Turkey’s STAR Rafineri

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Turkey’s STAR Rafineri crude oil refinery project is set to close in weeks, and its significance for the country and its project finance market is major. The US$5.5 billion deal is set to bring in a raft of export credit agencies, international and local banks into the Turkish energy market, some for the first time.

The sponsors received binding commitment letters from 17 financial institutions in excess of US$5 billion in December. Whatever the eventual list of lenders on the deal, it is clear that the project is set to be one of the biggest, and potentially most influential, infrastructure financings that Turkey has ever seen. A successful project financing on this scale can only open the door for further international capital to flow into Turkey's increasingly dynamic project finance market.

In development for several years, the 10 mtpa full conversion crude oil refinery project on the Aegean coast, close to Izmir, Turkey is now at a critical, late stage of its financing. “We have been in the process of selecting the best bids among the binding offers,” the sponsors told IJ News last week. “We aim to finalise the financing of project in the next couple of weeks […] the project is ongoing as planned and the investment expenditures are being met by equity comfortably until the financing closure,” the sponsor added. “US$ 1.9 billion would be equity and the remaining [is] to be met by project financing,” they said.

So why the storm of interest from lenders? For one, the project is needed: the project marks a key shift for the Turkish petrochemicals industry away from a dependency on imports. Indeed, once onstream, it will have the capacity to produce 1.6 million tonnes of naphtha and other importing products to Turkey such as jet fuel, ultra-low sulfur diesel, LPG, petroleum coke and xylene. Crude oil will be supplied by SOCAR based on a long-term supply contract, and the project will see Turkey become a major refining power in its own right.

Another reason for the strong lender interest is the strong developing consortium. The State Oil Company of the Azerbaijan Republic (Socar, with 81.5 per cent ownership) and Turcas Petrol (18.5 per cent) are both stable, solvent sponsors.

However, the path to fully project financing the deal has faced some twists and turns. The sponsors had originally planned to finance the project with a US$450 million slice of debt from the EBRD and the IFC. However, last week the two lenders left the deal due to differences in the intercreditor policies of the various lenders involved in the project. The time it took to close the deal, it seems, played a factor. As it stands, the project looks unlikely to have DFI debt. If it can successfully close without them, it may be a signal of the amount of commerical lender interest in the project.

The scale of the export credit agency debt that is already confirmed for the project - some US$641 million from the Export-Import Bank of the United States, and an 18-year, US$58 million loan from the Black Sea Trade and Development Bank - has also raised some international concerns. Late last year, US oil giant Valero Energy raised concerns about the US Ex-Im debt, saying that “the new Turkish refinery will be a direct competitor of US refineries in the global market [...] though some refined products produced at the refinery may be consumed domestically, it takes away potential export markets.”

Despite international concerns abut Turkey's growing strength, IJ's data shows that in 2013 24 deals reached financial close in Turkey with a total value of US$25.4 billion, of which US$20.5 billion was debt. Most deals were in the secondary market, and greenfield projects in the energy and oil space have closed, but slowly. Several landmark state-run power generation plants and power distribution companies were tendered and funded in 2013: the US$2.5 billion Seyitomer thermal power plant and the US$1.02 billion Kangal coal-fired power project. A joint venture between Gama Holdings and GE Capital reached financial close on the 840MW, US$850 million Kirikkale combined cycle gas turbine power project on 4 December last year following three years of negotiations. Increasing the speed of such financings may prove key to boosting this fledgling project finance market.

IJ’s Turkey Infrastructure Financing Review noted earlier this month a number of exciting project finance opportunities exist in the Turkish infrastructure project pipeline for internatonal lenders. Hydro, wind and coal-fired projects are in development in the energy space. The success of this project may do much to decrease the risk profile for new lenders to the Turkish infrastructure market and boost confidence in the petrochems sector. However, financial market conditions will create practical difficulties in raising continued large volumes of financing in Turkey. An area of concern is the decline in the value of the Lira. The depreciation makes Turkey vulnerable to the withdrawal of long-term investment in the region. To stabilse the sliding Lira, in February the central bank raised interest rates in the hope of improving conditions. The recent rise in interest rates may make local banks warier about lending, which may in turn delay the funding for further infrastructure financings in 2014.