



PRIME

Platform of Rail Infrastructure
Managers in **Europe**

PRIME subgroup on financing: Overview and the State of Play

Co-Chairs:

Mr Stéphane Ouaki - DG MOVE - Connecting Europe - Investment Strategy
Mr Paul Mazataud - SNCF Réseau

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PRIME subgroup of financing

- **Initiative:** agreed at the last PRIME Plenary on 5 February 2015.
- **Task:** to create in the context of the EFSI and the CEF an **opportunity to exchange views** on the financing aspects of rail infrastructure of importance to the PRIME members and the Commission.
- **Co-Chairs:** Mr Stéphane Ouaki, DG MOVE, and Mr Paul Mazataud, SNCF Réseau.
- **Approach:** convenes **as and when**, covering a number of topics, depending on the **need of and at the request of** the PRIME members and/or the Commission.
- **Two subgroups:** in the span of **three months, two subgroups** - on **innovative financing** and **ERTMS** - have so far taken place on 13 April and 12 May 2015, respectively.
- **Participation:** satisfactory involvement with **9/19** and **10/19 PRIME members** and the **EIB** present at the two subgroups. Overall engaging debate with many questions / answers.

1st PRIME subgroup on innovative financing

- **Persisting 'infrastructure financing gap'**. Huge demand for investments in railway infrastructure with limited public - European or national - resources.
- **Scarce resources.** Hundreds of billions of projects identified within corridor work plans TBC overall figure of rail projects available under the CEF to meet the required €500 bn needs of transport infrastructure investments by 2020, especially after the distribution of €12 bn following the first CEF Call 2014 [and if the CEF transport envelope undergoes the €2.7 bn cut currently envisioned in the proposal of the EFSI - to be redrafted after EFSI closes].
- **Innovative financing can be part of the solution.** Instruments available under the CEF and the EFSI (e.g. grants, loans, guarantees and alike) and by the EIB offer a range of financial solutions, including technical assistance for project and financial structuring.
- **Illustrative project pipeline has been developed.** In the context of EFSI, the Commission-EIB Task Force identified over 2000 projects (€1.3 bn), 29% for transport suitable for innovative financing by the end of 2017. Commission identified dedicated rail connections totalling €29,889.56 as good candidates.

1st PRIME subgroup on innovative financing

- **Real examples exist. Rail IMs are familiar with innovative financing and the PPPs.**

EIB presented an overview of financial products and their deployment in rail projects, including the €200 mln guarantee support for the Tours-Bordeaux project.

- **Key drivers identified.** Rail IMs could in particular explore alternative financing when they lead to:
 - Deconsolidation.
 - Reduction of funding costs.
 - Reduction of project execution risks (delays, costs).
 - Accessing financial market when this is otherwise impossible.
- **Challenges can be overcome - together.** Significant challenges exist (indebtedness of rail IMs, a lack of project revenue streams). The Commission, the EIB and rail IMs stand ready to explore innovative financing schemes yet it is necessary to **identify the typology of projects** and the **business cases**, and **open up** to alternative sources of finance beyond the grants.

2nd PRIME subgroup on the financing of ERTMS

- Full deployment of ERTMS by 2030 is binding by the CEF and TEN-T Regulations. ERTMS Deployment Plan foresees **mandatory equipment of more than 10,000 km of rail lines by 2015 and 25,000 km by 2020. CEF budget is not sufficient** to cover all the investment needs.
- There are **realistic business cases** for innovative financing of ERTMS but there is a **challenge to identify them**. The PPP structure used in **Albacete-Alicante project** is one such example.
- **Preliminary findings of the ERTMS Study presented by PwC:**
 - With EU support the PPP structure could be used for ERTMS trackside deployment in the future but some limitations such as a lack of flexibility of the PPPs exist.
 - EU support could be utilised for the establishment of the Swedish SPV type scheme that raises finance on the strength of the revenue stream from the IM, but additional support requirements may be needed, including strong support from the Member States (i.e. guarantees)
 - Business models may vary per corridor and they shall be identified if not at the corridor level per se, then on the different sections of the corridor, specific to passengers or freight.

2nd PRIME subgroups on the financing of ERTMS

- **E&Y presented the milestones of the ERTMS Deployment Manager:**
 - The task is to provide technical and financial support for the ERTMS deployment.
 - The main milestone is the production of a comprehensive plan by the end of 2016.
 - Technical assistance shall commence in November 2015 and the financial assistance is supposed to present the first business cases for corridors in September 2015.

- **Adif's PPP strategy** and the ERTMS roll out on the Albacete - Alicante HSL section:
 - 132.6M€ investments (165 km in South Eastern Spain).
 - Executed in 15 months (2011-2013); 20 year PPP.
 - The SPV takes all risks related to design, construction, availability and maintenance.
 - 10% equity in the SPV; Adif provide 10% of this equity + 40% of total financial needs.
 - Full consolidation of assets and liability in Adif's balance-sheet.
 - ERTMS PPP on Albacete-Alicante section is a success on which other projects now build on.

2nd PRIME subgroups on the financing of ERTMS

- **SNCF Réseau's** perspective:

- Financial costs and revenues generated by ETCS highly depend on the chosen ETCS solution.
- ERTMS can potentially provide revenues linked to the maintenance cost and extra revenues.
- However, these revenues/savings are sensitive to the timing of the rollout; they can be much higher if the roll out occurs after the equipment of 100% of the trains.

- **Infrabel's** perspective:

- The objective of is to equip the entire Belgian network with ERTMS by 2022.
- Safety is by far the number 1 objective.
- Roll out is funded by federal and EU grants.
- Alternative financing has been applied to certain priority investment projects and can be a true alternative.
- Challenge: Can a risk be truly transferred as ETCS is at the heart of the IM's security systems? How can the private sector respond to the numerous evolutions of the ETCS suppliers, technologies and rolling stock? How to find a credible business case?

The next steps

- **Proposal of the Co-Chairs - pilot project identification.** The Co-Chairs invite the PRIME members to propose 1-3 models / examples - real / hypothetical - of rail projects that could be explored for innovative financing in the framework of the CEF and the EFSI.
- The next subgroup to take place after summer 2015 with the focus on the identification of pilot rail projects suitable for innovative financial instruments.
- The initiative should continue in the long-term, focusing on a range of topics:
 - Technical assistance with project development and financial structuring.
 - Sharing best practices of the PPPs.
 - Dedicated workshops with the EIB on using financial instruments.

Update on the EFSI and the CEF

- The state of play on the **EFISI**:
 - The agreement is expected to be reached by July 2015.
 - The key outstanding issue is the proposed €3.3 bn cut from the CEF: **TBC next week**
- TEN-T Corridor **Work plans**:
 - After the approval by the Member States, sent to the Council and the EP.
 - Should be made available by mid-June 2015.
- The **CEF Calls** for proposals for funding:
 - Post-evaluation phase with the list of selected projects to be announced in July 2015.
 - 3-fold oversubscription: requests for funding under the 1st CEF Call 2014 amount to €36 bn for the available budget of €12 bn.
 - Very limited funding available for next CEF Calls, depending on the outcome of the EFSI.