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## NEW EU STATE AID FRAMEWORK: LAND AND MULTIMODAL TRANSPORT GUIDELINES AND TRANSPORT BLOCK EXEMPTION REGULATION

### CFL FREIGHT ACTIVITIES

### INPUT TO THE PUBLIC CONSULTATION

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CFL (Luxembourg Railways) Freight Activities, comprising the CFL multimodal and CFL cargo groups, welcome the publication of the draft Land and Multimodal Transport Guidelines (LMTG) and the draft Transport Block Exemption Regulation (TBER) by the European Commission.

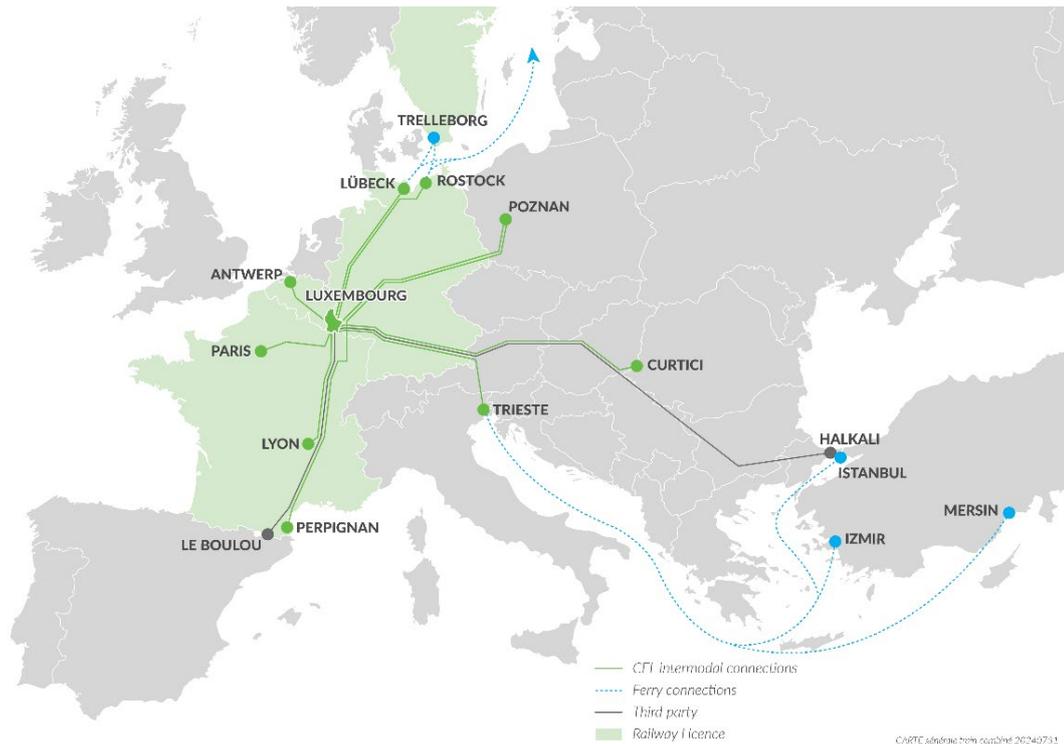
As members of the Community of European Railway and Infrastructure Companies (CER), CFL fully supports the position paper that CER has submitted to the Commission as part of this consultation process. However, given CFL Freight Activities' own experience, and the potential impact of the Commission's proposals on our operations, we would like to provide additional input to the consultation from the perspective of a provider of rail-based services for the transportation of freight across Europe.

#### The CFL Freight Activities Offering

- For over twenty years, CFL has been a major regional player in the Intermodal Transport sector, developing its European offering around the multimodal hub situated in Bettembourg-Dudelange (Luxembourg).
- From small beginnings, CFL has been able to develop a substantial network of intermodal rail services across Europe, connecting Luxembourg and its surrounding regions with the rest of Europe, and also offering cross-Europe services through its Bettembourg-Dudelange hub.
- This development has included substantial investments in:
  - A new intermodal terminal facility in Bettembourg-Dudelange, operated by CFL terminals, opened in 2017,
  - Intermodal wagons, specifically built for the transport of unaccompanied semi-trailers,
  - New multi-system locomotives, capable of operating in neighbouring countries and beyond,
  - A secured truck-stop facility,
  - Decarbonisation projects, including battery-powered terminal tractors, truck recharging points, and Luxembourg's first Hydrogen filling station, allowing CO<sub>2</sub>-neutral first and last mile operations for the clients of intermodal trains.
- The intermodal rails can be split into two very distinct markets :
  - Shuttle trains linking deep-sea ports with their hinterlands, essentially transporting containers used in intercontinental flows;
  - Shuttle trains linking intermodal terminals, offering rail-based alternatives for the transportation of continental intra-European flows, using either containers, swap-bodies or conventional semi-trailers.
  - CFL has concentrated its development on this latter category, in particular specializing in the transport of semi-trailers, using both horizontal and vertical loading techniques.

- As a result of the investments made in Luxembourg, the number of Intermodal Loading Units handled on the intermodal terminal in Bettembourg-Dudelange has increased from around 50,000 per year in 2008 to almost 200,000 per year in 2023. The estimated savings in CO<sub>2</sub> generated from the trains directly operated by CFL intermodal, the combined train operator of the group, for 2023 amount to approximately 115 kT per year compared to the road-only alternative.
- Figure 1 below shows the current service offering of both CFL and other partners from the Bettembourg-Dudelange hub.

Figure 1 : CFL Freight Activities' intermodal service offering 2024



## The Importance of Operating Aid for Intermodal Rail Transport

- CFL has strong ambitions to grow its intermodal volumes, and to drive modal shift, through offering new rail services to the market, focused in particular on logistics flows where intermodal alternatives do not currently exist.
- Our experience shows that first establishing and then sustaining new intermodal rail services is a major challenge, both from operational and financial perspectives. Within the intermodal sector, the Minimum Viable Product acceptable to the market requires at least three round-trips per week between rail-road terminals, which then need to be filled. Even at this frequency, rail remains less flexible than road-only alternatives, meaning that the expected advantage of rail speed over road is not always not experienced by our customers.
- The quality of services offered is also increasingly impacted by infrastructure works leading to substantial diversionary routes being used, generating costs that customers are unwilling to pay, as well as increased transit times and unstable timetables.
- Much of CFL's recent development has involved long-distance services where, despite rail legs of well over 800km, market intelligence shows that a multimodal rail offering can still be uncompetitive compared to road-only alternatives, especially on axes with very low road prices e.g on the northern axis (towards Poland and Lithuania) as well in the eastwards direction towards Hungary and Romania. The structure and flexibility of the road market (for example in optimizing



services through “triangular routes”, and returning trucks to their home country so as to respect the Mobility Package) give rise to cost and hence price advantages that are inaccessible to rail.

- Due to Luxembourg’s position in Europe, many of the services from our intermodal hub cross more than one border, increasing the costs of the rail services, compared to national services, due to the requirement to use interoperable locomotives and, where possible, multilingual drivers. This adds to the already high costs of locomotive drivers compared to truck drivers, on top of the extended training periods that the rail professionals require.

Despite these competitive disadvantages of rail over road (including the non-coverage of external costs by road transport), Intermodal Transport presents a real opportunity for Europe to reduce transport-related carbon emissions, and the efforts made by the Commission over the past few years in moving towards a level-playing field have helped in this respect. As such, a major facilitator of the recent development of CFL has been the commission-approved state aid scheme which is available to all intermodal operators operating in Luxembourg. This scheme provides, where appropriate, subsidy for intermodal services using rail or river transport, and the current scheme is approved until December 2027.

In conclusion, intermodal rail is increasingly struggling to compete in terms of cost, quality and speed even at distances over 800km. Whilst some customers tolerate the operational issues that the sector experiences, this is only at a price level at which operational support is required in many cases in order to ensure sustainability of services offered.

## The Concerns of CFL Freight Activities within LMTG and TBER

On an overall level, CFL welcomes the publication of the LMTG and TBER as a positive step in facilitating the development of rail freight services across Europe, and facilitating the decarbonization of supply chains. As we work in an agile sector, it is important that we can react to market opportunities, and the TBER in particular will help to speed up the process in obtaining financial support where necessary.

CFL has however identified a number of points in the drafts of LMTG and TBER where we feel that we need to alert the Commission, in order to avoid any unintended consequences of the new legislation.

### 1. OPERATIONAL SUPPORT IN MULTIMODAL TRANSPORT CASES

According to the new proposals (TBER Chapter II Section 1 Art. 10 6. (a) p 21; LMTG §96. a) p29), intermodal connections with rail legs of over 800km in distance will not be eligible for operating aid under the scope of the TBER. Whilst we understand that this distance is based on studies undertaken by the Commission, **this is not the experience of CFL for the transportation of continental flows of semi-trailers.** Whilst distance helps the competitiveness of rail, longer routes often require cross-border operations, generating additional costs. “Transport cost” is also only one factor, and the frequency of departures can also have an impact on the total cost of users of the services.

CFL notes that the LMTG (§96, p29) states that “*For operations in the freight sector beyond the distances specified in point 96, the Member State must demonstrate that a competing mode of transport more polluting than the one supported by the aid (e.g. road-only transport) is a commercially viable alternative to the operations supported by the aid as well as establish at which distance the more polluting competing mode of transport becomes not cost-competitive and therefore not commercially viable for the type of operations supported.*” This appears to leave the door open to operational aid schemes for intermodal rail operations of over 800km being approved on a case-by-case basis. However, the formulation of this paragraph still appears to assume a linear relationship between distance and cost-competitiveness. The reality is that the transport chain is made up of multiple actors, each of which are attempting to optimize costs and revenues based on multiple variables. As an example, rail competitiveness can change from one terminal to another if

infrastructure allows the operation of 750m trains to one terminal, but only 600km to another, further away. **We believe that it is our task, as intermodal professionals, to identify the rail connections that make the most economic sense for a particular geographical area, and then to offer the service to the market, using operational support if required.** However, applying for ad-hoc schemes, on a case-by-case basis, and across multiple member states, would lead to both an **increased administrative burden and unnecessary delays**, in a sector where reactivity to market demands is a key success factor.

The removal of operating aid for multimodal rail services of over 800km in length would seriously threaten the future of both existing and planned services from Bettembourg-Dudelange, leading to reverse modal shift, resulting in **an additional 260 kT of CO<sub>2</sub> emissions per year and over 100M€ per year in external costs** (based on elimination of services in CFL's business plan from 2027 covering over 800km by rail if operational support is removed).

- In order to avoid unwanted consequences of TBER, CFL Freight Activities propose that the distance limitation as stated in TBER Chapter II Section 1 Art. 10 6. (a) p 21 and LMTG §96. a) p29 be removed so as to allow rail services of over 800km in length to continue to receive state subsidies where necessary, without ad-hoc demands having to be made on a case-by-case basis.

## 2. AMENDMENT OF EXISTING AID SCHEMES

Article 259 (a) of the LMTG requires that “ *Member States amend, where necessary, existing aid schemes authorised under the 2008 Railway Guidelines or directly under Article 93 of the Treaty in order to bring them into line with these Guidelines no later than [31 December 2026]*”. CFL questions how such Guidelines can force a member state to update national laws based on European laws which remain unchanged. Reviewing schemes previously notified to and approved by the European Commission would be contrary to the principle of legal certainty and would jeopardize business plans.

- Given that the 2008 Guidelines allow for a maximum of five years' duration for schemes, CFL Freight Activities propose that any schemes already approved by the Commission be allowed to run their full term.

## 3. AID FOR INVESTMENT IN ROLLING STOCK INCLUDING ACQUISITION

Whilst CFL Freight Activities welcome the provisions within the LMTG for investment aid to assist the roll-out of DAC and ERTMS with an aid intensity of 80% of the eligible costs, we are of the opinion that the scope of direct investment aid should be widened to include the acquisition of rolling stock. Freight operations are highly capital-intensive, and the burden of investment currently falls on the companies involved in the sector. Of note is the fact that a number of investment aid schemes providing support for zero emission road transport equipment such as trucks and tractor units exist in different member states. Given the higher unit costs for investment in rail rolling stock (especially in the case of interoperable locomotives) and the longer timescale over which investments are depreciated (20-25 years for rail compared with 5-7 years for road), then in order to promote a level playing field, investment support should also apply to rail.

- In order to support the development of rail freight in Europe, CFL Freight Activities propose that the LMTG be adapted to include direct investment aid for railway rolling stock up to 50%, including both freight **locomotives** and wagons (LMTG §54 ee) (ii) p20), and that the eligibility to cover all companies, and not only new entrants and SMEs.



#### 4. AID FOR NEW COMMERCIAL CONNECTIONS

CFL welcomes the proposition from the Commission to allow aid schemes which help in the start-up of new commercial connections. In effect, Intermodal Operators take a major financial risk when launching new commercial connections due to the relative investment costs necessary to implement the relation in terms of assets particularly, and the time required to attract and maximise the train occupancy rate , and it is our belief that this type of aid would help to incentivize operators to launch new services.

- Given that these schemes can last up to five years, and also the uncertainties that the Commission's proposals introduce for Operating Aid, CFL proposes that, during a transition period, new commercial services launched up to two years before the date that these proposals come into force be made eligible for receiving aid under this category. As an example, if a new commercial connection starts in January 2025, and the LMTG and TBER are finalized in December 2025, then the connection in question should be allowed to receive aid, if appropriate, at the levels stated in the proposals until the end of 2029. This could then avoid the potential closure of intermodal connections during their ramp-up phase, and which would then not be eligible for this type of aid for another five years.

CFL Freight Activities appreciate the opportunity to directly participate in the consultation as launched by the Commission and remains available for further exchanges as necessary.

Dudelange, September 2024

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