

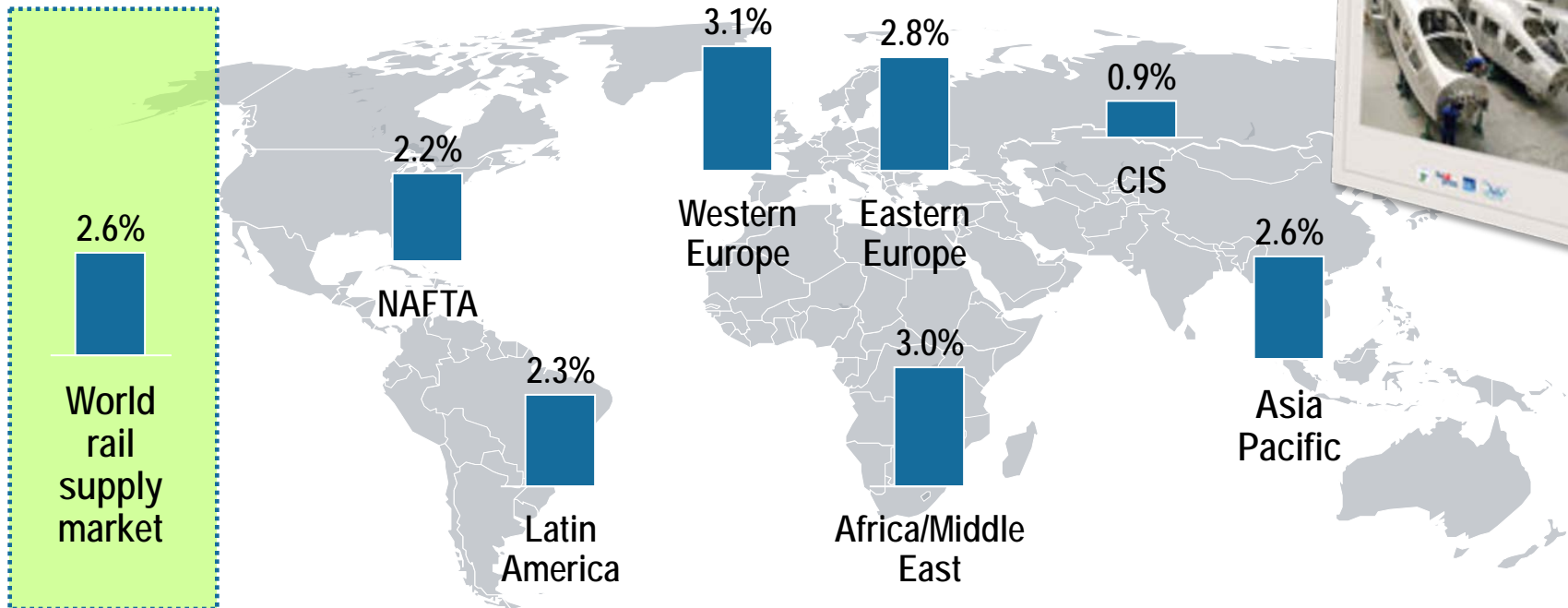
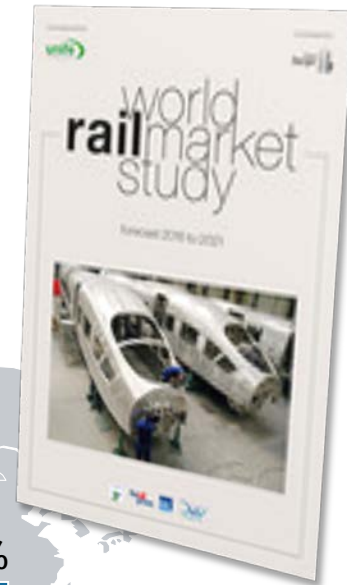


The growing importance of project financing in international competition

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Competitiveness of the European Rail Supply Industry
First Workshop on Procurement and International Aspects
Brussels, 5 October 2017

UNIFE World Rail Market Study (by Roland Berger) with forecasts for 2016-2021



Compounded annual growth rate of total market 2019-2021 vs. 2013-2015
Source: UNIFE WRMS 2016

- **No binding international treaty governing ECAs**
- **Without cooperation, competition could result in an export subsidies ‘war’**



- **Non-binding OECD ‘Guidelines for Officially Supported Export Credits’ which are voluntary and limited in membership**
- **International Working Group on Export Credits (IWG) working on new global guidelines**

The OECD Sector Understanding on Export Credits for Rail Infrastructure (RSU)

- Aimed at providing more flexible rules corresponding to the sector's specific characteristics
- The initial four-year trial period will end on 31 December 2017
- Ongoing review process within the OECD

- **The lack of a level playing field with non-OECD countries limits the positive impact of the extended repayment terms (12 years in High-Income OECD countries, 14 years all other countries)**
- **Still much shorter than the depreciation term for rail assets and the economic useful life (at least 30 years which is much longer than for other transport modes, such as buses)**
- **Potential customers very often lack information about the RSU**

An international competition increasingly based on financing

- **Deals circumventing the OECD RSU**
- **Substantial financing packages from countries who are not Participants to the OECD RSU**
- **The particular case of Chinese rail supply industry**

ODA loans circumventing the OECD RSU

- Construction of 500km long Mumbai-Ahmedabad high-speed line
- Japan providing 81% of the total funding of USD 16.9 bn
- 50-year soft loan at 0.1% annual interest

Modi, Abe lay foundation for India's first Ahmedabad-Mumbai bullet train project

The Rs 1,10,000-crore bullet-train project aims to modernise the country's crumbling rail networks, which are prone to accidents and long delays

INDIA Updated: Sep 14, 2017 21:11 IST

ht Srinand Jha and Hiral Dave
Hindustan Times, Sabarmati



Evolution of rail market in China



Declining market

Chinese rail market [EUR bn, p.a.]

26.7 → 24.1

2013-2015

2016-2018

CAGR¹⁾

Rail Control

0%

Services

12%

Infrastructure

-2%

Rolling stock

-9%



7%

9%

6%

-2%



Over-capacity in the market

Rail industrial capacity [cars p.a.]

39,000
Supply



15,300
Demand

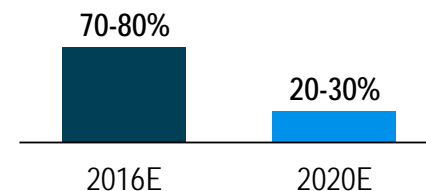
Push to internationalise for Chinese rail suppliers

> Across all segments except in Services, Chinese rail suppliers are expanding abroad

Closing of market for international players

> The Closing of markets is a general trend across segments from very closed (metros) to closing (signalling) or soon to be closed (components)

Market % of intl. players²⁾ in China for urban signalling solutions³⁾



1) Comparing 2016-18 with 2013-2015 2) In forms of JV with international players taking less than 49% share

3) Estimations from expert interviews

Chinese Government support to the rail supply industry

Economic diplomacy

Diplomatic push and large financing support based on the China strategic objectives (OBOR)

- > "Going Abroad" Strategy: China to play an active role internally – rebalance the economic growth:
 - Foster healthier domestic growth, address domestic overcapacity, orchestrate the successful internationalisation of Chinese companies
 - Leverage China's size to influence different countries to adopt its technologies and standards (e.g. with the 16+1 forum and related activities in Eastern Europe: Belgrade-Budapest project, etc.)

Technology

Strong support for developing technology based on the Made-in-China-2025 initiative

- > "Advanced Manufacturing" Strategy: China to move from a capacity-orientated industry to a technology-driven industry
 - Strengthen the major sectors of manufacturing in China, including advanced technologies
 - Transition from "quantity" to "quality"
 - Close technology gap and gain competitive advantage over global players

The government is sometimes also putting the rail industry into export "packaged deals" to support their internationalisation

- > Loan facilities: *USD 5.1 bn for Indonesia at 1~1.5% without sovereign guarantee*
- > Project financing: *10% invested in equity in large gas project Russia by Silk Road Fund*

- > R&D subsidies: *EUR 240 m R&D grants for CRRC in 2015*
- > Tax incentives for R&D: *Lower income tax (from 25% down to 15%) for some rail companies*

Financing

Examples of projects financed with sovereign loans provided by Chinese policy banks

Ethiopia-Djibouti railway



Mombasa-Nairobi railway



Background

- > Priority project of Ethiopia's 5-year plan
- > From Addis Ababa to Djibouti (752.6 km long, 120 km/h)

- > The initial part of East Africa Railway Network
- > From Mombasa to Nairobi (480 km long, 80 km/h)

Project value

USD 4.0 bn

USD 3.8 bn

Project cycle

3 years: 2012-2015

4 years: 2013-2017

Source of funding

- > 70% (~2.8 USD bn) financed by China EXIM Bank

- > 90% (~3.4 USD bn) financed by China EXIM Bank
- > Additional 1.8 USD bn was provided by China Development Bank as a commercial loan

Interest rate

~1%

~1%

Sovereign guarantee

- > Ethiopia provided sovereign guarantee
- > Sinosure provided mid/long term export credit insurance

- > Kenya provided sovereign guarantee
- > Sinosure provided mid/long term export credit insurance

Financing

China-Pakistan Economy Corridor¹

Infrastructure

Transportation

- > **Rail: Matiari-Lahore Transmission Line, ML1 Rail Transformation, etc.**
- > Road: KKH Phase II, Karachi-Lahore
- > Hub: Gwadar port comprehensive development (airport, bonded zone, etc.)

Energy

- > 3 Coal power plants (3960 MW)
- > 3 Hydro power station (1640 MW)
- > 4 Wind/Solar station (250 MW)

ITC

- > N.A.

Production Capacity Operation

- > Automobile: Assembly
- > Chemical: PP
- > Non ferrous: Pavlodar aluminium plant
- > Energy facilities: Large-diameter oil pipe plant project

Supportive policies

- > **Financing provided by CDB, Exim Bank of China, Silk Road Fund, ICBC, etc.**

1) In May, 2016, CPEC received a package of over USD 45 bn investment; construction and testing is expected to finish in 2030

UNIFE recommendations for making the RSU a more efficient tool

The RSU should be **extended beyond 31 December 2017**

The maximum **repayment terms should be extended to 18 years**

- This would be closer to the economic useful life of the rail products and the average tenor offered by IFIs
- 18-year maximum repayment period would allow the European rail supply industry to provide competitive financing offers against the competitors from non-OECD countries

A **bigger share of local costs** should be included (up to 50% compared to the current 30%), as many countries are increasingly using higher local content requirements

Will the European Commission support our industry in this respect?

- The EU needs to develop its own **economic diplomacy** with a strong financial arm
- Greater coordination needed between the European ECAs
- EIB should play a bigger role in supporting European exports
- RSU should be actively promoted towards international trading partners to achieve a level playing field on both market access and export conditions
- The European Commission should step up work within the International Working Group on new global guidelines on export credits

***Thank you for your
attention!***