



EUROPEAN COMMISSION
Trans-European transport networks & Smart transport

DIRECTORATE B - Transport Logistics, TEN-T and Comodality
The Director

FINAL REPORT

EXPERT GROUP 5
FUNDING STRATEGY AND FINANCING PERSPECTIVES FOR THE TEN-T

Created in the framework of the
2010 TEN-T POLICY REVIEW

July 2010

TEN-T POLICY REVIEW

EXPERT GROUP 5 FUNDING STRATEGY AND FINANCING PERSPECTIVES FOR THE TEN-T FINAL REPORT

Index.....	3
1. The TEN-T policy review and Expert Group 5.....	6
1.1 Background.....	6
1.2 The mandate of Expert Group 5.....	6
1.3 The Organisation.....	7
1.3.a Members of the Group.....	7
1.3.b Sessions of the Group.....	7
1.4 Summary of the discussion during the sessions.....	8
1.4.a General comments of the Group.....	8
1.4.b Greater appeal to the transport revenues and internalisation of externalities.....	8
1.4.c The EU funding issues: greater coordination and focus on the EU added-value..	9
1.4.d The participation of the private sector.....	10
2. Policy and implementation issues: effective resources for better projects.....	10
2.1 The infrastructure investments and the "real economy".....	11
2.1.a The post-2014 Multi-annual Financial Framework.....	11
2.1.b Infrastructure investments and the Stability and Growth Pact.....	12
2.2 Project's definition and project's preparation.....	12
2.3 Improving efficiency in the implementation process and in the use of public capacity.....	14
3. Increasing the use of revenues deriving from the transport activities.....	15
3.1 User fee collection schemes and earmarking of the revenues.....	15
3.2 Generating a surplus: internalisation of externalities and cross-financing.....	16
3.2.a Eurovignette I & II: paving the way for a greater internalisation of external costs at the EU level.....	16
3.2.b Other possible surplus.....	17
3.2.c Cross-financing opportunities.....	17
4. Towards a more consistent EU Funding Framework.....	18
4.1 Focus on the EU added-value (EUAV).....	18
4.2 Leverage of the EU contribution.....	18
5. Pacing the financing of the TEN-T: toolbox for an increase in private sector participation.....	20
5.1 The PPP market and the TEN-T projects.....	20
5.1.a Releasing the potential gains.....	20
5.1.b Blending PPPs with EU grants.....	22
5.1.c PPPs and the public deficit.....	23
5.2 Ideas on the future financing of the TEN-T.....	24
5.2.a The experience of LGTT.....	24
5.2.b Other possible Risk Sharing facilities.....	25
5.3 Developing Capital Market initiatives for the TEN-T: the case of bond issuance ..	26
5.3.a Supporting the single market and financial integration, through the issuance of E-bonds.....	27
5.3.b TEN-T project bonds.....	27
Annexes.....	29

Index

ATM	Air Traffic Management
CAPEX	CAPital EXpenditure : expenditures creating future benefits. Capex are used by a company to acquire or upgrade physical assets such as equipment, property, or industrial buildings. In terms of accounting, an expense is considered to be a capital expenditure when the asset is a newly purchased capital asset or an investment that improves the useful life of an existing capital asset. If an expense is a capital expenditure, it needs to be capitalized; this requires the company to spread the cost of the expenditure over the useful life of the asset. If, however, the expense is one that maintains the asset at its current condition, the cost is deducted fully in the year of the expense.
CBA	Cost-Benefit Analysis
CNPI	Core Network Priority Investment. (See section 4.2)
Conceptual Pillar	It refers to the Commission's proposal in the Green Paper on the future of TEN-T policy "Towards a better integrated trans-European transport network at the service of the common transport policy". ¹
Core Network	<i>idem</i> ²
E-Bonds / EUROBONDS	Bonds issued at the EU level. (See section 5.3.a)
EC	European Commission
EEIG	European Economic Interest Group. The purpose of the grouping is to facilitate or develop the economic activities of its members by a pooling of resources, activities or skills. An EEIG can be formed by companies, firms and other legal entities governed by public or private law which have been formed in accordance with the law of a Member State and which have their registered

¹ http://ec.europa.eu/transport/infrastructure/consultations/2009_04_30_ten_t_green_paper_en.htm

The conceptual approach of TEN-T could be considerably broadened in order to cater for infrastructure needs resulting from business-oriented measures in the different transport service sectors. Sector-related policy objectives and criteria, as set out in the TEN-T Guidelines, could guide operators in the development of projects of common interest. Aiming mainly to optimise the use of existing infrastructure capacities initially, this approach could reflect evolving infrastructure needs, alongside growing demand, in the longer run. It could also introduce more flexibility into the concept of projects of common interest, thus making it possible to respond to market developments that are currently difficult to foresee. It would establish a direct link in particular between the Community's transport policy objectives (such as the promotion of sustainable freight transport through various legislative and policy actions, efficient and sustainable air transport through the Single Sky policy and SESAR) and its infrastructure policy and thereby direct TEN-T towards its main objective of serving as a basis for transport services that meet established Community objectives.

² http://ec.europa.eu/transport/infrastructure/consultations/2009_04_30_ten_t_green_paper_en.htm

To make TEN-T an effective basis for all relevant transport policy objectives and hence highlight its added value as an integral part of the common transport policy, the different "pillars" referred to above could be combined to form a TEN-T core network. Such a network could include both a priority network and a conceptual pillar, thus reflecting the need for flexibility and market orientation. It may also evolve over time, ensure optimal integration of all infrastructure ("hard" and intelligent) and interconnection between modes, and act as a vector for innovation – both technological and organisational. It could also become the basis for the deployment of various innovative approaches, for example in terms of transport pricing. A core network, with clear European objectives and the highest priorities in the field of transport and other EU policies (Internal Market, Cohesion, Sustainable Development/Climate Change etc.), could thus be the centrepiece of the Community's efforts in relation to TEN-T policy.

office in the Community. It can also be formed by individuals carrying on an industrial, commercial, craft or agricultural activity or providing professional or other services in the Community.³

EERP	European Economic Recovery Plan ⁴
EETS	European Electronic Tolling System ⁵
EG	Expert Group
EIB	European Investment Bank
EPEC	European PPP Expertise Center ⁶
ERTMS	European Rail Traffic Management System
EU	European Union
EU 2020 Strategy	Communication from the Commission – Europe 2020 "A strategy for smart, sustainable and inclusive growth". COM(2010) 20207
EUAV	European (Union) Added-Value. (See section 4.1).
EUFS	European Union Funding Strategy (See section 4)
Eurovignette (I&II)	It refers to the European Directive 1999/62/EC on taxation of heavy goods vehicles. ⁸
GAP	Guarantee for Availability-based projects (see section 5.2.b)
GDP	Gross Domestic Product
HSL	High-Speed railway Lines
JASPERS	Joint Assistance to Support Projects in European Regions. It assists the 12 Central and Eastern EU Member States in the preparation of major projects to be submitted for grant financing under the Structural and Cohesion Funds. The aim is to increase the quantity and quality of projects to be sent for approval to the the services of the Commission. JASPERS' assistance, which is provided free of charge, is geared towards accelerating the absorption of the available funds. ⁹
LGTT	Loan Guarantee instrument for the Ten-T projects.
Marco Polo	Marco Polo is the European Union's funding programme for projects which shift freight transport from the road to sea, rail and inland waterways. ¹⁰
'Marguerite' Fund	The 2020 European Fund for Energy, Climate Change and Infrastructure
MCA	Multi Criteria Analysis

³ http://europa.eu/legislation_summaries/internal_market/businesses/company_law/126015_en.htm

⁴ <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/08/1771>

⁵ http://europa.eu/legislation_summaries/transport/intermodality_transeuropean_networks/124214_en.htm

⁶ <http://www.eib.org/epec/>

⁷ http://ec.europa.eu/eu2020/index_en.htm

⁸ http://europa.eu/legislation_summaries/internal_market/single_market_for_goods/motor_vehicles/interactions_industry_policies/124045b_en.htm

⁹ <http://www.jaspers-europa-info.org/>

¹⁰ http://ec.europa.eu/transport/marcopolo/home/home_en.htm

MFF	Multi-annual Financial Framework. Annual EU budgets are based on multiannual financial framework agreed between the European Parliament, Council and Commission in an interinstitutional agreement. The financial framework sets the maximum amount of commitment appropriations in the EU budget each year for broad policy areas ("headings") and fixes an overall annual ceiling on payment and commitment appropriations. ¹¹
Monolines / Monoline insurer	A monoline insurer, in the context of financial markets, guarantees the repayment of bonds. Issuers will indeed often go to monoline insurance companies to either boost the rating of one of their debt issues or to ensure that a debt issue does not become downgraded. The ratings of debt issues that are securitized by credit wraps often reflect the wrap provider's credit rating. The effects of the insurance (really more in the nature of a guarantee) are that the risk premium on the bond shrink, reducing the return investors require (or get). However, the issuer has to pay a price for this, as the insurer must be paid. Along with providing credit wraps, monoline insurance companies also provide bonds that protect against default in transactions that deal with physical goods. With the financial crisis, monolines have more or less disappeared.
OPEX	OPERating EXpenditure: A category of expenditure that a business incurs as a result of performing its normal business operations.
PPP	Public Private Partnership
PSC	The public sector comparator (PSC) is a hypothetical risk-adjusted costing, by the public sector as a supplier, to an output specification as part of a PPP procurement exercise (hypothetical whole-of-life risk-adjusted cost of government delivering the project). In other words it is used to compare the actual costs between a PPP and the public procurement applied to the same project. It results in determining the potential 'value for money' of PPPs
SESAR	Single European Sky ATM Research ¹²
TEN-T	Trans European Transport Network
TEN-T EA	Trans European Transport Network Executive Agency ¹³
TEN-T Financing Regulation	Community financial aid to trans-European networks ¹⁴
TEN-T Guidelines	Decision of the European Parliament and of the Council on Community guidelines for the development of the trans-European transport network ¹⁵
TFEU	Treaty on the Functioning of the European Union

¹¹ http://ec.europa.eu/budget/documents/multiannual_framework_en.htm

¹² <http://www.sesarju.eu/>

¹³ <http://tentea.ec.europa.eu/>

¹⁴ http://europa.eu/legislation_summaries/regional_policy/management/transeuropean_networks/124096_en.htm

¹⁵ http://ec.europa.eu/transport/infrastructure/basis_networks/guidelines/doc/brochure_guidelines.pdf

1. The TEN-T policy review and Expert Group 5

1.1 Background

Out of the three options offered in the Commission's Green Paper "*TEN-T policy review – Towards a better integrated trans-European transport network at the service of the common transport policy*"¹⁶, option 3, that of maintaining the comprehensive network and identifying a multimodal core network for Europe, received by far the strongest support in the public consultation (4 February – 30 April 2009), as well as in the European Parliament Resolution of 22 April 2009, Council Conclusions of 11 June 2009 and the Opinions of the Social and Economic Committee¹⁷ and the Committee of Regions¹⁸. With a view to a final decision in favour of this option therefore, the Commission seeks to prepare the methodological bases for its implementation.

Six expert groups were set up to support the Commission, made up of external experts from various fields: infrastructure managers, infrastructure planners, national, regional and local representatives, environmental experts, academia, private sector representatives, banking sector, etc.:

- Expert Group 1 : **Methodology for network planning**
- Expert Group 2 : **Integration of transport policy into TEN-T planning**
- Expert Group 3 : **Intelligent transport systems and new technologies within the framework of the TEN-T**
- Expert Group 4 : **TEN-T and connections outside the EU**
- Expert Group 5 : **TEN-T funding and financing**
- Expert Group 6 : **TEN-T legal and non-financial aspects**

1.2 The mandate of Expert Group 5

The TEN-T policy revision needs to be backed up with adequate instruments for its timely and efficient implementation. In particular, the funding and the financing of the network yet to be developed is one critical issue that has to be carefully addressed. Indeed the huge investments needs that are considered for the delivery of the TEN-T imply that the Union should come up with a sensible, transparent and effective strategy which covers all potential resources which can contribute - either on their own or in combination, to achieving the objectives of the policy.

In order to grasp the many possible design options for such a global framework, the Commission has set up a dedicated Expert Group on "*the funding strategy and the financing perspectives for the TEN-T*" (the Group). This Group has met four times in order to take stock of the current situation, identify major setbacks and debate how the TEN-T revision process could lead to improvements in the existing funding schemes.

In particular the Group's mandate was established in order to:

- *look into the use and the earmarking of transport revenues to ascertain continuous revenue flow and potentially provide supplement funding, the internalisation of externalities and cross-financing;*

¹⁶ COM(2009) 44 final, 4.2.2009

¹⁷ 2009/C 318/20

¹⁸ OJ C 318, 23.12.2009

- reflect on the EU-added value in terms of funding (what type of projects, what modes and/or what programmes including SESAR, MARCO POLO, ERTMS,...) and elaborate on possible scenarios as regards the EU support rate;
- address the articulation of the various EU resources which contribute to the delivery of the TEN-T, in particular the coordination between the Cohesion and Structural Funds and the TEN-T budget;
- determine the key elements for the mobilisation of the private sector in the delivery of TEN-T assets;
- give consideration to innovative financing mechanisms such as Public Private Partnerships;
- look into possible greater involvement of financial markets by way of setting up joint financial instruments (bonds, guarantee,...) with the EIB.

1.3 The Organisation

1.3.a Members of the Group

The Group was composed of 21 experts from various regions of Europe with different background expertise and chaired by Professor Carlo Secchi, European Coordinator for the Priority Projects 3¹⁹ and 19²⁰.

Chairman	Carlo Secchi
Members	Thomas Barrett, Francois Bergère, Torsten Böger, Carlo Bongiani, Tomáš Cocek, Robert Cochrane, Paolo Costa, Jean Delons, Enrique Fuentes, Marián Hanták, Herbert Kasser, Jörn Kreischer, Benhard Müller, Christopher Nash, Massimo Pecorari, Pawel Pilatkowski, Stef Proost, Péter Tóth, Alain Siebert, Peter Wostner and Piotr Zuber.
(Participants	Doris Chevalier, Jaime Costa, Stefano Campagnolo, Charlotte Lavit d'Hautefort, Marcus Liechti, Gianfranco Sansone, Frank Ulber, Karel Vinck, Goetz Von Thadden and Matthias Voitok)
Secretariat	Jean-Christophe Lasserre, Madalina Simion

1.3.b Sessions of the Group

The Group met four times²¹ between March the 19th and May the 26th 2010²². Each meeting was dedicated to a set of issues associated with a specific topic, namely:

- Session 1 **Kick-off meeting** (19/03/2010).
- Session 2 **Investigating the potential sources of revenues for transport** (08/04/2010)
- Session 3 **The use of Public Resources and the EU Contribution** (15/04/2010)
- Session 4 **The Private Sector and the delivery of the TEN-T** (26/05/2010)

Each session was organised around several presentations in the morning illustrating actual cases related to the topic, and two sets of discussion in the afternoon to provide a forum of exchange between the experts on the issues raised during the morning. Each discussion was subject to an introduction and a conclusion by one of the members.

¹⁹ High-speed rail axis of south-west Europe

²⁰ High-speed rail interoperability on the Iberian peninsula

²¹ See the agenda and the minutes of the meeting in Annex 2.

²² The work of the Expert Group was also subject to discussion during the TEN-T days in Zaragoza (08/062010).

Experts' contributions, participants' presentations and the minutes of the individual meetings can be consulted at the following website: http://ec.europa.eu/transport/infrastructure/tent_policy_review/expert_groups/expert_group_5_en.htm.

1.4 Summary of the discussion during the sessions

The Group entered into lively debates on the funding and financing perspectives for the TEN-T, expressing contrasted positions on a number of questions. The purpose of the discussions was to expose pros and cons on the various ideas, views, concepts and proposals presented as possible new directions to address the variety of issues associated with the mandate of the Group. Even though at times consensus was not entirely reached, the principle of being innovative and changing the current patterns in the financial delivery of the TEN-T projects was fully endorsed by the experts.

1.4.a General comments of the Group

The experts and the Commission agreed that the current TEN-T is not yet a network; at best it represents the aggregation of transport corridors. Some members also questioned whether these links (e.g. the current TEN-T) make sense for the users or the project promoters, revealing the importance of adjusting the TEN-T policy before tackling the funding issues. Indeed they argued that funding and financing issues for the TEN-T do not only come from the scarcity of financial resources but also from the way the transport policy is being planned and implemented both at the EU level and at the Member State level. The Group in its majority supported the design of a policy which addresses a more balanced transport system taking into account the users requirements and more aligned with EU objectives. The experts called for greater coordination between the Member States and the stakeholders involved in the delivery and the operating of TEN-T projects. They also pointed out the current weaknesses in designing and evaluating the projects.

1.4.b Greater appeal to the transport revenues and internalisation of externalities

The Group has shed light on some general trends with relation to the financing of TEN-T projects, in particular:

- the huge constraints imposed on public resources, worsened off by the financial crisis, which will seriously limit the capacity of Member States to fund large projects;
- the challenge to take into better account European objectives in terms of economic growth, climate change, energy efficiency and innovation;
- the need to adapt to the users requirements (the clients) and to increase the affordability and the profitability of the projects;
- the insufficiently explored potential for a greater involvement of the private sector in the delivery of the TEN-T.

According to some experts one opportunity which could either directly or indirectly address these trends is to have a greater emphasis on user fee collection. Indeed generating more revenues from transport activities – and ensuring that these revenues remain to a great extent in the transport sector, would significantly relieve national budgets by covering at least the maintenance costs and the operating costs. Moreover it would give more certainty to the private investors when considering financing transport assets since the investment would rely on a stable revenue stream. In addition, in combination with the internalisation of externalities (positive and negative) it can generate a surplus which can be used in cross-financing schemes.

However the experts acknowledged the difficulties (economic, technical and political) that such a scheme will inevitably encounter. In particular the disparities across Europe as regards pricing the use of the infrastructure and monetizing the externalities are likely to impair the

instalment of a generic and standardised user fee collection framework unless there is strong political commitment from the Commission.

The question of earmarking revenues and the European Electronic Toll System²³ were also heavily debated as it raises the public acceptability of charging and can secure the use of revenues for transport investments. Irrespective of its political sensitivity, some experts were of the opinion that earmarking could provide the wrong investment incentives (ultimately limit the total amount of public resources available for transport investments) while others argued that it provides financing stability to address the conflicting nature of political priorities (short/mid term) and transport investment needs (long term). Ultimately the Group agreed that earmarking could be a viable financing solution if applied at least on trans-European corridors.

The experts also gave considerations to cross-financing schemes in order to complement, in some cases, the funding of infrastructure. Some limitations were nevertheless introduced, in particular the Group considered that cross-financing should be used on the basis of corridors/projects - but not at a general pattern - where it creates value : in other words, it should target projects with net social benefits which are not realized by member countries because the share of foreign (i.e. EU) benefits is high.

1.4.c The EU funding issues: greater coordination and focus on the EU added-value

The Group shared numerous views on TEN-T funding issues. All the experts recognized that infrastructure is undoubtedly an essential element for regional and pan-European development, however they also called for an integrated development strategy in order to avoid “leaking by linking”. Indeed the lack of long-term and steady transport strategies at the national level is likely to result in a fragmented transport network leading to resources that are often scattered across a variety of projects according to their readiness to absorb the public contribution. They also pointed out that TEN-T projects are generally complex and thus require lengthy preparation. Therefore those projects entail mobilising national and regional capacities which are often difficult: the expertise and capacities needed to develop complex projects are scarce, especially in the convergence regions, and generally channelled to national or regional priorities. The Group also noted that greater coordination between the Member States, especially for the implementation of trans-national links or European network-wide projects, is a critical success factor. In order to connect national networks, the completion of cross-border sections is of vital importance, but it can only be achieved if the Member States concerned can coordinate themselves not only politically speaking but preferably on operational and financing terms too.

In order to overcome some of these issues, a proposal was made to bring closer the Cohesion policy’s funding mechanisms with the TEN-T policy. The Group was not able to reach a full consensus on this idea: some experts remained of the opinion that the two policies have to stay fully apart since, according to them, they diverge both in their rationale and in their objectives. Other members though, outlined that the two EU policies could share some priorities on the basis of the TEN-T and that there could be room for further thinking in order to concentrate the EU contribution. Everybody agreed though that any proposal should not prejudice to the Cohesion policy and that it should ensure that the convergence objective remains of primary importance.

The Group finally stated that the EU contribution should be channelled to projects and programmes with the highest EU added-value (EUAV). Considerations for the definition of this EUAV were put for discussion and a majority of experts agreed that it should focus on

²³ See: http://europa.eu/legislation_summaries/transport/intermodality_transeuropean_networks/124214_en.htm

initiatives which have important net economic and social EU benefits (i.e. which benefits the Union as such) and which will not likely be implemented without a strong EU support. Typically this would mainly concern cross-border projects, the railways, the inland waterways and the maritime transportation, as well as horizontal measures aiming at strengthening the efficiency of the network (interoperability, safety, traffic management and intelligent transport systems, research and innovation...). However the experts suggested that emphasis should also be given to the promotion of profitable projects in line with the TEN-T policy in order to accelerate the completion of the network.

1.4.d The participation of the private sector

One of the aspects the Expert Group had to address was how to make a useful appeal to the private sector and to private finance. The discussion focused mainly on Public Private Partnerships (PPPs) and on the various opportunities to increase liquidity in response to the crisis.

The experts all agreed on the potential gains that can result from PPPs, but they insisted that this procurement scheme has to be applied to specific projects, basically the ones which aim at solving actual capacity/demand problems hence the most financially feasible. They argued PPPs should be partnerships, where the private sector can be given enough flexibility under a clear legal framework so as to bring efficiencies to a project. Given the current crisis, the possibility to deconsolidate the PPP investments (under certain conditions) from the deficit can also represent a powerful argument to an economic recovery strategy even though it cannot represent the main reason to have recourse to PPPs. All in all, the Group pointed out that the use of PPPs should be given more systematic consideration - wherever adapted to the project, and public authorities should be supported to enable them to use innovative procurement and financing schemes more effectively.

To facilitate the participation of the private sector in the delivery of the TEN-T, the experts also stressed the usefulness of instruments whose object is to mitigate the risks and their associated costs, especially in the framework of availability-based PPPs. The Group suggested that these instruments could take the form of guarantees which could be called by the private partner on first demand.

Some members also proposed giving further considerations to bonds opportunities - in particular for the issuance of project bonds for TEN-T projects, which could be bonds guaranteed by the EU budget to be sold directly on the international markets.

2. Policy and implementation issues: effective resources for better projects

Notwithstanding the important discrepancy between the investment needs required for the completion of the Trans-European Network of Transport (TEN-T) and the funding available, the experts have also recalled that there are many other reasons which can explain the lack of progress in certain areas: bottlenecks in project preparation - adoption of policies and programmes; lengthy process of obtaining planning and other consents - and, at times, public opposition or poor economic profitability linked to high project costs and/or insufficient demand.

The Group has indeed repeatedly pointed out that, at times, funding or financing difficulties can be more the result of cyclical political decisions affecting infrastructure investments, transport policy issues or weak implementation capacities. In particular, given the current economic and financial situation, the experts expressed concerns about the visibility of transport investments in the political agenda, especially since according to them productive investments should be favoured in order to exit the crisis. In addition the issues of poor project preparation, weak and inconsistent EU economic added-value assessment and loose coordination were also identified as key for the TEN-T and its related funding and financing framework.

2.1 The infrastructure investments and the "real economy"

The crisis has hit Europe severely and it is likely to have changed market conditions, the Member States' capacity to invest and to finance assets for a very long time, if not forever. In such conditions, infrastructure investments – in particular transport infrastructure – can guarantee a minimum growth for Europe even during a time of huge pressure on national budgets, because the mobility of goods and people is key to the economy. Not only do infrastructure investments boost the construction sector, an important contributor to the EU employment²⁴, but they also represent productive investments whose benefits are spread over many years. The TEN-T is genuinely a programme of European interest, which means that it benefits all of Europe - and even through connections to the neighbouring countries. Since the economies of the Member States are intimately linked, the completion of such a programme undoubtedly represents a great opportunity to recover from this crisis.

2.1.a The post-2014 Multi-annual Financial Framework

The two main funding contributors to the TEN-T are the Member States and the Union, the latter through the TEN-T budget and the Cohesion and Structural Funds. As regards the current budgetary period (2007 – 2013), there is a funding gap estimated at around 15% of the investment needs to complete the works which were supposed to take place during this timeframe. Since the costs of implementing large infrastructure projects are likely to increase, the overall envelope available for transport investments in the post-2014 Multi-annual Financial Framework (MFF) will be critical for the implementation of the TEN-T, especially because of the current pressure imposed on national budgets.

In particular, in the context of the Europe 2020 strategy²⁵ which is focused on smart, sustainable and inclusive growth, the Group noted there are provisions for the TEN-T:

- ...*’to mobilise EU financial instruments (TENs among others) as a part of a consistent funding strategy, that pulls together EU and national public and private funding’*
- ...*’(to)accelerate the implementation of strategic projects with high European added value to address critical bottlenecks, in particular cross-border sections and inter-modal nodes (cities, ports, logistic platforms)’*

Some of the members of the EG5 expect the Commission to take further actions to translate these provisions into concrete and ambitious actions, in particular to reflect the importance of (transport) infrastructure investments in the next MFF.

²⁴ The construction sector roughly represents 10% of the overall EU employment and contributes to the same magnitude to the EU GDP.

²⁵ Communication from the Commission – Europe 2020 "A strategy for smart, sustainable and inclusive growth". COM(2010) 2020
http://ec.europa.eu/eu2020/index_en.htm

2.1.b Infrastructure investments and the Stability and Growth Pact

In line with the "exit strategy" objective, the Group has debated the opportunity to relieve the fiscal burden of national budgets in order to ensure minimum growth for Europe in the next 5 to 10 years. According to Eurostat²⁶, in 2009, the government deficit and government debt²⁷ of both the euro area²⁸ (EA16) and the EU27 increased compared with 2008, while the Gross and Domestic Product (GDP) fell. In the euro area the government deficit to GDP ratio increased from 2.0% in 2008 to 6.3% in 2009 while the government debt to GDP ratio increased from 69.4% at the end of 2008 to 78.7% at the end of 2009. In the EU27 the government deficit almost tripled (from 2.3% to 6.8%) while the government debt increased from 61.6% to 73.6%.

Considering each Member state separately, the largest government deficits in percentage of GDP were recorded by Ireland (-14.3%), Greece (-13.6%) the United Kingdom (-11.5%), Spain (-11.2%), Portugal (-9.4%), Latvia (-9.0%), Lithuania (-8.9%), Romania (-8.3%), France (-7.5%) and Poland (-7.1%). No Member State registered a government surplus in 2009. In all, 25 Member States recorded a worsening in their government fiscal balance relative to GDP in 2009 compared with 2008, and only two (Estonia and Malta) showed an improvement.²⁹ In other words, the capacity of Member States to invest in infrastructure through debt financing has dramatically decreased. Some members of the Group have thus introduced the idea that capital investments expenditure in infrastructure is different from welfare spending because of the positive externalities produced over a long period of time. Therefore, without jeopardizing the EU economy through excessive debt issuance but rather, with a view to releasing potential growth for Europe, they have advocated more flexibility in the accounting of some 'productive' investments compared to traditional public expenditure.

EG's recommendations:

- **(1) In line with the Europe 2020 Strategy and in particular its "resource efficient Europe" flagship initiative, the Commission should set infrastructure investments, in particular transport infrastructure, as a political priority to exit the crisis, to achieve the decarbonisation of transport and to ensure growth for Europe. This priority should be reflected in the post-2014 Multi-annual Financial Framework (MFF).**
- **(2) The Group encourages the Commission to investigate further on the opportunity to deconsolidate some "productive investments" such as (transport) infrastructure from the government deficit with the objective to accelerating the recovery from the crisis. Some temporary amendments to the Stability and Growth Pact could be envisaged.**

2.2 Project's definition and project's preparation

Infrastructure planning in Europe has had the tendency to be based more on a geographical matrix approach than on the actual service to be rendered to end users. It has resulted in projects with weak economic viability proving difficult to fund and consequently highly resource consuming, both in terms of non-financial resources (public capacities) and financial resources

²⁶ See 2010 April Eurostat's newsletter

²⁷ It does not include wider economic stimulus packages for both government deficit and government debt.

²⁸ Interest payable includes actual interest where relevant, and otherwise imputed interest on financing

²⁹ For further information, see:

http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/excessive_deficit/supplementary_tables_financial_turmoil

(state budgets and EU grants)³⁰. The TEN-T - with the notable exception of the priority projects, has been developed on the basis of the Member States' proposals, hence often following the same rationale. With the review of the policy and the creation of a Core Network which aims to channel European traffic flows both for goods and passengers, eligible projects should from now on either prove their financial profitability or duly demonstrate their EU added-value (EUAV). In other words, the Commission should from now on give more emphasis to – and probably consider first – TEN-T projects which are based on 'service rendered' and which can generate sufficient revenues so as to use limited public funding more efficiently³¹. As a second step, for the projects which do not fall into the previous category³², strong net EU economic and social benefits³³ should then determine the opportunity for TEN-T co-financing³⁴.

In addition the Cost-Benefit Analysis (CBA) which supports the assessment of the economic viability of a project often differs from one Member State to another. The same alleged rate of return for different operations can in fact apply to very different situations in terms of actual profitability, degree of preparation or social benefits. Consequently unforeseen delays in the implementation of projects can happen once the asset is brought to the market for financing and construction, since the underlying weaknesses appear at a later stage. Moreover this discrepancy in the assessment of infrastructure projects hampers the market confidence in TEN-T projects and can result in the overpricing of some operations. Some experts have also underlined that CBA could be complemented in many cases by appropriate Multi Criteria Analysis (MCA).

EG's recommendations:

- **(3) The TEN-T, and in particular the TEN-T Core Network, should give more focus to (financially) affordable and profitable projects (e.g. projects which can generate sufficient revenues to use public funding more effectively).**
- **(4) For the non profitable projects/programmes, significant EU economic and net social benefits (EUAV) should be demonstrated in line with the various EU policy objectives and the EU 2020 Strategy.**
- **(5) The Commission should then provide a standard framework for the assessment of the EUAV of TEN-T Projects, including propositions for a harmonization of the Cost Benefit Analysis and better use of Multi Criteria Analysis (MCA).**
- **(6) The fulfilment of a standard and auditable evaluation should be conditional for the allocation of TEN-T funding.**
- **(7) Only projects with relation to recommendations (3) and (4) should be considered for TEN-T support.**

³⁰ Large projects with poor financial viability can obviously only be funded by public resources. In addition the lack of revenues which can be pulled out of these projects implies that the maintenance and operation costs should also be covered by public finance, impairing the Member States' budget for little benefits both at national level and at EU level.

³¹ Public funding, if needed, should then only bridge the financing of the projects. Two scenarios are then possible :
– revenues can cover both the investments costs and the operational expenditure (OPEX), then no funding is needed, but financing instruments can be designed so as to mitigate the risks and their associated costs;
– revenues can only cover the OPEX and part of the investments costs, public funding can then be most effective, especially if blended with private finance.

³² Projects whose potential revenues cannot cover the operational expenditure.

³³ Further considerations to the EUAV are given in section 4.2 of this document.

³⁴ Some experts also suggested to strengthen the rules of classification of the projects and to retain as criterion the actual welfare net benefit by spent public euro that is the social return on a project by spent public euro. This criterion allows synthesizing the economic interest of the projects, and the difficulties of their financing by States.

2.3 Improving efficiency in the implementation process and in the use of public capacity

One constant purpose of the TEN-T policy is to connect national networks and to develop an actual European transport network so as to build up the Single Market but in a context where there is no genuine coordination between Member States. This situation is particularly self explanatory when applied to cross-border sections where apart from generally constituting the last national priority, these sections can only be implemented if an efficient coordination takes place between the Member States.

The Group has acknowledged that the experience of the European Coordinators has demonstrated its usefulness to overcome political hurdles and to facilitate the implementation of some of the priority projects. However with the review of the TEN-T policy, which should notably result in the definition of a Core Network based on European criteria overarching national priorities, combined with the crisis which will put greater pressure on public finance, political coordination may not be enough to efficiently ensure the completion of the TEN-T. Ways to improve operational and financial coordination should be promoted. Some experts thus suggested to give more emphasis to the Article 171.2 of the Treaty on the Functioning of the European Union (TFEU)³⁵ to strengthen the coordination between the Member States with a view to better achieving EU goals, in particular the completion of the TEN-T.

EG's recommendations (*):

- **(8) The mandate of the European Coordinators may comprise more responsibilities as regards coordination. In particular with a dedicated support from DG MOVE, the Coordinators could contribute to the financial, the technical and/or the operational coordination of their corridor. This can include participating in the development, the checking and/or the endorsement of critical pieces related to the projects within the corridor, such as financial engineering, corridor planning, technical issues, pricing, operation, etc.**
- **(9) TEN-T corridor bodies - for instance in the form of European Economic Interest Groups (EEIG), could be set up under the approval of the Commission. They could be composed of infrastructure managers, representatives of the Member States and operators involved in the corridors. They could participate in the bottleneck definition (developing a masterplan at the corridor level), pool national and European resources and ensure operational coordination of the corridor. (**)**
- **(10) TEN-T funding should become more conditional on the pooling of national resources along the corridors of the forthcoming TEN-T Core Network so as to ensure completion of the projects/corridors. The conditionality can be reflected in the co-financing rate, by way of either incentives or full conditionality (no co-financing if no pooling).**

(*). *These recommendations can also be read with relation to the Article 171.2 of the Treaty on the Functioning of the European Union (TFEU).*

(**). *They could also ensure harmonized user charges along the corridor.*

³⁵ "Member States shall, in liaison with the Commission, coordinate among themselves the policies pursued at national level which may have significant impact on the achievement of the objectives referred in Article 170. (i.e. on Trans European Networks) The Commission may, in close cooperation with the Member States, take any useful initiative to promote such coordination."

3. Increasing the use of revenues deriving from the transport activities

When it comes to infrastructure funding, resources have always been drawn from either the taxpayers (should they be national or European) or the users, and at times a combination of them. However national taxation has been and remains a traditional way to raise funds in Europe, which is to say that the Member States generally prefers to appeal to public finance/deficit in order to deliver their assets³⁶. The experts have stressed that the current crisis has severely hampered the capacity of the Member States to contract debt – while the cost of debt has also dramatically increased. The Group has in its majority agreed that a shift from the taxpayer to user pay schemes should be induced, despite a lively debate on the feasibility of such scheme at the EU level.

3.1 User fee collection schemes and earmarking of the revenues

The increasing concerns about the scarcity of national resources to support the funding of infrastructure provide impetus to the idea of user fee collection (direct or indirect)³⁷. It promotes a fairer and more appropriate balance between the taxpayers and the users in the public contribution to infrastructure financing. The predictability of the revenues collected can ensure a more efficient funding³⁸ of the infrastructure, both for the construction costs and for the maintenance and the operation costs. Moreover the revenue stream can attract more private capital.

Most of the experts have pinpointed that the earmarking of revenues to finance transportation was critical³⁹: if revenues generated by the users are fully integrated into the general tax revenues of the Government, the desired de-coupling between State budget and infrastructure financing will not be achieved. This decoupling is of paramount importance in order to remedy the traditional incoherence between political priorities (by nature short/mid term) and transport investment needs (long term) which is not likely to enable appropriate long-term budget planning for the latter. In addition, earmarking should facilitate the social acceptability of pricing the use of the infrastructure in so far as the user pays to improve the quality of service being rendered.

However the experts have emphasized that this mechanism will need a strong political support, which is far from being guaranteed considering the natural reluctance of national ministries of economy. In addition, in order to be fully efficient user pay schemes need to be implemented along transnational corridors. This triggers two other important issues: the harmonization of charging mechanisms along the transport corridor and the disincentives for the Cohesion countries.⁴⁰

³⁶ Investment in transport infrastructure is mainly financed with public funds, which often also cover around 50% of operating costs of public transport services.

³⁷ Direct collection through transferring the revenue and the traffic risk to the concessionaire. Indirect collection through a Government agency receiving the revenues.

³⁸ See footnote 30. Funding should then only bridge the financing of the projects.

³⁹ For some experts however, earmarking can provide the wrong investment and lead to non optimal uses of government funds.

⁴⁰ For those countries, implementing distance-related toll systems would result in having to pay back part of the EU contribution since the asset generates revenues. However considerations are currently being given by JASPERS to differentiate assets where tolling systems are envisaged from the beginning and assets where tolling systems are being implementing afterwards. In the first case, the EU contribution would not have to be paid back.

EG's recommendations:

- **(11) The Commission should foster pricing the use of the infrastructure on the TEN-T Core Network with earmarking of the revenues, and encourage its use for the secondary network.**
- **(12) The implementation of user fee collection could be reflected in the support rate by way of either incentives or full conditionality.**
- **(13) The Commission should review the conditions attached to EU grants in the Cohesion area where a user fee collection is in place so as to ensure non discriminatory treatment.**

3.2 Generating a surplus: internalisation of externalities and cross-financing

3.2.a Eurovignette I & II: paving the way for a greater internalisation of external costs at the EU level

The Group has recalled that the main rationale of internalising externalities is to give to the users the right economic signal in order to influence their behaviour when they decide on a mode, a route or a time to travel. At the Community level the current "Eurovignette" Directive⁴¹ as amended in 2006 only applies to heavy goods vehicles on the Trans European road network with no obligation to extend this to road pricing. The Member States can recover the infrastructure costs only and a variation of charges is allowed but overall revenue must remain constant. It is also possible to apply a mark-up of up to 25% in mountain areas earmarked for TEN-T priority projects (like for the Austrian Brenner motorway). As a matter of fact the earmarking of other revenues within the transport sector is encouraged but not yet mandatory.

In its review of the Directive, the Commission has proposed new legal provisions, such as allowing the Member States to recover the costs related to traffic road air pollution, noise and congestion through tolls, to apply a common method for calculating the external costs according to local circumstances, and to earmark the corresponding additional revenues for sustainable transport. This new proposal would result in a modest cost increase on transnational corridors (on average 4€ ct/km for a Euro IV truck) with a similarly modest impact on the final product prices.

Apart from the induced benefits of internalising external costs in terms of climate change, the application of Eurovignette would create a surplus (in the magnitude of billions of Euros per year) which can contribute to the funding or the financing of TEN-T assets. However the predictability of the revenues generated is not assured because (of):

- The complexity of the calculation of the mark-ups : if tariffs discriminate between vehicles according to CO₂ emissions, revenues will be difficult to forecast until a sufficiently long history of traffic data is available;
- The main objective of changing users' behaviour should progressively been achieved hence implying a constant change of the revenue stream (for instance shift to hybrid or electric vehicles).

However the Group has acknowledged this cyclical surplus could nevertheless make a significant difference to supplement the funding of critical European bottlenecks where the public resources are currently insufficient.

⁴¹Directive 1999/62/EC of the European Parliament and of the Council of 17 June 1999 on the charging of heavy goods vehicles for the use of certain infrastructure.
http://europa.eu/legislation_summaries/internal_market/single_market_for_goods/motor_vehicles/interactions_industry_policies/1240_5b_en.htm

3.2.b Other possible surplus

Although the environmental externalities subject to Eurovignette can be cyclical, the congestion is less so. Some experts raised the idea that in congested areas users would naturally be willing to pay in exchange for a better service, which is particularly the case in urban areas and on specific stretches of inter-city roads at certain times of day. Since most of the revenues produced by such charges will accrue in urban areas, the Group stressed that the surplus generated might not be directly available for TEN-T projects unless by way of instituting cross-financing schemes.

For rail systems, sea and airports, the marginal cost of using infrastructure is low and congestion is to some extent internalised by the fact that the use of these systems is scheduled. However experts proposed that the “cost of scarcity” (i.e. the fact that when one user is allocated a particular slot, it is not available to anyone else) could serve as surplus generation.

Finally the Group suggested that the case of positive externalities could also be further developed. Indeed with the perspective of trading schemes, positive externalities induced by eco-friendly transport systems could be monetized and sold on the market (provided that the energy produced is CO₂ efficient). More generally, the external benefits of sustainable infrastructure should be further identified and potentially rewarded.

3.2.c Cross-financing opportunities

As regards cross-financing, although applying this scheme within the same mode seems to have reached a consensus, the use of road charges to fund rail projects has been criticised because as measured on the basis of national accounts, including tax revenues and direct charges, railways already benefit from much higher existing levels of subsidy than roads or air transport. According to the Group, cross-financing has to be used on the basis of corridors/projects, not as a general pattern. Moreover the issue is less about the relevance of the mechanism itself but more on what projects could benefit from it. According to the experts the projects which should be considered are the ones with net social benefits which are not realized by member countries because the share of foreign (i.e. EU) benefits is high. Some of these projects, and particularly rail projects, may need a large capital subsidy to survive economically because of increasing returns to scale (meaning that efficient pricing only recovers a part of total costs), typically cross-border projects of the priority corridors. The financing of Brenner Base Tunnel can provide a useful example.

EG’s recommendations:

- **(14) The revision of the Eurovignette Directive should be set as a political priority by the European Commission. A first step could be to make its application compulsory on the TEN-T Core Network, whilst its extension to allow charging for all externalities remains important.**
- **(15) The Commission should foster the use of cross-financing for the removal of critical bottlenecks within the TEN-T Core Network. A list - or at least a typology - of TEN-T projects within the Core Network which could be subject to cross-financing could be defined.**
- **(16) Further investigation on the potential of positive externalities as surplus generation for funding should be considered, in particular in the framework of emissions trading schemes.**
- **(17) The Commission could propose that part of the revenues generated by the internalisation of externalities could be transferred to EU level with the perspective of leveraging funds for further TEN-T operations. It could be saved in a dedicated fund managed either by the Commission or by the European Investment Bank (EIB) with specific goals as regards TEN-T implementation, for instance financing guarantees for Public Private Partnerships.**

4. Towards a more consistent EU Funding Framework

Against the progress of the implementation of the TEN-T, the participants have reflected on the need to revise the current funding instruments. A new funding strategy should **focus the EU contribution on the EU added value, bring more coordination between the various components of these EU instruments, including the support of key transport policy measures and better mobilise the private sector in the delivery of EU transport policy**, in particular the TEN-T.

4.1 Focus on the EU added-value (EUAV)

Key elements for an EU funding strategy (EUFS) need to address the EU added-value of the projects to be co-financed as well as to leverage the EU support. The Group has debated a possible typology of projects and investments which should be considered for TEN-T support. The Group considers that the EUAV should focus on those projects which are not profitable but with substantial EU economic and social benefits falling outside the country in which the investment would take place; in other words, projects which will generate economic and social benefits over time but which may not be realised without strong EU support. In terms of projects, this generally means cross-border sections. In terms of transport modes, emphasis was given to the rail sector⁴², maritime transport and inland waterways, including road transport in Central and Eastern Europe.

Aside from these types of investments, the experts have identified the importance of considering the accompanying measures of great added-value and strong leverage, “quick wins” which can significantly improve the efficiency of the network at lesser costs. This can be achieved by targeted accompanying initiatives namely for interoperability purposes, standardisation, traffic management systems, safety improvements or greening of transport. It also comprises self-sustainable programmes (*e.g.* programmes which will eventually generate enough revenues to recover their implementing cost). SESAR, the ERTMS corridors, the railfreight and the ‘green’ corridors, or Intelligent Transport Systems... and more certainly the conceptual pillar developed in the framework of the review of the TEN-T policy should constitute the basis for co-financing considerations. This will obviously include research and innovation initiatives.

EG’s recommendations:

- **(18) The TEN-T contribution should focus on investments with strong EUAV as defined in the TEN-T Core Network and in the TEN-T conceptual pillar.**
- **(19) The TEN-T funding should take into account “quick wins” opportunity based on soft investments which can significantly improve the efficiency of the network at lesser costs. Both horizontal measures and self-sustainable programmes could apply as “quick wins”.**

4.2 Leverage of the EU contribution

Currently the two main sources of European funding for the implementation of the TEN-T are the Cohesion and Structural Funds and the TEN-T budget⁴³. In order to leverage the EU contribution and to bring more consistency in the development of the TEN-T network it has been envisaged to

⁴² The experts have nevertheless called for the railways to better adapt to market requirements and users’ needs, with a greater degree of coordination between the infrastructure managers.

⁴³ For the current budgetary period (2007 – 2013), the CSF will contribute to EUR 43 billion while the TEN-T budget represents EUR 8 billion.

better coordinate - even to combine, the two instruments for TEN-T investments. This idea has triggered an extensive debate and no consensus was reached by the Group. Some experts consider indeed that the Cohesion policy pursues convergence objectives and that the subsidiary principle must be respected, in other words the Cohesion policy and the TEN-T policy must remain apart. Other experts have argued that the EU contribution should be concentrated on EU priorities; hence EU financial resources should be devoted mainly to the TEN-T Core Network as regards transport investments. The two policies are currently going through a review process; therefore the question of a greater coordination between the funding instruments will be subject to further discussion.

Irrespective of the possible coordination or concentration of EU funds, given the magnitude of the investments required by the TEN-T, combined with the growing scarcity of liquidity, the experts have advocated defining a short list of projects/priorities within the TEN-T Core Network⁴⁴. This could lead to the definition of priority investments in the Core Network (CNPIs) which would represent the critical investments targeted for full completion during the next Multi-annual Financial Framework (MFF – post 2014). This shortlist will also have to take into consideration other EU policies and challenges, for instance environment issues, energy savings or accessibility. The CNPIs should represent only a few projects (maximum 10).

As regards the current TEN-T co-financing rates, the Group believes they should be revised. According to the expert, a 10% or a 20% co-funding rate does not have a real leverage effect on critical investments. Only projects which would have been built anyway can productively use so low amount of support. The experts also considered that increasing the rates beyond 30% for specific activities could be worthwhile in order to implement certain projects.

EG's recommendations:

- **(20) The Commission should investigate further the need to better coordinate the Cohesion and structural funds and the priority TEN-T investments, without prejudice to the objectives of the Cohesion policy.**
- **(21) The TEN-T policy should define Core Network Priority Investments (CNPIs) for the next Multi-annual Financial Framework (post 2014). These CNPIs would comprise a short list (max. 10) of priority projects/programmes within the TEN-T Core Network where the leverage effect of the EU contribution would be concentrated. It would typically concern the removal of major bottlenecks of the network.**
- **(22) Conversely, road or air construction projects outside the TEN-T Core Network should not be considered for TEN-T budget co-financing.**
- **(23) The Commission should consider revising the TEN-T co-financing rates. For instance for the CNPIs, the co-financing rates (for works) could go beyond 30% (up to 50%) of the eligible cost so as to make a significant difference in the funding of genuine EU priorities.**
- **(24) A ratio of up to [-5% : +5%] could be applied to the standard co-financing rates depending on performance criteria such as: effective implementation of transport policy measures of EU significance (railway packages, ERTMS, Eurovignette, etc.); appropriate pricing ; absorption (quality of the evaluation, degree of preparation and readiness of the projects); coordination, generation and earmarking of transport revenues; etc.**

⁴⁴ Especially if the budget available in the next MFF is insufficient to reasonably contribute to the co-financing of the Core Network.

5. Pacing the financing of the TEN-T: toolbox for an increase in private sector participation

Plugging this infrastructure gap is a technical and coordination challenge, but it is also a financial challenge. The economic crisis has had a major impact on Member States' capacity to fund new infrastructure projects when priority should be given to fiscal consolidation. At the same time, the private sector faces severe constraints in raising funds. Europe needs to have a fresh look at the economics of cross-border investment and at innovative ways to ensure its financing. The key issue for Europe is how to raise new resources for medium and long term investments of European importance. One way to address the problem is to explore all combinations between public and private funding, including a wider use of innovative source of financing, such as user charges. The reduced fiscal capacity of governments will naturally enhance the importance of public-private partnerships as a delivery tool for infrastructure investments. Facilitating the combination of public-private partnerships with the use of EU funds will be crucial in this respect.

5.1 The PPP market and the TEN-T projects

With the crisis Public Private Partnerships have probably triggered more attention than ever in so far as they have been perceived as a convenient and effective way to relieve pressure on public finances. According to the experts, it is nevertheless important to bear in mind that PPPs represent first and foremost an alternative procurement scheme where the private sector, through its expertise and its skills, can bring more efficiency to projects. Likewise not every project is adapted to PPPs, only those which aim at solving actual capacity/demand problems are the most financially feasible therefore the most suited for these schemes. Indeed PPPs should be partnerships, not "*privately funded government projects*": in other words reasons for PPPs should not primarily be budgetary constraints, but again efficiency based on performance indicators, where the private sector can be given enough flexibility under a clear legal framework so as to run the project efficiently.

5.1.a Releasing the potential gains

Against this background, PPPs have already delivered some TEN-T projects on time and on budget (motorways [M6, M60 in Hungary, E18 in Finland...], Dutch High Speed Line south (NL), Portuguese HSL Poceirão-Caia (PT), The Øresund fixed link (SE, DK), etc.). The Communication on "*Mobilising private and public investment for recovery and long term structural change: developing Public Private Partnerships*"⁴⁵ released on November the 19th 2009 by the Commission states the importance of PPPs and defines their pertinence:

"PPP's are forms of cooperation between public authorities and the private sector that aim to modernise the delivery of infrastructure and strategic public services. In some cases, PPPs involve the financing, design, construction, renovation, management or maintenance of an infrastructure asset; in others, they incorporate the provision of a service traditionally delivered by public institutions. Whilst the principal focus of PPPs should be on promoting efficiency in public services through risk sharing and harnessing private sector expertise, they can also relieve the immediate pressure on public finances by providing an additional source of capital. In turn, public sector participation in a project may offer important safeguards for private investors, in particular the stability of long term cash-flows from public finances, and can incorporate important social or environmental benefits into a project."

⁴⁵ COM(2009) 615 final

The Group has recognized that the overall goal of PPP projects is to find solutions to problems in which the advantages of the private sector (such as financial assets, efficient management, propensity to innovation and entrepreneurship) are combined with the advantages of the public sector (such as social and environmental concerns). To be economically sensible, a PPP project should generate a combination of budgetary efficiency and productive efficiency that is superior to an entirely public or entirely private project. If through PPPs, the private partner is likely to get access to new sectors and achieve more business activity, enjoy better margins and get more long-term revenues, the advantages for the public partner may be:

- to improve the quality of service: the public partner is able to define, monitor and regulate the level of service quality to be offered to the users. The private sector may also carry special expertise and technology that will result in improved service quality. The competition in operations may create even more incentives by means of entrepreneurial development and innovation.
- cost efficiency : PPP projects typically encompass a wide range of activities – design, construction, and future service provision. If all these activities are held together – bundled – in one project rather than being separated into its different parts, better overall solutions are possible and the opportunity to exploit scale economies increases (whole life cycle approach). Consequently, considerable cost reductions may be achieved⁴⁶.
- delivery efficiency: PPPs are also expected to deliver the asset on time and on budget. In a PPP project where activities such as design and construction are combined, they may be carried out in parallel rather than sequentially. This typically shortens the project's completion time. According to a British study⁴⁷, only 24% of all new PPP projects are running late, compared to 70% of the earlier public-only projects. Although PPP projects generally have a longer planning phase, it is often possible to compensate for this in the construction phase. In addition when the private sector is responsible for the design, construction and future service production the public sector can be assured that project goals are reached and kept in line with the price agreed upon at the time of signing the contract. This reduces the possibility of large unexpected cost increases, which facilitates the long-term planning of the public sector.
- to pace the public investments: the completion of huge and important projects can be achieved earlier than annual capital budget for publicly procured projects would allow. If the public sector is unable to finance all the projects that are considered to be beneficial from a socio-economic point of view then the private sector can participate in the upfront financing of some projects organised as PPP projects. Thereby, public resources for investments may be better allocated over time, and the positive effects of an infrastructure investment may be realised earlier than if only public financing is available.
- public sector modernisation: PPPs can set benchmarks for conventional procurement and optimisation of administration structures. They can induce a cultural change in the public sector towards a more user-based planning of the infrastructure and a more comprehensive and efficient cost assessment.

⁴⁶ A similar effect may also be reached due to the specialised knowledge held by some firms regarding these type of projects, in contrast to the state that may only encounter these projects once in a while.

⁴⁷ National Audit Office (2003). PFI: Construction Performance. Report by the Comptroller and Auditor General.

The Group has identified, however, potential problems related to the overall rationale of PPPs, in particular the cost of private capital⁴⁸ and the complexity and the reduced flexibility of the contracts. The advantages of increased private involvement in infrastructure projects may be constrained by badly designed contracts that may either include excessively high or low compensation to the private actors in comparison to their efforts and allocation of risk. The experts then emphasized the need to develop strong capacity (with dedicated expertise) on the part of the public authorities⁴⁹. In order to grasp the opportunities offered by greater involvement of the private sector in the delivery of the TEN-T, the public sector needs to develop its own institutional capacity so as to ensure value for money in negotiations with the private sector. The European PPP Expertise Centre (EPEC) jointly set up by the Commission and the EIB has helped disseminate best practices and develop Member States' administrative capacity to deal with PPPs. Moreover, to reduce the cost of private capital, it is important to address the mitigation of risks that the market cannot assume at reasonable cost. In general the experts insisted that risks should be transferred to the partner best capable of managing them (efficient allocation), while structuring the project finance so as to mitigate the risks, sometimes through recourse to financing instruments (such as guarantees).

5.1.b Blending PPPs with EU grants

As mentioned earlier, PPPs imply the transfer of risks from the public to the private sector. Notwithstanding that every deal is original, usually one of the main questions to determine is whether the demand risk is being passed on or not. Given the current economic situation and the uncertainty around traffic forecasts (optimism bias issue) the pricing of demand risk can be too expensive to be (fully) transferred⁵⁰ in many proposed projects. In addition the inability to price the service to market and the uncertainty on the revenue stream advocate the availability-based PPPs⁵¹ could represent a preferred solution for some TEN-T projects at least in the short/medium term.

In such deals, the blending of EU grants with PPPs can represent an effective way to reduce the cost of private capital. However the Group has remarked that the current TEN-T funding mechanisms⁵² are not fully efficient when applied to the availability payments:

- the grant does not provide leverage: the public sector partner applied for the grant after completion of the works and after finalising the PPP contract. In other words EU support was not a contributing factor in developing the PPP because the beneficiary did not use it to address a funding gap.
- issue of confidentiality: the grant is payable against receipts for the construction costs, (*i.e.* ex-post) and can therefore put the confidentiality of a PPP contract at risk. The availability payment is a blended payment comprising amounts for the recovery of construction costs, finance, and current and future maintenance and operating expenses. The proportionate amounts of each availability payment are proprietary. To

⁴⁸ During normal economic circumstances, the State can borrow money at a lower cost than private firms.

⁴⁹ Some Member States have created dedicated task forces on PPPs.

⁵⁰ Concession-type deals have nevertheless genuine advantages if applied correctly to projects which significant demand, in particular: it can generate alternate sources of finance for the Government, it can reduce Government expenditure and risk, it can provide a natural "earmarking" of revenues to improve infrastructure and last but not least if the cost of service is well reflected in the tariff, it can balance the transport system by conditioning the users' behaviour.

⁵¹ The private partner is been paid an allowance by the State for the duration of the contract - once the asset is delivered, on the basis of performance criteria.

⁵² See the Regulation (EC) No 680/2007 of the European Parliament and of the Council of 20 June 2007 laying down general rules for the granting of Community financial aid in the field of the trans-European transport and energy networks (OJ L 162 of 22.06.2007).

<http://eurlex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2007:162:0001:0010:EN:PDF>

comply with the current TEN-T regulations and guidelines, a level of disclosure as to the precise composition of the availability payments is currently necessary.

- time incompatibility: the Article 12.4 of the TEN-T financing regulation⁵³ states that *in the case of availability payment schemes, the first prefinancing payment shall be made within a period of up to three years following the granting of Community financial aid* while the Article 13.1.a stipulates that projects which have not been started in the two years following the start date of the project may be subject to penalties (the Commission under certain conditions could cancel the grant). If the grant is awarded before construction starts, in order to provide leverage to the financing of the PPP, then it becomes hardly feasible to comply with the 3-year rule. If the grant is awarded after the construction is complete then it results in payments against costs already incurred. In addition the cycle of funding linked to the 7 year EU budget cycle is not compatible with the schedule of availability payments which typically extend to 30 years or more.

One possible answer to these constraints could be to use an escrow account⁵⁴ as a useful intermediary to receive the partial payments in advance of the start-up of the availability payments. The escrow account also provides some protection in the event of a failure of the PPP⁵⁵. An escrow account could also be used to smooth payments out over the life of the PPP, as the grant could be deemed as having been paid out (to the escrow account) with payments from the escrow account made to match the payment schedule of the availability payments⁵⁶. As an alternative some experts also suggested to consider adapting the EU's financial regulations to allow the Union to make financial commitments beyond the budget period.

5.1.c PPPs and the public deficit

National accounts should mirror the activities of the State and its public sector. They should also give an indication about the financial stability of the economy. In the past, the same numbers were always used for both purposes as activity meant risk. With PPP, however, this is not longer the case. The off-budget treatment of PPPs currently depends on the classification ESA 95⁵⁷, which basically foresees that for statistical purposes the project risk is transferred if the construction risk and either the demand risk or the availability risk have been transferred to the private partner. In the context of the crisis the opportunity to deconsolidate PPP investments from the public deficit is particularly sought after by the Member States. However, for transparency purposes as well as to bring more clarity in the treatment of PPPs, it has been envisaged that the determining factor for statistical treatment should be from now on the control of the underlying asset instead of the 'risk and reward' approach which does not reflect economic reality. Such method would imply that almost all – if not all – PPP investments would become on-budget, irrespective of the risks that have actually been transferred. Even if a PPP cannot be motivated solely on the basis of its accounting treatment, the Group has recalled that such consideration to revise the classification of PPP investments could be very detrimental to their use in the short run whereas PPPs could play an important role to actually recover from the crisis.

⁵³ See **Footnote 52**.

⁵⁴ To put the grant in escrow means to put it into the custody of a third person (a custodian) to be retained until the occurrence of a contingency or performance of a condition agreed by both parties in an escrow agreement. The custodian has no right to alter the terms of the agreement or prevent the parties from altering them if they so agree.

⁵⁵ This concept has been discussed with JASPERS in relation to JASPERS' ongoing work on application of EU grant funding under PPP project structures.

⁵⁶ The issue of interest allocation would need to be addressed

⁵⁷ European System of integrated economic Accounts

EG's recommendations:

- (25) In line with the Communication of the Commission on "*Mobilising private and public investment for recovery and long term structural change: developing Public Private Partnerships*", the EU should review the relevant rules and practices in order to better adapt to PPP requirements, in particular the regulations with relation to blending EU funding with PPPs.
- (26) The Commission should support the continuation of the European PPP Expertise Centre (EPEC) in the next Multi-annual Financial Framework.
- (27) The allocation of TEN-T grants could be made conditional to the application of a 'Public Sector Comparator' (*). The TEN-T Executive Agency could provide assistance to the beneficiaries in this domain, including considerations for a standard framework for the PSC for TEN-T projects.
- (28) DG MOVE with the support of the TEN-T Executive Agency and the European Investment Bank (EIB) could identify and assess TEN-T projects with PPP potential in order to form a PPP project pipeline.
- (29) With relation to (28), amongst the PPP project pipeline DG MOVE could select some projects to act as 'pilot projects'. A project coordination team including staff from the EU Institutions could be set up to accompany the project and the beneficiaries from the project preparation through, to financial close.
- (30) The Commission should provide a standard framework for the blending of EU Grants and (TEN-T) PPPs, considering both the Cohesion funds and the TEN-T budget.
- (31) The Commission could consider the use of escrow accounts to contribute more effectively to PPP deals.
- (32) The Commission should consider putting on hold any change regarding the accounting rules for PPP investments. In times of crisis, if carefully used, PPPs could relieve pressure on public finances. The change currently envisaged in ESA 95 would result in bringing on-balance sheet almost all PPP investments. However a clarification of the existing rules could be helpful.

(*) The public sector comparator (PSC) is a hypothetical risk-adjusted costing, by the public sector as a supplier, to an output specification as part of a PPP procurement exercise (hypothetical whole-of-life risk-adjusted cost of government delivering the project). In other words it is used to compare the actual costs between a PPP and the public procurement applied to the same project. It results in determining the potential 'value for money' of PPPs.

5.2 Ideas on the future financing of the TEN-T

5.2.a The experience of LGTT

The experts have agreed that the Commission could play a role in mitigating the risks – and the cost of the risks – transferred to the private partner so as to attract more private capital. Some instruments jointly initiated with the European Investment Bank (EIB) have already been brought to the market⁵⁸:

- the Loan Guarantee instrument for TEN-T projects (LGTT) which is a guarantee applied to demand risk PPPs in the early stage of operation (up to the first seven years);
- and the 2020 European Fund for Energy, Climate Change and Infrastructure, so called Marguerite Fund, which is an equity fund.

⁵⁸ In the TEN-T budget, there is also a provision for the construction cost based grant in the framework of availability payment, which offers to contribution to the payments in availability based PPPs. For consideration of blending PPPs with EU grants see **section 5.1.b**.

The LGTT is particularly important in bringing projects up to investment grade in order to attract private finance. The mezzanine debt that LGTT provides is cheaper than equity and consequently can play an important role in assuring the affordability and bankability of a project. To date, the LGTT has been used in three PPP arrangements, all of them toll roads. Although there is a solid pipeline of projects interested in utilising the LGTT, it currently has three limitations:

- The current trend in PPP arrangements is towards the availability payment scheme. Demand risk usually includes two elements that are not easily controllable by the private sector – the existence or the development of competitive alternative routes to the one subject to tolling, and general macro-economic factors. Since those two factors represent risks not easily transferable to the private sector, their pricing can be too expensive for the public sector;
- Demand-based PPPs are primarily suitable for toll road projects. Then TEN-T network intends to achieve a balanced transport system, therefore emphasis is given to rail projects and to the inland waterways in the remaining appropriations;
- LGTT only covers up to the first 7 years of operation while some projects effectively show difficult revenue scenarios not during the initial ramp-up period but also in later stages of the project life. It is mainly due to optimistic bias in anticipated factors like market opening (railway) or opening of connecting infrastructures (rail, road, ports), a natural feature of all TEN-T projects.

Broadening the scope of LGTT to availability-based schemes and further examination of the feasibility to extend the guarantee period to the entire duration of the PPP contract have reached a consensus in the Group. It could indeed immediately provide a positive response in the market to TEN-T availability-based PPPs.

However because of the stringency of the current TEN-T financing regulation such changes will not be possible until the next budgetary period. Indeed the regulation thoroughly defines the LGTT and thus any change to the instrument would imply a modification of the regulation itself. In addition, apart from the participation in LGTT, only 1% of the budget (e.g. € 80 million) is saved for any other risk sharing facilities, which may be insufficient to envisage the development of other financing instruments of significant importance⁵⁹ The combination of these constraints results in poor flexibility of the TEN-T budget to respond to any change in the market that could occur during the EU Multi-annual financial period or to redefine underperforming instruments.

5.2.b Other possible Risk Sharing facilities

There is general agreement amongst market participants that the greater availability of subordinated debt tranches could enhance the credit profile of projects or portfolios. The size of this tranche would depend on the risk profile of the project/portfolio as the purpose is to uplift the credit profile of the higher ranking senior debt financing to A/AA/AAA, which establishes a range within which certain institutional investors would be interested in investing in the sector. The subordinated tranche could, inter alia, be provided on contingent basis by EIB, which would make it similar in structure to LGTT, an instrument that is based on EIB/EC risk sharing.

The experts have considered the preliminary ideas on a Guarantee for Availability-based Projects (GAP) presented by the EIB. This instrument would in fact be an unfunded guarantee instrument along the lines of the LGTT principles, designed to enhance the credit profile of the

⁵⁹ This provision was used for the participation in the 'Marguerite' Fund as Core Sponsor. There are no more possibilities left to develop - nor to participate in - other financing instruments under the current financial framework (2007 – 2013).

project. The unfunded nature provides a supplementary buffer to down-side risks, as GAP resources would come as a complement to the initial project funding and are more cost efficient. The objective of the GAP Facility would be to achieve an investment grade rating assigned to the senior debt/bonds of A, AA. It would consequently enable institutional investors to invest in an asset class that matches their own liabilities and maximise service provision to institutional investors lacking specialist expertise in the sector, project finance or PPPs. During the construction phase, the GAP could cover risks associated with construction cost overruns or contractor's failure (the contractor reaches its liability cap, termination of the contract, the State using its “step in right”, etc.). During the operating phase, the GAP facility could cover risks of poorly performing operations (high level of deductions for non-availability or non-performance, higher than expected operation costs, higher than expected lifecycle costs, etc.).

This would allow targeting significant investments in the rail and inland waterway projects which are in many cases being procured as availability-payment –based PPPs. A clear focus would be to introduce even stronger support for TEN-T priority Projects, most of them in the Rail sector, but potentially including priority projects like Canal Seine Nord. This innovation could substantially open Rail PPPs to Capital Market Financing.

The TEN-T budget could contribute to such instrument through risk sharing mechanisms.

EG’s recommendations:

- **(33) The Commission and the EIB should broaden the scope of the current LGTT by enlarging its applicability for availability-based PPPs and extending the guarantee period to the whole duration of the PPP contract.**
- **(34) The Commission together with the EIB should investigate further on the guarantee mechanisms capable of being called on first demand, in particular for availability-based schemes.**
- **(35) In order to ensure more flexibility as well as to be able to respond to the market needs on time, the TEN-T regulation could enhance its provision to the risk sharing facility from 1% to 10% of the overall TEN-T budget (*). The funding of LGTT would be included in this envelope.**
- **(36) The creation of a financing instrument under the TEN-T regulation should be associated with a pilot project in order to respond to the market requirements, with reasonable prospects as regards a potential project pipeline. If recommendation (35) was to be adopted, the creation of a new risk sharing facility could intervene at any moment during the next budgetary period.**
- **(37) Conversely if a financing instrument is not performing well, the TEN-T regulation could foresee conditions for the termination of the instrument before the end of the budgetary period. The refund of the TEN-T contribution would then return to the TEN-T budget.**

() The Union has provisioned € 500 millions for LGTT and 1% of the overall budget for the participation in risk sharing facilities (i.e. € 80 M€): the total represents 7,25% of the TEN-T budget for 2007-2013. However the bulk of the envelope is consumed by LGTT which cannot be changed until the end of the period.*

5.3 Developing Capital Market initiatives for the TEN-T: the case of bond issuance

Given the pressure on national budgets and the liquidity squeeze in the capital markets, the Group considered the need to engage private investors in the financing of TEN-T assets. Capital market initiatives could indeed be developed to provide pooled financing vehicles for lesser-rated credits, to structure private placements to support PPP schemes, or to put a

particular element of the infrastructure network on a self-funding basis, for instance using user fee collection (with internalisation of external costs). However, the current fragmentation of the European capital markets works against developing such solutions in the short term, with the possible exception of individual private placement bonds for PPP projects. Some experts have suggested that bonds opportunities should be viable at either at the Union level (Eurobonds) or at a project level (project bonds).

5.3.a Supporting the single market and financial integration, through the issuance of E-bonds

Financing TEN-T infrastructure directly in the financial markets by issuing bonds may be a more cost efficient alternative to bank or public debt financing. Transport project bonds may be an interesting long term investment opportunity for institutional investors such as insurance companies or pension funds. In the past, some Member States proposed that the Commission could accept a higher ownership over TEN-T projects and to this end issue bonds at the EU level to increase the budget available to projects (so called EUROBONDS / E-bonds). Such a solution, irrespective of its merits, proved not feasible as the EC Treaty does not allow the Commission to borrow money on the capital markets⁶⁰. Amendments to the Treaty based on such a narrow procedure are unlikely.⁶¹

However as the report of Mario Monti "A New Strategy for the Single Market"⁶² recently comment addressing the fragmentation of the government bond market requires creating a new, European-wide market, with a global dimension⁶³. Borrowing at large scale through a European body, and then on-lending to Member States, may represent a balanced solution⁶⁴. Member States would get access to cheaper funding through this mechanism. Although some experts advocated the creation of E-bonds, such instruments need to be tackled at the Union level. It cannot be pushed forward by the TEN-T policy acting in isolation.

5.3.b TEN-T project bonds

Individual TEN-T project bonds might, however, be a sound and immediately usable alternative to the E-Bonds. Not only would they allow well-prepared projects to access financing directly from the financial market but also, thanks to private financing structures, such debt would not need to appear in the accounts of the governments. Project bonds issued

⁶⁰ Inter alia, article 269 of the EC Treaty says that the budget shall be financed wholly from own resources

⁶¹ In line with Article 48 of the EU Treaty, the government of any Member State or the Commission may submit to the Council proposals for the amendment of the Treaties. If the Council, after consulting the European Parliament and, where appropriate, the Commission, delivers an opinion in favour of calling a conference of representatives of the governments of the Member States, the conference shall be convened by the President of the Council for the purpose of determining by common accord the amendments to be made to those Treaties. The European Central Bank shall also be consulted in the case of institutional changes in the monetary area. The amendments shall enter into force after being ratified by all the Member States in accordance with their respective constitutional requirements.

⁶² For further discussion on market fragmentation, see A New Strategy for the Single Market, the report to the President of the European Commission by Mario Monti, 9 May 2010

⁶³ The report adds that *at the same time, legitimate concerns need to be taken care of: any solution must ensure that fiscally-responsible countries cannot be forced to bail-out undisciplined member states, in one form or another. The simple fear of this would affect their current favourable market standing, thereby making any proposal immediately unattractive. Prudent changes in issuance practices need therefore to be pursued, so that they could at the same time improve the functioning of the single market and ensure the respect of the no-bail out rule of the Treaty.*

⁶⁴ On-lending to Member States should not exceed a given level of a country's GDP (the same for all Member states) so that, for their financing needs not covered through this mechanism, governments would continue to issue their own, national debt for which they would remain individually responsible.

by project promoters are practically non-existent in the current market⁶⁵. This is mainly due to the disappearance of monoline insurers. A significant part of project bond market before the financial crisis was “wrapped”, *i.e.* credit enhanced by a debt service guarantee issued by a triple-A rated monoline insurance company. Wrapping allowed institutional investors to get AA/AAA rated guarantees in an asset class that matched their own liabilities (long term, fixed income). Such institutional investors are potentially interested in infrastructure assets but, particularly when lacking specialist expertise in the sector, will not do so without AA/AAA credit enhancement.

The Group considered that the important role the European Investment Bank could play to provide debt service/deficiency guarantees to cover TEN-T Project Bonds using for instance the GAP⁶⁶. The EIB would provide credit enhancement through GAP for a TEN-T Project Bond, this bond would be issued by the project company. The debt service obligations of the project company would be guaranteed within a defined limit by EIB. In other words the investors in such bonds would primarily assume EIB risk. In addition to the EIB-enhanced capital market issue the other half of senior debt would need to be provided either by public authorities, banks or by uncovered bonds;

EG’s recommendations:

- **(38) The Group encourages the Commission to investigate further on the feasibility of issuing E-bonds. Given the limited capacity of Member States to borrow on the market due to their current deficit and level of indebtedment, this solution - maybe temporary, could benefit to "productive investments" and accelerate the recovery from the crisis.**
- **(39) The EIB and the Commission should support the development of TEN-T project bonds, notably by providing credit enhancement facilities (guarantees).**
- **(40) DG MOVE, with the support of the TEN-T Executive Agency and the EIB should assess the TEN-T project pipeline in order to identify potential candidates for project bonds.**

Contact: Jean-Christophe Lasserre [MOVE/B1], (81373

⁶⁵ Bond financing has been successfully applied to some of the most prominent European projects for example the Oresund fixed link between Denmark and Sweden.

⁶⁶ See 5.2.b.

Annexes

The annexes are attached separately.

Annex 1 - Analysis of the 40 recommendations with relation to 10 specific objectives for the funding and financing perspectives of the TEN-T review:

- (1) Secure and/or increase public resources for transport investments
- (2) Coordination between the TEN-T investments and other EU policies (in particular the transport policy)
- (3) Improve efficiency of national public resources (both financial and non financial)
- (4) Greater efficiency in the allocation of the TEN-T contribution
- (5) Increase the leverage and/or the demultiplier effect of the TEN-T funding
- (6) Greater rentability (socio-economic, financial) of TEN-T projects
- (7) Generating economic surplus
- (8) Support to the development of PPPs
- (9) Improve the financing of TEN-T projects
- (10) Develop Capital market initiatives for the delivery of TEN-T projects

Annex 2 - Agenda and minutes of the 4 sessions

Annex 3 - Written contributions of the experts