

C A S E S T U D Y

# PORT OF CALAIS: INNOVATIVE CONTRACTUAL FRAMEWORK



■ **PROJECT STRUCTURING:** SEPARATION BETWEEN TRAFFIC RISK AND CONSTRUCTION RISK

**2 PORTS:** CALAIS AND BOULOGNE-SUR-MER

**CONCESSION LIFE:** 50 YEARS

**CALAIS PORT CAPACITY INCREASE:** 75%

# CALAIS PORT 2015: A MAJOR PROJECT MADE FEASIBLE BY SENSIBLE STRUCTURING

**The Port of Calais is undergoing a six-year programme of expansion, which will see a massive new breakwater and quayside built to accommodate future growth in demand. Progression of the work owes much to an innovative public-private partnership, which made the project viable and continues to deliver benefits for all concerned.**

Calais is France's busiest port for passenger traffic and its fourth largest in terms of freight movement. It is also getting a lot bigger. An ambitious expansion project has been launched – a scheme that is progressing through an innovative form of public private partnership.

The Port of Calais is anticipating significant growth in demand with a programme of civil engineering construction that will future-proof the port for the next 50 years. Expected increases

in passenger and freight traffic were not entirely certain though, as the plans for expansion were being considered. Not sufficiently so for obtaining affordable financing that is.

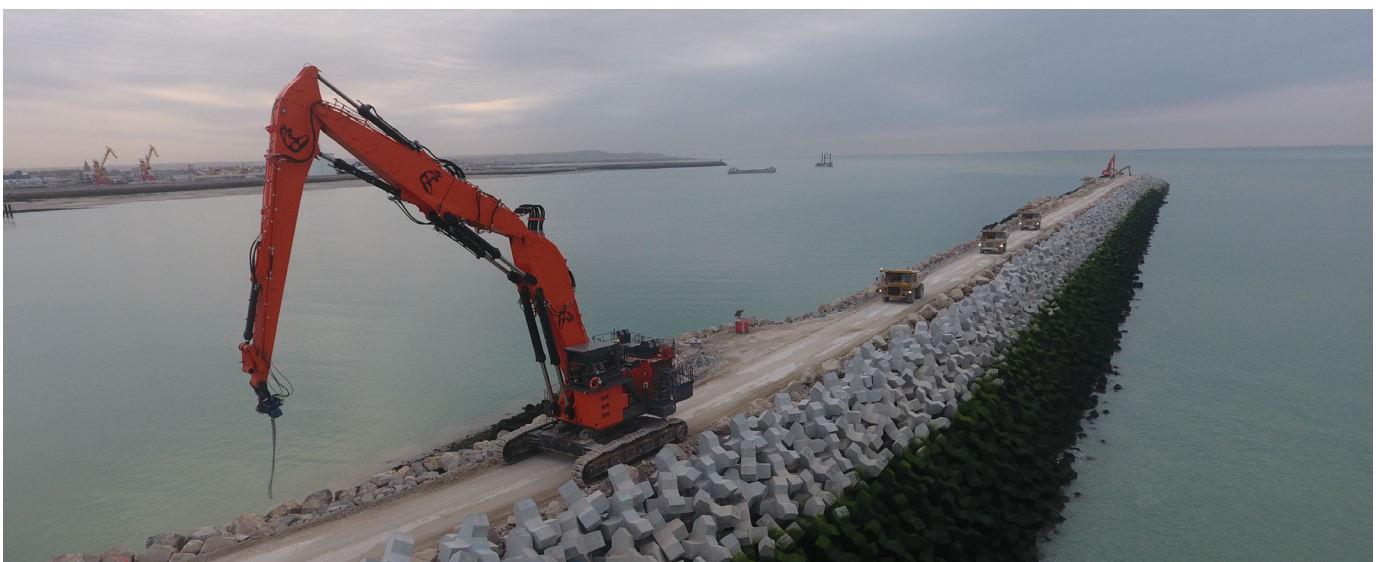
The solution to this problem was a **project structure that separates traffic risk from infrastructure construction risk**. In essence, a concessionaire is now responsible for operating the port, collecting the passenger and freight revenue and making payments to a separate project company. It is this project company and special purpose vehicle (SPV) that is directing construction operations. Insulated from traffic risk, it is also the SPV that has attracted investment from lenders, including a 40-year maturity project bond.

"The main reason for this innovative split between concessionaire and project company was to **secure affordable lending**, to make the financing of the expansion feasible. But there are other advantages to this structure as well," says the Chairman of the SPV Board of Directors, Olivier Bramaud-Grattau from Meridiam. Principal organisations involved

include the Région Hauts-de-France administration as the grantor of the concession, plus Meridiam and Caisse des Dépôts (CDC), two Chambers of Commerce and Industry (CCI) – the CCI Littoral Hauts-de-France and the CCI Hauts-de-France – and the Port of Dunkerque.

In 2011, the Région Nord-Pas-de-Calais administration (which has since become part of Hauts-de-France) launched a tender process for a new long-term, privately funded concession that included the joint operation of the Calais and Boulogne-sur-Mer ports and the Calais Port 2015 expansion project. The winning bid was that put together by the Côte d'Opale CCI (now CCI Littoral Hauts-de-France) – which was historically the operator of the Port of Calais – with CCI Nord de France (now CCI Hauts-de-France), Meridiam and CDC.

Project structuring was established to ensure the partners would play to their strengths. The CCIs took a majority (78%) shareholding in the concessionaire Société d'Exploitation des Ports du Détroit (SEPD), with Meridiam and CDC both taking an





11% equity stake. In the project company Société des Ports du Détroit (SPD), the roles were reversed. Meridiam and CDC are 80% equity partners in SPD. The CCIs jointly hold a 19% stake and the Port of Dunkerque has a 1% share of SPD.

“We believe this overall structure makes sense for shareholders. From the beginning it was right to recognise the different specialities of the companies and organisations involved. It was better to have financial investors and asset developers at the level of the project company SPD and port operators are best placed to oversee the concession at SEPD,” Olivier says.

Such a structure therefore ensures **the right individuals and expertise are in the right places.** Himself a former chief executive of SPD, Olivier applies a broad knowledge of project financing and management of risk in his role overseeing development of the Calais Port 2015 expansion.

Likewise, the Managing Director of concessionaire SEPD, Jean-Marc Puisseuseau, is a former President of CCI Côte d’Opale, the organisation which has historically been the operator of the Port of Calais.

“Jean-Marc has a lot of invaluable experience and knowledge of relationships between the port, local authorities and ferry operators. This is essential for managing port operations. He understands in detail how the business of running a ferry port works,” Olivier says.

“The project started as far back as 2002 with identification of the need to expand the port to accommodate larger ships,” Jean-Marc says. “We needed to find a way of maintaining the public capital in the port while making the project bankable. Subdelegating the construction was sensible. Maintaining the public stake in operations was highly important politically.”

The idea of separating traffic and construction risks came early on in development of the CCIs, Meridiam and CDC bid. “This came partly because **port operations are a relative unknown for lenders,**” says Olivier. “For comparison, any major airport has a more certain level of demand and quantifiable passenger growth. Port traffic is more difficult for financial institutions to quantify with certainty. There’s also the fact that France’s ports have quite a negative image due to industrial disputes in the past.”

Detailed freight and passenger forecasts have been carried out for CCI Littoral Hauts-de-France by an independent traffic advisor. The forecasts are based on recognised demand models and expected GDP growth. They predict marginal, single digit increase in passenger revenue over the next 10 to 15 years, but a steady and more substantial rise in freight traffic.

Tonnage of freight carried is the biggest driver of revenue for the Port of Calais, which is the **principal gateway for the majority of the UK’s trade with Europe.** It is also susceptible to a number of variables. Calais is the market leader, but it is still competing with other ferry routes and the Channel Tunnel rail link.

“There’s also the matter of Brexit,” says Olivier. “This is not necessarily going to turn out badly for the Port of Calais, but Brexit does add a lot of uncertainty, in terms of economic effects, exchange rate and trade. It throws up many different possible scenarios on which we are working at present. Whatever your viewpoint, at present nobody knows for sure which outcome we’ll see.”

The revenue structure of the Calais Port project has been protected






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## CALAIS PORT 2015

Expansion of the Port of Calais is progressing on schedule for completion in 2021. Project company SPD's design and build contractor – a joint venture between Bouygues, Spie batignolles and Jan De Nul – is placing rock to form a new 3.2km long breakwater offshore from the existing port.

With channel dredging, land reclamation and quay wall construction, a new navigable harbour of around 90 hectares will be created behind the breakwater. This will add, to start with, three new large berths for the next generation of large Channel ferries (230-240m size while current berths allow only for 210m long vessels) and all of the associated car parking and other port infrastructure needed for a

significant (75%) expansion in capacity.



The circa €675m civil engineering project, which is progressing

while the existing port continues to operate, will also future-proof the Port of Calais against anticipated rising sea level due to climate change and will accommodate further expansion of the port in future. The local economy stands to benefit from a significant uplift in job creation. So far, 14% of the hours worked on site have been assigned to people previously unemployed and €62m of the project's capital spending has been committed to SMEs. ■

against these uncertainties. Olivier says: "Contingencies and bespoke contractual arrangements are in place that allow us to ensure the project company will receive sufficient revenue for repayment of its debt whatever happens."

Underpinning SPD's insulation from traffic risk, **a four-way agreement between grantor, concessionaire SEPD, project company SPD and lenders** effectively underwrites payment to SPD if port revenue does not hold up or grow as expected. A reserve fund established by the concessionaire adds further protection, holding a year's worth of availability payments. This account is monitored and will be topped up by Region Hauts-de-France if funds fall below a certain level.

Furthermore, if the public authority needs to terminate the concession it can end the whole project. Or it can just terminate the contract with the concessionaire SEPD, operate the port itself and continue directly with the SPD the contract related

to the Calais Port Expansion. "All of this means the project provides the best value for money for all stakeholders," says Olivier. The structure has everyone targeting their own part of making the project a success. Jean-Marc says: "For us as concessionaire and operator we're focused on making sure we can pay SPD, which means concentrating on the port's operations and customers. We're looking at the future; taking a long view to ensure the port stays in good shape for growth."

Olivier adds; "SPD has a clear sense of its budget – its spending costs and available funding – with everything financed through equity, bonds and pre-agreed limited public subsidies. And it has the advantage of being able to make decisions at arm's length from the operational concessionaire. There have been no variations that affect the construction cost and programme. As of today, the project is ahead of schedule." ■



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