European Commission

Developing and Financing of trans-European transport networks

Perspectives and instruments to strengthen private sector participation

The role of user financing

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The TEN Guidelines






Dimension TEN –T networks (EU 15 + 10)

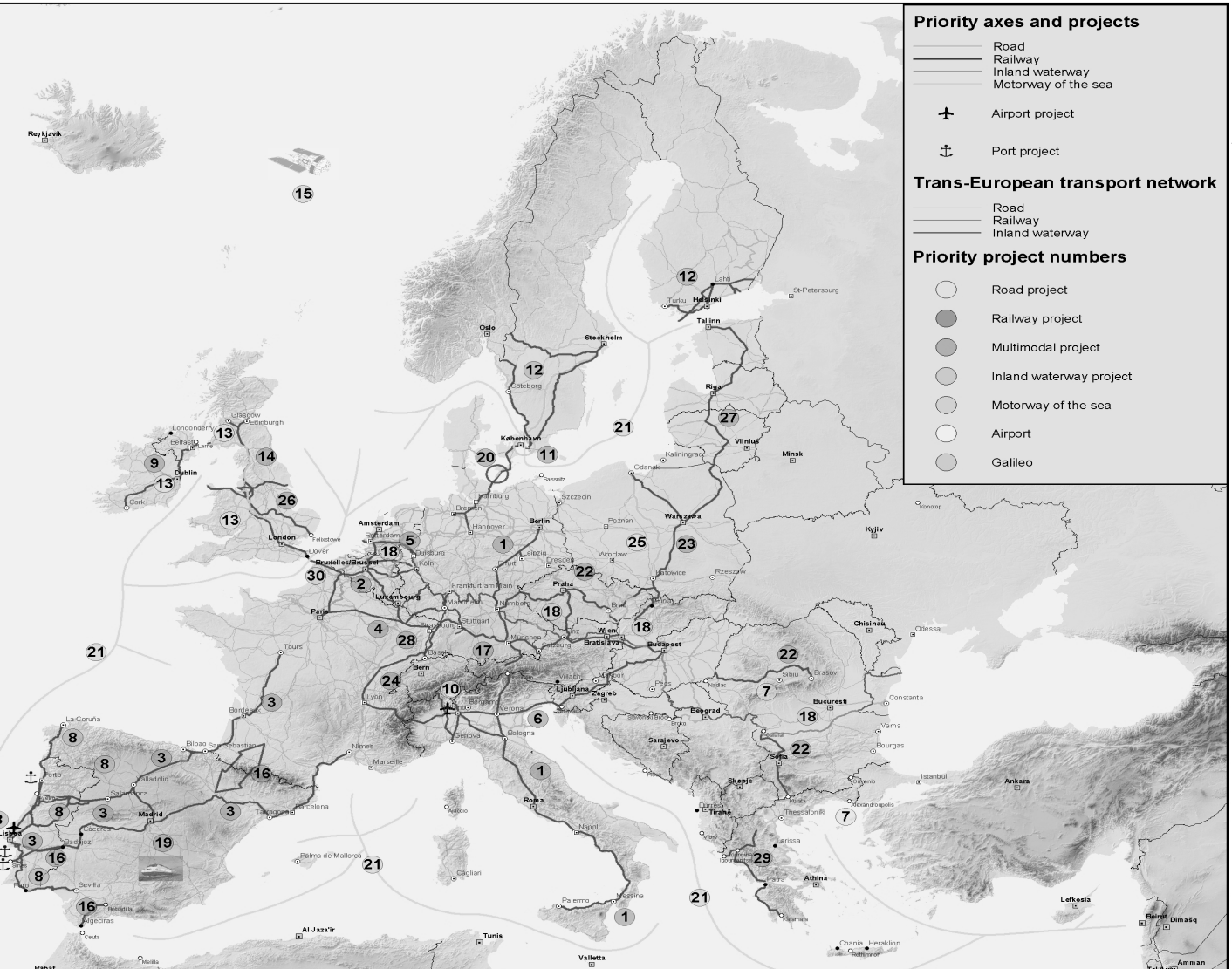
Road: 75 000 km + 14 000 km
Rail: 80 000 km + 14 000 km
Airports: 381 + 40
Inland Waterways: 8 982 km + 1366 km
International Seaports: 273 + 20
Inland Ports: 210 + 35

Relevance to transport in Europe

40% of the Community road freight is carried on the TEN road network.

50% of the Community Rail freight is carried on the TEN rail network.

The TEN priority projects



Trans-European transport network (TEN
Priority axes and projects

1. Railway axis Berlin-Verona/Milano-Bologna-Napoli-Messina-Palermo
2. High-speed railway axis Paris-Bruxelles/Brussel-Köln-Amsterdam-London
3. High-speed railway axis of south-west Europe
4. High-speed railway axis east
5. Betuwe line
6. Railway axis Lyon-Trieste-Divača/Koper-Divača-Ljublja Budapest-Ukrainian border
7. Motorway axis Igoumenitsa/Patra-Athina-Sofia-Budape
8. Multimodal axis Portugal/Spain-rest of Europe
9. Railway axis Cork-Dublin-Belfast-Stranraer (completed
10. Malpensa (completed 2001)
11. Öresund fixed link (completed 2000)
12. Nordic triangle railway/road axis
13. UK/Ireland/Benelux road axis
14. West coast main line
15. Galileo
16. Freight railway axis Sines/Algeciras-Madrid-Paris
17. Railway axis Paris-Strasbourg-Stuttgart-Wien-Bratislav
18. Rhine/Meuse-Main-Danube inland waterway axis
19. High-speed rail interoperability on the Iberian peninsul
20. Fehmarn Belt railway axis
21. Motorways of the sea
    - Motorway of the Baltic Sea (linking the Baltic Sea Member States with Member States in Central and Western Europe, including the route through the North Sea/Baltic Sea Canal (Kiel Canal);
    - Motorway of the sea of western Europe (leading from Portugal and Spain via the Atlantic Arc to the North Se and the Irish Sea);
    - Motorway of the sea of south-east Europe (connecting the Adriatic Sea to the Ionian Sea and the Eastern Mediterranean to include Cyprus);
    - Motorway of the sea of south-west Europe (western Mediterranean), connecting Spain, France, Italy and including Malta, and linking with the motorway of the se of south east Europe.
22. Railway axis Athina-Sofia-Budapest-Wien-Praha-Nürnberg/Dresden
23. Railway axis Gdansk-Warszawa-Brno/Bratislava-Wien
24. Railway axis Lyon/Genova-Basel-Duisburg-Rotterdam/Antwerpen
25. Motorway axis Gdansk-Brno/Bratislava-Wien
26. Railway/road axis Ireland/United Kingdom/continental Europe
27. "Rail Baltica" axis Warszawa-Kaunas-Riga-Tallinn-Hels
28. "Eurocaprail" on the Bruxelles/Brussel-Luxembourg-Strasbourg railway axis
29. Railway axis of the Ionian/Adriatic intermodal corridor
30. Inland waterway axis Seine-Scheldt

(Ref.: Decision 884/2004/EC of 29 April 2004)

Important cities

- Capital
- > 500,000 inhabitants
- 100,001 - 500,000 inhabitants
- 50,001 - 100,000 inhabitants
- < 50,000 inhabitants

0 100 200 400 600 800 1000

Financing callenges

The financial gap is huge

- ⇨ Only 3 of the 14 « Essen » priority projects are completed, however only 75 billion € have been invested
- ⇨ Costs of roughly 600 billion € for all the remaining projects to be completed by 202 (about 250 billion € of which for the approved priority projects)
- ⇨ Public funding so far mostly direct grants
- ⇨ Decreasing national funding for transport infrastructure (1,5 % GDP now below 1 %)

Financing – basic concepts

User-financing, Coordination, Innovatio

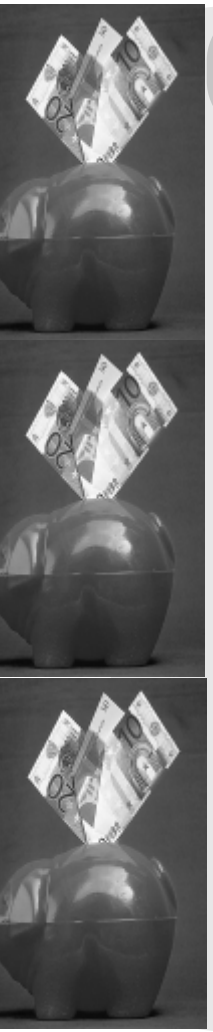
- ⇨ White paper of 2001 on EU transport policy user-financing as the future most relevant source of infrastructure financing.
- ⇨ Communication of 2003 on innovative financing solutions for TEN transport: improve coordination and develop PPP related financing instruments.
- ⇨ Van Miert High Level Group report of 2003: better coordinated public funding and increased private sector contribution
- ⇨ Final report on the European Growth Initiative of November 2003: COM to propose TEN loan guarantee instrument.
- ⇨ Availability payment scheme co-financing under discussion in Council + Commission.

Public Funding alignments

Co-ordinating public funds

- ⇨ Better co-ordination between national and European priorities (Major contribution: Van Miert)
- ⇨ Better co-ordination between TEN-funds and structural funds during the next period of financial perspectives
  - Commission steering group headed by Vice President Barrot
  - European Coordinators
  - TEN agency
- ⇨ Increase TEN-budget and raise the Community portion for bi-/multinational projects

Goal: user financing



infrastructure pricing principles

- Principle of user and polluter financing
- Internalisation of external costs:

  traffic jams (0,5 % of GDP), accidents, environment
- Incentives for efficient use of the infrastructure
- Principle of non-discrimination

Goal: user financing

Approach for road sector: Eurovignette directive

Application field:

Trans-European road network and parallel roads

HGV with maximum total weight of > 3,5 t

Full cost recovery through user tolls

Calculation of toll level to take into account:

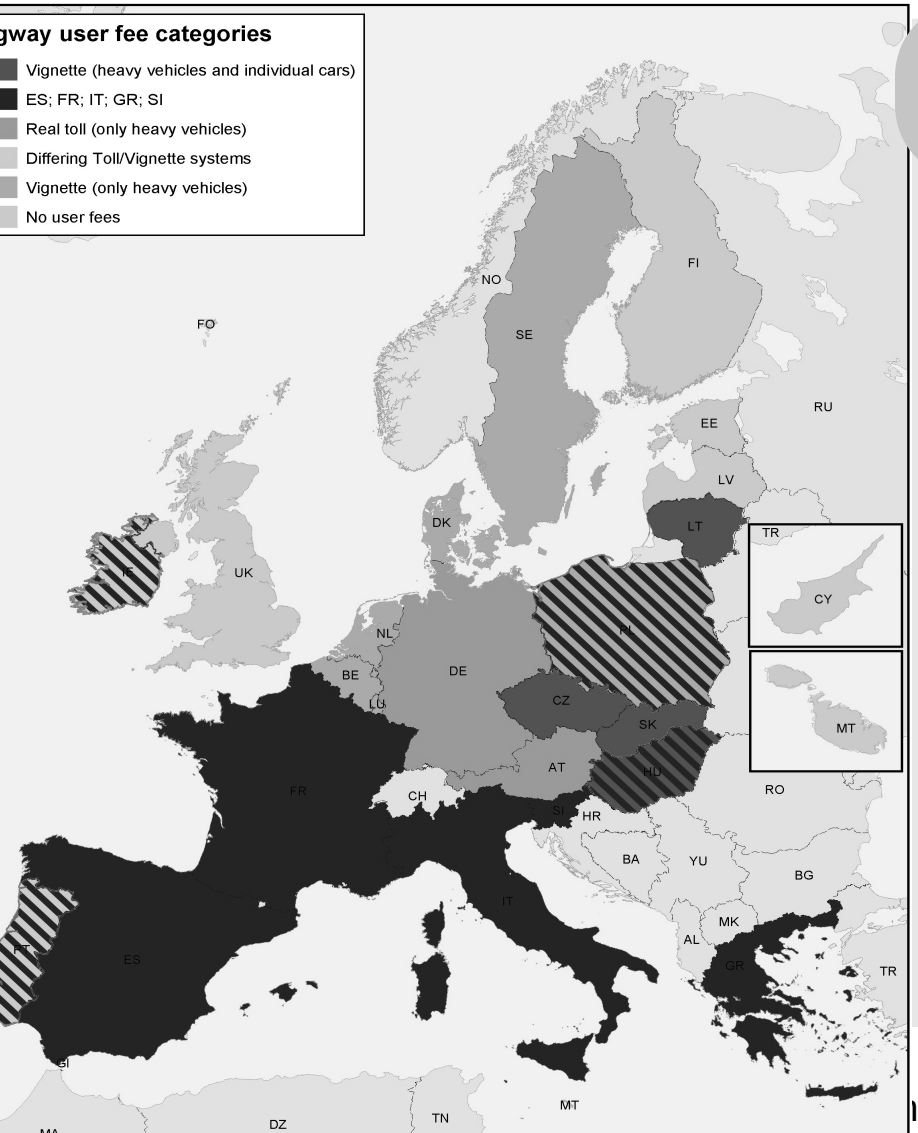
Cost of construction, financing, maintenance, upgradi
and operation

Cost of noise protection

Cost of environmental hazards, mainly air-pollution
(indirectly through emission levels)

Cost of accidents

Goal: user financing



Uneven application o the TEN road networ

Member States levy tolls, annual fees (vignettes) and/or strongly differing ca and gas taxes

User financing systems EU countries include: full cost for HGV and individual cars (EL, ES, FR, IT, SL), full costs only for HGV (AT, DE), annual fees (vignette) for HGV and individual cars (CZ, LT, SK), vignettes only for HGV (BE, DK, LUX, NL, PL, SE), hybrid models (HU, IE, PT), no fees (CY, EE, FI, LV, MT, UK), specia allowances

Goal: user financing

PPPs for TEN roads - Concepts

Differences between PPP structures and risk sharing arrangements correspond to those differences:

„Real toll“ – to transfer traffic risks (and business opportunities to private investors. Examples in all Member States Übertrith full cost recovery and high levels of traffic. (e.g. ES, FR, IT, PL, PT), ’

„Shadow toll“ – to transfer traffic risks in Member States/ regions where users cannot afford full to pay full cost tolls (e.g PT),

„Availability“-payment based PPPs to avoid traffic risks on the private side (primarily in countries without user fees, e.g. UK.

Conclusions road financing

Potential full refinancing of TEN road networks on th basis of user fees (except for peripheral areas or for New Member States with dense secondary road networks);

In so far very good conditions to establish PPPs as the regular form of organising and financing the TEN road network, especially in transit countries;

This will in turn improve the possibility to use the public transport budgets for transport sectors (including the railway), which are currently unable to generate cost-covering revenue.

Risk allocation and EU fundin

PPPs should allocate risks to the party best able to manage or absorb risks

- ⇨ Private sector can generally manage construction risk and project management risk better than the public sector. Furthermore availability and/or market risk can be allocate
- ⇨ Private sector could carry infrastructure performance (availability) risk during the operational phase. Co-financin through the TEN budget is currently under investigation.
- ⇨ Private sector may carry traffic revenue (market) risks, as has been the case in many road and specific railway projects. Those “market risk” based PPPs may be co-fund with the entire range of financing instruments, particularly future guarantee instrument.
- ⇨ For both market and availability risk based PPPs, the contribution of quasi equity is possible through the TEN ris capital facility.

PPPs – Equity contribution




EU participation in risk capital fund

- ⇨ Goal: Promote PPPs through contribution of quasi-equity and therefore reduce charge of sponsors
- ⇨ Means: participation in specific funds, set up fo this purpose (managed by the EIB)
- ⇨ Current state of application: Only one fund (Galaxy) has submitted a co-financing request
- ⇨ EU club-investments to be multiplied by 2,5 through regular fund-shareholders
- ⇨ First Project: A 28 between Alençon and Rouer others, also railway projects, in preparation

Market risk PPPs - Guarantees

EU guarantees for TEN projects

- ⇨ EU-Treaty explicitly foresees guarantees for TEN project loans as one form of EU support
- ⇨ Goal: Credit enhancement through (time-limited) EU Guarantees
- ⇨ Means: “Ramp up” risk coverage, initial 5-10 years of operation. Joint guarantees with MS or adequate matching commitment of MS
- ⇨ Financial means: Necessity to build up a reserve fund as a liquidity cushion
- ⇨ Status: Communication on draft instrument in March 2005, Seminar in October 2005 upon request of the Council, ongoing debate in the context of the Financial Perspectives 2007-2013

Availability Risk PPPs – grant




EU-contribution to availability payment schemes?

- ⇨ Goal: Maximisation of the impact of public funds through participation at annual/periodic paymen of an availability fee during the operational phas
- ⇨ Application: TEN PPPs, in which the transfer of revenue risk is either not possible or would lead to high risk premiums
- ⇨ Means: Construction Grant in favour of Membe State(s), to be used for availability payments (?
- ⇨ Status: Mixed Working group between Commission and Member States in the frame-work of the “Informal PPP exchange”

Innovative Financing

Expected added value

- ⇨ The instruments should encourage private participation in TEN transport infrastructure projects,
- ⇨ They should accelerate decision making for projects close to investment grade or could be a decisive factor of whether or not these projects will be set up as PPPs (which equals in many cases the question of whether the projects will happen or not)
- ⇨ They should increase the leverage of the TEN budget and contribute to more or larger projects in comparison with traditional grants
- ⇨ They would, if well managed, lead to revolving funds or (partial) fund recovery
- ⇨ They would increase business orientation of the Community institutions and the Member States authorities (collateral effects on traditionally procured projects – e.g. upfront life cycle cost analysis)

Application fields

TEN priorities focus on rail

- ⇨ 17 of the 30 priority projects serve rail alone and 5 consist of rail/road connections
- ⇨ Of the 75 bn € total investment costs between 1996 and 2003 (prices of 2003) for the priority network, more than 75 % were for rail or multimodal (including rail)
- ⇨ Financing and Organisation will have to include the private sector
- ⇨ Some Rail projects have been setting up as market risk based PPPs. Examples include the mixed road/rail Øresund Bridge or the high speed rail connection between Perpignan and Figueras.
- ⇨ Others have been based on availability risk, an option which is particularly relevant for TEN rail (Examples include HSL South and CTRL)

Application fields

Potential demand in other TEN-modes

- ⇨ Highways, where traffic risk can be shifted to the private sector at reasonable costs or where efficiency gains may be achieved through availability payments schemes
- ⇨ Ports, where new investments are to be undertaken through PPPs
- ⇨ ITS, where the private sector is in principle capable to carry market or availability risks
- ⇨ i.e. in sectors in which major investments for priority projects and for the remaining elements of the network (all together at least 300 bn €) wi have to be undertaken

For further Information

TREN-homepage:

http://europa.eu.int/comm/dgs/energ
_transport/index_en.html

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