Paris, January 26th, 2023

Strengthened by an assessment that has demonstrated the efficiency of its action, the French Transport Regulatory Authority is formulating proposals for the future of the motorway concession sector, less than ten years before the expiry of the first historical contracts

***As the seven main motorway concessions, representing more than 90% of the concession network, come to an end between 2031 and 2036, the French Transport Regulatory Authority (ART) publishes its second report on the general economics of concessions in order to contribute to the debate on the future of the motorway sector. In this report, ART presents an assessment of the current regulation, analyses the profitability of concessions and raises issues for thought to establish the foundations of tomorrow's motorway model. In particular, ART calls for a reduction in the duration of contracts and, in the event that short contracts cannot be envisaged, recommends that their renegotiation be more strictly regulated.***

**SINCE ITS INTRODUCTION, MOTORWAY REGULATION HAS PROVED ITS EFFICIENCY**

In 2015, noting an imbalance in relations between the concession licensor (the State) and the motorway concessionaires, the legislator entrusted ART with a mission to regulate the sector. Thus, since it started regulating the sector on 1st February 2016, ART has notably issued 17 opinions on amendments to concession contracts aimed mainly at financing investments in the motorway network under concession.

By informing the concession licensor, the opinions issued by ART enabled tolls to be reduced by more than 300 million euros. For the most part, these savings were made without sacrificing the investments envisaged, by revising the economic and financial parameters of the amendments or abandoning operations already planned in the existing contracts.

However, ART's recommendations could be more effectively taken into account, to the benefit of users of the concessionary motorway network. The results of the regulator's action show that recommendations questioning the validity or conditions of toll financing of planned developments are rarely followed up by the concession licensor. However, the regulator's technical and economic approach, for example, can contribute to making more informed investment choices.

**ART’s MONITORING OF THE INTERNAL RATE OF RETURN ON CONCESSIONS ALLOWS THE IMPACT OF CERTAIN CONTRACTUAL CHOICES TO BE QUANTIFIED AND, CONSEQUENTLY, TO IDENTIFY AREAS FOR IMPROVEMENT IN THE FUTURE**

Since 2017, ART has been monitoring the profitability of concessions by measuring their internal rate of return (IRR), i.e. the remuneration of capital providers (shareholders and creditors) incorporated in the toll.

Although the IRR of motorway concession companies (MCCs) has fallen over the period 2017-2021, this decrease has remained very moderate, despite the effects of the health crisis, which was accompanied by a 22% drop in motorway traffic in 2020. Indeed, given the duration of the concessions, even massive changes in expenditure and revenue do not substantially modify the IRR, as long as they remain cyclical.

Analysing the evolution of the profitability of concessions also allows to identify possible areas for improvement concerning the design of concession contracts in the future. For example, the exercise reveals that the indexation of the regional development tax should imply, in the case of the historical MCCs, cumulative additional expenses of 882 million euros in current terms. While the amount is undeniably significant, the profitability of the historical concessions is only marginally affected by this change in specific taxation, with a reduction of 0.02 percentage points in the IRR. The impact is also low compared to other changes in general taxation in the opposite direction. For example, the gradual reduction in corporate income tax from 2018 to 2022 resulted in a gain of EUR 7.9 billion for historical MCCs, corresponding to a tenfold increase in IRR.

**THE NEXT DECADE WILL BE DECISIVE FOR THE FUTURE OF THE MOTORWAY NETWORK UNDER CONCESSION: IT IS THEREFORE NECESSARY TO PREPARE NOW FOR THE END OF THE HISTORICAL CONCESSIONS**

Between 2031 and 2036, the seven main concessions, representing more than 90% of the concession network, will come to an end, offering a historic opportunity to rethink the current model.

Since there are numerous projects to be conducted, they must be launched without delay.

On the one hand, it is essential that contracts are completed in the best possible conditions: among other things, it is necessary to ensure that all the investments provided for in the contract are achieved and that the infrastructure is returned in "good condition".

On the other hand, it is necessary to launch as soon as possible the reflection on the future modalities of motorway infrastructure management: the choice of the operating model, the possible geographical redrawing of the motorway network, the delimitation of the new investments to make - in particular in connection with the climatic stakes -, the determination of the duration of the possible new contracts and the conditions of their attribution, are so many questions to be answered quickly.

**WHILE THE CONCESSION MODEL HAS ADVANTAGES, IT NEEDS TO BE ADAPTED TO REBALANCE THE NEGOTIATIONS BETWEEN THE LICENSOR AND THE CONCESSIONAIRE**

The concessionary model has certain advantages, such as the fact that the costs of the infrastructure are borne by the users. This user-pays logic is virtuous: on the one hand, it secures the financing necessary for the maintenance of the infrastructure and the maintenance of a high level of quality of service, and on the other hand, it rationalises the choices of investments, as these are framed by the interest they present for the users and their propensity to pay.

Nevertheless, in its current form, this model also has weaknesses. It is indeed characterised by long contracts, due to significant initial investments, but also by multiple extensions, which gives an unavoidable position to the players in place and generates negotiations that are often unbalanced in favour of the concessionaires.

ART suggests several approaches to remedy these limitations. First, it calls for a reduction in the duration of contracts in the future***.*** In the event that short contracts cannot be envisaged, it then recommends a stricter framework for their renegotiation, drawing on the expertise and experience it has gained since 2016.

**For further details (in French)**

* [The second edition of the report](http://www.arafer.fr/wp-content/uploads/2016/02/Avis-2016-012-du-10-fevrier-2016-conforme-DRR-2017.pdf) “rapport sur l’économie générale des concessions »
* The press release

**About the French Transport Regulatory Authority (ART)**

Since 2010, the French railway sector has had an independent authority to accompany its gradual opening to competition:  
the Autorité de régulation des activités ferroviaires (Araf). Law 2015-990 of 6 August 2015 on growth, activity and equal  
economic opportunity extended the regulator's powers to road activities - coach transport and motorways.  
On 15 October 2015, Araf became the Autorité de régulation des activités ferroviaires et routières (Arafer), with the mission  
to contribute to the proper functioning of public service and competitive activities for the benefit of rail and road transport  
customers.  
With competence for the regulation of airport charges since 1 October 2019, Arafer became the Transport Regulatory  
Authority (ART) on that date. Lastly, Law No. 2019-1428 of 24 December 2019 -mobility act- extended the Authority's  
powers and missions to the opening up of mobility and ticketing data, as well as to the regulation of infrastructure  
manager activities and security activities carried out by RATP in Île-de-France.   
Its opinions and decisions are adopted by a college of five independent members chosen for their economic, legal or technical skills in the field of digital services or transport, or for their expertise in competition matters. It is chaired since 4th August 2022 by Philippe Richert, Vice-President and Acting President.