

Infrastructure Yearbook 1996

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ATHENS AIRPORT

Euro-public-private partnership

Henry Gibbon

The undisputed winners of the prize of European Infrastructure Deal of the Year 1995 were the Greek government and a consortium led by the German firm Hochtief who finally signed the contract to build a new international airport at Spata, near Athens. The deal, which is one of the largest infrastructure projects in Europe, is the first major cross-border airport financing in the European Union. Most of the equity will be provided by the German firm and an EU grant: the majority of the Greek equity portion will come from a \$525 million EU grant, with the remainder met through a nationwide airport transit tax. The deal has seen the creation of a new hybrid of Build-Operate-Transfer public financing, where the notion "public" is a combination of the EU and the Greek state, with the EU making an unequal and increasing participation and contribution.

Infrastructure financing in Greece

After decades when the Greek national budget was simply unable to finance projects, a sea change occurred in 1993 with the impact of the EU's second Delors package for the convergence of the Greek Economy with the EU. Greece is entitled to a total of Ecu13.5 billion (US\$10.8 billion) from the package, together with another Ecu2.5 billion (\$2 billion) from the Cohesion Fund for improving transport and environmental protection in poorer Member States. Over half the EU package is to be used to finance transport projects.

Greece is now making a genuine effort to increase economic growth in part through the development of a large number of major infrastructure projects such as the Athens metro, the Stavros-Elefsis Motorway, the Rio-Antirion bridge, a cross-country natural gas pipeline and the Egnatia road as well as Athens Airport.

History of the Athens airport project

Ever since the 1950s there has been a major question mark over the location of the replacement for Athens International Airport. In 1955 it was decided that the existing Hellenikon airport—located precariously on the coast to the east of Athens with a single runway—should be modernised. Modernisation did not begin until 1961, and was not completed until the mid 1970s. By then, the ruling military regime had decided to build a large new airport 25 km outside Athens, at Spata, to be operational by 1975. After the fall of the Colonels further feasibility studies were carried out and in 1976 a decision was taken to abandon the existing airport and move to Spata. Ground was purchased from farmers and cleared, but work stopped in 1981, to reconsider the decision. When the socialist party came to power in 1983 the airport was postponed, the new government claiming that the plan was unnecessary.

Build-Own-Operate-Transfer (BOOT) package

After nearly a decade of indifference, the project came back under consideration for foreign investors in 1992. Financial advisers Salomon Brothers were mandated to put together a Build-Own-Operate-Transfer (BOOT) package for the project at the beginning of 1991. The challenge confronting Salomons was to structure a BOOT for the entire airport development, where no

precedent existed in the market. In addition, with mounting pressure on the central government budget, the New Democracy government was keen to keep its direct financial contribution to a minimum.

To give the project credibility Salomons insisted that at least 20 per cent of the total project costs was raised from public sources. The development was eligible to qualify for regional funds under EC Community Support Programme to be allocated in 1994. One solution considered was to fund the government's commitment out of a system of departure fees at existing Greek airports starting in November 1992.

Salomons proposed that the remaining 80 per cent of project costs should be met from both commercial bank financing and equity from a joint-operating company between the Greek government and the winning consortium. A likely source of commercial funds was the European Investment Bank (EIB), which could provide as much as half of the loan package. However it was recognised that any commercial loan financing would only come once the consortium had been chosen and equity stakes were in place.

Bidding process

Invitations for expressions of interest were published in the Greek, UK, US and Japanese press in July 1991 asking "prospective consortium leaders to submit qualifications" for the airport's development. Two hundred firms registered some interest with Salomons.

Nine consortia submitted pre-qualifying bids at the beginning of 1992. Four international groups were chosen to make final bids. These were a consortium led by Lockheed Air Terminal including Ste Generale d'Entreprises (SGE), Trafalgar House, Huang and Danczkay Properties and the Walter Group; a Franco-Greek consortium consisting of Dumez, Societe Auxiliaire d'Entreprises Fougerolle, Aéroports de Paris, Siemens and some Greek construction companies; and a German consortium including Hochtief and Frankfurt airport. The fourth consortium led by British Aerospace withdrew at the end of April 1992.

In 1993 the German consortium—constituting Hochtief Aktiengesellschaft of Essen, Flughafen Frankfurt Main AG, ABB Schaltanlagen GMBH of Mannheim and H Krantz-TKT GMBH, Greek construction firms Michaniki, KI Sarantopoulos and AEGEK—was awarded the contract. The consortium was to have a 60% stake in the project with the Greek Government taking the remaining 40%. This was 5% above the minimum Greek stake originally specified. The other final bidder, the Franco-Greek group led by Aéroports de Paris and Société Auxiliaire d'Enterprises de France, was convinced that this was the main reason for their failure, an interpretation rejected by the government.

The New Democracy government of Constantine Mitsotakis collapsed the day the contract was due to be signed in September 1993. The incoming Pasok Socialist Government of Andreas Papandreou called the contract into question and began renegotiations with Hochtief as well as reopening consideration of the Franco-Greek bid. On 23 December 1994 the government approved the selection of Hochtief.

On 18 July 1995 an agreement was signed with the German group's percentage in the new airport reduced from 60% to 45%, and its operating rights from 50 to 30 years, with Greece subsequently gaining full control. The Greek Parliament approved the contract on 31 August 1995. The European Commission had in April cleared the way for the deal's closure, deciding not to investigate the original tendering process. An appeal lodged by the Franco-Greek bidders against the Commission over the awarding of the contract was rejected at the end of 1995, removing the last legal obstacle to the project.

Financing arrangements

The equity capital structure for Athens airport in the concession company is split 55%-45%

between the Greek state and Hochtief with the concession period for 30 years. Financing is made up from consortium members' capital, credits from the EIB and funds from the European Union.

ATHENS AIRPORT FINANCIAL STRUCTURE

	Dr billion	\$ million	%
Second Delors package	120	525	21.82
Spatosimo (special tax for airline travellers)	65	285	11.82
Senior debt (EIB)	275	1,200	50
Commercial bank debt	35	150	6.36
Hochtief's equity	55	240	10
TOTAL	550	2,400	100

- Hochtief will contribute US\$240 million towards the project in exchange for a 45 per cent stake in the airport operating company.
- Fifty percent of the costs will be met from EIB loans as is the case for those projects which qualify for EIB. The EIB is a unique source of funding for large projects in Greece because financing projects requires large debt maturities—ranging from 15-20 years—which are not currently available from international commercial banks for Greece. Also Greek commercial banks can finance only a small portion of the current projects due to banking constraints and the lack of appropriate capital.
- The Greek contribution is in the form of a \$525 million grant from the EC structural fund and accumulated proceeds from the airport's departure tax collections.
- A commercial loan of a minimum of \$150 million will be raised by Citibank Frankfurt and Bayerische Vereinsbank and guaranteed by Hermes, the German export credit agency.

The Future

Construction is due to start early in 1996 and the airport is due to open early in 2000. It is expected to serve as a hub for Southeast Europe and the Eastern Mediterranean. The airport, to be named after Greek statesman Eleftherios Venizelos, will have two 4,250-metre runways and 24 gates on its 1,700-hectare site, with a capacity initially to handle 16 million passengers a year, eventually rising to 50 million.

There are still voices opposing the building of the new airport. Several Socialist deputies, including former Deputy Minister for European Affairs Theodoros Pangalos, have also opposed the location of the new airport, saying a less inhabited and less environmentally sensitive area should have been chosen. Residents and municipalities east of Athens opposing the airport have protested by blocking roads with refuse trucks.

Nevertheless, the arguments for building a new International Airport at Spata are overwhelming. The existing airport suffers from severe overcrowding, with up to 8,000 passengers an hour in summer months squeezing into a waiting area designed for just a quarter of that number. In an attempt to relieve congestion, a former US military base near Athens has been reopened as a charter terminal, serving up to 1,500 passengers an hour.

In conclusion, the building of the airport at Spata will utilise new sources of finance from the EU

and will introduce innovative approaches to project financings. As the first of a number of the large infrastructure projects that are under development in the country, the deal also leads the way in reestablishing the glory that was Greece as one of the cradles of civilisation.

Henry Gibbon is Editor of Privatisation International, the monthly intelligence report on privatisation and the private financing of infrastructure projects worldwide. He has worked on privatisations and international finance at the UK Treasury and at investment bank Kleinwort Benson.