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The Bank promoting European objectives

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EIB transport policy and trans-European transport networks (TENs)

Policy context

EIB transport lending policy

Mobility of economic factors, such as people and goods, is one of the basic precepts of the common market and as a consequence transport is and has been a key element in the development of that market. This has led the Bank to become an important financing partner in a large number of major transport projects

EIB transport lending policy is based on a number of EU policies, such as the cohesion policy, the development of the trans-European transport networks (TENs; see below), sustainable transport development and support for research, development and innovation (RDI). The Bank's transport lending policy is multi-dimensional and incorporates environmental concerns at all stages of the Bank's due diligence. The Bank also supports a range of transport projects where the explicit project aim is to achieve environmentally-friendly solutions and sustainable transport systems, substantially cutting CO_2 emissions and other pollutants. Over the last few years lending has increased, in absolute and relative terms, to projects for urban transport and for research and development aiming at lower emissions and to projects improving fuel efficiency and safety. Overall, the Bank has demonstrated a clear preference towards funding projects in the railway sector.

In addition to traditional policy objectives for the Bank's lending in the transport sector, a new policy context following the increased awareness of global warming risks has led to a sharper focus for transport lending in 2007.

EIB transport lending principles

The EIB's transport project selection is based on a carefully planned approach to meet transport demand with a balanced solutions mix of the most efficient, economic and sustainable ways, across all modes, controlling the negative environmental impacts.

The EIB remains committed to participating in the financing of TENs that are essential for the functioning of the internal market and continue to be the backbone of transport investment in the EU. The relationship between the stock of infrastructure capital and greenhouse gas emissions is complex. This does not, in itself, call into question the EIB's continued commitment to TENs. The long-term nature of these investments and their essential role in achieving an efficient and cohesive Community-wide transport system continue to make them the backbone of transport investment in the EU (for information on TENs, please see below).

Funding railways, inland waterways and maritime projects (in particular the "motorways of the sea") will continue to be a priority as these are the most promising in terms of reducing greenhouse gas emissions per transport unit. The same applies to urban transport and intermodal hubs.

Road and airport projects must demonstrate high economic value. Support will focus on improvements in safety, efficiency and reduced environmental impact.

In the rail, shipping, and urban transport sectors, financing the purchase of vehicles is consistent with climate change goals. The financing of aircraft purchase will be limited to exceptional circumstances where very strong value added can be demonstrated. Examples could be connections to convergence regions if air transport is essential to secure the territorial integrity of the EU and fuel efficiency is improved.

Further emphasis will be given to RDI activities with vehicle manufacturers, whatever the sector involved. This should focus primarily on ensuring energy efficiency, emissions reduction and safety enhancement. Support for automotive manufacturing should, however, be selective and be limited to projects in convergence regions, where their contribution to employment and innovation diffusion, including through their links with the local mid-cap and SME network, is important.

Projects supported should be fully in line with the orientations of EU environmental and energy efficiency policies, achieving higher environmental standards and accelerating the achievement of the goal of reducing CO_2 emissions (as, for example, through the development of energy-efficient smaller cars and renewably fuelled vehicles).

TEN policy objective

In 1993, the European Council decided on a trans-European network (TENs) policy in support of European Union economic and social integration and development. Trans-European transport networks (TENs-T) facilitate freedom of movement of goods and persons, and help the development of less favoured areas. TENs provide interconnection and interoperability of existing national networks and high-quality infrastructure for the European Union. They also connect the EU to the wider European neighbourhood, specifically to its neighbours in the Accession Countries (Croatia and Turkey), the European Economic Area (Norway, Iceland and Liechtenstein), the Balkans, the new neighbours (Russia, Ukraine, Moldova, Belarus and the Southern Caucasus) and the Mediterranean partner countries. TENs represent one of the two elements of the European Action for Growth initiative (the other being RDI), which is aimed at strengthening Europe's long-term growth potential.

Policy background and future perspectives

Since the TEN's policy was established, the EIB has been a leading source of bank finance for these high-quality and critical transport networks. In the period 2000-2007, the EIB lent EUR 54.2bn for investment in transport TENs. Given the continuing need for investing in large infrastructure networks across the Union, the EIB has decided to provide at least EUR 75bn for trans-European transport projects in the period 2004-2013. In 2007, the EIB lent EUR 8.3bn for transport, driven notably by a strong development of lending in favour of priority TENs projects (EUR 3.4bn).

Tailored financial instruments

In addition to its usual large, long-maturity loans with fixed and variable interest rates, the EIB has developed tailored financial instruments to encourage investment in the major transport networks across the Union and beyond. These include the Structured Finance Facility, which aims to match the types of funding to the requirements of large-scale infrastructure projects. With this facility, the EIB can reach projects with a credit quality that previously might not have qualified for EIB financing.

PPPs play an important role for investment in transport TENs. In 2007, PPP projects accounted for 10% of EIB transport lending linked to the trans-European networks (EUR 857m). In addition to finance, the EIB has also contributed to the setting up of the Loan Guarantee Instrument for Trans-European Transport Network Projects (LGTT) facility with a EUR 500m contribution from the EIB's Structured Finance Facility and an additional allocation of EUR 500m from EU budgetary funds over the period 2007-2013. The LGTT was finalised in 2007 and the effective launch took place on 11 January 2008 (http://www.eib.org/about/press/2008/2008-005-european-commission-and-european-investment-bank-launch-new-instrument-to-finance-european-transport-network.htm). The LGTT is a financial instrument that will provide guarantees for stand-by facilities to cover traffic revenue risks up to five years after the start of operations. It is a tool specifically designed to allow greater private sector participation in TEN projects that are exposed to volume risk at the beginning of the operating period.

The Bank has built up wide experience and expertise in the field of PPP financing and is ready to share this with the Member States and the Commission. That is why it has worked to establish a European PPP Expertise Centre (EPEC), with the aim of facilitating the effective sharing of experience and best practice in PPPs. Following an analysis of inputs from Member States and the Commission to verify the demand for EPEC's services, the EIB decided in 2007 to go ahead with EPEC and also to finance it in the first instance. The Centre will start its work in 2008.

Cooperation with the European Commission

Close cooperation continues with the EU Coordinators (a group of six ex-Commissioners promoting transport projects that are seen as key to the development of the trans-European network policy), the Commission (DGTREN), Member States, industry associations and the banking sector to accelerate, where possible, the effective launch of TEN projects and their financing. In 2007, cooperation with the European Commission intensified, with the Bank participating in a number of joint working groups and steering committees. Noteworthy EIB-Commission cooperation includes efforts to channel Structural and Cohesion Funds to trans-European network projects, specifically in the Member States of Central and Eastern Europe, and work on implementing European Rail Traffic Management Systems (ERTMS) in designated freight corridors.

JASPERS, the joint initiative between the EIB, the European Commission and the European Bank for Reconstruction and Development to aid the preparation of projects that receive Structural and Cohesion Fund resources, became operational in 2006. One of the sectors that will benefit most from the preparatory work offered by JASPERS is transport infrastructure (see also briefing note "Promoting economic and social cohesion").

Trends and highlights from 2007

Of the EUR 8.3bn that went to transport projects linked to trans-European networks in 2007, EUR 7.4bn was for projects in the EU, 46% of the loan volume going to priority projects as defined by the European Commission. As in previous years, Spain took up most of the financing for TEN projects (EUR 2.2bn). Italy was next with EUR 1.2bn, closely followed by Bulgaria with 1.1bn. The total lending volume increased moderately compared to 2006 and was fully in line with the long-term commitment to lend EUR 75bn over the period 2004-2013.

Rail, which is becoming an increasingly important priority sector for the EIB and the European Commission, accounted for 45% of overall trans-European transport network lending in 2007 (EUR 3.3bn), with roads and sundry infrastructure following at 40% (EUR 3bn). Lending in the aviation sector stood at 9% (EUR 630m), while loans for maritime investment reached 6% (EUR 434m).

Outside the EU the EIB lent EUR 916m supporting projects along major transport routes. Loans in the Accession Countries (EUR 540m) and the Balkans (EUR 150m) were signed, including a loan in Serbia for the Belgrade bypass in Pan-European Transport Corridor X, west and south of Belgrade. In the European Neighbourhood and Partner Countries, lending amounted to EUR 230m in Ukraine, and included a loan for the rehabilitation of the final section of the M-06 highway between Kiev and Brody, part of Pan-European Corridors III and V.

Key projects

<u>K-T-K Motorway PPP</u>

In Greece, the EIB provided a first Structured Finance Facility loan for the construction, operation and maintenance of the motorway from Korinthos to Elefsina and the Patras bypass in the trans-European transport network, which is partly a priority TEN and is also located in an Objective 1 area.

<u>LGV Rhin – Rhône</u>

In France the EIB signed the third and largest tranche yet of a loan for the eastern branch of the Rhine-Rhône high-speed rail line between Dijon and the German border. This is part of the pan-European priority project to improve rail traffic services along the Lyon/Geneva – Duisburg – Rotterdam/Antwerp line.

<u>Autobahn A-4 PPP Project</u>

In Thuringia, Germany, the EIB participated in the first German motorway PPP project – the construction of a section of the A4 motorway (Eisenach bypass) and the widening of an existing motorway to six lanes. The project uses an innovative financing scheme and is one of four motorway projects that will ultimately be financed from revenues generated by the toll road system for heavy trucks introduced in 2005.

For further information on the EIB, visit its website www.eib.org.

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