Gdansk Deepsea Container Terminal - Poland

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Gdansk's €190 million Deepsea Container Terminal (DCT) project not only stands out as Poland's single largest port investment, but also claims the accolade of being one of the first privately-financed greenfield port schemes to get off the ground in Europe

Once fully complete, the DCT will provide Poland with its largest container terminal - putting the country's burgeoning sector firmly on the map - and create a hub which will be able to contend with some of the Baltic's fiercely competitive ports.

The scheme is more than just a stand-alone port project which would have made little sense with Poland's current main hub at Gdynia just 20 minutes down the coast.

It will in fact play the role of a key multi-modal hub in the Trans-European Network North-South Transport Corridor No6 which includes three schemes (including rail and road) are already underway that will act as a catalyst to the successful modernisation and development of the inner port.

The project is even more impressive when you consider that it was approved by the Gdansk Port Authority just three years after the collapse of an similar privately-funded scheme run by Europort, a project that port president Andrzej Kasprzak openly admitted was bound to be a failure.

'There was not a large enough market for a grain terminal - it was an error to assume that Gdansk could be the hub for Russian and Ukrainian grain imports. They are just not importing,' he says.

The unfinished grain terminal at Gdansk's south terminal will be a constant reminder to all those working on the DCT project of what can happen should the scheme's private funding suddenly dry out.

Whether or not Gdansk DCT will share the same fate as it predecessor remains to be seen, but with container traffic forecasts on the up as well as the project having a robust financing structure it looks likely to succeed.

Rationale

Norton Rose partner Chris Brown explains the sudden growth in port expansion schemes across the globe: 'In recent years, there has been a significant shift in global trade patterns and in central and eastern Europe where there has been a particularly impressive growth in traffic, many ports are no longer efficient.'

Brown said that what has followed is the consolidation of container firms at the rate of knots. The firms combine their experience in port operations and buy up ports, converting and operating them as multi-modal hubs. Gdansk is no exception.

The recent rise in demand in Poland for consumer goods and trade with other EU countries was the main driver behind the need for a new independent deepsea container terminal at Gdansk.

While Drewry Shipping Consultants predict that Poland's container traffic will grow faster than the worldwide average of 9 per cent per annum over the next decade, port president Andrzej Kasprzak said that Poland's ports have a containerisation of just 1.7 per cent of its cargo - a factor that Gdansk had to change despite competition from its neighbouring port Gdynia.

When you look at Britain's 11 major container terminals serving a population of 59 million compared to Poland's two small facilities which cater for more than 37 million people - it is clear that there is a significant demand for the creation of a significant central container port.

Poland provides a natural gateway to central and Eastern Europe for deepsea traffic and with Gdansk's unique deep-sea direct access to the Baltic, it will be able to handle the largest ships that navigate the area at all stages of the tide.

Its depth of more than 15 metres also renders the port ice-free throughout the winter - a factor that will ensure year-round flow of imports and exports, something that few Baltic ports can boast.

Poland's entry to the EU in 2004 freed up funds for infrastructure development across the country and although Gdansk is not a first-hand beneficiary of this, its prominent place at one end of the TEN transport corridor 6 which will be heavily subsidised by the EU, gave Kasprzak added incentive to build the new terminal.

'We have two main infrastructure problems in Gdansk - one is the rail and road access and the lack of water infrastructure,' he said.

However Gdansk's lack road and rail infrastructure is being dealt with through the development of PPP schemes and EU funding, leaving Gdansk to come up with its own solution.

Both the A1 motorway PPP scheme - one of the first in the country running south to Brno, Bratislava and Vienna - and the proposed high speed rail project linking Warsaw and Vienna - will provide the port with excellent direct European connections, again giving additional impetus and justification for the construction of Gdansk DCT.

The Project

The new terminal will be leased to DCT Gdansk - a team of five UK shipping and property moguls - for 60 years (30 + 30) and will be able to handle large feeder ships as well as car-carrying ferries. The SPV will have the option of extending the lease up to 90 years.

The project entails the construction of two berths capable of carrying two panamax vessels with a maximum capacity of 500,000 TEU per annum - including a roll-on roll-off berth with a capacity of 160,000 TEU.

Poland's branch of Hochtief Construction started the 22-month construction phase in October last year with the start of work including dredging and several months of work to clear World War II explosives and bunkers from the shoreline. The facility is slated for operation in 2007.

Over time, the port is hoping to establish itself as one of the leading Baltic hubs, but it will first have to outdo its rival port at Gdynia which is currently running on a limit of 350,000 TEU every year and has plans to expand to 800,000 in the near future.

The new terminal's business plan predicts only limited throughput in the first three years of operation, expanding to 200,000 TEU after the third year. According to officials at DCT Gdansk, a host of shipping lines have registered their interested in using the new services.

Expansion of the terminal to one million TEU is expected to cost US$500 million and will be undertaken in three separate phases.

The three phases will have no fixed timetable - their construction will be entirely dependent on customer demand but it is expected that a further 3-4 berths will be added to the Ro-Ro facility.

The terminal will be managed on a stand-alone basis and will be fully independent of the Port.

The Transaction

In March 2003 DCT Gdansk beat a French consortium to bag the €190m DBO Gdansk contract. DCT's management team comprises a group of UK individuals experienced in constructing and operating ports and managing companies in the shipping industry.

The group is headed up by James Sutcliffe of John Sutcliffe & Sons and between them they have worked on port schemes at:

- Thamesport
- Felixstowe
- Dubai
- Bristol
- Malta

DCT terminal development director Robin Macleod explained that DCT Gdansk was formed after two separate UK groups interested in bidding for the scheme joined forces, enhancing their bid by combining their shipping and property experience.

Macleod said the port authority had opted for DCT's submission because it favoured an 'open water' port which wasn't managed under the constraints of a shipping line - which could limit goods handled by the port and, in some cases, access as well.

Eckhard Aschermann of DVB Bank - sole arranger and financial adviser to DCT - said the scheme represented a major step for Poland's project finance market but, as with most port projects, Gdansk threw up plenty of challenges.

Aschermann said it took until October 2005 to reach pre-financial close because it was particularly important to secure a package with a strong equity and debt structure that the cautious port authority - ever aware of the consequences of a weak financing structure - would green-light.

It was the difficulty in securing equity that delayed the closure of the deal as DCT could not provide enough equity to fund the project.

Aschermann explained that for some time officials mulled the option of raising equity through a specially-created German KG Fund - which has become one of the key sources of shipping finance.

However, it would have been the first time that a KG Fund had been used to fund a container port project so potential subscribers weren't immediately prepared to commit and an equity bridge financing was not obtainable.

Because initial works on the scheme could not begin without equity, the plan was scrapped.

Instead DCT turned to Macquarie's Global Infrastructure Fund II, which was drafted in at the start of October to provide a 90 per cent share of the €90m equity - DCT is raising the final 10 per cent giving the deal a 53:47 debt equity ratio.

With Macquarie involved, DVB could simplify the debt structure and committed a €100m senior debt facility with a tenor of 15 years with half annual repayments starting with a grace period of three years.

Enormous interest has been shown in syndication of the senior debt facility - which is due to close next month - and Aschermann said that DVB was confident enough in the project that its commitment could go ahead without syndication - should it be necessary.

Norton Rose acted as DVB Bank's legal adviser while Lovells and Allen & Overy provided legal advice to the sponsors.

DVB Bank and Macquarie provided financial advice to the government and technical and commercial consultancy was given by Rogge Marine Consulting and Willis.

Conclusion

With Central and Eastern Europe’s container traffic expected to reach news heights over the next decade it was only a matter of time before the Polish port of Gdansk – strategically lying at the end of a Trans-European Network corridor - gave way to development.

Having witnessed the collapse of a privately-financed grain terminal project at Gdansk years before – it took nerves of steel for the port authority to give the go-ahead for the new container terminal, taking time to ensure it had a finance package that would avoid a repeat performance of the Europort failure.

The teething problems that had to be suffered in getting Poland's PPP road programme off the drawing board has been an invaluable lesson for the Polish project finance market and the Gdansk initiative has been an obvious beneficiary.

Although the chequered history of Polish project finance has left many in the industry shy to invest, Gdansk's DCT scheme is no doubt another benchmark for the country's steadily progressing market.

The sucessful delivery of one of Europe's first entirely privately-financed greenfield container terminals will not only give confidence to the port market as a whole, but - providing political will remains in Poland - the scheme will serve as another indicator that the country is getting serious about project finance.

The Project at a glance

Project Name	DCT Gdansk
Location	Gdansk Northern Poland
Description	Project entails the design, construction and operation of a deepsea container terminal at the Northern Port of Gdansk
Sponsors	Macquarie Global Infrastructure Fund II DCT Gdansk
Operator	DCT Gdnask
EPC Contractor	Hochtief
Project Duration (Including construction)	60 years 30 + 30 (with the option of a 30 year extension)
Construction Stage	46 months
Total Project Value	€190 million
Total equity	€90 million
Equity Breakdown	Macquarie Global Infrastructure Fund II (90 per cent) DCT Gdansk Ltd (10 per cent)
Total senior debt	€100 million
Senior debt breakdown	15-year Tenor Repaid every six month
Senior debt pricing	3 year grace period
Debt:equity ratio	53:47
Mandated lead arrangers	DVB Bank
Legal Adviser Project	Lovells Allen & Overy
Financial Adviser to sponsor	DVB Bank (DCT) Macquarie Bank (Global Infrastructure Fund II)
Legal adviser to banks	Norton Rose
Technical and commercial adviser to sponsor	Rogge Marine Consulting Insurance: Willis
Date of commercial close	10 October 2005