PPPlatitudes

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If the German federal government is going to meet its infrastructure needs over the next decade – estimated to be in the region of Eu690 billion ($872 billion) – then certain traditional German attitudes will need to change. German taxpayers can no longer afford the luxury of thinking that public and social infrastructure will be provided through the public purse for free. Short of another Wirtschaftswunder, which is unlikely to present itself in the short term, the federal government will have no choice but to tap the private sector for its infrastructure funding.

In late February, the Federal Statistical Office announced that public indebtedness (including federal, state (Länder) as well as local authorities) stood at Eu1,447.3 billion at the end of 2005, an increase of 3.8% on the previous year. Germany will now face increased pressure from the European Union for yet again breaching the Maastricht criteria, which requires the budget deficit to be kept within 3% of GDP.

Given the country's fiscal predicament, it seems perverse that attitudes towards public-private-partnerships (PPPs) remain polarised. "It has become a hot issue politically," says a German banker. "The public is a long way off accepting the reality of PPPs. Take transport projects for example: people are not used to paying for roads, though many recognise that they must accept it. This then puts the government in a difficult position politically."

More talk, less action

The reasons behind Germany's sluggish PPP performance continue to divide industry experts. Some believe that a lack of real political will has hampered the market, while others cite Germany's federalism as the main hurdle.

"One of the real reasons for the slowness of the market has been the lack of initiative on a political level, particularly the central government level, such as we have seen in the UK. Although a taskforce has been set up at federal level now, the Ministry of Finance might have had a more active role in it," says Helmut Faust, head of PPP Germany at BayernLB.

Others do not agree. "Of course, there is political will. The problem is that there is no single government entity to be convinced. It's case of one plus sixteen plus a couple of hundred different entities," says a Frankfurt-based PPP expert.

It is true that Germany's innate federalism has mitigated against a common policy, which would be easier to implement in a centrally governed country. The relative autonomy at state, municipal, and regional (Regierungsbezirke) levels has led to a variety of approaches to structures as well as speeds at which PPP has developed. Thus, the likelihood of local governments being able to agree and co-ordinate umbrella-type financings for portfolios of even smaller projects looks rather remote.

However, the pace of PPP in Germany looks set to change. The fledgling German PPP market may have found its champion in Angela Merkel's incumbent minister of finance, Peer Steinbrück. In 2001, Steinbrück, then minister of finance for Nordrhein Westphalen, initiated a PPP Taskforce for the region. Nordrhein Westphalen has since led the way for other states to set up their own taskforces, including Hessen, Baden-Württemberg and Brandenburg. The question for sponsors and funders alike is whether Steinbrück can translate his ambitions for PPP from state to federal level.

Some funders are not keeping their hopes up. "I saw a lot of companies interested in doing PPPs that became very frustrated with the previous government. Whether the new one will be that different is hard to say. Although there need to be improvements, Germany's infrastructure is not suffering in a major way. Therefore, the political parties are really not under pressure to make significant changes. There will, I think, be a further increase in PPPs, though not a significant one. If that is to happen, there needs to be a major change in government policy," says a German project financier.

Even so, there is evidence that PPP in Germany is beginning to pick up the pace, though at a seemingly low level compared to other EU countries. According to the German Institute for Urban Affairs (Difu), which carried out a study on behalf of the PPP Taskforce for the Federal Ministry of Transport, Building and Housing (BMVBW), there was a 100% increase in 2004 and 2005 of signed PPP deals. This year, projects at federal/state and municipal levels are expected to come in at Eu1.2 billion and Eu890 million respectively. And more than 300 projects are currently being implemented or planned. However, it is estimated that three-quarters of municipalities have yet to implement PPP projects and may have no intention of doing so.

German industry experts believe that the target PPP rate (as a percentage of public investment) of 15%, from a starting point of 4%, may be achievable in the short to medium term. But Germany is unlikely to close in on the UK's 20% mark in the foreseeable future.

Time for the A-model?

After a very slow start, the road sector is still expected to provide the much-needed fillip to the German PPP market. However, regional experts having been saying as much for the past few years, and little seems to have happened.
Under the A-model, the multilane extension of existing motorway sections as well as their maintenance, operation and financing is assigned to private investors. The state provides some 50% of the upfront subsidy to cover the infrastructure costs of passenger vehicles, whilst the repayment of private funding comes from toll fees paid by heavy goods vehicles.

The tolls apply only to trucks, and those that weigh more than 12 tonnes pay on average 12.4 cents per km. The system has proved an easy way of introducing shadows tolls, and earmarks certain revenue for the given stretch of autobahn.

Initially, 12 projects (some Eu4 billion in total) were slated for the first wave of A-model deals. However, the federal government has scaled the number of projects back to five. As yet, it is unclear whether the government will continue with the programme once the first five deals have been closed.

The first A-model project out of the traps is the A8 Augsburg – Munich autobahn in Bavaria. The Eu150-250 million road project was originally scheduled for commercial close this June, but legal disputes have held the deal up. The shortlisted bidders for the project are: A-Plus, a group led by Egis that is advised by KPMG; Hochtief/Vinci, advised by Deutsche Bank; Bilfinger Berger, with Macquarie providing advice; and a Strabag-led group advised by HSH-Nordbank.

The second project under the scheme – the A4 Waltershausen – Herleshausen project in Thuringen ("Hörselberge") – went to tender last August and is currently at the pre-qualification stage. The four remaining bidders on the Eu150-250 deal are led by Strabag, Hochtief/Vinci, Bilfinger Berger, and Max Streicher with OHL group. A number of banks have already tied up with sponsors for bidding – HSH-Nordbank has been linked with the Strabag-led consortium Konfam; Macquarie with Bilfinger Berger; Hochtief with Eurovia is being advised by Deutsche Bank, and Streicher/OHL has HVB advising.

The A5 state of Baden-Württemberg (Baden-Baden – Offenburg) road project is also currently at pre-qualification stage. It is expected that the four final bidders on Eu500 million project will be chosen at the end of March. The other planned projects are the A1 in Niedersachsen (Buchholz – Bremer Kreuz) and the A1/A4 in Nordrhein Westphalen (Düren – Köln Nord).

Although the fact that 50% of the construction costs are paid out of conventional federal funds earmarked for transport infrastructure is expected to make A-model projects bankable, the structure has not been without its detractors. There are concerns that the operator in fact shoulders a disproportionate amount of risk, while the present mode of pre-financing with private capital should give way to the implementation of a road fund.

F-model

Whilst there may be hope for the A-model once the first projects close successfully, the future for the F-model looks uncertain.

The Fernstraßenbauprivatfinanzierungsgesetz (FstrPrivFinG), which was enacted in August 1994, is essentially a DBFO model, on which the Ministry for Transportation assesses the possibilities of toll road financing.

The structure has had a troubled history going back to the first pilot project at Warnowquerung. Macquarie Infrastructure Group's deal failed to meet expectation, and the Australian sponsor had to take a A$164 million hit on the deal.

The second F-model project to close was the Herren Tunnel in Lübeck. Construction work on the toll tunnel in Lübeck, in northern Germany, started in late 2001 and it was opened last autumn. The investment volume for the project came in at Eu161 million, and was raised by way of subsidies from the BMVBW, equity of Herrentunnel Lübeck GmbH & Co. KG (HLKG) (Eu18 million) as well as bank loans (Eu54 million). The tunnel will be operated and maintained over the entire 30-year concession period. For its services, HLKG will receive the toll charges paid by tunnel users regulated by the Mautverordnung issued by the BMVBW.

Even though two deals have been closed, the pipeline for new projects seems to be running dry. The Hochmoselübergang (Hochmosel Crossing) was expected to come to market in 2004, but fell foul of the Federal Administrative Court that upheld a decision that planning was void due to certain breaches of environmental law. Local players remain sceptical as to whether the Eu120 million deal will get back on track.

Other planned F-model projects include Weserquerung (Eu237 million), Albaufstieg (Eu348 million) and the Elbquerung at Glückstadt (Eu511 million). The Weser project is currently rumoured to be near the preliminary stage, though it is unclear whether the deal will get done before the year-end.

The future?

Whilst the benchmark for a successful PPP market may be a vibrant transportation sector, Germany's commitment to accommodation projects should not be underestimated. It is expected that Germany will put some Eu20 billion in accommodation projects out to tender by 2009.

Offenbach kick-started the first wave of school projects with two groundbreaking deals for the refurbishment and operation of 90 schools. Since then Monheim, Frechen and Witten have come to market, with the first pilot projects for Nordrhein Westphalen. Despite requiring smaller investments of between Eu15 and Eu25 million, the projects posted value for money gains of 9% to 15% compared against a public sector comparator. Other states, including Hesse, Schleswig-Holstein, Baden Württemberg and Saxony-Anhalt, are expected to follow suit with a mix of small- to medium-ticket deals.

If Germany manages to reach its PPP target of 15%, the market can expect to take off in the next 12 to 18 months. Through last year's PPP Acceleration Law, a number of tax and procurement issues have now been addressed, which means there are no longer any missing links in the legal framework.

The problem, however, is the thinness of margins available on these deals. Hence, the reason for major German players concentrating on the more profitable sectors of German banking and PPPs abroad.

"At the moment there is very cheap money in Germany. Margins have adapted to European market standards; they tend to be in the same range as elsewhere," says Dr. Marcus Kleiner, head of Transportation and PPP at HVB.

Nevertheless, the German private banks and Landesbanken are keeping a watchful eye on the way the market is going.

"No-one wants to miss out when the market does take off," says a Frankfurt-based banker. "They've all reinforced their PPP teams here. In the next twelve months we will not just see PPP deals, but, hopefully, a number of major privatisations."

German bankers may not have to wait too long. It is rumoured that the Kapitalanlage Gesetz, which allows investment funds to invest in real estate but not in other infrastructure (such as transportation), may soon be relaxed. With that kind of equity looking for a home, the German PPP market will be the place to be.