FIEC

"The Europe 2020 Project Bond Initiative"
FIEC contribution to the Commission's consultation

FIEC is the European Construction Industry Federation, representing via its 34 national Member Federations in 29 countries (27 EU & EFTA, Croatia and Turkey) construction enterprises of all sizes, i.e. craftsmen, small and medium-sized enterprises as well as "global players", carrying out all forms of building and civil engineering activities.

GENERAL STATEMENT:

FIEC welcomes the European Commission's on European infrastructure project bonds. As a complementary option to direct co-financing of specific projects, this initiative enlarges the panel of innovative instruments necessary to meet the challenge of financing large European infrastructure projects in a difficult "post-crisis" public and private financial context.

However, FIEC doubts that this new initiative alone will be able to close the huge financing gaps identified by the European institutions over and again. It is evident that the EU and the Member States will have to invest much more than the modest sums provided in the EU or national budgets. Investment in infrastructure is not less "systemic" than investment in banks.

Indeed, the implementation of EU project bonds should not be abused as a mean to reduce the continuation and/or development of other types of public co-financing and private co-investment. It should not be abused by the EU and Member States to reduce their co-funding of public infrastructure. Public funding has an important leverage role to play for attracting private co-investment. It has to be public AND private funding! Public OR private financing alone is no option!

The further development of all kind of infrastructures is of fundamental importance for Europe's competitiveness, long-term growth, the well-being of the citizens, as well as for reaching 2020 and 2050 sustainability, energy supply and energy efficiency goals.

In this framework, FIEC notes that there is a huge gap between "western" and "eastern" European countries in terms of transport and energy infrastructure, namely related to modernisation needs. Specific measures or instruments should be set up to close this gap. Joint projects, methodological support and the exchange of best practices between "western" and "eastern" European countries would be very helpful in this field.

Setting project bonds for large infrastructure projects in Europe would help attracting private sector investors and mobilising the necessary financing to meet EU's strategic infrastructure needs. Using appropriations from the EU budget as well as EIB guarantees and expertise would be a powerful leverage to enhance the credit rating of bonds issued by project companies themselves and increase the attractiveness of long-term investment to private sector participants.

FIEC agrees with the necessity to draw up strict eligibility conditions for those projects benefiting from this initiative. **As stated in the consultation paper, they should be economically and technically sound and cost-effective, have stable and strong cash flows and have a real prospect of financial viability**. However, a more precise definition of the projects of high European economic interest to be selected should be developed, namely priority projects as they should be identified in the next multi-annual framework.

In this framework, **the EU needs to clearly assess by itself the risks and financial viability of such projects/financial operations**. For this purpose, it is necessary to undertake a serious *ex ante* socio-economic analysis in several steps: economic analysis, financial analysis and adapted contract form. An ex post analysis should be undertaken after implementation of the project in order to collect good practices in this field.

The concept of risk-sharing between the EU and the EIB should be further developed, probably in a bilateral Convention as the one agreed for the LGTT instrument.

Uncertainties also remain regarding the financial and political controls over this system, as well as on the governance of the project entities. This needs to be clarified.

Moreover, it is necessary to clarify the coherency between the strategic objectives aiming at promoting the financing of long-term investment and the set of accounting rules which apply in this framework and seem very badly adapted to these long-term investment – IFRS rules and SOLVENCY II, promoting the concept of “fair value”.

Finally, it has to be ensured that the corresponding works, supply and services contracts of projects benefiting from such EU support and EU funds can only be awarded to enterprises from countries for which symmetric market access is guaranteed, i.e. member countries of the EU, the EEA or the WTO-GPA.
At the same time, it has to be ensured that investment or forbidden state-aid from third countries does not have any impact on fair competition between enterprises on a level playing field.

ANSWERS TO THE QUESTIONS:

1) Is the chosen mechanism likely to attract private sector institutional investors to the sectors of transport, energy and ICT in particular?

Yes, in general, FIEC considers that this mechanism is likely to attract private sector investors. Nevertheless, it will depend on the exact characteristics of the projects and the corresponding project bonds.

Despite the general doubts about the rating industry, following the US sub-prime crisis, achieving financing structures with a strong investment-grade credit rating might also be the only realistic way to convince such investors (infrastructure funds, pension funds, insurance companies) on a significant scale.

2) Are there other sectors with large-scale infrastructure financing needs that should be included?

The proposed scope for the Initiative (transport, energy and broad band infrastructures) seems appropriate, at least in a pilot phase.

3) Would the credit enhancement facilitate/accelerate the conclusion of financing packages?

Yes, logically, this should stimulate competition in the financial sector and have a positive impact on projects.

The credit enhancement will be useful to both accelerate financial close of bankable projects, and to make bankable other projects – given the additional support of the EU and the EIB.

It will open the market to different investors (institutional investors, pension funds, etc.) and this will initiate a competitive process in the market which will impact positively on the project.

4) What minimum rating of the bonds would be sufficient to attract investors?

Despite the doubts expressed earlier, it will be necessary to achieve a strong investment-grade credit rating in order to attract investors. Some experts mention "A-", others "BBB". Rather than entering into a dogmatic and theoretical discussion on ratings, FIEC would prefer the discussion to concentrate on the quality of the project and the mechanisms covering certain risks, in order to offer convincing packages for projects with recognised socio-economic need and usefulness.

5) What degree of credit enhancement would be necessary to achieve this rating?

It is difficult to give a specific answer to this question because the need for credit enhancement will depend on the characteristics, risks and opportunities of each project as well as on the financial situation of the company.

6) Which impact would the Initiative have on financing costs and on maturities?

The impact on maturities may be significant. The Initiative should allow for longer maturities than those available currently in the bank market.

Financing costs should also decrease but this will depend on how the credit enhancement is priced.

In any case, the introduction of the credit enhancement will make bond financing a second possible financing market and will open the market to a positive competitiveness process, which is critical to deliver affordable projects and ultimately ensure a positive impact on clients', users/citizens' and Member States' budget.

7) Is it essential that a single entity acts as controlling creditor?

No answer.