

The French government's
Plan de Relance Autoroutier
a useful precedent for Spain

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Executive summary

Plan de Relance Autoroutier is a French-government led motorway upgrade initiative spurred by the success of the 2009 *Paquet Vert* (green package), which raised a substantial amount of private funds (€1.1 billion) to boost the country's economy, drive sustainability and create jobs in exchange for extensions of up to a year for some French toll road concessions.

Pleased with the results, the French government spent 2013 in talks with concessionaires over the proposal for a second, and even more ambitious, investment package. This one finally entailed investment of **€3.2 billion investment** in exchange for extensions of concessions to be determined on a case-by-case basis.

The plan's main objective is to **mobilise investment as a driver of the economy and employment** at a time when both are in much need. The plan allows for private funding to start up public works initiatives quickly without **affecting the budget deficit**. This way, the French government can fund a powerful economic stimulus without causing an imbalance in its public accounts.

The EU authorities, especially the Directorates General for Competition (DG COMP) and for the Internal Market and Services (DG MARKT), scrutinised the compatibility of the French plan with community regulations. At the end of October this year, **the European Commission gave the green light to the agreements** signed between the French government and the concessionaires, considering that they constituted **state aid compatible** with the competition rules for the internal market. With the European Commission approval obtained, the plan is now awaiting ratification by the French government.

In Spain, the concession industry has realised it must be more pro-active, promoting investment initiatives that have proven to be valid and effective in countries like France and that could equally be applied here. A number of institutions have put forward investment plans based on principles similar to those of *Plan de Relance Autoroutier*. Among these, the proposal submitted in 2012 by the Spanish association of toll road concessionaires, ASETA (currently SEOPAN Concesiones), is perhaps the most similar in terms of investment volume, project type and the expected benefits for the Spanish economy. Investment under this proposal could reach as much as **€1.75 billion** and generate more than **32,000** direct and indirect **jobs**.

In our view, this investment proposal is **realistic and could feasibly attract private participation in projects of public interest** capable of speeding up investment and, therefore, driving growth. Initiatives like the *Paquet Vert* and the *Plan de Relance Autoroutier* are evidence that loyal and long-term public-private partnerships are not only possible, but desirable, and benefit the country and its citizens, thus serving the public interest. The French experience shows how they can have a positive impact on the economy and comply with European legislation.

Introduction

This document takes a look at the ***Plan de Relance Autoroutier***, initiated by the French government in 2013, focusing on its original targets, execution and timetable.

Based on the conclusions, we look at the potential application of a similar plan in Spain, taking into account earlier proposals by various institutions.

Plan de Relance Autoroutier

- **Description**

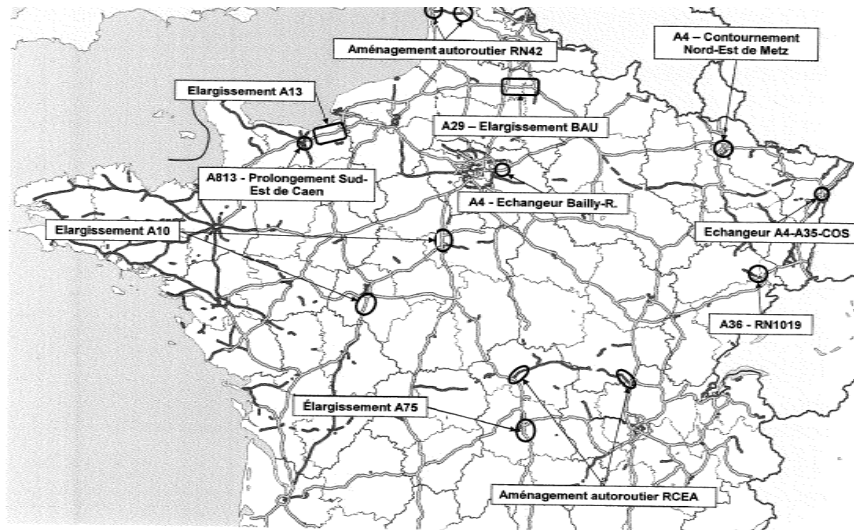
The Plan de Relance Autoroutier is an initiative by the French government inspired by the success of ***Paquet Vert*** of 2009, when the government agreed with motorway concessionaires an environmental investment package of more than €1.1 billion in exchange for extensions to their concessions based on the amount of individual investment borne by each.

The Paquet Vert mobilised a substantial amount of private funds to boost the economy, drive sustainability and create jobs without putting a strain on the government's budgets or France's deficit.

<i>Paquet Vert</i> in figures	
PROTECTION OF WATER RESOURCES	277 actions carried out
REDUCTION OF NOISE POLLUTION	24 kilometres of noise barriers
	880 homes soundproofed
	271 kilometres of low-noise asphalt
PROTECTION OF BIODIVERSITY	5 wildlife crossings
	20,000 plants sown, including 10,000 trees
ECO-RENOVATION	445 rest areas renovated
CO ₂ EMISSIONS REDUCTION	1,271 parking spaces for carpooling
	387 free-flow toll collection lanes
Total amount invested: €1,168 Mn	

Pleased with the results, the French government spent 2013 in talks with toll road concessionaires over the proposal for a second motorway upgrade investment package, known as *Plan de Relance Autoroutier*, which is even more ambitious than its predecessor. The new plan is designed to jump-start investment in French public works and drive employment.

Plan de Relance Autoroutier project map



The new plan originally pinpointed a total of 26 public works and civil engineering projects in France's concessioned toll road network. It called for total investment of €3.6 billion in exchange for further extensions to concessions ranging from four months to six years according to the project.

After a thorough revision, on 29 October 2014 the European Commission authorised a final package entailing **22 projects and a €3.2 billion investment**. The projects include enlargement of existing stretches, the creation of new interchanges, the completion of routes and other environmental and road safety upgrades. The revised plan is now awaiting ratification by the French government. The aim is to begin studies and drafting final projects in 2015 and completing, at least partially, the work during the current legislature.

<i>Plan de Relance</i> timetable	
Paquet Vert	2008: Announcement of the stimulus package and <i>Grenelle Environnement</i>
	2009: Negotiation and approval of <i>Paquet Vert</i>
	2010-13: Execution of works of <i>Paquet Vert</i>
Plan de Relance Autoroutier	2013: Negotiation of the new <i>Plan de Relance Autoroutier</i> with concessionaires
	2014: Presentation of dossier to the European Commission (approved on 29 October 2014)
	2014-15: Negotiation of plan approved in Brussels with concessionaires Approval by the Council of State of changes in legislation and concession terms
	2015-2016: Studies and certificates of public convenience
	2015-2017: Execution of works

- **Objectives of the French government**

The plan's main objective is to **mobilise a large level of investment as a driver of the economy and employment**.

The plan allows for private funding to start up public works initiatives quickly without **jeopardising the stability pact's budget deficit and public debt targets**.

The French Minister of Public Works said "this plan implies a major effort to adapt and improve road safety, while providing a boost to public works and creating thousands of jobs". In his view, the French government has designed *Plan de Relance Autoroutier* in such a way that it can create some **15,000 jobs** during the current legislature, which ends in 2017.

- **Description of the process: from *Paquet Vert* to *Plan de Relance***

In December 2008, the French government unveiled an **economic stimulus package** targeting investment as a means of "*sustaining the activity of today and preparing for the competition of tomorrow*". The plan called for €26 million of investment over a two-year period in the construction and automotive industries, spread over some 1,000 projects.

At the same time, a series of environmental measures, known collectively as ***Grenelle Environnement***, were also approved to minimise the impact of transport. Measures included the **introduction of the eco tax** (applying the EU **Eurovignette** Directive), the transition to **more environmentally-sustainable roads** or **the strengthening of the existing concession model**.

Based on these two initiatives, Abertis and Vinci -two of France's main toll road operators- presented the French government with ***Paquet Vert***, which entailed total investment of over €1.1 billion between 2010 and 2013. Finally, a sector plan

was agreed among all the toll road concessionaires entailing a set of actions focused on enhancing road safety, improving the environment and reducing CO₂ emissions, in addition to providing other solutions.

Encouraged by the success of *Paquet Vert* in delivering its targets, when this initiative ended in 2013 the French government, together with the sector, came up with a proposal for a new **stimulus package** known as *Plan de Relance Autoroutier*. This plan is even **more ambitious** in terms of **scope** (not limited to environmental improvements), **investment commitments** by concessionaires (originally set at €3.6 billion) and, accordingly, the **extensions** of the concessions required to recoup the investment (up to six years depending on the investment required for each project).

- **Assessment of the investments**

The French authorities have assessed the lengthening of concessions in proportion to the required investment in each project and traffic forecasts for each section such that toll revenue during the extended period would allow the concessionaires to **recoup their investments and obtain a reasonable return on capital**.

The extension is calculated in proportion to the investment based on common asset valuation techniques, whereby the investment is strictly equivalent to the financial break-even of existing concessions. Using this valuation method, the French authorities ensure that the impact on the sum of all the project's future revenue and expense flows discounted to present value is neutral, factoring in a reasonable return on the investment (ROI) made and the cost of long-term debt -recovery of investment at the end of the concession- to consider an appropriate spread above the current cost, which is low at present.

The authorities have also verified that the costs of the works to be carried out were determined using objective and transparent criteria, taking as a basis the costs of other projects executed recently.

- **Approval by EU authorities**

Under EU regulations, the agreements between the French government and concession operators prolonging concessions are considered **substantial modifications of the concessions** that could infringe on the principle of **free competition** –by limiting access to potential competitors- and represent a form of **state aid** that would require approval by the European Commission.

As for *Paquet Vert*, the European Commissions considered that the agreements between the French government and the concessionaires constituted state aid that was compatible with competition rules for the internal market. A decision by the Secretary-General of the European Commission of 17 August 2009 **justified this compatibility because of the involvement of undertakings entrusted to companies that manage services of general economic interest** (art.86.2 of the TCE). The decision set out the need to ensure compliance with the principles of

non-discrimination, competition, transparency and control, instrumented in the form of a number of conditions and obligations for the French government and the concessionaires.

In the case of *Plan de Relance Autoroutier*, the French government submitted the plan for approval and review by the European authorities in May 2014. The process was overseen at all times by the French government, acting as the sole intermediary with the European authorities, requiring the details and explanations for each project from the concessionaires when requested by the European Commission. **DG COMP and DG MARKT analysed** each project presented **independently**. On 29 October 2014, they agreed not to raise objections to 22 of the 26 projects submitted, with adjustments to the concession extensions. They rejected those projects proposing network extensions outside existing concessions unless they connected to sections that were already concessioned.

With approval by the European authorities having been obtained, the plan is now in the process of being formalised between the French government and the concessionaires. Studies are slated to begin and final projects drafted in 2015, while the necessary certificates of public convenience are expected to be obtained so that works can commence before the end of the year.

Proposals for potential application in Spain

The Spanish concession industry realises it must be more pro-active, promoting investment initiatives that have proven to be valid and effective in countries like France, and that could equally be applied in Spain. ASETA¹ in 2012 and the Spanish Competitiveness Council² in 2014, among other institutions³, have put forward investment plans based on similar principles to those in *Plan de Relance Autoroutier*.

Among these, the proposal submitted by ASETA (currently SEOPAN Concesiones) is perhaps the one that most resembles the French plan in terms of investment volume, project type and the expected benefits for the Spanish economy. In 2012, ASETA identified an investment of over **€1.3 billion** in mature toll roads, estimating that it could create more than **24,000 jobs** and **approximately €760 million** in fiscal revenue for the government. Other projects were identified later in the Mediterranean and Ebro corridors taking total investment up to some **€1.75 billion**.

Projects identified in Spain		(€ Mn)
ROAD SAFETY UPGRADE	Adaptation of containment systems	171
	Adaptation of tunnels to comply with RD635/2006	246
	Adaptation of sections, stations and marker posts	91
	Improvement in signalling	20
	Subtotal	528
ENVIRONMENTAL UPGRADE	Noise barriers	54
	Wildlife protection and landscape restoration around motorways	102
	Surface water run-off devices	32
	Use of renewable energies, environmentally-friendly asphalt and other	10
	Subtotal	198
CAPACITY, QUALITY AND SERVICE LEVEL UPGRADES	Road expansion	496
	Mediterranean corridor upgrades	134
	Ebro corridor upgrades	279
	New road connection sections	10
	Safety improvements in service, rest and parking areas	53
	Increase in ITS facilities	39
	Winter maintenance facilities	16
	Subtotal	1027
Total amount		1.753 M€

The main Spanish concessions mature sooner than their French counterparts. This could make it easier to extend the concessions in exchange for investment, with the results being seen and the compensation calculated in the short term.

¹ Proposal for an investment plan in mature motorways, ASETA, 2012

² Proposed infrastructure action plan, Spanish Competitiveness Council, 2014

³ Proposals for infrastructure investment in times of crisis. Spanish Council of Civil Engineers (Colegio de Ingenieros de Caminos, Canales y Puertos), 2010

- **Economic impact**

A number of academic studies and research by institutions, such as the IMF and OECD, defend the **multiplier effect of investment in infrastructure**, especially in times of crisis, estimating that a 1% increase in investment would lead to a 1.5-3% increase in GDP⁴.

With public administrations finding it difficult to raise finance, the private sector offers the possibility of investing by providing capital **without affecting debt-to-GDP ratios**. Moreover, it would reduce debt over the short term by both the **multiplier effect** and the **fiscal return** (considering that investment in infrastructure produces a fiscal return for the government of over 60%⁵).

The estimated impact on employment is that **for every €1 million of public investment, 18 jobs are created**⁶, directly and indirectly. This does not include deduced employment in other sectors.

Impact of investment on productive activities			
	Jobs created (000s)		Fiscal return (%)
	Construction	Total	
Total construction	127,1	189,1	0,62
Residential construction	134,5	197,2	0,53
Infrastructure construction	117,5	180,6	0,62
Other construction	120,3	179,8	0,61

(1) Fiscal revenue linked to activity generated by investment equivalent to 1% of GDP as a percentage of GDP. **Considers VAT rates existing at 1/1/2013.**

Severe cutbacks to public and private investment in civil engineering throughout the lengthy crisis have had a pro-cyclical effect. The consequences for aggregate demand and existing infrastructure stock have been negative⁷. A stimulus plan following the *Plan de Relance Autoroutier* example could **boost public capital stock** through private investment.

Meanwhile, current circumstances are propitious to tap **available resources in the construction sector**. The Spanish sector currently boasts excess capacity and is more competitive in terms of production costs and materials.

In conclusion, we would highlight that with this proposal, investments are not funded by taxpayers through government budgets, but rather by the motorway's operating profit. As the infrastructures are already operated under a pay-per-use model, **users bear the cost of the investments**. Road users reap immediate

⁴ "The macroeconomic effects of public investment", IMF Paper, 2014

⁵ Economic recovery proposals. Spanish Council of Civil Engineers (Colegio de Ingenieros de Caminos, Canales y Puertos), 2013

⁶ Fiscal return and job creation through investment in infrastructure, SEOPAN, 2009, updated in 2012

⁷ Calculations of FBBVA-Ivie capital series using international criteria agreed among OECD countries, 2012

benefits from infrastructure upgrades and pay the cost in the future -in the event of extensions to concessions- or at their proportionate share -in the event of tariff increases-. Moreover, since mature concessions with stable revenue streams are involved, the projects should not have any major problems raising finance at a relatively low cost.

- **Legal framework**

Compensation to motorway concessionaires for investments could come in the form of an extension of the concession term or a modification in toll-road tariffs, depending on the specific concession. Spanish legislation contemplates both options. The prevailing legal framework for concessions in Spain, governed by Legislative Royal Decree 3/2011 approving the **Consolidated text of the Public Sector Contracts law**, includes both compensation mechanisms in the event of a modification to contractual terms.

Meanwhile, on 4 July 2014, **Royal Decree-Law 8/2014** approving urgent measures for growth, competitiveness and efficiency was published. This legislation promotes private investment in port and connection infrastructures between maritime and terrestrial transport in exchange for extensions to concessions and extraordinary concession renewal linked to the contribution to infrastructure financing. The same principle could be extended to other infrastructures, such as motorways.

As evidenced by the French experience, a plan of this type could be approved by community authorities since the state aid could be regarded as being compatible with competition rules for the internal market.

- **An opportunity to unlock the value of Spain's infrastructure stock**

We understand that a plan like this, which entails substantial short-term investment in exchange for a future extension of the concession period, could meet some resistance by consumers. Public opinion is often that tolls are an additional surcharge and not a co-responsibility in funding infrastructure that is essential for a country's economic growth.

For the measures to be more accepted socially, concession extensions and the concept of pay-per-use should be consistent across the entire high-capacity motorway network. This would unlock the value of the infrastructure stock and reduce the burden on governments of the lofty upkeep and maintenance costs.

Recent revenue estimates⁸ based on pay-per-use tariffs for Spain's high-capacity motorway network point to an income range of **€1.6-4.4 billion a year** depending

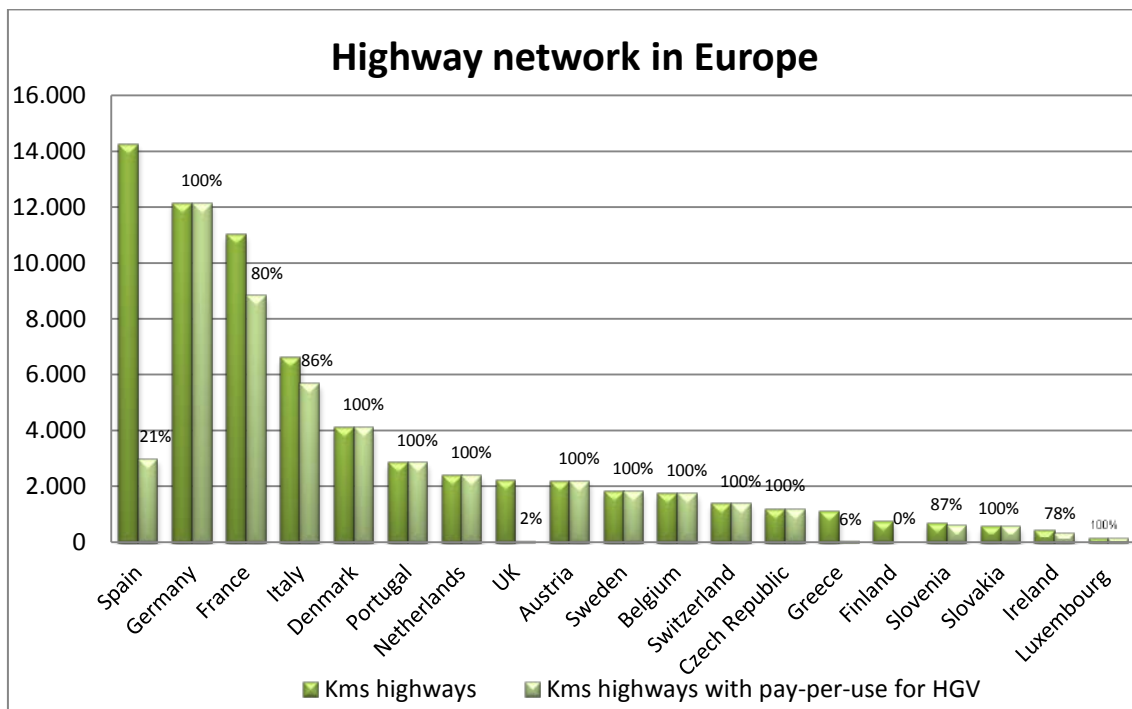
⁸ "Estudio económico de la tarificación de las infraestructuras de carreteras de España" (economic study on Spain's road infrastructure tariff scheme) by Professor José Manuel Vassallo (Madrid Polytechnic University), 2012

on whether it includes only heavy vehicles or also passenger vehicles, and on expansion of the network subject to pay-per-use.

The same study estimated the generation of around **€14 billion** of resources (**upfront payment**) from a 30-year concession for certain segments and corridors, and cumulative saving in public expenditure on network upkeep and maintenance of €100 billion.

Part of the funds obtained could be earmarked to offset the impact on the transport sector, similar to what Germany did with the income from application of the Eurovignette, or tax breaks for the transport and/or automotive industries. Application of the Eurovignette would also be a measure aligned with EU transport policy, which also pursues consistent competition conditions in the various transportation modes whereby each bears the costs they generate.

Moreover, Spain has the largest High Capacity Road Network in Europe, but only 20% is tolled, thus having an inharmonious system within Spain and with the rest of Europe, where the network is tolled 100% at least in the case of Heavy Goods Vehicles, see the following chart⁹. So the opportunity to align the infrastructure policy with Europe is very high.



⁹ INECO 2012