APPENDIX 9

CONCESSION EXPERIENCE IN THE ROAD TRANSPORTATION SECTOR
IN CENTRAL EUROPE

1. BACKGROUND

Introduction

During recent years, the goal in several countries in Central Europe has been to aim to bring an increasing participation of the private sector into the development of transport infrastructure. This has occurred in differing ways, with differing results through the whole spectrum from fully privatised, and public/private partnerships to wholly publicly financed projects.

This paper summarises some of the key projects which have been realised, or are under realisation, principally in the countries of Hungary, Poland and Croatia in the Road Transport Sector. The focus therefore is on selected concessions for toll motorways in these countries.

Hungary

Under the previous government, there was a strong policy towards promoting the development of motorways in the Republic of Hungary on a privately financed basis. With enactment of the Concessions Act, the Ministry of Transport actively promoted the development of several Concessions.

Poland

In the Republic of Poland, the promotion of new motorways was stimulated by the enactment of the Motorway Act in 1994. However it has taken several years to reach realisation of the first toll motorway. The Act was modified in 1999 in order to favour the developments of public-private partnerships, under the management of the Motorway Agency. Eventually, an operating Concession was agreed as part of the A4 motorway between Krakow and Katowice and the first real concession for construction and realisation of a new motorway was closed in October 2000, for a section of the A2 motorway between Poznan and Konin, on the Berlin-Warsaw axis.

Croatia

In the Republic of Croatia, there are already public concessions in place for the operation of toll motorways. Principally the section of motorway from Karlovac to Zagreb has been operating for almost twenty years. On this axis, there are two further concessions planned, one to extend the motorway to the Adriatic and the port of Rijeka, and one to extend it to the Hungarian border at Gorican. Another concession is planned to connect Zagreb with the Slovenian border at Macelj. Whilst the exact participation of the private sector is still to be agreed, a Toll Road Authority has recently been established in order to oversee the realisation of the motorway network.

Czech and Slovak Republics

In both of these Republics, despite much deliberation, there has been no development of motorways on a concession basis. As a result, there has been the introduction simply of the vignette system whereby all the road users of the motorway are obliged to procure a daily / monthly pass in order to pay for the right to use the motorway network. It is envisaged that for the immediate future, motorways will continue to be developed on the basis of public finance.
Slovenia

In the Republic of Slovenia, there has been a priority to develop sections of the main road axis to motorway standards. Here again, despite much deliberation, the policy has been to develop these sectors on a publicly financed basis. With the establishment of a specific purpose corporation (DARS), and a dedicated contribution from fuel tax, using the tolls collected and additional loans, the motorway network is being developed essentially on a publicly financed basis.

2. SPECIFIC COUNTRIES EXPERIENCE

The following section gives more specific details of the actual Concessions realised in the Republics of Hungary, Poland and Croatia. These show the different experiences from the differing concessions that have been undertaken to date.

2.1 M1 / M15 Motorway, Hungary

Project Description

The M1/M15 motorways lie on the Helsinki Corridor No IV and connect three capitals: Budapest, Vienna and Bratislava. The length of the concession sections are 43 km on the M1 (between the city of Gyor and the Austrian border) and 14 km on the M15 (between the city of Mosonmagyarovar and the Slovakian border). After the signing of the concession contract in 1993, the tolled sections of the M1 Motorway were opened in January 1996, and the M15 section in June 1998.

Essentially, the Hungarian Government lacked the necessary financial means to finance the development of the motorway network. The Government therefore selected the purely commercial alternative of implementing and operating this project under concession.

Financial Structure

The tolled sections of the M1 / M15 motorway were financed mainly from private investment. The project was financed 20% from private equity and 80% from loans. Principal and interest repayments were to be fully financed by the company's toll revenue.

The financing structure was mainly based on the highest possible involvement of international working capital and passed on as much as possible the risks of the project to the private sector, minimising Government commitment.

According to the Concession agreement the initial toll rates were defined by vehicle categories and automatically increased (without any prior consent of the Government) on the basis or the domestic consumer price index and/or the exchange rate differential in proportion to the currencies of the loans (USD and DEM).

Outcome

In 1996 and 1997 the average daily traffic represented only 50% of the estimated amount in the initial Traffic Study. On an annual average basis, the motorway captured 45%-50% of the traffic in the corridor as initially estimated. Due to the traffic shortfall, only half of the toll revenue forecast was achieved. The difference between the actual traffic rates and toll revenues was mainly attributable to the approach taken which consisted in not raising the toll at the frequency and by the amounts allowed in the Concession Contract.

Following the opening of M1 motorway a litigation procedure was also introduced against the concession company on the grounds that the extremely high toll levels were socially unjustifiable. This court procedure led indirectly to the capping of the toll tariffs.
Conclusion

In general, the public was not prepared to fully accept and understand new financing techniques to develop motorways and consequently pay for the newly developed higher level of service which would not have been implemented without these tools. Tolling existing motorways sections is highly sensitive. In general:

- Extensive public relations action is needed well in advance of starting toll collection in order to “sell” the idea,
- Reliable impact studies are required,
- Local governments should be involved from the early phase, and
- The level of tolls should reflect a socially acceptable level.

2.2 M5 Motorway, Hungary

Project Description

The M5 motorway lies on the Pan-European transport corridors No. IV and X, and connects Budapest to Yugoslavia. The length of the concession section is 157 km. The project contains 17 interchanges and 10 rest/service areas. The Government issued an international tender for its rehabilitation, upgrading and further completion in 1992 and a preferred tenderer was selected in 1994. The tolled sections were opened to traffic in 1997.

The Hungarian Government lacked the necessary financial means to finance the development of the motorway network. Following the encouraging initial reaction of the private sector to the M1/M15 Toll Motorway concession tendering, and based on the positive results of a feasibility study, a decision to finance, build and operate the M5 Motorway was made to be on a private basis.

Financial Structure

The structure of funding was based on a 20% 80% equity/debt ratio. Construction cost represented 64%, the concession company costs and expenses represented 3% and the capitalised interest represented 19% of the total expenses. The scope of the concession included the construction of a subsequent section.

This project obtained a significant contribution from the Government, the most important of which was a Euro linked standby operational subsidy through the Road Fund. This facility could be disbursed if the costs are not covered by toll revenue. In return, dividends will be distributed as a revenue share to the Road Fund.

Toll collection is through a "semi-open" system. There is a main toll barrier (collecting 75% of the income) and 8 toll barriers at three interchanges. The initial toll rates were defined in the concession contract by vehicle categories and toll plazas. Rates can be automatically increased without any prior consent of the Hungarian authorities on the basis of the domestic consumer price index and/or the exchange rate differential to the currency or the raised loans (FRF).

Outcome

In 1997, the annual average daily traffic was around 7,650 vehicles per day that represented 97% of the amount estimated in the initial traffic study. On a yearly average basis, the motorway actually captured 52% of traffic in the corridor, as initially estimated. Nearly 96% of the forecast toll revenue was achieved. In the first months of 1998, the traffic increase was close to 7% compared to the previous year.
Soon after the opening to traffic of the sections of already existing motorway and tolled sections, the inhabitants of villages and cities along the parallel road began protest movements against the toll as diverting traffic burdened the toll free highway. Negotiations started, focusing mainly on extending the existing commercially based discount systems. The targeted groups were frequent and local users, including farmers and large fleet operator companies. The State offered cash support to the concession company to compensate the loss of revenue as a consequence of these non-commercially based discount developments.

**Conclusion**

The practical experience on the M5 motorway financing as a concession can be summarised as follows:

- Tolling existing motorway sections is a sensitive issue,
- Traffic diversion problems have to be highlighted,
- Local governments should be involved from an early stage,
- The toll rate should reflect a socially acceptable level,
- Upgrading parallel roads, and by-passes must be added to the project cost,
- Some involvement in the financing is unavoidable, and
- Control of construction costs is crucial.

**2.3 Motorway Programme, Poland**

**Project description**

The Motorway Programme in Poland is to provide for the construction of approximately 2,600 kilometres of toll motorways over a period of 15 years. The future network will be composed of four main motorways: A-1 from Gdansk via Lodz and Katowice to the Czech Republic; A-2 from the German border (Swiecko) via Poznan, Lodz, Warsaw to the border with Belarus (Terespol); A-3 connecting Szczecin with the motorways A-2 and A-4 and the Czech Republic; A-4 from German border (Olszyna and Zgorzelec) via Wroclaw, Katowice, Krakow, Tarnow to the Ukraine border (Korczowa). They are all an important part the Trans-European Network in Central and Eastern Europe.

As the Polish Government lacked the necessary financial means to finance the development of the network, it selected a commercial alternative to implement the programme. Around 2,000 km of the total planned network was planned to be constructed by private concessionaires.

**Financial Structure**

The implementation of the programme will require a large volume of non-traditional, commercial financing (mostly based on PPP and Build-Operate-Transfer systems) as well as traditional financing (state budget, loans). The Agency for Motorway Construction and Operation (ABiEA), which was established under the Act on Toll Motorways, is responsible for implementation of the Polish Motorway Program.

The Government of Poland, represented by ABiEA, will take responsibility for several risks including right-of-way acquisition and preliminary environmental and design approvals. ABiEA will assume the risk and pay the cost of these items.
All commercial risks will be transferred to the private sector. During the period before and immediately after completion, due to low traffic volumes, some motorway segments may not be financially feasible, on a stand-alone basis. On segments with higher traffic volumes the excess revenues may be available with the goal of directing these excess revenues into segments that are otherwise unfeasible.

**Outcomes**

International tenders for the segments of A-1: Gdansk–Torun (152 km), A-2: Swiecko-Poznan, Poznan-Konin, Konin-Strykow (362 km), and A-4: Katowice-Krakow (61 km) have been held and at the same time traditional construction is being carried out on some segments of the A-2 and A-4, financed by the State, Phare, EIB and EBRD.

An operating Concession has been awarded for the Krakow-Katowice Section of the A-4, and in October 2000, the A-2 Concession on the section from Nowy Tomyśl to Konin, including the Poznan by-pass obtained financial close. The introduction of tolls on the existing A-4 only led to approx. 70% reduction in the original level of traffic. The first section of the A2 motorway is due to come into operation as a toll motorway in July 2002.

**Conclusion**

It has not been possible to achieve all the goals initially envisaged in the motorway construction programme. Realisation of the programme under concessions has been difficult in particular due to:

- Detailed studies as well as traffic and economic analysis showing that the achievement of economically consistent as well as financially feasible solutions are demanding,
- The original legislative solution in the motorway construction programme significantly limited the possibility of engaging public means and state guarantees,
- Due to budgetary limits, the State is generally not able to sufficiently finance the traditional construction of the motorway network.

Recent legislation has led to allowing the State to take on greater political and financial responsibility in the motorway construction projects. Reorientation of the policy towards greater involvement of the State (public budget money and state guarantees) combined with concessions and wider possibilities of engaging EU funds (ISPA) and promotion of public private partnerships will also support realisation of the motorway construction programme.

3. **SUMMARY**

As indicated above, there have been differing results from the different types of projects which have been undertaken to date. Ranging from maximising to minimising the extent of private participation, each project merits a different level and type of private sector support, dependent on the level of government support or public participation.

**Concessions and Public Private Partnerships**

In summary, in order to be successful, concession projects need to be structured both with an appropriate balance of risk and to have an appropriate level of government support.

- Concessions or PPPs can take many forms, from simple commercialisation to full privatisation but, in general, are long-term agreements between the public and private sectors to provide and operate transport infrastructure. They involve a sharing of responsibility and risk by the public and private partners.
- They have the potential to provide, through financial engineering and often via tolling, a valuable addition to traditional means of financing transport infrastructure and services.

- They can help provide public infrastructure and services in a more economically efficient way than public administration entities. At present however, they meet only an extremely small share of transport investment needs in these countries.

- The introduction of PPPs also requires a political debate in the country such that both the political actors and the public accept the approach, especially when charging is involved.

- There is a now a growing experience in different countries with different legal structures and traditions and in a variety of transport modes. Concessions have to be structured with great care at the start in order to make the project requirements, roles and responsibilities clear and to regulate conflicts of interest, and to optimise the appropriate balance of risk.