HSL Zuid: rail becomes reality

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The Netherland's Eu1.2 billion High Speed Rail Line Zuid Project (HSL) reached financial close on November 5. It is the first major infrastructure public private partnership (PPP) to be developed in the country, and its successful financing should serve as further evidence of PPP's relevance, and efficacy, particularly given the contentious debate over the concept among Dutch (not to mention other European) policy makers.

The government has spent several years structuring the HSL deal. Infraspeed, comprising sponsors Siemens, Fluor, Innisfree, Charterhouse and Dutch contractor BAM NBM, was selected as winning consortium following a thorough and competitive process that witnessed all leading rail industry sponsors bidding for the mandate to design, build, finance and maintain (DBFM) the track, safety systems and communication systems. The consortium will be responsible for that mandate over the lifetime of the concession (until 2031), and will receive performance-based revenues from the government. The government will pay Infraspeed an annual fee of approximately $100 million for use of the structure.

The responsibility for the construction of the civil works and the operation of the high-speed trains will remain with the government and, in particular, Infraspeed will not assume any traffic risk.

Siemens, a market leader in the rail industry, already has significant experience with high-speed rail, having completed a similar project in Spain.

Under the terms of the deal, an Eu1.1 billion project finance package has been put together through the European Investment Bank (EIB) and a cofinancing arrangement with international commercial banks, led by Bayerische Hypo-Und Vereinsbank, ING, KBC, KfW, Dexia Credit Local and Rabobank.

Deutsche Bank acted as advisers to Infraspeed.

The total debt package includes an Eu605 million syndicated term loan, an Eu119 million subordinated debt bridge facility, an Eu15 million working capital facility and EIB's Eu 400 million term loan.

Infraspeed opted for EIB financing because of the project's TEN status and hence its eligibility for EIB finance. The EIB indicated its interest in providing a loan of up to 40% of the overall ticket, combined with a senior syndicated loan facility.

HSL is one of the priority TEN projects and fits squarely into EIB's top infrastructure priorities. In addition to the EIB loan, the bank will provide $400 million guarantees, to be released three years post completion when under base case assumptions certain release conditions are expected to have been fulfilled. After this release, the EIB will be fully exposed to project risk.

This approach is of note because it diverges somewhat from EIB's role in other recent infrastructure projects, in which the bank only released such guarantees gradually over the life of the project.

?The EIB's involvement was very important for this project,? says Peter Valk, head of ING's infrastructure finance team. ?One the one hand, it lends more strength to an already strong deal, and it will also help the syndication process significantly.?

The working capital facility has been arranged to fund shortfalls in state payments resulting from time differences in amounts due, payable according to a proposed performance payment fee mechanism. Banks underwriting the senior syndicated loan facility were also requested to underwrite the working capital facility and the subordinated debt bridge facility on a pro rata basis, in proportion to their underwriting commitment on the senior debt tranche.

The HSL assets will cover the new high-speed line infrastructure from Hoofddorp to the Netherlands/Belgium.

The Dutch state is also arranging a comprehensive insurance program for Infraspeed, to cover the major insurance risks over the term of the project. The state will also act as insurer of last resort in the event that currently insured risks become uninsurable.

Valk puts the project's success to date down to well-targeted coordination within the government. ?The PPP taskforce set up by the government has done a superb job of promoting the idea of public private partnerships,? he says. He also stresses the Holland is a small country, with well-defined infrastructure needs.

Yet one fact that sets the Netherlands apart from other notable European countries pursuing PPPs is that its public sector finances are in a very healthy state. Lining up with Maastricht criteria in annual budget deficits before joining the Euro was never an issue for the Netherlands, and its economy has been growing robustly. This fact has led some observers to question the rationale behind the pursuit of PPPs. The burden of evidence now lies, it seems, on the bankers and advisers to demonstrate that, ultimately, it does save money.

It is understood that a 5% cost reduction should accrue from HSL, compared with pure state funding. ?In other infrastructure projects,? says Valk, ?we have demonstrated with this approach not only an improvement of efficiency but also substantial savings, and this is also the case with HSL.?

One issue that has plagued PPP projects elsewhere has been timeliness of concluding negotiations towards financial close. Aside from the four years of preliminary negotiations, the final deal was closed swiftly in five months, demonstrating, according to Valk, the unrelenting resolve of all participants, and, as much, the strength of the process itself.

Ultimately the introduction of PPPs is as much of a learning process in the Netherlands as anywhere else. ?The market is ready to adopt more similar projects but clearly it's a matter of education. It's also a question of coordinating the central government and the municipalities, together with their independent advisers, to ensure the smooth and comprehensive working of this process. This has happened with HSL and will continue to happen with future PPPs,? says Valk. n