Private operation and financing of trans-European networks

**Funding:** European (4th RTD Framework Programme)
**Duration:** Jan 1999 - Mar 2000
**Status:** Complete with results

**Background & policy context:**

The gap between socio-economic and financial profitability is a major barrier in the development of the trans-European network. When a project is not sufficiently profitable for the private sector, direct government contributions or introduction of user charges can be used to let the private sector participate. However, even when a project offers a sufficient financial return for the private investor, there may be arguments for public intervention. The public sector could be involved to safeguard the interests of non-users, to improve risk sharing, or to mix public and private skills, for example combining the public sector experience of infrastructure planning with the commercial and financial skills of the private sector.

**Objectives:**

The objective of PROFIT was to help decision-makers assess whether or not public private partnerships (PPP) can offer an attractive option for successful and accelerated implementation of trans-European network projects. Specific aims were:

- to provide a comprehensive methodological framework for assessing the PPP potential of a trans-European network project, based on financial attractiveness and socio-economic costs and benefits,
- to develop a practical and easy-to-use handbook for decision-makers which offers 'quick scan' guidelines of the PPP potential of infrastructure projects.

**Parent Programmes:**

FP4-TRANSPORT - Specific research, technological development and demonstration programme in the field of transport, 1994-1998

**Institute type:** Public institution
**Institute name:** European Commission; Directorate-General for Energy and Transport (DG TREN; formerly DG VII)
**Funding type:** Public (EU)

**Partners:**

NA
NEI, Netherlands Economic Institute

**Organisation:** Institute
**Address:** K.P. van der Mandeelaan, 11 PO Box 4175
**Zipcode:** 3062
**City:** MB
**Contact country:** Netherlands
**Telephone:** n/a

**Key Results:**
The main project output is a handbook targeted at government officials involved in setting up or supervising PPPs to finance and operate trans-European network projects. The handbook is based on the development of an integrated socio-economic, financial and risk analysis framework.

The handbook gives a detailed description of how to organise the different phases of the PPP process:

- the tentative PPP exploration, to decide whether to initiate the process of developing a project on a PPP basis,
- the PPP preparation process, to decide whether the project's objectives meet the required PPP objectives,
- the tendering process, and
- the PPP negotiation process with the preferred bidder.

Recommendations have been provided on how to avoid possible barriers pertaining to the regulatory framework, market and financial factors, and the political environment. A methodology (the PPC, 'public private comparator') has been presented to enable decision-makers to compare PPP with conventional tendering for a specific project.

Three types of PPPs were found to be the most common for trans-European network projects:

- joint ventures, where investment is shared between the public and the private sector,
- concessions, where investment is undertaken in full by the private sector through concession agreements,
- hybrid types, where the project is split into several project components with a public SPV ('special purpose vehicle') in control of the overall project.

**Policy implications**

Before the PROFIT project, an integrated framework for assessing the suitability of PPP schemes for trans-European network projects was lacking. PROFIT has made available the necessary guidance. The PROFIT methodology addresses the various aspects that should be taken into account when going through a PPP process in a logical order. However the exact order of steps is not given because no PPP projects will be the same. Before PROFIT, the public private comparator was only used in The Netherlands. Further development of this tool is recommended to make it applicable in a wider European context.

General recommendations for successful implementation of PPPs include:

- A clear understanding is needed of the different priorities and skills between the public and the private sector.
- Risk allocation must be at the core of successful PPP specification: each stakeholder should bear the risks it is best able to control, manage and carry; the public sector must be prepared to shoulder political and legislative risk.
- Early involvement of the private sector in PPP specification is to be preferred.
- National governments should cover part of the costs of project proposals for PPPs.

Major uncertainties affecting PPP decisions are user charging and other network level-effects. There is a strong case for the Commission taking a co-ordination role regarding these issues in cross-border projects.

**Related Projects:**


**Documents:**

profit.pdf (Final report)

**STRIA Roadmaps:** Smart mobility and services, Infrastructure

**Transport mode:** Multimodal transport

**Transport policies:** Decarbonisation, Societal/Economic issues