BRIEFING

EU Legislation in Progress
2021-2027 MFF

European Parliament

# Connecting Europe Facility 2021-2027

## Financing key EU infrastructure networks

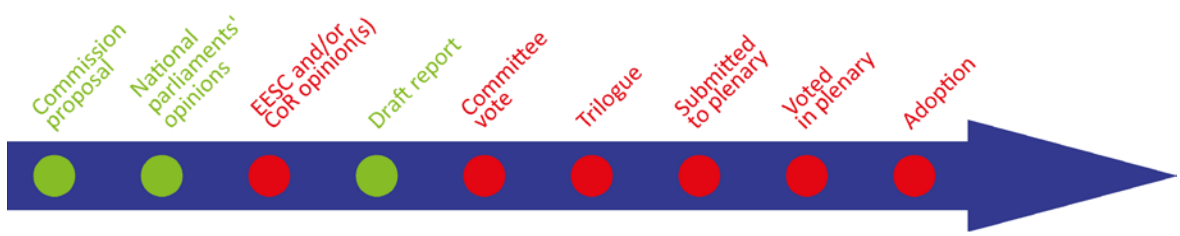
### OVERVIEW


Strong, modern, and reliable infrastructure is essential to secure jobs, growth and competitiveness in the European Union. Given this need, the EU supports the development of high-performing, sustainable and interconnected trans-European networks in three areas: transport, energy and digital infrastructure.

The trans-European networks policy was consolidated in 2013 and the Connecting Europe Facility (CEF) set up as a dedicated financing instrument to channel EU funding into infrastructure networks, help eliminate market failures and attract further investment from the public and private sectors.

Following a mid-term evaluation, which confirmed the CEF programme's capacity to bring significant EU added value, the European Commission proposes to renew the programme under the next long-term EU budget. The European Parliament and the Council are expected to discuss the changes and proposed budget to ensure that, once adopted, the programme can stimulate the necessary infrastructure development, while also helping to achieve the EU's climate change objectives.


| **Proposal for a regulation of the European Parliament and of the Council establishing the Connecting Europe Facility and repealing Regulations (EU) No 1316/2013 and (EU) No 283/2014** | | |
|---|---|---|
| *Committees responsible:* | Transport and Tourism (TRAN)<br>Industry, Research and Energy (ITRE)<br>*(joint committee procedure, Rule 55)* | COM(2018) 438<br>6.6.2018<br>2018/0228(COD) |
| *Rapporteurs:* | Marian-Jean Marinescu (EPP, Romania)<br>Henna Virkkunen (EPP, Finland)<br>Pavel Telička (ALDE, Czech Republic) | Ordinary legislative procedure (COD) (Parliament and Council on equal footing – formerly 'co-decision') |
| *Next steps expected:* | Vote in committee | |





EPRS | European Parliamentary Research Service

Author: Marketa Pape
Members' Research Service


PE 628.247 – October 2018


EN

# Introduction

To secure jobs, growth and competitiveness, the EU needs strong, modern and reliable infrastructure connecting all its regions. It therefore supports the development of trans-European networks (TENs) in the areas of transport, energy and digital infrastructure. The European Commission estimated in 2011 that some €970 billion of investment in the development of trans-European networks was needed. To address this need and complement other EU funding sources, it set up the Connecting Europe Facility (CEF), a financing instrument meant to channel EU funding towards the development and modernisation of infrastructure networks, help eliminate market failures and attract further investment from the public and private sectors. While the programme is only entering the second half of its life span, it has already proved its capacity to contribute effectively to EU objectives. Therefore, as part of the next long-term EU budget plan (multiannual financial framework (MFF) for 2021-2027), the Commission proposes to renew the programme and adapt it to its evolving needs.

*Note: current prices are used throughout the text, rounded to one decimal point. Table 2 compares current and constant 2018 prices in more detail.*

# Context

Efforts to support the European internal market by developing TENs date back to the 1990s. Twenty years and several enlargements later, with some steady progress achieved, the TEN policy was consolidated in 2013 with a new framework. It strengthened the governance at EU level with new sectoral guidelines and set up the CEF as an instrument to part-finance network deployment.

In **transport** (TEN-T), the 2013 guidelines replaced the previous approach of 30 priority projects with a network approach. The network consists of two layers. The core network of nine multimodal corridors and two horizontal priorities[1] is to be completed by 2030. The comprehensive network of routes feeding into the core network is to be completed by 2050. The guidelines define projects of common interest for creating new or upgrading existing transport infrastructure, closing gaps, removing bottlenecks and eliminating technical barriers to transport flows between Member States.

The trans-European **energy** networks (TEN-E) seek to link the energy infrastructure of EU countries. The intervention logic laid out in the guidelines is based on nine priority corridors (covering at least two EU countries and developing electricity, gas or oil infrastructure) and three priority thematic areas.[2] Every two years, the Commission draws up a new list of projects of common interest (PCIs), taking the envisaged project's maturity into account. These key infrastructure projects help to connect national energy systems together and contribute to the EU's climate and energy goals by integrating renewables more effectively into electricity markets.

The main objective in the **telecommunications** sector is to remove digital barriers hindering the completion of the digital single market and to achieve the EU objectives for connecting European households to the internet. The relevant guidelines focus on two types of projects: digital service infrastructures (DSIs) and broadband networks for high-speed internet access. Several basic DSIs, bundled together, create reusable 'building blocks', which can be combined with each other and integrated into larger projects (for instance e-Signature, e-Identification and automated translation).

# Existing situation

The **Connecting Europe Facility** (Regulation 1316/2013) is a common, centrally-managed programme for funding targeted transport, energy and telecommunications infrastructures. Established in 2013 as part of the Europe 2020 strategy, it helps finance the development of trans-European networks, improve cohesion in the internal market and the EU's competitiveness in the global market. It seeks to bring high European added value and stimulate further investments.

Initially, the programme was given a budget of €33 billion for the 2014-2020 period. The amount of €11.3 billion was transferred from the Cohesion Fund, to be spent only on transport projects in countries eligible for cohesion funding.[3] In 2015, however, the CEF budget was reduced to about €30 billion, in order to establish the European Fund for Strategic Investments (EFSI).

CEF financing takes the form of grants, procurement, financial instruments and support actions helping to prepare quality projects. Most of the CEF budget is implemented by the Innovation and Networks Executive Agency (INEA)[4] on the basis of open and competitive calls for proposal. INEA can optimise budget use by applying the 'use it or lose it' principle.[5] As most of the financing needed for the three TEN sectors is expected to come from public and private funds at the national level, the CEF mainly focuses on cross-border projects where financial markets have little or no interest in investing, but which are important in terms of EU economic, social and territorial cohesion.

The **transport** budget of about €24.1 billion (consisting of the general envelope of €12.8 billion plus the Cohesion Fund contribution of €11.3 billion)[6] can only fund measures contributing to projects of common interest, as identified in the guidelines and programme support actions. Priority is given to creating or improving cross-border connections, completing missing links and removing bottlenecks. The programme also promotes rail interoperability, efficient and sustainable transport systems, enhancing interconnections among transport modes, as well as safety and security. Several co-financing rates are applicable for infrastructure works and telematic systems. The total amount of grants allocated to each Member State is limited by the number of corridors running through its territory. The programme funded, for example, the Rail Baltica project connecting four countries, and the traffic management systems ERTMS (rail) and SESAR (air traffic).

The CEF **energy** budget of about €4.8 billion supports projects advancing integration of the internal energy market and network interoperability. It focuses on improving security of the EU supply as well as the resilience and security of the system through infrastructure. To apply for CEF funding, projects must fulfil requirements specified in the guidelines: bring significant benefits to at least two EU countries, contribute to market integration and further competition, enhance security of supply, and reduce $CO_2$ emissions. As well as a number of studies and preparatory actions, the programme financed, for instance, the gas interconnector between Lithuania and Poland, the Biscay Bay High Voltage Direct Current (HVDC), and coordinated management of renewable energies Sincogrid.

The CEF **telecom** has a budget of about €1 billion, out of which €870 million goes to DSIs, and the rest to broadband networks. Examples in different sectors include the Europeana cultural heritage platform, a platform for voluntary cooperation strengthening preparedness for cyber-attacks, solutions in e-health, and online dispute resolution.

A 2016 in-depth analysis conducted for the European Parliament and based on a stakeholder survey considered CEF funding insufficient to achieve the infrastructure network objectives and the budget allocation not aligned with the volume of technically eligible proposals. It also highlighted possible bias for large-scale corridor projects, leaving aside smaller projects offering high added value.

The European Court of Auditors highlighted, in its 2018 special report, that the take up of ultra-fast broadband connections is significantly slower than expected and the target of bringing it to half of EU households by 2020 will not be met, in particular in rural areas. To give more support to broadband network infrastructures, the Commission and the European Investment Bank (EIB) launched a Connecting Europe Broadband Fund in 2016, which should receive €100 million from the CEF to fund high-capacity networks in underserved areas. In June 2018, the Commission, EIB and three other banks announced they have already pooled €420 million and aim to mobilise at least €1 billion in investment over five years.

For years 2021-2030, the Commission estimates TEN **transport** investment needs as between €550 billion for the core network only and €1.5 trillion when the comprehensive network and urban transport are included. In **energy**, €179 billion is needed for projects of common interest, mostly related to electricity. The **digital** sector would need about €500 billion beyond the current levels of funding to reach the EU connectivity targets for institutions, households and partial 5G coverage.

# Parliament's starting position

In June 2017, welcoming the Broadband Fund, the Parliament called on the Commission to ensure the long-term financing needed for the network modernisation in the next MFF.

In March 2018, the Parliament stressed the importance of an updated and more effective CEF programme for the sustainable transport sector and called for continued CEF support for digital service infrastructures and high-speed broadband networks, as well as for energy security, independence, efficiency and the use of renewable energy.

In May 2018, the Parliament urged the Commission to raise the proposed funding in the transport pillar of the new CEF, arguing that an insufficient budget would put the completion of the TEN-T network at risk and depreciate the investments already made. Parliament urged the Commission to preserve the integrity of the CEF, considering any cut in favour of other programmes unacceptable.

# Council starting position

In its 2017 conclusions on the progress of TEN-T and CEF, the Council recognised the importance of transport infrastructure and services in delivering on the single European transport area, the energy union and digital single market. Noting that the demand for CEF funding considerably exceeded the available resources, it called for CEF to be reinforced, and for better synergies between the three sectors to address the shortcomings identified. Recognising the complementarity with other EU funds and instruments, it reaffirmed the key role of grants for timely TEN-T implementation.

# Preparation of the proposal

On 13 February 2018, the Commission presented a mid-term evaluation report assessing the programme's overall progress as well as achievements in each sector. It is based on an online public consultation and interviews with high-level stakeholders. Overall, CEF is considered an effective and targeted instrument, bringing a real EU added value. After three and a half years of implementation, the programme distributed €25 billion (including all of the €11.3 billion cohesion contribution), resulting in an estimated €50 billion of overall infrastructure investment in the EU.

The direct management of grants, based on a competitive selection process, proved efficient. INEA allocated grants swiftly and has flexibly redirected money unspent in some areas to new actions. The use of financial instruments, however, has been limited, partly due to parallel opportunities offered by EFSI. This is expected to improve, as the complementarity issues between the two programmes have been clarified. In the first 'blending call', mixing grants with financial instruments to involve more private and public funds, €2.2 billion was requested for the €1 billion available.

By mid-term, 91 % from the **transport** budget available for grants (€23.4 billion) had already been awarded. After the 2017 blending call, €1 billion remains for the 2018-2020 period. In the **energy** budget, 34 % has been allocated, through grants only. A number of **digital** services has been funded, notably in healthcare. Broadband deployment has been limited, due to budget constraints.

The Commission concluded that both the sectoral policy guidelines and the CEF programme need more flexibility to address new technological developments such as digitalisation, decarbonisation and cybersecurity. Concerning climate-related spending, about 80 % of the transport envelope has supported lower emission modes (in particular rail and inland waterways), while 40 % of the energy budget went to climate-friendly actions (mainly electricity generation), but most to gas projects.

The legislative proposal is accompanied by an impact assessment. Building on data collected during the mid-term evaluation, the Commission assessed whether it should adjust the programme's objectives and eligibility rules, extend the scope of the digital pillar, include cross-border projects in renewable energy, and introduce cross-sectoral work programmes. The document also analysed the results of another eight week online public consultation (spring 2018). Overall, stakeholders confirmed the importance of the CEF for infrastructure funding, asked for more flexibility for synergies in the three sectors, and for more money, in particular for connectivity and 5G.

# The changes the proposal would bring

The new CEF (based on Articles 171, 172 and 194 of the Treaty on the Functioning of the EU) seeks to speed up the decarbonisation and digitalisation of the EU economy by better integrating the transport, energy and digital sectors. It would contribute to EU climate objectives (60 % of its envelope) and support economic growth, jobs and the use of new technologies. The Commission estimates that completing the TEN-T core network by 2030 would generate 7.5 million job-years and an additional GDP increase of 1.6 % by 2030.

The programme would target synergies among the three sectors, for instance in the areas of connected and autonomous mobility, clean mobility based on alternative fuels, energy storage and smart grids. This would be done by joint work programmes addressing at least two sectors, specifying award criteria and budget contributions from the sectors involved. Moreover, projects funded within each of the sectors could include 'ancillary elements' beyond the specified eligible actions, for instance a transport project including a renewable energy generation element. However, these ancillary elements would have to relate to the transport, energy or digital sector and 'significantly' improve the project's impact without exceeding 20 % of its total eligible costs. The new CEF would have 'simpler but more robust' monitoring. Project beneficiaries would have to provide data to the overall monitoring carried out by INEA. Administrative requirements for small grants would be reduced. The Commission would perform an interim and an ex-post evaluation.

Table 1 – CEF transport budgets comparison (in commitments; € billions)

| | 2018 constant prices | | | Current prices | | |
|---|---|---|---|---|---|---|
| | CEF 2014-2020 (EU-27, estimated) | CEF 2021-2027 (EU-27, proposal) | % change vs EU-27 2014-2020 | CEF 2014-2020 (EU-27, estimated) | CEF 2021-2027 (EU-27, proposal) | % change vs EU-27 2014-2020 |
| General envelope | 12 393 | 11 384 | -8 % | 12 281 | 12 830 | 4 % |
| Contribution from the Cohesion Fund | 11 487 | 10 000 | -13 % | 11 306 | 11 285 | = |
| *General + cohesion envelopes* | *23 880* | *21 384* | *10 %* | *23 587* | *24 115* | *2 %* |
| Military mobility (security and defence) | - | 5 767 | | - | 6 500 | |
| **Total** | **23 880** | **27 151** | **14 %** | **23 587** | **30 615** | **30 %** |

Source: EPRS, 2021-2027 multiannual financial framework and new own resources, July 2018, based on data from the Secretariat of the Committee on Budgets, European Parliament. Totals do not tally due to rounding.

In **transport,** the focus would shift to decarbonisation and making transport connected, sustainable, inclusive, safe and secure. The budget would reflect this rebalancing: 60 % of transport resources would go to the development of basic infrastructure and 40 % to modernising the existing network. Co-financing rates would be simplified and priority given to cross-border sections.[7] To reflect growing transport flows and improve connectivity, the core network corridors would be adapted. Several core maritime ports, cross-border and inland waterway sections would be integrated into the core network corridors, which are further aligned with rail freight corridors.

The proposed **transport budget** would consist of three parts (see table 1). As in the current CEF, a general transport envelope of €12.8 billion and €11.3 billion earmarked in the Cohesion Fund would be implemented under the CEF for projects in EU countries eligible for cohesion funding.

An additional €6.5 billion, earmarked in the security and defence budget, would also be implemented under the CEF. Destined for use on projects adapting parts of the transport network to enable **dual civilian-military use,** this integrates military mobility needs into the TEN-T. The aim would be to facilitate potential movement of military personnel and equipment, while improving civilian transport conditions. For instance, by increasing the weight capacity of a bridge, a shorter itinerary would be available to standard trucks. Based on the action plan on military mobility published by the Commission in March 2018 and the identified requirements for military transport, these projects would have to follow all the CEF eligibility and procedural rules.

The **energy** budget of €8.7 billion would help the transition towards clean energy and complete the energy union, making EU energy systems more interconnected, digitalised, and smarter. Through projects of common interest, CEF would seek to make networks more interoperable and further integrate the internal energy market (90 % of its budget), helping to decarbonise the economy. The remaining 10 % would support cross-border renewable energy projects, either between Member States or with a third country, seeking to lower the cost of renewables and stimulating their uptake. Co-financing rates would remain the same as under the current CEF.[8]

Table 2 – CEF budgets comparison (in commitments; € billions)

| | 2018 constant prices | | | Current prices | | |
|---|---|---|---|---|---|---|
| | CEF 2014-2020 (EU-27, estimated) | CEF 2021-2027 (EU-27, proposal) | % change vs EU-27 2014-2020 | CEF 2014-2020 (EU-27, estimated) | CEF 2021-2027 (EU-27, proposal) | % change vs EU-27 2014-2020 |
| CEF Transport | 12 393 | 11 384 | -8 % | 12 281 | 12 830 | 4 % |
| CEF Energy | 4 185 | 7 675 | 83 % | 4 163 | 8 650 | 108 % |
| CEF Telecom/Digital | 1 001 | 2 662 | 166 % | 991 | 3 000 | 203 % |
| *Total CEF headings* | *17 579* | *21 721* | *24 %* | *17 435* | *24 480* | *40 %* |
| Cohesion Fund contribution to CEF transport | 11 487 | 10 000 | -13 % | 11 306 | 11 285 | = |
| Military mobility (security and defence) | - | 5 767 | | - | 6 500 | |
| **Total** | **29 066** | **31 721** | **9 %** | **28 741** | **42 265** | **47 %** |

Source: EPRS, 2021-2027 multiannual financial framework and new own resources, July 2018, based on data from the Secretariat of the Committee on Budgets, European Parliament. Totals do not tally due to rounding.

Following the strategic objectives set out in the 2016 gigabit society strategy, the **digital** envelope of €3 billion would now support only infrastructure development. Repealing the relevant sectoral telecommunications guidelines, the regulation would set new criteria for projects of common interest. The focus would shift to improving digital connectivity, increasing resilience and the capacity of backbone networks, and enhancing digitalisation of transport and energy networks.

The programme would finance projects in six areas: providing gigabit connectivity to socio-economic drivers (institutions like hospitals, schools and research centres); wireless connectivity to local communities; 5G coverage on important transport axes; very high capacity networks to households; key international links (such as submarine cables); and digital operational platforms. Co-financing rates would depend on the area and be complemented by financial instruments.[9]

## Advisory committees

Given the legal basis, consultation of both committees is mandatory. The European Economic and Social Committee (EESC) is scheduled to adopt its opinion in December 2018 (rapporteur Aurel Laurențiu Plosceanu, Group I – Employers, Romania). The European Committee of the Regions (CoR) is preparing an opinion (rapporteur Isabelle Boudineau, PES, France) for January 2019.

## National parliaments

No reasoned opinion on subsidiarity issues was submitted by the 13 September 2018 deadline.

## Stakeholders' views[10]

As for the **transport** sector, the European Sea Ports Organisation (ESPO), in reaction to the CEF mid-term evaluation, suggested the programme could be improved by: more funding for transport; using financial instruments only as a complement to grants; a better definition of the 'EU added value'; improving the programme's long-term vision and the project selection process. In addition, over 40 European associations representing transport stakeholders adopted a common declaration on 24 April 2018, calling on the Commission to increase the budget for the new CEF to facilitate the completion of the core network. Considering investments into better and more innovative transport as key to the EU remaining competitive, mobile and an attractive place to live, they urged the Commission to continue providing grants as the conventional tool for funding transport projects.

In the **energy** sector, the Electrification Alliance, representing the electricity industry, suggested in an open letter to the Commission published in March 2018, a revision of the TEN-E regulatory framework. In particular, the letter claimed that synergy projects between transport and energy should get better financing and eligibility conditions, and called for improvements in project selection through defining clear objectives for projects of common interest. Arguing for better use of financial instruments to help meet the EU 2030 renewable energy target across Europe, they urged the Commission to allocate public money only to projects supporting EU climate and energy goals.

## Legislative process

In the Parliament, the Committee on Transport and Tourism (TRAN) and the Committee on Industry, Research and Energy (ITRE) are jointly responsible for the file under Rule 55, while the committees on Foreign Affairs (AFET), Budgets (BUDG), Environment, Public Health and Energy (ENVI), and Regional Development (REGI) will give an opinion.

In their draft report published on 13 July 2018, the rapporteurs regret the reductions in the general and cohesion envelopes, which, in their view, should be reinforced at least to the current CEF levels. Their amendments focus on simplifying the rules, clarifying concepts, facilitating synergies, better monitoring implementation, and measuring progress. Furthermore, they want to ensure that projects concerning the dual-use infrastructure strictly follow the rules and can be scrutinised by the Parliament. The committee vote is planned for November 2018.

In addition, the AFET committee is preparing an own-initiative report on military mobility (rapporteur: Tunne Kelam, EPP, Estonia), with the TRAN committee giving an opinion.

### EP SUPPORTING ANALYSIS

Assessment of Connecting Europe Facility, Policy Department for Budgetary Affairs, European Parliament, January 2016.

Energy and the MFF, Policy Department for Economic and Scientific Policy, European Parliament, February 2018.

Negreiro M., Towards a European gigabit society, EPRS, European Parliament, June 2017.

Parry M., Pape M., Wilson A., Connecting Europe Facility, EPRS, European Parliament, September 2015.

## OTHER SOURCES

Bodewig K., Secchi C., Making the best use of new financial schemes for European transport infrastructure projects, progress report, January 2018.

Connecting Europe facility 2021–2027, European Parliament, Legislative Observatory (OEIL).

Investment needs in trans-European energy infrastructure up to 2030 and beyond, Ecofys, July 2017.

## ENDNOTES

1 TEN-T horizontal priorities: the European rail traffic management system and the Motorways of the sea.

2 TEN-E priority thematic areas: grids deployment, electricity highways, and a cross-border $CO_2$ network.

3 The Cohesion Fund is aimed at Member States whose gross national income (GNI) per inhabitant is less than 90 % of the EU average. For the 2014-2020 period, the cohesion funding concerns Bulgaria, the Czech Republic, Estonia, Greece, Croatia, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Portugal, Romania, Slovenia and Slovakia.

4 INEA is the successor of the Trans-European Transport Network Executive Agency (TEN-T EA) and also manages the Horizon 2020 programme and two legacy programmes from the 2007-2013 financing period.

5 INEA may close a grant agreement if the action has not begun by an agreed date (study: one year, works: two years).

6 For comparison, the initial Commission 2011 CEF proposal: general envelope €40 billion (of which, €21.7 billion for transport, €9.1 billion for energy, €9.2 billion for telecom), plus €10 billion for transport ring-fenced in the Cohesion Fund.

7 Transport grants: general envelope and military mobility projects in all modes funded up to 30 % (or up to 50 % in case of studies, cross-border links, telematic applications systems, new technology and innovation, safety and outermost regions); cohesion envelope projects funded as under the Cohesion Fund 2021-2027 (proposed level 70 %, cross-border projects up to 85 %) of the eligible costs.

8 Energy grants: up to 50 % for studies and works, or up to 75 % in exceptional cases for projects that bring a high degree of security of supply, strengthen EU solidarity or include highly innovative solutions.

9 Digital grants: socio-economic drivers (schools, medical centres etc.) up to 75 %, wireless connectivity to local communities up to 100 %, 5G corridors along important transport axes up to 50 %, very high capacity networks to households up to 30 %, key international networks up to 50 %; while with digital operational platforms, the co-funding depends on the synergy regime.

10 This section aims to provide a flavour of the debate and is not intended to be an exhaustive account of all different views on the proposal. Additional information can be found in related publications listed under 'EP supporting analysis'.

## DISCLAIMER AND COPYRIGHT

This document is prepared for, and addressed to, the Members and staff of the European Parliament as background material to assist them in their parliamentary work. The content of the document is the sole responsibility of its author(s) and any opinions expressed herein should not be taken to represent an official position of the Parliament.

Reproduction and translation for non-commercial purposes are authorised, provided the source is acknowledged and the European Parliament is given prior notice and sent a copy.

© European Union, 2018.

eprs@ep.europa.eu (contact)

www.eprs.ep.parl.union.eu (intranet)

www.europarl.europa.eu/thinktank (internet)

http://epthinktank.eu (blog)

First edition. The 'EU Legislation in Progress' briefings are updated at key stages throughout the legislative procedure.