Eurasia Tunnel, Turkey - IJ Awards 2013 Transport deal of the year

Sakshi Sharma

22/04/2013

The signing of one of Turkey's most significant infrastructure projects in recent times - the US$1.22 billion Eurasia Tunnel which is to be built under the Bosphorus straits – is key both for the country's economic progress as well as its future project financing landscape.

The project took roughly four years from tender to financial close and was definitely a challenging one for the advisers, the Turkish procuring authority, sponsors and lenders. But in the end the project succeeded on various accounts, bringing a combination of international players together on one platform and getting them all comfortable with the project's risk profile. The project's advisors also single out the Turkish Treasury's support as one of the most key elements in getting the project through to financial close.

Once completed, the tunnel will be an important link between Europe with Asia through the country's capital Istanbul while also easing the congestion on the existing Bosphorus Bridge and ferries running across the Marmara Sea. The tunnel will also have important economic benefits for Istanbul as well as provide a good blueprint for similar projects in the future.

The new tunnel is expected to start service in October 2016 and be handed back to the government in April 2043 as per the project timetable.

The Project

The project which has many names including the Bosphorus Tunnel, Istanbul Strait Road Crossing Tunnel and the Eurasia Tunnel, was tendered out for bidding back in 2008 just before the global financial crisis hit. The crisis disturbured the project's planned timeline but it finally came back on track to be signed in February 2011 and achieve financial close in December 2012. The project is regarded as a learning curve for the Turkish government since the market is still quite new to PPP project procurement.

The total 30-year concession project is being procured by the Republic of Turkey's Ministry of Transport, Maritime Affairs and Communications, General Directorate of Infrastructure Investments (AGYM) and has been financed by a combination of commercial and multilateral banks as well as a guarantee by Korean export credit agencies. It is understood that this deal represents the first development to bring together multilaterals and Korean ECAs within a project financing. The project also had good backing from IFIs like the EIB and EBRD.

The project sponsor - a Korean-Turkish ATAS consortium - was chosen as preferred bidder in 2009. The consortium comprises Yapi Merkezi and SK Engineering & Construction. The project itself will connect two sides of the Bosphorus with 14.6km length road of which 5.4km is an undersea tunnel. The tunnel will start at Kazlicesme on Kennedy Street on the European side and end at Goztepe Intersection on the Ankara Highway on the Anatolian side.

The phased construction works along the 14.6km route, including the 5.4km twin-deck submarine tunnel crossing the Bosphorus are due to commence in 2013. The tunnel is one of the deepest and one of the widest to be completed yet. The real tolled project is scheduled for completion in autumn 2017 and benefits from a minimum traffic guarantee mechanism provided by AGYM. It also includes two sections of cut-and-cover and New Austrian Tunnelling Method (NATM) tunnel and 9.2km of widened roads and exits on each side. When complete, the project will reduce east-west journey times across Istanbul from 100 to 15 minutes. The tunnel will involve tolling and will be restricted to cars and mini-buses and won't accommodate commercial trucks, it is understood.

On the project procurement side one of the main challenges on the insurance front was that Istanbul is known to be in an earthquake zone. One adviser said that since no one knows when the next earthquake will hit the city, some amount of seismic engineering and insurance advice was required to address that and protect it.

The hope is that this priority project will help address the city's capacity constraints faced by its existing infrastructure as well as get prepared to deal with continuing traffic growth Istanbul is projected to have in the coming years. According to the EBRD the Project complies with all environmental and social standards in line with international practice.

Financing

An interesting combination of lenders came together to bring the project to close. As such for Turkey it was the first time official agencies like the Turkish Ministry of Transport, Turkish Treasury, EIB, EBRD, K-EXIM, and K-SURE joined hands for a project.

In particular the total US$1.22 billion deal is covered by guarantees from Export-Import Bank of Korea (K-EXIM) and Korean ECA K-Sure. K-EXIM is also providing a direct loan of US$250 million, and both EBRD and EIB together are providing a loan of US$500 million. While local Turkish banks; GarantiBank, Turkiye Isbank and Yapi Kredi did not directly lend to the project but together are providing guarantee to cover the loan provided by the two multilaterals.

The commercial bank debt split is as follows:

- SMBC (intercreditor agent, modelling bank) - US$75 million
- Standard Chartered (documentation bank, technical bank) - US$75 million
- Mizuho - US$60 million

The commercial bank debt is being covered by a K-Sure guaranteed facility. The entire debt is being provided for a long-term tenor of 18 years - which is seen as another positive for Turkey's project finance market. The sponsor consortium also contributed equity to the project which brought the debt:equity gearing at 78:22.

Other notable facts that improved the bankability of the project was inclusion of a 'Debt Assumption Agreement' with the Turkish Treasury to partially mitigate foreign exchange risk (since the project involves US dollar-denominated debt loaned against toll revenues generated in Turkish Lira). Also under the assumption agreement Turkish Treasury would provide lenders additional comfort, in the case of a project default. The other aspect was inclusion of a direct agreement under the concession agreement providing lenders with Step-in rights. While these measures might be common in other advanced PPP markets, they don't have any precedence in the Turkish market yet and therefore will be used as basis for future infrastructure deals in the country.

Sources close to the project said that the three year financial negotiation phase also lead to the required laws and regulatory changes being passed by the Turkish senate. The strong syndicate of lenders also had a lot of inter-creditor issues that had to be dealt with but were ironed out over the course of the negotiations.

What it means for the future

The infrastructure industry is without doubt very enthusiastic about the future prospects of the Turkish deal pipeline. However the market is still quite new to project financing when compared to its neighbouring European peers, therefore successful financial closes to the likes of the Eurasia Tunnel reflect well on the country's project finance profile. It also makes the case for the future pipeline.

Turkey has ambitious infrastructure plans including the recently announced new six runway airport in Istanbul. The airport and the third Bosphorus Bridge and the Eurasia tunnel are essential to Turkey's economic growth and will need to be built with both local and international expertise. A good regulatory environment will definitely make the market more attractive for foreign players and increase the much needed FDI flow into infrastructure sectors. That said experts also suggest that local Turkish banks are more liquid than in the past and they have an appetite for assets. The third Bosphorus bridge - which is expected to reach close this year - is understood to be primarily backed by local Turkish banks. There is also a growing trend of equity investors getting more interested in Turkish projects.

International banks are of the view that there is good interest in Turkey provided the project has a manageable risk profile. But these issues are being increasingly better addressed now with arrangements like the Debt Assumption Agreement which the Eurasia Tunnel used and which will hopefully be worked into future project contracts at an early stage already.

Advisory Roles

Unicredit is financial adviser to the sponsor and Skadden, Arps, Slate, Meagher and Flom is legal adviser. Clifford Chance was the lenders' legal counsel, with local legal advice provided by Fidan & Fidan. Arup was technical adviser and traffic advisor to the lenders and JLT provided insurance advice.