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International Transport Forum
2013
Funding Transport
22–24 May 2013, Leipzig
International Transport Forum
2013
annual summit

Funding Transport:
A Look Back at the 2013 Summit

Demand for mobility around the globe is growing rapidly. Motorisation in emerging economies continues at breath-taking pace, with the number of motor vehicles on the world's streets rising, according to some estimates, from just over 1 billion today to 2 billion in 2020. Air passenger travel could double, air freight could triple and container handling in ports could quadruple within the next 15 years or so, according to OECD projections.

Across all transport modes, existing infrastructure is far from being able to accommodate such increases of demand. Furthermore, our transport infrastructure must be adapted to the requirements of sustainability, and enabled to profit from digitalisation. And already today, maintenance backlogs are threatening efficient and high-quality service with rail lines, bridges, tunnels, roads, quays and runways subject to creeping degradation due to postponement of necessary investment for upkeep.

In short, if we do not want to stifle trade and economic growth and the opportunities these bring for our citizens, we must invest in infrastructure - and we must do so now: Global investment needs to 2030 for key global transport infrastructure alone is estimated by OECD at USD 11 trillion.

But policy makers face a difficult dilemma: Almost everywhere public budgets are squeezed as never before in the wake of the global financial and economic crisis. And they are likely to remain tight for quite some time.

With traditional tax-based funding of transport infrastructure withering, decision makers in government who are serious about delivering better access and mobility for citizens and enterprises need to seek out innovative, workable approaches to solving the financial side of the equation.

So in choosing "Funding Transport" as the theme for its 2013 Summit the International Transport Forum has pointed a bright spotlight at a truly burning issue faced by decision-makers in governments today. And I believe strongly that this year's Summit in Leipzig has helped us all to move closer to solutions by bringing together Ministers from ITF member countries and many business leaders; by bringing together 1000 delegates from 79 nations to test ideas, to engage with experts, to align perceptions on the funding issue and explore ways to address it.

With Nobel laureate Amartya Sen and Economist editor-in-chief John Micklethwait, an exceptional economic thinker and a leading current affairs analyst set the stage for the high-level discussions in Leipzig with two candid, thought-provoking keynotes. Both underlined the economic case for prioritising investment in transport as an engine for growth.

Eleven plenaries and core sessions, three Ministerial Roundtables and a dozen side events organised by partner organisations expanded on just about every aspect of the funding issue over the course of three Summit days - from a stock-taking of public-private partnerships via defining spending priorities to ways of attracting private capital to transport.

The Ministerial Session, under the presidency of Norway's Minister of Transport and Communications, Marit Arnstad, featured enriching presentations by three CEOs from Australia, Turkey and China that helped to hone in on central questions in the collaboration of governments and the private sector.

In the joint declaration agreed in Leipzig, Ministers declared their determination to pursue policies toward sound sustainable funding of the transport sector. Funding for transport infrastructure and services, Ministers said, must be aligned with transport's fundamental role in the economy and society.

This, they point out, requires stable funding arrangements that facilitate implementation of long-term policies. It also requires anchoring funding in the benefits derived from transport. Not least, consistency must be established between funding practices and strategic directions for change in the sector and decision processes must ensure funds are deployed to their most efficient use.

Transport's funding dilemma will not disappear anytime soon; a silver bullet that provides the wherewithal for transport funding is unlikely to emerge. Yet Leipzig was a first big step towards adressing the funding dilemma systematically. The 2013 Summit on Funding Transport showed that governments around the world are rethinking the issue and moving to adapt to new realities. It allowed policy makers to review national experiences in a broad global context and to refine their ideas by exposing them to different frames of reference.

In this way, the 2013 Summit has, I believe, facilitated a shared understanding of the challenge ahead and helped to align perceptions among ITF member governments. That in itself is a significant and valuable achievement which should pay a dividend in years to come. And some of the ideas evoked in Leipzig will be fertile seeds that will grow into useful tools to enrich policy kits and help to handle transport's funding dilemma more quickly and more effectively.

I hope this brochure, which presents the essence of the substantive debate in Leipzig, will help to carry the impact of this year's Summit well beyond the event itself. When we meet again in Leipzig for the 2014 Summit on "Transport for a Changing World" from 21 to 23 May, we will also use this opportunity to see how far we have advanced in addressing the funding dilemma. I look forward to seeing you in Leipzig again!



José Viegas
Secretary-General of the International Transport Forum


International
Transport Forum
Birgitta WORRINGEN



Keynotes

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Harvard University,
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08

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11



Amartya Sen
was awarded the Nobel Prize in Economic Sciences in 1998 for his contribution to welfare economics and social choice theory. An Indian national, Sen is Professor of Economics and Philosophy at Harvard University, a distinguished fellow of All Souls College, Oxford and a Fellow of Trinity College, Cambridge, of which he was Master between 1998 and 2004. He was the first Asian to head an Oxbridge college. In 2012, he also became the the first non-American to receive the National Humanities Medal. Sen's books have been translated into more than thirty languages.

“Transport is part and parcel of the process of economic growth”

Amartya Sen

“If the world is, in many ways, much richer today than anything that our ancestors could have imagined, the credit for that achievement goes largely, as Adam Smith argued more than two hundred years ago, to the use of economies of scale and skill formation, made possible by increasing trade and exchange taking place over the centuries.

In the context of the funding of transport, it is particularly important to bear in mind the central fact that gains from division of labour, which is one of the main sources of prosperity for so many people in the world, and which could help to raise the living standards of others as well, are thoroughly dependent on the availability of usable transport.

In presenting this central economic thesis, Adam Smith not only referred to contemporary trade, but discussed how dependent the ancient civilisations across the world were on the use of navigable rivers for early commerce, and he gave examples based on the exchange of commodities through the rivers of ancient Egypt, China, India, and elsewhere.

The importance of transport

A great many different types of concerns related to the funding of transport have to be considered. I will confine my discussion to three particular issues. The first, with which I have already begun, is the need to take note of the foundational importance of transport in the generation and sharing of economic prosperity in the world.

The second question relates to the special role that transport and its funding can have in the present situation of widely shared recession across the world, and the part that transport investment may - or may not - be able to play in providing stimulus and in facilitating economic growth, in a time of “austerity.”

The third is the need to integrate environmental considerations into the thinking about the future directions of transport and about its promotion as well as regulation and restraint, paying adequate attention to the integrity of the global - as well as local - environment.

The fourth is the role of well-reasoned public policy regarding transport in addressing environmental problems as well as other problems that the transport sector faces.

An omission I would like to flag right now is the role of good transport in getting people together across the boundaries of nations and regions. Increased contact and communication have been one of the major forces helping the progress of civilisation in a way that David Hume saw with remarkable clarity in the eighteenth century.

If the attempt to impose a unified currency through hardship and austerity over the Euro Zone has generated disaffection among people of different European countries, the availability of easier and cheaper transport, perhaps with innovative arrangements for a “Europass” at discount prices, could have precisely the opposite effect.

Need for enlightened thinking

One of the much noted observations on spending on transport infrastructure in the world, over the last two or three decades, is that the percentage of gross domestic product (GDP) devoted to this field has been stationary, perhaps even falling a little, in the developed countries, whereas the percentage of GDP used for this purpose has grown fast - more than one and a half times - in what are called the emerging economies.

There is no great mystery in explaining this, partly because developed economies already have a much more extensive transport infrastructure, but also because the expansion of the opportunity of affordable transport is part and parcel of the process of economic growth, which has been much larger in the emerging economies than in developed ones.

While there is little point in elaborating these obvious connections, a couple of additional concerns have to be firmly brought into the discussion. One of them is that if the developed economies of Europe and North America at last start growing faster, as I believe they have to if they want to escape the malaise in which they are currently caught, then the entire trend in transport infrastructure would have to be revised upwards, rather than being based on extrapolation of the past. And since infrastructure development takes time, the need for enlightened thinking on this subject may well be overdue.

Room for expansion

The second point related to the issue of the importance of transport for economic prosperity is that many of the poorer economies are not yet at all in the category of emerging economies, and the process of rectification of persistent poverty in many parts of Africa, Asia and Latin America call for systematic and forward-looking transport planning with specific room for expansion.

Indeed, the reach of newly arriving prosperity even in the so-called emerging economies is often rather biased and limited, and the expansion of facilitating transport infrastructure can be a very important part of poverty alleviation and equitable sharing even in countries that are already having reasonably fast overall rates of economic growth.

Just as the availability of micro-credit and economic organisation for the poor can, in many circumstances, be an engine of poverty removal and of more equitable economic progress, so can the extension of facilities of transport to people left behind in the economic race.

Recession, austerity and the role of Transport

I turn now to the second issue - the relevance of transport expansion in a world with recession and austerity.

The development of infrastructure for transport is expensive, and the temptation to economise on spending on transport infrastructure can be quite strong in an economy under strain, which is trying to cut public spending, and where the transport sector does not appear to be under strong immediate pressure to expand.

In response to that there is the point already made that the infrastructure may come under pressure once Europe and America achieve more economic growth, and since, as has also been already noted, the building of infrastructure takes time, the need to pay attention to the future can be quite urgent already.

Over and above these rather straightforward points, there is also the more difficult - and inescapably more controversial - issue of the role of transport spending and investment in

actually helping to stimulate economic expansion and growth.

I have been arguing about the economic mistake involved in a policy of indiscriminate austerity ever since that policy was introduced as an alleged cure for excessive public deficit and debt in European countries. I did so in an address to the annual meeting of the World Bank and OECD in Paris, under the title "Growth-Mediated Development" in May 2011. I also wrote on this in Le Monde, La Repubblica, The Guardian, and The New York Times - with no impact whatsoever, if I am any judge. The decision-making powers in Europe had a different reading of what was needed, and they were not going to budge, despite the critique of many economists.

Separating reform from austerity

The actual experience, since then, of the anticipated achievements of austerity in cutting down the burden of deficit and debt has been altogether dismal. In contrast, the ratio of deficit to GDP has fallen in the USA thanks to economic growth, and that of course has been the standard way of cutting the ratio of deficits in the past, for example, at the end of the Second World War, and during the Clinton Presidency. And the growth-oriented approach has acquired new converts, for instance with some immediate success in Japan, but not, at least not yet, in Europe.

It is important to ask what could have been the reasons for which the economic debate got so badly mixed up when the curative values of austerity were being widely championed, so that we can see our problems today in a somewhat clearer light - something that is relevant for the debates on transport funding as well.

There can be little doubt that Europe needed many institutional reforms quite badly, but the strong case for institutional reform has to be distinguished from an imagined case for indiscriminate austerity. Through the bundling of the two together as a kind of chemical compound it became very difficult to advocate reform without cutting public expenditure all around, and this did not serve the cause of reform at all well.

So one casualty was the much needed reforms themselves, since the voters' opposition to austerity strengthened their resistance to institutional reform as well. And this unfortunate effect has been in addition to the terrible impact of austerity on the lives of the people - through undue hardship and through massive unemployment.

An additional counterproductive effect of the policy of austerity has been the loss of productive power - and over time the loss of skill as well, resulting from continued unemployment of the young. The very process of skill formation, on which Adam Smith put emphasis for the progress of human society and economic development and in which context transport and trade received his special blessing, was quite badly manhandled through the tying together of uncalled-for austerity with necessary reform.

Many countries in the world still need more institutional reform. But they do not need any more austerity - in fact the opposite. In thinking about spending and investment on transport infrastructure, it is important to see clearly that an expansion in that field does not make reform any more difficult, while helping to stimulate the economy in a powerful way, if the process is well chosen. That is the context in which, I would argue, the challenges of transport spending and funding have to be viewed today, especially in Europe.

The environmental challenge

I turn now to the last two issues. What about the environment? One of the strong arguments against further expansion of transport is the belief that it would be environmentally terrible to go that way. That line of thinking is partly reflected, if only implicitly, even in the fact that the established tax rates on emission, for example on CO_2, is very much higher in fuel used for transport than for other purposes, for example for heating or lighting.

There are obviously many considerations here (and the question is certainly complex), but if transport is central to economic progress and to reaching the neglected parts of the population that do not benefit enough from aggregate rates of growth, then we have to see well-chosen expansion of transport as being quite central to enhancing the quality of life of people, especially of the neglected parts of the population.

It is important to be clear that in talking about transport, we are not talking just about such luxuries as the Orient Express, but about necessary transactions of commerce, economic cooperation, tourism through which people find a job, earn an income, and advance their well-being and freedom. We must recognise this central point, but we must also go beyond that into the demands of public policy.

There are, in addition, at least two major concerns to be addressed here. The first relates to the fact that the development of renewable energy can itself be a part of the environmental challenge, and in that context the need for much more research on storage, transmission and portability of energy for transport call for special effort right now. There are many different kinds of challenges here, including, for example, guaranteeing the continuous availability of power generated by solar or wind energy, which are produced on a discontinuous basis, or how non-fossil fuels can be used for aviation.".

This takes us to scientific and engineering research on cutting down the cost of storage and transmission. Some of that research is already partly on the way, but much more needs to be done. There is also a case for more radical research that would be needed to find some form of non-fossil fuel that can be used for aviation.

But the dependence on fossil fuel has to be addressed at many different levels of sophistication and radicalness in research. In short, many different types of research in science and engineering are needed to address the problem of energy use in transport, which can be extremely important for transport and trade, and for their role in helping economic progress as well as in removing human deprivation.

Social correlates

Another concern that is very relevant in the context of the environmental impact of transport arises from the well-established fact that many forms of transport are far less energy-using in aggregate than others.

The development of public transport, for example through expansion of rail, can cut down on more energy guzzling ways of moving people and goods through private cars and motorized vehicles. All this needs a great deal of public discussion as well as careful decision making on public policy.

While these and related public policy issues are important for the environment and for sustainable development, they have other uses as well, for example in generating a society with good civic facilities and more interactive social living. Since I must stop now, as my time is up, I would like to end with pointing to the fact that the social correlates of transport planning can be no less important than its economic aspects." ■

(From the transcript)

“Infrastructure has an image problem”

John Micklethwait

“I am going to focus on what might be described as a single dumb question: Why are governments not investing more in transport infrastructure and infrastructure in general at the moment. That breaks down into two ideas. The first is a concept which I suspect to everybody in this room is self-evidently true, although I’m not so sure that everybody else shares it: that governments should invest more. And secondly: If it is correct that governments have not been investing as much in transport and infrastructure as they should have done, why? Is it because politicians, with the obvious exception of all the 50 ministers gathered here, have somehow become more bone-headed and stupid? Is it because of individual reasons? Or has there been a fundamental balance in what I would call the political economy around such decisions? I suspect there may be a little of the second.

Let us look at the first question. Are we generally underspending on transport or infrastructure at a time when we would think we should be spending more? People outside this room would question that. If I were a citizen of Leipzig, I would look around and I would see the rather splendid German infrastructure. I would note that this is a time of austerity, that there are hard decisions to be made and I might decide that actually spending more money on different versions of infrastructure was not necessarily needed.

You could add in the environmental concerns which Amartya Sen also mentioned. But, overall, if you look at the West in particular, you can make the case really rather strongly that we have invested less in this particular recession and this time of need in those sort of projects that we would normally have expected to do.

As an example and as a way of illustrating that I am going to look at the United States. America is special in some ways, but it is more diverse and bigger than other countries, and so is a good one to start with. If you look at America, I think there are four reasons why you would expect them to be investing more. The first, and I apologise to the Americans here, is straightforward: Their infrastructure is lousy. Most of it was built 50 or 60 years ago, some is from the beginning of the 20th century.

It is amazing that it is only five years since that bridge collapsed in Minnesota, claiming 13 lives, and despite that you still find that in America there are 70 000 bridges, roughly 11% of the total, which are rated as structurally deficient. This costs money: Americans spend USD 67 billion on the damage to their cars every year from bad roads, they spend USD 78 billion in terms of wasted time and petrol, and crashes are at USD 230 billion. I should admit frankly that all those numbers are from the American Society of Civil Engineers who have a very small vested interest in building more roads.

Many reasons to invest

But pretty much every economist who has looked at it comes back with roughly the same numbers and concludes that America is not spending enough on infrastructure. Last year, the Centre for American Progress, a think tank, came up with the number that America was spending roughly half the USD 262 billion it needs to spend a year updating its infrastructure. So on the one hand, yes, that’s the first reason to invest more.

Second, and Amartya Sen again pointed towards this: if you are somebody who believes in taking aspirins rather than rat poison, then you would expect the government to be putting money in at the moment and you would expect them to be putting money into infrastructure because on the whole that is the best way to create growth and jobs out of the various cocktail of things that can be done. When people examined the Obama stimulus they came back with the number that money spent on infrastructure had a multiplier of 1:2.5, meaning that for every dollar spent you create that much more in economic activity, which is around 30% more productive than cutting taxes.

The third point is that it is fundamentally cheap at this precise moment for governments to go out and invest in infrastructure, as long as you think of it as being long term. The American government can borrow at a few percentage points right now. It can borrow long term and it can borrow cheaply. It is also a time when there is a vast amount of cash-rich governments in Asia who understand about infrastructure and a vast amount of pension funds and insurers looking for longer term assets to meet their liabilities.

Finally, I would argue that in the case of America it is a basic issue of national greatness as it were. The fact that it cannot build the stuff I think matters — particularly at a time when America is being challenged by places like China. “Is this a country that can still get big things done?”, the Head of the US Chamber of Commerce asked at the beginning of this year.

Of course there are some caveats to that. Quite a lot of things are going on within the states. I am intrigued by the fact that California, the state I know best, has suddenly started to reinvest in infrastructure. I am intrigued by Mitch Daniels, the former governor of Indiana, who perhaps the Republicans should have chosen to run for president last year, who pushed this particularly in his state.

But overall I do not think there is much doubt that America has not been spending enough and is spending very little in this particular recovery compared with previous eras like the recession.

Pushing the economy

And America is not alone. Yes, it has got slightly worse infrastructure, but it is not alone in its failure to move towards infrastructure as part of the answer. It is incredible to me that in Britain the Tories came in and infrastructure was amongst the first things they smashed rather than anything else. If you look at the EU’s great budget which is going to push the European economy forward, there was a large amount of fuss, perhaps made by some people in this room, that there will be a massive increase in infrastructure investment.

It is going to mean an increase three fold to EUR 50 billion - which sounds great until you realise that they are spending EUR 290 billion on cohesion, and EUR 283 billion for direct agricultural subsidies.

In this particular recession we have not pumped money into infrastructure as previous people did in previous times. So that brings me to my second question. Why? Why has it not worked this particular time?

My answer is that there are a lot of individual reasons. If you take my American roads example, there you have the problem of the Highway Fund. It was



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created by Congress and has a mandated tax of 18.4 cents per gallon on gas. That amount has not risen since 1993, it has not been pegged to inflation and every year there is a battle about it. Next year, the Congressional Budget Office expects the Highway Fund to run dry. It's an individual problem.

You could argue the same about Heathrow airport. There, the British Government have come up with various non-answers to Heathrow so far. It is a succession of individual mistakes perhaps. But if you look slightly deeper you can see structural reasons why these things are not working.

I would argue firstly that infrastructure has an image problem. Yes, people like the idea of spending, but infrastructure is a particularly visible way to get things wrong. The Economist was partly set up to analyse the railway boom of the 1840s; I am also a man who invested in Eurotunnel. So I need no reminder that things that can go bad. If you look at America, whenever you mention infrastructure people begin to talk about bridges to nowhere. If you mention it in Spain, they talk about the white elephant airports at Castellon and Ciudad Real. Voters like the idea of having something big and new but they are suspicious about the details.

An accounting problem

Secondly, I think there is straightforwardly an accounting problem. Infrastructure is far too often chucked in with current spending. Those Conservatives who thought Britain should be spending more money on infrastructure were scared off it because they were worried about them going into the general numbers. There is a strange thing when nobody accounts for governments in the same way as you account for companies. None of us would go out and borrow money for a mortgage and expect that to be lumped in with our dry cleaning bill, but that is the way in which many governments still work.

Thirdly, it seems that Public-Private Partnerships so far have not taken off. I am staggered again, looking at the numbers in America, how low they are. Very, very little money has managed to come through that particular avenue so far, outside a few questions.

In the end though I think it comes down to two things. The first is politicians. It strikes me that politicians are pretty much the same as always. You can go back and read about people trying to make the same decisions in 1930s America or for that matter in 1950s California. Politicians have always wanted three totally contradictory things about infrastructure. They have wanted it to be shovel-ready. They have wanted it to be as grand as possible. And they have wanted it to be as cheap as possible. Those three things are wholly contradictory.

They want it shovel ready not only to boost money into the economy, but so that they can get pictured in front of a whirring bulldozer or a bulging pipe. It is no fun setting up a great big infrastructure project only to wait for your successor to stand beside it. Secondly, they want big projects. If you look at Britain, there is a plan to link the South with the North by a new train called High Speed II. Most of the economic evidence says that actually you can achieve the same thing by just lengthening some platforms and straightening the track. But if I were David Cameron, I would not really want to go down in history as a man who lengthened a platform. By contrast, his rival Boris Johnson, the mayor of London, has come up with a somewhat imaginary version of an airport and reaped enormous gains from the idea of "Boris Island". Politicians like big projects. And finally they want them to be cheap. But again none of these things have changed. None of them are fundamentally different from when you look back to previous eras.

So what has changed? The closest I can get to looking at it is to do with the lobbying, to do with the public opinion around these particular issues. And here I would go back to an actual economist called Mancur Olson who wrote "The Logic of Collective Action" in 1965. Olson looked at the idea of vested interest, of public interest and he advanced the idea that interest groups on the whole would become ever more particular and ever more directed. The reason being that if you set up a broad interest group, you end up with a lot of free-riders who are in roughly the same position as you, whereas you actually need a lot of money, lots of energy, and lots of time directed at things. If you end up with a business roundtable then that is pretty good for most people. If by contrast you end up with something like the National Cotton Council - a deeply virtuous organisation which has existed since the 1930s to extort USD 2 billion out of the American government for cotton growers - if you are a cotton grower one of those is directly useful to your business every single year. The business roundtable is less.

A changing balance of power

Why does that matter to transport? Let me use the example of California. If you look at the time when California built all the freeways, or the universities, all the things that it now uses, that was back in the 1950s and the 1960s when there was a broad business elite which very firmly supported the idea of growth as a whole. There was a group of people who were united behind that. They might have been rather white, they might have been rather waspish, they might not have been keen on higher taxes, but in general they liked the idea of California going in one direction.

Since then Californian lobbying, and I would argue this is true of everywhere around the world, has got ever more particular. The Chamber of Commerce has given way to an industry association, a semi-conductor association, and then from the semi-conductor association you go down to individual companies. Individual companies tend to lobby on much narrower things, and you can see that again and again. You can see that in the fuss about Heathrow, where you have basically a big-business need for a general airport and a lot of particulars who are not prepared to push it.

And yet, on the other side of it, all the dynamics of public interest have gone the other way. If you want to oppose something upfront, there are now ever more ways and possibilities to stop it. Regarding the aforementioned High Speed II train, I was amazed at the number of women who I once met, I think at drinks parties back in the 1970s, who managed to get hold of my email to tell me about exciting new economic studies explaining why railway lines shouldn't be built through their garden. There are so many more means now for people who object to big infrastructure projects to go the other way.

My conclusion then, is that infrastructure, whether we like it or not, has become a bit like free trade: one of those things where there is a general good from which we can all win, but the upfront costs at the beginning are much higher. That leads me to various questions about what you can do to try to mitigate against that. Do you need hypothecated taxes? Should transport end up as a regulated utility? Do you need to have more regulated assets or transport funds?

These are questions which I think in essence spring from my single dumb question at the beginning. But they are ones which I feel have changed fundamentally because of that changing balance of power." ■

(From the transcript)





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Innovative Transport Funding

The coherence, durability, and fairness of transport funding needs improvement. The session on Innovative Transport Funding explored and clarified sound funding principles and suggested practical ways to implement change. Specific questions included:

What is the role for user charges vis-à-vis general tax revenue and benefit-based charges?

How can sources of funding such as land-value capture or tolling be more politically acceptable and better used?

How do different revenue sources for different modes affect the potential for innovation and sustainability, and what are the consequences?

What governance approach is appropriate to ensure transparent and durable funding structures?

Advanced economies are not investing enough to maintain, let alone improve the performance of their transport infrastructure. In Germany, for example, half of the highways are older than 50 years and face a maintenance backlog. The situation is similar in other advanced economies. Political awareness of this spending gap is rising but public awareness remains weak. Yet public awareness is critical in order to build political momentum and ensure that spending increases before serious performance deficiencies or safety risks emerge.

Transport infrastructure and services can be paid for from general tax revenue, user charges and charges on beneficiaries such as landowners, businesses or project developers. The challenge is to find a well-balanced mix of these funding sources. What is the right balance depends on the context, but there is wide agreement that charges on users and beneficiaries are to play a much larger role than they do now in most countries. Opinions on whether to put the main onus on users or on beneficiaries differ.

User charges in the form of distance-based charges are particularly appealing when they can contribute to demand management, that is to say when they can help contain congestion or make users pay for road wear and pollution. In addition, user charge revenues can serve as guidelines for where to invest or divest, a feature of particular importance in regions with declining population, for instance rural areas in Japan.

Distance-based charges are fairly expensive to collect. Costs are slightly above 10% of revenues for Toll Collect, the company collecting user charges on German Autobahns, and much high than that for the London congestion charge. Fuel taxes are cheaper to raise. But as driving may decline and fuel economy rises, this tax basis erodes. This evolution can and should be anticipated.

Earmarking of the necessary revenue to provide, operate and maintain assets over their lifecycles receives broad support. It brings much needed stability to revenue flows, doing away with the stop-and-go pattern that characterises funding at present and helping acceptance among the public.

Yet earmarking carries a risk of locking-in funds and limiting budgetary flexibility. Embedding funding in a goal-oriented and system-wide strategy for the transport sector limits this risk as it brings transparency and allows accountability.

With the long-lived assets that characterise transport, reliability of funding flows ultimately requires that the government commit to a long run strategy. Contracts are one way of establishing such commitment. They can take the form of public-private partnerships or can underlie transport infrastructure funds or other governance arrangements. Contracts can never be complete but are a strong commitment device nonetheless. ■

The Panel

Moderator: Melinda Crane, Deutsche Welle TV

"The public needs to perceive that they get something in return for accepting to pay more."



Hanns-Karsten Kirchmann
CEO, Toll Collect, Germany



Toshinori Nemoto
Professor of Economics, Hitotsubashi University, Japan

"Revenue matters more than earmarking. If you raise insufficient revenue, whether you earmark or not matters little."



Duane Callender
Director, TIFIA Credit Program, Department of Transportation, USA



Gerd-Axel Ahrens
Director, Institute for Transport Planning and Traffic, Technical University Dresden, Germany

"It seems obvious that beneficiaries of public transport investment, including commercial interests and landowners, contribute to paying for it."



Dave Wetzel
Chair, Professional Land Reform Group, UK



Alain Flausch
Secretary-General, International Association of Public Transport (UITP)

Making Better Choices: Assessing Transport Investments

In the present economic context, scarce public resources may affect transport investment. Making good investment choices requires state-of-the-art assessment of their multiple impacts as well as timely and effective communication of the results. Decision-makers need guidance on how to compare and assess different investments. Assessment must take into account all the benefits associated with these investments including new priorities such as sustainability and green growth. Finding ways to effectively target spending is more critical than ever. The challenge is to identify which type of transport investments should remain a priority.

The session on "Making Better Choices: Asessing Transport Investments" discussed which innovations in appraisal help ensure that it fulfils its role in evidence-based decision-making. Specific questions included:

What methods are needed to cover economic, social, environmental, and financial impacts?

How can a balance between practical relevance and analytical rigour and coherence be ensured?

How can funding and financing considerations be integrated into the appraisal framework?

What portfolio of investments should be considered, for instance regarding maintenance versus building new assets?

A well-developed tool for supporting decisions on what transport projects to fund is Cost-Benefit Analysis (CBA). CBA is grounded in modelling and in basic traffic data, allowing for coherent and realistic assessments. It is widely used and well respected in transport when compared to other sectors.

One problem with CBA is that results depend heavily on the benefits of travel time savings. These in turn are driven by estimates of demand, which often are too optimistic. Yet this risk can be contained. In Korea, for example, the travel demand forecasts released by a public research institute are used in assessments, thereby reducing the risk of bias.

In today's economic environment with its priority on economic growth, many decision-makers seek evidence of how a transport investment might affect the real economy through stimulating growth and increasing jobs. As CBA focuses on travel time savings to measure benefits, its role in providing decision-makers with relevant information is becoming less straightforward.

One consequence of the economic crisis has been a shift in transport policy focus from long-term objectives towards short-term economic stimulus and employment. However, transport infrastructure is by nature long-term. The challenge for transport investment policy and for assessment is to find the right balance between these two objectives.

More broadly, as priorities for transport investment shift towards connectivity, reliability, resilience and sustainability, transport assessment methodologies need to reflect these better. New transport policy priorities, such as green growth, require that appraisal includes measures other than financial returns and direct user benefits.

Assessment tools are gradually adapting to changing requirements. The Asian Development Bank's work on the Sustainable Transport Appraisal Rating (STAR) framework is an example. It provides a tool for rating transport projects on various dimensions of sustainability and enables the tracking of trends in transport sustainability over time.

Environmental sustainability and economic development are often seen as opposite forces but can and should be taken as complementary.

There is a need to balance investment in facilities of national, regional and local importance. Multiple levels of government should be involved in various aspects of transport project funding and prioritisation of decisions. Too often, assessment methods remain centralised.

Whatever the assessment methodology, the importance of transparency and of the on-time availability of the right information should be highlighted. Likewise, monitoring impacts is important, and ex-post assessment helps determine whether investments meet their objectives. A joint effort to develop ex-post assessment tools is needed, perhaps inspired by examples including the database of Transportation Project Impact Case Studies (T-PICS) in the United States. ■

The Panel

Moderator: Axel Threlfall, Reuters TV

"Finding ways to effectively target our spending is critical."

"The objectives of transport policy are changing radically. Appraisal should also change."

"The usual metrics focus on current assets – that is like fighting yesterday's battle. Focusing only on existing assets misses wider future benefits."



Scott Streiner
Assistant Deputy Minister of Policy, Transport Canada, Canada



Tyrrell Duncan
Director, Transport and Communications Division, East Asia, Asian Development Bank



Jaehak Oh
Vice-President, The Korea Transport Institute, Korea



Patrick Boeuf
Head of Division, Projects Directorate, European Investment Bank



Glen Weisbrod
President, Economic Development Research Group, USA

Investing for Growth?

Economies around the world struggle to retain or to regain growth momentum. Many need to cut spending while avoiding further economic slowdown. Well-targeted transport investments have the potential to foster growth, but short-run public finance concerns can reduce attention for future payoffs.

The debate in the Opening Plenary centred on how the current economic climate affects public expectations and political will for allocating resources to the investment that is necessary for sustainable growth. Can the current economic adversity be used as an opportunity that leads to improvement in funding and financing of transport investment? And what can be done to ensure that long-run considerations are at the heart of transport policy?

Keynote speakers and panel discussants in the Opening Plenary offered a diagnosis of why making socially beneficial investments is so difficult and made suggestions for solutions. The following insights are particularly noteworthy:

Transport is a key enabler of the division of labour that underlies the economic capacity of modern economies, observed Nobel laureate Amartya Sen in his keynote speech (see full text on page 9). The downward trend in investment as a share of GDP in rich countries needs to be turned around, and in emerging and poor economies efforts need to be maintained or stepped up if transport is to play its role in economic development and poverty alleviation.

Environmental concerns are real and require technological and modal split type of solutions that do not hamper the contribution of transport to growth.

Investment needs are considerable and cannot be met with funding mechanisms as they currently exist in many countries. User fees will increasingly replace funding from tax revenue - a process that that has already started, for example in Germany.

Private financing can play a bigger role in transport. The main hurdle is not always the lack of financing capacity. Rather, insufficient customisation of investment opportunities to make them suitable for investors is an issue. More can be done to attract private investment while retaining the ultimate social benefit rationale for investment in infrastructure.

Austerity policies are counterproductive in the view of Professsor Sen. Institutional reform is needed, for example in Europe, but austerity is not. Investing in transport infrastructure does not make institutional reform any more difficult and provides a powerful stimulus for the economy on condition that projects are well chosen.

As monetary and fiscal policy have run out of firepower, the OECD's Angel Gurría seconds the importance of structural reform to drive growth. Infrastructure is an investment priority, and should be designed to promote inclusive and green growth.

Many governments are not investing more in infrastructure despite clear needs in the long term and stimulus payoffs in the short run, and despite low interest rates, noted John Micklethwait of The Economist (see page 11). Lack of long term perspectives in policy-making hinders investments, as it always has.

In addition, however, ever more vocal interest groups with ever more narrow interests are reducing governments' scope for action much more than in the past. Focusing on small scale infrastructure expansion was suggested by Sir Howard Davies as a way to unblock networks with large payoffs economically, with conceivably more limited acceptance constraints. Innovative thinking is needed in this area: Acceptance often is a bigger constraint for policy makers than funding, as Minister Ramsauer of Germany observed. ■

The Panel

Moderator: Pat Cox, Journalist

"Investment in clean transport infrastructure can generate a variety of network effects"



Angel Gurría
Secretary-General, Organisation for Economic Co-operation and Development (OECD)



Howard Davies
Chairman, The Phoenix Group and Chairman, Airports Policy Review Commission, UK

"Don't touch a toll-road project unless there is local acceptance"



Marit Arnstad
Minister of Transport and Communications, Norway



John Mickletwait
Editor-in-Chief, The Economist, UK

"Public acceptance is a bigger problem than funding"



Peter Ramsauer
Federal Minister of Transport, Building and Urban Development, Germany

Taking Stock of Public-Private Partnerships

Public-private partnerships (PPPs) have the potential to deliver infrastructure more cheaply and efficiently than public procurement. But in practice private finance makes projects significantly more expensive in most cases. The value of private finance often lies in broader objectives. Establishing a long-term commitment to infrastructure investment, insulated from short-term political cycles, can be one of these.

If projects can be financed by tolls, PPPs can produce investment with very little direct call on public funds. However, PPPs are prone to overestimating revenues. When projects run into financial difficulty, risks have a tendency to revert to the taxpayer.

So under what conditions might more private finance be attracted to transport infrastructure investment? And what approaches to regulation are likely to be most successful in limiting the exposure of taxpayers to financing risks?

PPP contracts can overcome the typical stop-go nature of public finance that often delays construction of transport infrastructure essential for growth. All major transport infrastructure decisions are political and that is as it should be. But a bridge is required between short-term political imperatives and long-term investment priorities. PPP contracts can provide that bridge.

Faced with a real and very large infrastructure deficit, India, for instance, has made successful use of PPPs. These are supported by a government guarantee on a percentage of the debt finance issued, to complement public financing of transport infrastructure essential to unlocking economic development.

In Poland, municipalities have reached the limit of their ability to borrow to finance investment. They are turning to PPPs, despite their cost, because the bleak alternative is to forego investment seen by the local population as essential to a better future.

Many PPP programmes began as a response to fiscal constraints on public spending. Their most valuable legacy is an appreciation of risk management, the costs of which are generally hidden under traditional public financing. Even if PPPs do not always get it right they have brought a culture of financial accounting to government spending. As this matures it should help re-focus on efficiency.

Including PPPs and the liabilities associated with them in public accounts is essential. Taxpayers need to be protected by hard limits in the way that company accounts have to balance. The OECD should help develop real balance sheets for public accounts.

The fiscal and economic crisis affecting many countries is an environment in which it is wholly counter-productive to use PPPs as a way to keep expenditure off-balance sheet.

Some kinds of project may be more suited to PPPs than others, for example because demand forecasting risk is relatively low or because there is a potential for major cost savings through engineering innovation. But even the most difficult risks can be managed effectively in a PPP if the design of the project and the PPP contract is right.

Getting PPPs right requires adequate resources on both sides of the partnership. Governments need to maintain a critical level of expert capacity in-house if they are to achieve value for money. They must resist the tendency to disband project teams on completion of contracts. Each contract is very specific to the project, but the skills and experience needed are a constant.

Attracting private finance to PPPs rests on developing relationships of trust and confidence: between private and public parties but also importantly between project developers, fund managers and pension funds. Long term relationships deliver more investment. The institutional investors that specialise in transport infrastructure investment look for a steady pipeline of projects from government, making maintenance of the expert teams needed to manage PPPs a viable proposition.

Uncertainty is the economic leitmotif of our time. Uncertainty has not been dealt with well in PPP contracts to date, in forecasting traffic and revenue. This requires particular attention from both public and private PPP partners in developing a joint understanding of how to assign risks and of the limits to the models used for quantifying risk. It also requires a common understanding of the fundamental difference between quantifiable risk and unquantifiable uncertainty.

The legal and consulting fees associated with PPPs are high and, disappointingly, have not fallen over time. This reflects the case-by-case nature of PPPs. But some cost efficiencies really ought to be expected with growing experience. ■

The Panel

Moderator: Michael Portillo, Journalist

"Most projects in trouble turn out not to address a real need for mobility and are based on poor cost-benefit assessment."



Gershon Cohen
Managing Director and Fund Principal, Infrastructure Funds, Scottish Widows Investment Partnerships (SWIP), UK



Jaroslaw Beldowski
First Deputy President, Management Board, Bank Gospodarstwa Krajowego (BGK) Poland



B.K. Chaturvedi
Member, Planning Commission India



Alberto González Lalueza
Business Development Projects Director, Cintra, Spain



José Luis Irigoyen
Director, Transport, Water, Information and Communications Technologies Department, The World Bank

Aviation's Quest for Financial Sustainability

With many parts of the aviation industry struggling in recent years, this session looked at the various challenges facing this vital sector. There is a need to find new sources of infrastructure financing and to ensure economically efficient relationships between actors in the air transport value chain: Manufacturers, airlines, airports, air navigation services, travel agents and freight forwarders.

The financial sustainability of the industry as a whole, efficient airport financing and the airport/airline relationship were the three key issues discussed.

Airlines anchor the aviation value chain, yet on average they make the smallest profits. But airlines are able to leverage capital with substantial amounts of debt finance. Thus returns are better when considered on a return on equity basis, and some airlines have performed well financially.

In most years airports come close to covering their cost of capital. But many airports are subject to regulation that mandates full cost coverage for air-side services on a yearly basis. This is not aligned with the risk profile of the airport industry. Allowing airports to manage their returns over the business cycle instead of annually would enable prices to be lowered in downturns. This in turn would aide the viability of airlines, with losses recovered through higher prices in good years. Airports could share risk more efficiently and equitably with airlines.

In periods of high growth, such as in the Turkish market today, there are good opportunities for airlines and airports to co-operate to build the market, sticking to their respective positions in the value chain.

Airports traditionally dealt with a single class of airlines. This has changed with airports facing a diverse set of airlines such as legacy carriers, low cost carriers, air cargo etc. This requires tailored services and differentiated rates.

There is a misalignment between airports' planning horizons and airline business cycles. While airports plan for 40-50 years, airlines' planning can range from a couple of years to just a few months for low cost carriers. Many airlines are not prepared to pay for future facilities that they may not use.

Many airports source a large proportion of revenues from commercial ventures which lend themselves to strong private involvement. Under some regulatory frameworks ("single till" principle) these commercial revenues may be used for capacity expansion.

In privatised and airports in public-private partnerships, the regulated asset base model capping prices in relation to inflation (RPI-X) has been used, with varying degrees of success, to achieve economically efficient outcomes with regards to aeronautical charges and adequate investment. This type of approach was adopted in Turkey and successfully delivered seven airport-related PPPs. A light-handed approach seems particularly effective, with airports and airlines left to negotiate prices subject to the threat or promise of regulatory intervention if satisfactory agreement is not reached.

For airport investment, there is a question of who bears the risk. In Ireland, risk is allocated efficiently, with cost recovery conditional on forecast traffic levels being reached. If airport forecasts turn out to be too optimistic, the costs of investment are not passed on to airlines.

With low growth, the focus needs to be on optimising the use of existing capacity. This is the case of Kansai International Airport in Japan where two airports, the international airport and an older regional airport, have recently been merged into a single and coordinated business unit. This has greatly facilitated optimisation of the use of capacity. ■

The Panel

Moderator: Axel Threlfall, Reuters TV

"Airline returns over the last decade have been rock bottom."

"Exploiting economies of scale and economies of scope makes it possible to reduce costs and increase revenues."



Cathal Guiomard
Commissioner,
Commission for Aviation Regulation,
Ireland



Mike Tretheway
Chief Economist and Chief Strategy Officer, InterVistas Consulting
Canada



Sani Şener
CEO, TAV Airports Holding Co.,
Turkey



Katsuhiro Yamaguchi
Executive Officer,
International Relations & Business Development, New Kansai International Airport Company
Japan

"If there is no GDP growth, you cannot take a bigger slice of the cake. You have to nibble on the biscuits you have, preferably large biscuits."

Public Consultation:
Bringing Communities and Transport Users on Board

Successful public consultation improves the alignment of investment policies with the public interest and results in better projects. But achieving effective consultation without excessive delay is a challenge. This session provided insights into successful consultation processes in specific projects, highlighting issues such as: Under what conditions might more private finance be attracted to transport infrastructure investment? And what approaches to regulation are likely to be most successful in limiting the exposure of taxpayers to financing risks?

How can diverse views be brought into the process of finding solutions?

What are the key ingredients for effective consultation processes?

How can excessive delays be avoided?

How can community support for investment decisions be fostered?

Consultation needs and practices differ between countries. In many OECD economies, legal requirements for consultation exist. But rising awareness of project impacts and strong sensitivity to negative impacts in particular lead to consultation processes that go well beyond legal requirements. Germany, for example, has a Manual for Consultation setting out good practice for early, transparent and participatory consultation with processes that go well beyond the strict requirement of the law.

In developing and emerging economies, investment needs are huge. Rapid urbanisation means major infrastructure investment in cities. Public consultation is less driven by legislation than by bottom-up voluntary initiative. The biggest need is currently for better information provision.

Multilateral development banks set high standards for consultation. The European Investment Bank, for example, follows procedures for projects outside the European Union that closely resemble those required in the European Union. Experience for instance in North Africa shows that this approach is well received by public and governments.

A focus on sustainable transport tends to facilitate acceptance.

Consultation can and does result in improved projects. But the "rush to virtue" takes time and leads to higher costs as designs are adapted to satisfy objections. These costs of acceptance are worth paying. They should be contained, however, by early involvement of a wide range of stakeholders - perhaps even before the formal consultation process begins.

Effective and fair consultation requires that all stakeholders are heard. It is not enough to include just the best organised and most vocal ones. Balancing local concerns and broader socio-economic returns is key.

Consultation is a local issue and one of pragmatism. Cost containment and acceptance of projects is helped by emphasising the economic returns to transport investment. Creating a fact-based, positive image for transport is important.

The consultation process can be seen as a hybrid between a political and a marketing campaign. The objective is to increase support for or at least tolerance of a project. This is different from trying to persuade everyone to support a project.

Once the audience and its segments are defined, messages need to be developed that are compelling but not over-simplified. These need to be communicated through channels appropriate for the various groups. This approach has worked in the case of the London Luton airport capacity expansion, where support reached 65% of all stakeholders. ■

The Panel

Moderator: Michael Portillo, Journalist

"Acceptance of investments in transport is a key policy objective. Consultation is the tool."

"One difference between marketing and public consultation is that marketeers are not faced with a strong core of opponents to their product."

"In developing economies, consultation starts with information."



Andreas Scheuer
Parliamentary State Secretary,
Federal Ministry of Transport,
Building and Urban Development
Germany



João Raminhos Tomé
Deputy Technical Advisor,
European Investment Bank



Glyn Jones
Managing Director,
London Luton Airport
UK



Carlos Mier y Teran
Coordinator for Massive
Transport, Banobras
Mexico



Holger Dalkmann
Director,
World Resources Institute
(EMBARQ)

Transport Innovation Talks

The Transport Innovation Talks are designed to provide emerging new perspectives on innovative transport policies and business models that could shape the future of transport. This session, moderated by Professor Anthony May, presented three different and unique propositions that could have an impact on the future conception and practice of mobility.

Nudging: Behaviour-changing transport policy – **Jonas Eliasson**

There has been growing interest in how small policy "nudges" can lead to strong behavioural responses. Using the Stockholm congestion charge as an experiment, Professor Jonas Eliasson, Director of the Centre for Transport Studies at Sweden's Royal Institute of Technology (KTH), illustrated how "nudges" operate. Before-and-after surveys on the impact of the Stockholm congestion showed that traffic was reduced by 20% inside the cordon and perceptions about the congestion charge shifted from strongly negative before to strongly positive after implementation.

One of the key lessons from Stockholm was the importance of setting up the congestion charge as a one-year trial: Citizens felt they had the freedom to experiment with the charge without committing themselves to a permanent change. This was a critical "nudge", as it turned out that many people changed their initially critical attitude towards the congestion charge once they had experienced it. In fact, many people claimed to have always supported the charge - even though they had in fact previously voiced their opposition to it.

Eliasson noted that many innovative transport policies are found to have large ex ante costs and uncertain and potentially small benefits, especially when they would trigger new behavioural patterns. Experimentation as a "nudge" circumvents this blockage by allowing a safe space for people to experiment with a new status quo potentially leading them to change their mind about the policy in question and even to change their mind about what they once thought of the policy in question.

Matternet: Drones for goods transport – **Andreas Raptopoulos**

Much of the developing world is poorly connected to physical transport networks, notably all-weather roads in particular. At the same time they are increasingly connected to global cell phone and satellite communications networks. Andreas Raptopoulos, described how this realisation led him to develop the idea of Matternet. Applying the idea of the internet, where signals are routed via nodes in a flexible and highly efficient way, Matternet proposes a connected, drone-based, delivery network based on a series of ground stations approximately 10 kilometres or 15 flight minutes apart that are connected by autonomous, electric-powered drones carrying payloads of up to two kilogrammes.

Raptopoulos sees his concept as a way to create broad, cost-effective access for small parcel delivery in remote areas, notably in developing countries, where Matternet could be useful for medical deliveries and to provide market access for small goods. In a further stage of development, Raptopoulos believes unmanned aerial vehicles can also help addressing urban congestion if deployed for goods delivery in densely populated areas.

Peers Incorporated: The next step in collective transport – **Robin Chase**

Developed societies are characterised by tremendous amounts of endemic

Speakers

"Technologies available now can make things happen that were not possible ten years ago"





Andreas Raptopoulos
Co-founder and CEO,
Matternet,
USA

"Effective transport policies don't necessarily hurt as much as most people think."





Jonas Eliasson
Professor of Transport Systems Analysis and Director, Centre for Transport Studies
Royal Institute of Technology (KTH),
Sweden

excess capacity. As Robin Chase, founder and CEO of car-sharing platform Buzzcar pointed out, this is particularly true for housing and transport where individually-owned assets go unused most of the time. Advances in information technologies, creative and flexible insurance arrangements and a growing willingness for people to share rather than own things opens new avenues for this unused capacity to be put to good use.

Chase described the emergence of "Peers Incorporated", where sharing privately-owned assets is not organised purely within a peer-to-peer network, but involves a corporation as a go-between. Peer Inc. companies marry a corporate side that provides economies of scale, resources, expertise and standards to create a platform with a peer side, whose diversity, specialisation, and innovation yield services and products. Chase sees this as perhaps one of the most disruptive business and societal trends to emerge in years.

For example, in only four years, Airbnb (a web-based service peer-to-peer room and short-term housing rentals) has grown to offer 650 000 rooms in 192 countries surpassing the Hilton hotel network (the world's largest with 610 000 rooms in 88 countries after 93 years of business). Such transformative business models are also present in transport as illustrated by the rise of numerous car and bicycle sharing schemes around the world.

France-based Buzzcar, founded by Chase in 2011, is such an example. This service allows individuals to hire other members' cars or rent out their own cars using a common information sharing platform. In France, 15 000 people and 5 000 cars are participating in the Buzzcar network.

Chase concluded that information technology has progressed to the point that it can handle many of the potential downsides of sharing excess personal vehicle capacity, thus removing a large part of the risk to vehicle owners. Sharing individually-owned vehicles, however, may only be a bridging strategy to a more fundamental shift to an "internet of vehicles" where lines are blurred between private and public transport and where what matters most is the most appropriate means of conveyance for the trip at hand. Such a system, Chase stressed, can not only reduce the environmental impacts of daily mobility, it can also fundamentally change the way in which people move and live in cities. ■

Moderator: Tony May, World Conference on Transport Research Society

"Excess capacity of individual service can be incorporated in the common platform, and this can create new opportunities for diverse business. Transport is no exception."





Robin Chase
Founder and CEO,
Buzzcar,
USA



Tony May
President, World Conference
on Transport Research Society

Defining Spending Priorities What's First?

Spending decisions on transport have never been more relevant, with economies across the world striving to deliver sustainable economic growth. With always more demand for spending than funds available, identifying and understanding the full range of benefits of transport-related projects is key to the decision-making process that determines spending priorities of public monies. This session explored a number of questions relating to the prioritisation of transport spending among other competing societal investment needs, the allocation within transport expenditure between new investment and maintenance, and how different institutional and operational arrangements may be suited to the long-term nature of transport network funding and operations.

Panelists recognized that, especially for countries with under-developed transport networks, investment in transport capacity can be a catalyst for a number of other societal goals including health, education and trade. In these cases, transport investments should be seen as a top priority because of the social and economic development it facilitates. World Bank Vice President Rachel Kyte noted that 3 to 4% of GDP represented a rough estimate of the ideal level of transport expenditure yet many countries, developing and developed, fall short of this contributing to an estimated global spending gap of 3-4 trillion dollars over the next 10 years.

For countries with mature networks, new capital investment should focus on strategic investments that alleviate bottlenecks and improve system performance as pointed out by Swiss Minister Doris Leuthard. These types of investments should not overlook the significant reservoir of "virtual" capacity that can be tapped via intelligent transport technologies and traffic signaling investments.

Even more than in the past, new investment for passenger transport services in cities should focus on public transport as well as non-motorised modes given the relative ease and efficiency with which these modes can handle urban travel. Investing in these modes is tantamount to providing citizens with more, rather than fewer, travel choices and is a fundamental aspect of policy in Switzerland, the United States and Norway. For example, the Norwegian government has suggested that all new growth in passenger transport in urban areas be absorbed by public transport, cycling and walking and has taken action to prioritise investments accordingly, stressed Terje Moe Gustavsen, Director-General of Norway's National Public Roads Administration.

All panelists emphasised that infrastructure maintenance has generally been underfunded to the benefit of new capital investments and this has deteriorated the present value and performance of transport networks. Many reasons were noted for this systemic bias towards new construction. Foremost among these was the political appetite for high-visibility ribbon-cutting versus "hidden" expenditure on system maintenance. In addition, unexpected or at least un-budgeted-for maintenance expenditures for complex infrastructure such as modern bridges and tunnels has also helped to increase the systematic backlog of maintenance spending.

As with many other countries, the United States has had to seek ways to ensure that more is spent on preserving network performance as Robert Letteney, Deputy Assistant Secretary for Aviation and International Affairs at the U.S. Department of Transportation told the audience. Foremost among these efforts is the development of key indicators that hold US States accountable for the performance of their road, rail and public transport networks. These indicators are especially crucial for pavement condition and bridge condition but also extend to the measurement of the state of good

The Panel

Moderator: Michael Portillo, Journalist

"We have a responsibility as a Government to provide enough capacity for tomorrow"

"Why can't we use PPPs to finance projects with lower risk premiums and use government funds where private financing is more difficult"



Doris Leuthard
Federal Councilor
Federal Department of the Environment, Transport, Energy and Communications,
Switzerland



Keiichi Ando
President
New Kansai International Airport Company,
Japan



Rachel Kyte
Vice President of Sustainable Development
The World Bank



Michael Clausecker
Chairman
of the Management Board,
Bombardier Transportation,
Germany



Terje Moe Gustavsen
Director General
National Public Roads Administration,
Norway



Robert Letteney
Deputy Assistant Secretary for Aviation and International Affairs,
Department of Transportation,
USA

repair for urban public transport systems that face an estimated USD 80 billion maintenance backlog.

Moderator Michael Portillo asked panelists if institutional issues played a role in the maintenance backlog. Institutional arrangements and capacity certainly played a role as many panelists responded, but one of the fundamental issues was the budgeting period used for transport infrastructure and maintenance expenditure. Whereas many countries have multi-annual transport investment plans, maintenance expenditures often are allocated in annual budget cycles. Having a consensus-based, long-term and funded transport investment and maintenance portfolio – as is the case in Switzerland - was seen as a fundamental step forward.

Speakers also pointed out the importance of finding the appropriate level of participation of the private sector. In the case of New Kansai airport in Japan, private investment has been essential in order to relieve construction-debt burden and allow more flexible landing fee policies that have boosted profitability according to Keiichi Ando, President of Japan's New Kansai International Airport Company. He also pointed out that the extremely high costs of maintaining Japanese road and rail networks in a seismically unstable environment also suggested a potential role for private participation (and compensation) in network maintenance. Bombardier Transportation CEO, Michael Clausecker, picked up on this message stressing that perhaps it was time to reverse government's typical approach to determining the scope for public-private partnerships (PPPs). Indeed, governments typically cover "run-of-the-mill" recurrent expenditures such as maintenance from their own budgets turning to private capital for new projects where returns are uncertain and therefore risk-taking compensation to private investors is elevated. Clausecker suggested reversing this paradigm such that governments turn to private investors and operators to cover expenditures where returns are known and recurrent and to take on the risk premium for new infrastructure development via government self-finance. ■

Linking Networks: Funding Cross-Border Transport

Global supply chains and transport networks form the backbone of the economy. They fuel trade, consumption and growth. Integrated transport infrastructure networks are in turn a prerequisite for global logistics systems and for the free movement of people. The complexities of today's economic environment and expanding global supply chains require coordinated efforts to optimise networks for synchronising supply and demand globally. For economies that are distant from centres of demand, and especially when they are land-locked, investment in transport infrastructure is the vital link to the world economy. For them, efficient logistics systems are critical. This session explored key issues related to funding cross-border transport, addressing, among others.

How can global logistics networks become better connected across borders through infrastructure investment?

Are cross border infrastructure projects purely a matter of funding?

How do you align multiple interests to achieve economic efficiency?

Coherent policy frameworks are the key to commitment to investment in cross-border infrastructure. The Canadian Gateways and Trade Corridors Policy provides a concrete example of such a framework, delivering practical results in facilitating trade.

The European Union strives to align investments in individual countries with strategic transport objectives agreed between the Member States. The Trans-European Network transport framework outlines planning priorities and provides a funding framework to implement the collective strategy.

The European Union also provides a good example of how intermodal transport integration can be stimulated through its "corridor platforms". These bring together public authorities and transport businesses to plan for more integrated road, rail, port and airports infrastructure.

Trade facilitation does not always require investments in cross-border infrastructure. Softer measures, including UN conventions, for harmonised technical and market conditions are vital for linking countries so that infrastructure can serve its trade and mobility purpose to the full. This includes the International Road Transport (TIR) convention that provides common customs and border procedures.

Standardisation of procedures internationally is crucial.

Investing in agreements on common standards can reduce trade costs as effectively as investing in infrastructure.

When Europe finally unifies its 27 air traffic control systems into a "single sky", navigation costs could be cut by half and there will be three times the air space to fly commercial planes in. This will bring significant environmental as well as economic benefits as aircraft are able to follow more direct flight paths.

Awareness of and sensitivity to the threat of terrorist attacks has risen in recent years. This has resulted in the introduction of new security measures, including container screening. Unavoidably, this hampers trade and can limit the impact of investments in better cross-border infrastructure.

However, co-operation to develop secure end-to-end logistics systems that meet the highest standards can mitigate the impact of essential security controls, with major cost savings. This permits high value businesses that depend on just in time production or rapid delivery to market to grow in all parts of the world. ■

The Panel

Moderator: Monika Jones, Deutsche Welle TV

"You can't build useful roads if the issues impeding traffic from crossing borders aren't addressed."



Umberto de Pretto
Secretary General
International Road Transport Union (IRU)



Marc Juhel
Sector Manager for Transport,
The World Bank

"We have borders even in the sky."



Peter Gerber
Board Member,
Lufthansa, Germany

"Corridors and gateways are of utmost importance"



Denis Lebel
Minister of Transport,
Infrastructure and Communities,
Transport Canada



Doris Leuthard
Federal Councilor
Federal Department
of the Environment, Transport,
Energy and Communications,
Switzerland

"The obstacle is not financing, good projects will overcome funding barriers."



Jean-Eric Paquet
Directorate Head,
European Mobility Network,
European Commission

Looking to the Long-term: Funding Transport Infrastructure

How much infrastructure needs to be provided, and what type of infrastructure? And how can revenues be generated that allow the infrastructure to deliver its intended performance over its lifecycle? These were only some of the questions addressed in the session on "Looking to the Long-term: Funding Transport Infrastructure"

Satisfying transport demand as well as constrained resources requires prioritisation. Long-term planning with agreed-upon outcomes can deliver sufficient certainty to make prioritisation possible. In the Netherlands this is accomplished through a long-term adaptive infrastructure investment programme that delivers on a shared future vision of the transport system. The programme is funded out of a specific fund that is isolated from annual budgets. China is also contemplating such a fund.

Maintenance-related expenditures need to be part of the capital planning cycle. New infrastructure engenders predictable maintenance expenditures, yet these expenditures are often not integrated in infrastructure funding decisions. Maintenance typically is paid out of annual budget appropriations. This makes it vulnerable to fluctuations and cuts that can compromise infrastructure performance.

Long-term asset management strategies are essential to ensure adequate maintenance. Delaware and other US states have put in place an asset management system that tracks the state of repair of infrastructure assets. The current state is compared to the level of maintenance that would allow for the asset to deliver satisfactory performance over its lifetime. The system allows transport authorities to explain the trade-offs between de-funding maintenance and system performance outcomes.

The Netherlands proposes two other approaches. The first is to lock in lifetime maintenance flows into project contracting by bundling these with construction costs. This incentivises contractors to invest in better quality upfront in order to reduce lifecycle maintenance outlays. The other approach is to protect maintenance budgets in times of crisis. This was the case most recently when the decision was made to fully fund planned maintenance and only apply required cuts to new infrastructure projects.

Taking a long-term view also means accounting for risk in decision-making. The development of demand and delivery costs are uncertain: Political and institutional frameworks are subject to change, and technological change may render infrastructure obsolete more quickly than expected.

It is likely that essential parts of transport infrastructure in 2050 will technologically be radically different from now. Authorities should expect that infrastructure funded today may not be there in 2050 - or may not be valued to the same extent as now. Uncertainty regarding the scale and scope of future demand leads many authorities to focus on optimising the use of existing infrastructure before opting to build new projects. Use of intelligent transport systems, new vehicle-to-vehicle and vehicle-to-infrastructure communication technologies may go a long way to optimising use of infrastructure.

One foreseeable technological change in transport is the rise of autonomous driving. If safety and liability issues can be mastered, people may be driving much less in the future despite there being many vehicles on the road. One positive outcome is that the entire system can be managed better to deliver smoother high-capacity flows.

The value of owning an established grid or network may be key to unlocking new sources of funding, including capturing the value that is derived from new infrastructure. Large parts of transport infrastructure are not appealing to private investors and cannot be paid for from reasonable user charges, so public funding from general tax revenue will continue to play a crucial role.

Markets seem well-adapted to delivering projects based on well-known technologies and predictable revenues. Where neither of these conditions is present, governments should leverage their ability to access low borrowing rates to help set long-term strategic directions. Governments should be able to capture part of the value of successful projects in order to cover the cost of less successful attempts at innovation. ■

The Panel

Moderator: Axel Threlfall, Reuters TV

"The one thing that is constant is change. Change to repair and maintain, in funding sources, in travel demand and in technology. We therefore must avoid lock-in."



Shailen P Bhatt
Cabinet Secretary,
Delaware Department of Transportation,
USA



Chris Borroni-Bird
Vice President,
Strategic Development, Qualcomm Technologies Inc.,
USA

"Funding in the Netherlands is guided by a long-run adaptable investment plan based on an integrated vision for transport."



Lidewijde Ongering
Director-General for Mobility and Transport, Ministry of Infrastructure and the Environment,
Netherlands



Mengyong Weng
Vice-Minister of Transport,
China

"Wherever value is created, a tax basis exists."



Jon Gunnar Pedersen
Director and Founding Partner,
Arctic Securities,
Norway

Urban and Regional Mobility: Who Pays?

Long-term finance for urban transport systems requires appropriate allocation of capital and operational costs between stakeholders. Optimisation of cost recovery over the long-run as well as enhanced partnership between public and private sector are to be sought. Lessons could be drawn from new forms of urban-scale institutional arrangements and innovative funding mechanisms for urban transport. The plenary session on the last day of the Summit dealt with topics such as:

What are innovative approaches to better balance responsibility among stakeholders for urban transport?

How can the finance of public transport be sustainable in the context of user-pays principles?

Does this vary subject to demographics, cities, regions, or countries?

What lessons from the experience of cities and regions can be used in other areas of the world?

The proportion of costs that will have to be borne by passengers and users will rise. The free rider problem is one of the issues that need to be addressed in this context. Generally, users are willing to pay if they understand what they are paying for. Fare increases are possible if they go along with improvements in quality. Creating transparency and building trust are therefore essential.

Long-term planning for infrastructure and its funding is essential. It helps to set strategic priorities and put in place optimal funding solutions. London, for instance, introduced 5-year funding plans in 2005 that created massive improvements in efficiency, according to Peter Hendy, London's Commissioner for Transport. Copenhagen's Per Als also echoed the view that "we need to know where we want to be in 10, 15 years".

Subsidising public transport in urban areas makes sense, because in dense urban environments there have to be alternatives to the car to get to work. Big cities are also hubs of economic activity that generate value beyond the amount needed to support public transport.

There was disagreement on whether public transport should also be subsidised in smaller towns. If the role of public transport is seen primarily as facilitating economic activity and growth, then there may be less of a case to support public transport in smaller cities that are less central to the economy (and also typically have less serious congestion problems). Where there is demand in non-hub cities, public transport could be provided on a full cost-recovery basis by private operators.

But there may also be a case to ensure adequate supply of public transport in small cities and rural areas through government support. In the Berlin-Brandenburg region in Germany, 20 to 30% of the population have no alternative means of transport, for example school children. In this view, it is important to ensure a basic supply of mobility, at a fair price, even at a cost to the government. The middle ground was expressed by Minister Pedro Errazuríz Dominguez of Chile: Operators should work as much as possible with user revenues, but "subsidies are a part of life if we want to have transport systems that make life better".

Value capture will be an increasingly important part of public transport funding. This can be done in different ways. Property taxes can siphon off a small percentage of the value increase induced by newly built public transport infrastructure.

Larger shares of the value created can be captured if the public transport operator takes a pro-active role and behaves more like a property developer. In such cases, he can pocket the lion's share of the value increase and reinvest it in public transport. As Peter Hendy put it: With 2% value capture you cannot build a public transport system, but with 75% you can.

Participants

Moderator: Monika Jones, Deutsche Welle TV

"We need a way to capture all the benefits, exchange them into cash, keep it for some time, and reinvest it into the industry."



Per Als
Chief Transport Executive,
City of Copenhagen,
Denmark



Michael Melaniphy
President and CEO,
American Public Transport Association,
USA

"Without an infrastructure plan you waste a lot of money."



Peter Hendy
Commissioner,
Transport for London,
UK



Dmitry Pronin
Head of Department for Transport and Road Infrastructure Development,
City of Moscow ,
Russia

"Public transport should be a system for all people – we have to have a balance, a fair price."



Hans-Werner Franz
CEO,
Transport Network Berlin-Brandenburg (VBB),
Germany



Makoto Washizu
President,
Japan International Transport Institute (JITI),
Japan

Projects like the Docklands development in London set the example. In Copenhagen, a harbour area is being redeveloped with the revenues being invested into a circle metro line. Tokyo provides a particularly instructive success story: The city's T line, which is profitable, generates 44% of its revenues from retail activities and 40% of operating profits from real estate, with only 17% of the former coming from transport. This has been made possible by urban development spreading along railway corridors – a process actively driven by the public transport providers themselves.

Timing is an important factor for the success for such models. The earlier public transport providers engage in the value-creation process, the better their chances to take a significant share of the value created by their investment (which can then be used to fund it).

To achieve this, a decision on future transport development must be taken before land use is determined – see above on the benefits of long-term planning.

Close links between land planning and transport planning create the conditions, and a common development plan provides the stable and transparent environment that encourages private sector involvement.

Stakeholder engagement is vital. This can be directly linked to funding – for instance in the US, where state funding requires referenda. With 28 different types of local tax currently paying for transport, the number of stakeholder groups to convince can be high. But it can be done if the case for spending money is well put and accountability ensured. Since 2002, 73% of the referenda for public transport-linked taxes held in the US were successful, according to Michael Melaniphy of the American Public Transport Association.

If stakeholders – for instance business associations - can be turned into advocates for transport investment, these often have more political clout than transport planners. And if stakeholders advocate transport investment, it is only a small step to convince them to also bear their share. By aligning the business community behind the London Crossrail project, the government was able win acceptance for additional taxes (business rate supplement) to partly finance the investment. In Chile, on the other hand, the TransSantiago public transport project ended in complete failure not least because decisions were taken in a closed circle without input from the outside and without a reality check.

Institutional mechanisms can take many shapes and forms. A mixed economy approach with government and private sector involvement is typical. Special purpose companies established jointly by the government and private investor can fund and own infrastructure, and then lease it out to an operator who pays a fee. Experience with Build-Operate-Transfer (BOT) projects has been mixed; some have had to be taken in-house again as the unknown state of assets can make the risks for partners incalculable. For private sector involvement, it is crucial to understand the market mechanisms and to create a stable and transparent environment for investors. ■

"Let's not just talk about infrastructure, but about mobility."



Burkhard Jung
Lord Mayor of Leipzig

"We need quality transport systems to have quality of life."



Pedro Pablo Errázuriz
Minister of Transport and Telecommunications, Chile


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Declaration from Ministers on **Funding Transport**

PREAMBLE

Funding transport is a major challenge for transport policy today. The demand for mobility through high-quality transport networks and services is growing fast. With both public budgets and private sector resources under constraint, government authorities and industry must together seek new ways of ensuring stable, long-term funding for the sector.

Transport infrastructure is much more than asphalt, concrete or steel; it is the backbone of national economies, providing connections for people and goods, access to jobs and services, and enabling trade and economic growth.

With investment in transport infrastructure a long-term venture, robust, credible funding solutions that support trade, economic growth and environmental and social sustainability are urgently needed.

How transport infrastructure, services and systems can be funded to meet current and future demand was the focus of discussions when Transport Ministers from across the globe met at the International Transport Forum's 2013 Annual Summit. Their discussions on Funding Transport involved transport decision-makers and stakeholders from around the world and concluded with the following declaration:

Noting

that a reliable, intermodally integrated transport system is essential to economic prosperity and equitable access to goods and services;

that the system needs to be financially sustainable, safe and secure and meet high standards of environmental protection[1].

Recognising

that sufficient infrastructure investment and maintenance is required to ensure a robust, high-quality, sustainable transport system.

Acknowledging

that sustainable, inclusive growth requires productive investment and innovative funding solutions, not least to limit transport costs for industry and trade;

that investments in transport - including for renewal and maintenance - that both improve productivity in the long run and stimulate construction activity and employment in the short term are particularly relevant to economies where growth is suppressed;

that budgetary constraints and fiscal austerity stimulate innovation in funding solutions and present opportunities to explore transport finance reform.

Affirming

that a long-term perspective on funding transport is needed to ensure that investment is aligned with strategic objectives and with asset lifecycles to preserve the integrity of existing networks; and

that careful planning and timely implementation are critical for efficient delivery of transport investments, particularly infrastructure.

Underlining

the importance of allocating adequate funding for transport and infrastructure amongst other spending priorities to ensure a fair, transparent and sustainable system, while respecting jurisdictional responsibilities.

MINISTERS:

Emphasise the need to align funding for transport infrastructure and services with transport's fundamental role in the economy and society, considering fiscal constraints. This requires:

- stable funding arrangements that facilitate implementation of long-term policies that promote sustainable transport,
- anchoring funding in the benefits derived from transport,
- establishing consistency between funding practices and strategic directions for change in the sector, and
- adopting decision processes that ensure funds are deployed to their most efficient use.

Aim on the basis of these principles to:

- secure funding for investment in and renewal, maintenance and technical innovation of infrastructure and services needed for growth; and
- facilitate private sector participation in financing investment, where appropriate.

Re-affirm their responsibility to establish efficient and coherent governance frameworks for funding that promote effective co-operation among authorities and with the private sector and enable exploration of innovative funding systems.

1. Ministers made reference to and re-affirmed the Declaration from Ministers at the 2012 Summit on Seamless Transport: Making Connections

Underline the potential for improvement in controlling the costs of investment in transport and for innovation in infrastructure finance and operations to ensure sustainable and fiscally responsible transport funding.

Agree that the principles and practice examined at the 2013 Summit demonstrate the importance of sustained investment in transport to long-term growth, productivity, and environmental sustainability, as well as to short-term economic recovery; in particular, the following points should be noted:

Meeting the growing demand for transport

- Even where networks are well developed, investment is needed to remove bottlenecks to efficiency and economic growth and to unlock the productive potential of specific locations.
- Balanced development of integrated, intermodal mobility systems frequently involves a greater role for collective transport modes; reliance of these modes on public revenue streams should be managed carefully.

Defining funding priorities

- Long-term planning and funding of transport infrastructure and operations requires an integrated, coherent policy framework based on agreed objectives and funding priorities for the transport system.
- For major transport infrastructure investments, identifying and understanding the full range of costs and benefits – including the external costs and wider social and economic benefits – is important for establishing spending priorities.
- These priorities include improving the overall quality of transport infrastructure and services, particularly as concerns safety, reliability, accessibility and environmental impact.
- Evidence-based policy-making requires adequate data. The Summit catalysed international efforts to produce better information for understanding the value and condition of transport infrastructure assets and determining levels of spending on maintenance and development.
- Public consultation and participation is essential for aligning investment policies with the public interest.

Mechanisms for sound and sustainable funding

- Sustainable transport funding draws from a range of sources. Ensuring transparency and reliability of revenue flows to allow implementation of strategic objectives is key.
- Funds with clear mandates and limited in time can bring stability and transparency to the funding of transportation.
- In the more developed economies, as road vehicle fuel economy improves fuel tax revenues may decline. This trend will accelerate in countries where climate change or other environmental policies stimulate deployment of alternative vehicles.
- Private investment and project finance in a variety of forms including corporate investment and public-private partnerships can make a major contribution to overall transport sector investment.
- Governments can work to facilitate investment from a broad range of financial partners through infrastructure banks, government-backed loans, and infrastructure bonds.
- New partnership models and alternative funding sources involving the private and public sectors can be developed to enhance funding.
- Public-Private Partnerships can deliver benefits when grounded in value for money and led by an effective project developer. Investment risks should be properly identified and integrated in contractual frameworks to ensure that they are sensibly allocated and properly managed. Selecting the right kind of project for PPPs is an important part of risk management.
- The liabilities for the taxpayer created by PPPs need to be identified, rendered transparent, limited for prudent fiscal policy, and compared with the liabilities for the taxpayer evident in more traditional approaches to transport funding.
- The drivers of value in PPPs – reduced costs, accelerated project delivery, increased competition and others – need to be evaluated, and lessons learned documented and disseminated for the benefit of transport agencies.
- Opportunities to improve the efficiency and effectiveness of project selection processes, project development and delivery, and operations of transport facilities – each of which can reduce costs – need to be considered as an important complement to efforts to secure more funding for transport.
- Effective cost control processes need to be further developed and adopted to limit the amount of funding required to deliver transport projects.

In conclusion

All Ministers of the International Transport Forum declare their determination to pursue policies toward sound sustainable funding of the transport sector.

▸ 23 May • 11:00 – 12:30

Open Ministerial Session
Attracting Private Finance and Assuring

The open part of the 2013 Summit's Ministerial Session provided an opportunity for **Minister Marit Arnstad** of Norway, the 2013 Presidency country of ITF, to present the Declaration from Ministers on Funding Transport adopted in the preceding Closed Ministerial. In their 2013 Declaration, Ministers state their determination to pursue policies toward sound sustainable funding of the transport sector. They emphasise that aligning funding for infrastructure and services with transport's fundamental role in the economy and society will require stable funding arrangements.



Among the aims identified by Ministers is facilitation of private sector participation in transport projects where appropriate. Minister Arnstad invited all present to study the Declaration carefully and reflect on how the public and private sector together can take forward its conclusions.

The ensuing discussion on how to strengthen co-operation between governments and the corporate sector was enriched by presentations from three industry leaders representing enterprises from Australia, China and Turkey.

David Fass, CEO of Macquarie Group for Europe, Middle East and Africa and responsible for Macquarie's corporate advisory and capital market activities, stressed at the outset that institutional investors were sensitive to the political nature of infrastructure projects and aware of the high level of public scrutiny.

Regarding availability of private funds, Fass highlighted that brownfield and greenfield projects require different financing mechanisms. For brownfield transport projects, "there is a vast community of institutional investors interested". Yet the pool of capital available for transport infrastructure could be much larger. Sovereign Wealth Funds and institutional investors hold USD 27 trillion of current capital. With rates of return at zero, fixed income markets have become unattractive for long-term investors. Pension funds are looking to increasing their direct holdings in transport, which for US and European pension funds still hover around 2 or 3% of assets, while the share is more like 15% in Canada and Australia.

Given the size of projects in transport, debt is a key element of project financing. Here, strong support from banks and capital markets for large, high-quality infrastructure assets continues.

Financing greenfield projects, on the other hand, is a challenge. Macquarie's experience is that such projects are rarely viable for the private sector on a stand-alone basis and government support is crucial.

Government involvement need not be long-term, however, as greenfield projects turn into brownfields over time. By supporting and then exiting projects at a defined moment, governments can recycle a finite amount of capital from asset to asset. This makes it possible to support higher-risk projects with a strong need for public involvement in order to encourage private capital to invest long-term, Fass noted.

In the ensuing discussion it emerged that investors often find support on the national level, while on a regional level they encounter a lack of flexibility that hinders the project coming to fruition.

Regarding risk sharing, Fass warned not to let this topic becoming a "black box". Risk needs to be talked about very openly at the outset: What are the risks, where are spikes, how can they be mitigated, who is best placed to do that and if they cannot be mitigated what is the appropriate risk premium?

> "This is the Davos of Transport"
>
> **Minister Binali Yıldırım, Turkey**

Predictable Funding

Responding to a question from Mexico, Fass underlined that risks change over the life-cycle of a project. Partners need a framework that does not lock them into assumptions.

Fass added in reply to a question from India that in order to encourage investment by pension funds, infrastructure ministries such as transport should seek to work through finance ministries and financial regulators and not go it alone.

In his remarks, **Jichang Zhou**, chairman of the board of China Communications Construction Company, emphasised the role of transport for developing economies in creating growth, accelerating industrialisation and alleviating poverty. Inadequate infrastructure hampers development, and with public budgets constrained, governments are forced to seek private capital for transport infrastructure.

At a minimum, this requires legislation to protect private investment to be in place, but encouragement in terms of tax incentives, subsidies or guarantees will also be needed.

In China, build-transfer (BT) and build-operate-transfer (BOT) are used most often for public-private co-operation. The aim is to diversify business models for transport infrastructure and to attract investment from other sectors.

In the recent past, China has built 98 000 kilometres of expressways. Less than 20% of these were funded by the central government, while more than 80% were funded by private capital and local governments.



In response to a question from **Minister Ramsauer** of Germany regarding rail investment, Mr Zhou elaborated that transport sector funding reform in China started in the 1980s and the country has accumulated a lot of experience in integrating the private sector into funding policy, although in the rail sector the relevant experience was still being developed[1].

> "We are here to learn and to share what we are doing."
>
> **Minister Denis Lebel, Canada**

An aviation perspective was added to the discussion by **Temel Kotil**, President and Chief Executive Officer of Turkish Airlines. Dr. Kotil, who is also a member of the Board of Governors of IATA and incoming chairman of the Association of European Airlines (AEA) emphasised that while the airline industry was struggling economically, it was not looking for financial support.

Rather, airlines look to governments to improve the regulatory environment to help them cut costs and increase profits. Enabling aircraft to fly straight lines between destinations will cut fuel cost and go a long way to improve economic viability, as fuel represents 40% of costs. "We are asking to make the air more straight", Kotil said, calling on the European Union countries in particular to implement the Single European Sky.

A major issue in the airline industry is the funding of new aircraft. Here carriers face a dilemma: New planes provide better fuel efficiency, potentially improving the economic situation of an airline. Burdened with costs of aircraft with an average age of 15 to 20 years, some carriers struggle to obtain financing for better aircraft from banks.

Turkish Airlines have spent c. USD 8.4 billion on new aircraft since 2003 and plan to spend another USD 20 billion in coming years. But "if there is no profit, there is no private funding", as Dr Kotil put it.

1. Note from the editor: At a State Council meeting on 24 July 2013, Chinese Prime Minister Li announced a reform of railway funding. This will include the opening of the railway construction market, the creation of a railway development fund, a focus on multiple sources of funding for railway construction including a greater role for private capital and the opening of intercity railways to ownership and operation to private and local investors. This follows the recent merging of the Ministry of Railways into China's Ministry of Transport and the creation of the China Railway Corporation in March 2013 as operator.

A third concern of civil aviation is ground infrastructure. Airlines can give their passengers the best possible experience in the air. But 40% of customer satisfaction relates to passengers' airport experience at check-in, boarding, etc. With insufficient ground infrastructure, airlines lose passengers because of problems they cannot do much about. Ministers should therefore seek to "fix the airport issue", in Kotil's words

The Turkish government has just awarded the concession for one of the largest airport projects in the world, near Istanbul, planned to go into operation by 2017. The EUR 10 billion greenfield investment is projected to generate income of EUR 26 billion over 25 years.

This will partly come from airline fees, but, as Dr. Kotil said: "We prefer to have excellent airports. If we have an excellent airport, we can pay for it." He also said that Turkish Airlines' planned USD 20 billion investment into new aircraft is linked to the government's airport infrastructure policy: "It's a bundle."

Responding to a question from Moderator Melinda Crane about the role of emerging markets in aviation, Kotil noted a "process of normalisation" in which travel activity is becoming globally more balanced as more people in the developing world can afford it and as these countries invest heavily in infrastructure to compete with developed markets. The expansion and globalisation of air travel and the need for efficiency also has implications for the use of infrastructure, notably the operating hours of airports.



In his intervention, **Minister Binali Yıldırım** of Turkey concurred with the view that a sound legal infrastructure is critical to attract global investors. Beyond that, transport projects need to offer profitability and reliability. The third critical element is a fair risk-sharing structure between government, investor and financing institutions, "otherwise the project will not be attractive and nobody will show interest".

Turkey has very successfully implemented Public-Private Partnership (PPP) and BOT projects, with completed bids for 10 airport concessions for a total worth of USD 46 billion, among them the new Istanbul airport. Around 20 other big projects – highways, bridges, underwater tunnels – to the tune of USD 48.5 billion are being financed through PPPs and BOT.

Minister Yıldırım underlined that Turkey is happy to share its experience with other countries and praised ITF in this context for "doing a lot to make transport more effective, more co-operative among the countries" and emphasised that "the role of ITF is becoming crucial for the future." Evoking the Turkish ITF presidency of 2009, the year of the second Annual Summit, Yıldırım noted that "things are moving and improving." He added: "This is the Davos of Transport. We have to promote this Forum and this organisation which is essential for the global economy."

"This forum is very positive for all ministers involved in the ITF."

Minister Maksim Sokolov, **Russia**



Minister Karim Harouni of Tunisia noted that the presence of his country at the Summit, as a non-member of ITF, represented a special occasion and the opening of

Macquarie Group is a publicly-listed Australian bank with a market capitalisation of AUD 15 billion. The company is the world's largest infrastructure asset manager, with over USD 100 billion under management. Of these, more than USD 30 billion are invested in transport infrastructure such as seaports, toll roads, airports and rail networks. Among these assets are the APRR toll road network in France, Copenhagen airport and Brunswick Rail, a leading rail car operating lessor. Macquarie is also one of the largest infrastructure advisory houses.



David Fass, CEO, Europe, Middle East and Africa, Macquarie Group, Australia

the Forum towards Africa. Tunisia is co-operating with ITF member Turkey to build an airport for more than 20 million passengers on a BOT basis, which will help to exploit Tunisia's strategic location in northern Africa.



In his intervention, **Minister Maksim Sokolov** of Russia set out his country's plan to increase mobility of the population by a factor of 1.5, inter alia by increasing airport capacity by 50% and doubling the current road network. This will require investments of around EUR 300 billion by 2020 and cannot be accomplished without private capital.

Russia has implemented a concession agreement, and a law on PPPs will be passed this year to "establish transparent, fair rules". A road fund had been created with Vnesheconombank, the Russian Bank for Development and Foreign Economic Affairs, as well as a number of other support mechanisms. On the level of the federal government, Russia has created professional teams that "speak the same language as investors" and have an in-depth knowledge of funding and financing models.

New airport terminals are an interesting type of project to involve private capital. A new terminal will be opened in St Petersburg this year, able to handle 17 million passengers, which is based on a PPP and funded entirely without government money. Russia also plans to build more than 3000 kilometres of toll roads, as well as 3000 kilometres of high-speed rail tracks - an "ambitious project that can only be carried out on a PPP basis".

Minister Sokolov stressed the "great opportunities to communicate and to exchange opinions" at the Summit: "This forum is very positive for all ministers involved in the ITF. We have an opportunity to exchange ideas about the most modern, state-of-the art approaches."



This view was echoed by **Minister Denis Lebel** of Canada: "We are very proud partners of ITF and we will stay good partners of ITF", he said. "We are here to learn and to share what we are doing." Lebel also expressed Canada's delight that the headquarters of the International Civil Aviation Organisation (ICAO) would continue to be based in Montreal.

In the last budget, Canada launched the biggest infrastructure plan of its history. For implementation, the government strongly believes in partnering with the private sector. It has created a specialised agency, PPP Canada.

Generally, every project over CND 100 million proposed by the government has to go through a PPP appraisal to see if it provides value for taxpayer's money. Canada strongly promotes the "user=payer" approach. "We truly believe the people who use the service have to pay for it", Minister Lebel said.



Minister Aziz Rabbah of Morocco, an ITF observer country, reiterated the hope expressed by the Tunisian Minister that ITF open itself even more towards Africa: "Africa is a growing market, an opening market but also a market that needs to be accompanied in order to choose the best models."

Morocco has opted for the PPP approach and will pass a law to govern such partnerships. On the African continent there are also examples of concessions but there are many problems involved in that, for instance lack of mediators or arbitration. Hence, "for PPPs we need the laws in place, we need the institutions, we need to be accompanied. We have to learn and benefit from the experiences of others in order to develop projects for the public sector that are well-suited for the citizens." Minister Rabbah also emphasised the need to integrate the maintenance dimension: "When we talk about PPPs we need to talk about the entire value chain." ■

China Communications Constructions Company (CCCC) is the largest port construction and design company in China and the third largest in the world. It is the world's largest manufacturer of container cranes and the second largest dredging company. CCCC is also market leader in road, bridge and railway construction in China and the country's largest highway operator, with currently 25 expressway concessions of 1710 km in total, representing investment of USD 22 billion.



Jichang Zhou, Chairman, China Communications Construction Company (CCCC), China

Turkish Airlines (THY) services 234 airports in 103 countries in Europe, Africa, Asia and the Americas. This makes its network from one hub (Istanbul) the world's biggest and THY the world's fourth-largest carrier by number of destinations. THY transported 39 million passengers in 2012, up from 17 million in 2006. In that year, the company generated total revenues of USD 9 billion (2006: USD 2.23 billion) for a net income of USD 623.3 million.



Temel Kotil, CEO, Turkish Airlines, Turkey



Ministers' Roundtables

The Ministers' Roundtables are designed to allow Transport Ministers and other political representatives to have direct dialogue with key transport players from industry and international organisations. They are confidential, non-public discussions within an intimate room setting allowing open and dynamic conversation. Three Ministers' Roundtables were held during the International Transport Forum's 2013 Summit on Funding Transport:

Attracting New Sources of Private Finance to Transport Infrastructure

The Ministers' Roundtable on Attracting New Sources of Private Finance to Transport Infrastructure focused on the potential to broaden the range of financial investors in transport infrastructure. Global leaders from the policy side and from the private sector discussed the current issues facing the financing of transport infrastructure. Among the questions addressed were:

- What is the scope for private finance in transport infrastructure? Who are the investors and how much capital is available?
- What are the characteristics of the most likely investors in infrastructure? What kind of transport infrastructure assets are they looking for?
- Do the risk profiles that suit investors match the investment offerings provided by governments?

Institutional investors such as pension funds and sovereign wealth funds have started to include transport infrastructure in their asset allocation decisions in jurisdictions where private financing of transport infrastructure has been made possible.

These investors are attracted by infrastructure assets associated with favourable investment characteristics, such as low competition and predictable and stable cash flows over the long-term of ten, 20, 30 years and beyond.

Recent cases of private institutional infrastructure investment have resulted in mixed outcomes, both from the investor's perspective and the government's viewpoint. In a post-crisis era where governments need to balance economic stimulus policies with stretched balance sheets, the need to examine private sources of finance for transport infrastructure is more apparent than ever. ■



Participants

Moderator: John Micklethwait, Editor-in-Chief, The Economist

(left to right) **Ivan Brajović**, Minister of Transport and Maritime Affairs, Montenegro – **Djeljalj Bajrami**, Deputy Minister, Transport and Communications, FYROM – **Alberto González Lalueza**, Business Development Projects Director, Cintra, Spain – **Abdulla Alnuaimi**, Minister, Public Works, UAE – **Richard Abel**, Managing Director, Macquarie Infrastructure and Real Assets, UK – **Jon Gunnar Pedersen**, Director and Founding Partner, Arctic Securities, Norway – **Gershon Cohen**, Managing Director and Fund Principal, Infrastructure Funds, Scottish Widows, UK – **Angel Gurría**, Secretary-General, OECD – **Frantisek Palko**, First State Secretary, Ministry of Transport, Construction and Regional Development, Slovakia – **John Micklethwait**, Editor-in-Chief, The Economist (moderator) – **Alan Kelly**, Minister of State, Transport, Ireland – **Denis Lebel**, Minister of Transport, Infrastructure and Communities, Canada – **B.K. Chaturvedi**, Member, Planning Commission, India – **Sergio Monteiro**, Secretary of State, Public Works, Transport and Communications, Portugal – **Michael Woodhouse**, Associate Minister of Transport, New Zealand


Michael Clausecker, Minister Yeo


Paola Lancelloti, Jiakang Sun, Minister Hammond


Minister Alnuaimi (l.)


Minister Yeo, Minister Sokolov


Sergio Monteiro, Angel Gurría


Richard Abel, Manoj Singh, B.K.Chaturvedi


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Investing in High Speed Rail

The Ministers' Roundtable on High Speed Rail looked at the costs and benefits of these systems. Questions addressed in this frank, in-depth exchange among global leaders from both public and private sectors included:

- How should the long-term risks of High Speed Rail investment be handled?
- What is the best funding scheme to minimise the risks?
- What is the key for a successful High Speed Rail project?
- What should be the role of central and local governments, operators, manufacturers and private investors?
- What are the modal impacts of High Speed Rail?

High Speed Rail can significantly increase connectivity between regions. It can provide rapid and comfortable travel for long distance travellers, boost economic development across regions, and improve living standards of communities by reducing congestion and pollution.

Many countries around the world are currently planning and/or undertaking High Speed Rail projects. Yet decision-makers face tough discussions particularly when long-term travel demand and economic growth are uncertain. As High Speed Rail requires significant levels of investment, decision-makers require reliable and sustainable financial mechanisms with proper risk allocation among stakeholders. ■

Participants

Moderator: Pat Cox, Journalist

Alexander Saltanov, Vice-President, Russian Railways, Russia – **Jean-Pierre Loubinoux**, Director-General, International Union of Railways – **Aleksander Wolowiec**, Board Member, PKP Polish Railway Lines, Poland – **Bryan Nye**, CEO, Australasian Railway Association, Australia - **Hyung Koo Yeo**, Vice Minister, Transport, Korea – **Robert Letteney**, Deputy Assistant Secretary for Aviation and International Affairs, Department of Transportation, USA – **Michael Clausecker**, Chairman of the Management Board, Bombardier Transportation, Germany – **Maksim Sokolov**, Minister of Transport, Russia – **Maciej Jankowski**, Undersecretary of State, Ministry of Transport, Construction and Maritime Economy, Poland – **Merja Kyllönen**, Minister, Transport, Finland

Financing
Sustainable Maritime Transport

Pressure to reduce global greenhouse gas emissions are growing. Many argue that shipping can provide more environmental improvements, and clean shipping is seen increasingly as a key part of the solution.

New regulations that govern the introduction of the Energy Efficiency Design Index (EEDI), and the Ship Energy Efficiency Management Plan (SEEMP) took effect on 1 January 2013.

At the same time, shipping companies are struggling to weather the current financial storm in which shipping finance almost completely dried up. Many are therefore calling for a pragmatic approach to balancing environmental priorities in order to make implementation of new regulations compatible with the current economic climate.

In light of the current situation in the maritime sector, the confidential exchange during the Ministers' Roundtable revolved around how maritime transport companies can ensure operating ships in an environmentally sustainable basis while also maintaining healthy balance sheets; how environmental improvements to maritime shipping can be funded and whether technological advances will offer improvements in energy efficiency - and at what cost. ■



Participants

Moderator: Melinda Crane, Deutsche Welle TV

(left to right) **Paola Lancellotti**, Secretary General, European Shippers' Council – **John Lu**, President, Asian Shippers' Council – **Jiakang Sun**, Executive Vice-President, COSCO, China – **Melinda Crane**, Deutsche Welle TV – **Paolo Costa**, President, Venice Port Authority, Italy – **Frédéric Cuvillier**, Minister, Transport and the Maritime Economy, France – **Pedro Pablo Errázuriz**, Minister of Transport and Telecommunications, Chile – **Stephen Hammond**, Parliamentary Under Secretary of State for Transport, UK – **Carl-Johan Hagman**, CEO, Shipping, Drilling and Ferries, Stena Shipping AB


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1.Hyung-Koo YEO, Vice-Minister, Korea; 2. Gansukh AMARJARGAL, Minister, Mongolia; 3. Abdulla ALNUAIMI, Minister, UAE; 4. Volodymyr KOZAK, Minister, Ukraine; 5. Maksim SOKOLOV, Minister, Russia; 6. Doris LEUTHARD, Federal Councillor, Switzerland; 7. Denis LEBEL, Minister, Canada; 8. Mengyong WENG, Vice-Minister, China; 9. Frédéric CUVILLIER, Minister, France; 10. Peter RAMSAUER, Federal Minister, Germany; 11. José VIEGAS, International Transport Forum; 12. Eva HILDRUM, Norway; 13. Michael WOODHOUSE, Associate Minister, New Zealand; 14. Binali YILDIRIM, Minister, Turkey; 15. B.K. CHATURVEDI, Planning Commission, India; 16. Jichang ZHOU, China Communications Construction Company, China; 17. Aziz RABBAH, Minister, Morocco; 18. Natia MIKELADZE, Deputy Minister, Georgia; 19. Robert LETTENEY, Deputy Assistant Secretary, USA; 20. Minna KIVIMÄKI, Finland; 21. Hans BRANDSTROM, Sweden; 22. Rocco GIRLANDA, Under-Secretary of State, Italy; 23. Sigurbergur BJÖRNSSON, Iceland; 24. Pál VÖLNER, Minister, Hungary; 25. Rachel KYTE, World Bank; 26. Yagub NOVRUZALIYEV, Azerbaijan; 27. Andreas SCHEUER, Parliamentary State Secretary, Germany; 28. Temel KOTIL, Turkish Airlines, Turkey; 29. Karim HAROUMI, Minister, Tunisia; 30. Stephen HAMMOND, Parliamentary Under Secretary of State, UK; 31. Alan KELLY, Minister, Ireland; 32. Pedro Pablo ERRÁZURIZ, Minister, Chile; 33. Ana PEREIRA DE MIRANDA, Portugal; 34. Anatol SALARU, Minister, Moldova; 35. Aliaksandr SHYSHKO, Deputy Minister, Belarus; 36. Vladislav KONDRATOVIC, Vice Minister, Lithuania; 37. David FASS, Macquarie-Group Ltd; 38. Yoshitaka TOUI, Assistant Vice-Minister, Japan; 39. Joseph CALLUS, Permanent Secretary for the Ministry for Transport and Infrastructure, Malta; 40. Markus VERLING, Liechtenstein; 41. Ionut GEORGESCU, Romania; 42, Christian WEISSENBURGER, Austria; 43. Maciej JANKOWSKI, Under Secretary of State, Poland; 44. Ioannis SALAVOPOULOS, Greek Embassy; 45. Lidewijde ONGERLING, Netherlands; 46. Marc ROMAN, Belgium; 47. Djeljalj BAJRAMI, Deputy Minister, FYROM, 48. Lord Gus MACDONALD, Macquarie; 49. Umberto DE PRETTO, International Road Transport Union; 50. Frantisek PALKO, First State Secretary, Slovakia; 51. Helena ZAVAZALOVA, Czech Republic; 52. Anti MOPPEL, Estonia; 53. Jean-Pierre LOUBINOUX, International Union of Railways (UIC); 54. Jean-Eric PAQUET, European Commission; 55. Jaehak OH, Korean Transport Institute; 56. Paolo COSTA, Venice Port Authority, Italy; 57. Jean-Luc Di PAOLA-GALLONI, Valeo; 58. Patrick OLIVA, Michelin; 59. Guy STAUS, Luxembourg; 60. Michael MELANIPHY, American Public Transport Association; 61. José SAN MARTÍN, Mexico; 62. Paola LANCELLOTTI, European Shippers' Council; 63. Holger DALKMANN, EMBARQ; 64. John LU, Asian Shippers' Council

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OECD, Paris, May 2013
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Guidelines for macro-level measurement
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10.
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11.
Airports in the Aviation Value Chain: Financing, Returns, Risk and Investment
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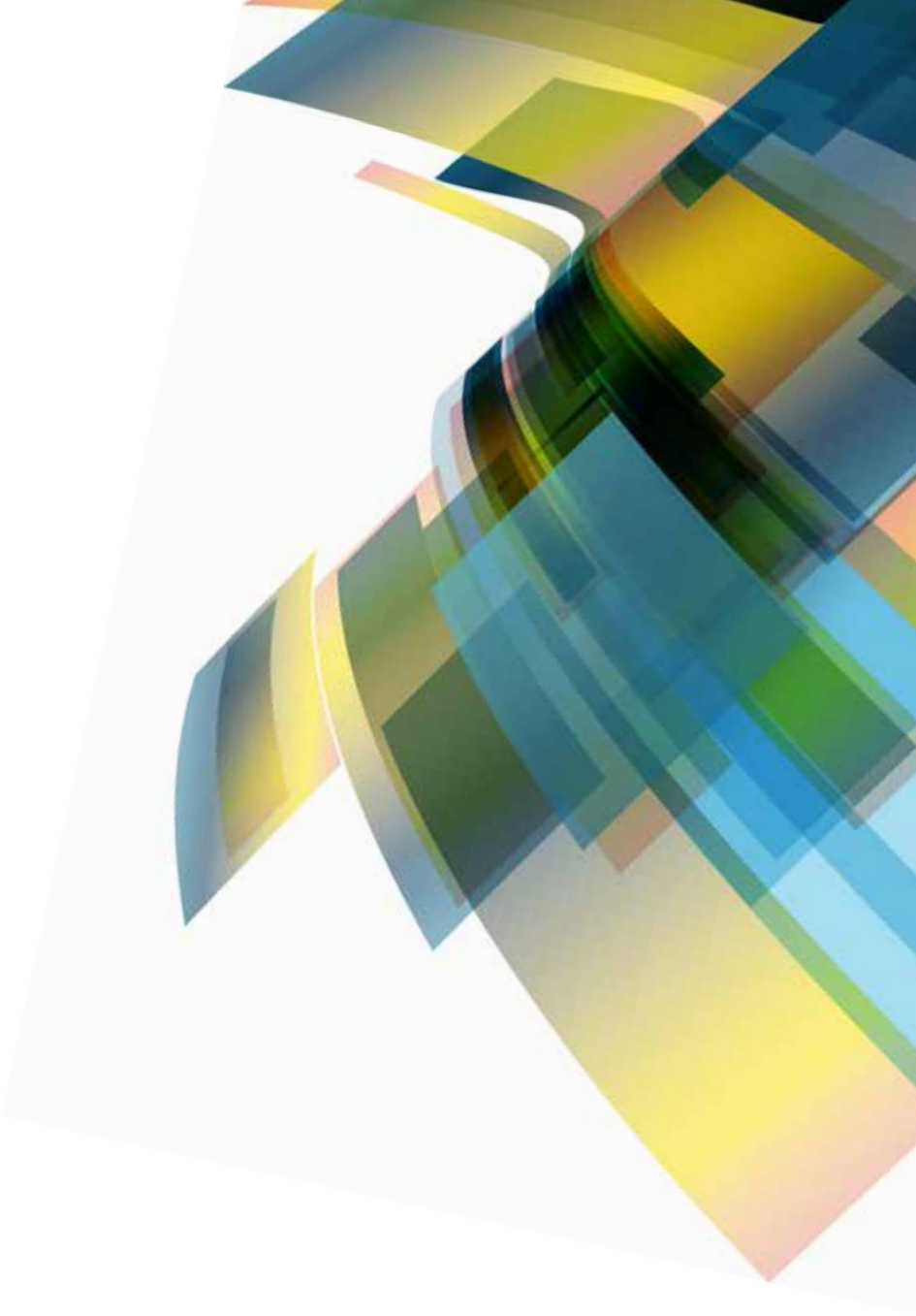

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