

Projects financed through EIB financial instruments: The Dublin example



Presentation

by

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Dublin is a big port on the small island of Ireland

1. 28% of population in the immediate hinterland
2. 28% of all tonnes
3. 49% of Ro-Ro
4. 54% of Lo-Lo
5. 42% of passengers through ports
6. 5% of all passengers through ports and airports
7. 32% of all petroleum products consumed
8. 36% of all cruise ship arrivals
9. 20% of all electricity generated



Dublin Port in context

- Gateway port to an island economy
- Strong link between volume growth and GDP growth (x 1.4)
- Long history of compounding annual growth:
 - 1950 to 1980 3.2%
 - 1980 to 2010 4.7%
 - 1990 to 2015 5.8%
- 17.3% over the last three years alone 2013 to 2015
- Future growth frequently underestimated
- No significant spare capacity for future growth
- Commercial company owned by the State
- Profitable with a strong balance sheet



Alexandra Basin Redevelopment (ABR) Project

- First major project from a 30 year Masterplan
- Estimated project cost €227m
- Building / rebuilding 3km of quay walls (42%)
- Dredging channel to -10.0m CD (from -7.8m) over 10km
- 6.4m m³ of dredge spoil of which 0.5m m³ heavily contaminated
- Planning decision received from An Bord Pleanála
- Construction started late 2015
- Civil works completed by end 2019, dredging by 2022

- Economic benefit €677m (NPV)
- Benefit to Cost ratio 2.8
- Financial IRR 0.1%
- €2.5m TEN-T funding from EU at 50%
- CEF grant from EU of €23m
- 20 year loan from EIB of €100m

Source of funding	Value	Proportion	Rate
Grant	€ 22.8m	10.0%	0.0%
EIB	€ 100.0m	43.9%	1.0%
Other bank	€ 50.0m	21.9%	2.3%
Retained cash	€ 55.0m	24.1%	0.5%
	€ 227.8m	100.0%	1.1%

The reality of port projects

- Port projects build capacity for future growth
- Inevitably this means low project returns and this is inescapable:
 - Invest €1.0m for a 30 year lifetime asset
 - If return is €100,000 from Year 1 to Year 30, IRR is 9.3%
 - If €100,000 return is reached in Year 30, IRR is 2.2%
- Patient and low-cost finance is needed
- ABR Project IRR of 0.1%
- Alternative do-minimum project IRR 12.2% but do-minimum would lead to capacity constraints
- We focus on company ROCE rather than project IRR
- Economic CBA guides us to select good projects
- What would be good for the port company would be bad for the country



Reflections from Dublin Port's experience

1. Port projects can be difficult to justify in financial investment terms
2. Because ports are so important in our supply chains, port projects must generate an economic return. Otherwise we are wasting capital.
3. The discipline of EIA and CBA is essential to produce a good project
4. A good project with economic returns still has the challenge of being financed
5. EIB debt or similar is essential
6. Availability of additional EU grant (or other measures) as a means to offset poor financial returns is important to share the economic burden across the economy
7. Coherence between EU policies helps:
 - * Port Regulation
 - * Competition investigations
 - * Long-term vision in White Paper and TEN-T networks
 - * Blending of EU debt / grant finance / risk mitigation measures
 - * Environmental regulations
8. Financial, economic and environmental analytical framework brought clarity

In summary: four types of port projects

	Economic test	Financial test	Comment
Type 1	Pass	Pass	New trade car facility in Dublin
Type 2	Pass	Fail	ABR Project
Type 3	Fail	Pass	Do-minimum alternative to ABR
Type 4	Fail	Fail	They do exist!

- Most important port projects will be Type 2
- Some ports may be strong enough to finance a Type 2 project:
The issue here is how to offset the project's low financial returns.
- Some ports may not be strong enough:
Support from the spectrum of EFSI risk reduction measures to State-aid will be needed. Competition impact analysis essential.
- Port projects need detailed EIA, CBA and, in some cases, competition impact analysis, if they are to succeed



Our experience of looking for finance

- Many lenders came to us from 2011 to 2014: investment banks; retail bond salesmen; prospective investors of various types
- All unsatisfactory - expensive and hard to pin down for terms
- Timescale for ABR Project:
 - Developed project 2012 to 2013
 - Applied for planning March 2014
 - Planning permission granted July 2015
 - Construction work commences January 2016
 - Four year build (civils) plus two more for dredging
- TEN-T, CEF, EIB etc. was an alien world to us
- TEN-T €2.5m grant (July 2014) for studies allowed us to progress with planning plus design
- Gave confidence
- Also looked to EIB:
 - First trip February 2014
 - EIB in Dublin November 2014
 - Finance agreement concluded October 2015