Road race

01/05/2001

Speak to anyone involved in Greek project financing and they seem to be falling over themselves with praise ? for the local bankers, local contractors, local lawyers and their international equivalents. But then until recently a select few players have driven the Greek project finance scene. All that could be about to change.

First because following in the path of deals such as the Rion-Antirion bridge project and the development of a new airport at Athens, the Greek government has upped the tempo offering a host of new deals to the private sector. In the next year, private contractors, bankers and lawyers will be lining up for six new road concessions worth in excess of Eu6 billion ($5.36 billion), two new power plants on Crete and Rhodes as well as for the operating contract for an extension to the Athens metro system. Further road concessions are in the offing and international players are being invited to join the party.

But an announcement at the end of April that the Greek government was reversing its plans to finance the Maliakos undersea tunnel project in the private sector could unsettle the party. The news follows two years of fairly intense negotiation. And even a few days before the announcement, interested banks and contractors still thought they were in the running to pre-qualify in the first stage of the tender process.

This is a blow to the government's credibility and for those involved in the bidding process, a new frustration. But it also demonstrates a new level of financial sophistication.

Costas Vousvounis, managing director at Bank of America in Athens, is part of the team advising the government on its road concessions scheme and says the decision to withdraw the Maliakos tunnel deal before the second phase of the consultation makes sense.

?The decision was taken purely on economic grounds,? says Vousvounis, ?and what emerged was that the construction cost for the project would have been very high.? Pure construction costs alone would have been about Dra200 billion ($525 million), even without additional costs.

The Maliakos tunnel project includes the construction of a 4km under-sea tunnel with two traffic lanes. The concession also included a 13km highway with six lanes and two overpasses. The overpasses would have connected the highway with the Hiliomili Cape near Molos, the area near the city of Stylis and Karavomylos. More importantly it would have reduced the road distance between Athens and Thessaloniki by 45km.

?Added to that there was a level of ?traffic uncertainty' which potentially made the project uneconomic for the Greek state,? says Vousvounis. This ?traffic uncertainty' relates to the fact that a coastal road would directly compete with traffic going through the tolled Maliakos tunnel. Under the new plan, however, this competing and cheaper route will be incorporated into one of the six road concessions on offer. According to estimates the change of plan will save the Greek state up to Eu500 million.

Driven by necessity, the Greek state has made good progress in the past 10 years financing public deals using private funds. But the government's case-by-case approach to deal making is about to change. George Kotsoridis, head of M&A and advisory services at Eteba Bank in Athens, has been involved as an adviser in almost all of the government's project finance deals and is also advising the state on its road concessions programme. ?The approach to doing deals in Greece is beginning to change. The aim is to create a new framework because we've seen some weaknesses with the old framework.?

Changing the deal framework

In particular, the cumbersome concessions framework frustrated early participants in Greek project finance. As there is no concessions law, previous projects were ratified by parliament under a public concessions law and before financing had been discussed. This meant bankers were walking into deals where all the terms of the concession framework had already been set down in stone. It also meant the deals were not necessarily bankable. The complications of having to put together a financeable package after the main terms of the concession agreement has been ratified by law are clear.

Greece's new airport in Athens, which officially opened earlier this year, was one of the first private finance deals in Greece and faced tough challenges getting off the ground. In 1992, the government had French and German consortiums lined up to sponsor the project and were only weeks away from making a decision when a new government came into power. The German-led Hochtief consortium was favoured. ?The deputy prime minister said that if we didn't get the deal signed that day it wouldn't go through,? says Alan Black, partner at the law firm Linklaters and Alliance in London who was advising on the deal. ?So we got on a private jet and spent the whole night with Hochtief signing the documents. We were still going the next morning when the government phoned to say that the election was being called and the deal fell apart.?

In the end, with a slightly altered German led team, concession contracts for the deal signed in 1995 and financing closed a year later.

Financing for the Athens ring road also had to be arranged after the concession contract had been signed adding over two years to the deal time. And remnants from the old process are still undermining confidence.

The Thessaloniki metro project is still awaiting financial close. The deal, which is being sponsored, by Bouygues, Bombardier and a group of Greek contractors, has been in negotiation for some time and is a victim of the state's old concession framework.

Consequently observers say the concession contract has some serious ?holes? which still have be mended before a bankable deal emerges.

With a new concessions framework outlined, and a new concessions law being drafted, the situation seems about to change. Driven by the knowledge that it does not have sufficient public funds and that under the EU's support framework up to Eu25 billion is available for its concession programme, the government has been quick to change. Funds provided by the EU must be matched by the government and within a given time frame.

One London-based lawyer says: ?The Greek state has said we need the money, we need the private sector and we know that to achieve this we have to alter the laws. So we'll do it.?

The new framework will conform to international bidding conventions, with financiers brought in at an early stage and involved in the design of the concession contract to ensure the deal is bankable.

Vousvounis says: ?There will be a draft concession agreement, conforming to an international legal framework...and we will have a consultation period during which pre-qualified bidders will be able to ensure the deal is acceptable to their lenders.? Only once these conditions have been satisfied will the deal be ratified by parliament.

In the spirit of greater transparency and consultation before ratification, the European Investment Bank (EIB) is also being encouraged to enter negotiations from the beginning. This is a turnaround from earlier deals. The Rion-Antirion concessionaire, Gefyra ? a joint-venture between the then GTM Entrepose and several Greek contractors ? initially faced a cautious response from the EIB. However, Vousvounis says: ?The EIB has become very much more proactive. We wanted them to be involved in the process from the beginning and so they are responding.?

Banks such as Eteba and Bank of America have been aggressively marketing Greece's change in stance. At the end of 2000 a selection of corporates, banks and lawyers was invited to Athens to find out what was on offer in Greece. And fresh from experience in the UK, Spain and Portugal, the level of interest looks promising. But then some might say it has to be. The timetable for the roads, in part dictated by the government's desire to maximise the EU subsidy, is moving on apace.

New road programme
By the end of May groups will be required to submit their expressions of interest in the first three road concessions. The deadline for the next three concessions is at the beginning of June.

?The interesting aspect for those involved in the road concession programme is how far they can negotiate state support,? says Marcus Kleiner at HypoVereinsbank in Germany. ?The state might want to put a limit on its support but some deals will require more assistance than others.?

This is particularly true of the central Greek highway, the link road to Albania. Construction costs on the deal are expected to be higher because it passes through some of the more mountainous areas of Greece while the lower population density could hit traffic volume. The road is expected to be awarded on a shadow toll road.

Interest in Greece is not just confined to its extensive road programme. Also on offer is the operational contract for the Athens metro extension. The project was included in 1996 as part of the country's proposals for the 2004 Olympics. Plans for the Dra150 billion metro extension, which would also serve a fast-growing business district near the stadium, had been frozen over the proposed route. But with the concession contract still to be awarded and the games looming, the government has taken the bold step to award civil engineering and rolling stock contracts in advance of selecting an operator. A special purpose company has been set up and by the end of June a financial adviser is expected to be selected. Among those in the running for the advisory mandate are UBS Warburg, Ernst & Young, Bank of America and BoT-Mitsubishi.

The financial adviser will then select the operator. The process is designed to remove some of the delays allowing the operator to move quickly. The timeframe is tight and it has been suggested that an operator needs to be in place at least by the end of the year to get the deal underway. ?It will be no good having gaping holes in the road when the Olympics get going,? says one banker.

Activity in the infrastructure sector is unlikely to be duplicated across all public sectors. Unlike the UK, where the Private Finance Initiative is the phrase used to coin a series of public-private deals outlined by the government, Greece's recent programmes are unlikely to encompass all public sector deals.

For example bankers do not expect to see prison, school and hospital deals financed by the private sector in the manner seen in the UK.

However investors are expected to be enticed by other sectors. Greece is also lining up power deals. Following the partial liberalisation of the Greek electricity authority, two deals on the islands of Crete and Rhodes will be offered to the private sector. It is unclear whether the deals, with a combined capacity of 320MW, will be offered as one package. Early indications suggest the Cretian deal could be the first off the ground. Fuji and Bank of America and among the banks lining up to advise on the deal.

Banks are also working on the details of a privately finance marina project elsewhere in Greece.

All this activity necessarily will be accompanied by financial innovation. Financing for the $854 million Rion-Antirion bridge which closed syndication in 1998, involved securing a nine-year loan ? at the time the country's longest uncovered financing. When the arrangers, Bank of America and BoT-Mitsubishi, first started looking at the deal in 1993, the longest tenor you could get was five years. That would not have seen the project to the end of its seven-year construction period. Timely intervention from the EIB and a clear delineation of the risks held by the state and by the contractors pushed the deal through. The was the first time the EIB had agreed to fully release 100% of the banks' letter of credit on physical completion of the project. Some 29 banks joined the deal during syndication.

However, the situation has now moved on and under plans being outlined in the country's draft concession law, subsequent deals may also be able to tap the bond market. Bankers say it will only be a matter of time before monoline insurers will be approached to provide additional support.

Says Eteba's Kotsoridis: ?We want to try and learn from our previous mistakes and omissions. We also want to learn from other countries such as Portugal where they have successfully implemented motorway concessions. Now is the time for a new philosophy.?

The Greek government's good intentions are clear and for the moment private sector finance fills the funding gap. Despite the good intentions, there is still some way to go. As one banker says: ?Greece can be a fun place to work. It can also be very frustrating.?