



Closing the Gap on Air Traffic Management Investment Needs

Increasing performance and investment requirements in Air Traffic Management to meet the goals and objectives of the Single European Sky programme

Air Traffic Management (ATM) is going through a period of intensified investment to support the technology pillar of the Single European Sky (SES), the legislative framework for European aviation. Pressure to improve ATM performance will increase over the coming years in order to cope with sustained air traffic growth and operations under the safest, most cost- and flight-efficient and environmentally-friendly conditions.

Further investment will be required to meet these targets and to continue to implement the technological improvements developed under the SESAR (Single European Sky ATM Research) programme, deployed under the coordination of the SESAR Deployment Programme.

The European Investment Bank (EIB) aims to support the deployment of ATM technology by developing financial instruments to fund ATM projects. The New Products and Special Transactions (NPST) team within the EIB is developing new financial products and structures tailored to the industry's profiles and investment needs. Combined with the technical and sectoral expertise of the EIB's Projects Directorate, the Bank can provide comprehensive solutions to resolve financing gaps.

Funding for ATM technology is available through the Connecting Europe Facility (CEF) but the available budget is insufficient to support all necessary developments. In the 2015 CEF ATM General Call, applicants requested EUR 1.2bn of funding to support projects totalling EUR 2.45bn. EUR 700m has been made available, covering approximately 30% of the total project value. There is an apparent gap between the amount of financing needed and the amount that can be provided.

With the support of the European Commission (EC) through EFSI (European Fund for Strategic Investments) and similar initiatives, the European Investment Bank can help close this financing gap and assist the full and timely deployment of technological improvements by all implementers of this new technology, including Air Navigation Service Providers (ANSPs), Civil Airspace Users and Airports.





This document is intended to encourage stakeholders to communicate and collaborate with the EIB in order to develop financing structures and/or investment platforms that meet the investment criteria of the EIB, commercial banks and institutional investors, and could help overcome financing challenges in the ATM industry, such as those related to the synchronised deployment of new technologies.

Our call to action is directed at all stakeholders involved in the ATM industry including those who invest in equipment on the ground and on-board aircraft as well as potential financiers:

- Air Navigation Service Providers (ANSPs);
- Airports;
- Civil airspace users;
- Policy-makers and regulators;
- Private-sector lenders and investors.



Introducing the EIB

The European Investment Bank is the European Union's bank, and represents the interests of the EU Member States. The EIB works closely with other EU institutions to support the successful implementation of EU policy objectives. To this end, the Bank offers loans, guarantees, microfinance and equity investments, as well as blended products (combining EIB and EU funds) and provides advisory services.

The EIB is the largest multilateral lender and borrower in the world, raising funds on the international capital markets and passing on favourable borrowing costs to clients to finance sound investment projects.

Borrowers benefit from the EIB's favourable cost of capital as well as from tailored structures designed to fit investment needs such as customised repayment schedules to match cash flows and credit enhancement when applicable. Projects proposed for loans must be bankable and technically viable, and there is no pricing subsidy element. The EIB can provide up to 50% of project costs, with the balance provided by Member States, EU grants, the private sector or a combination thereof.

Our projects cover a broad range of sectors, from energy and transport to education. Within the transport sector, the Bank is active in the road, rail, public transport, aviation and maritime sectors.

EIB-SDM collaboration

The EIB is collaborating closely with the SESAR Deployment Manager (SDM) to support Pilot Common Project (PCP) deployment. The SDM is the organisation coordinating the upgrading of Europe's Air Traffic Management (ATM) infrastructure. The main task of the SESAR Deployment Manager is to develop, propose and maintain the Deployment Programme of SESAR concepts and technologies and ensure efficient synchronisation and overall coordination of implementation projects, as well as the related investments in line with the Deployment Programme.

Our products

The EIB has a diversified portfolio of financial products suited to the diverse range and size of aviation stakeholders. The EIB's traditional lending operations can be divided into three main categories:

- a) **Direct loans** best suited to implementing partners carrying out large investments on a corporate loans basis or specific project financing (PF);
- b) **Programme loans** with a thematic or geographic focus and;
- c) **Framework loans**, which are better suited to supporting smaller investments via intermediary banks.



“ The EIB has been lending to the aviation sector for many years in line with EU policy. We want to continue to support the industry by actively assisting the ATM sector in upgrading their technology to meet EU policy targets.

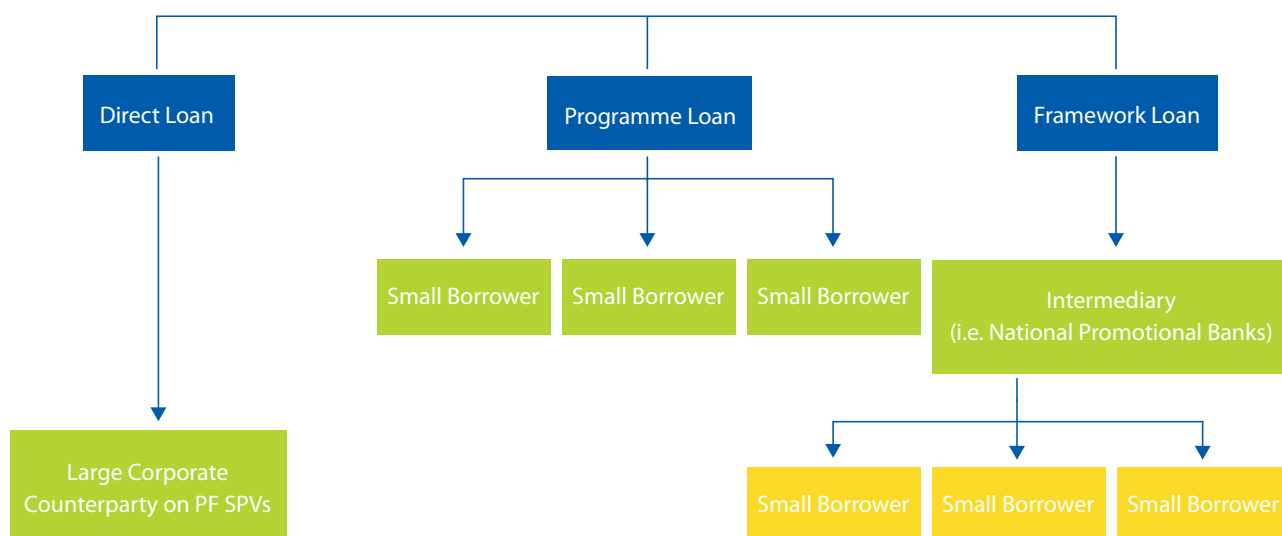
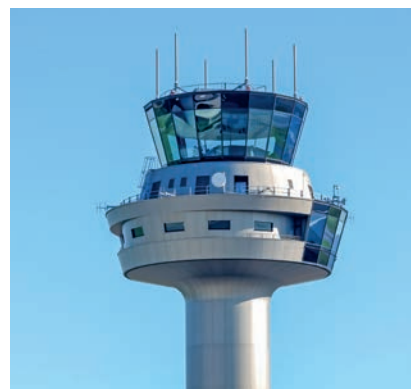


Diagram 1



Direct Loan

Direct loan concept:

Individual loan to a single borrower.

Minimum loan size: approx. EUR 25m

EIB contribution to project value: 50%

Eligibility:

- Asset purchase
- Software and licences
- Installation
- One-off training session
- Capital expenditure

Appraisal Process:

- Cost-benefit analysis
- Credit analysis
- Technical analysis



Access:

The entity requiring the loan can contact the EIB directly.

Case Study:

ENAV, the Italian ANSP, borrowed EUR 250m (45% of the total project costs) to support the implementation of 4-Flight and ATC infrastructure supporting SESAR implementation (over the period 2014-2020).



Applicability to the ATM Market:

As showcased by the ENAV case study, individual stakeholders implementing a large project (in excess of EUR 50m) can approach the EIB individually to obtain a flexible and customised financial loan. This could be utilised by ANSPs to upgrade their ATM system or by airports to upgrade their ATM infrastructure.



Programme Loan and Framework Loan

Programme loan concept:

Individual loans can be awarded to multiple borrowers for an agreed investment based on a joint business case.

Minimum loan size: N/A

EIB contribution to project value: 50%

Eligibility:

- Asset purchase
- Software and licences
- Installation
- One-off training session
- Capital expenditure

Appraisal process:

- Programme/framework level cost benefit analysis
- Individual credit analysis

Framework loan concept:

Individual loans can be awarded to multiple borrowers through a single intermediary for an agreed investment based on a joint business case.

Minimum loan size: N/A

EIB contribution to project value: 50%

Eligibility:

- Asset purchase
- Software and licences
- Installation
- One-off training session
- Capital expenditure

Appraisal process:

- Programme/framework-level cost-benefit analysis
- Individual credit analysis

Access:

The entity requiring the loan can contact the EIB directly.

Case Study:

A programme loan was created to support the purchase of French regional railway rolling stock. The EIB provided a financial envelope of EUR 750m (approximately 50% of the financing requirement) to finance various rolling stock upgrade projects throughout the French regions. Each of the French Regions has been nominated to act as the borrower and promoter, but the actual purchase will be carried out by SNCF on behalf of the Regions.

Access:

Through the nominated intermediary or typically deployed by the EIF (European Investment Fund) through national promotional banks.

Case Study:

A framework loan was created by the EIB to enable small and medium-sized enterprises, hospitals and educational facilities to lease high-tech equipment.

Access to the funds has been granted throughout France, Spain, Belgium and the Netherlands using the Société Générale Group as an intermediary.

Applicability to the ATM Market

Both of these products could be customised to create a product attractive to potential borrowers in the ATM market. For example, a business case can be prepared for a type of investment (i.e. a specific mandated avionics upgrade). Based on this joint business case, the EIB could set aside an agreed level of capital available for loan financing with drawings under the loan following the usual EIB lending procedure, including credit analysis, pricing, etc. These mechanisms could represent a good solution for industry-wide projects with small individual investments such as support for general aviation voice communication (8.33) and Automatic Dependent Surveillance Broadcast (ADS-B) equipage through intermediary banks. Commercial aviation could benefit from loans supporting datalink equipage whereas airports could finance the transition to the Ground-Based Augmentation System (GBAS).



Support for the ATM Industry

Existing EIB financial products can be tailored to support a large number of borrowers sharing a business case to meet a wide range of financing needs via intermediated loans. The EIB is keen to facilitate financing in this sector given European Commission support, increased capabilities resulting from the EFSI initiative or similar mandates, and internal technical expertise in the sector.

We believe that tailored financial arrangements, in combination with grants or private capital and a coordinated funding approach can further support ATM investment, helping to achieve synchronised deployment and enabling the realisation of network benefits.

Tailored financial arrangements

Financial instruments such as loans can be tailored to better match the profile of financial benefits to the costs of debt servicing by sculpting repayment cash flows or the deferral of principal repayments.

Tailored financial arrangements could potentially include:

- **Sculpted principal repayments:** loan repayment schedules could be weighted towards later years, allowing the net benefits of investments to better match the loan repayment schedule.
- **Guarantees:** a form of financial guarantee could potentially be provided to support an implementing partner in meeting its financial commitments in the event that cost savings or other benefits do not materialise.
- **Aggregation platform:** a custom loan or guarantee could be provided to an intermediary leasing or lending vehicle that would funnel financing to individual end beneficiaries.
- **Blending:** concessional funds could be blended with a loan or guarantee in order to reduce the risk profile of certain financing operations by intermediary lenders and reduce finance cost for end borrowers.

EIB financial instruments

In addition to conventional senior loans, the EIB offers a portfolio of financial products including credit enhancement, equity and quasi-equity financing (hybrids), which could benefit from European Commission support. These instruments aim to address market failures or sub-optimal investment situations. Credit enhancement, for example, helps to improve the credit rating of senior debt and works as a catalyst to attract private finance from commercial banks and institutional investors. This results in an increased overall lending capacity.

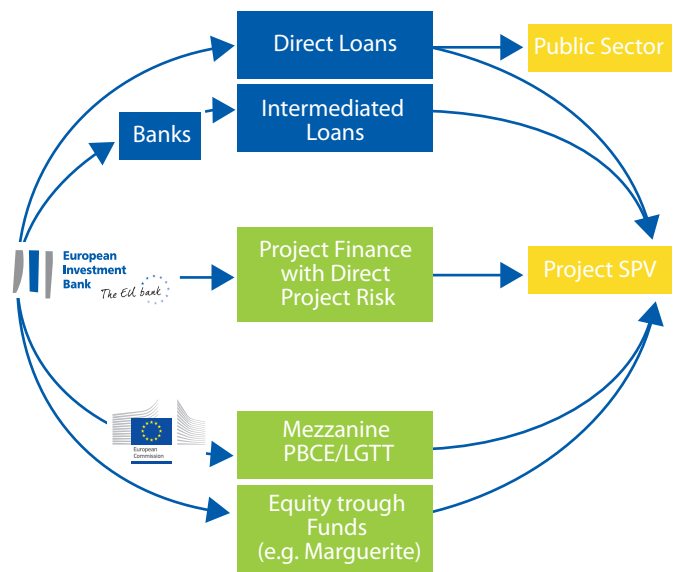


Diagram 2

The European Fund for Strategic Investments (EFSI) is an initiative launched jointly by the EIB Group and the European Commission to help overcome the current investment gap in the EU by mobilising private financing for strategic investments. Please refer to our website for more details on the EFSI initiative at <http://www.eib.org/efsi/>.





Summary

Direct loans are readily available to borrowers implementing large-scale projects. Framework or programme loans can be created as demand arises. EIB loans are supplemented by tailored financial arrangements based on sector needs and the specific cash flow profiles of each project or programme. Additionally, the EIB offers a portfolio of credit enhancement and equity products which facilitates borrowers' ability to raise the required capital. Consequently, a wide variety of ATM investments and stakeholders could benefit from such EIB products, in combination with EC support via EFSI or other similar mandates. Overall, the financing gap could be reduced if, in addition to EIB financing and potential grants, private market lenders could be attracted to the sector. The EIB has been very supportive of the transport sector and welcomes dialogue with industry participants as financial products are developed.

Next steps

The EIB will continue working with the European Commission, the SDM and other industry stakeholders to identify key financing requirements in the industry and discuss with stakeholders how the EIB may support projects in light of the EFSI initiative and other similar mandates. The aim of these discussions is to find ways of overcoming the challenges to concluding successful investments in the ATM industry and to support the synchronised deployment of infrastructure and technology. Since the EIB is limited to financing a maximum of 50% of total project costs, having a solid business case with revenues in support of debt service is key to the successful implementation of financing structures and taking advantage of the significant liquidity available in the market.

To tailor our financial products to meet the needs of the industry, we encourage stakeholders to contact the EIB. Discussions will address:

- The use of incentives to overcome obstacles to implementation thereby synchronising deployment and realising network benefits.
- How the EIB financing will dovetail with CEF grant support to the ATM industry and its implementation of SESAR.
- How different governance arrangements and intermediary involvement might support the implementation of financing solutions.
- Strong focus on the business case and revenues which will support overall financing proposals.



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We strongly encourage stakeholders to contact the EIB to discuss experiences and potential lending needs. All industry input will support the development of financing mechanisms which are fit for purpose and help overcome investment barriers related to ATM deployment



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