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MINISTRY PAPER NO

12/02

**Amendment to Government Guarantee of Loan Agreement between the Port Authority of Jamaica and HSBC Bank Plc to reflect an increase of US\$953,781.85 in the loan amount from US\$26,000,000.00 to US\$26,953,781.85**

**1.0 INTRODUCTION**

1.1 Parliament by Resolution dated February 7, 2006, gave approval for the granting of Government Guarantees under the Approved Organization (Government Guarantee) Act for 4 loans totaling US\$111,484,923.00 to finance the fifth stage expansion of the Kingston Container Terminal to be undertaken by the Port Authority of Jamaica (PAJ). Included in this amount is a loan from HSBC Bank, plc. for US\$26,000,000.00 to cover the purchasing of Straddle Carriers and Empty Container Handling Lift Trucks.

**2.0 REQUEST**

2.1 Parliament is being requested to approve the proposed amendment to the Government Guarantee for the Loan Agreement to include an additional amount of US\$953,781.85 to cover an increase in the insurance premium:

**3.0 BACKGROUND**

3.1 On December 14, 2005, the Port Authority signed a contract with Kalmar Industries Oy Ab (the "Exporter"), to design, supply and commission 24 Straddle Carriers and 6 Empty Container Handling Lift Trucks valued at US\$24,580,578.96 for use at the Kingston Container Terminal. At that time, the indicative total cost of the financing facility inclusive of insurance premium was US\$26,000,000.00 apportioned as follows:

- HSBC Bank plc. Finnvera Supported Loan representing 85% of the contract value and 85% of the Finnvera insurance premium
- Commercial Loan representing 15% downpayment

3.2 The initial offer from HSBC Bank plc. contained an indicative quote on the Finnvera premium (export credit insurance premium) of 10.75%. This insurance is required by the exporter as a cover against commercial and/or political risks, which could result in non-payment for the goods delivered. The indicative rate quoted at that time was the applicable rate for sovereign risk exposure. HSBC Bank plc quoted that rate on the basis that the facility would have a Government Guarantee.

3.3 The approval received from the Finnish Export Agency quoted a rate of 12% for the insurance premium as the credit was assessed on the basis of the exposure to the borrower, the Port Authority, and not the Guarantor, the Government of

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Jamaica. This has resulted in an increase in the loan amount. It should be noted that without a Government Guarantee the rate would have been 15%.

#### 4.0 LOAN STRUCTURE

4.1 The salient features of the loans to be secured from HSBC Bank plc are outlined below:

##### **Finnvera Supported Loan US\$23,266,695.00**

- (i) 85% (eighty-five per cent) of the value of the Purchase Price US\$20,893,492.11 plus
  - (ii) 85% (eighty-five per cent) of the value of the Finnvera Insurance Premium totaling US\$ 2,373,202.89;
- Interest Rate 5.21% per annum,
  - Tenor 17 (seventeen) consecutive equal semi-annual installments commencing on the date falling six months from the date of final shipment of the Goods

##### **Commercial Loan US\$3,687,086.65**

- Interest Rate 6 mth Libor-. plus a margin of 3%
- Tenor 8 (eight) consecutive equal semi-annual installments commencing on the date falling eighteen months from the date of the Agreement.

#### 5.0 RECOMMENDATION

5.1 The Honourable House of Representative is accordingly asked to approve the proposed amendment to the Government Guarantee for the Loan Agreement with HSBC Bank plc. for the financing of 24 Straddle Carriers and 6 Empty Container Handling Lift Trucks, to include an additional US\$0.95 million, under the provisions of the Approved Organizations and Authorities Loans (Government Guarantee) Act.

I will move the appropriate Resolution in due course.



Omar Davies, M.P.  
Minister of Finance and Planning  
March 21, 2006