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# Europe: The new land of opportunity

*Pervasive uncertainty in the US is ramping up investor appetite for European infrastructure, three infrastructure professionals tell Amy Carroll and Kalliope Gourntis*

A rollercoaster ride of US policy decisions, ranging from tariffs on imports to the taxation treatment of renewables, have left a cloud hanging over the country's infrastructure community. For Europe, however, with its relatively stable regulatory and political regime, coupled with a strong pipeline of opportunities, this pervasive uncertainty on the other side of the Atlantic has provided a welcome boon.

"Until recently, the US was viewed as a land of opportunity but current uncertainty has changed all that," says Christoph Bruguier, partner and chief investment officer at Vauban Infrastructure Partners. "By contrast, Europe offers stability and a strong visibility on pipeline. We have the Fit for 55 climate programme. The German and UK governments have also recently announced extensive infrastructure spending plans. As a result, we are seeing LPs from all over the world, including the US, turning to Europe."

"We are definitely seeing elevated interest in European infrastructure," agrees Serkan Bahceci, partner and head of infrastructure research at Arjun Infrastructure. "What the US administration is doing is creating a lot of uncertainty for institutional investors. At the same time, investors are recognising that, in reality, Europe has always been the bigger market."

While the US has dominated in digital and energy in recent years, much of the rest of its infrastructure is government owned, Bahceci explains. "A deep, tax exempt municipal bond market incentivises local governments to keep infrastructure assets on their own books. If private investors get involved, the tax exemption is lost, which is why there are almost no private airports, for example. It is also why Europe's airports look so shiny and new in comparison."

The Trump administration's impact on the infrastructure market is proving to be particularly acute in the clean energy space. "There was never really much of an offshore wind market in the US. That has always been dominated by Europe," says Joost Bergsma, global head of clean energy at Nuveen Infrastructure.

"But the US solar and storage market is currently under a dark cloud as well. Institutional investors do not like uncertainty and so Europe is well placed to benefit from the uncertainty that the US government is creating around clean energy."

## The Green Deal

While Europe clearly offers a more stable backdrop for clean energy investment than the US right now, the election of a series of right-leaning governments in European member states, has led to a perception that commitment to the green cause has waned in the years since the EU's Green Deal was first struck.

"There has been a shift towards more populist governments globally which has led to a slowdown in certain features of the European Green Deal being implemented at a country level," admits Bergsma.

"However, other countries are strongly supporting green energy. For example, the Labour government in the UK is doing a lot to support offshore wind. Meanwhile, the Italian government is pushing hard on solar and storage, so even some of the more right-wing politicians are continuing to support clean energy. The rationale is simple. Europe has almost run out of gas, and clean energy is the fastest and cheapest way to secure energy security."

The Green Deal was struck in 2019, before Russia's invasion of Ukraine put Europe's supply chain vulnerabilities in the spotlight and before the trend for onshoring had gained momentum. Clean energy supply chains are being reinvented in the wake of these seismic shifts.

"I don't think Europe is going to try to become the lowest cost hardware provider, but it is already playing a key role on the service side," says Bergsma. "Europe is pretty sophisticated when it comes to PPAs, debt financing and pension funds financing the energy transition. There are also some good technical and commercial management providers in the clean energy space, together with construction companies. In other words, Europe is leading in certain areas of the value chain, just not in hardware where it is not likely to be cost competitive."

## AI ambitions

Another area where Europe is looking to boost its competitive positioning and sovereignty is data, and the use of data for AI in particular. "Around €20 billion of investment in AI and quantum computing has been pledged at an EU level, together with a further

**Serkan Bahceci**
Partner and head of infrastructure research, Arjun Infrastructure

Serkan Bahceci joined Arjun Infrastructure in 2018. He was previously head of infrastructure research at JPMorgan Asset Management's infrastructure investment group, leading the first dedicated infrastructure investment research team in the global asset management industry.

**Joost Bergsma**
Global head of clean energy, Nuveen Infrastructure

Joost Bergsma serves as global head of clean energy at Nuveen Infrastructure, formerly Glennmont Partners, where he was CEO and managing partner. With over 25 years' experience in utility banking and fund management, Bergsma has previously worked at SG Warburg & Co, ABN AMRO and BNP Paribas.

**Christoph Bruguier**
Partner and chief investment officer, Vauban Infrastructure Partners

Christoph Bruguier joined Vauban Infrastructure Partners in 2019 and has since played a pivotal role across the investment lifecycle from deal sourcing and negotiations to deal structuring and asset management. Bruguier previously worked at InfraVia Capital Partners, having begun his career at HSBC.

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**JOOST BERGSMA**
**Nuveen Infrastructure**

€20 billion in Germany and €100 billion in France. There are lots of initiatives designed to boost the sector in Europe," says Bruguier.

Once again, geopolitical uncertainty stemming from the US is, in part, responsible for what is happening in Europe.

"Everything that has taken place in the US since the start of the year, has heightened the possibility of data being blocked by a foreign government," says Bergsma. "Having data stored locally is now a priority. The problem, however, is that Europe doesn't really have many AI champions. It is all very well putting data centres in Germany or the Netherlands, but if the software is still being developed and controlled by a US company, that sovereignty is still not underpinned."

Bahceci, meanwhile, says Europe needs to decide what it means by data sovereignty. "Is it enough to have data stored on European soil or does Spanish data need to be kept in Spain and Italian data kept in Italy? At the moment, there are four or five European cities that are deemed as tier one for data storage but the rest of the continent is pretty underserved. There is a big political decision that needs to be made in terms of data sovereignty."

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**CHRISTOPH BRUGUIER**
**Vauban Infrastructure Partners**

Europe's push to develop its data storage capacity, which continues to lag the US, is nonetheless creating myriad investment opportunities for infrastructure managers. "AI is just another driver of data increase, data movement and data storage, which is impacting all digital infrastructures, including data centres," says Bruguier. "It is also creating increased demand for clean energy and for investment in the grid. The advent of AI is not only affecting the digital value chain, it is affecting the energy transition space, as well."

Europe's plans to accelerate its data centre roll-out are currently being constrained by bottlenecks related to access to energy and grid connection. "Grid connection in particular is far too slow," says Bergsma. "In order for Europe to expand its data centre capacity effectively, a concerted effort needs to go into unlocking grid connections,

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**SERKAN BAHCECI**
**Arjun Infrastructure**

## At the edge of Europe

**In the three years since Russia first invaded Ukraine, risk assumptions around Eastern Europe have understandably changed meaningfully in the interim**

"You only need to look at government bond yields, which have jumped materially in those countries neighbouring Ukraine," says Serkan Bahceci of Arjun Infrastructure. "The region is clearly in need of infrastructure, but for the time being that is going to primarily be the remit of government-led programmes. It is too risky for us on the private side."

"It is Europe's stability and visibility that make it attractive," agrees Christoph Bruguier of Vauban Infrastructure Partners. "That is evidently not true for some parts of Eastern Europe, right now. There are undeniable infrastructure needs in the region, but as long-term investors we need that stable backdrop."

Meanwhile, the UK, now operating under a Labour government, has made some significant moves regarding infrastructure, and clean energy infrastructure in particular. "The current UK government has taken some tangible steps to provide more support for both offshore and onshore wind," says Joost Bergsma of Nuveen Infrastructure. "The UK is no longer a part of the EU, but it is still an important trendsetter, so hopefully there will be spill-over effects to other countries."

The suggestion that the UK government may require 25 percent of new pension contributions each year to be invested in British growth assets and major infrastructure projects is, however, proving more controversial.

"Governments have to be careful about demanding that pension funds invest in certain sectors, because those pension funds have risk parameters that they have to adhere to," says Bergsma, adding that there are nonetheless elements of infrastructure, such as the highly regulated and monopolistic grid, that could prove to be a good match for pension fund capital.

"Pushing pension funds to deploy capital in the infrastructure market is great in principle but I think it would have to be structured as an incentive and not an obligation," adds Bruguier. "Pension funds have a fiduciary duty to deliver the best possible risk adjusted return, which means they must be allowed to diversify as they see fit."

as well as making sure that permits are issued more quickly."

Hybrid power sources are likely to play an important role in providing the energy that data centres need, for example. But Bergsma says that adding a couple of wind turbines to a solar plant can take 18 months to two years due to permitting. The problems are similar when it comes to batteries.

"The Spanish government has taken some positive steps when it comes to battery storage. We are also looking at batteries in Italy, where a major auction is scheduled for this Autumn," says Bergsma. "The problem is that those projects won't be plugged into the grid until 2028 because of permitting and grid connection dates. A battery project only takes nine months to build, so that is a major unnecessary delay."

"Europe has been operating mainly a first-in, first-out access system," adds Bruguier, "which means major data centre projects have sometimes had to wait in the queue. We need to challenge that system when necessary to speed things up."

Furthermore, while the US is attempting to overcome power constraints by turning to natural gas, Europe does not have that option. "In any case, new gas turbines are taking between three and five years to be delivered," says Bergsma.

Bruguier adds: "A lot of the US hyperscalers such as Google and Microsoft are also pledging 100 percent clean energy for their European data centres, because that is part of their licence to operate."

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**CHRISTOPH BRUGUIER**
**Vauban Infrastructure Partners**

### Defence

In addition to investing in AI capabilities, Europe is also significantly ramping up its spending on defence in response to growing geopolitical unrest and pressure from the US. This too could lead to opportunities for infrastructure managers.

The idea of infrastructure investors participating in the broader defence ecosystem is not entirely new. Vauban holds a PPP contract with the French Ministry of Defence for the construction and operations of its headquarters in Paris.

"There could be potential investment opportunities if there is an increase in defence spending. These opportunities could relate to logistics and infrastructure. For example, it could mean the construction or maintenance of facilities or related transportation assets," says Bruguier. "A potential additional angle, meanwhile, could involve cybersecurity and digital infrastructure,

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> **Nuveen Infrastructure**

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> **Arjun Infrastructure**

which are a core component of national defence today."

"We are primarily focused on clean energy investments," adds Bergsma. "We are not going to suddenly start investing in defence directly, but there could be an increase in demand for clean energy on the back of increased spending on defence, particularly as governments invest more in cybersecurity and data storage. I would add that clean energy is distributed energy, which means fewer large power stations that are prone to attacks. Finally, in many countries the military still owns a lot of land. The question is, do they need that land, or could it be repurposed for clean energy?"

### Diversity

What is clear is that much of what is happening in European infrastructure today is being driven by events in the US, from increased spending on defence, to a drive for data sovereignty and increased appetite for European infrastructure as investors shy away from uncertainty in the North American market.

It is interesting to consider, therefore, whether the backlash against diversity and inclusion led by the Trump administration in the US has also impacted the European infrastructure industry. The answer, it appears, is no.

"We definitely still see diversity as an advantage. There is strength to having a multicultural approach," says Bahceci. "There are clearly political debates going on about this in certain parts of the world, but we see diversity as a positive and I believe most LPs, including US LPs, agree."

Bergsma adds: "The US was pushing harder on DEI than Europe before Trump's second election, but while there has been a slowdown in the US, Europe remains steadily committed to improving diversity and inclusion. I therefore think there is an opportunity here for Europe to take the lead." ■