



MINISTRY PAPER NO. 84/15

**TERMS AND CONDITIONS OF THE PUBLIC-PRIVATE PARTNERSHIP
(PPP) ARRANGEMENT BETWEEN THE PORT AUTHORITY OF JAMAICA
AND THE TERMINAL LINK CONSORTIUM FOR THE CONCESSION OF
THE KINGSTON CONTAINER TERMINAL**

APRIL 20, 2015

MINISTRY OF TRANSPORT, WORKS & HOUSING

MINISTRY PAPER NO.....

TERMS AND CONDITIONS OF THE PUBLIC-PRIVATE PARTNERSHIP (PPP) ARRANGEMENT BETWEEN THE PORT AUTHORITY OF JAMAICA AND THE TERMINAL LINK CONSORTIUM FOR THE CONCESSION OF THE KINGSTON CONTAINER TERMINAL

1.0 INTRODUCTION

- 1.1 The Honourable House is being requested to take note of the terms and conditions of a Public-Private Partnership (PPP) arrangement in which the Port Authority of Jamaica (PAJ) has entered into a Long-Term Concession with Kingston Freeport Terminal Limited [KFTL], a Special Purpose Vehicle [SPV] formed by the Preferred Bidder, the Terminal Link Consortium to finance, expand, operate, maintain and transfer the Kingston Container Terminal (KCT).

- 1.2 The Concession Agreement is the outcome of a rigorous PPP process and the subject of intense negotiations between the Government of Jamaica (GOJ) through the Ministry of Transport, Works and Housing (MTWH), and the PAJ, facilitated by the Development Bank of Jamaica (DBJ).

2.0 BACKGROUND

- 2.1 In April 2013, the GOJ gave approval for the use of the Limited Tender Methodology to invite participation from twenty-two (22) Global Terminal Operators (GTOs) as well as the two (2) entities, Ports America and Cia Sud Americana de Vapores (CSAV) which had made unsolicited proposals and expressions of interest to the Government of Jamaica for participating in the KCT Privatisation process. Five companies responded and three were prequalified.
- 2.2 On January 16, 2014, the GOJ issued a Confidential Information Memorandum (CIM) and a Request for Proposal (RfP) to the three prequalified entities namely, Singapore Port Authority (PSA); Dubai Port World (DPW) and the Terminal Link Consortium (The Consortium), for the grant of a Long-Term Concession to finance, expand, operate, maintain and transfer the KCT.
- 2.3 The RfP contemplated the grant of a Long-Term Concession to a Global Terminal Operator (GTO) which would invest the capital required to dredge the ship channel, turning basin and berths as well as invest in equipment to optimize KCT's infrastructure and operations in order to accommodate the large vessels traversing the expanded Panama Canal.

2.4 At the close of the Bidding Period on July 31, 2014, only one Bid was received from the Terminal Link Consortium.

3.0 THE NEGOTIATIONS

3.1 Under the terms of the Agreement, the Concessionaire is expected to invest approximately US\$509million over two phases of the Concession with the possibility of a third phase to be negotiated, as follows :

- Phase 1 will consist of two components and is expected to cost US\$259M
 - Capital dredging to a draught of 14.2 metres and completed within five years of signing;
 - strengthening of the existing quay walls to accommodate the larger vessels and equipment;
 - Optimizing of existing facilities- berths and addition of new equipment is expected to be completed within six years of Signing;
 - Outcome – capacity of 3.2 million TEUs
- Phase 2: Expansion plan to be submitted by Year 10 and work is expected to commence by Year 12 at a capital cost of US\$250M
- Phase 3 will be subject to market conditions and agreement between the PAJ and the Concessionaire. This would consist primarily of the development of a new deep water berth with a draught of 15.5 meters.

3.2 The capital expenditure plan is however flexible in order to allow the Concessionaire to develop KCT according to their own Business Plan and market assessments. It however imposes targets to align the objectives of the GOJ with respect to the growth and expansion of the KCT.

3.3 At the conclusion of the negotiations, the contemplated Phase 1 works have been expanded such that KCT will be placed in a position to accommodate post Panamax vessels, 80% full, earlier than was contemplated in the RfP. In addition the infrastructure at KCT, specifically, the Gordon Cay berths will be retrofitted to more current codes for seismic events as well as deepened to facilitate future dredging to accommodate Post Panamax vessels.

3.4 Dredging to full Post Panamax depths will be achieved as a part of Phase 2, but will be driven by market conditions then existing up to the fifteenth year after the commencement of the Concession.

4.0 STRUCTURE OF THE CONCESSION

4.1 Basic Structure

4.1.1 The Concession has been structured as follows:

- i. The PAJ will be the Landlord and will 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. The existing equipment will be sold to the Concessionaire;
- iv. The Terminal will be operated as a Multi-user / Common – User terminal;
- v. The Concessionaire will handback the Terminal to the PAJ/Government at the end of the period including assets purchased by the concessionaire;
- vi. The Concessionaire will have the right of first refusal to the development of any transshipment facilities at Fort Augusta.

4.1.2 Most importantly, the Concessionaire is required to undertake the dredging works deemed necessary to prepare the ship channel, turning circle and basin to accommodate the large container vessels expected to use the Panama Canal.

4.1.3 These requirements have been set within a time- frame that will see the initial dredging works and optimization phase (Phase 1) completed within five (5) years of the Handover of KCT and discussions commencing on the Phase 2 expansion works prior to the tenth year of the start of the Concession.

4.2 Financial Offer

4.2.1 The Concessionaire is expected to invest approximately US\$509M over Phases 1 and 2 with the possibility of a Third phase to be negotiated.

4.2.2 In addition the Concessionaire will pay the following:

- i. An Upfront Fee representing the market valuation of the physical assets to be transferred – US\$75 Million (payable in tranches beginning at Financial Close and over the next six months);

- ii. An Annual Fixed Fee of US\$15 Million (payable quarterly in advance)
- iii. An Annual Variable Fee (equal to 8% of Gross Revenue)

4.3 Proposed Timing and Payment

4.3.1 The associated timelines for the KCT Concession Agreement are as follows:

- i. The signing of the Concession Agreement took 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 is expected to commence immediately after Handover

4.3.2 Additionally, the following mutually beneficial arrangements have been agreed:

- i. As at signing, Terminal Link provided PAJ with a Security Bond of US\$15M;
- ii. The Consortium will place a Manager on site to commence the Transition planning;
- iii. Most importantly, the PAJ has secured agreement with the Terminal Link Consortium that during this extended period, the PAJ will be able to spend up to US\$15M to improve the capital infrastructure of KCT and be reimbursed this sum after Handover in installments in the same ratio as the payments of the Upfront Fee.

4.4 Fiscal Considerations

4.4.1 The Government will not be providing a guarantee to the Concessionaire in respect of the transaction. However 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.

4.4.2 In terms of support for the dredging of the harbour, the Concession Agreement does not require any support of the Government. Terminal Link will apply and secure whatever permits and licences are required.

4.5 Labour Considerations

4.5.1 The Concession Agreement contains specific provisions as regards the treatment of labour. It provides as follows:

- i. The Concessionaire has established a new operating company Kingston Freeport Terminal Ltd (KFTL) 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 re-employment by the new company;
- iii. The KCT will make pension payments and other termination benefits to the workers as required under Jamaican law;
- iv. The Concession Agreement requires and the Concessionaire has committed to giving preference to the existing KCT workforce, provided they possess the requisite capabilities and professional skills for the available positions;
- v. The Concessionaire has expressed that it will limit expatriate employment to those posts where international experience is required. This number will not exceed 5% of the workforce;
- vi. Employees will be able to benefit from the knowledge and experience of the company and will have access to extensive training both locally and internationally;
- vii. Employees will be part of a world-class port operating company and have the opportunity to gain experience at other terminals globally under the company's control.

4.6 The Concessionaire

The Kingston Freeport Terminal Limited (KFTL), the Special Purpose Vehicle which was formed to accept the KCT Concession, is jointly owned by the members of the Consortium, Terminal Link and CMA CGM with equity interests of 40% and 60% respectively. Terminal Link is ranked as No. 12 among the list of the top 100 Global Terminal Operators and according to Drewry Shipping Consultants, handled 12.7M TEU in 2013. CMA CGM is ranked as the No. 3 shipping line in the world.



OMAR DAVIES, M.P.
MINISTER OF TRANSPORT, WORKS AND HOUSING
APRIL 20, 2015