EUROPEAN COMMISSION

Brussels, 19.10.2011
COM(2011) 676 final

COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN COURT OF JUSTICE, THE COURT OF AUDITORS, THE EUROPEAN INVESTMENT BANK, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND TO THE COMMITTEE OF THE REGIONS

A growth package for integrated European infrastructures

(Text with EEA relevance)

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1. INTRODUCTION AND SUMMARY

In the past decade, infrastructure spending in Europe has been, on average, on a declining path. The economic and financial crisis has, however, brought renewed interest in the need for infrastructure investment. During the economic crisis, targeted investments in infrastructure renewal or construction have been an important part of stimulus and recovery plans at EU and Member State levels, as a way of supporting aggregate demand while ensuring a long term return from money spent. Most importantly, the crisis has shown that infrastructures are crucial for Europe's economic future.

A truly integrated Single Market, as the Monti Report indicated[1], would not be possible without a seamless connection between all its component parts. Roads and other transport connections, electricity and gas grids, as well as broadband networks are vital for a functioning, integrated economic area and for its social and territorial cohesion. Yet, while regulatory integration advances within the EU and markets become more integrated, most recently in the energy sector with the adoption and entry into force of the third liberalisation package, cross-border physical interconnection is lagging. Missing links exist, notably in the newer Member States, creating dividing lines between the centre and peripheries of the European Union and hampering the further development of intra-community exchanges or the growth of new economic sectors, such as e-commerce.

New infrastructure needs also arise in connection with the implementation of the Europe 2020 Strategy. Fostering Europe's transformation into a knowledge-intensive, low-carbon and highly competitive economy requires adequate modern and flexible energy, transport and ICT infrastructure networks. The Commission has highlighted, among its priorities for growth[2], the necessity to take forward the transport, energy and telecommunication infrastructures needed for a truly integrated single market. It also called on Member States, in the context of a reinforced economic governance, to continue playing their role, both regulatory and financial, in these crucial areas, despite the current economic crisis.

[1] "A new Strategy for the Single Market at the service of Europe's economy and society". Report by Mario Monti to the President of the European Commission, 9 May 2010, page 64-65

[2] Annual Growth Survey 2011, COM(2011)11

Overall investment needs for networks of European importance amount to about EUR 1 trillion for the period up to 2020 in the three sectors mentioned above[3]. How to meet this investment challenge is one of the big questions that the European Union has to face in the next decade. While the market, through appropriate investment and pricing mechanisms, is expected to play a major role in delivering the required infrastructures, without public intervention, some of the necessary investments would not take place or will be delayed far beyond 2020. This is why the Commission today is proposing an infrastructure package, composed of a new budgetary instrument, the Connecting Europe Facility, as well as revised guidelines for transport, energy and ICT.

2. COMMON CHALLENGES AND SECTORAL POLICY GUIDELINES

In the three sectors of transport, energy and digital infrastructures, similar challenges and bottlenecks can be observed, requiring similar solutions. Even though the bulk of infrastructure investment can be delivered by Member States and markets (with regulatory measures), it is unlikely that the scope and speed of investment would allow the achievement of Europe 2020 objectives. EU level intervention, through grants and financial instruments, will focus on initiatives that eliminate or reduce market fragmentation, increase European security, have considerable growth enhancement potential and/or socio-economic benefits which cannot be captured or monetised at project level. It will also unlock short term employment in construction phases.

Internal synergies for management of the Facility are also significant: common agency use will help achieve economies of scale. A high level of co-ordination at programme level will allow to realise synergies between the sectoral works: energy, transport and broadband networks may share common facilities (manholes, ducts, access to premises) therefore it makes sense to encourage a coordinated deployment of passive network elements in co-operation with relevant national, regional and local authorities.

TRANSPORT

Despite significant investment, the European Union does not currently have a network of interconnected cross-border transport infrastructure that is sufficiently interoperable and resource-efficient. As highlighted in the Communication on a "Roadmap to a Single European Transport Area – Towards a competitive and resource efficient transport system"[4], transport infrastructure is essential in order to guarantee the operation of the single market, and must promote competitiveness and sustainable growth. In addition to the lack of coordination between Member States in the areas of project management, planning and funding, the absence of a global framework for funding at European level that can target the most significant bottlenecks and cross-border missing links in the single market is a major obstacle that must be tackled in the next multi-annual financial framework.

The new TEN-T Guidelines will provide a policy framework where European infrastructure serves the establishment of the Single European transport area. The Guidelines also set out a regulatory framework with standards ensuring efficiency and interoperability. Furthermore,

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3 About EUR 500 billion in transport, EUR 200 billion in energy and EUR 270 billion for fast broadband infrastructures.

4 COM(2011) 144

they create a more robust, more binding planning framework, composed of the Comprehensive and Core Networks, which will allow European efforts by Member States, EU institutions and stakeholders, to concentrate on fostering the emergence by 2030 and 2050 of a functional network of European infrastructure.

The comprehensive network constitutes the basic layer of the TEN-T. It consists of all existing and planned infrastructure meeting the requirements of the Guidelines. The comprehensive network is to be in place by 31 December 2050 at the latest.

The core network overlays the comprehensive network and consists of its strategically most important parts. It constitutes the backbone of the multi-modal mobility network Europe's citizens and businesses need. It concentrates on those components of TEN-T with the highest European added value: cross border missing links, key bottlenecks and multi-modal nodes. The core network is to be in place by 31 December 2030 at the latest and will be financed through the Connecting Europe Facility.

The TEN-T guidelines also aim at reinforcing implementation instruments around the concept of core network corridors, taking due account of the rail freight corridors[5]. These corridors will provide the framework instrument for the coordinated implementation of the core network. In terms of scope, the core network corridors will in principle cover three transport modes and cross at least three Member States. If possible, they should establish a connection with a maritime port. In terms of activities, the core network corridors will provide a platform for capacity management, investments, building and coordinating multi-modal transhipment facilities, and deploying interoperable traffic management systems.

ENERGY

Major efforts are needed to modernise and expand Europe's energy infrastructure and to interconnect networks across borders to meet the Union's core energy policy objectives of competitiveness, sustainability and security of supply. The Commission's Communication on energy infrastructure priorities for 2020 and beyond[6], adopted on 17 November 2010, therefore called for a new EU energy infrastructure policy to coordinate and optimise network development on a continental scale. It confirmed in particular the necessity to overhaul the existing Trans-European Networks for Energy (TEN-E) policy and financing framework. Such a new policy is crucial to ensure that solidarity between Member States will become operational, that the internal energy market is completed and isolated regions are linked to the European network, that alternative supply or transit routes and sources of energy will materialise and that renewables will develop and compete with traditional sources, as highlighted by the 4th of February 2011 European Council.

The new guidelines for trans-European energy infrastructures establish rules for the timely development and interoperability of trans-European energy networks.

More specifically, they aim at creating the best conditions for developing energy infrastructure projects that support the full integration of the internal energy market, including by ensuring that no Member State is isolated from the European network and contributes to

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5 Regulation (EU) No 913/2010 of 22 September 2010 of the European Parliament and of the Council concerning a European rail network for competitive freight, OJ L 276, 20.10.2010, p. 22.

6 COM(2010)677

sustainable development and protection of the environment by enabling the Union to achieve its targets of a 20%[7] reduction of greenhouse gas emissions, 20% increase in energy efficiency and 20% share of renewable energy in final energy consumption by 2020, while ensuring security of supply and solidarity among Member States.

To this effect, the Guidelines identify, for the period up to 2020 and beyond, a limited number of trans-European priority corridors and areas covering electricity and gas networks as well as oil and carbon dioxide transport infrastructure, for which European action is most warranted. It then aims at implementing these priorities by:

– streamlining permit granting procedures to significantly reduce their duration for projects of common interest and increase public participation and acceptance for the implementation of such projects;

– facilitating the regulatory treatment of projects of common interest in electricity and gas by allocating costs across borders depending on the benefits provided and ensuring allowed returns are in line with risks incurred;

– ensuring implementation of projects of common interest by providing necessary market-based and direct EU financial support. In this latter regard, the proposal provides the basis for eligibility of projects for EU financial assistance under the Connecting Europe Facility.

DIGITAL INFRASTRUCTURES

Investing in high speed connectivity and services provided by (or via) modern internet networks is investing in the future. Digital Infrastructures – both physical and service based – are key enablers for the smart growth that Europe must achieve in the coming ten years in order to ensure its ability to compete internationally and generate wealth for its citizens. Indeed, this initiative is anchored in the Europe 2020 Strategy for smart, sustainable and inclusive growth, which put digital infrastructures at the forefront as part of the flagship initiative "Digital Agenda for Europe". It underlined the need to ensure the roll-out and take-up of broadband for all, at increasing speeds, through both fixed and wireless technologies, and to facilitate investment in the new very fast open and competitive internet networks that will be the arteries of a future economy.

The purpose of the guidelines is to establish the objectives and priorities envisaged for broadband networks and digital service infrastructures in the field of telecommunications. The guidelines further identify projects of common interest for the deployment of broadband networks and digital service infrastructures (eg eHealth, eIdentity, eProcurement etc). These projects will help to address the issues identified as important blockages for the development of a Digital Single Market, including e.g. the lack of broadband investment in Europe compared to our main competitors which leaves growth potential and societal benefits untapped; the need to increase competitive pressure in the area of modern broadband networks and the need to develop adequate strategies to publicly support the rollout of broadband networks in areas where there is no business case. For the digital services, the blockages mainly concern the absence of technical interoperability making essential on-line public services stop at the border. There are no natural owners of European interoperable

[7] 30% if conditions are right.

service infrastructures and neither single Member States, nor private investors would ensure service deployment within interoperable frameworks. The EU added value is thus high.

The CEF for Digital infrastructures will support, with a mix of grants and innovative financial instruments, investments in networks capable of achieving the targets of the Digital Agenda for Europe flagship initiative of universal coverage at 30Mbps; or having at least 50% of households subscribing to speeds above 100Mbps. A balanced portfolio of 30 and 100 Mbps projects will be created and due account will be taken of Member States' investment needs which are indicatively assessed to be up to 270 billion €.

For the digital service infrastructure, interoperable frameworks are financed through direct grant schemes and include e.g. trans-European high-speed backbone connections for public administrations, cross–border delivery of eGovernment services based on interoperable identification and authentication (enabling e-procurement and e-Justice as well as eHealth services); digital resources of European heritage; safety and security (safer internet and critical service infrastructures) and smart energy services.

These projects shall contribute to improving the competitiveness of the European economy including small and medium sized enterprises (SMEs), promote the interconnection and interoperability of national networks as well as access to such networks and support the development of a Digital Single Market. In order to be able to adapt to changing political priorities, technological developments or the situation in the relevant markets, it will be possible to identify new projects of common interest in the course of the implementation of these guidelines.

3. CONNECTING EUROPE FACILITY (CEF) –A COMMON INFRASTRUCTURE FUNDING INSTRUMENT

Building on the experiences and lessons learned under the existing TEN policy framework, the Commission is now proposing a new "European infrastructure package" (EIP) based on the "Connecting Europe Facility" which will be the common financing instrument for trans-European networks, creates the framework within which the sector-specific policy guidelines presented above will apply. As some of the infrastructure projects of Union interest might need to pass through pre-accession, neighbourhood and other third countries, the CEF may support where appropriate projects of common interest in order to connect the trans-European networks with infrastructure networks of these countries.

The aim of the CEF is to streamline and facilitate EU support to infrastructures by optimising the portfolio of instruments available, standardising the operational rules for using them, and capitalise on possible synergies across the three sectors. This coordinated approach will not only ensure the largest possible EU added value, but will also simplify procedures and reduce collective costs.

To this end, the CEF proposal develops a common financing framework for all sectors, including co-ordinated annual work programmes, a common Committee, flexibility between sectoral budgets, increased performance indicators and conditionalities and the shared use of infrastructure specific financial instruments.

CEF funds will be centrally managed, either directly by Commission staff with the support, as needed, of an executive agency or through a partnership between the Commission and one or more financial institutions. Solutions for the operational management of the various instruments under the CEF will be proposed within the appropriate legal framework, building on the experience gained with the TEN-T Executive Agency and the existing cooperation with the European Investment Bank.

The Facility will be coordinated with the other interventions coming from the EU budget such as "Horizon 2020" and the Cohesion and Structural Funds.

As regards the coordination with Horizon 2020, it will ensure complementarities while avoiding potential overlaps. The coordination between the CEF and Horizon 2020 will guarantee that the research and innovation chain leading to deployment in infrastructure is not interrupted. It is particularly critical at a time when significant technological advances in transport, energy and ICT will be needed to help the EU meet its ambitious Europe 2020 Strategy's objectives.

As regards the relation with the Cohesion and Structural Funds, the cohesion policy's Common Strategic Framework as well as Partnership Contracts with Member States will be closely coordinated with the policy frameworks in the transport, energy and ICT sectors. The respective sector-specific guidelines will rely on the Cohesion and Structural Funds to deliver the local and regional infrastructures and their linkages to the priority EU infrastructures, connecting all citizens throughout the EU.

The Connecting Europe Facility will have a budget of EUR 50 billion[8] for the period 2014-2020, of which EUR 10 billion are earmarked in the Cohesion Fund for transport infrastructure.. While the Facility will be a centrally managed instrument, the greatest possible priority will be given to respect the national allocation under the Cohesion Fund when allocating the EUR 10 billion. These EUR 10 billion will be reserved for Member states eligible for the Cohesion Fund, and co-financing rates from the EU budget will be set at the same level as the Cohesion Fund.

CEF	**EUR 40 billion**
• Energy	EUR 9.1 billion
• Transport	EUR 21.7 billion
• Telecommunications/Digital	EUR 9.2 billion
Amounts earmarked in Cohesion Fund for transport infrastructures	EUR 10 billion
Total	**EUR 50 billion**

4. FINANCIAL INSTRUMENTS WITHIN THE CEF – MAXIMISING EU IMPACT

While EU governments spend on average 1% of GDP on infrastructure investments[9], they have increasingly encouraged the private sector to finance infrastructure investment. This has

[8] All figures in constant 2011 prices

[9] Between ½ and 2%, see Alegre et al, EIB Papers Volume 13/1 (2008). The main bias affecting the estimate is the classification of the investment of commercially operating companies as private even if they are owned by the public sector.

been done either on a purely private sector basis through privatisation, through concessions or, more recently, using the public-private partnership (PPP) model as a basis.

However, the current flow of private finance is not sufficient to address the significant investment needs of infrastructure sectors. Moreover, private finance is not readily available at maturities and conditions which would reflect in an appropriate manner the economic life-cycle of commercially viable long-dated infrastructure projects. Therefore, equity and debt instruments are needed aiming to reduce specific barriers that prevent accessibility to equity and debt finance to projects of key Union interest, i.e. those under the Connecting Europe Facility.

The objective of the infrastructure instruments is to attract private sector financing to help Europe to unleash its potential in the moment of a crucial transformation and the shift towards a resource efficient and low carbon economy. These instruments play an increasingly important role towards reaching Union's strategic goals by ensuring that the financing necessary for the implementation of projects with potential to stimulate economic growth can be raised. Financial instruments have particular added value when EU policies require a high speed of implementation, but uncertainties for projects and financial markets are above average, as in the current economic environment. Furthermore, financial instruments create a multiplier effect for the EU budget by facilitating and attracting private financing for projects of EU interest and thus maximise the impact of the EU budget.

The toolbox of instruments should set the base for a long-term stable investment framework and act as a catalyst and stimulator. The Connecting Europe Facility seeks to fill this by two types of main instruments:

- Equity participations in equity funds which provide risk capital to actions contributing to projects of common interest;
- Loans and/or guarantees to projects of common interest facilitated by risk-sharing instruments, including enhancement mechanisms for long-term bank lending and for project bonds issued by project companies;

These instruments will target policy objectives across Europe 2020 priorities and will cover the three policy areas of transport, energy and digital infrastructures in order to avoid unnecessary multiplication of instruments of a similar nature or with similar target beneficiaries and project structures. The intervention logic envisaged is for the Commission to work closely with relevant international financial institutions such as the European Investment Bank.

However, the long-term planning, construction and operational time horizon of infrastructure projects also needs a long-term preparation to implement financial instruments. This is why, simultaneously to the Connecting Europe Facility proposal, the Commission is proposing to launch a pilot phase of the Europe 2020 Project Bond Initiative already under the current financial framework. A functioning project bond market, which at the moment hardly exists in Europe, can bring together infrastructure projects and long-term, risk averse investors such as pension funds and insurance companies. The pilot phase will pave the way for a fully fledged risk sharing instrument for loan and project bond financing of infrastructure projects once the Connecting Europe Facility enters into force.

5. A STEP CHANGE IN INFRASTRUCTURE FINANCING IN EUROPE

The costs for Europe of not investing sufficiently in its future networks could be very high. The growing interdependence of European economies and the changing direction of trade flows are putting existing infrastructure systems under strain, while new business opportunities or citizens' needs demand modern, smart and flexible networks. The Europe 2020 goals, such as promoting the transition to a low-carbon resource efficient economy or shaping a digital economy cannot be realistically achieved unless their infrastructure implications are adequately addressed.

The EU has traditionally played an important role in stimulating Member States and markets to invest in infrastructure of European interest and with wide socio-economic benefits through its policy supporting the development of trans-European Networks. Today, the strategic importance of modernising and upgrading the stock of physical infrastructure in Europe and the scale of the investment challenge associated to it require a step change in the way the EU identify, support and implement cross-border infrastructure networks.

The proposal for an integrated multi-sectoral Connecting Europe Facility, complemented by specific guidelines for the transport, energy and telecommunication sectors, aims at setting up the right conditions to boost infrastructure development, leverage funding from private sources at a time in which public budgets are severely constrained, and help revitalise the interest of long term specialised investors for investing in Europe, thus contributing to growth and job creation. Together with the new approach to the use of innovative financing instruments and the launch of a pilot project on Europe project bonds, this package of proposals is designed to deliver the change of pace Europe requires to stand up to the infrastructure challenge.