The Aqaba PPP Experience & Lessons Learned

Presentation To
“Fourth Meeting of the Working Group on Infrastructure Finance in Iraq”
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Agenda

- Background ADC/ASEZA
- Aqaba PPPs: Track Record of Success
- New Port PPP
- Airport PPP
- Conclusion: ”Balancing Competing Forces”
Launched in 2004 with the objective of unlocking the potential of the Aqaba Special Economic Zone (ASEZ) by accelerating its economic growth and development.

Private shareholding company governed by a board of directors and owned through a 50/50 joint venture partnership between the Government of Jordan and ASEZA.

ADC owns Aqaba’s seaport, airport and strategic parcels of land as well as the development and management rights for these assets in addition to key infrastructure and utilities.

Mandated to develop ASEZ through building new or expanding existing infrastructure and the required superstructure, creating business enablers for ASEZ and managing or operating its key facilities.

Operate commercially & as a holding company
Adopt long-term integrated master-planning
Invest in enabling infrastructure
Proactive CSR & environmental program

Ownership
- Central Government of Jordan
- Aqaba Local Government (ASEZA)

Assets
- Airport
- Seaports
- Aqaba Lands
- Utilities & infrastructure rights

Objectives
- Providing Businesses with World Class Infrastructure & Superstructure
- Packaging Strategic Real Estate Opportunities
- Providing Businesses with Multi Modal Transport Facilities
- Breaking the Chicken & Egg Cycle: Creating Critical Business & Social Enablers
- Implement through technically & financially qualified developers/operators

Transforming Aqaba into a leading commerce, logistics, industry & tourism destination through various “Public Private Partnership” Schemes
Aqaba Special Economic Zone Authority

 ASEZA - a service oriented organization offering a single point of contact for ALL investors needs (One-Stop-Shop)

 Mandated to Manage & Regulate ASEZ

 Financially and Administratively Autonomous

 Offers investors a wide range of competitive advantages aimed at maximising private sector participation

- A flat 5% income tax on the net profit
- Exemption from social services tax
- Exemption from annual land and building taxes on utilized property
- Exemption from taxes on distributed dividends and profits
- Duty-free import of goods in commercial quantities from the National Customs Territory and Overseas
- No foreign equity restrictions on investments
- No foreign currency restrictions
- Full repatriation of profits and capital
- Streamlined labor and immigration procedures through the One-Stop-Shop
- 100% foreign ownership
- Up to 70% foreign labor
- Availability of land for lease or sale
- Full guarantees on rights and ownership

"The Aqaba Special Economic Zone is a world class business hub and leisure destination on the Red Sea, acts as a development driving force for Jordan that improves the quality of life and prosperity for the community through sustainable development"
ADC PPP Models

- Management Contract: 2 - 5 year contracts
- Leasing: 5 - 49 year contracts
- Concession, BOT, EOT, LOT, REFOT: 25 - 49+ year contracts
- Sale: Permanent

Public Sector Ownership

Private Sector Ownership

100% Public Private Partnerships
# Aqaba Public-Private Partnerships: Track Record of Success

<table>
<thead>
<tr>
<th>Successfully Mobilized PPPs</th>
<th>Total Investment (JD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aqaba Container Terminal (REFOT)</td>
<td>800M</td>
</tr>
<tr>
<td>Rock Phosphate Terminal (BOT)</td>
<td>170M</td>
</tr>
<tr>
<td>Industrial Terminal (REFOT)</td>
<td>70M</td>
</tr>
<tr>
<td>Oil Terminal (BROT)</td>
<td>70M</td>
</tr>
<tr>
<td>Marine Services (EOT)</td>
<td>20M</td>
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<thead>
<tr>
<th>New Port (BOD)</th>
<th>Projected Value (JD)</th>
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<tbody>
<tr>
<td>Grain Terminal</td>
<td></td>
</tr>
<tr>
<td>General Cargo &amp; RoRo Terminal</td>
<td>300M</td>
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<tr>
<td>Ferry Terminal</td>
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Decision to mobilize a PPP transaction structure & competitive tender process for the New Port based on project dynamics, ADC’s track record of success & pre-financial crisis considerations of the costs/benefits for Jordan.
Upgrading Port Business Units

Diversification of Business Unit (Business/Operational Rationale); horizontal integration

Aqaba … Your Gateway to the Region
# Aqaba Public-Private Partnerships: Track Record of Success

## Airport, Logistics, Real Estate, Enablers Related PPP’s

<table>
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<tr>
<th>Airport &amp; Logistics Successfully Mobilized PPPs</th>
<th>Total Investment (JD)</th>
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</thead>
<tbody>
<tr>
<td>ANREPCo. (Warehousing, LI) (LOT)</td>
<td>65M</td>
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<tr>
<td>Aqaba Logistics Village (Concession)</td>
<td>28M</td>
</tr>
<tr>
<td>Al-Baddad (AC Maintenance) (BOT)</td>
<td>28M</td>
</tr>
<tr>
<td>Aqaba Airports Company (MA)</td>
<td>15M</td>
</tr>
<tr>
<td>National Air Services (Air Cargo EOT)</td>
<td>5M</td>
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<tr>
<th>Real Estate &amp; Enablers Successfully Mobilized PPPs</th>
<th>Total Investment (JD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Berenice Beach Club (BOT)</td>
<td>5M</td>
</tr>
<tr>
<td>Aqaba International School (MA)</td>
<td>5M</td>
</tr>
<tr>
<td>Madaen Produce Market (J.V)</td>
<td>5M</td>
</tr>
</tbody>
</table>
New Port PPP
Relocation of Port: National Strategic Imperative

- Main Port relocation is a priority under the National Agenda & Aqaba’s transformation into an SEZ.
- Critical driver of ASEZ strategy & Master plan
- Redevelopment for high value tourism & commercial /urban sectors
- Economic value & jobs creation
- Creation of modern, deepwater port with flexibility to expand via demand driven growth
Development of the New Port of Aqaba Project

- Extensive study by world-class advisors; PPP determined to be optimal transaction structure with sale of Main Port occurring after development of New Port, using proceeds to reimburse the public investment.

- Original concept included Grain, General Cargo/RoRo, Rock Phosphate & Industrial Terminals; development of successful BOTs with users of Phosphate & Industrial (March/April 2008);

- Remaining terminals (Grain & General Cargo/RoRo Terminals):
  - least profitable business units in Main Port;
  - not viable individually & unusual complex mix;
  - trend towards containerization increased perception of risk for general cargo;
  - Low IRR increased financial subsidy (‘infrastructure contribution’) & required addition of Ferry Terminal to improve commercial attractiveness;

THEN….
A development agreement with Al-Ma’abar International Investments Company Joint Venture formed by Abu Dhabi’s largest real estate developers

Develop a (10 Billion) real estate project in the location of the existing Aqaba Main Port and surrounding areas over the next 20 years.

The project will take place on an area of (3,200,000 m²) with direct access to and spectacular views of the Gulf of Aqaba

500 Million JD’s of Port Funding gone to pay Paris Club National Debt’s… 😞
### Mobilization of PPP/New Port Tender Process

**June ‘08**
- EOI Process
- Registered 50 interested parties

**Aug ‘08**
- RFQ Process
- 9 SOQs from world-class consortia;
- 4 world-class, technically & financially-qualified consortia shortlisted.

**September 2008**
- Market Conditions
- Worst Financial Crisis in living memory;
- Real estate market crash;
- Trade & traffic flows decrease.
- Equity/debt harder to acquire;
- World-wide – tenders cancelled / postponed.

**Sept ‘08 - June ‘09**
- RFP Process
- Market Response
- 3 mth ext. due to financial crisis;
- 2 proposals from Aqaba Gateway Group (AGG) & Ayla New Port Consortium (Ayla);
- AGG selected as Preferred Bidder;
- Negotiations initiated.

**Aug ‘08 – Nov ‘09**
- Conditional Continuance with AGG
- EPC price & IC request way above expectations;
- beyond ADC’s ability to pay;
- Excessive risk premiums.

- ADC opened negotiations with AGG conditional upon reduction of IC acceptable to ADC, negotiation of key terms of D&O agreement.
Mobilization of PPP/New Port Tender Process

- Nov '09: Cancellation of tender process prepare for self build
- Dec '09 – March 2010: Multiple Offers received but outside tender process
- April 2010: MOU Signed with French Consortium
- Sept 2010: MOU abandoned
- Wait and see…. 😊

- Negotiations resulted in BAFO that fell short of ADC's requirement
- Ended negotiations & cancelled tender
- Raised corp bond & obtained further GoJ funding – but limited to self build
- Companies requested discussions. ADC “entertained” and ‘negotiated’ BAFO
- ADC prepared & launched design contract for marine works anyways
- ADC committed to self build but may abandon if MOU deadlines NOT met
- For various reasons…
  - Progress slow
  - Risk mitigation unfair…
  - Self Build Proceeds…
- ADC builds Port
- Introduces Private Sector at later stage

April 2010

Geotech tendered
**ADC PPP Key Issues & Lessons Learned**

- **Gov. Support**
  - Flexibility and clear legislative framework
  - Readiness to create tax exemptions, special laws…etc.
  - Investor to feel he is welcomed and rights protected…
  - Sovereign Guarantees…

- **Risk Mitigation**
  - Clear risk definition and fair distribution of risk between public and private partner
  - It is in the interest of the public entity to balance the risk borne by the private partner with the anticipated benefits and costs of the project.
  - Political, Force Majeure, Macroeconomic, Construction and Design, Business Risk…etc

- **Bankability**
  - Make as attractive as possible from a commercial/business sense
  - Make as attractive as possible from lenders sense (environmentally acceptable, socially acceptable..etc)

- **Simplicity of Deal**
  - Public Partner demands should be clear and should be consistent throughout lifecycle of deal
  - Avoid next slide….

- **Good Luck!!!**
  - TRY TO AVOID WORST FINANCIAL CRISIS IN LIVING HISTORY!!!
Airport PPP
PPP Opportunity

- Opportunity to develop and manage KHIA via PPP structure

- Potential structures include:
  - BOT with long term concession agreement
  - Management contract with minority equity holding

- Strategic plan for KHIA completed:
  - Traffic Projections
  - Infrastructure assessment and “optioneering”
  - Business Plan including long term financial projections to EBITDA
  - Privatisation Options

- Outcome will inform long term development strategy and resulting PPP process.

- PPP process due for launch second half of 2009 but due to Port experience put on hold…
PPP Objective

- Long term, sustainable, business driven, efficient secure and safe operation and development of KHIA through PPP scheme that benefits Gov., Users, Investor and the Public.
- Enabled through making project more bankable and commercially feasible.
- Enabled through supportive national and regional investment and economic frameworks – ASEZ.

Bankable & Commercially Attractive
- Low Operating Costs
- Low CAPEX Investment
- Existing Revenues
- Business Development
- Growth
- Liberalisation…etc

Govt. Support & Risk Mitigation
- Low-tax environment
- Investment incentives
- Duty-free environment
- Streamlined administrated procedures and central regulator (ASEZA)

Successful PPP Delivery
- Government Happy
- ADC Happy
- Operator/Developer Happy
- Lenders Happy
197,393 passengers in 2008 vs forecast 162,540.

Single passenger terminal serving international and domestic passengers.

3,000m runway and full parallel taxiway.

2x daily scheduled RJ service to Amman.

International charter services to multiple destinations.

Mixed use airfield with top class ancillary services including Cargo, GA and Air Academies.

Significant landside development opportunity.

Changi Master Plan developed for delivery of new terminal infrastructure.

Investing in medium term infrastructure refurbishment and upgrade.

PPP opportunity to deliver long term sustainable development of the airport as a key component of ASEZ and a part of an emerging business & leisure destination on the Red Sea.
King Hussein International Airport Master Plan
Corporatisation of KHIA (De-Risking)

- **To develop and operate ASEZA lands, Port and Airport**
- **CARC transfers moveable assets to ADC**
- **CARC operates KHIA on behalf of ADC**
- **To develop and operate KHIA**
- **Airport lands transferred to ADC**
- **To Operate KHIA as separate entity**
- **All moveable assets transferred to AAC**
- **ASEZA approves MA & AAC operates KHIA as per MA requirements**

- Provides legal framework to define relationship between Grantor (ADC) and Operator (AAC).
- Transfers management of contracts and revenue streams currently under ADC control to AAC.
- Sets forth an initial structure/entity for a long-term Development and/or Operating Agreement for strategic investor.
- Creates accountability to ADC in the form of a specific scope of management and binding KPI’s.
- Creates a single specialized and dedicated entity that shifts day-to-day operations away from ADC.

Creating a stand alone entity optimally structured for private ownership
Initial Challenges, but…

(!(Sustainable Passenger Growth)

- Volatile passenger growth linked to regional political instability and economic growth
- Small passenger base
- Depressed economic outlook

!(Currently Unprofitable)

- Very low aeronautical income – passenger charge still goes to Central Government
- Not operated on a fully commercial basis

!(Capacity Constrained)

- Airport congested at peak times
- Terminal expansion required

King Hussein International Airport Historic Passenger Trend
Source: AAC

Gulf War
Economic Slowdown
Regional Instability & Iraq War
ASEZ Effect
Strong Passenger Growth Potential
- Significant forecast out performance in 2008 – actual 197,393 versus forecast 162,540
- Major tourism development programme in place
- Outbound domestic passenger growth as Aqaba develops as a major economic centre

Profitability Assured
- 20JD International passenger charge to be transferred to KHIA – precedent of QAIA and Duty Free revenues.
- Aeronautical tariff restructuring in line with peers
- Commercial opportunities – property re-rating, parking and car rental, VIP lounge, surface access charge, fuel levy.
- Economies of scale

Infrastructure delivery
- Ongoing terminal and runway infrastructure upgrade and refurbishment – delivery of a sustainable platform for growth
- Major non-core airport land development opportunity
Supportive national, regional and local frameworks
- Pro privatisation government
- Mega Projects support at high levels (Red-Dead, DISI, Nuclear Power, QAIA, New Port Project)
- ASEZA – inward investment enabler and Master Plan sponsor
- ADC – Major infrastructure development sponsor (Main port relocation, Main port redevelopment, Container Terminal, Specialized port terminals, Logistics Village.. etc) - *successfully packaged over US$14 billion of development projects and PPPs*
- KHIA structured as stand alone business (AAC)

Tourism Development Strategy
- Significant future growth in high quality hotel accommodation secured or in development – 6 fold increase in premium hotel rooms by 2015
- Top brand investors – Jumeirah, Westin, Kempinski, Movenpick, etc
- Opportunities beyond sea and sand – Petra, Wadi Rum, comprehensive tourism segments

Wider Economic Opportunities
- Free trade zone
- Cargo transhipment
- Growing business destination
- New regional and national growth engine

Liberal Aviation Environment
- Open Skies
- Visa issuing powers
- De-centralised & light touch regulation thru ASEZA
Conclusion
Balancing Competing Forces

Project Objectives / Interests of Jordan
- Desire for efficient, world class facilities
- Optimal contractual, legal protection
- Medium- to long-term expansion capability
- Reasonable cost (direct/indirect) vs. return
- Business Development Driven

Market Forces / Interests of Lenders/Developers/Operators
- “De-Risking” Project
- Less Complex Deals
- Bankability & Commercial Attractiveness
Aqaba Special Economic Zone

Regulated By:  
Developed By:

Your single point of contact for all investment needs  
Your business partner & Infrastructure enabler

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