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# Public private partnerships in transportation: Some insights from the European experience

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ABSTRACT

Most EU member states and the European Commission regard the PPP as an important tool to attract additional financial resources for high priority investments such as transport. The objective of this paper is to delineate the EU panorama of PPP markets and investigate the impacts of EU institutions in the development and success of this type of financial arrangement for the transport sector in Europe. We examine how the scope of the PPP in Europe is based on the flexibility and adaptability of the contract to the features of the project and to the economic and institutional environment. These issues are illustrated through a number of examples in the transport sector. We conclude by observing that the market for PPPs, although still fragmented nationally, is developing a European dimension and attracting resources from a variety of players.



## 1. Introduction

Europe is at present confronted by the increasing necessity to invest in its infrastructure stocks; such investments will be directed to infrastructure renewal and rehabilitation, above all in the original member states of the EU, and to construction and development of new infrastructure in the most recent member states. Two strong concerns characterize European infrastructure investment; on the one hand are the population trends such as the advance of population aging due to increased life expectancy and decline of birth rates and the migration trends. On the other hand lay the environmental concerns, which include the need to reduce energy consumption and invest in smart city solutions. The development of critical infrastructure such as transport is therefore part of the investment portfolio, not only of European public authorities, but also of the private sector.

Given the current economic crisis, however, many European countries are contending with two divergent policies, the first of which is that countries are confronted by the necessity to improve competitiveness by investing in transport infrastructure (see, for instance, the debate on high-speed rail investment in the UK). Secondly, several member states are compelled to contain their public budgets. These two divergent policy streams provide countries with a powerful incentive to explore alternative funding approaches to build transport infrastructure and provide service delivery. As a result, there is a widespread interest in various forms of private and public involvements that have been developed and applied widely in the transport sector under Public and Private Partnership (PPP) approaches [1–3].

Notwithstanding that the 27 EU member states differ substantially in their social and economic structures and infrastructure endowment, this should prepare us for the variety of approaches to infrastructure investment strategy and financing already in use [4,5]. Within this context we need to keep in mind that member state governments are characterized by strongly diverse administrative cultures and capabilities and distinct legal and planning traditions. For instance, institutional diversity in the transport sector is considerable, with countries adopting different approaches with respect to user charges and ownership structures. But despite the differences, a framework for what are now referred to as PPPs has emerged within the European Union. The approach is certainly well established in the European Union; in fact, from 2002 to 2006 an average annual value of approximately 30 billion euros was signed under PPP contracts.

Most EU member states and the European Commission regard the PPP as an important tool for attracting additional financial resources for high priority investments such as transport. Many definitions of a PPP are present in the literature, but we deem the most suitable overarching definition selected by the European Commission, where PPP refers to "forms of cooperation between public authorities and businesses, with the aim of carrying out infrastructure projects or providing services to

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the public" [3]. Although it is difficult to provide a clear-cut characterization of the evolution of public works financing methods, given the variety of initial conditions, we can nevertheless observe a shift away from conventional traditional models of transportation service delivery (distinguished by hierarchical decision structures, vertical integration in delivery, and relatively undiversified funding tools), to a more diversified financial landscape. The objective of our paper is thus to delineate the EU panorama of PPP markets, and to investigate the impacts of EU institutions in the development and success of this type of financial arrangement for the transport sector in Europe.

## 2. Institutional diversity in Europe

Starting from the 1990s, the European Union had two principal objectives: the achievement of the Single Market and of market integration; and the preparation for the European Monetary Union (EMU) (Fig. 1). To achieve these two objectives it was of prime importance to improve the physical integration among European countries, and increase the accessibility of the peripheral regions by targeting the network infrastructures — energy, telecommunications and transport. In this context the construction of transport Trans-European networks (TENs) assumes a critical role for European integration.

The TEN policy identifies 30 transnational transport corridors on the basis of proposals from member states. "The European Union must aim to promote the development of Trans-European Networks as a key element for the creation of the Internal Market and the reinforcement of Economic and Social Cohesion. This development includes the interconnection and interoperability of national networks as well as access to such networks" [3]. However, by 2003 only one-third of the network had been built, and only three of the 14 specific projects endorsed by the European Council at Essen in 1994, had been completed. Total investment in the Trans-European Network Transport (TEN-T) during the period of 2000–2006 was €859 billion. At present, the completion of the TEN-T is estimated at €550 billion until 2020 [6]; it is for this reason that private sector finance and the implementation of a common PPP framework is now considered to be essential to the success of TEN-T development.

Although nearly all the countries in the EU use PPP arrangements, as we have observed, there are different ways of adopting this policy due to different cultures and traditions in planning and management of public works, deficiencies in legal and institutional structures, and political awareness and acceptance of the PPP concept. The UK has the longest and most substantial experience in PPP agreements; other countries have followed the British framework and developed pilot procurements for many years. The two main institutional frameworks are (1) PPP unit at a central government level, and (2) the promotion of PPP legislation. In relation to the PPP units, in certain cases these units have only a consultative capacity, for example, Sweden, France and Luxembourg; whereas PPP units have a more active role in promoting and facilitating PPPs, for example, Ireland and the Netherlands (Table 1).

Table 1 depicts the different experiences among European member states. Among transport investments, road is the most common under PPP agreements, however, only in the UK and Portugal do road PPP agreements have sufficient breadth and scope to enable them to determine structural changes in the procurement procedure. In new member states, especially for highway networks, additional investment is necessary due to the transition process, i.e. in order to satisfy EU standards. The World Bank [7] has estimated a figure of €65 billion over the next 15 years for infrastructure investment in new member states, where Poland has the highest need for infrastructure investment (€21.4 billion).

There are several determinants related to each country's PPP approach. One is the planning determinant, through which transport investment planning is implemented according to the different approaches which are, in various degrees, systematic. For instance, in some countries such as Italy, investment decisions are seldom supported by master plans or cost-benefit analyses. Conversely, in the EU there are countries with a strong transportation planning tradition – which is either project-focussed on CBA, as in the United Kingdom – or emphasizes strategic network development, as in France and the Netherlands. The different approaches often contribute to the structure of the private intervention and thus to the feasibility of a PPP framework and institutional arrangement in transport investment.

Fig. 2 specifies the various institutional arrangements in the European road sector. The figure presents two columns dividing the different projects in relation to approach chosen for the user charges (with tolls and toll-free). The projects are listed in relation to the ownership of the transport infrastructure (at the top, private ownership and at the bottom,

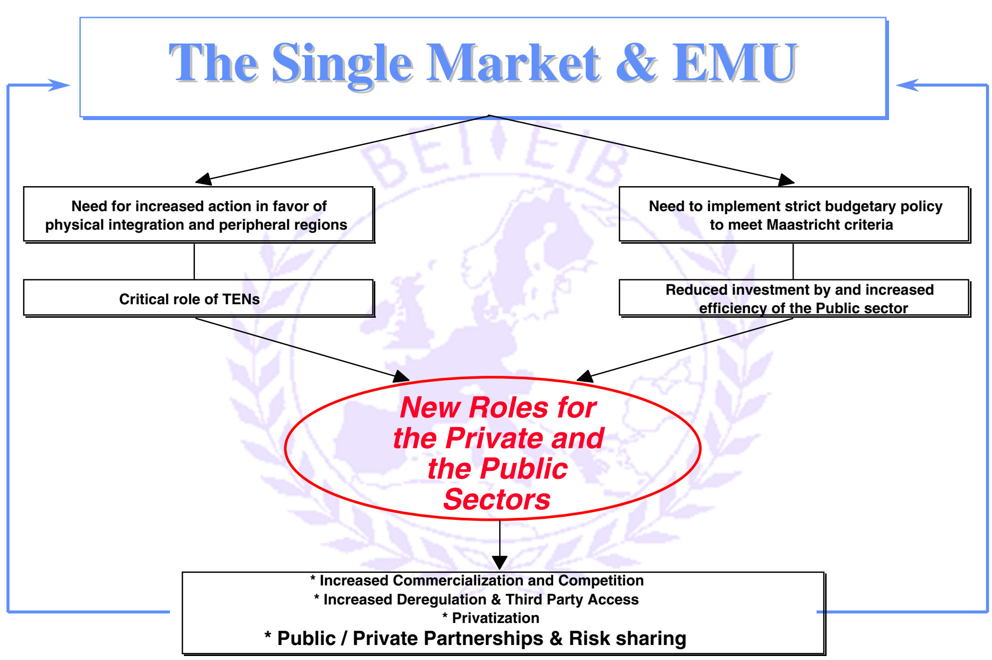


**Fig. 1.** The relationship between Single Market, European Monetary Union (EMU) and PPPs.
Source: European Investment Bank.