TRANSPORT & ENVIRONMENT
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The Project Bonds Initiative

Response to the public consultation

May 2011

1. Outline of T&E position on the Project Bond Initiative

About the principle
- The project bond initiative is about boosting project investment by offering public guarantees for private investments. Intrinsically, it follows that the 'success' of the instrument in raising funds will depend on the amount of risk transferred. But the financial crisis has shown us definitively that public guarantees for private debt are not 'free'. Ultimately taxpayers from the 27 EU Member States will pick up the bill when things go wrong. We are surprised and concerned that this fundamental issue is not explicitly dealt with in the consultation document, let alone strategies for mitigating it. This suggests the Commission is pursuing a predetermined political agenda, instead of properly weighing the pros and cons of a policy option on its own merits.

- We are equally worried about the lack of clarity over what kind of public interests and projects would get the backing of this instrument. Low-carbon and pro-biodiversity performance should be established as a primary condition for the availability of this financial mechanism. Again, the fact that the Commission is unable and/or unwilling to provide this clarity suggests that it wants to keep maximum discretion for decisions for itself;

- Transport projects funded through the project bond initiative should contribute to the decarbonisation objective, i.e. reduction of greenhouse gas emissions, established through a transparent and open methodology;

- Biodiversity concerns should also be integrated as a condition for project eligibility. Public support through the project bond initiative should be made fully conditional upon maximum effort to avoid areas of high nature and biodiversity value.

- The planning, selection and implementation of the projects selected to benefit from this financial instrument should be done in the most transparent way possible. The public has the right to know what kind of risk its tax money is backing.

2. Financial implications

In parallel to the budget review 2014-2020 which is now under preparation at the Commission, the EU and EIB have launched a joint initiative to open funding for European transport and energy infrastructure projects outside of the traditional framework for public funding, in particular by supporting project companies issuing bonds for large-scale infrastructure projects.

Should EU public money be used to share the financial risks of private investment?

By providing guarantees or loans to support the issuance of these bonds, the EU together with the EIB (or other financing actor) will absorb much of the risk and therefore lift the credit rating of the project. As a result, the EU-supported credit enhancement will improve the attractiveness of the project for private investors. In fact, the more risk EU taxpayers take, the more attractive the project becomes in the market. As the core of the EC proposal is to introduce a risk-sharing mechanism for infrastructure projects, this problem is intrinsic to the instrument proposed by the project bond initiative. Neither in its consultation document nor in any other public statement on the project bonds initiative does the Commission provide clarity about how it intends to manage this risk and where the limits of the instrument should be.

The need for strict and transparent control instruments
The consultation document indicates that *"the EU risk would be ring-fenced and its participation therefore capped at an agreed annual budgetary amount"* but it is also important for both the EU Commission and the EIB to act as a controlling creditor when the project bond instrument be used. This should be a non-negotiable condition of EC / EIB involvement. In addition, strict standards and appropriate instruments must be introduced for

the assessment and monitoring of the financial, social and environmental impacts of projects.

Given the inherent problem linked with the involvement of public funds in risk-sharing instruments, the need for public guarantees for infrastructure projects should be carefully assessed and the initiative should only benefit projects that contribute to the EU's long-term climate objectives. Moreover this assessment should be done in the most transparent way in order for citizens to know what projects benefit from the instrument, what is the scope and the risk that is covered by the EU / EIB guarantee.

3. Consistency with EU environmental policy and long-term targets

The project bond initiative, which is presented as a complementary tool to fund EU infrastructure policy should be subject to the same conditions as the multiannual financial framework, i.e. consistency with EU law, especially when it comes to environmental legislation and the projects' coherence with EU climate and resource efficiency targets.

Need for strong environmental eligibility criteria complementing the financial ones

In April 2011, the European Commission published its White Paper on Transport that reiterates the EU objective to cut transport emissions by 60% by 2050 compared with 1990 levels i.e. a 70% cut compared with 2008 levels. Infrastructure investment is one of the most effective tools to deliver these objectives and hence has to be aligned with the general decarbonisation objectives of the sector.

Funding for transport infrastructure should strictly concentrate on low-carbon transport and energy infrastructures. As has been demonstrated countless times, it is perfectly possible to finance motorways and airports with private money. In order to ensure that only projects contributing to the *decarbonisation* objective are selected to benefit from the project bond initiative, strict eligibility criteria should be set by the Commission and the EIB.

In the selection process, the climate and biodiversity impacts of projects should be assessed in parallel to their socio-economic viability. When projects are economically viable and can be self-financed by private investors without the support of public funds, they should not benefit from the project bond mechanism. Similarly when the greenhouse gas (GHG) impacts of a project will have long-term negative consequences for the climate, e.g. airport construction and airport expansion, the project should not be selected for support from this instrument.

Focusing on sustainable transport infrastructure

While projects in the renewable energy and low carbon sectors are considered to be challenging by the EC consultation document, we believe that they should be the main target for this kind of initiative. Smart grids, smart metering, appropriate electricity infrastructure for the transport sector are all objectives that should be pursued by both the EU and EIB in order to adapt the transport sector to future infrastructure needs.

Many smart projects, such as those implementing efficient traffic management system, intelligent transport systems or promoting intermodality, do not reach the threshold suggested by the Commission (€200m). This intrinsic promotion of megaprojects is another worry; megaprojects tend to carry greater risks and budget overruns than smaller projects.

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