

Connecting Europe Facility (CEF)

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Introduction

In mid-October of last year, the European Commission submitted another plan and program under consideration that is both closely related to the proposed Multi-Year Financial Framework for 2014-2020 (published in late June 2011) and to the proposal for a new set of directives that will regulate future cohesive policy during the same time period; a proposal for a new Connecting Europe Facility (CEF) was presented.

This facility should serve to provide investments totaling 50 billion EUR aimed at improving European transport and energy infrastructure as well as IT and telecommunications networks. These targeted investments in the most crucial infrastructure are expected to create jobs and increase competitiveness in Europe right at a time when such projects are in greatest need.

The CEF should serve to finance projects that will supplement elements of the European energy, transport and digital networks that have been missing.

Commission proposal of EU cohesion policy funds for the period 2014-2020 (in bil. eur)

Less developed regions	162.6
Transition regions	38.9
More developed regions	53.1
European Territorial Cooperation	11.7
Cohesion Fund	68.7
Extra allocation for outermost and sparsely populated regions	0.926
Connecting Europe Facility	40.0 *)
European Social Fund	84.0 **)

Source: European Commission, *) within an additional EUR 10 billion ring fenced inside the Cohesion Fund, **) Within the allocation for less developed, transition and more developed regions.

The CEF should also help make Europe's economy more environmentally friendly. In accord with the document entitled "Europe Strategy 2020" it will support cleaner types of transport and high-speed broadband connections and facilitate the use of energy produced from renewable resources. The financing of the energy network will also lead to further integration of the internal energy market, reduce the EU's energy dependence and improve the safeguarding of energy deliveries.

In order to more easily facilitate financing for CEF, the European Commission has also adopted conditions to enable the initiative to function within Europe Strategy 2020 using project bonds. This initiative will represent one of the tools available for risk sharing which the CEF can use to attract additional private investment in projects. The pilot phase of implementation of CEF is set to begin even before the next program period commences; specifically 2012 is under consideration.

In line with Europe Strategy 2020 and its emphasis on a intelligent, sustainable and fully interconnected transport, energy and digital infrastructure, the CEF should contribute to the completion of a single European market. Therefore, the European Commission selects projects upon which additional EU investments could have the greatest impact.

The primary expectation is that the investments as part of the CEF will strengthen the reliability of projects related to infrastructure and will lower their risk profile; this should prompt a catalytic effect of additional financing from private and public sources. In a way this is the first time that the European Commission has ever proposed – in accordance with its pledge to create close cooperation and simplify rules – the only financial tool for network infrastructure in all three sectors.

On this occasion, European Commission President José Manuel Barroso stated, "The CEF and the initiative of project bonds perfectly demonstrate what kind of added value Europe is capable of creating. These proposals support the construction of highways, railways, energy infrastructure, oil and natural gas pipelines and broadband networks, which are crucial for citizens and businesses in the EU.

This tool will lead to the connection and completion of missing links in European infrastructure networks that otherwise either would never be built, would be built with major delays, or the development of which would be so costly that it could economically paralyze investors in their other activities.

These investments should create favorable growth and development conditions as well as a sufficient number of sustainable jobs while simultaneously also benefiting millions of EU citizens and businesses by improving labor and transport conditions.”

The CEF should also lead to better recruitment of private sources of financing and enable innovative financial tools such as guarantees and project bonds to maximize the effect of this financial injection from the EU in the form of additional funding. The European Commission in close cooperation with the European Investment Bank should make use of investors' interest in capital markets and the opportunity to make long-term investments and achieve stable returns.

1.1 Connecting Europe Facility – Transport Sector: Initial Expectations

Through CEF there are investments under consideration amounting to 31.7 billion EUR for the purposes of modernizing the European transport infrastructure, completion of construction of missing portions, and eliminating problem spots. The specified amount is comprised of 10 billion EUR originating from the Cohesion Fund from the next program period following 2013 for transport projects implemented in countries covered by the Cohesion Fund and from 21.7 billion EUR, which all member states can use for investment in transport infrastructure.

The key aim is to improve the interconnection of various parts of the EU in order to facilitate the exchange of goods and the free movement of persons between individual countries.

The CEF should place emphasis on cleaner modes of transport and contribute to the sustainability of the transport system. For consumers it should also expand the choices of means of transport.

Transport systems in Europe have traditionally been developed at the national level. The EU is now expected to play a key coordination role in facilitating the member states' approach to the planning, management and financing of cross-border projects. A properly functioning infrastructure is essential if the single internal market is to run smoothly and will dramatically increase competitiveness.

The European Commission has proposed creating corridors for the most important cross-border projects. According to the expert appraisals by the European Commission and member states roughly 500 million EUR will be needed for a construction of a pan-European infrastructure up until 2020, including 250 billion EUR for eliminating problems and filling in gaps in the main infrastructure.

1.2 Connecting Europe Facility – Energy Section: Initial Expectations

Compared to the transport sector, the energy sector should require a significantly lower amount of investment, 9.1 billion EUR, into the trans-European infrastructure. This should help achieve the objectives of Europe Strategy 2020 related to energy and climate. The CEF will also make it possible to overcome the problem of a lack of financial resources for the actual priorities of connected infrastructure and to cope with the fact that it is overburdened.

Better connection should also contribute to the additional development of the internal energy market, the safeguarding of deliveries, and the transport of energy that is generated efficiently from renewable resources across the EU. CEF investments into the energy sector will give citizens as well as businesses in the EU access to energy at any time at a reasonable price. The aim of the CEF financing process will be to obtain additional resources from other private and public investors.

1.3 CEF – Telecommunications, ICT: initial expectations

As part of the CEF process, nearly 9.2 billion EUR will be allocated to support investments in high-speed and very high-speed broadband networks and pan-European digital services.

Financing from this facility should lead to the securing of additional funds from private and public sources, since it should raise confidence in projects in this area of infrastructure and reduce their risk profile. Based on conservative estimates the European Commission believes that financing the IT infrastructure could stimulate investments worth more than 50 billion EUR.

The goal of the Digital Agenda for Europe Strategy is for every household to have broadband Internet connections with a speed of at least 30 Mbps by 2020, 50% of which will have a speed exceeding 100 Mbps.

In the area of digital services, the funds provided are expected to be used for grants for building the infrastructure necessary for implementing technology for electronic identification, electronic assignment of public contracts, electronic records, the Europeana Digital Library, the e-justice website and related services.

These funds should serve to ensure the interoperability and cover operating costs at the European level of this infrastructure which will connect the infrastructures of the individual member states.

1.4 Innovative Financing and the Project Bonds Initiative

The EU budget is a key element of the Europe Strategy 2020 agenda of growth and achievement of economic and political aims. It is fitting that the effects of EU budget expenditures be multiplied through the more effective use of innovative financial tools.

There are two basic goals to the project bonds initiative created for this purpose within the Europe 2020 Strategy: to boost markets with project bonds and help those organizing and implementing individual projects related to infrastructure to obtain long-term debt financing from the private sector.

The project bonds initiative would represent a way to reduce the risk for independent investors who are looking for long-term investment opportunities. It would serve as a catalyst for reopening the debt capital market (which due to the financial crisis is currently being used in exceptional situations for projects related to infrastructure) as an important source of financing the development of infrastructure.

In this section, the European Commission recommends launching the pilot phase between 2012 and 2013, i.e. during the current multi-year financial framework. The pilot phase should be the result of a change in the directive regarding trans-European networks (TEN) and a decision on the framework program for competitiveness and innovation and should tap funds from the budgets of these programs in an amount totaling up to 230 million EUR.

Like the financial tool for risk sharing and the tool for guarantees for lines of credit for projects related to trans-European transport infrastructure, the EU budget would be used for providing capital to the European Investment Bank, which would cover some of the risks posed for the EIB by the financing of eligible projects.

The EU budget would lessen the risk posed to the EIB during the financing of the projects, but the EIB would cover the remaining risk itself. If the resources from the EU budget are combined with EIB financing, the provision of financing in the total budgeted amount of 230 million EUR would, according to expectations, result to the mobilization of investments worth up to 4.6 billion EUR.

During the pilot phase, the aim is to concentrate on 5-10 projects in one or more of the three target sectors of transport, energy, and broadband data and IT connections, that have led to a relatively advanced phase of the tendering procedure or the financing process or which require refinancing exceeding the development period.

The pilot phase would be managed by the European Investment Bank.

1.5 Relationships

The CEF package implements obligations that the European Commission defined in the proposed versions of the Multi-Year Financial Framework for 2014 – 2020, dated 29 June 2011. The package of accepted proposals consists of:

- the main disclosure on the package of measures for the growth of the integrated European infrastructure;
- the disclosure on the pilot phase of the project bonds initiative within the Europe Strategy 2020 (the pilot phase is expected to begin in 2012);
- the disclosure on the framework for the next generation of innovative financial tools – the platform of equity and EU debt platform;
- the proposed directive on the creation of the Connecting Europe Facility;
- the proposal for the directive establishing the main routes for the trans-European transport network;
- the proposal for the directive establishing the main trends for the trans-European energy infrastructure;
- the proposal for the directive establishing the main trends for the trans-European telecommunications network.

1.6 Complete Sordiny of Proposals and Other Information

The complete wording of the proposals can be found on the following websites:

- http://ec.europa.eu/budget/reform/commission-proposals-for-the-multiannual-financial-framework-2014-2020/index_en.htm;
- http://ec.europa.eu/commission_2010-2014/president/index_en.htm

Other information related to the CEF is available in:

- [MEMO/11/707](#): Pilot phase of the project bonds initiative – legislative proposals accepted by the Commission;
- [MEMO/11/710](#): The Commission's energy infrastructure package;
- [MEMO/11/706](#): Connecting Europe: new main transport network in the EU;
- [MEMO/11/709](#): Digital Agenda: the Commission recommends investments of more than 9 billion EUR for broadband Internet connections.

2. Growth and Development Package for European Infrastructure Integration

2.1 Explanation: Introduction and Summary

In the past decade expenditures on infrastructure in Europe have on average decreased. Nonetheless, the economic and financial crisis has sparked renewed interest in the need to invest in infrastructure. During the economic crisis, targeted investments in the renewal or development of infrastructure have represented an important part of stimulation and renewal plans at the level of the EU and Member States as a method of supporting and strengthening overall demand while ensuring long-term returns on investments. Nevertheless, what is most important is that the crisis shows how fundamental infrastructure is to Europe's economic future.

A truly integrated Single Market, as described in the Monti Report (a new strategy for the Single Market as a contribution to the European economy and society) from May 2010, would not be possible if all its component parts were not seamlessly interconnected, and free from barriers and obstacles. Highways and other traffic and transport infrastructure, energy and natural gas grids as well as broadband connections are vital to a functioning integrated economic area and to its social and territorial cohesion.

Although while there is continued regulatory integration in the EU and markets are becoming more integrated – for example just recently in the energy sector with the adoption and coming into force of the third liberalization package – the process of implementing physical cross-border interconnections still lags behind.

The missing links and connections, particularly in the newest Member States, create dividing lines between the center and the peripheries of the EU and posing obstacles to the further development of exchanges between communities and the growth of new economic sectors, such as e-commerce.

The new infrastructure also needs to develop in connection with the implementation of the Europe 2020 Strategy. Steering European transformation toward a knowledge-intensive, low-carbon and highly competitive economy requires adequate modern and flexible energy, transport and ICT infrastructure networks.

The European Commission has also emphasized, among its priorities for growth, the need to move ahead in the sectors of transport, energy and telecommunications infrastructure, which is necessary for achievement of a truly integrated single market. It has also called on Member States to continue playing their roles, both regulatory and financial, in these key areas in order to boost coordination, joint governance and the implementation of economic policies and strategies, regardless of the current economic crisis.

Overall investment needs for crucial European infrastructure amount to nearly 1 trillion EUR for the period ending in 2020 in all three of the sectors mentioned (500 billion EUR for transport, 200 billion EUR for energy and 270 billion EUR for high-speed broadband IT infrastructure).

How these investments will be ensured is one of the main issues the EU will have to face in the coming decade. While the market, through appropriate investments and pricing mechanisms prompts expectations that it will play a role in supplying and ensuring the required infrastructure, there are some necessary investments that would not be made or would be delayed until long after 2020 without public intervention.

This is another reason why the European Commission is proposing an infrastructure package comprised of a new budgetary instrument – the Connecting Europe Facility (CEF) – as well as revised guidelines for transport, energy and ICT.

2.2 Common Challenges and Guidelines for Sector Policies

In the three sectors of transport, energy and digital infrastructure, similar challenges and shortcomings can be observed which require similar solutions. In fact, although the volume of infrastructure investments can be delivered and ensured by the Member States and markets (with regulatory measures), it is unlikely that the scale and speed of investments will make it possible to achieve the objectives of the Europe 2020 Strategy.

Intervention at the EU level through grants and financial tools focuses on initiatives that either eliminate or reduce market fragmentation, increase European security, have major potential for boosting growth and development and/or socioeconomic benefits that cannot be seen and evaluated at the level of projects. Project activities also create room during the period of development for increasing short-term employment.

Internal collaboration is also important for the management of CEF. The use of a joint agency could help achieve desired savings. Extensive coordination at the program level will also help boost collaboration among sectors. Energy, transport and broadband networks can share common facilities (interconnection, access to equipment and networks).

Therefore, it makes sense to support and strengthen the coordinated development of passive elements of networks in cooperation with the relevant national, regional and local authorities.

2.2.1 Transport

Regardless of major investments, the EU currently lacks a network of interconnected cross-border infrastructure that is sufficiently interoperable and effective in terms of resources. As is emphasized in the European Commission's "Roadmap to a Single European Transport Area – Towards a competitive and resource-efficient transport system" (approximately 500 billion EUR for transport, 200 billion EUR for energy and 270 billion EUR for high-speed broadband information infrastructure), transport infrastructure is crucial for ensuring the operation of the single market and must support competitiveness and growth.

Besides the lack of coordination among Member States in the areas of project management, planning and financing, the absence of a collective and comprehensive framework for financing at the European level that should concentrate on filling in the most important gaps and developing missing cross-border connections within the Single Market, is the main obstacle that should be addressed in the next multi-annual financial framework.

The new TEN-T Guidelines should help ensure an economic and political framework within which European infrastructure is enhanced by Single European transport areas. The Guidelines also define a regulatory framework with standards defining the criteria of efficiency and interoperability. In addition, they create a more robust and whole planning framework consisting of Comprehensive and Core Networks which make it possible to develop European efforts as well as other activities at the level of Member States, EU institutions and stakeholders, and to concentrate on achieving coverage (by 2030 or 2050) of a functional network of European infrastructure.

The Comprehensive Network creates the basic layer of the TEN-T network. It consists of all types of existing and planned infrastructure satisfying the requirements of the Guidelines. The Comprehensive Network is to be in place by the end of 2050 at the latest.

The Core Network connects the Comprehensive Network and is comprised of its strategically most important components. It constitutes the backbone of the multimodal mobility network that European citizens and entrepreneurs need. It concentrates on the TEN-T components with the highest European added value: cross-border connections that

are missing, key shortcomings and multimodal modes of transport. The Core Network should be put into operation by the end of 2030 at the latest and will be financed through the CEF.

The TEN-T Guidelines also focus on reinforcement of implementation instruments related to the concept of Core Network corridors, taking into consideration railway freight corridors. These corridors will provide the framework instrument for the coordinated implementation of the Core Network. In terms of scope, in principle the Core Network corridors will cover three modes of transport and cover at least three Member States. If possible, they should establish a connection with a maritime port. The activities of Core Network corridors will create a platform for managing capacities, investments, construction and coordination of multimodal transport facilities across the entire European continent and for the use of interoperable systems of transport and traffic management.

2.2.2 Energy

Concerted efforts must be made to modernize and expand Europe's energy infrastructure and to interconnect networks across borders in order to fulfill the objectives of competitiveness, sustainability and security of energy supplies as part of the core energy policy in the EU.

A European Commission report adopted in November 2010 regarding the priorities of energy infrastructure for 2020 and beyond calls for a new policy on EU energy infrastructure to coordinate and optimize the development of networks throughout the continent. It confirms in particular the need to conduct a thorough evaluation of the existing policy and financial framework of Trans-European Networks for Energy (TEN-E).

This new policy is fundamental to ensuring that solidarity among Member States will become functional, operable and sufficient, to ensure that the internal energy market is completely developed and that isolated regions are connected with the European network so that alternative supply or transit routes and energy sources materialize and renewable resources are developed and can compete with traditional energy sources (conclusion of the Council of the EU from February 2011). The new guidelines for trans-European energy infrastructures establish rules for a timeframe for the development and interoperability of trans-European energy networks.

More specifically, they aim to create the best conditions for developing energy infrastructure projects that support the full integration of the internal energy market, including ensuring that no Member State remains isolated from the European network and that each state contributes to sustainable development and environmental protection by enabling the EU as a whole to achieve a 20% (or where possible up to 30%) reduction of greenhouse gas emissions, 20% growth in energy efficiency and a 20% share of renewable energy sources within final energy consumption by 2020 while ensuring the security of the energy supply and solidarity among Member States.

For this effect, the Guidelines identify for the period until 2020 and beyond a limited number of trans-European priority corridors and areas covering energy and natural gas networks and oil infrastructure and carbon dioxide transport infrastructure for which the activities at the European level are most certain.

They also aim to implement the following priorities:

- simplification of approval processes, thus making them markedly shorter for common interest projects and increasing public participation and acceptability for implementation of such projects;
- simplification of the regulatory assessment of common interest projects in the electricity and natural gas sectors through allocation of the costs of cross-border projects based on achieved benefits and assurance of corresponding returns on investments with the risks of individual projects taken into consideration;
- ensuring the implementation of common interest projects by providing the necessary market-based conforming financial aid as well as direct financial aid from EU resources. In the latter case, the proposal represents the basis for determining the eligibility of projects with regard to financial aid from the EU as part of the implementation of the CEF.

2.2.3 Digital Infrastructure

Investments in high-speed IT connections and services carried out through the modern internet infrastructure represent the most innovative of CEF investments in the future. The digital infrastructure – physical as well as that based on provision of services – represents a key condition for the smart growth Europe that should achieve by the end of the decade in order to secure and protect its ability to compete on a global scale and create wealth for its citizens.

This initiative is certainly anchored in the Europe Strategy 2020 as one of the symbols embodied in the Digital Agenda for Europe initiative. This underscores the need to ensure widely available high-speed internet for everyone at a time of increasing speed through both wired and wireless technologies and to facilitate investments into this new, rapidly developing and competitive internet infrastructure, which will very likely become an extremely crucial or “arterial” system for the entire future economy.

The guidelines in this section serve to create the objectives and priorities predicted for high-speed networks and the infrastructure of digital services in the field of telecommunications. The guidelines also identify projects of common interest for the use of high-speed Internet and related networks, as well as the infrastructure of digital services (such as eHealth, eIdentity, eProcurement, etc.).

Natural owners of European networks of interoperable services do not exist here, and so far neither individual member states nor private investors are capable of guaranteeing the use of these services within interoperable networks. European added value here is enormous.

Within the mix of grants and innovative financial tools, in the digital infrastructure section the CEF will support investments in networks capable of achieving the objectives of the “Digital Agenda for Europe” with universal coverage of 30 Mbps or with at least 50% of subscriber households having a speed higher than 100 Mbps. An extensive portfolio of 30 and 100 Mbps projects will be created, the final cost of which will be the sum of the investment needs of Member States, which is expected to reach as high as 270 billion EUR.

The interoperable frameworks for the infrastructure of digital services will be financed through direct grants and will include trans-European high-speed backbone connections for public administration bodies; cross-border provision of eGovernment services, based on interoperable identification and authentication (enabling eProcurement, eJustice and eHealth services); digital resources on European heritage; services related to security (secure internet and infrastructure of on-call services) and services related to smart energy.

These services will help make the European economy, including small and medium sized enterprises (SMEs), more competitive. They will promote the interconnection and interoperability of national networks, improve access to these services, and also support the development of the Digital Single Market. While these guidelines are being implemented, it will also be possible to identify new projects of common interest, thus making it easier to adapt to changing political priorities, technical developments, and conditions on relevant markets.