How rail projects can attract new investors and make the best use of EFSI?

Dear Honourable Members of the European Parliament, Dear Mr Riquet, Ladies and Gentlemen,

My name is Paul Mazataud. I am in charge of European affairs within SNCF Réseau, the French rail Infrastructure manager. SNCF Réseau with 21 other European Infrastructure managers, a few industry organisations and the European Commission is a member of PRIME, the Platform of Rail Infrastructure Managers in Europe. Within PRIME, I co-chair with Stephane Ouaki, from the European Commission, the working group in charge of the financing of rail infrastructure. It is in this capacity that I will try today to answer the following question: How can rail projects attract new investors and make the best use of EFSI?

First, I would like to say a few words about the current financing of rail infrastructure.
Most of the European IMs have a legal and financial status that make them be assimilated to a governmental agency. Even though it varies from one country to another, there are a lot of governmental agencies to finance health care, pensions, unemployment, social housing, emerging countries development, etc. All of them benefit from an implicit or an explicit guarantee from their government. In fact, the credit rating of SNCF Réseau is the same as the credit rating of France.
However, the rail IM is not perceived by investors as the same as any other governmental agency and this can be observed when we look at the maturity of the funding that investors can accept.

- For a typical corporate entity, investors can lend for a maximum period of 4 or 5 years
- For the average governmental agency, they can lend for a maximum of 7 or 8 years
- For a rail infrastructure manager, they can lend for a maximum of 13 or 14 years.

This is because rail infrastructure managers are real industrial companies and they carry tangible long term assets. This is highly valuable because this enables us to enjoy the debt structure that suits us the best. We can limit interest rate risk and also the amount of debt that we have to raise each year.

The second message I would like to pass has to do with the establishment of project companies. As you know, it is possible to fund an infrastructure project through the creation of a special purpose company that issues equity and debt and uses this money to finance the construction of an infrastructure or at least to purchase the right to operate this infrastructure for a long period of time. This kind of structure is usually linked with the concept of PPP (public private partnership).
Since the financial crisis of 2007/2008, this kind of company has been popular in the investor community for at least two reasons:

1) The infrastructure paper (equity, bond or loan) has proven to be very resilient to the financial crisis as illustrated for example by Spanish projects;
2) In a context when interest rates have reach record low level, it is an asset class that continues to generate a relatively high return in comparison with other asset class with a comparable credit risk. In other words, it is perceived to be a good risk/reward balance.

As a result of this, since the beginning of this decade, most of the big institutional investors (insurance companies, pension funds, etc) have created dedicated infrastructure funds.
So, my second message is "there is a strong appetite from investors to invest in rail infrastructure assets".

Last, I would like to say a few words about EFSI and first answer the following question: "if there is such a big appetite from investors in the rail infrastructure business, why are there so few PPPs and similar innovative financing tools, including EFSI?"
To answer this, I would like to remind you that the projects that suit best innovative instruments are projects that generate enough revenues and that are relatively separated from the rest of the infrastructure (to avoid a complicated management of the interfaces).
The ideal rail infrastructure is in fact the construction and the management of a new high speed line.
Unfortunately, there is a secular trend that leads to a reduction of the construction of new high speed lines in Europe. Of course, we will still see some but many less than ten or twenty years ago.
So we need to find ways to use innovative financing tools for the enhancement of conventional infrastructure (i.e. existing lines). Investments on these lines usually do not generate returns that cover the initial investments. Returns are usually low or very low (5%, 10%, 20%). This means that when we invest 100€ in the rail infrastructure, the extra track access charges that we receive or the savings that we make are worth 5€, 10€ and 20€. So someone else has to fund the remaining 95€, 90€ or 80€.
There are some exceptions where returns exceed 50% or even 70% but these are more the exceptions than the rules. Note that the trackside investments in ERTMS level 2 may be one of these exceptions.

To address this difficulty, I believe that it is essential that rail IMs, the Commission and EIB work on a combination of CEF type grants and EFSI financing. To say it otherwise, I believe that there are projects where CEF could fund 20%-30%-40% or even 50% of the investment and the EIB or private investors could finance the rest.

To conclude, I would like to pass simple messages: Yes there is a strong appetite from investors to invest in rail infrastructure but we need to find innovative tools to ensure that the needs of the sector match the needs of the investors. CEF grants are obviously not enough to cover the needs of the sector. On the other hand, EFSI financing alone is not well adapted to the needs of the sector and it is no surprise that we haven't seen t rail infrastructure projects funded by EFSI yet. The solution is probably to offer the possibility (but not the obligation) to apply for a product that would combine the pros of both CEF and EFSI.

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