



# PORT PRIVATISATION CHALLENGES - LESSONS FROM GREEK PORTS

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# PORT PRIVATISATION CHALLENGES - LESSONS FROM GREEK PORTS

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- Conclusions

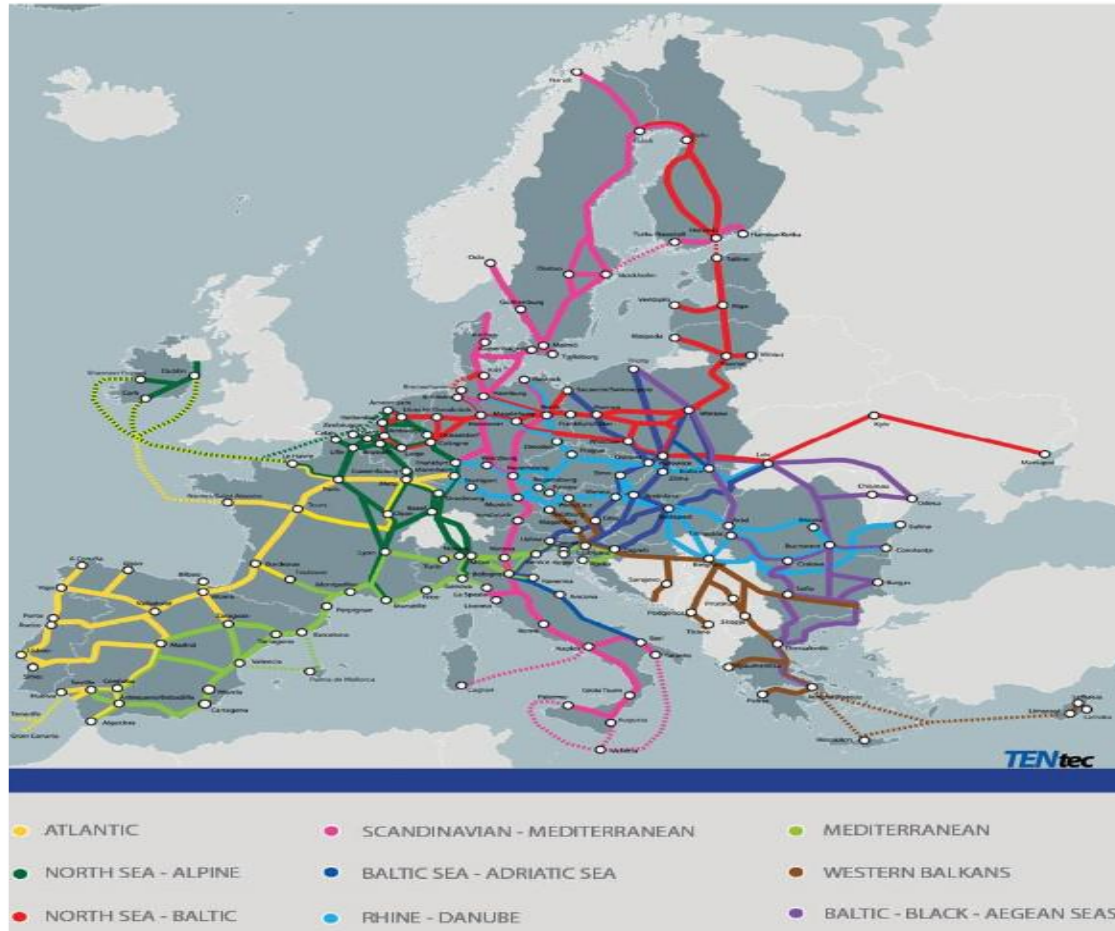
# EU LEGAL FRAMEWORK AND POLICIES AFFECTING PORT PRIVATISATIONS

- Regulation (EU) 2017/352 “Establishing a framework for the provision of port services and common rules on the financial transparency of ports”
  - Managing body of the port & port service providers
- Directive (EU) 2014/23 on award concession contracts as transposed to the member State legislation
  - Port privatisation tenders shall follow its provisions
- Regulation (EU) 2019/452 “Establishing a framework for the screening of foreign direct investments into the Union”
  - Port zone is considered as critical infrastructure
- Revision of the trans-European transport (TEN-T) network guidelines (Dec. 2022)
  - 12 Greek Port Authorities SA belong to the TEN-T network (5 in the core and 7 in the comprehensive network)
  - The legal provisions for financial transparency and state aid are fully applied

# GREEK LEGAL FRAMEWORK AND POLICIES AFFECTING PORT PRIVATISATIONS

- Laws 4597/2019, 4664/2020 (art. 12,13,14), 4938/2020 (chapter Θ', art.156,157) which define the port concession and sub concession procedures, Environmental Impact Assessments approvals, ratification of concession agreements and other relevant legal requirements (HRADF SA role in the ports privatization, etc.)
- The government policy for the port privatisation programme which includes all major Greek ports as presented in the decision No3/12.11.2019 of the Government Council for Economic Policy (Government Gazette B 4157/13.11.2019) and legislation related to MoUs Between the Greek State and EU Institutions – IMF (2012 & 2015) regarding the economic adjustment programmes

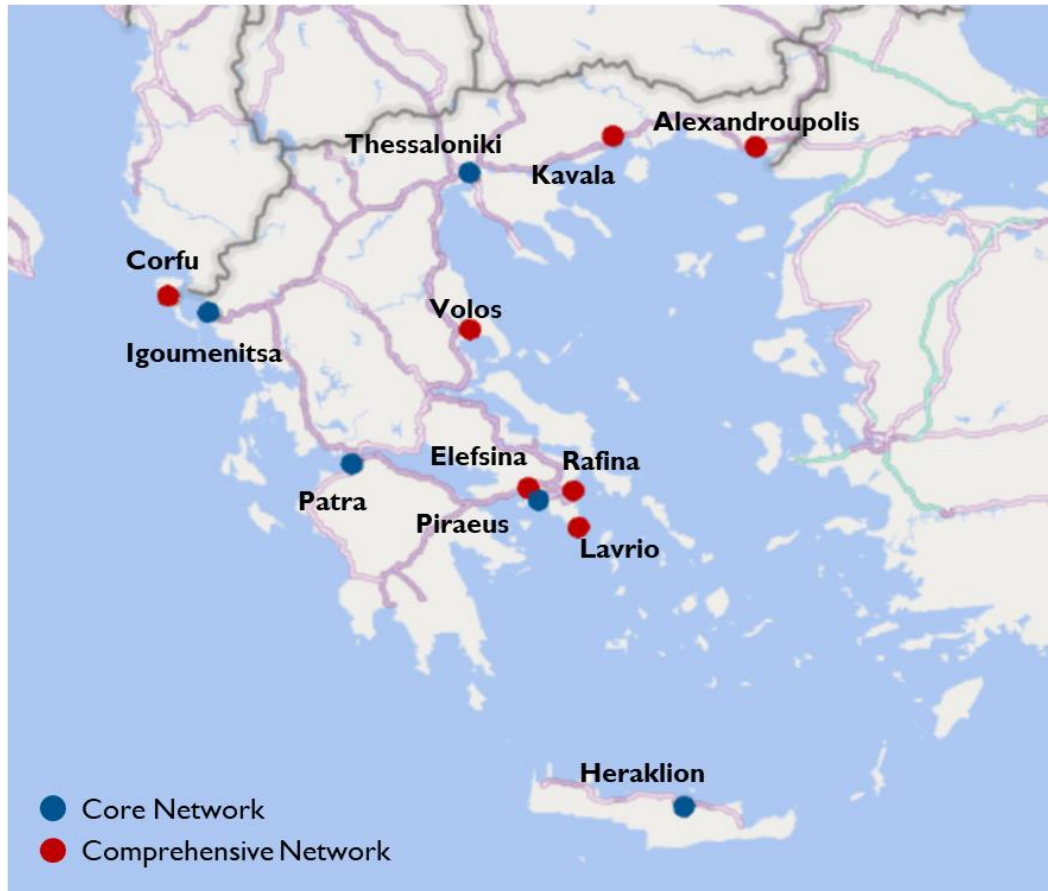
# REVISED TEN-T NETWORK GREECE *DECEMBER 2022*



*Revised TEN-T network  
December 2022*

Baltic – Black – Aegean Seas  
corridor (related to Greek  
ports)

# REVISED TEN-T NETWORK GREECE *DECEMBER 2022*



## Revised TEN-T network Greece *December 2022*

- 5 PAs SA in the core network (PPA, ThPA, PaPA, IPA, HPA)
- 7 PAs SA ports in comprehensive network (Lavrio PA, Elefsina PA, Rafina PA, Volos PA, Kavala PA, Corfu PA, Alexandroupolis PA)

## PORTS OF DIFFERENT SIZE - KEY FINANCIAL FIGURES

	PORT AUTHORITY SA	YEAR	REVENUE (000 €)	EBITDA (000 €)	EAT (000 €)
1	PIRAEUS	2021	154,190	70,434	36,762
2	THESSALONIKI	2021	77,863	33,764	19,115
3	KAVALA Sub-concession of Commercial Port	2019	1,906	649	327
4	ALEXANDROUPOLIS	2021	1,471	702	605
5	IGOUMENITSA	2021	5,611	864	632
6	HERAKLION	2021	5,668	1,889	1,755
7	VOLOS	2021	5,263	1,486	522

## CHALLENGES - PORT PRIVATISATION MODEL

- The **master concession** model has been followed in 6 out of 7 port privatisations. This model includes the sale of 67% of port authority SA shares to the preferred investor, while the remaining shares belong to the Greek state (via HRADF SA). In the cases of PPA SA and ThPA SA (listed companies) the remaining shares belong to HRADF ( $\approx 7.3\%$ ) and private individuals in the Athens Stock Exchange ( $\approx 25.7\%$ ).
- The preferred investor signs a Sales Purchase Agreement with HRADF and manages and operates the Port Authority SA under a new Concession Agreement (CA) ratified by law. The payment for purchasing the shares (financial offer) goes to the government accounts and the annual concession fee (3.5% of the port annual income) to the government and to the local authorities adjacent to the port.
- The concession agreement defines the mandatory investments and the minimum port throughput requirements over the concession period.



# CHALLENGES - PORT PRIVATISATION MODEL

- This model was agreed for PPA SA & ThPA SA in the economic adjustment programmes 2012 and 2015 between the Greek State and EU institutions - IMF as a part of the public assets privatisation programmes. The payment for purchasing the shares (financial offer) went directly to the repayment of sovereign debt. Those requirements superseded any other proposal about the future managing and operating models of Greek ports based on EU member states relevant experience
- The master concession model has been applied for the privatisation of PPA SA, ThPA SA, IPA SA, HPA SA, VPA SA and APA SA.
- The tender for the privatisation of APA SA was cancelled (Nov 2023) at its final stage (Phase II) by HRADF due to a government decision for APA SA to remain in the public sector

# CHALLENGES - PORT PRIVATISATION MODEL

- The **sub-concession** model has been followed in the Commercial Port of Kavala which is a multipurpose terminal of Kavala Port Authority SA
- The preferred investor signs a Sales Purchase Agreement (SPA) with HRADF and manages the port terminal under a new Concession (sub-concession) Agreement ratified by law. The payment for purchasing the shares (financial offer) goes to the government accounts while the annual concession fee (up to 5% of the annual income) to Kavala Port Authority SA
- The sub-concession agreement defines the mandatory investments and other requirements over the concession period

# CHALLENGES - PORT PRIVATISATION MODEL

The first privatization model in Greece (2009):

- There has been a sub-concession of the container terminal (Piers II & III) in PPA SA since 2009 through an international public tender launched by PPA SA (public entity then) while a similar attempt for the container terminal in ThPA SA (2009) was not finally concluded.
- PPA SA has operated the Pier I of the container terminal (intra-port competition) and all other cargo and passenger terminals as well as the ship repair zone
- The Sub-concession agreement (CA) between PPA SA and preferred bidder COSCO (Piraeus Container Terminal SA) was ratified by law and the annual fee goes to PPA SA
- The CA included specific requirements for mandatory investments and container throughput requirements

# TENDER PROCESS

1. Legal requirements EU directives for transparency and publicity of tender process
2. Selection criteria
  - 2.1. Phase I prequalification (fail-pass evaluation)
    - 2.1.1. Financial
    - 2.1.2. Technical
  - 2.2. Phase II Binding offers (highest financial offer for the 67% of shares/100% of shares of the sub-concession company)
    - 2.2.1. Binding Offers
    - 2.2.2. Preferred Bidder
3. Preferred bidder take over
  - 3.1. Court of Auditors ruling on the validity of tender process
  - 3.2. SPA signing
  - 3.3. Ratification of new CA (parliamentary procedures)
  - 3.4. Payment of the amount of the financial offer and transfer of shares
  - 3.5. Establishing the new Concession Holder

# CHALLENGES - CONCESSION KEY TERMS

- Financial
  - Payment for purchasing shares (preferred investor financial offer)
  - Annual concession fees to public authorities
- Operational
  - Mandatory investments in infrastructure and equipment with time frame for realization
  - Minimum cargo throughput requirements over the concession period
- Legal provisions for the existing personnel at the time of take over
- Representation of minority shares which belong to the state (managed by HRADF) to the BoD and Auditing Committee of the privatised Port Authority SA

# CHALLENGES - BEFORE LAUNCHING THE TENDER

1. Port with clear legal framework for investments in infrastructure
  - 1.1. Master plan, Strategic Environmental Impact Assessment, building regulations in port zone and pier expansions approved per port by Presidential Decree
2. Draft of the new concession agreement (CA) for the privatization
  - 2.1. Public consultation – opinion of regional and local authorities
  - 2.2. Parts of port land zone that may be excluded from the port zone under the new CA
3. Port connectivity by rail and road review. Legal initiatives to be completed for eventual expropriation of plots of land inside port zone or in road and rail accesses to the port

# CHALLENGES - TENDER DURATION

The tender duration is a factor for a successful port privatisation

The indicative timeframe for the port privatisations 2014-2023 is as follows:

- Phase I: 4-11 months, PPA SA, ThPA SA, APA SA, KPA SA (sub-concession), IPA SA, HPA SA, VPA SA
- Phase II: 12-35 months, PPA SA, ThPA SA, APA SA, KPA SA (sub-concession), IPA SA, HPA SA
- Signing SPA, Ratification of CA, concession holder's take over: PPA SA 6 months, ThPA SA 9 months

# CHALLENGES - TENDER DURATION

PORT AUTHORITY SA	PHASE I (Time period)	PHASE II - PREFERRED BIDDER (Time Period)	TAKE OVER (Time Period)	TENDER TOTAL TIME until Mar 2023 (months)	COMMENTS - NOTES	PHASE I - PREQUALIFIED DIDERS No	PHASE II - BINDING OFFERS No	CONCESSION HOLDER = SUCCESSFUL BIDDER
PIRAEUS	MAR 2014 - JUL 2014 (RfP)	JAN 2016	AUG 2016		2 General Elections (JAN 2015 & SEP 2015)	5	1	COSCO GROUP
Months	4	18	7	29				
THESSALONIKI	APR 2014 - AUG 2014 (RfP)	JUN 2017	MAR 2018		2 General Elections (JAN 2015 & SEP 2015)	8	3	SOUTH EAST GATE THESSALONIKI ( DIEP + Belterra Investments + Terminal Link 2018, Belterra Investments + Terminal Link from Oct 2021)
Months	5	35	9	49				
COMMERCIAL PORT OF KAVALA (SUB-CONCESSION)	JUL 2020 - MAR 2021 (RfP)	MAY 2022				4	1	INTERNATIONAL PORT INVESTMENTS KAVALA (Black Summit FG + EFA Group +GEK TERNA )
Months	8	14	10	32	SPA signing expected 3- 6 months are usually needed from the date of SPA signing until take over			



# CHALLENGES - TENDER DURATION

PORT AUTHORITY SA	PHASE I (Time period)	PHASE II - PREFERRED BIDDER (Time Period)	TAKE OVER (Time Period)	TENDER TOTAL TIME <i>until Mar 2023</i> (months)	COMMENTS - NOTES	PHASE I - PREQUALIFIED DIDDERS No	PHASE II - BINDING OFFERS No	CONCESSION HOLDER = SUCCESSFUL BIDDER
ALEXANDROUPOLIS	JUL 2020 - MAR 2021 (RfP)	SEP 2022				4	2	
Months	8	18	3	29	The government cancelled the bid (HRADF, NOV 2022)			
IGOUMENITSA	JUL 2020 - MAR 2021 (RfP)	OCT 2022				7	3	GRIMALDI EUROMED SpA- MINOAN LINES SA+ INVESTMENT CONSTRUCTION COMMERCIAL AND INDUSTRIAL S.A.
Months	8	19	5	32	SPA signing 21/03/2023 3-6 months are usually needed from the date of SPA signing until take over			
HERAKLION	MAY 2021 - APR 2022	MAR 2023			General election is scheduled for May 2023	8		
Months	11	12		23	The submission date of binding offers is scheduled for end of March 2023			
VOLOS	NOV 2022 - FEB 2023				Submission date of Phase I FEB 2023 General election is scheduled for May 2023	8		
Months	3							

# CHALLENGES - TENDER DURATION

- The tender duration in the port privatisation cases falls between 29 - 49 months which is considered too lengthy. The duration of Phase II (binding offers) is an important factor for the successful conclusion of the tender
- The lengthy process may have some negative implications in the interest expressed by the initial candidates
- A tender period of 3 or more years also runs the risk of changes in the shareholder composition or M&As of the candidates which may lead to their withdrawal from the bid
- The port management is refraining to make new investments during the privatisation process (substantial change of the value of the port assets) because this affects the Enterprise Value hence the Binding Offer (e.g. 5-year delay in new investments)

# CHALLENGES – CONCESSION PERIOD - PHASES

- Indicative schematic phases for the port development over the concession period (35-40 years)
  - Planning – restructuring phase (e.g. 1-3 years)
  - Growth period (e.g. 3-10 years) – almost all mandatory investments have to be realised which is crucial for the port development – satisfactory return on investment is expected
  - “Maturity” period (e.g. 10-25) – minimum cargo volumes requirements have to be reached and significant return on investments is expected
  - “Fatigue” period (e.g. 25+) - the economic life cycle of heavy equipment is about to expire, new significant investments required and their expected return may exceed the duration of concession – satisfactory return on investment is expected
  - End period (e.g. the last 3 years) - where specific requirements for the conditions and quality levels of port infrastructure, superstructure and equipment should be maintained in preparation for returning to the state

# CHALLENGES - CONCESSION PERIOD – KEY PARTIES INVOLVED

The privatisation of the Greek bigger ports with a concession period 33-40 years raises the importance of effective bodies and procedures to deal with the concession supervision, port policy, inter-port competition and public - private interests.

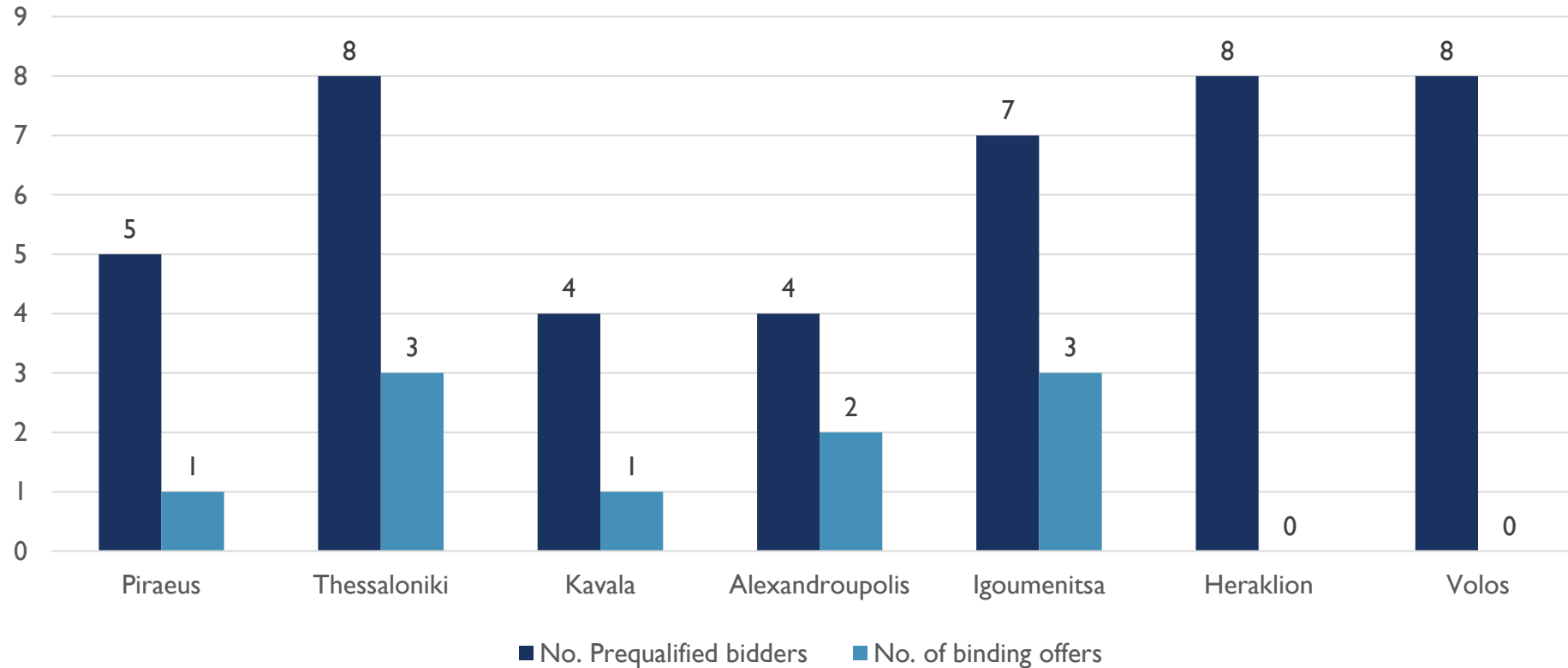
- Concession supervision – Competent Body
- Relation between Private port authority SA and public authorities (bargaining power)
- Ministry of Shipping – Ministry of Finance – Port Regulatory Authority
- Sub-concessions – Port Authority SA
- HRADF SA

# CHALLENGES - CONCESSION AGREEMENT SUPERVISION

- The efficient supervision of the concession agreement over the concession period (30-40 years) is a key factor for the successful development of the privatized port or terminal for the best interest of the port company shareholders, the clients and partners as well the national/local economy.
- The challenges of the concession agreement provisions realization e.g. mandatory investments, cargo volumes, green and sustainable solutions, are growing over time.
- There is a need for a supervisory body with professional capacity and legal powers to deal with concession agreement implementation along with other responsibilities.
  - Not all port privatisations are always successful over the concession period and there is a need for the competent authorities to act proactively

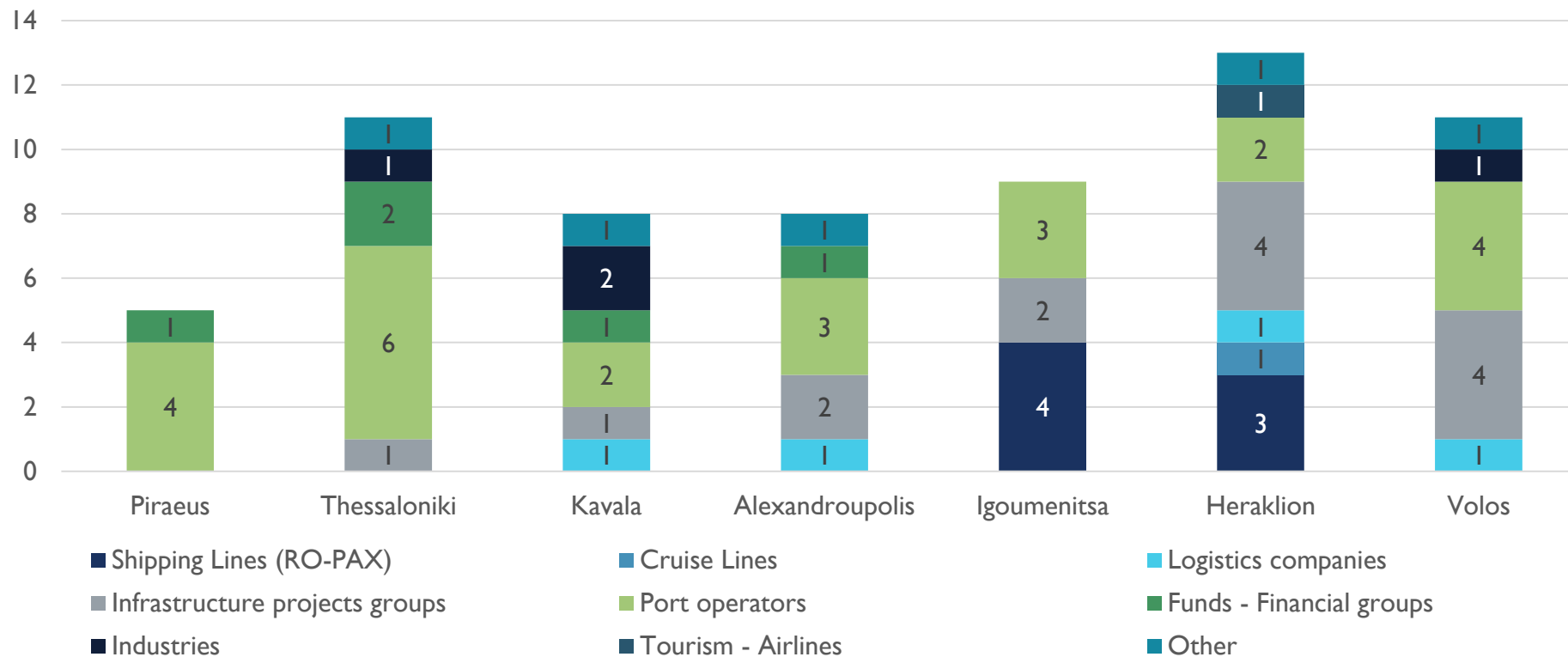
# INVESTORS PROFILE IN THE GREEK PORTS PRIVATISATION

No. of prequalified bidders and binding offers – companies and consortia



# INVESTORS PROFILE IN THE GREEK PORTS PRIVATISATION

No. and type of prequalified bidders – individual companies



# INVESTORS PROFILE IN THE GREEK PORTS PRIVATISATION

- The investors in the 2 major Greek ports privatisation (PPA SA and ThPA SA) were mainly global/international port operators. The concession holder of PPA SA is a global operator (COSCO shipping ports) and ThPA SA a joint venture (SEGT) initially consisting of two funds (DIEP, Belterra) and an international port operator (Terminal Link)
- The investors in the 5 minor Greek ports privatisation were mainly shipping lines (Ro-Pax) - major clients of the corresponding ports, Greek construction & infrastructure projects companies and local & international port operators with experience in small – medium size ports.
  - Local presence seems to be a key factor for an investor to express interest in a port privatisation project.



# CHALLENGES - INVESTING IN SMALL PORTS

Some lessons from recent Greek minor ports privatisation projects:

- The **vertical integration** of a shipping line (Ro-Pax) with port operations (mainly Ro-Pax) which enhances its position in a regional market. The group will be both a major client and the operator of the port under different legal entities. No high initial capex for handling equipment needed for increasing port throughput
- The **horizontal integration** of a logistics company operations with port operations within the port primary hinterland which can increase the cargo flows to/from port and the total value of the local supply chain
- The **diversification of long-term profit sources** of construction & infrastructure projects companies/groups with extensive experience in PPP or BOT projects plus the possibility of undertaking various engineering works in the port zone

# CHALLENGES - INVESTING IN SMALL PORTS

On the other hand:

- International port operators expressed limited interest in port privatization process as individual bidders or leading partners of consortia in the tender. This may reflect their focus on port performance fundamentals and priorities in port portfolio selection.
- Infrastructure or investment funds have also expressed very limited interest in the port privatization process. The expected return on investments may be considered lower than in alternative opportunities. The optimum period of engagement in these port privatisation projects may exceed the funds' requirements.

# CHALLENGES - INVESTING IN SMALL PORTS

- The relatively high initial CAPEX in heavy equipment for some small ports with low annual turnover in order to serve new cargo flows requires a programme of public subsidies and incentives or a tailor-made financial support scheme with favourable terms by dedicated financial institutions
- The EU state aid rules are fully applied to all ports of TEN-T network. The national competent authorities for ports need to promote eligible projects for financing small ports to make a breakthrough in the local market

# CONCLUSIONS

- The prevailing privatisation model in Greece is a master concession
- Although the same privatisation model has been followed in Greek major and minor ports, the expressed interest and profile from potential investors varies
- The small ports privatisation experience shows “target groups” of investors with relatively higher interest and also raises the importance of the “time to market” to be decreased from the launching of the tender until the preferred investor’s take over

# CONCLUSIONS

- From the bidders' side there is differentiation in the approach for investing in small ports:
  - The return on investment although crucial is co-evaluated with other important factors such as:
    - the long-term port profitability,
    - the value of the logistics chains in the primary port hinterland,
    - the transportation network connecting the port
    - the “vertical integration” of services provided
  - The question for a further extension of infra funds' involvement (up to 15 years) should be answered to facilitate investment in small ports
- The formation of professional and capable bodies is needed for the efficient supervision of the port concession agreements and port development projects



THANK YOU

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