

PRIME Meeting no 7

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Annex 6b

Debrief from PRIME Financing Subgroup

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subgroup co-chairs**

- For Discussion -

Subject-matter

To date three subgroups on financing in the framework of PRIME have taken place. While the Co-Chairs Mr Stéphane Ouaki, representing the European Commission, and Mr Paul Mazataud, representing rail infrastructure managers (IMs), have reported about the first two subgroups in the past, this is a report about the **3rd PRIME subgroup which took place on 2 October 2015 in Brussels and was dedicated to the discussion on two rail projects of High Speed 1 in the UK and Tours-Bordeaux in France**. European Investment Bank (EIB) and the Union of Swiss Banks (UBS) shed light on the investors' perspective on the matter.

Outcomes

A particularly stimulating meeting allowed bridging several perspectives on the financing of rail. Rail IMs and investors exchanged views about rail financing options while the two rail projects of HS1 and Tours-Bordeaux lent themselves to drawing comparisons. It was in particular noted that although HS1 and Tours-Bordeaux are both high speed rail lines with a funding model of a concession, both projects bear very different risk profiles in terms of cost, delays and traffic because the concession of the Tours-Bordeaux project was launched before the start of the actual works, while in the case of HS1, the concession was signed several years after the rail line was operational.

HS1 and UBS

- A representative of HS1 explained the evolution and rationale of the financing model of HS1. Particular attention was paid to the business model underpinned by a concession agreement until year 2040, and a transparent regulatory and commercial framework.
- The concession arrangements with the UK government received particular attention. Although there has been no explicit government subsidy, guarantee on HS1 or its

debt, government's underpinning of domestic passenger services as well as the transfer of risks and rewards seem to have played a key role in structuring the concession, making it attractive to investors paving the way for successful privatisation of HS1.

- The Union of Swiss banks (UBS) - who helped sell HS1 - discussed the challenges and options in financing major rail projects, highlighting the complexity of rail projects and the importance of government's willingness to assume certain risks.
- The European Commission referred to the financing structure of HS1 as a model for rail infrastructure procurement in Europe and invited to reflect upon the follow up action of presenting this model more widely in Europe.

Tours-Bordeaux and EIB

- SNCF Réseau and LISEA explained that the choice of a concession as a financing model of high speed rail project Tours-Bordeaux - so far the largest rail PPP in Europe - was justified by high traffic volumes and socio-economic value for the customers. For example, achieving a 2h journey of Bordeaux-Paris generated 3.5-5 million passengers a year, making travelling by air or road obsolete, creating competitive advantage for a modal shift in favour of rail.
- The concession contract of Tours-Bordeaux is embedded in the standard model of public procurement governed by a specific French law allowing the state bodies, such as SNCR Réseau, to use the PPPs as and when it appears relevant.
- The overall project cost of EUR 7.8 billion involved public subsidy, private finance (equity and debt), while payment mechanism is underpinned by tolls from existing and new lines.
- The contribution of EUR 200 million in the form of the EU financing instrument called LGTT (Long-Term Transport Guarantee) paid a particular role in that it catered the traffic risk and attracted private capital.
- The way LGTT instrument works is that it is available for the first 3.5 years of operations and is directly linked to the revenue from downside traffic case. If revenue is below the agreed reference level, the project company can draw funds from the EUR 200 million LGTT instrument.
- The European Investment Bank (EIB) drew the attention of rail IMs to a range of other innovative financing instruments available at the levels of the European Fund for Strategic Investment (EFSI) and the Connecting Europe Facility (CEF) and invited rail IMs to explore them in greater detail.

Participants: HS1 Limited, SNCF Réseau, Infrabel, Network Rail, PKP-PLK, Vinci Concessions, LISEA, RFI, CER, European Investment Bank (EIB), Union of Swiss Banks (UBS), European Commission, DG MOVE.

Next steps

In view of rail IMs proposal, the Co-Chairs are exploring the possibility of organising **the next subgroup dedicated to the Eurostat rules for the treatment of the PPPs**. Detailed topics, agenda, venue and timing are all yet to be confirmed. The feedback of PRIME Plenary on this proposition would be welcome, as is the recommendation of any other financing issues of importance to IMs.

Items proposed for discussion/action at the PRIME Plenary

1. What are the financing questions of importance to rail IMs that can be addressed by the subgroup?
2. Now that the European Fund for Strategic Investments (EFSI) and the Debt Instrument under the Connecting Europe Facility (CEF) are being implemented, does PRIME wish to engage more closely with these initiatives and if so, how?
3. Each of the three PRIME financing subgroups had different participants. It would be very helpful to the Co-Chairs if each PRIME member designates a permanent member to the subgroup, not least for purposes of correspondence.