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Case Study 2

The Concession of a New Container Terminal in the Callao Port in Peru

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Cairo - May 25, 2008



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Agenda

- 1. Peruvian Port sector and Institutional Reform**
- 2. Callao's Port Organizational Structure**
- 3. New Container Terminal (NCT) Business Design and Bidding Results**
- 4. Key elements for the successful NCT concession and Multiplier Effects**



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1. Peruvian Port Sector and Institutional Reform



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Peruvian Strategic Location in the South Pacific Coast



South and Central America moves 20 million TEUs annually

Country	Annual TEUs
Brazil	6 million
Panama	4 million
Argentina	2 million
Chile	1.9 million
Peru	1.3 million

Source: AAPA





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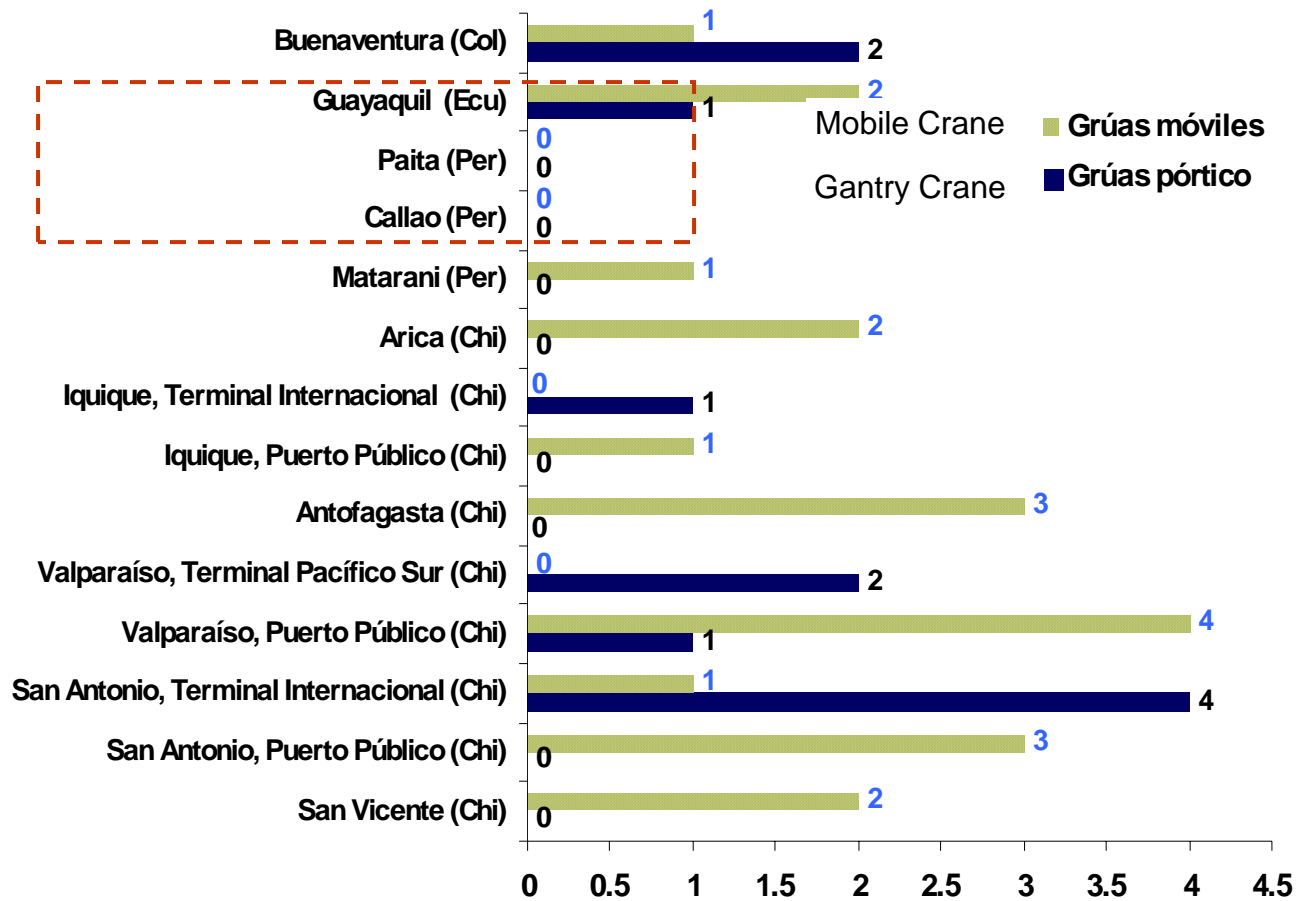
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Latinamerican Port Ranking

Ranking 2006	Port	Country	Million TEU's
1	Santos	Brazil	2.9
2	Kingston	Jamaica	2.2
3	Colon	Panama	2.0
4	Buenos Aires	Argentina	1.7
5	Freeport	Bahamas	1.4
6	Balboa	Panama	1.0
7	Callao	Peru	0.9
8	Manzanillo	Mexico	0.9
9	Puerto Cabello	Venezuela	0.85
10	Puerto Limón	Costa Rica	0.8
11	Rio Grande	Brazil	0.7
12	Cartagena	Colombia	0.7
13	San Antonio	Chile	0.7
14	Itajai	Brazil	0.65
15	Veracruz	Mexico	0.65
16	Valparaíso	Chile	0.6
17	Paranagua	Brazil	0.6
18	Guayaquil	Ecuador	0.6
19	Montevideo	Uruguay	0.5
20	Puerto Cortés	Honduras	0.5



Cranes in the South Pacific LAC





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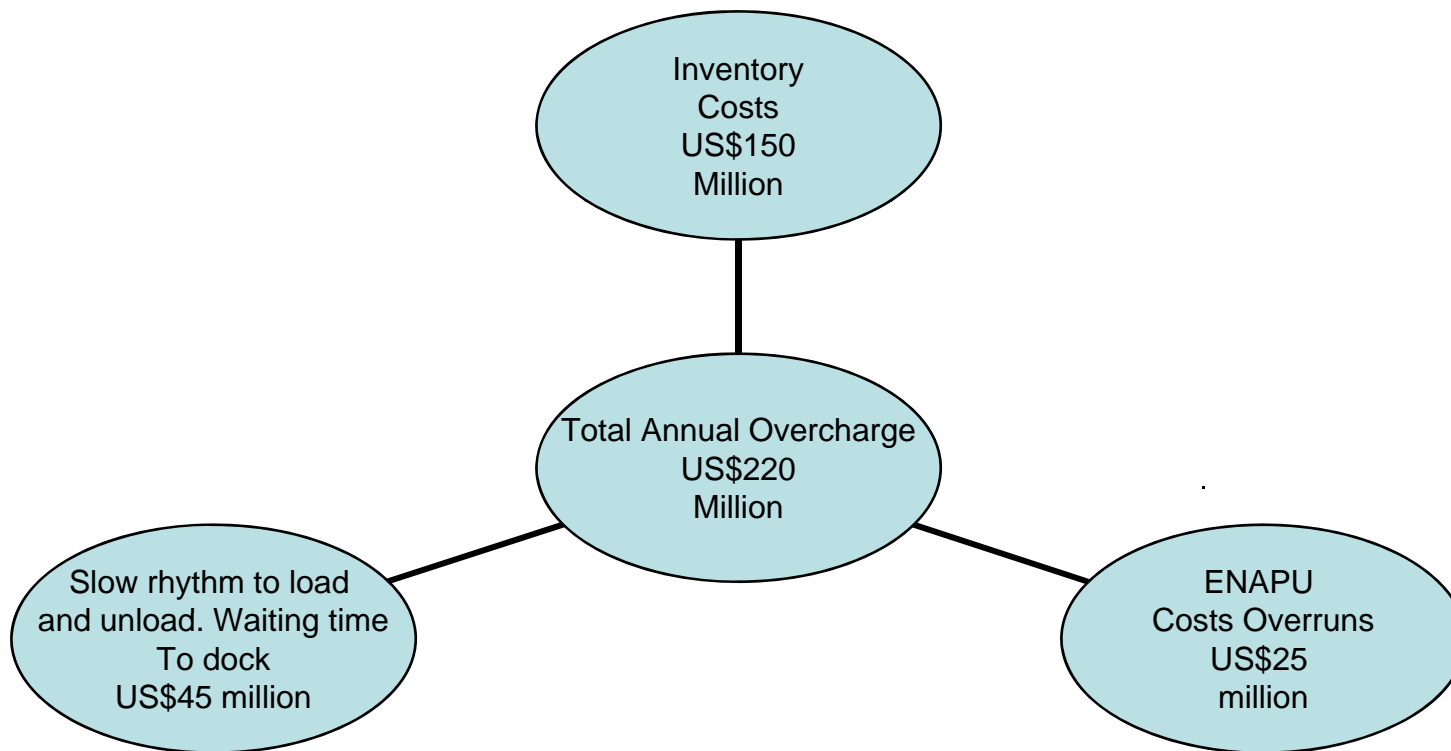
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Callao Port

- a) Increase in Demand (Port moves more than 1 million TEU per year and serves 80% of Peruvian foreign trade)
- b) Cost Inefficiencies, low Productivity and Technological change
- c) Negative externalities
- d) Investments required in peruvian ports US\$800 million



The Cost of Callao Port Inefficiencies





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Institutional Reform

- 1. Before 2003 Ministry of Transport was responsible for the peruvian port infrastructure policy and ENAPU (Ports National Company) was responsible for the port operation.**
- 2. New National Port System Law, March 2003. New institutional framework to let the private sector to invest in ports.**
- 3. The new Law creates the National Port Authority, which is the institution planning port development and public-private investments**
- 4. National Port Development Plan identify dinamically the investment requirements of each port and allocate resources in ports in a rational way.**



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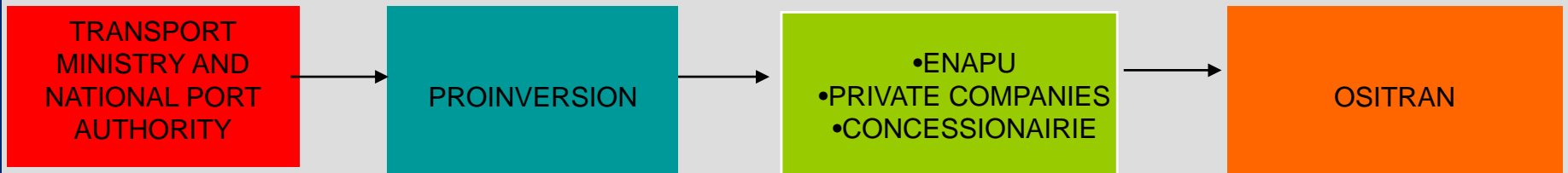
Project Cycle and Institutions

Planning

Bidding

Investment
and Operation

Regulation





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2. Callao's Port Organizational Structure



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**Joint Production is cheaper than
by separate**

**Economies of Scale
Diminishing Average Cost**

Scope Economies

Monopoly

¿Regulation?



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Normal Competition in Pier 5

Low Competition between ports

Low Intermodal Competition

Competition between ENAPU and concessionaire

Encouraging Competition

Total Revenues US\$100 million annually



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Services in Competition

Service	Competition	Tariff Regulation	Competitors
Pilotage	Yes- Private	No	Pilot station 46% Tramarsa 26% Triton 21%
Towage	Yes-Public-Private	No	ENAPU 20% Sertemar, Tramarsa, Transoceanica and Inmarsa 80%
Stevedoring	Yes-Private	No	38 companies
Storage	Yes-Public-Private	No	ENAPU, Tramarsa and Neptunia



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Regulated Services

Service	Competition	Tariff Regulation	Competitors
Use of Moor	No-Public	Yes	ENAPU
Use of Pier	No-Public	yes	ENAPU



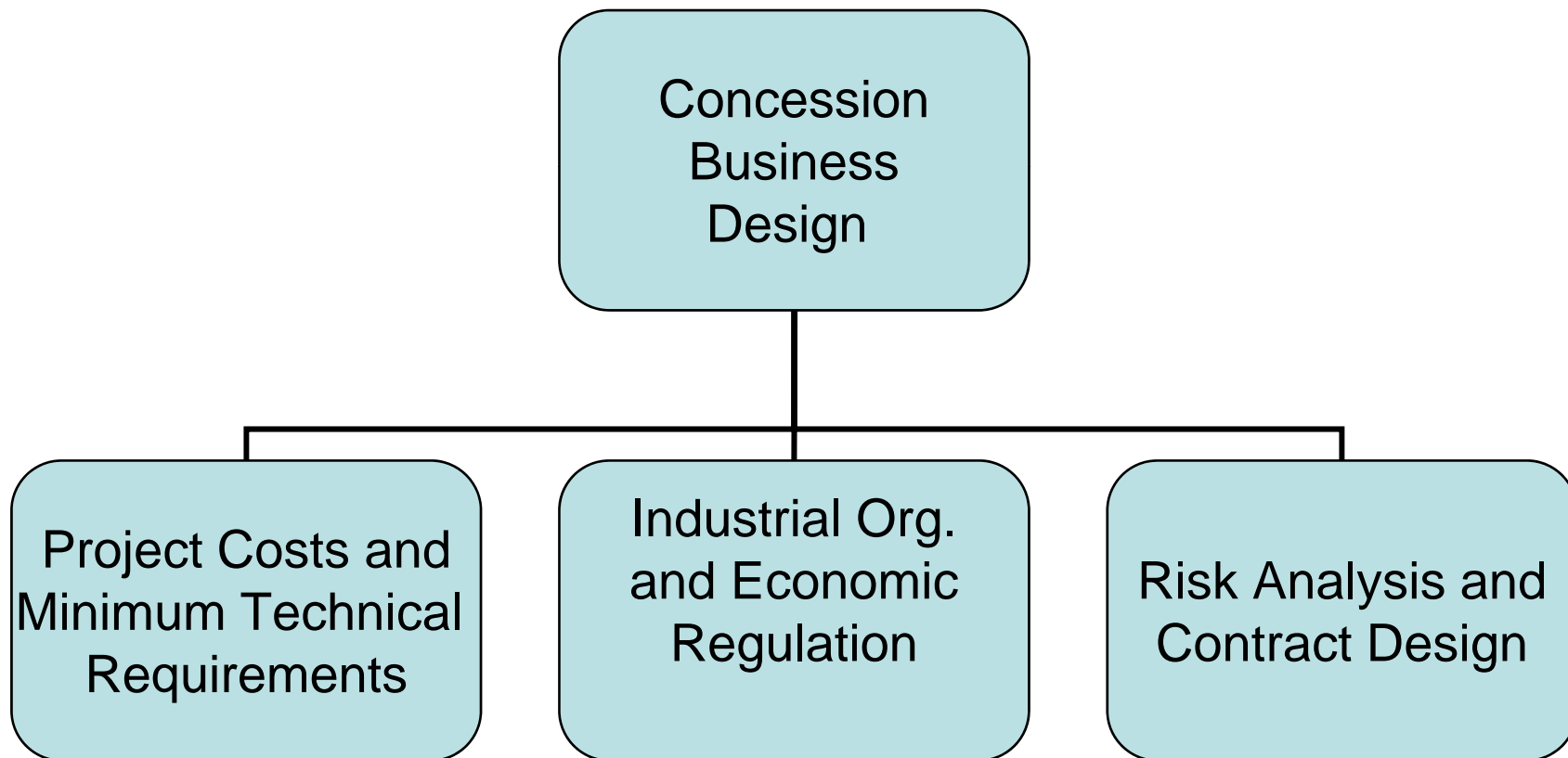
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3. New Container Terminal (NCT) Business Design and Bidding Results



Feasibility Studies



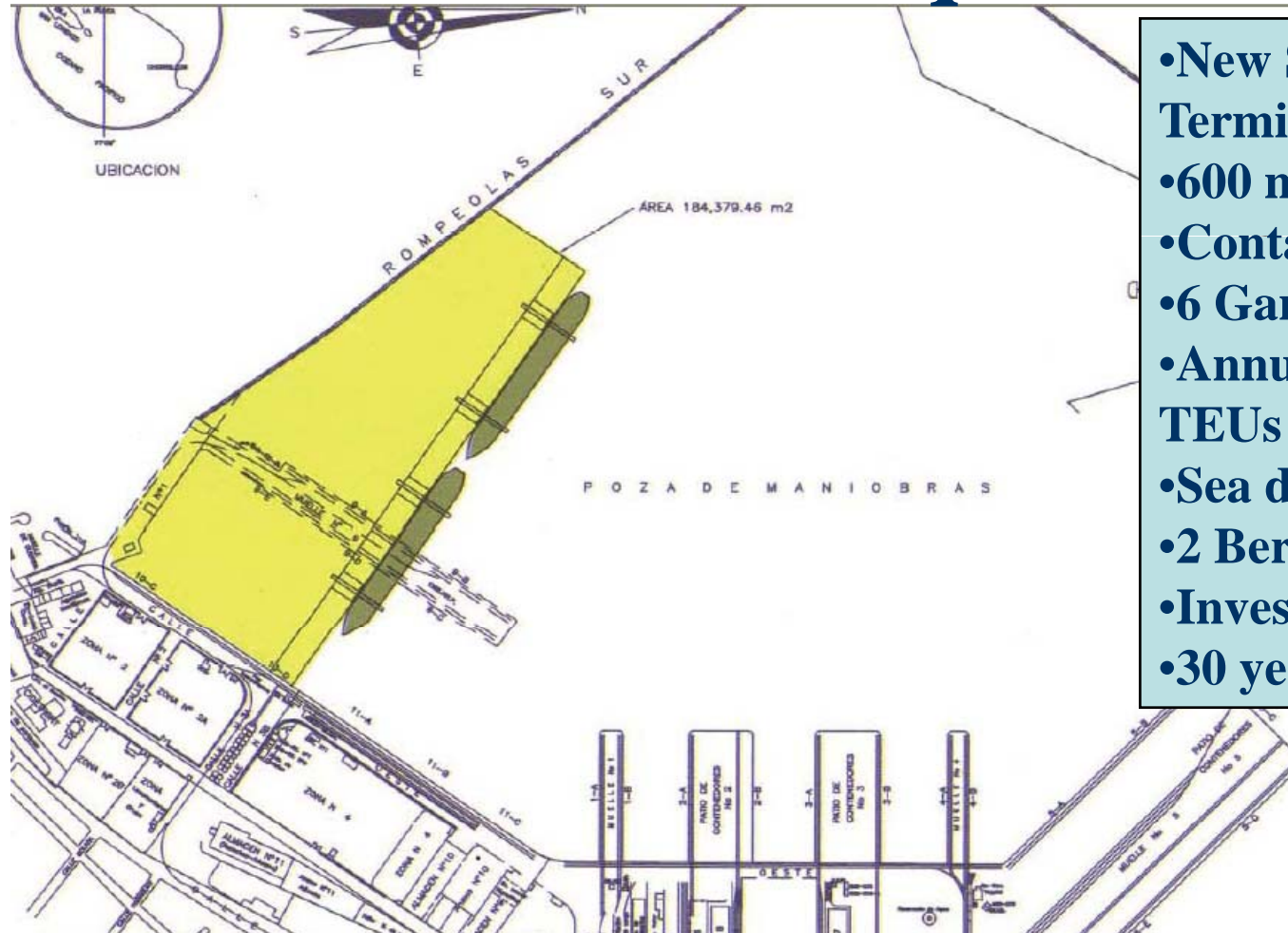


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Investment Requirements

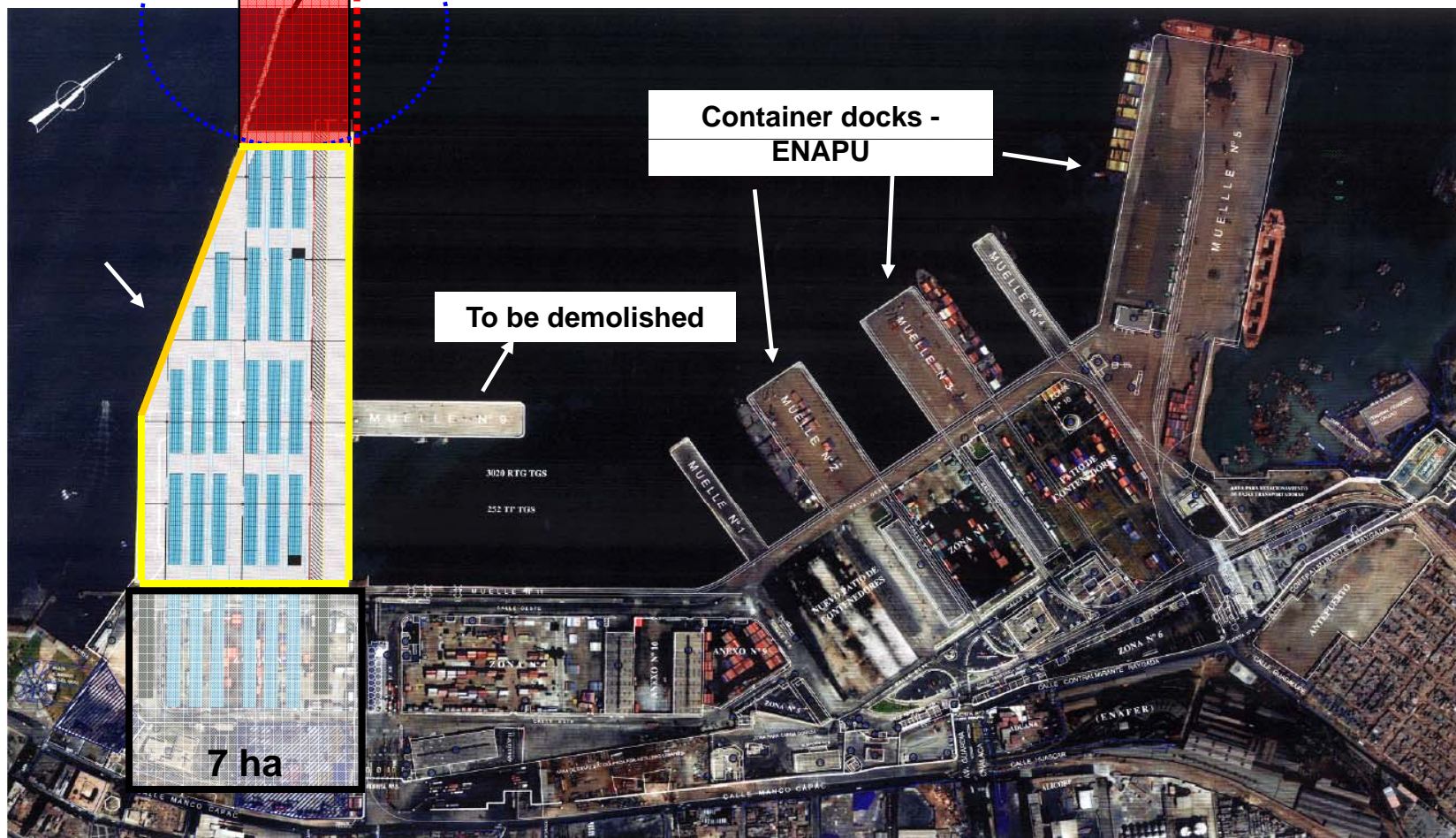


- **New Southern Container Terminal**
- **600 meters**
- **Container Yard 14,5 Has**
- **6 Gantry Cranes**
- **Annual capacity 600,000 TEUs**
- **Sea depth 14 meters**
- **2 Berths**
- **Investment US\$ 220 MM**
- **30 years concession period**

← Lima-Peruvian Capital

South Breakwater

Option of second phase





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Pre-qualification Requirements

Technical

Operate ports with
2.500.000
TEUs annually

Be the
exclusive
operator of a
container
terminal
handling 500K
TEU/year

Be the
exclusive
operator of
a container
terminal
with at least
600 m of
pier length

Financial

Financial net
worth of at
least \$200
million



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Pre-qualification of World-Class Port Operators

- **Pre-qualified bidders:**
 - **P&O / Dubai Ports Internacional/ Uniport S.A.**
 - **Consortium Dragados- Ransa (from Spain and Peru, respectively)**
 - **HC Limited (Hutchinson from Hong Kong)**
 - **International Container Terminal Services (ICTS from the Philippines)**



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Competition in the Callao Port

- National Port Authority and Ministry of Transport guarantee, in the first 10 years of the concession, an annual minimum demand of 300.000 TEUs of exports and imports and 100.000 TEUs in cabotage.
- OSITRAN the transport investment regulator has the authority to control the economic conditions of the port infrastructure market.



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Selection Process

- **Criteria 1:** The lowest tariff index consisting of the following rates:
 - Standard Ship Services: US\$ 0.70 per meter of the Ship Length/hour
 - Standard Cargo Services. 20' container: US\$90; 40' container: US\$135
- **Criteria 2:** Additional Complementary Investments (ACI) in Callao Port common areas
- **Winning Bidder:** P&O Dover / Dubai Ports International and Uniport S.A.
- In addition, the concessionarie will pay 3% of the annual gross revenues to the National Port Authority and 1% to the Transport Investments Regulator (OSITRAN).



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Additional Complementary Investments

- **P & O Ports** committed to invest **US\$ 144 million** in the following Additional Complementary Investments.
- Trust Fund with BBVA Bank

First Priority Investments	Second Priority Investments
Enlargement of the access channel entrance.	System of Protection and safety
Navigation System in common port areas	System of community information
Deepen the access channel and road access to the port	Development of Logistics activity zones



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Payment Schedule for Additional Complementary Investments

Million of US\$	Date
10	90 días after the contract subscription (October/20/06)
10	US\$5 million 6 months after the operation period started and US\$5 million 1 year after the same milestone
15,5	8 semi-annual payments since the second operation year



Summary for Investment Plan

	US\$ million
Civil Works	218
Equipment	255
Additional Investments	144
Total	617

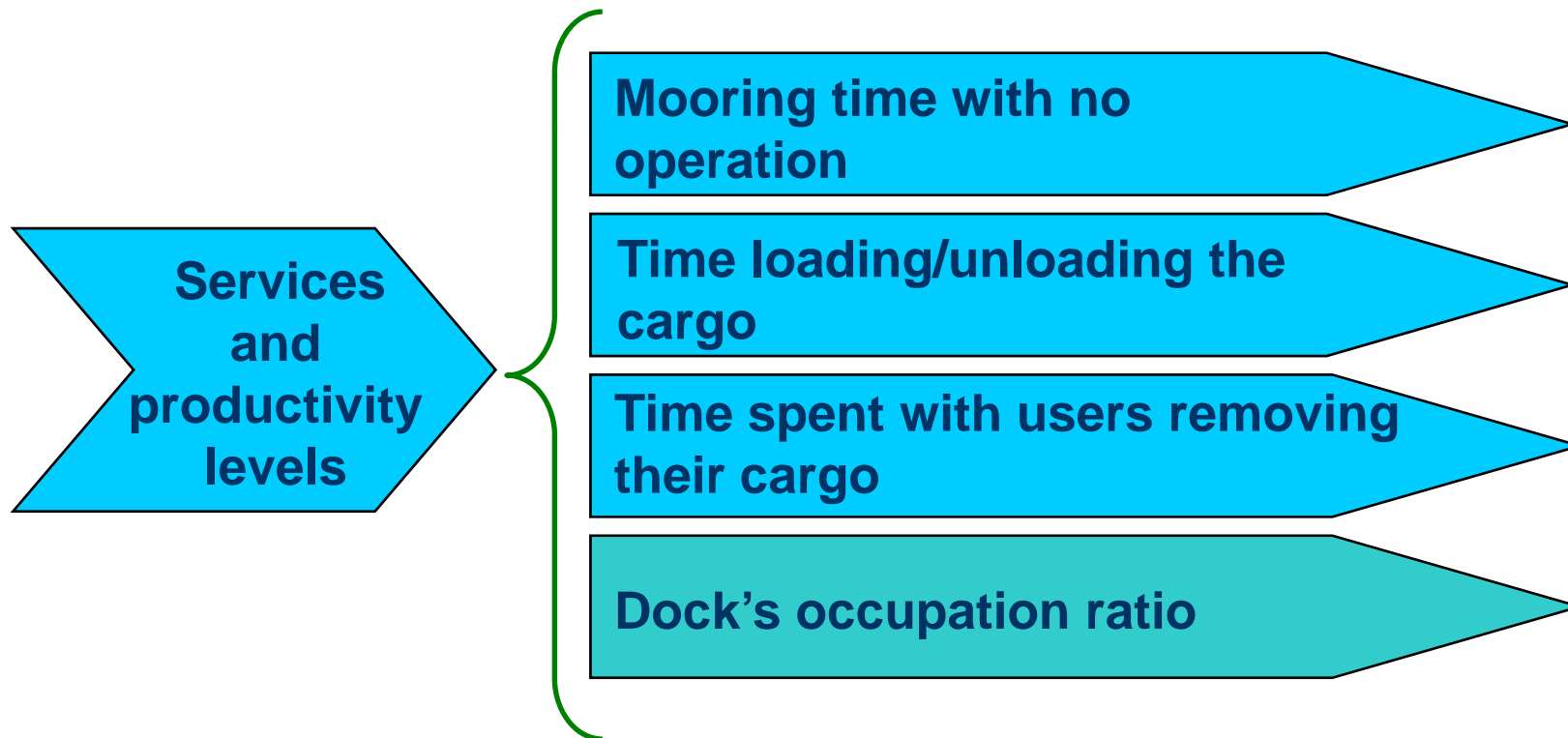


Port Services

Type of service			Tariff/Price
S.Standard	Services to the ship	<ul style="list-style-type: none"> Mooring use, includes mooring and unmooring services 	Tariff per ship's length (in meters) per hour. (US\$0.70)
		<ul style="list-style-type: none"> Loading/Unloading, includes the use of the gantry crane 	Tariff per container (empty or full) loaded/unloaded from the ship
	Services to the cargo	<ul style="list-style-type: none"> Use of the Terminal. It includes transferring, handling, weighing and cargo storage for 48 hours. 	Tariff per container charged to the cargo's consignee US\$90 x 20"TEU US\$135.18 x 40"TEU
S.Special	ship/cargo	<ul style="list-style-type: none"> Services per user's request 	Price (not regulated)



Services Levels and Productivity





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Construction Plan

- NTC Construction started on April 29th 2008 once the Peruvian Government and Dubai Ports completed contractual requirements:
 1. Concession area was transferred by the government to the concessionaire (October/22/06)
 2. National Port Authority approved technical studies (Jan/11/08)
 3. Transport Ministry approved environmental studies (March/06/08)
 4. Ministry of Finance approved dredging cost-benefit analysis (April/02/08)
- NTC Construction will finish before than April 29th 2011.

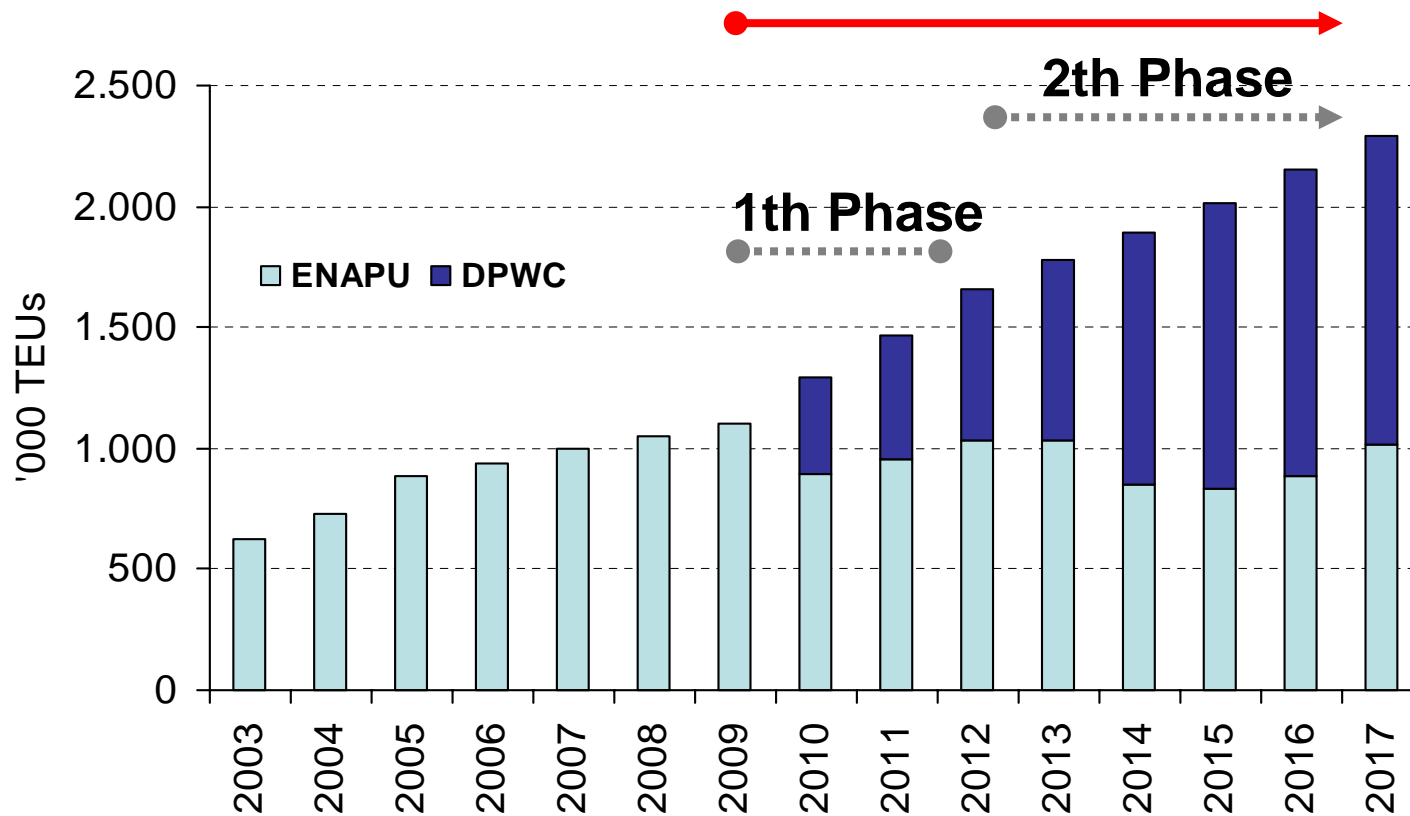


Construction Phases

	First Phase	Second Phase
Capacity	0.8 M TEU	1.2 M TEU
Dock Length	650m	960m
Total Surface	21.5ha	28ha
Gantry cranes	6	9



Container Demand Estimation





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4. Key Elements for the Successful NCT Concession and Multiplier Effects



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Key Elements

1. **USAID Technical Support:** through the transaction life cycle
2. **Credibility and Transparency:** in the bidding process
3. **Public Private Competition:** bidders said “it is so attractive”
4. **Risk Analysis:** Mitigation of unfair public competition (annual minimum demand guarantee).
5. **Adequate Risk-Profitability mix:** changes in rule of law affecting the investment, revenues or costs associated to the standard services or the contract with exception of tariffs. If the impact calculated as a percentage over the net profits before taxes is higher than 10% the government will compensate to the concessionaire or viceversa. (Financial Equilibrium)
6. **High Bidding Competition:** lagged Investments in the Port, huge potential growth on demand and net revenues generated strong competition in the bidding.



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Multiplier Effects

- 1. ENAPU Investments:** Enapu purchased (through a bidding mechanism) two gantry cranes to operate in pier 5, before January 19th of 2009. Bidding was adjudicated to the chinese consortium ZPMC-Energotec.
- 2. New Regional Port Concessions:** PROINVERSION is preparing bidding documents to attract private investment and operation for 5 regional ports this year
- 3. New PPP Law:** Released on May 13th (last week)



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Port Concession Plan: Investments for US\$400 million



-  Road Infrastructure
-  Airports
-  Ports
-  Sanitation
-  Hydrocarbons
-  Energy
-  Telecommunications
-  Electric Train



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New PPP Law – May 13th

- **Classification of PPP projects between “self-financing” and “co-funding” requiring the government financial support**
- **It includes concepts like value for money, risk allocation and competition**
- **Decentralization of promotion functions through the ministries, local and regional government and PROINVERSION**
- **Present value of contingent and non contingent liabilities in PPP projects can not exceed 7% of the GDP.**



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Thank You