RE:COMMON THE CORNER HOUSE Counter Balance Challenging the European Investment Bank

Large infrastructure to overcome the crisis?
The hidden risks of the Europe 2020 project bond initiative

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"The Connecting Europe Facility and the Project Bond Initiative are a perfect demonstration of the added value that Europe can provide. These proposals will help to build the roads, railways, energy grids and pipelines, and broadband networks that are so important to our citizens and businesses. We are closing the missing links in Europe's infrastructure networks that otherwise would not be built. This investment will generate growth and jobs and at the same time make work and travel easier for millions of European citizens and businesses ".[1]

Jose Manuel Barroso

Introduction
Can large infrastructure overcome the crisis?

Large infrastructure projects are at the core of the European plan to drag the 'old continent' from one of the most profound periods of crises in modern Europe. According to the European Commission, in order to meet its Europe 2020 objectives, the European Union's infrastructure investment needs could reach as much as EUR 2 trillion in the sectors of transport (TEN-T), energy (TEN-E) and information and communication technology (ICT)[2]. The Commissioner for Economic and Monetary Affairs said, "*we need to make the EU a more dynamic and competitive place by meeting the physical infrastructure challenge.*[...] *All this requires huge upfront investment at a time of tight public budgets and balance-sheet consolidation in the banking sector*"[3]. In Italy alone, the plan to re-launch a wave of infrastructure construction includes public investments of EUR 100 billion by 2015 and up to EUR 300 billion by 2020[4].

1 http://ec.europa.eu/commission_2010-2014/president/news/speeches-statements/2011/10/20111019_speeches_1_en.htm

2 http://www.eib.org/infocentre/press/news/all/the-europe-2020-project-bond-initiative.htm

3 http://www.epc.eu/events_rep_details.php?cat_id=6&pub_id=3090

4 Presentation of Vice-Minister Mario Ciaccia, June 15 2012, Centrobanca Conference- Università Bocconi: Project Bond e Finanziamento delle Infrastrutture; http://www.leggioggi.it/2012/08/24/project-bond-il-governo-punta-al-rilancio-di-edilizia-e-infrastrutture/.

Photo Nayu Kim

What is the objective of such investments? Commission President Barroso advocates "sustainable growth," suggesting a continuation of old policies to serve an agenda liberalising capital markets, spurring economic growth from open markets and where infrastructure is seen as a vehicle of trade and limitless growth.
In spite of the crisis, the vision has not changed. On the one hand, this is not the first crisis in modern times. Yet for the first time the crisis is taking place in a moment where the international economic system has to face the evidence of a planet with limited resources, where new actors have penetrated markets in geographical areas that used to be under the almost exclusive control of old powers. New scenarios of control and exploitation of natural resources are opening, and it is not by chance that the large infrastructure projects that Member States presented as candidate for the short list of "EU priority projects" are mostly long-distance gas pipelines and energy corridors, gas storage deposits, refineries and regassification plants, as well as highways, ports and high speed railways. Will the high-speed transportation of goods really "save" the European economy or those of its Member States? Will thousands of kilometres of gas pipelines and storage facilities to stock resources from central Asia and north Africa do so? Are these the "priority infrastructure" that Europe will need in

the next 100 years? Do we need more refineries for the processing of locally-sources, low-quality oil (like in Italy), open pit deposits of waste waters from fracking of shale oil and gas (like in Poland or Ukraine), or millions of tonnes of water diverted from serving the basic needs of people into the extraction of tar sands, shale gas and oil, or coal mines (like in Serbia)?

These projects are functional to another agenda, that of the financial markets and other actors seeking to profit from the crisis and reform the economy, natural resources and our lives in even further service of the markets. Theirs is an agenda that envisions infrastructure as an *asset class*,[5] functional for speculative investment that has nothing to do with the real needs of millions of people. The intervention of public actors is key in guaranteeing investments that markets would not have otherwise considered financially-viable. It is a market that is *not free at all* but paradoxically duped by state intervention and functions only in the interests of finance capital, while passing on eventual losses to the collective.

The role envisioned for public and private sectors in constructing and managing infrastructure projects has changed dramatically

1. The agenda of large infrastructure

For decades large infrastructure has been at the core of plans to relaunch the economy. From a Keynesian perspective, public intervention to stimulate the economy is necessary, and infrastructure is key to restart production. Roosevelt's New Deal in the thirties and fourties was based on infrastructure and military expenditures, and it drove the United States from the Great Depression.

Similarly in the devastated Europe after World War II, infrastructure financed by the public sector was the engine of growth in the "golden age" of capitalism until the 1970s.

Since then, while large infrastructure projects have remained popular, the role envisioned for public and private sectors in constructing and managing infrastructure projects has changed dramatically. For example until the seventies it was unthinkable to leave the supply and distribution of energy to the private sector. Energy was seen as strategic for each country and as such would remain under state control.

Today, governments that reclaim control of the energy sector through nationalisation processes are viewed as threats. The same is also true for other sectors like water, transport and telecommunications, where public management was once the normal practice in most "developed" countries.

In the 1980s, with the rise of neoliberalism in the West, the vision of the private sector as "superior to the public" begins to affirm itself. This vision has been externally imposed in poor countries through structural adjustment programs promoted and implemented by the World Bank and the International Monetary Fund through decades of neoliberal policies. Millions of people have demonstrated in the streets of Manila, Santiago, Quito, Buenos Aires, La Paz and hundreds of locations in the global South protesting the privatisation and liberalisation policies that threatened the survival of people. In the year following the WTO meeting in Seattle in November 1999, there were more than one million civilians protesting in 13 countries on more than 50 separate occasions. More than half of these protests ended in the deployment of riot police or the army, and more than 300 people were injured, 10 killed and more than 160 arrested. These protests called for an end to the structural adjustment reforms prescribed by the IMF[6].

Unpopular and hated by most of the population in the global South, the World Bank and the IMF, together with governments from the Group of Eight (G8) industrialised nations, succeeded in rapidly changing the face of the same recipe. By the end of the nineties, externally imposed privatisation policies were replaced by "public-private partnerships" (PPP) and the idea that limited public resources could be spent more effectively if private actors were included in both the construction and management of infrastructure. The United Kingdom offers a telling example, launching its mammoth PPP program, the Private Finance Initiative (PFI) with the PFI Act of 1999[7].

With the rise in the last decade of financialised capitalism, the structure of the economy has changed – including the role of banks, companies and families –and financial and capital markets now play a dominant role in key aspects of our lives. Education and health

5 The Corner House, September 2012. "More than Bricks and Mortar. Infrastructure as asset class: A critical look at Private Equity Infrastructure Funds". http://www.thecornerhouse.org.uk/resource/more-bricks-and-mortar

6 World Development Movement, Jessica Woodroffe and Mark Ellis-Jones, September 2000, "States of Unrest: Resistance to IMF policies in poor countries". http://www.twnside.org.sg/title/unrest.htm

7 http://www.parliament.uk/business/committees/committees-a-z/commons-select/treasury-committee/news/pfi-report/

Infrastructure for a global water market

"I expect to see in the near future a massive expansion of investment in the water sector, including the production of fresh, clean water from other sources (desalination, purification), storage, shipping and transportation of water. I expect to see pipeline networks that will exceed the capacity of those for oil and gas today. I see fleets of water tankers (single-hulled!) and storage facilities that will dwarf those we currently have for oil, natural gas and LNG. I see new canal systems dug for water transportation, similar in ambition and scale to those currently in progress in China. I expect to see a globally integrated market for fresh water within 25 to 30 years. Once the spot markets for water are integrated, futures markets and other derivative water-based financial instruments...will follow. There will be different grades and types of fresh water, just the way we have light sweet and heavy sour crude oil today. Water as an asset class will, in my view, become eventually the single most important physical-commodity based asset class, dwarfing oil, copper, agricultural commodities and precious metals."

Willem Buitler, chief economist at Citi Group, explains here how the financialisation of water should work. Creating a global market controlled by the private sector would be the first step to structure financial markets based on water as a commodity. For this, a network of infrastructure including dams and channels to enable the physical control of water resources is necessary to start the process of the financialisation of water that Buitler describes.

system have been fully transformed and financialised, dramatically altering how needed investment decisions are made. What you build and how you do it is profoundly affected by capital markets. In this context, "what matters" goes beyond support to national businesses and corporations (for instance, ensuring contracts to large national energy and construction companies). The objective is now to open new areas of investment for the trillions of euros accumulated in private wealth in search of hefty returns in the short term and assets on which to build new markets.

The task of the public sphere and its actors is to make such markets "attractive," reducing the risk to favour the entry of financial capital. In this context, a third wave of privatisation is being prepared. After listing public companies on the market (in most cases well-functioning ones) and creating both the legislative framework to promote PPPs and the assistance in securing funding after privatisation, today the aim is for the full privatisation of this new infrastructure. This means creating a "capital market infrastructure" capable of owning and financing large infrastructure projects in the long term. In this sense, it would satisfy only the needs of the private sector, financial and non-financial, while remaining unresponsive to the real needs of the people.

Yet governments and European institutions continue to play a central role in this onslaught of privatisation. Over the last 40 years they have defined the theory and implemented the reforms aimed at opening markets to large corporations, starting with financial capital markets, which was instrumental in providing an outlet to circumvent the crisis of over-production that emerged during the late sixties. In 1994 this process was aided by the creation of the WTO, an institution that guarantees with an iron fist respect for free markets.

Throughout 1990s, in order to enable this system to regenerate itself in the context of crisis, European governments pursued a "private Keynesian policy," encouraging borrowing by banks, businesses and families to support aggregate demand, up to the point of endorsing the debt of the financial sector and transforming it into public debt with the ongoing crisis.

Nowadays, the emerging and profund accumulation crisis, characterised by too much private wealth without enough high-profit assets in which to invest, is the justification for the profund structural and legislative reforms that governments are putting in place.
For example in 2012 the Italian government changed article 117 of its Constitution to remove the co-decison authority of its regions on matters related to the energy sector, deferring decisions to the central government.

2. Large infrastructure: in whose interest?

"Governments will need to lead a shift in the public perception of infrastructure as free or nearly-free 'public goods'. Subsidised electricity and water for farmers, and cheap urban water and waste systems, should come under review."

Goldman Sachs "Building the world" (2008)[8]

In this vision outlined by Goldman Sachs, infrastructure does not only mean building physical gas pipelines or water treatment facilities, but also markets for energy and water and financial markets on which to base these. In other words it means also building the financial and political infrastructure to give the private sector a more prominent role in society.

In this vision, private infrastructure financing should passively benefit from new subsidies and state reforms, and it should become the engine of financial innovation and capital markets through the dismantling of "onerous restrictions on investments" for pension funds and insurances, increasing derivatives-based financial products, developing debt markets and opening up poor and emerging economies to foreign banks.

There is no empirical basis that proves that private sector performance was "better than the public"

Investment banks and other private investors have a clear vision of what governments and public financial institutions should do. On the one hand this means restricting government intervention when it does not relate with the expansion of markets, and on the other it is a vision of the financial sector that receives massive public subsidies in the form of "public-private partnerships, risk guarantees, and co-financing by governments".

In this sense, the objective for the private sector is to convince politicians that *it would be in the public interest to facilitate the massive transfer of wealth from the public to the private sector, to build capital markets that allow further accumulation of private wealth and socialise losses any of the likely losses*. As Goldman Sachs puts it, when you need to approach decision-makers, "describe acquisitions as *partnerships* or *easing*, avoid speaking about sell or privatization..."

8 Global Economics Papers No:166 (2008). Building the World: Mapping Infrastructure Demand.

3. Who invests in large infrastructure?

The World Bank, the European Investment Bank (EIB) and the other multilateral and national development finance institutions (DFIs) have financed for decades the construction of large dams, gas pipelines, coal power plants, electricity transmission lines, highways, harbours and airports in the Global South (as well as in Europe in the case of the EIB)[9]. Large infrastructure was considered strategic by these institutions and governments controlling them, with its construction and financing often linked to broader politics.

Between 1990 and 2000, 90 percent of loans disbursed by multilateral development banks (MDBs) went to the public sector – governments in charge of realising the infrastructure – with the rest to the private sector[10]. Between 2000 and 2007, the same institutions began shifting their loans to large multinational corporations, in most cases companies headquartered in OECD countries. MDB loans to private companies went from USD 4 billion in 1990 to USD 40 billion by 2007. Since the appointment of Robert Zoellick as President of the World Bank in 2007, the logic of the institution has become increasingly similar to that of a large investment bank. Concentrating operations in sectors that are more profitable and making these functional to the interests of the financial sector is the new trend, with a de facto "reinterpretation" of the institution's original mission to eradicate poverty.

By the time the global financial sector was approaching collapse in September 2008, the World Bank had already boarded the financial sector train, leading international development assistance into the "financialisation of development finance". A deep transformation took place that changed infrastructure financing: public intervention from governments and multilateral development banks guaranteed operations transferred to the hands of private actors. There is no empirical basis that proves that private sector performance was "better than the public". To the contrary, evidence demonstrates the *negative impact of private sector loans* in terms of poverty eradication, in particular in poor countries, with over 50

9 http://www.counterbalance-eib.org/

10 Eurodad, November 2010, "Development Diverted: How the International Finance Corporation fails to reach the poor" http://eurodad.org/4304/

percent of World Bank loans to the private sector in sub-Saharan Africa having a negative development impact[11].

More generally, capital markets play an increasing role in financing infrastructure, in spite of the tacit or overt support from the state. In the aftermath of privatisation, private companies have been quite reluctant to invest for the long term, focusing rather on short-term profits. Therefore PPP schemes and "project finance" – an instrument focused on financing purely project companies based on projected cash-flows – is now quite popular. While private banks assume a central role in infrastructure financing, governments still play an important role by shifting their focus on *covering the risk* of the financial sector through export credit agencies. These bilateral agencies, such as SACE in Italy, the Export Credit Guarantee Department /UK Export Finance in the UK or the Multilateral Investment Guarantee Agency of the World Bank Group, guarantees the export of national companies in developing countries directly or through other forms of financial and contractual guarantees offered by governments.

In recent years project finance has also been used more often by public actors like municipalities and local authorities which themselves were forced onto capital markets given fiscal and public debt constraints. A new financial architecture slowly and inevitably emerged

11 Eurodad, November 2010, "Development Diverted: How the International Finance Corporation fails to reach the poor" http://eurodad.org/4304/

New actors in private infrastructure investment

"Capital market investors like pension funds are a natural source of finance for long-term infrastructure projects. Banks are finding it increasingly difficult to make long-term investment, so this capital market role is needed".
Werner Hoyer, President of the European Investment Bank, 7 November 2012[1]

Private equity funds

Private equity funds are investment funds that operate by buying equity in companies. They invest in companies, real estate and other proprieties with the aim of making a profit out by selling the company in the short term. They engage in multiple acquisitions and offer returns of up to 20 to 25 percent, looking for profits in their own acquisitions up to 40 percent. Private equity profits by restructuring and relisting the company or other acquisition on the stock market, selling it for a much higher value than at the time of purchase.

Infrastructure funds

Infrastructure funds are private equity funds that collect capital on the market for investments in the infrastructure sector, including companies building dams, highways, bridges, oil and gas pipelines, power plants and others. By investing in companies, they enable the construction of large infrastructure avoiding the high risk often connected to directly financing them. They can have a regional focus – for instance emerging economies or Sub -Saharan Africa – or a sectoral one – like in energy, oil and gas related infrastructure. They offer returns in the range of 25 to 30 percent and invest in the construction of infrastructure.

Hedge funds

Hedge funds are private investment funds usually managing the wealth of rich individuals or institutions that use investment strategies different from simply buying bonds, shares or titles. Their aim is to achieve an absolute gain not in relation to pre-fixed objectives, and positive management results independently from financial markets where they operate, through deals – mostly price speculation - that allow them to eliminate a large part of the market risk. Hedge funds are exempt from many of the rules and regulations that apply to other mutual funds, allowing these to pursue aggressive investment goals.

1 http://www.epc.eu/events_rep_details.php?cat_id=6&pub_id=3090

with the rapid evolution of capital markets in the last decade. This model allowed banks to move off book the debt related to the financing of large infrastructure and to get rid of the obligation to cover this debt with its own reserves, which would now be free for new investments. This is a fundamental shift that opens up constantly evolving "creative finance scenarios" that have the full support of governments. The techniques are the same as those tested on the mortgage market leading to the 2008 crisis and which drained USD 12 trillion from the public sector to avoid the collapse of the financial sector. These techniques include bundling older loans, siphoning them off into special purpose vehicles and then issuing derivatives known as Collaterised Loan Obligations (CLOs) that give investors the right to the income from the loans but not to the underlying assets. Such arrangements in turn spawn additional deals: for example, the special purpose vehicle may issue further derivatives known as "credit default swaps", allowing investors to bet on the credit worthiness of the underlying loans that have been bundled together[12].

Europe imports 80 percent of its oil and 60 percent of its gas from outside the EU

New forms of structured finance have been developed by the oil and gas industry, allowing companies to "pre-sell" to special purpose vehicles a share of the expected revenues from oil and gas exports. Special purpose vehicles can then sell to investors derivative-based bonds. In some cases, pre-sold revenues are linked to a project that is already operational. In other cases they are linked to projects far from even starting operations. Whatever the case, thanks to these instruments the company can benefit upfront with a share of the expected revenues, which the company then uses to finance other projects or its own operational costs, without the need for instance to ask for a loan to private bank. Known as "structured commodity finance," this is quite common in the oil and gas sector and been used to finance the expansion of extraction in Angola, Qatar and other locations[13].

Asking the question 'who invests in large infrastructure' reveals a Pandora box of private investors active on the financial capital markets that range beyond private banks, public financial institutions and multinational companies. It also questions the role of governments and public institutions in making infrastructure profitable that otherwise financial capital markets would not have considered interesting or unable to allow the speculative returns they are looking for. Typically investments in infrastructure in OECD countries seek an average return of about 10 percent and closer to 20 percent in developing countries in the best case scenario. Hedge funds and private equity funds allow a minimum return of 20 percent on financial capital markets, but in order to guarantee such a high return they need new physical assets where to invest and extract extra profit on financial capital markets.

In this context, public intervention is used to maximise the potential of infrastructure as an asset class to the profit of the private and financial sectors. Indeed public intervention is used to guarantee investments in the long term and make large infrastructure a *solid* asset that allows the development of structured financial instruments with rates of return higher than many other forms of investment could allow. In other words, public investment is used to facilitate money investing in money, irrespective of its purpose, function or utility. Financial capital markets will decide what is built, how, when and where, depending on how well it can guarantee higher profits.

4. What is the EU doing?

In October 2011 the European Commission communicated its plan to relaunch investments in the construction of large infrastructure in the energy, transport and digital communication technology sectors. The "Connecting Europe Facility" (CEF) is an integrated process with an initial announced budget of EUR 50 billion [14] - reduced to EUR 29.3 billion in February 2013 [15] - into which the Commission is attempting to blend key investment decisions in areas that were previously separated. The aim of the initiative is to finance the infrastructure that will build the "backbone of Europe" in energy, transport and digital data transmission, that according to the Commission will make Europe "more green, reduce energy dependency and complete the construction of the internal market".

12 The Corner House, September 2012. "More than Bricks and Mortar. Infrastructure as asset class: A critical look at Private Equity Infrastructure Funds". http://www.thecornerhouse.org.uk/resource/more-bricks-and-mortar

13 The Corner House, September 2012. "More than Bricks and Mortar. Infrastructure as asset class: A critical look at Private Equity Infrastructure Funds". http://www.thecornerhouse.org.uk/resource/more-bricks-and-mortar

14 http://ec.europa.eu/budget/reform/commission-proposals-for-the-multiannual-financial-framework-2014-2020/index_en.htm

15 http://www.euractiv.com/specialreport-budget/eu-budget-hawks-succeed-cap-960-news-517677

Examples of EU PRIORITY PROJECTS from the 2012 CONSULTATION closed 6 OCTOBER 2012

- Nabucco West
- European section of South Stream
- Mediterranean gas storage
- Trans Adriatic Pipeline
- Ionic Adriatic Pipeline
- LNG regassification vessel (Krk, HR)
- Adriatica pipeline
- Interconnector Greece- Italy (IGI)
- Nabucco pipeline
- Trans Mediterranean Gas pipeline
- East Mediterranean Pipeline
- New IP with Italy to connect Corsica
- OLT offshore LNG Toscana
- Off-shore LNG regasification terminal – Falconara Marittima
- Gioia Tauro LNG projects
- LNG Terminal- Porto Empedocle (Sicilia)
- Storages: 3 UGS San Potito &Cotignalo (SPC), Plazzo Moroni(PM), Cellino –New pools (CL)
- Gas Storage Grottole/ Ferrandina
- Galsi – New pipeline from Algeria to Italy (Tuscany via Sicilia)
- Floating LNG Terminal in Malta and gas interconnection between Malta and Italy (Sicily) with a new unknown interconnection between Malta and Italy
- Helios Interconnection - From Greece to Germany (via Bulgaria, Romania, Hungary and Austria)
- Italy – Albania merchant line
- Europagrid Adriatic - Italy Croatia Interconnector
- Interconnection Kaliningrad Region Power System – a German power system planned to provide electricity from the nuclear power plant under construction in Kaliningrad, Russia, to Germany, a country that has decided to phase out nuclear power.

CEF has created significant conflict among Member States and the sectoral lobbies pressuring EU institutions, where defining priorities and budget management are political rather than technical decisions and vested interests are enormous in scale. In the transport sector – which will receive the lion's share at EUR 23.2 billion[16] – the controversy centres on plans from the nineties for highway and high speed railway corridors for the transport of goods based on a vision of Europe as a "key player in global trade" and expanding its market at global level, which is no longer reality. This vision is decontextualised from the territories of the EU, where communities are demanding improvements to local transportation systems, including railways that millions of commuters use daily, with an emphasis on improving mobility and localising production and changing the unsustainable and heavily-subsidised global trade system.

In the energy sector the situation is even more complex. The Commission includes external dimensions within its energy policy[17]. Europe imports 80 percent of its oil and 60 percent of its gas from outside the EU. According to the Commission, this dependency will increase in the coming years, an impossible synthesis with EU internal emissions reduction targets and energy efficiency objectives. The EU is not however addressing this complex and contradictory issue in a coherent way. A quick look at the list of proposed "EU priority projects" to be financed by the CEF (now with a reduced budget of EUR 5.1 billion) during a 2012 consultation[18] includes gas pipelines and storage facilities, regassification plants, and cross-sea electricity interconnectors linking hydropower facilities in the Balkans with Italy and as well coal and nuclear power plants to northern Europe. The new EU energy infrastructure law, also called the Project of Common Interest (PCI) regulation, published in April 2013, creates an innovative and streamlined regime for defining and developing those projects for the "interconnection and interoperability" of national energy networks as described by the Commission, despite the fact they mainly cover gas, electricity and carbon capture and storage projects[19]. This infrastructure will lock the European economy into an old economic model of production and trade for the next fifty to one hundred years, a model that is neither green nor transformative.

16 http://www.euractiv.com/specialreport-budget/eu-budget-hawks-succeed-cap-960-news-517677

17 Campagna per la Riforma della Banca Mondiale, Counter Balance "Beyond our borders. A critique of the external dimension of the EU energy policy and its financing mechanisms", 2012. http://www.counterbalance-eib.org/?p=1788

18 http://www.euractiv.com/specialreport-budget/eu-budget-hawks-succeed-cap-960-news-517677

19 Regulation 347/2013 of 17 April 2013 on guidelines for trans-European energy infrastructure, http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:115:0039:0075:EN:PDF

5. Large infrastructure, public debt and the magic formula of the "Europe 2020 Project Bond"

In addition to public funding available through the CEF, governments and financial institutions have put their brains together to propose "innovative" financial instruments that could guarantee investment in expensive large infrastructure. This should happen in the context of the current crisis, where private banks and investors are not keen to risk their capital in long-term investments that are often economically and financially unviable.

In October 2011, the Commission presented its "Europe 2020 Project Bond" initiative as one of the "risk sharing" instruments to support the CEF in mobilising private capital for infrastructure investment.

In June 2012, the European Investment Bank (EIB) launched the Europe 2020 Project Bond pilot project, with a budget of EUR 230 million from the EU budget in order to mobilise up to EUR 4.6 billion through the sale of project bonds on capital markets to private and institutional investors.[20]

Commission funds should act as a "first-loss piece," enabling the EIB to provide about EUR 750 million through Project Bond Credit Enhancement (PBCE) and then allow the projects to leverage the rest on financial markets. The pilot phase should be renewed during discussion over the 2014-2020 EU budget that will continue throughout 2013.

Projects eligible for the pilot phase include those that are *not* attractive for institutional investors because of financial and economic risks that cannot be covered through "monoline insurances,"[21] which have dried up since the 2008 crisis. Between 2005 and 2007 project bonds issued in Europe included "a substantial contribution from monoline-wrapped bond issuance for PFI/PPP projects"[22]. Since 2007, the issuance of project bonds in Europe has been minimal. Private banks have curtailed or even sold parts of their project finance portfolio, and in some cases have left the business entirely, like the Royal Bank of Scotland.

In December 2012, the Commission and the EIB published some details about the initiative[23]. In short:

THE ITALIAN PROJECT BOND

The Italian government was the first to implement national legislation to allow private constructors to benefit from the project bond mechanism to finance large infrastructure. The June 2012 proposal from the ministry of economic development included "urgent measures for the economic growth of the country". According to Minister Corrado Passera (the former CEO of the largest Italian private banking group, Intesa San Paolo), the Italian project bond will serve to relaunch large infrastructure and the construction sector, an important source in the productive supply chain. The proposal was followed by approval and implementation of decree n. 134 by the Ministry of Economy in August 2012.

These bonds will be covered by two large Italian institutions in which the state has a stake but were privatised in the recent years: Cassa Depositi e Prestiti (CDP) and the Italian export credit agency SACE (now fully controlled by CDP). The proposal for the Italian project bond is that it will cover up to 50 percent of project costs through an agreement with private banks (being negotiated in early 2013) with an initial guarantee from Cassa Depositi e Prestiti and further backing by SACE. For infrastructure projects of 500 million euro or more, construction companies that will not benefit from the Italian project bond, will be awarded a VAT exemption for the cost of construction, according to the same law.

20 http://www.eib.org/about/news/the-europe-2020-project-bond-initiative.htm

21 A monoline insurance company is an insurance company that provides guarantees to companies or institutions issuing bonds, often in the form of credit wraps, that enhance the credit of the issuer. These insurance companies first began providing wraps for municipal bond issues, but up to 2008 have provided credit enhancement for other types of bonds, such as mortgage backed securities and collateralized debt obligations. They have been the most exposed to the subprime mortgage crisis in 2007-8. http://www.ilsole24ore.com/art/SoleOnLine4/100-parole/Economia/M/Monoline-insurance.shtml?uuid=561368e6-580b-11dd-93cb-a54c5cfcd900&DocRulesView=Libero

22 Moody, June 2011, Special comment: Europe 2020 Project Bond initiative

23 European Investment Bank, An outline guide to Project Bonds Credit Enhancement and Project Bond Initiative, December 2012, http://www.eib.org/attachments/documents/project_bonds_guide_en.pdf.

- The "Project Bond Initiative" is the EIB and Commission's response to attract institutional investors (like pension funds and investment funds) into large infrastructure financing through "credit enhancement" of the constructing consortium and "improved rating of bonds" directly linked to the infrastructure financed. Olli Rehn confirmed that "it should allow us to attract private sector funding for long-term capital projects on a wider scale, and perhaps in other fields, in the future"[24].

- Projects that benefit from the Project Bond Initiative and the Project Bond Credit Enhancement will receive a "AAA" rating – equal to the best state and public bonds – and they will cover up to EUR 200 million, or 20 percent of project costs

- Credit enhancement will be delivered in practice by the EIB through a subordinated instrument – either a loan or contingent facility – to support senior project bonds issued by a project company

- the objective of the initiatives is to "widen access to sources of finance" and "minimise funding costs" for the private actors engaged in large infrastructure construction

The initiative will apply to projects that should be approved by the EIB before the end of 2014 and with expected financial closure of the project by 2016.

The April 2013 EU regulation including the "guidelines for trans-European energy infrastructure" includes criteria for Projects of Common Interest that should be included in the CEF and benefit from the new European financial instruments[25]. According to the regulation, "the first Union list shall be adopted by September 2013". However, defining the list of EU priority projects is highly political among Member States and it is doubtful that even with the special provisions "to ensure that projects of EU priority will be built" they will reach political consensus over a short list of projects. Several of these projects are considered by communities in Europe and beyond environmentally, economically and socially unsustainable, and for this are highly controversial.

Several of these projects are considered by communities in Europe and beyond environmentally, economically and socially unsustainable

24 http://www.epc.eu/events_rep_details.php?cat_id=6&pub_id=3090

25 http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:32013R0347:EN:NOT

What will be the process on the national level, to define the shortlist of projects candidates to be financed through the CEF and Europe 2020 project bonds? What resources will the EIB dedicate to evaluate the solvency of project proponents? What will be the capacity to ensure that such a public backing for the expansion of financial capital markets linked to the infrastructure sector – with implications beyond Europe's borders – respects the implementation of EU objectives on environmental protection, climate change, poverty eradication, and human rights as defined by the Lisbon Treaty? What will be the implications for the collective once the public guarantee becomes operational? In other words, where the risk-benefit analysis of projects is not correct and the projects do not repay themselves, who will foot the investment and the damage done to the collective for infrastructure that may not have been constructed in the first place to serve the needs of the collective?

6. The European project bond: what is new?

Bonds have been used for years to finance projects that need large initial investments and have long construction times. This is the case of multinational oil corporations that engage in technically-complicated multi-billion euros extraction projects, which have long exploration and initial construction phases and expected profitability in the medium to long term only.

One example is the Kashagan oil project[26] in Kazakhstan on the northern shores of the Caspian sea, developed by a consortium of large multinational companies including Shell, Total, Conoco Philips and operated in the construction phase by the Italian multinational Eni. Oil exploration at Kashagan started in the mid-1990s after Kazakhstan declared independence from the former Soviet Union. The consortium Agip KCO signed an advantageous Production Sharing Agreement (PSA) for the companies, with construction costs shared with the local government and initial profits for the Kazakh state from oil sales coming in only in the second phase. The extreme weather conditions, geologic structure and technical difficulties of the project significantly delayed the construction phase and increased exponentially construction and operational costs, which are now estima-

26 Campagna per la riforma della Banca mondiale, "I cinque progetti che devasteranno il pianeta", Altreconomia, 2009.

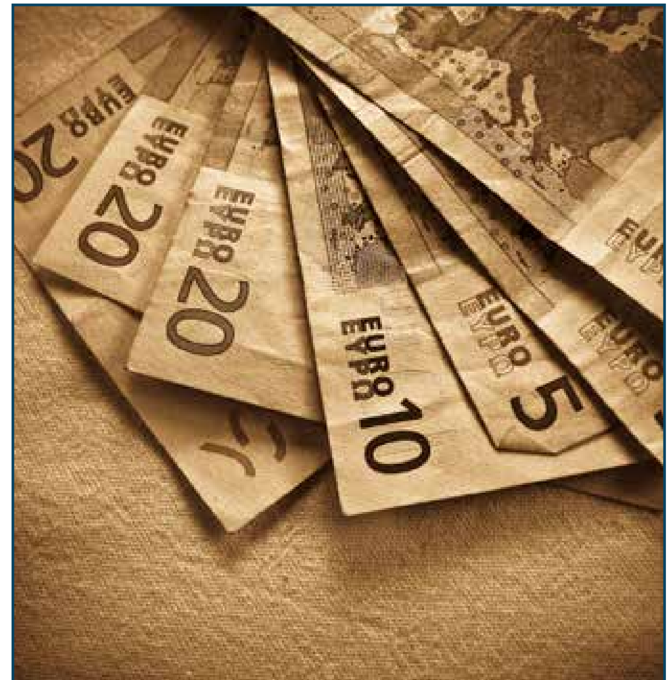
ted at USD 187 billion[27]. While the project was initially expected to be operational in 2008, the current expected start date is sometime in 2013.

During this period, oil companies covered their costs through their own liquidity – with the high price of oil companies could profit even during the crisis – with the issuance of corporate or project bonds placed on the market through intermediaries like BNP Paribas or other private banks and with the risk covered by insurance companies. In other words, capital is raised on financial markets and not through loans from private banks. Their back up are mostly oil reserves declared by oil multinationals (PSAs are long term concessions where companies get rights over reserves) and the projected reserves the building consortium believes it will sell on oil markets in the future[28].

The investment risk is also managed privately on the market. Large insurance companies have developed specific insurance instruments linked to the issuance of project bonds – monoline insurance – that are in most cases sold on the financial capital market (and bought by the same investors involved in the project, including the oil multinationals) as well as other counter-guarantees that cover the same insurance companies from the risk they are undertaking. This creates a complex architecture where risk is split and distributed and then repackaged in financial products with creative names that are sold to anyone by the retail bank on Main street.

The Commission and the EIB have chosen to incentivise the expansion of financial markets

The EU's Project Bonds Initiative is linked to the solvency of companies and risk coverage, fundamental to the rating of the project bond when it is placed on the market. In the context of the current crisis, many companies cannot afford to issue their bonds with a good initial rating and maintain the value of their shares on the market (and high profit for investors) in the immediate future. Oil majors and other large, financialised multinationals – in cases with public equity participation - are the few exceptions considered "too big to fail" by governments that in any case would undertake all necessary actions to "save them" in case it might be needed. Everybody else have seen a reduction of access to capitals in the context of the crisis. Private banks, with a mandate to facilitate *access to credit*



among savers and those that need access to money, have in most cases closed the doors to productive loans to individuals and small companies, shifting their activities to investments and intermediation on financial markets in search for higher returns.

The Commission has sought to address this problem by guaranteeing project bonds. Rather than fixing the banking crisis by having banks lending again, the proposed measures provide liquidity for the financial sector, with guaranteed products that can easily be sold on the capital markets. Whether this responds to the needs of the rest of society is highly questionable.

Moreover after 2008 insurance companies that previously benefited from high volumes of liquidity for reinvestment including in risk guarantees for medium and long-term investments are now less willing to expose themselves to large scale infrastructure projects where returns appear only years after construction is completed.

With the Project Bond Initiative, the Commission and the EIB have chosen to incentivise the expansion of financial markets and to use public funds - European taxpayers money - to transform infrastructure into an *asset class*[29]. Nicholas Jennett, responsible for the Project

27 http://www.trefis.com/stock/cop/articles/146637/conocophillips-may-exit-kashagan-project-on-costly-and-risky-outlook/2012-10-03.

28 38 billion barrels in the case of Kashagan

29 The Corner House, September 2012. "More than Bricks and

Bonds Initiative at the EIB, confirms this approach by emphasising the need for more public-private partnerships in the EU and the role that project bonds can play here: "Tapping into the capital markets, and especially into pension funds, is the key game changer we need to achieve "[30].

Public funds will be used to improve the solvency of both companies and projects by allowing constructors to improve their access to credit for the financing of planned or proposed projects. Institutional investors like pension funds and investment funds as well as municipalities, companies and private banks all would channel their funds into such projects. The Project Bonds Initiative defines a framework where public intervention allows for the separation of the debt of the project company or consortium into senior and subordinated tranches. The EIB then "provides a subordinated tranche, or facility, to *enhance* the credit quality of the Senior bonds, and therefore increase their credit *rating*".

This intervention is instrumental in making infrastructure functional to the expansion of financial markets and is not being done in the interest if citizens even though the latter will pay the bill in case anything goes wrong. Paradoxically this public intervention might likely limit the future economic and social freedom of citizens. Indeed if public-private partnership infrastructure does not repay itself - for instance when the financial plan may have been based on an incorrect calculation of the project's capacity to repay itself or on an inaccurate projection of costs and benefits - a debt is generated that falls back on the public in the future.

European territories are under assault from shale gas developments, coal mines and other infrastructure

The 2008 crisis demonstrated the markets' inability to manage risk: at the end of the day, public intervention saved the financial system and costs were then passed on to a public that is still paying for them, in some cases through the imposition of severe austerity measures. Why then is the public now responsible for this new risk, leaving profits to the private again? Why is the public choosing to cover the costs, liberating the private from assuming the risk that investments may go wrong, as the pure neoliberal theory embraced by the Commission instead suggests? And in case things go differently than planned, who will save us all from financial markets and the millions of cubic metres of concrete used to build infrastructure that is useless and imposed by institutions and financial markets?

Mortar. Infrastructure as asset class: A critical look at Private Equity Infrastructure Funds". http://www.thecornerhouse.org.uk/resource/more-bricks-and-mortar

30 http://www.epc.eu/events_rep_details.php?cat_id=6&pub_id=3090

Conclusion: what infrastructure for a fair and just transition?

"We are living a *primarisation* of the economy" said Fabrina Furtado, a Brazilian activist, with a new terminology referring to the mega infrastructure plan IIRSA promoted by the Brazilian government and the wave of enhanced extractivism we are witnessing globally. In other words, we are going back to that moment in time when extraction of natural resources is the driver of the economy. Furtado also refers to legislative changes in the Brazilian state of Acre, where "nature" has officially become something that you can trade on the market. Investments funds, pension funds, investment banks and other private actors can now trade in some services provided by ecosystems similarly to markets for copper, oil, grain and other commodities. More broadly the *primarisation* of the economy – an era in which nature and natural resources are under assault – is not an issue concerning only Brasil or China, but Europe as well. Oil exploration is threatening the most beautiful coasts of Italy – from the Tremiti Islands to the Sicilian Channel, Sardinia and the Elba Island – and the Mediterranean, with on going deep-water exploration in Egypt and Tunisia. From the North Sea to the Caspian, offshore exploration continues in Europe and Central Asia to the damage of pristine natural ecosystems and communities depending on them.

Extraction activities is also threatening more and more agricultural land where communities live. In countries like Italy, Serbia, Poland, Ukraine, Spain, France and Bulgaria, European territories are under assault from shale gas developments, coal mines and other infrastructure that are taking more and more land away from farmers and others. The so-called advanced economies of Europe and elsewhere – in a hangover of false myths about the 'dematerialisation' of the economy, the end of the 'workers' era' and the entry of the technology society – continue to promote large infrastructure as an urgent measure to relaunch economic growth and exit the long, dark days of recession and crisis. However, people are questioning who benefits from this large infrastructure, in whose interest it is built and for what purpose.

What is built today will mark the decades and economy of tomorrow

It is worth imagining what other infrastructure is needed to initiate a just transition towards a different economic model based on the respect for territories and the environment, capable to respond to the needs for local jobs for an entire generation of young people, in many cases marginalised by the existing system – especially in the Mediterranean region, where the economic and financial crisis is having the most severe impacts also in terms of youth unemployment.

In particular, what kind of infrastructure is needed to serve the public interest and respond best to the social, environmental, cultural and economic needs of peoples and communities? As in the aftermath of the Second World War or in the 1970s, what is built today will mark the decades and economy of tomorrow. Once initiated, it is difficult to change course. Common sense shows that building the "backbone of the economy" needs collective, participatory, dedicated thinking as well as apprehension about jumping to the conclusion that large infrastructure will lead us to a promised future.

It is urgent to unify grassroots opposition to the various large and useless infrastructure projects proposed from above in order to open a political space to discuss local, national and European needs for the transition away from fossil fuels and towards a more just economic model that responds to communities and in harmony with the environment.

But institutional decision making processes tacitly accept the large infrastructure narrative, exposing our every day lives to the interests of financial markets. The needs of millions are ignored in order to guarantee a high return to institutional investors and speculative actors. This is something that we should not accept.

Community groups and collectives are engaged in the everyday transformation of patterns of consumption and ways of living, moving back to smaller towns and villages in search of more sustainable and just ways of living or even searching for such models in metropolitan areas. In order to make these changes structural, a physical transformation of urban areas, cities and territories is also needed. In this context states and public investments will have a key role to play, eventually through new, more democratic, representative and effective institutions of public finance. A new political and social agenda is needed in opposition to the construction of large infrastructure in order to have the legitimacy and credibility to propose and begin to define a future for a common interest. Before it is too late.

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