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EUROPEAN POLICY CENTRE

Event Report

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Communication to members

The Connecting Europe Facility
A new way of investing in pan-European infrastructure

Breakfast Policy Briefing – 2 February 2012

Summary

The proposed 'Connecting Europe Facility' can potentially boost cross-border transport, energy and ICT links – and ultimately improve the functioning of the Single Market. But new funding streams are often the most vulnerable in budgetary talks. Indeed, it remains to be seen whether governments will approve the facility's inclusion in the next EU budget, amid misplaced fears among the bloc's newest member states that it will divert money away from Cohesion Policy, heard participants in a Breakfast Policy Briefing.

Full Report

"Europe needs to invest heavily in transport infrastructure to remain competitive," said **EU Transport Commissioner Siim Kallas**.

Understandably there is a strong focus on tackling budget deficits in the EU right now, with most member states implementing austerity measures. But reviving growth is also crucial if market confidence is to be regained. "Transport can play a crucial role here," Kallas said.

"We must invest if we are serious about turning the dream of a single European transport area into a reality, if we are serious about connecting East with West, and if we are serious about removing the many bottlenecks that prevent smooth traffic and trade flows," the European Commission vice-president insisted.

He singled out completing the trans-European transport network (TEN-T) as a top priority to create jobs and boost growth.

"Investment will allow us to relieve congestion and make transport greener, ensuring that the sector plays its proper part in meeting the EU's targets for cutting greenhouse gas emissions," Kallas said.

More R&D investment in innovative technologies – for example to improve rail traffic management systems, or to implement the SESAR programme and make the Single European Sky a reality – can help the EU to achieve its climate goals, the commissioner explained.

He estimated that developing Europe's transport infrastructure to match growing demand would cost €1.5 trillion up to 2030. Completing TEN-T will require €500 billion by 2020, he added.

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"With TEN-T, every €1 million of public money spent generates €5 million in investment from member states and €20 million from the private sector," Kallas claimed, warning nonetheless that even such impressive leverage rates would not be enough.

"Building the transport network that Europe needs will require a competitive environment and long-term funding. The public purse has its limits, so we also need more involvement from the private sector, which is the most viable and reliable source of long-term investment," he said.

Kallas described the Connecting Europe Facility (CEF) – the financing instrument for investing in transport, energy and ICT infrastructure proposed by the European Commission for the budgetary period 2014-2020 – as an essential tool to ensure that much-need investment in European infrastructure really takes place.

The CEF "is designed to attract and guarantee private-sector involvement," he stressed.

Difficult budgetary decisions are being taken in the Commission just like in national capitals. But 'Connecting Europe' is a crucial project of EU added value and it must be included in the bloc's next budget, Kallas argued.

"Local people on the ground quite rightly want connections that work for them. But we have to ensure that these connections come from somewhere and go to somewhere: that they link up to a European network. That's the EU's added value," he declared.

The lion's share of funding under the CEF (€21.7 billion) – along with €10 billion of EU cohesion funding – has been allocated to transport for the next budgetary period, the commissioner explained.

"This may seem a significant increase compared with current funding, but it's still only a fraction of the overall financing needs in the transport sector," Kallas said.

He expressed his frustration with resistance among the EU's newest member states to earmark the €10 billion of cohesion funding to transport.

"This was done to ensure that the East gets better connected to the West and that important connections also happen between and within Cohesion Fund-eligible member states," he said.

"I am surprised that the most critical voices of this €10 billion come from the countries eligible for cohesion funding themselves, because this separate budget line was created for their benefit: to help them to overcome difficulties in delivering cross-border rail projects, for example," Kallas said.

"I disagree with those in member states that are eligible for cohesion funding who think that the money would be better off being spent as part of the normal Cohesion Policy. I don't think that would guarantee a better outcome at all," he added.

The CEF is a flexible instrument that is designed to optimise the impact of EU financing and make transport a "solid and attractive" investment opportunity for private capital, the Commission vice-president explained.

He expressed confidence that "the strong track record in EU funding for transport projects and working together with valued partner institutions like the European Investment Bank (EIB) will help to generate impressive leverage on this money".

"Based on that combined amount of €31.7 billion, we estimate that the expected leverage and co-funding could raise total transport investments to between €140 and €150 billion," Kallas said.

Project bonds will play an essential role in attracting the necessary private investment, he explained.

"With project bonds, the aim is not just to revive market appetite for infrastructure investment. It is also to help promoters of individual infrastructure projects to attract long-term, private-sector debt financing," Kallas said.

"Our initiative will reduce risk for investors looking for long-term investment opportunities and give infrastructure projects credibility," he said, declaring that having the EIB as a partner would "add reputation and track record in dealing with project risk".

"The EIB's involvement in any project is seen as a strong guarantee by commercial banks when they decide to finance parts of a public-private partnership. And a large share of [the EIB's] lending has traditionally focused on transport, so it already has a wealth of experience in investing in the sector," Kallas pointed out.

The commissioner also highlighted the potential of smarter infrastructure charging rules to raise revenue.

"I am thinking here of road-tolling schemes and the Eurovignette system for charging heavy goods vehicles, for example. These should at least reflect the costs of infrastructure maintenance, congestion, air pollution and noise pollution, for which transport users and commuters should be paying," he said.

"Every European company and citizen depends on an efficient transport system," Kallas declared, describing transport as "a true engine driving European growth".

The economic crisis has highlighted the need to improve mobility in Europe. But investing in a sustainable transport network will require long-term commitments and funding from governments, not to mention conditions for infrastructure investment that remain stable for periods of up to 30 years, the commissioner explained.

"That's where we in Brussels can help, by creating an environment of business security. And the proposed 'Connecting Europe Facility' is an important part of that," Kallas concluded.

Discussion

"The 'Connecting Europe Facility' is one of the key innovations in the EU's next Multi-annual Financial Framework (MFF). It can boost growth in Central and Eastern European countries (CEECs) that still need to develop their infrastructure, and recognises the need for private investment given the impact of the crisis on the public purse," said **Fabian Zuleeg**, chief economist at the **European Policy Centre**.

“However, some countries lack administrative capacity, particularly to implement project bonds. Moreover, new funding is not defended by strong interest groups, so it’s always the most vulnerable. The Connecting Europe Facility will need protecting,” Zuleeg warned.

He called for clarity over how projects would be selected for funding and warned of the difficulty of attracting enough private investment.

Asked whether the EU’s newest member states would be capable of implementing projects under the Connecting Europe Facility, **EU Transport Commissioner Siim Kallas** said “there are no issues regarding administrative capacity, because the trans-European transport network (TEN-T) and ‘Connecting Europe’ will be centralised. But co-financing is another issue, of course”.

Asked how he would convince the EU’s newest member states that receiving funding under ‘Connecting Europe’ would be more useful than cohesion funding, Kallas replied: “I’m constantly trying to convince them, so where shall I begin?!”

“The leaders of the Visegrad countries have the impression that money is being cut from Cohesion Policy and that ‘Connecting Europe’ will eventually merge into it. But it’s our assumption that this money will always come on top of cohesion funding,” the commissioner said.

“It’s clear that ‘Connecting Europe’ money will be used for cross-border projects that would never be financed by Cohesion Policy. So it’s about connecting different parts of Europe,” he explained.

“I’m against distributing the €10 billion between national envelopes. We already have Cohesion Policy for that. We’ll select projects by taking into account the interests of ‘cohesion countries’ and make sure that the projects cover them all,” he said.

“They will be selected fairly and according to real criteria. Only big cross-border projects will pass. You need good projects to show off, because funding like this is an enormous reputational risk for the EU,” he added.

Asked whether EU investment in transport infrastructure would also benefit Turkey and the Western Balkan countries, Kallas said “we’ve identified border crossing points to the Western Balkans and Turkey, just like in other cross-border areas of the EU”.

“There are also a wide variety of other instruments available for the Western Balkans and Turkey, which aren’t always used well. It depends on the administrative capacity of our partners. But the potential is huge,” he said, citing the example of an EU-funded high-speed rail link currently under construction in Turkey.

“We’re talking about billions, so it depends on the enthusiasm and capacity of the new EU member states and accession countries to ensure that all these instruments are used fully,” he declared.

Asked whether all the new construction envisaged in the proposals would result in enormous road works, Kallas said “roads aren’t in the investment plan, because we want to focus on intelligent transport systems, railways, and links between ports and airports”.

"Roads have other opportunities for finance from EU Cohesion Policy and national budgets, so we don't need to include them in 'Connecting Europe'," he added.

Asked how the CEF could help the European aviation sector to regain its competitiveness, Kallas said the new facility would be dedicated to infrastructure investment only. "But we're also proposing to boost R&D funding. We're still discussing what share transport will have, but it will be substantially increased," he added.

Fuel is one key area that transport R&D should focus on: particularly to increase the proportion of biofuels in aviation fuel, argued the commissioner. "Reduce fuel consumption and you'll make savings," he said.

"We're seeing ideas on ICT and smart transport management that can benefit fuel consumption. Last year, the EU spent 40% more on fuel imports than usual. Fuel is of paramount importance to the aviation and road transport industries, so it will be a focus of R&D," Kallas explained.

Asked what the European Commission would do to ensure that new transport infrastructure was accompanied by the appropriate investment in energy and ICT, Kallas said: "I can't comment on specific projects. It's not written into our priorities, but it would be worth exploring how to integrate energy into transport projects."

Asked whether the Commission would support large-scale privatisation of the EU's transport sector, Kallas said "we do encourage member states to privatise their transport sectors more, because private money will only go to private enterprises".

"But transport infrastructure can't be developed without public money either, so we need to find the right balance between public service obligations and attracting private investment," he added.

Asked about the chances of securing funding for the EU's proposed new transport initiatives, Kallas said "the EU summit produced nice words on boosting growth, so I'm optimistic about future growth. But the outlook for discussions on the next Multiannual Financial Framework (MFF) is very bad".

"A political decision on the MFF must be taken this year. Time is short, and negotiations will be hectic and chaotic. Any budget deal may well be sudden and cuts might not be very well-organised," the Commission vice-president warned.

He pointed to the tiny size of the EU budget in comparison to the gaping holes in EU member states' balance sheets.

"EU cuts won't solve Europe's deficit problems, but they would of course be symbolic. I just hope that the imperative need for a European ICT, energy and transport budget will come through – I hope that these parts of the EU budget aren't in too much danger," he said.

Asked what the Commission would do to ensure that the EU achieved its climate objectives, Kallas said "the EU has clear emission reduction targets for transport – reduce emissions by 60% compared to 1990 levels by 2050".

"Environmental criteria are attached to all our funding. Land transport has massive potential to reduce emissions on a large scale, so let's boost the structural potential of railways," the commissioner urged.

"Air traffic management reforms can reduce delays and therefore fuel consumption by 10-15%, helping us to achieve our emissions goals," Kallas said.

"We're also working with industry to develop biofuels, to widen the use of renewables and to use fuel more efficiently," he added, particularly by backing concepts such as smart cities and greener aviation.

Asked whether the long-awaited construction of a bridge linking Sicily with the Italian mainland would be included in the EU's list of new projects, Kallas said "the Messina Bridge isn't in the TEN-T guidelines, but Palermo is in a trans-European corridor".

"The Messina Bridge could also be built with private money, because there'd be a revenue stream. We want to avoid enormous new projects that would swallow our entire budget, so the Messina Bridge won't be included," he explained.

Asked to comment on the reliability of public-private partnerships (PPPs) in the transport sector, Kallas said "PPPs are important, but there are good and bad examples – it depends on each specific project".

"It's unacceptable if a PPP means profit for the private investor but liability for the public purse," he declared.

Asked what the Commission was doing to generate more PPPs, Kallas said every TEN-T or 'Connecting Europe' project would involve a combination of funding from EU, government and private sources.

"Success depends on how projects are implemented. PPP status is no guarantee of success. We need long-term planning of 30 years or more. No political interference, clear revenue streams and guarantees that new governments won't change projects are all essential ingredients to attract the private sector," the commissioner explained.

He complained that the complexity of the European legal system was hindering the spread of PPPs.

"Many disputes are pending. Companies can't freeze money indefinitely while they're being resolved. But that's out of my hands," he said.