list of 102 proposals «for a stronger, more resilient and fairer Italy» organized around six themes: companies and work; infrastructure and environment; tourism, art and culture; public administration; education, research and competencies; individuals and families. The holding of a forum on the economy led to a fourteen-point project and finally a national recovery and resilience plan approved in January 2021 by the Council of Ministers.

The recovery plan presented by Italy, called Italia Domani (Italy tomorrow), provides for investments and a set of reforms for an amount of 191.5 billion euros, financed by the recovery and resilience mechanism and 30.6 billion euros by an additional fund based on the corrected multi-year budget approved by the Council of Ministers on April 15, 2021. The total amount of the funds is thus 222.1 billion. Furthermore, an additional 26 billion euros were allocated to the carrying out of specific works and to the reconstitution of the resources of the Development and Cohesion Fund between now and 2032. In all, 248 billion euros will be available. Along with these resources, there are those made available by the REACT-UE program which, in compliance with European regulations, will be spent over the course of the years 2021-2023 and which represent 13 billion euros.

The orientations are in compliance with European priorities: digitalization and innovation, the ecological transition, social inclusion, stressing the stakes for society in the equality of the sexes, the situation of young people and the question of the South (with emphasis on infrastructure and essential public services, including schools and health care, representing 82 billion euros in the South).

To take effect, the plan was organized with six missions (digitalization, innovation, competitiveness and culture: 49 billion; green revolution and ecological transition: 68.6 billion; infrastructures for sustainable mobility: 31.5 billion; teaching and research: 31.9 billion; inclusion and social cohesion: 22.6 billion; health:

18.5 billion), themselves broken down according to sixteen functional components containing 48 lines of intervention. It furthermore distinguishes the projects already being completed from new projects to be launched. A major role will be played by the local authorities, who are responsible for 87 billion euros of investments. The impact on the GDP should be increasing and substantial, going from an increase of 0.5 % in 2021 to 3.6 % in 2026 and with growth in investments of 10.4 %.

The plan includes a major component devoted to rail transport (after the FS Company and the infrastructure manager Anas – Azienda nazionale autonoma delle strade, Autonomous National Road Company – took part in its elaboration), for completing the sections of the high-speed network (in the Po valley and south of Naples to Reggio Calabria), increasing the capacities of various traditional lines, unblocking certain rail hubs, extending the ERTMS (European Rail Traffic Management System), connecting small lines to the national network, modernizing the regional railroads, and modernizing the stations in the South. The projects are distributed over the country (North-West, North-East, Center and South «quadrants»), as seen on the map for the south of the country, including Sardinia and Sicily.

2 billion will be used for the development of regional rail lines and the purchase of new modern, high technology, electric and hydrogen trains (including 500 million for the replacement of rolling stock). 24.77 billion euros of investments are dedicated to the rail network.

For road infrastructure, which is not as heavily equipped, the emphasis is on the digitalizing of traffic management and the planning of maintenance and safety activities. This «intelligent road 4.0» should be more cost effective and resilient.



Modernization of the Italian rail network, Mezzogiorno

Source : <https://www.movilidadsostenible.com.es/las-claves-de-la-estrategia-de-movilidad/>

At the same time, a political debate is underway regarding the timeliness of renationalizing highway operation within Anas, which is itself part of the Ferrovie dello Stato Group, which is now multimodal.

3.4 billion was allocated for port modernization and efficiency for improvement of the competitiveness of the Italian port system and its energy efficiency. The digitalizing of the logistics chain (0.36 billion) and airport systems and reduction of the emissions linked to the handling of freight are also included.

POLAND

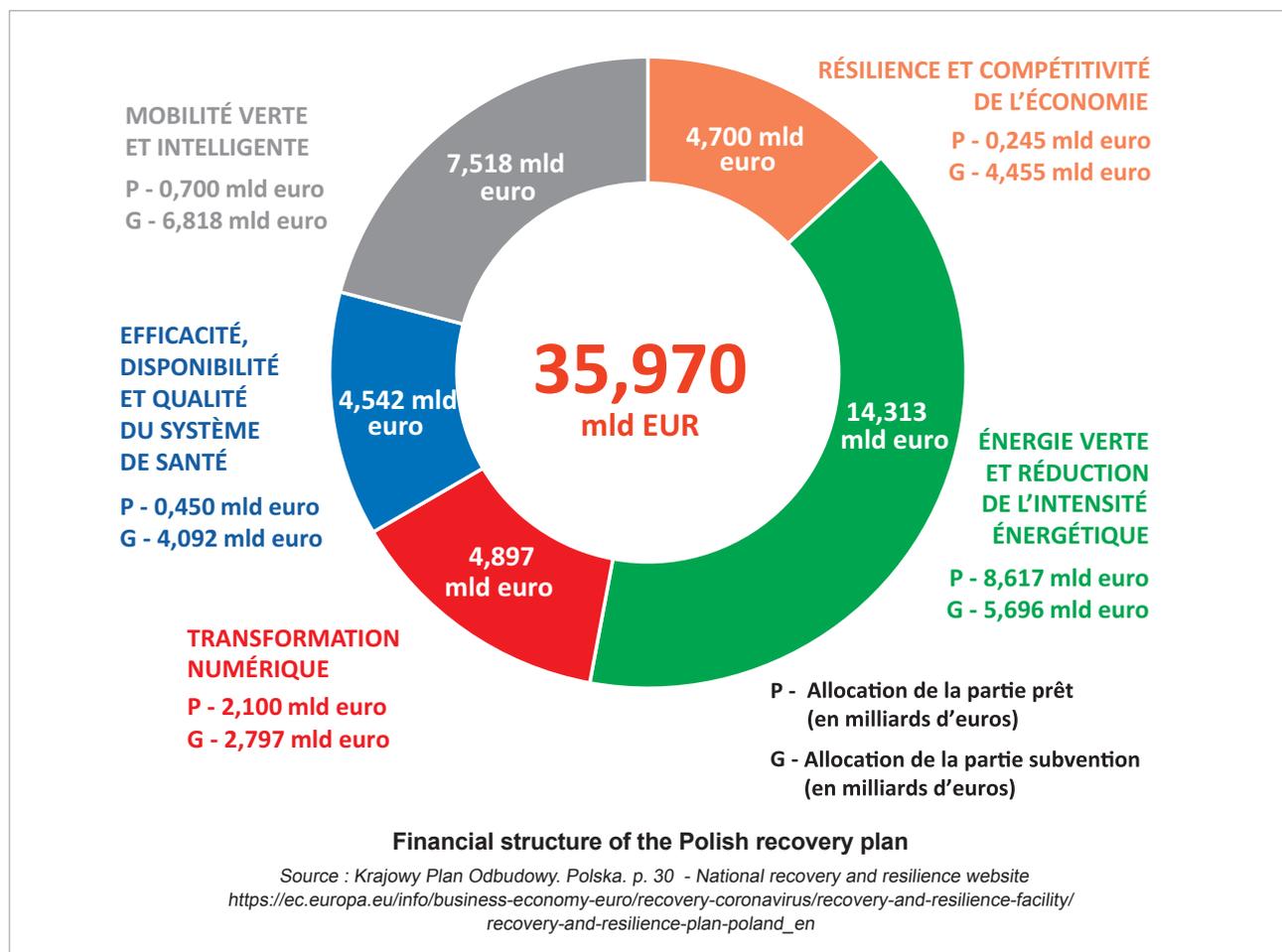
Poland's recovery plan was presented to the Commission in May 2021, and approved by the Parliament. It is part of the program of «facility for recovery and resilience» of the European Union, and its amount of 24 billion euros is broken down between the objectives of resilience and competitiveness of the economy (17 % of the total), reduction of energy consumption, the development of green energy and the reinforcement of energy efficiency (27 %), digital transformation (13 %), efficiency, availability and

quality of the health care system (18 %) and lastly green and intelligent mobility (25 %). The total expenditures devoted to the implementation of the plan are 35.97 billion euros, including 23.8 billion euros from the subsidy part and 12.12 billion euros from loans.

With regard to transport, the focus is on technological change in road and urban transport with electromobility, the installation of electric charging stations (including stations in the home and within companies), aid for the purchase of electric automobiles, the replacement of urban buses (abandoning diesel) by 2030 in the major cities. The development of a hydrogen sector has not been mentioned thus far. At the same time, urban road bypasses and «intelligent» traffic management will be deployed.

A financial reserve of 2,676 million euros was constituted to modernize the national and regional railroads.

On the European side, the amount of the loans offered is 34.2 billion euros, but the government has planned to use only 12 billion.



SWITZERLAND

There is no recovery plan in the strict sense in Switzerland, and of course no EU recovery plan (although the macroeconomic recovery in the European Union will benefit Swiss exports), but measures have been taken to address the problems of the sectors which were most affected by the health and economic crisis.

Transport companies are trying to limit their losses by restraining supply and expenditures while retaining personnel. The investments committed are continuing, but new projects are being postponed and research and experimentation efforts are being rationalized. The main public transport companies thus met and established an association (<https://www.swissaam.ch/>) in order to pool their experiences in the operation of autonomous vehicles.

People's reticence to travel by public transport is continuing (psychologists are thinking about ways to restore confidence). The federal law of September 25, 2020 organizes support for public transport during the Covid-19 crisis, whether for Regional Passenger Transport (Transport regional de voyageurs, TRV), local transport, tourist transport, the charging of automobiles, and also rail freight. It also involves the financing of rail infrastructure for the year 2020. These measures were continued in 2021, particularly for Regional Passenger Transport (in partnership with the cantons). On the other hand, local transport and tourist transport are now left to the responsibility of the municipalities and the cantons. Furthermore, a credit of 25 million CHF is under consideration to support merchandise transport.

The confederation, the cantons and the municipalities are handling the damage from the crisis in industry, the restaurant business and tourism, culture, transport, etc. University research programs are underway to design innovative solutions to the crisis, in social, technological and economic areas. To avoid a recession, aid is being given to companies (transitional credits, postponement of payment of social security contributions, in particular), and also to individuals (extension of partial unemployment, compensation for losses of earnings of self-employed people, allocation for losses of earnings of employees) and to the stimulation of the R&D of companies, etc. In March 2020, a 40 billion CHF plan was presented to the parliament and the aid to transport companies for 2020 represented about one billion.

An example of financing that was maintained was the 2050 energy strategy voted by the people in 2017. This ambitious program aims for a transition marked by the abandoning of nuclear power and the reduction of greenhouse gas emissions. It includes for its implementation a transport component with financing focusing on research, companies and associations.



The modernization of the transport system focuses on efficiency and energy conservation (for example, the improvement of road and rail traction and the retrofitting of train insulation). In the context of the energy transition, hydrogen, produced by electrolysis, by algae or bacteria, is being studied as an alternative solution to the electric battery for energy storage. It was intended to supply fuel cells, and it can also be used as a fuel consumed in combustion engines (which have a better high load yield and can be relatively simply transformed to use hydrogen as fuel). ■