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NOTE

From:	General Secretariat of the Council
To:	Council
Subject:	**Council meeting (Transport, Telecommunications and Energy) on 1 December 2016**
	Lunch debate on transport financing

Delegations will find attached a Commission non-paper with a view to the Ministerial lunch debate taking place at the Transport Council on 1 December 2016.

ANNEX

Lunch debate on transport financing
TTE (TRANSPORT) Council, 1 December 2016

Contribution to Presidency background note

Europeans citizens have access to one of the world's highest performing transport systems. At the same time, considerable investments are needed in the coming years to deliver on the EU Single Transport Area and decarbonisation objectives, while fully exploiting the opportunities offered by the digitalization of the transport sector in term of new jobs, competitiveness and growth.

For this purpose, it is important to make best use of the available EU funds[1], of the European Fund for Strategic Investments (EFSI) and other sources of funding, notably from private sector, to address the EU's transport investment needs. This is important also in view of the discussions on the post-2020 Multi-Annual Financial Framework.

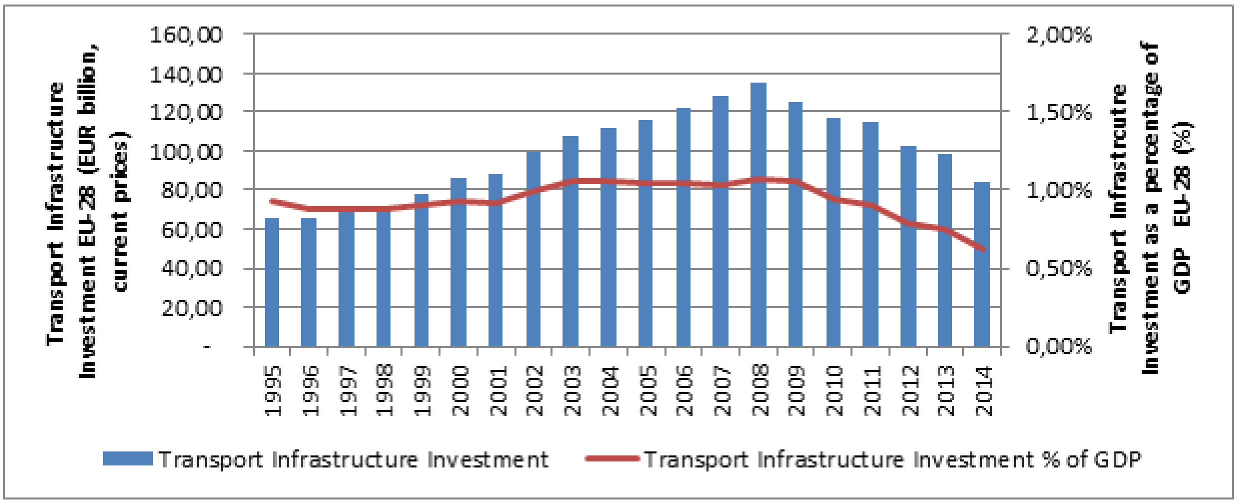
Against this background, Transport Ministers are invited to share their views on how the EU funding framework could lead to better exploit the untapped potential for public and private investments in transport, and optimal use of the opportunities offered by the blending of EU funds with other funds, notably from the private sector.

1. Transport investment – the big picture

Recent studies concluded that around EUR 750 billion will be needed for the nine TEN-T core network corridors until 2030[2]. In 2008, annual investment in transport infrastructure in the EU28 was approximately EUR 130 billion, which was broadly consistent with historical levels of about 1% of GDP[3]. However, investment fell during the financial crisis and the following period (see Figure 1). It is therefore estimated that investment now needs to rise to EUR 160 billion a year until 2020, as a minimum, to address the backlog and restore investment to pre-crisis levels.

1 These are currently the European Structural and Investment Funds – ESI Funds (notably the Cohesion Fund and the European Regional Development Fund), and the Connecting Europe Facility –CEF.
2 TEN-T Corridors studies
3 OECD-ITF (2016) Transport infrastructure investment

Figure 1: Historical Transport Infrastructure Investment in EU-28



Source: OECD – ITF (2016), Eurostat (2016)

EU and EIB financing so far

For the 2014-2020 period, EUR 26.25 million have been programmed in the CEF and EUR 70 billion in ESI Funds' support for transport investments. This means that the EU provides more than EUR 13 billion per year in targeted EU co-financing through the European Structural and Investment Funds (ESI Funds), notably the Cohesion Fund and the European Regional Development Fund, as well as through funding provided under the Connecting Europe Facility (CEF). Since 2007 the EIB has also provided financing in support of transport projects at an average level of approximately EUR 13 billion per year.

CEF developed very positively with a very strong focus on projects of high EU added value, such as cross-border projects (the 2014 and 2015 calls for EUR 22 billion CEF grants funded jointly 458 projects, mobilising nearly EUR 40 billion of investment). Geographical balance has been ensured. Additionally, close to EUR 3 billion will be made available through the new CEF grants and blending calls 2016. Large oversubscription provides a healthy stock of projects that could be pushed ahead if budget were available (the budget left over is of around EUR 1.8 billion, which is proposed under the 3rd CEF call expiring early Feb 2017).

For the 2014-2020 period, ESI Funds will provide tangible support to development of the TEN-T network, in particular in the less developed Member States and regions were considerable effort is still needed to close missing links and remove bottlenecks in the transport networks. Additionally, the ESI Funds will support national, regional and local transport infrastructure project which are not located on the TEN-T network but are at the same time crucial for building a seamless transport system which caters for needs for long-distance and cross-border transport, as well as for local mobility. In all Member States, ESI Funds will support a transition towards a multimodal, intelligent and more sustainable transport system.

A realistic and mature pipeline for projects developed in the scope of this exercise provides a basis for synergies and complementarities with CEF and EFSI.

Within the Investment Plan for Europe launched last year, EFSI aims to mobilise EUR 315 billion of additional investment in the real economy over a three-year period (till mid-2018). As of November 2016, approved projects are expected to mobilize EUR 154 billion, i.e. almost half of the target, with 63% of the funds provided by the private sector. EFSI seeks to mobilise finance for investment using EU budget funds and EIB enhanced risk-taking capacity to leverage a maximum of private funds. The EFSI financing should be additional to the market and other instruments, and specifically address market failures or sub-optimal investment situations. In practice this means accepting to finance riskier projects, taking more risk in a financial structure (e.g. mezzanine or equity-type risk), providing a longer-term loan and better repayment terms (e.g. grace period).

With respect to transport projects, as of November 2016, 23 EFSI operations have been approved by the EIB, contributing to transport objectives triggering a total of EUR 10.8 billion in related investment. This represents around 12% of the overall investment within the EFSI Infrastructure and Innovation Window. The EFSI guarantee has been extended to a number of PPP transport infrastructure projects in the road and airports sectors, rolling stock operations, port developments, urban public transport and contribution to infrastructure funds.

In addition, green shipping schemes have been pre-approved by the EIB Board with potential to mobilize an additional EUR 3.5 billion. For reference, several EFSI projects classified under RDI and Resource efficiency objectives are also relevant for the EU Transport policy objectives (eg emission reduction for vehicles, innovative materials for aircrafts). EFSI allows the EIB to undertake riskier operations and it is geared to crowd in private investors to fund strategic investments in support of EU policy objectives.

2. Outlook

The continuing scarcity of public funds, and therefore reduced opportunities from grant schemes, should encourage Member States' public authorities to evaluate alternative ways of financing infrastructure. In this context, it should be explored which instruments and combination of public/private funds are the most appropriate to finance different types of projects. Decisions to promote the use of innovative financial instruments and other instruments available under the EU programmes and the Investment Plan for Europe should be part of this process as well as those enabling the private sector involvement.

The gradual evolution from public ownership and delivery of services to the private sector entails public-private risk sharing which needs to be adequately defined and managed. This change entails the shift of costs traditionally borne by State budgets to the infrastructure users, thereby allowing for smarter infrastructure charging patterns and more sustainable investments in the longer term. This could generate additional revenues which would be available for transport investments.

When considering the project funding structure in a comprehensive and multimodal setting, innovative solutions to raise funds for strategic investments ought to be duly explored. These include cross-financing solutions, applying the "polluter-pays" and "user-pays" principles, and value capture which could in part be implemented through such initiatives as user charges.

To provide investors with sufficient confidence on longer-term planning, the work jointly implemented by the Commission and Member States to develop national and regional level comprehensive transport plans that will receive EU co-funding from ESI funds (already put in place in 20 Member States), is key alongside the identification of cross borders projects of EU added value and projects that remove bottlenecks and bridge missing links along Core network corridors, within the TEN-T Work Plans.

Ultimately, all infrastructures are paid for by taxpayers and/or by users. Member States need to reflect on whether there is scope to increase the share of private and institutional investments in transport. This would translate in some cases in a more extensive application of the user-pays principle, and the way to capture value from an infrastructure life-cycle.

However debt financing and risk-sharing may not always be sufficient for the projects needed to complete the trans-European transport network. These include projects addressing missing links and bottlenecks and cross border ones, but also projects to decarbonise the transport system, since only part of the investment costs can be recovered by the generated revenues, even over the long term. Moreover several of these investments are associated with high risk/low return. A targeted grant in these cases would enable the financial case to be established, necessary for securing private investment or to reduce the project risk/return to a level acceptable for investors "**blending approach**".

Therefore the Commission announced its intention to launch a "**CEF Blending**" call in early 2017 using EUR 1bn funds from CEF to leverage private funds, notably via EFSI, in order to finance projects with particular focus on: cross-border, bottlenecks, projects in Cohesion Member States and sustainable transport. The purpose of blending would be to offer to project counterparts (public or private) a complete "financial package", based on CEF grants combined with financing by EIB and/or National Promotional Banks (NPBs), equity providers and other funding, notably from private sector or institutional investors.

Furthermore, in the context of the **2014-2020 MFF Mid-Term-Review,** the Commission has proposed to increase the CEF-Transport budget by **EUR 400m**, which is important to allow the replenishment of the CEF budget for grants and to develop pilot innovative financial instruments under the CEF Debt Instrument, in areas such as the deployment of alternative fuels and ERTMS.

It is important to make full use of the opportunities offered by **EFSI** and co-financing by EIB and National Promotional Banks. All opportunities should be explored to combine in a mutually reinforcing way EFSI with ESI funds, and consider the possibility to establish **Investment Platforms** to pool several projects with a thematic or geographic focus. The Commission has proposed extending EFSI until end 2020 with the target to mobilise up to at least EUR 500 billion of private and public investment over the investment period (mid 2015-2020) and potentially up to EUR 630 billion through to 2022.

The opportunities for advisory support under the **European Investment Advisory Hub** (EIAH) should be also fully exploited, including by local authorities. This is crucial to ensure adequate project preparation and financial engineering. Support from EIAH is free for public entities and there is a budget of €20m per year to address these needs (all sectors). Promoters interested in attracting investors can publish their investment opportunity on the **European Investment Project Portal** (EIPP). So far, 121 projects have been published, of which 31% in Transport sectors.

Furthermore, as outlined in the 3rd pillar of the Investment Plan for Europe, **structural reforms** to improve public administration, regulatory framework, fiscal incentives and sector-specific regulation are key to improve the investment environment and ensure that investment can recover in a sustainable and structural way.