

Government Guarantee of Loans to Port Authority of Jamaica from the European Investment Bank and the China Export-Import Bank for the Gordon Cay Expansion Project

The Honourable House of Representatives is being advised of a request for the provision of two (2) Government Guarantees of the following loans to Port Authority of Jamaica under the Approved Organisations and Authorities Loans (Government Guarantee) Act:

- (i) the European Investment Bank (EIB) loan in the amount of Twenty Five Million Euro (Euro 25 million) in the first instance, and if the proposed Risk Capital was not approved, a further Ten Million Euro (Euro 10 million) in the second instance; and
- (ii) the China Export-Import Bank financing of the supply of the four Ship-to-Shore Gantry Cranes in the amount of Seventeen Million Five Hundred and Thirteen Thousand and Four Hundred Dollars (US\$17,513,400)

Introduction

2. The Kingston Container Port continues to be internationally recognised as one of the major modern Container Port in the Hemisphere and the leading transshipment terminal in the Central American and Caribbean Region.

3. The prospects of a regional transshipment market continues to be favourable with projection of approximately ninety percent (90%) growth in container throughput, transported through the region over the next ten (10) years. The 2000 – 2001 projections for containers throughput handled over the next ten years will be met, and possibly exceeded. It is therefore critical that Phase III of the Gordon Cay Expansion Project be implemented. The Project concerns the study, implementation, commissioning and the entry into service of a new extension of the Gordon Cay container terminal in the port of Kingston.

4. The main components of the project are:
- a. Extension of the quay;
 - b. Paving of container storage yard, including all networks and gantry crane rails;

- and
- c. Handling equipment (4 gantry cranes, 16 straddle carriers and 20 trucks).

5. The total cost of the project is estimated to be US\$78.1 million with the following components:

Civil and Ancillary Works	\$29,500,000.00
Cranes	\$20,924,000.00
Straddle Carriers & Landside Equipment	\$ 8,716,320.00
Tugs	\$ 5,340,000.00
Dredging	\$10,000,000.00

6. The proposed financing package will be made up as follows:

European Investment Bank	US\$33,810,000.00 (Euro 35 M)
China Export-Import Bank	US\$17,513,400.00
Suppliers Credit	US\$13,270,320.00
Port Authority Own Resources	US\$13,506,280.00

European Investment Bank

7. The details of the EIB Finance Contract are as follows:

- Amount: Euro 35 million.
- Interest: The net interest rate applicable shall be the greater of the rate of three percent (3%) per annum or the average of the standard interest rate applicable at the date of issue of the Disbursement Notice to comparable loans made by EIB (typically less than 5% per annum).
- Repayment: Thirty (30) semi-annual installments commencing five (5) years after signing of the Contract.
- Charges: Port Authority shall pay all taxes, duties, fees and other impositions arising out of the execution and implementation of the Project.

8. The executives of EIB has advised that they are prepared to consider presenting a proposal to their Management Committee to convert Euro 10 million of the Euro 35 million to risk capital, for the purpose of supporting privatisation, and to subsidise an ESOP share offer. If the Board of the Bank accepts the Risk Capital Investment, the terms of the Euro 10 million investment will be negotiated with the Port Authority. This amount however, would be made available immediately to the Port Authority under a special arrangement, which would allow it to assist in the financing of the

Expansion Programme. The Port Authority would have a period of four (4) years in which to decide whether to convert this special facility to equity. If the amount is converted to equity the following broad arrangements would apply:-

- (a) Convert the Euro 10 million to Jamaican Currency.
- (b) Invest this amount in the Privatized Company.
- (c) The Bank will assume the foreign exchange risk conversion from Euro to Jamaica dollars.
- (d) The Bank is expected to be paid in accordance with the dividend policy of the Privatised Company.
- (e) The Bank will allocate any dividends payable to it under the agreement as follows:-
 - i. A portion to repay the capital
 - ii. A portion to subsidise ESOP
 - iii. A portion to be retained by the Bank, as income on investment
- (f) The Bank is to be paid over a twenty (20) year period. If at the end of twenty (20) years the dividend is not sufficient to repay the full equity, the Bank will negotiate with the Port Authority a repayment Schedule of the balance outstanding at the time.
- (g) In year twenty (20), or earlier if any of the funded shares are sold or disposed of by the borrower, evaluation should take place which would be the basis for setting any outstanding amount that may be still be due to the Bank and determining the capital gains and their distribution.

9. Given the prospects of the Euro 10 million of the Euro 35 million being converted to share capital, EIB proposes to issue the finance contract in the amount of Euro 25 million in the first instance.

10. If the Euro 10 million risk capital is not approved by the Bank's Board, a second financing agreement with terms as indicated in (7) will be signed for Euro 10 million, reverting the total loan to be the original Euro 35 million.

The China Export-Import Bank


11. Shanghai Zhenhua Port Machinery Company Limited (ZPMC) of the Republic of China won the tender for the supply of four (4) super Post-Panamaz Ship-to-Shore Gantry Cranes. Under the terms of the tender, the tenderer is required to provide financing of eighty-five per cent (85%) of the cost of the cranes.

12. The cost of the cranes is approximately US\$20,924,000.00. The eighty-five per cent (85%) financing is equivalent to US\$17,785,400.00. The financing for ZPMC is being arranged through the China Export-Import Bank. The terms of the arrangement is as follows:

Amount: US\$17,785,400.00
Interest: The net interest rate applicable shall be three percent (3%).
Commitment fee: 0.5% per annum of undisbursed amounts.
Insurance Risk Premium: A flat fee of 3.0%
Repayment: Fourteen semi-annual installments commencing upon the acceptance of the cranes.

13. The Honourable House of Representatives is accordingly asked to approve:-

- (a) The guarantee of the European Investment Bank (EIB) loan in the amount of:
- Twenty Five Million Euro (Euro 25 million) if the Risk Capital of Ten Million Euro (Euro 10 million) is approved.
 - If the proposed Risk Capital of Euro 10 million is not approved, a loan for a further Ten Million Euro (Euro 10 million) in the second instance with the same terms of the loan of Euro 25 million, making the total loan Euro 35 million; and
- (b) the China Export-Import Bank financing of the supply of the four Ship-to-Shore Gantry Cranes in the amount of Eighty Five percent (85%) of Twenty Million Nine Hundred and Twenty Four United States Dollars (US\$20,924,000) or Seventeen Million Five Hundred and Thirteen Thousand and Four Hundred Dollars (US\$17,513,400)


Omar Davies
Minister of Finance and Planning

July 7, 2000