PPP Potential in the Czech Infrastructural Transportation Projects

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1. European and Czech Background of PPPs in Transport Infrastructure

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1. European and Czech Background of PPPs in Transport Infrastructure
European Commission acknowledges the growing importance and role of PPPs in public investment of Member States. Its main activities:

- Commission Interpretative Communication on Concessions under Community Law (2000);
- Directives of the European Parliament and of the Council 2004/17/EC and 2004/18/EC, arranging the process of public works and service concessions and the position of concessionaires;
- EUROSTAT Decision on the accounting treatment of government partnerships with non-government units (2004);
- Green Paper on Public-Private Partnerships and Community Law on Public Contracts and Concessions (2004);
- Communication on PPPs and Community Law on Public Procurement and Concessions (2005);
- EC is to prepare an interpretative document on PPPs in the course of 2006 – 2007.
Main Problems of Czech Transport Infrastructure Development (1)

- Speeding-up the construction of motorways (540 km in operation, 465 km to be constructed), high-speed roads (310 km in operation, 750 km to be constructed) and rail corridors
- Improving the everyday maintenance of road and rail network
- Raising the share of rail and inland waterway transport in the transport market
- Improvement of infrastructure construction management and efficiency
Main Problems of Czech Transport Infrastructure Development (2)

- Need of investment into transport infrastructure approx. € 3 to 4 bn per year to converge with EU-15 - Half the sum effectively available (incl. EU funds)
- Privatization almost finished – Ad-hoc resources virtually exhausted
- Need to improve public budgets – eliminate deficits, reach Maastricht criterion, introduce Euro (2012?)…
- Public management of motorway/rail corridor construction inefficient, cost/benefit ratio relatively poor
- EU fund utilization meets difficulties – National co-financing often in shortage
- Using multi-source financing of transport network construction – a right place for PUBLIC-PRIVATE PARTNERSHIPS (PPP)
Czech Institutional System of PPPs

**Act No. 139/2006 Coll., Concession Act**

- Ministry of Regional Development
  - Legislature
- Ministry of Finance
  - Regulator
- Office for Protection of Competition
  - Supervision of Tenders
- PPP Centre
  - (under MoF)
  - (Methodological Assistance)
- Association for PPP
  - (Business Sphere)
- Ministry of Transport
- Sectoral Ministries
- Regions
- Municipalities
2. Multi-Source Financing
Potential Components of Multi-Source Financing in Transport

**DOMESTIC PUBLIC SOURCES**
- Tax sources
- Privatization
- Revenues of regions

**EUROPEAN SOURCES**
- Cohesion Fund
- Structural Funds
- TEN-T
- Programme sources

**DEBT SOURCES**
- Institutional credits (EIB, EBRD...)
- Credits from private banks
- Debentures

**PRIVATE DIRECT INVESTMENT**
- Private business
- Mixed property
- Lease of public assets
- PPP, concessions
Co-Utilizing EU Funds and Private Financing (PPP)

- Can we combine the EU co-financing directly with private financing (PPP)?

  - Combination leads to time delays as it is needed to link EC decisions with a relative complex conclusion of a concession agreement
  
  - Using a PPP scheme is more costly for public sector because of expenses on material and legal consulting

  - A revenue making PPP project leads to a reduction of EU contribution

  - EU contribution typically takes place only after the completion of the whole project, which may raise the cost of securing funds by the private partner
Co-utilizing EU Funds and PPP: More Questions to Be Solved

• A “public” or “private” share of EU fund support for a PPP?

• The role of EIB and EBRD in PPP’s

• Clear solution of Special Purpose Vehicle
  – What accounting and tax regimes can be used? Public or private?
  – What treatment with unique infrastructure in case of bankruptcy?

• How to assess public aid in case of a PPP?
3. PPP Projects in the Sphere of Transportation in the Czech Republic
D3 Motorway Section Tábor – Bošilec (Southern Bohemia)
D 3 Motorway: Overview

Definition of Project
- A 30 km part of a new motorway D 3 Praha – České Budějovice
- The Ministry’s high priority: A component of a trans-continent route linking Scandinavia with Austria and Italy (E 55, TEN-T)
- Investment cost: approx. € 380 million

Form of Investment
- A BOT project with 6 years of construction and 30 years of operation before transfer to the Government
- Pattern of risk sharing: Private partner – construction and availability risk; Public sector – project and demand risk
- A pilot project testing overall PPP strategy of the Ministry

Status
- High stage of project schedule
- Technical and financial advisors selected
- Tender procedure in preparation
- Construction: 2008 - 2010
Revision of Value for Money computations - Has anything important changed?

Shadow toll or availability fee? Or both?

Some extras to the general road toll concept for the users?

Extending the scope: Tábor – České Budějovice, or all planned sections of D 3?

Including EU funds and/or EIB loans – what is really possible?

Invite adjacent businesses, real-estate, include public lands etc. to form a pro-efficiency alliance?
AIRCON Project: Prague Airport Rail Connection
AIRCON Project: Overview

• Definition of Project
  – Improvement, double-tracking, electrification and new construction of a 19 km rail line between the centre of Prague and Prague International Airport (Ruzyně)
  – Essential transport solution for the dynamically growing airport (doubling of passengers to 11.5 million during last five years)
  – Extension to the Kladno satellite town in the vicinity (source of human capital for both the City of Prague and the airport)
  – Investment cost: approx. € 550 million

• Form of Investment
  – BOT or DBFO – a long-term concession agreement for construction, operation and maintenance of the track; a hired private-law rail operator capable to take over also public service obligation service for Prague – Kladno line
  – Pattern of risk sharing: Private partner – construction and availability risk; Shared demand risk
  – A pilot project testing overall PPP strategy for the rail sector

• Status
  – Verification and interest reconciliation phase
  – Technical and financial advisors selected
  – Tender procedure condition in preparation
  – Construction: 2009 - 2012
AIRCON Project: Questions to Resume

• Verification of the chosen route: reconciliation of standpoints with Prague City and Praha 6 District needed. If a compromise cannot be reached, re-routing of the project inevitable
• Alignment to the overall Prague rail junction project
• Revision of Value for Money computations - Has anything important changed?
• Public service obligation subsidy – only regional, or also airport traffic?
• Extending the scope: also to Prague – Kladno regional transport project?
• Including EU funds and/or EIB loans – what is really possible?
• Invite adjacent businesses, real-estate, include public lands etc. to form a pro-efficiency alliance?
Some Other Considered Road PPP Projects

**R 6**: Potential for an entry of a private partner in the full extent of planned construction

**R 35**: Potential for an entry of a private partner in the section Hradec Králové - Mohelnice

**R 49**: Potential for an entry of a private partner in the full extent of planned construction

**D 1** (and more) : Potential for an entry of a private partner into motorway maintenance
More PPP Projects Under Discussion ... 

ROAD

• **R 1** - outer circuit of Prague City – eastern part (to be realized in 2009 – 2013; total cost approx. € 600 million)
• **R 52** – Pohořelice – Mikulov
• **R 55** – Břeclav – Kroměříž

RAIL

• 1st operational section of Metro line “D” Náměstí míru - Nové Dvory (completion 2016; total cost approx. € 1,2 bn)
• Extension of Metro line “A” Dejvická – Prague International Airport (completion 2017; total cost approx. € 1.4 bn).
Other Potential Spheres of PPP Projects in Transport in the Czech Republic

• Public logistics and intermodal terminals
• Road and urban toll systems
• Applications on Galileo, GPS satellite systems
• Intelligent Transport Systems (such as motorway traffic flow regulation)
• Road and track maintenance
• Private management of public infrastructure investment (using public funds)
4. Concluding Remarks
General Problems of PPP Concept in Transport

- Efficient protection of public interest
- Transparent and sustainable structure of PPP and clear balance of public payments/repayments
- Clear conditions of service quality, claims, sanctions for non-compliance etc.
- Functional dispute prevention and resolution, conditions for contract update, for termination of partnership etc.
- Demand and return conditions of a PPP project must be always impartially and independently verified!
- PPP for services (without private investment) are possible almost everywhere, only efficiency of solution matters!
Summary

- The existing system of transport infrastructure financing in the Czech Republic is unsustainable – changes must be made and new resources searched for
- PPP is an interesting and useful concept especially for the transport industry
- PPP can be generally used where the revenue is sufficient for the reproduction of private capital, the quality of services can be considerably raised and a sustainable concept of public repayment of the investment exists
- The most successful PPPs can emerge in new sections of motorways and high speed roads and in rail station developments
- Demand and return conditions of a PPP project must be in all cases verified by impartial financial models
- Public sector interest must get a good contractual protection
Thank you for your attention!

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