



## Trans-European transport networks (TENs) again draw more EIB loans

In 1993, the European Council decided on a trans-European network (TENs) policy in support of the European Union's economic and social integration and development. Trans-European transport networks (TEN-Ts) facilitate the freedom of movement of goods and people, 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.

Since the TENs policy was established, the EIB has been a leading source of finance for these high-quality and critical transport networks. In the period 2005-2009, the EIB lent EUR 45.5bn for investment in transport TENs. Given the continuing need for investment in large infrastructure networks across the Union, the EIB is committed to providing at least EUR 75bn for trans-European transport projects in the decade 2004-2013. In 2009, the EIB lent EUR 11.9bn for transport TENs and major transport axes, a 20% increase in comparison to 2008, which already showed the same increase in comparison to 2007.

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### Background

Mobility of goods and people is an essential contributor to a functioning internal market and a key component of the competitiveness of European industry and services. Transport is essential for economic growth and social development. The long-term perspective and the European dimension of major transport projects have made the Bank a natural financier of investments in the sector and a key player in financing the European transport sector.

The Bank's lending policy for this sector is multi-dimensional and integrates environmental concerns in all stages of the due diligence. Moreover, the Bank supports a range of transport projects where the explicit project aim is to achieve environmentally friendly and sustainable transport systems leading to substantial reduction of emissions of CO<sub>2</sub> and other pollutants. Lending to such projects has steadily increased over the last few years in both absolute and relative terms. This includes lending to urban transport systems as well as projects in the field of research and development aimed at reducing exhaust gas emissions, enhancing fuel efficiency and improving safety. Global warming risks are increasingly integrated into the Bank's project appraisal.

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### Recent developments

As in previous years, Spain took up most of the financing for TEN projects in 2009, EUR 2.4bn or 22%, in particular for the high-speed rail connection between Madrid and Valladolid and acquisition of rolling stock for high-speed railway lines, followed closely by Poland with EUR 2.1bn or 19%, notably for the construction of the east-west motorway between Swiecko and Toysl. The UK came third with EUR 1.7bn or 16%, in particular for the London Crossrail project, followed by Germany with EUR 1.4bn or 13% for the Autobahn A5 PPP and Berlin and Frankfurt airports.

Loans for road projects amounted to 42% (EUR 4.5bn) of overall trans-European transport network financing in 2009, the same percentage as last year. Rail, which is becoming an increasingly important sector for the EIB and the European Commission, accounted for 30% (EUR 3.2bn), whereas lending in the aviation sector stood at 16% (EUR 1.7bn). Funding for maritime projects, ports, container terminals and inland waterways (in the context of the focus on the "motorways of the sea" concept) accounted for 9% (EUR 1bn). EUR 341m (3%) went to sundry investments mostly through framework loans and fund investments.



Outside the EU, the EIB lent EUR 1.2bn in support of rail and road projects in Montenegro, Morocco, Serbia, Tunisia and Turkey.

In addition to the Bank's large, long-maturity loans with fixed and variable interest rates, eminently suited for financing large infrastructure investments, the EIB offers a number of special products. *Public Private Partnerships* (PPP) play an important role in investment in transport TENs. In 2009, 9% of EIB transport lending went to PPP projects, such as the M80 motorway in Scotland, the M5 motorway between Baden-Baden and Offenburg in Germany, the Baixo Alentejo motorway in Portugal and the M25 London ring-road widening in the United Kingdom.

The Bank has built up wide experience and expertise in the field of PPP financing and has been entrusted by the European Commission and EU Member States with establishing the European PPP Expertise Centre (EPEC) in Paris. EPEC aims to facilitate the effective sharing of experience and best practice in PPPs and to provide support for project preparation and advisory services to the public sector promoters of priority TEN-T projects.

In addition to the establishment of EPEC, the EIB continues to work closely with the EU coordinators, the Commission (DGTREN), EU Member States, industry associations and the banking sector to accelerate, where possible, the effective launch of TEN projects and their financing. 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 as well as on the Single European Sky ATM Research (SESAR).

The EIB has also contributed to the setting-up of the *Loan Guarantee Instrument for Trans-European Transport Network Projects* (LGTT). 2009 was the first full year of operations for the LGTT, which provides cover for lower than expected revenues that might occur because of lower than anticipated traffic volumes in the critical early phases of project operation. It is a tool specifically designed to allow greater private sector participation in TEN projects that are exposed to traffic risk. After a first operation signed with LGTT in 2008 (IP4 Tunnel de Marao, Portugal), 2009 saw two further LGTT signatures (the A5 in Germany and Baixo Alentejo motorway in Portugal). The A5 transaction, signed in the midst of the financial crisis, has truly been a breakthrough, combining EIB intervention on all possible levels (senior debt, LGTT mezzanine, and equity through the Meridiam fund in which the EIB holds a stake).

In 2009, the EIB also set up the *Marguerite Infrastructure Fund* together with leading European financial institutions. This new fund is specifically designed to provide direct equity for TEN projects.

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## Key projects

**Germany:** the Bank provided funding for the widening to six lanes of the A5 Autobahn between Baden-Baden and Offenburg, transforming the existing motorway into a high quality route, offering improved service and safety to users for a significant traffic volume. The project is a part of the trans-European transport network (TEN-T) and structured as a PPP for the design, construction, finance and operation of the road. The concession also includes the operation and maintenance of a further stretch of 18.3km (Malsch-Baden-Baden). The A5 project was the first transaction in which the EIB provided support on the senior debt, subordinated debt and equity levels. The Bank provided a senior loan of EUR 200m under the Structured Finance Facility, and a EUR 25m LGTT Facility in order to cover the traffic risk during the first 7 years of the operating period. Through its participation in the Meridiam infrastructure fund, it also helped to provide own funds to the project company. The participation of the EIB was considered crucial for the success of the financing in the midst of the financial crisis.

**Portugal:** the Bank part-financed the construction, widening, adaptation and improvement of various stretches of the 347 km-long Baixo Alentejo motorway in the South of Portugal connecting the cities of Sines, Beja, Evora, Setúbal and Castro Verde. The objective of this road project is to stimulate regional development, enhance safety and promote the connection between Sines Harbour to the future Beja International Airport and Spain, as well as to reduce travel time and vehicle operating costs by allowing for higher speeds while shortening distances. The project is part of a TEN-T network, is entirely situated in a convergence region, and is part of the Portuguese PPP road programme. The Bank contributed to the project in the form of a EUR 200m senior loan and a EUR 25m



The bank of the European Union



LGTT Facility in order to improve the terms and conditions on which the borrower could finance the investment. It was the second LGTT intervention in Portugal after support for the IP4 Tunnel of Marao project in 2008.

Spain: with the Barcelona Port Authority, the Bank financed the expansion of container facilities and the improvement of rail and road connections at the port of Barcelona, needed to accommodate future traffic growth and to cope with the rapidly increasing traffic serving the port of Barcelona's powerful hinterland in Catalonia and the larger Euro-Mediterranean region. The EIB provided EUR 150m on a very long-term basis consistent with the nature of the project's assets, helping to diversify the promoter's funding sources.

United Kingdom: under the Structured Finance Facility, the Bank invested EUR 447.5m in a PPP project for widening some 100km of the M25 from 3 to 4 lanes. The investment is at the heart of the strategic road network in the UK and includes many of the most heavily trafficked and critical elements. The loan will help to operate and maintain the entire project road as well as a substantial portion of the existing network throughout the period of the concession.

United Kingdom: in Scotland the Bank provided EUR 157.46m to finance the upgrading of the M80, the only non-motorway section of the Glasgow to Stirling trunk road, which is part of the TEN-Transport network. The upgrading will enhance the environment, safety, the economy, regional integration and accessibility.

United Kingdom: the EIB financed the construction of the East-West urban rail link connecting central London with some of its main outskirts, Heathrow Airport and the high-speed railway stations of Paddington and Stratford. The total length of the project is some 119 km, with eight new subsurface stations and 23 km of new underground infrastructure, partially using existing rail corridors. Attractive EIB funding resulted in a lower project cost, benefiting both users and taxpayers.

For further information on the EIB, visit its website [www.eib.org](http://www.eib.org)

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