Figueras–Perpignan high speed rail link

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In 1995, the governments of France and Spain signed the Madrid Agreement, establishing the legal framework behind the project to design, build, operate and maintain a 45km stretch of high speed rail link through the Pyrenees, writes Edward Berry.The project closed in February and is back in the news this week as it has successfully closed syndication.

This cross-border rail line between the Catalan town of Figueras and Perpignan in the south of France has long been on the cards and is one of 20 priority projects highlighted under the Trans European Network (TEN) scheme back in 1996.

The project forms a small but crucial section of the high speed link between Madrid and Marseille offering travelers an alternative to the increasingly congested road and air routes. Traffic crossing the Pyrenees during the 1990s rose steadily and by 1998 annual freight traffic between Spain and the rest of Europe had reached 144 million tonnes.

Rail freight on the existing four lines makes up just 3 per cent of that total, with road traffic taking the strain with 15,000 heavy goods vehicles (HGV) crossing the Pyrenees every day – and that figure is set to continue growing at more than 10 per cent per annually. Industry figures estimate there will be more than double that figure by 2020.

Currently all through trains crossing the border either pass through a gauge changer or are trans-shipped between wagons, slowing down progress.

As passenger figures alone do not justify construction of the Perpignan-Figueras line, passenger, freight and 'rolling road' style piggyback trains carrying complete trucks will use the line. The trains will require easier gradients than those found on other TGV lines, which can be as steep as 1 in 28.

Not only will the line be an attractive prospect for passengers looking to reduce considerably the journey time between Spain and its European neighbours, it will also offer a fast and viable freight alternative that will provide a long-term solution to heavy cross-border road congestion.

Once the line is operational, it is expected to achieve a 30 per cent share of the land transport market in the Pyrenees. Traffic for the first year of operations is expected to be around 3.5 million passengers and 4.2 million tonnes of freight.

The Project

Given the highly ambitious and complex nature of this international rail project, it was inevitable that it would not get underway without its fair share of teething problems.

In 2002, the Euroferro consortium of Bouygues and Dragados was selected as the project’s preferred bidder, but the tender process was annulled a year later following a failure in negotiations between the consortium and the two states.

One of the rivals in the first bidding threatened to file a law suit against both governments and the preferred bidder over alleged discrepancies surrounding the bidding process.

The governments re-launched a tender months later adding restrictions over concessional negotiation and ensuring stricter closing deadlines to the package.

However, the new bidding process lacked the aggressive tendering of the first round – attracting only three consortia.

The TP Ferro Consortium, in which French construction giant Eiffage took a leading role alongside Spain's ACS Dragados, bagged the contract on 17 February 2004.

Eusebio Corregel, chief executive of TP Ferro, said: 'The second bidding process was called with closer specifications and a contract model that did not admit changes.

'The framework was the result of the negotiations with Euroferro in the first tender, where the negotiations concerning the financing were greatly advanced, and therefore it gathered the necessary clauses in order to ensure the feasibility of such funding.

'The points left to negotiate were limited, and a very quick negotiating process was guaranteed.'

The construction phase for the 45km dual track railway line got underway shortly after the 50-year concession contract agreement was signed on 17 February 2004.

Because the line is a TEN priority project and forms a crucial link in the route between Barcelona and Montpellier that is being built by the respective governments, the concessionaire has to build this section in just five years – in time to link up the two lines.

'There is a strong political incentive for the two countries to finish construction by the due date,' explains White & Case partner Paule Biensan. 'A failure to do so by either state will result in them both paying an indemnity to the concessionaire.'

TP Ferro's Corregel says: 'The timeline of five years is very stringent, but all the planning resources have been carried out, taking in consideration the early deadline. With all data available to date, we are on track to meet that deadline.'

The most challenging and expensive – €305m (US$368m) – part of the project is boring the 8.3km twin tube tunnel – the Perthus Tunnel – that will run just 1km in Spain before passing through the border and emerging in France 7.3km further down the line.

There are safety connecting galleries every 200 metres and the tunnel will be fitted with an automatic fire extinguishing system.

Four different types of passenger trains will use the line which will be equipped with level 2 ERMTS signalling to allow both SNCF and RENFE trains to operate on the tracks.

For long-distance daily services by the French TGV and RENFE's ICE3 Siemens will be used; RENFE's Talgo-Bombardier will take passengers for average-distance daily services and RENFE's Talgo Camas will provide overnight services.

Traffic Risk

Due to cost overruns and being susceptible to delays, convincing potential lenders to participate in tunnel projects has in the past been a difficult task, and Perpignan-Figueras was no exception.

According to leading industry figures, the main issue facing those involved with the project is the huge element of traffic risk. They say that the Spanish and French governments drafted a DBOM concession agreement whereby the concessionaire is under no obligation to maintain the trains using the infrastructure.

Unlike the model used in the UK for the Channel Tunnel Rail Link (CTRL), TP Ferro is not paid a lump sum every year from the two governments, instead it gets paid by the number of trains using the route. The fee depends on the size and purpose of the train, be it passenger or cargo.

The project has no minimum usage or other guarantees from SNCF and RENFE or the two governments, so if service demand increases for the line, it is more likely that the operators will increase tariffs, not capacity so there will not be an increase in payment to the concessionaire.

Traffic forecasts have been high for the future but it is inevitable that the line will experience a gradual build up in traffic, producing a number of years of low revenue.

As Biensan explains, to cover this potential temporary gap, the lenders have set up a 10-year standby loan – see details below – that will be available to TP Ferro to cover shortfalls during the build up period. However Corregel is not fazed by ongoing talk of traffic risk: 'The traffic studies done are conservative and therefore we believe the real traffic will be even higher to the one estimated, particularly with regards to goods traffic.'

The Transaction

Being the first international rail project to be financed as a PPP since the liberalisation of the rail-freight market, it attracted a wealth of international players.

The financing package was structured by leading international banks: BBVA, Banesto, Caja Madrid, ING and Royal Bank of Scotland. Banesto and IXIS Corporate & Investment Bank acted as financial advisors.

Ashurst was the sponsor's legal adviser with White & Case (France) and Garrigues (Spain) providing legal advice to the banks.

Scott Wilson Business Consultancy was awarded a €135,000 contract to undertake the technical due diligence of the scheme in August 2005.

'Due to the nature of the project and the challenging route of the line we used our extensive multidisciplinary expertise. We have input from our tunneling and railway experts in UK, and our Spanish office is managing the project locally,' says Alan Brookes, assignment manager for Scott Wilson.

While initial construction works got underway in February 2005, hard work began to close the deal within the strict timeline.

White & Case partner Paule Biensan says: 'There was a very tight schedule for us to put in play for the financial structure. Financing had to be available by 28 February 2005 and the governments had a clause to terminate the concession if we delayed the deal.'

One of the main strengths of the transaction lies in the fact that a significant portion of funding for the project comes from the public sector in the form of a civil law subsidy.

The two governments are providing the concessionaire with a €540m (US$651m) non-refundable grant, which will be paid over eight installments as milestones on the project are reached.

The lenders have established a €62m (US$77m) facility to pre-finance the final state subsidy payment which will be received one month after construction is complete.

Furthermore, because the line forms part of Trans-European network scheme, the state grants might be temporarily replaced by EU grants and the option of EIB loans has not been ruled out.

Due to the 50-year concession period, the MLAs chose to provide the senior debt package of €532m (US$641m), €410m of which is a miniperm facility – a shorter term financing which will require refinancing in 10 years but will have an underlying tenor of 35 years.

To cover the possible lack of cash flow caused by low traffic levels during the early years of operation there is a 10-year €35m (US$42m) standby loan available for TP Ferro.

There is also a €25m pre-financing facility for the VAT incurred during the construction phase.

The bank facilities are fully underwritten by BBVA, Banesto, Caja Madrid, ING and Royal Bank of Scotland and will be in the market for syndication which closed this week.

TP Ferro is putting an equity stake of €103m (US$124m) into the project which will be split equally between Eiffage and ACS Dragados.

Conclusion

The political will for the construction of a high speed passenger and cargo rail line linking Spain and France was strong from both sides, something that went a long way to helping push through this major engineering feat.

While the tunnel work is not of the magnitude of the Channel Tunnel, it is every bit as vital a piece of infrastructure for the neighbouring countries. It is relieving the pressure that has built up on the roads and helping to stem the growing reliance on transporters to rely on HGVs.

The original bidding was considerably more aggressive than the second time it came to market, but the end result is what matters – an effective high-speed rail link that unites Spain, Portugal and the North of Africa to Europe by train.The project at a glance

PROJECT NAME	High-Speed Rail Link Figueras-Perpignan
LOCATION	North East Spain - South West France
DESCRIPTION	Design, construction, operation and maintenance of a 45km high speed, mixed traffic (passengers and cargo) dual track railway between Figueras (Spain) and Perpignan (France)
SPONSORS	ACS Dragados Concesiones de Infraestructuras (50 per cent); Eiffage (50 per cent)
EPC CONTACTOR	Eiffage, Forclum, Dragados, Cobra Instalaciones y Servicios, VFP Eiffage Dragados, IFP Cobra-Forclum, Túnel del Perthus and Trans Euro Pyrénées
TOTAL PROJECT VALUE	€1.1bn (US$1.47bn)
STATE GRANTS	€540m(US$693m) split equally between French and Spanish Governments
TOTAL SENIOR DEBT Comprising:	€532m (US$647m)
Miniperm Facility	€410m
Standby Loan facility	€35m
VAT Pre-financing facility	€25m
Final subsidy pre-financing facility	€62m
TOTAL EQUITY	€103m (US$133m)
TENOR	50 year concession (5 year construction period)
MANDATED LEAD ARRANGERS	Banco Bilbao Vizcaya Argentaria, Banco Español de Crédito, Caja de Ahorros y Monte de Piedad de Madrid, ING Belgium, Sucursal en España and Royal Bank of Scotland
TOTAL MEZZANINE	No mezzanine was provided
LEGAL ADVISOR TO BANKS	Garrigues (Spain) White&Case (France)
LEGAL ADVISORS SPONSORS	Ashurst
FINANCIAL ADVISORS TO SPONSORS	IXIS CIB, Banesto
TRANSACTION SUPPORT SERVICES	Scott Wilson
DATE OF FINANCIAL CLOSURE	10 February 2005