AmCham EU position on Infrastructure Investment

AmCham EU calls for infrastructure investment to support growth and jobs in Europe

Executive summary

AmCham EU welcomes the commitment from European Commission President elect Jean-Claude Juncker to present an ambitious Jobs, Growth and Investment package within the first three months of his mandate, with a **strong focus on additional investment in infrastructure** as well as other growth enablers such as education, research and innovation.

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AmCham EU speaks for American companies committed to Europe on trade, investment and competitiveness issues. It aims to ensure a growth-orientated business and investment climate in Europe. AmCham EU facilitates the resolution of transatlantic issues that impact business and plays a role in creating better understanding of EU and US positions on business matters. Aggregate US investment in Europe totalled €2 trillion in 2013 and directly supports more than 4.3 million jobs in Europe.

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POSITION PAPER

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Introduction

AmCham EU welcomes the commitment from European Commission President elect Jean-Claude Juncker to present an ambitious Jobs, Growth and Investment package within the first three months of his mandate, with a **strong focus on additional investment in infrastructure** as well as other growth enablers such as education, research and innovation. In this context, we would like to stress key principles that we have been advocating and working towards, which we believe need to continue to be considered and emphasized:

1. *The time is right for a new deal on infrastructure investment in Europe*

AmCham EU members have long advocated for the recognition of energy, transport and communication infrastructure as a core enabler of the competitiveness of the European economy. We are convinced that **further infrastructure investments can no longer be delayed**, at a time when global competitors race ahead to build the growth enablers of tomorrow. Investments in well-functioning energy, transport and communication systems that have adequate connections, reduce congestion and enable innovation should be accelerated. They can spearhead recovery efforts, as they open markets, and can create jobs, bring cohesion, build lasting assets, enhance global competitiveness and improve the EU's attractiveness for industrial investment.

Over the past number of years, AmCham EU has shared its **concerns over the slow rate of engagement of infrastructure related investments within Europe.** Public investments, notably in the Eurozone, have been affected by a systematic decline during the last few decades, in conjunction with a slowdown in productivity and a decline in economic growth rates. During the crisis, several Member States cancelled or delayed major infrastructure projects. Due to this the risk is now that many of the things that make Europe a great place in which to do business and maintain a high standard of living could be negatively impacted. Reacting to the crisis, European governments went for a rather modest set of national stimulus plans to promote growth, including on average only 0.3% of EU GDP for public investment (in which infrastructure is included). As a result of the crisis, budget consolidation remained necessary in many Member States. Projects were further delayed because of the pressures facing government budgets, at a time when 'productive' public expenditure should instead have stimulated higher rates of growth in the longer term. This environment further influenced the 2014-2020 multiannual financial framework discussions – which should have focused more on seeding growth to avoid a 'lost decade' scenario. As a result, the proposals for a Connecting Europe Facility and other headings linked to infrastructure investment were significantly reduced, although we welcome that the remaining commitments still represent in some cases a significant improvement over the previous multi-annual frameworks.

AmCham EU shares the view that **sustainable growth cannot be built on ever-growing mountains of debt.** There is no doubt that, within the framework of rules set under the **Stability and Growth Pact**, the European Union institutions and its Member States must continue the strongly needed **structural reforms** and deliver on the **consolidation of public finances** through decisive and courageous actions. However, difficult decisions to reduce and control public spending should also be balanced and rewarded by efficient and smart investments into the future to seed sustainable growth.

We believe that **the time is right for a new deal on infrastructure investment in Europe** – both across the Union and at a national/regional level – leveraging the size of the EU and its Single Market, optimizing the tools and resources already designed and available, and making the best use of record levels of individual savings and financial market conditions.

2. *The European Commission has rightly assessed the significant needs for infrastructure funding for Europe's transport, energy, information and communication networks over the next decade*

With estimates ranging between €1.5 trillion and €2 trillion until 2020, there is **no shortage of investment opportunities** to implement European 2020 goals and strategies for growth and jobs. However, there is also no shortage of global competition, as many of Europe's trading partners invest in the development of their infrastructure and compete through many initiatives for access to finance.

Clearly, the EU's ability to **deliver** the investments will be the real test over its expertise in assessing the needs. The alternative would most certainly lead to higher-cost solutions in the future. In this area, the **effective management of the prioritization processes** for competing infrastructure projects as well as a **balanced approach to permitting procedures** supporting sustainable development is paramount to success.

3. *New sources of financing are required*

AmCham EU agrees that the European Union should fully leverage its size, GDP, budget and internal market to further implement project-financing techniques to fund infrastructure for competitiveness and enable sustainable growth and jobs.

Back in 2010, we very much welcomed the announcement by the current European Commission of new financing sources, such as **European project bonds** and **Public Private Partnerships** for major European infrastructure projects. We supported the creation of infrastructure funds using several existing instruments to build a genuine European infrastructure funding strategy.

Since then, the Europe 2020 Project Bond Initiative was successfully turned into legislation and several pilot projects were launched for infrastructure investment in energy, transport, and telecommunication. Based on this experience, existing expertise, and global best practices, well-designed project bonds could indeed significantly participate in a better coverage of the financing needs of infrastructure projects and contribute to reversing the significant decline in European investment over the last 30 years (the public investment ratio in the Eurozone has declined by more than 1% of GDP). The experience gained in the European Investment Bank and other partners for infrastructure project financing should be fully leveraged. Risk sharing mechanisms, subordinated debtors and credit enhancement techniques offer vast potential. AmCham EU member companies also suggest that many environment related infrastructure investment and large scale renewable energy projects could be considered as good candidates for these types of financial instruments.

In order to further support a sustainable economic growth the current transport infrastructure should be modernized and optimized to further improve air quality. Moreover, a better management of congestion, through promoting the implementation of Intelligence Transport System (ITS), and the use of adequate road infrastructures, favoring the development of the most cost-effective alternative energy distribution network, would be key elements to improve fuel efficiency and reduce the level of pollution.

AmCham EU, however, continues to stress that the Europe 2020 Project Bond Initiative and further public private partnerships can only be valuable additions to the toolbox and not a substitute to structural issues. They **cannot replace the Member States' responsibilities to maintain a high level of productive public investment** and cure the inertia in implementing much needed structural reforms. New financing techniques should come with a level of additionality if they are to help bridge the infrastructure-financing gap. Europe needs an overall strong commitment to fund the initiatives it jointly decides upon and to deliver results. As such:

- The completion of **Trans-European networks** should be backed by adequate budget prioritization at European and National levels;
- A **strong regional policy** should continue to improve European cohesion through well-managed structural funds;
- Based on the successful impact of the €10bn capital increase of the **European Investment Bank** engaged in the past years, a further increase in the EIB's capital should be considered;
- When infrastructure usage charging schemes or taxation plans are developed, the **earmarking of revenues** generated from the use of infrastructure should be the rule and must contribute to secure adequate infrastructure funding.

4. *Prevent market distortions*

The **market for infrastructure financing** is a very complex construction with specific requirements and long-term needs. The financial crisis also had a clear impact on investor behaviour and on the attractiveness of several instruments and markets, and there is a necessity to re-establish capital markets as a significant source of financing in this area. In any case, the introduction of **new financing schemes should not lead to financial market distortions or market access restrictions.** The European Commission may want to further assess the need for **taxation incentives** that would maintain a level playing field across entire infrastructure sectors as well as the **impact of new capital requirements** over the attractiveness of the investments versus other opportunities.

In parallel, the further development of **a genuine European infrastructure funding strategy should not lead to the introduction of forced shifts between energy sources or transport modes.** Clear and transparent eligibility criteria must be agreed upon and enforced. AmCham EU strongly believes that any policy must be cross modal in design, since modal shift is neither possible nor suitable in the very large majority of traffic or energy flows. On the contrary, effective co-modality allows the full supply chain – including customer expectations – to be considered, while each transport mode or energy source competes fairly on the basis of its own advantages and challenges. Infrastructure investments should allow all transport modes and energy sources to be developed fairly in order to make co-modality work effectively in the transport and energy mix and to ensure mobility and energy security. It is also important to promote innovation by ensuring technology neutrality. The market should decide the best new solutions to solve current challenges with the help of intelligent systems and facilitated by harmonized standards and administrative procedures.

5. *Stronger global connections:*

While the massive underinvestment in infrastructure development is a critical challenge for Europe at home to develop growth and jobs within the Single Market, European institutions and Member States should not underestimate the need to build stronger connections with the Union's global partners through infrastructure investment.

The development of infrastructure connections with and through **strategic third-countries** has obviously a huge impact on Europe's energy security of supply, access to raw materials, and ability to trade in the global economy while leveraging global supply chains. Infrastructure is a significant dimension of the European Union's External Action.

Without continued support for infrastructure investment, notably through the instruments for pre-accession assistance, the funding and technical assistance tools or development banks, the **enlargement process** will be made much more difficult for acceding, candidate and potential candidate countries that have to demonstrate they will be able to play their full part as potential members of the European Union.

In addition, infrastructure investment remains at the heart of a successful **European Neighborhood policy,** especially to bring Eastern-European partners closer to the EU through the Eastern Partnership and to further promote economic integration and democratic reform to the EU's south through the Euro-Mediterranean Partnership.

Infrastructure investment must also remain one of the core intervention areas embedded in the European Union's **development policies,** and supported by the relevant funding. Better transport, sanitation, energy and communications systems contribute to the development of local capabilities. Poor infrastructure hampers growth and the ability of many developing countries to trade in the global economy and improve the standard of living for their populations.

Conclusion

AmCham EU member companies look forward to a constructive debate on a genuine European infrastructure funding strategy to help bridge the infrastructure-financing gap and to support sustainable growth and jobs.

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