Public Private Partnerships in Ports: Pitfalls and Challenges
Content

introduction

pitfalls-challenges

lessons learnt

mtbs
Introduction

Characteristics of the Port Industry:
- Supply driven
- Capital intensive
- None profit oriented capex and opex: environment and security
- Complexity stakeholders
- Competition
- Long term life cycle

Translated in complex 4P transactions and complex concession contracts
Content

- Introduction
- Pitfalls and Challenges
- Lessons Learnt
Pitfalls and Challenges

- Understanding private sector
- Content before structure
- Public entity to be managed
- Awarding procedures: competitive dialogue
Understanding Private Sector Sharing Value in Port PPP

**Port Authority**

- Port dues
- Concession fees
- Concession fees
- Soft loans
- Subsidy
- Commercial loans
- Port dues
- Concession fees
- Port Authority
- Assets
- Opex

**Operator**

- Handling fees
- Storage fees
- Commercial loans
- Equity
- Terminal Operator
- Assets
- Concession fees
- Opex

Surplus cash is transferred back to PA
Understanding Private Sector Sharing Value in Port PPP

Value Drivers:

- Revenues & Revenue Growth (PxQ)
- Cost reductions (EBITDA)
- Investment planning (CAPEX)
- Project Life (term)
- Financing (WACC)
- Residual Value
Understanding Private Sector Sharing—Allocating Value in Port PPP

10-11 May 2012

Pitfalls and Challenges

Minimal rate of return Terminal Operator

X%

Concession fees

Y%

Concession fees

Business Case Terminal Operator

Business Case Port Authority

Minimal rate of return Port Authority
Understanding Private Sector Sharing: Managing Value in Port PPP

**Allocation of Value:** Competitive Transaction Procedure

**Creation of Value:** Value-Based Management

<table>
<thead>
<tr>
<th>Business Case Terminal Operator</th>
<th>Business Case Port Authority</th>
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<tbody>
<tr>
<td>X%</td>
<td>Concession Fees</td>
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<tr>
<td>Y%</td>
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• Where it is all about is: the market, the competition, the volumes and the business case and thereafter the structure of the transaction.
• The transaction preparation is the real transaction, the implementation is a process. All choices have to be made during the transaction preparation, the implementation is the application of the choices made during the preparation.
• Good preparation is essential resulting in higher transaction costs.
• Front-up investments to secure transaction.
• Give enough time to the market to prepare their proposals otherwise sub-optimal proposals can be submitted resulting in delays.
Public entity to be managed

- ‘Opportunistic behavior’ can be a threat to a successful transaction implementation.

- Often ‘private opportunistic behavior’ is mentioned as destroying value in the transaction process.
Public entity to be managed

• But….public behaviors need to be managed as well:
  • Government need to be internally ‘aligned’ before starting the transaction, especially before starting evaluation process (EOI-RFP) and/or negotiations;
  • Often many different stakeholders are involved from public perspective, which need to manage their own objectives/expectations, private part consist of one solid entity so its objectives are naturally aligned;
  • Danger area when stakeholders do not act/take responsibility according to their role in the process;
  • Danger area when stakeholders act outside the boundaries of their role/responsibility;
  • Lack of knowledge is a danger area and therefore transfer of knowledge and capacity building are crucial.
But....public behaviors need to be managed as well:

- Lack of government leadership;
- Lack continuity members government transaction team.

Transaction preparation phase is crucial

- Prepare tailor-made transaction strategy before entering into the transaction implementation phase;
- During the transaction phase one should organize before each critical decision moment internal meetings to let the government have the possibility to agree on all topics, and to formalize that!
- This way, the threat of possible public opportunistic behavior is reduced.
Awarding Procedures

Overview

Open procedure
- Issue Request for Proposals + Draft Contracts
- Evaluate proposals & Select Preferred Candidate
- Negotiate and award contract

Restricted procedure
- Issue Request for Prequalification
- Select prequalified Candidates
- Evaluate proposals & Select Preferred Candidate
- Negotiate and award contract

Competitive dialogue procedure
- Issue Request for Prequalification
- Select prequalified Candidates
- Conduct competitive dialogue
- Evaluate proposals & Select Preferred Candidate
- Finalise and award contract

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Pitfalls and Challenges
◊ High transaction costs at the tail of the tender procedure for both public and private sector
◊ Time consuming negotiations as contract/critical topics are brought in the process (too) late
◊ How to make proposals “unconditional” without a contract?
Awarding Procedures
“Competitive dialogue”

- Only one unconditional proposal required: based on Final Contract
- Early market involvement:
  - market consultation before the tender process
  - efficient and effective “contract dialogue” during the tender process

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Pitfalls and Challenges
Including competitive dialogue in the awarding procedure of port concessions:

- Improves the mutual understanding of objectives and constraints of public and private
- Optimises the value of the concession for both public and private
- Results in a “first time right” awarding procedure
- Reduces risk of lengthy negotiations after selection of preferred candidate
Lessons learnt

How to cope with “complex” port transactions?

1. Understand the private sector through business case modelling
2. Optimal structuring of the deal in early stage
3. Public behaviour needs to be managed
4. Introduction competitive dialogue in the awarding procedure
Content

introduction
value drivers
lessons learnt
Thank You

Q&A

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maritime & transport business solutions (mtbs) is an international finance and strategy advisory firm offering entrepreneurial business solutions to Clients in the maritime and transport sector.
mtbs ... 
... is specialized in ports and terminals
... provides leading expertise in strategy, business case, transactions and finance
... advises both public and private Clients
... has a broad international focus
... offers over 125 years of combined senior Finance & Strategy experience
... has a dedicated team of port specialists
... is based in Rotterdam, The Netherlands
Unlocking & Protecting Value in the Maritime & Transport Industry

On the interface of land and water, positioned between public and private interests, ports are the most strategic nodes in global transport network. Therefore, mtbs believes that ports offer a unique value proposition. It is the mission of mtbs to unlock and protect this value by offering its Clients entrepreneurial business solutions and creating the quality profits they seek.
Our Services

**strategy**
- Value & Business Strategy
- Port Sector Reform
- Port Policy
- Public Private Partnerships
- Institutional & Regulatory Change
- Organizational Reform & Alignment

**valuation**
- Value Creation & Protection
- Financial Modeling and Analysis
- Feasibility
- Project Structuring & Packaging
- Business Case
- Risk Valuation, Allocation, Mitigation

**finance**
- Financial Structuring
- Project Finance
- Due Diligence
- Procurement of Finance
- Investment / Divestment
- Merger & Acquisition

**transactions**
- Transaction Strategy
- Transaction Management
- Documentation & Contracts
- Tendering & negotiated Solutions
- Financial Solutions
- Legal Solutions
Our Global Experience

significant portfolio size - 50 port project per year - diversified portfolio background
broad Client base - international focus - strong home market
Examples from Recent Experience

Transaction Advisor

**Luka Rijeka, Croatia**
Adriatic Gate Container Terminal
Equity Divestment

Deal size EUR 37.5 million
2010-2011

Transaction Advisor

**Freeport of Monrovia, Liberia**
Container Terminal Concession

Concession awarded to
International Container Terminal Services, Inc.
Deal size US$ 120 million
2009-2010

Financial Advisor

**Multi purpose Terminal East-2 Concession**
Burgas, Bulgaria

Bid Preparation
Navibulgar

Winning Bid
Deal size: EUR 100 million
2011
Our Core Values

We aim ...

... to exceed Clients’ expectations and to add value to their business

... to bring enthusiasm and energy to working with Clients

... to commit to the highest ethical and professional standards

... to drive innovation and take pride in recommending the optimum solution, not the expedient one

... to focus our business on our people, providing a culture in which our advisors are encouraged to develop knowledge and experience

... to support continuous personal development and challenge our employees to fully unlock their potential.
Our Guiding Principles

Guiding Principles

Industry Best Practices

knowledge leadership
state-of-the-art techniques
vast international experience

Creation of Value

create & protect value
quality profits
entrepreneurial business solutions

Ease of Implementation

realization driven
focus on Client context
implementable project deliverables
Hidde Siemonsma is senior consultant at Netherlands-based Maritime and Transport Business Solutions (MTBS), specializing in the implementation and the design of public-private partnerships in the port sector. “We typically see that port authorities start optimistically with their preparation of the tender,” says Siemonsma. “Limited time and limited funds are available and they therefore start too quickly with the prequalification. They are not so sure what the company profile should be for the private sector to deal with.”
Our Senior Experts

Paul van Eulem - Director
- Senior Advisor PPP/Reform
- Form director Ports at Royal Haskoning

Patrick Uyttendaele - Director
- Senior Advisor Finance
- Form director Port Finance at PwC and IBM Consultants

Frank Luisman - Director
- Senior Advisor Strategy
- Form Port Sector Director Ports at Deloitte & Touche

Jos van de Leur
- Senior Advisor Finance
- Form CFO of the Port of Rotterdam Authority
Our Office

- The White House in Rotterdam, The Netherlands
- Located in the Bolwerk (Stronghold)-district of the Old Port Area
- Opened its doors in 1898 and one of the few prewar buildings in Rotterdam
- With ten floors Europe’s first “skyscraper”,
- Since the beginning of 2008, mtbs has its offices in the White House.
maritime & transport business solutions
maritime strategy & finance advisors

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White House, Rotterdam

The Netherlands