Questions on the Privatization of the Kingston Container Terminal

Updated - April 7, 2015
1. **What is a Concession Agreement?**
   i. A Concession Agreement gives a private entity the long-term right to use all the assets granted on the concessionaire, including responsibility not only for operation and maintenance of the assets but also for financing and managing all required investment.
   
   ii. Asset ownership typically rests with the awarding entity and all rights in respect to those assets revert to the awarding entity at the end of the Concession.

2. **What are the main terms of the KCT Concession Agreement?**
   i. PAJ to be the Landlord – retain ownership of the lands and berth.
   
   ii. The Concession will be for 30 years and will be a Finance, Design, Build, Operate, Transfer arrangement
   
   iii. Existing equipment sold to the Concessionaire.
   
   iv. The Terminal will be operated as a Multi-user / Common – User terminal
   
   v. The Concessionaire will hand-back the Terminal to the PAJ/Government at the end of the period including *assets purchased by the concessionaire.*

3. **Who are the signatories to the Concession Agreement?**
   i. The Terminal Link CMA CGM Consortium in keeping with their obligations of the RFP formed a Special Purpose Vehicle named Kingston Freeport Terminal Ltd (KFTL) which will hereafter be the Concessionaire and will therefore be the Signatory to the Concession Agreement with the Port Authority.
   
   ii. The Company is registered in Jamaica under Jamaican Laws and exists for the sole purpose of entering into the Concession Agreement for the long term Concession to Finance, Expand, Operate, Maintain and Transfer the Kingston Container Terminal.
   
   iii. The shareholders of KFTL are the same entities that were members of the Terminal Link CMA CGM Consortium, and in the same relative proportions.

4. **Why are we signing with Kingston Freeport Terminal Limited and not the Terminal Link Consortium?**
   i. The Consortium is not an incorporated body and each of the participants would have had to sign in their own right and would therefore be jointly and severally accountable.

5. **Why is there the need for a Special Purpose Vehicle?**
   i. A Special Purpose Vehicle (SPV) is commonly utilized in Public Private Partnership (PPP) projects and is a separate legal entity, created by the winning consortium and locally incorporated, to specifically undertake the PPP venture. The SPV may take a variety of forms (partnership, limited liability company etc.) and is a joint venture among the companies that will execute the Concession – the Concessionaire, that is the Winning Bidder (usually a consortium of companies).
   
   ii. SPV provides a good framework for raising funds for the project as it isolates the risks and the rewards associated with the specific venture and links the consortium members legally. The formation of an
SPV to assume the obligations under the Concession Agreement also facilitates the Government which signs with a single entity instead of each Consortium member.

6. **What is the structure of the deal?**
   i. An upfront fee representing the market valuation of the physical assets to be transferred - US$75 Million (payable in tranches at financial close and the next six months).
   
   ii. Annual fixed fee of US$15 Million (payable quarterly in advance)
   
   iii. Annual variable fee (equal to 8% of Gross Revenues).

7. **Under the terms of the agreement, how much capital is the consortium expected to invest in KCT and over what period?**

   The Concessionaire is expected to invest approximately US$509M over two phases of the concession with the possibility of a third phase to be negotiated. The capital expenditure plan is however flexible to allow the Concessionaire to develop KCT according to their own business plan and market assessments, but imposes targets to align GOJ objectives for the growth and expansion of KCT.

   - **Phase 1:** consist of two components and is expected to cost US$ $259M.
     
     - capital dredging to a draught of 14.2 metres and completed within 5-years of signing, and strengthening of the existing quay walls to accommodate the larger vessels and equipment.
     
     - optimization of existing facilities - berths and addition of new equipment and completed within 6-years of signing
     
     - Outcome - capacity of 3.2m TEUs

   - **Phase 2:** expansion plan to be submitted by 10th year and commenced by 12th year at a capital cost of US$250
     
     - Further capital dredging to a draught of 15.5 metres.
     
     - Outcome - capacity of 3.6m TEUs

   - **Phase 3:** Subject to market conditions and agreement between PAJ and Concessionaire, this would consists primarily of the development of a new deep-water berth with a draught of 15.5 meters. This will be based on achievement of certain triggers, including capacity considerations, meeting certain financial targets relating to paid out debt and/or received permission based on achieving financial debt targets for Phase 2.

8. **Are Concession Agreements with GTOs employed elsewhere for the management, development and expansion of terminals?**

   i. There is widespread use of concession process in the industry. The Port Authority of Jamaica (PAJ) becomes the landlord and the Concessionaire will develop, finance, operate, maintain and transfer the assets back to the PAJ at the end of the period.

   ii. GTOs are able to exploit their global links and networks, customer relationships, economies of scale and technical capabilities to improve terminal performance
iii. GTOs currently manage 90% of ports worldwide and handle approximately 65% of global container throughput

iv. Regionally most of the major competitors are managed under concessions by GTO’s including PSA, Hutchinson, APMT, SSA and DP World.

9. Was it proposed for Terminal Link to dredge the Kingston Harbour, or any part thereof?

The scope of works included in the Request for Proposal required the prospective Concessionaire to dredge the ship channel, turning basin and the berths.

10. Will the dredging of the access channel and harbour accommodate the post panama vessels of the shipping lines in the region and will the works be completed in time for the opening and commissioning of the Panama Canal?

i. Upon completion of the dredging all vessels that traverse the Panama Canal will be accommodated at KCT.

ii. The dredging and berth reinforcement work are expected to be completed by the end of 2016 or early 2017

iii. This is substantially in line with the opening of the new locks at the Panama Canal, the commissioning of which are expected to be completed in early 2016.

iv. Knowledge of the timeframe for the expansion, reinforcement and re-equipping works at the KCT will allow the shipping lines to plan accordingly.

11. What factors impacted on the timing of the decisions in respect of dredging and expansion?

i. The high cost estimates for the project—dredging, equipment enhancements and additions, infrastructure upgrades/expansion

ii. Considerations of how these large investments would be funded given:
   - Industry downturn in 2008/9 and slow rebound thereafter
   - The condition of PAJ’s balance sheet where the internal reserves are inadequate to support this level of debt

iii. No government guarantees on new loans and its consequences for this exercise.

12. What are the factors that influenced the decision to Privatize KCT?

i. The construction of a wider, deeper set of locks at the Panama Canal has resulted in widespread terminal expansion and channel deepening as ports across the regional

ii. The rapid deployment of mega vessels to reap the economics of scale they offer

iii. High capital cost required to modernize, expand and remain competitive

iv. Government’s debt management policy which eliminated Government Guarantees for future loans by statutory entities including the PAJ and similar entities following the debt exchange programmes (JDX and NDX) and the IMF Agreement.
13. **What were the options available to deal with the situation?**

   i. Outright sale of the assets to a private entity  
   ii. Borrowing without a Government Guarantee  
   iii. Going to the capital markets – bonds, pension funds, private equity  
   iv. Listing the shares on the Stock Exchange  
   v. Concession Agreement with concessionaire taking responsibility for the dredging

14. **What is the process of Privatization that has been pursued?**

   i. The process included:
      - Establishment of an Enterprise Team authorized by Cabinet  
      - Expression of interest sent to top Global Terminal Operators (GTOs) and firms that had submitted interest in participating  
      - Prequalification and shortlist of possible bidders  
      - Submission of request for Proposal & Draft Concession Agreement shortlisted firms  
      - Submission, revision and evaluation of tenders and Cabinet approval  
      - Declaration of Provisional Preferred Bidder  
      - Negotiations and signing of Concession Agreement Contract

15. **Who was invited to participate in the tender process and were the other major customers of the terminal invited to participate in the Tender Process?**

   i. The opportunity to participate was offered to twenty five (25) entities, twenty two (22) of which were GTOs. The additional three were from the shipping industry and had previously expressed an interest in the privatization of the KCT

   ii. Five of the twenty five companies invited to participate responded:
      - PSA  
      - DP World  
      - The CMA Terminals Holdings/Terminal Link Consortium  
      - Ports America  
      - Stevedore Services of America (SSA) consortium

   iii. KCT’s largest customer, ZIM along with Kingston Wharves Limited (KWL) came together and submitted an expression of interest as part of the SSA consortium

   iv. Only the first three listed above were prequalified at the end of the Request for Qualification process

   v. The information submitted by the other consortium was deemed to be incomplete according to pre-established guidelines.
16. **How did we end up with a single bidder?**

   i. The shortlisted GTOs (PSA, DP World and Terminal Link Consortium) are all considered to be top tier Terminal Operators

   ii. All three participated in the clarification stages of the process and conducted due diligence visits

   iii. During the due diligence process all of the bidders expressed a concern about the likely impact of the proposed Portland Bight/Goat Island project on the regional industry with the likely effect of adverse price competition. In that same period, the Goat Island Project was constantly in the news. The Project called for the development of an Industrial Park and a deep water container terminal. The likely additional transshipment capacity coming on stream so close to the prospective concessionaire assuming responsibility for KCT was considered to represent a high level of risk that would likely threaten the viability of KCT

   iv. On the date of submission only the Terminal Link Consortium submitted a tender.

17. **Why did the KCT negotiations take so long and why were the deadlines exceeded?**

   The prospective Concessionaire has been very detailed and deliberate in assessing all aspects of the transaction and several unanticipated problems have arisen. The analysis of these contingencies in order to identify the best solution and to determine the cost as well as who should take responsibility has been time consuming. Among the problems that have arisen in this respect are the following:

   i. The need to reinforce the Quay Walls at the Gordon Cay to meet the new European Codes. (This is a very expensive undertaking which was not anticipated in the initial bid)

   ii. The configuration of the access channel (there was a difference in the configuration proposed by our technical experts and theirs. The solution required meetings in Marseilles and the use of simulators to assess the most cost efficient approach)

   iii. The most effective way of disposing of the spoils of the dredging process

   iv. The appropriate method of valuing of the terminal equipment and other assets of the KCT

18. **What are the associated timelines for the KCT Concession Agreement?**

   i. Signing of the Concession Agreement to take place on April 7, 2015

   ii. Financial close is expected to occur within 6-8 months of signing

   iii. Handover to take place shortly thereafter (within 3 months of financial close)

   iv. Dredging of the access channel and reinforcement of the Gordon Cay would be expected to commence immediately after handover

19. **What will be the likely impact on Staff at the KCT?**

   i. The Concessionaire will establish a new operating company for the Management of the KCT Concession

   ii. In order to facilitate the transfer, KCT will terminate the employment relationship with its existing staff. They will then be available for reemployment by the new company. KCT will make pension payments and other termination benefits to the workers as required under Jamaican law.
iii. The Concession Agreement requires and the Concessionaire has committed to giving preference to existing KCT workforce. The Concessionaire has committed in writing to recruiting KCT workers a priority provided they possess the requisite capabilities and professional skills for the positions.

iv. The Concessionaire has expressed that it will limit expatriate employment to a limited number of posts where international experience is required. This number will not exceed 5% of the workforce and is expected to be considerably less than this limit.

v. Employees will be able to benefit from the knowledge and experience of the company and with extensive training of the workforce locally and internationally.

vi. Employees will be part of a world-class port operating company and have the opportunity to obtain experience at other terminals globally under the company’s control.

vii. The PAJ will ensure that the employees are provided with information and advisory services in respect of the investment of benefits, (money management) and change management.

20. What are the implications of the Privatization of the KCT on the PAJ and what is the future of the PAJ?

i. The PAJ will be responsible for the regulation of the Marine Sector and will strengthen its Regulatory Oversight Activities to ensure the efficient development of the Port of Kingston and the other ports of Jamaica to take advantage of our strategically important location.

ii. Re-Focus on Core and new Development Activities in the following:
   ✓ Cruise
   ✓ Business Process Outsourcing
   ✓ Marine Services
   ✓ Expanded Cargo operations at Montego Bay, and
   ✓ Near-Port logistics

21. Was there a previous CMA-CGM unsolicited proposal? If so, why wasn’t it pursued at that time?

i. CMA CGM previously made an offer to take control of Gordon Cay only as it was seen as having the “best” potential operationally and for expansion

ii. At the time, all the carriers including CMA CGM were undergoing financial restructuring in response to the downturn in the global environment

22. Will Terminal Link require or is likely to require any form of guarantee or support from the Government of Jamaica with respect to the dredging of the harbor

The government will not be providing a guarantee to the Concessionaire in respect of the transaction.

i. As with any Concession agreement, there are potential contingent liabilities that can accrue, for which the Government has made provision in line with the specific allocation agreed for this Public Private Partnership [PPP] transaction in the 3% of GDP threshold agreed with the International Monetary Fund.

ii. In terms of support for the dredging of the harbour, the Concession Agreement does not require any support of the Government. Terminal Link will be required to apply and secure whatever permits and licences are required.
23. With the expansion of United States ports, Panama with six ports and port developments in Cuba and Puerto Rico, will limited dredging reduce the attractiveness of the Kingston Container Terminal?

i. There are no plans to restrict or limit the dredging of the Kingston Harbour. The intention is to dredge the harbour to accommodate the draught of the vessels that are expected to use the Panama Canal, once the current phase of the expansion is completed.

ii. However, the dredging is to be completed in phases, which have been aligned with the expected size of vessels to be deployed by shipping lines in this region. This is an economic decision, which has sought to balance the cost of the dredging with the projected deployment of vessels and volumes of cargo in order to ensure that there is enough income to service any loans taken for the dredging.

iii. It is an established fact that the carrying cost of capital expenditure made without the commensurate income flows is very costly, whether such expenditure is undertaken by the Private Sector or the Public Sector.

iv. The approach that has been agreed with the Concessionaire is acknowledging that shipping lines while moving to larger vessels, are unlikely to deploy 12-13,000 TEU vessels in this region immediately after the expanded Canal opens. The PAJ and the Concessionaire are confident that the dredging plan is realistic and sustainable.

24. How will the exclusivity impact other players?

i. A concession agreement, by its nature, provides a level of exclusivity for a period of time.

ii. In general, Concession Agreements are structured in a way that seeks to ensure that investments are recouped over a reasonable time period. This time period is linked to the level of capital and the risks associated with making such investments.

iii. The Concessionaire is committed to (a) continue to operate the Terminal as a common-user port and (b) operate the Terminal in a way to achieve world-standards in efficiency and productivity. This means all users of KCT will benefit.

25. By transfer, does that mean the facility will be transferred to the government after a given period? When is expected to be transferred?

i. Yes. The equipment and operational control will be returned to the PAJ at the end of the concession period or before based on the conditions laid out the Agreement.