

SOTRA – THE IMPORTANCE OF PARTNERSHIP

*The Sotra Connection was one of the largest contracts awarded in Europe last year. It involved multiple partners working in a relatively new public-private partnership (PPP) market and significant engineering challenges, as well as the challenges of Covid-19 restrictions. **ALEX KORNMAN**, managing director at **MACQUARIE CAPITAL**, who led on the business's bid, explains how the deal was successfully negotiated.*

Sotra Link AS – comprising Macquarie Capital (70%), South Korean civil engineering company SK ecoplant (20%), and Italian industrial group Webuild (10%) – was selected as the preferred bidder for the Sotra Connection project in Norway by the Norwegian Public Roads Authority (NPRA) in September last year. It is the largest road infrastructure contract in Norwegian history to-date, and at Nkr19.8bn (€2bn) one of the largest public-private partnership (PPP) contracts awarded in Europe in 2021¹.

The contract involves the financing, design, build and operation of a 9.4km four-lane road link in Norway's Vestland county and aims to improve travel between the Bergen and Øygarden municipalities, saving about 20 minutes of travel time. The construction includes a 4.6km road in twin-tube tunnels and a four-lane bridge of about 900 metres, as well as three smaller bridges. The new road network will have dedicated infrastructure for public transport, as well as pedestrian and bicycle paths. This makes it the largest and most complex of the Norwegian government's planned road PPPs for its 2018–2029 National Transport Plan².

Sotra Link AS will operate and maintain the link for 25 years after it opens to traffic in 2027. The design and construction of the project is being executed by Spanish group FCC Construcción (35%), Webuild (35%), and SK ecoplant (30%), and will be operated by Hungary's Intertoll via its Norwegian subsidiary Intertoll Norge AS.

Rapid economic and population growth in the Bergen and Øygarden municipalities, triggered by growing investment in offshore wind, LNG and carbon capture projects, has increased the need for the connectivity this project provides. This is a very exciting opportunity for us at Macquarie Capital but the project posed several challenges, which we had to work through during the bidding process and as part of our successful submission. The unique nature of the Norwegian landscape, for example, presented significant engineering challenges, including the need to build a bridge over a steep fjord and a tunnel through hard rock. Other key financial and technical challenges included:

THE FUNDING MODEL

One of the other key challenges that we faced was the funding model. While Norway has an extremely well-

developed construction sector, it has only infrequently used the PPP model to develop projects, with only four previous PPPs in the past twenty years. The Sotra Connection project is the largest of now five PPPs, and was the first "international" PPP the clients – Norwegian Public Roads Authority (NPRA) – tendered.

The relative novelty of the PPP structure presented us with a blank canvas to some extent, providing an opportunity to be more innovative. A workshop-style environment with our consortium partners and the NPRA helped progress the project and enabled us all to be more creative and flexible. Having an international consortium was a huge advantage as it brought different ways of thinking and new ideas to the table.

One of the issues that we discussed in great depth was how to structure the deal to make the risk more acceptable to lenders. This might have been a concern for lenders given Norway's limited track record of PPPs, but also due to the variety of different partners involved in the project and the technical challenges that we faced. The problems presented by Covid-19 lockdown restrictions only added to these concerns.

Our strategy, therefore, was to engage in bespoke negotiations with our consortium partners, the NPRA and subcontractors. The important thing was to identify challenges and potential options as early as possible, discuss them openly, and establish a joint understanding on the sharing of key risks.

RIISING COSTS

The background of rising costs in 2021 was another major challenge for us, especially with the rapid rise in the price of raw materials. As an example, the Norwegian

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government's Construction Cost Index showed a significant increase in the cost of road construction, with concrete bridges seeing a 30 per cent rise in costs due to rising concrete and steel prices³. As a result, there was substantial budgetary pressure on the project, and this in turn raised questions about the overall affordability of the scheme and the ability of the NPRA to move forward without the process stalling.

We took this opportunity to openly discuss and work with the NPRA between the first and second interim tenders to find a solution that would keep costs down. It was very much an iterative process, with both sides sharing questions, ideas and suggestions for a way forward. This constructive approach and the ability to bring in a wide range of opinions and experiences from our international partners really made a difference, and as a result of this collaboration we were able to reduce costs and provide an attractive net present value cost to the NPRA.

COVID-19

The additional challenges created by the Covid-19 pandemic were difficult to navigate and unprecedented. We were faced with various lockdown restrictions around the world early on in the process. We submitted our pre-qualification document at the end of February 2020 and were told in late spring that we had been shortlisted. By the time we started work in the summer, lockdowns were well under way, which meant that the remainder of the tender was carried out remotely – as was the whole financial close process. We were only able to meet with our consortium partners and the NPRA in person a handful of times.

The realisation that we would have to deliver a project of this size and complexity virtually was certainly a first and initially represented major difficulties for us. While the use of Microsoft Teams and Zoom meetings can work well for some tasks, it remains more efficient to conduct complex negotiations face-to-face where you can more easily gauge the room and see everyone's facial expressions.

We also found that virtual meetings required more preparation and time due to the limitations of virtual platforms – the now famous reconnecting moments – and people joining from multiple time zones around the world. This involved taking into account different scenarios and pre-empting possible responses from other parties. Fortunately, our consortium members had strong relationships from working together in the past, so we were able to leverage these against the challenges of working remotely.

To conclude, this is a project that challenged us in many different ways and forced us to think differently and

find new ways of working. It felt like a true “partnership”, which I personally believe is not always the case with PPPs. You often find parties being more focused on defending their own positions than opening up to new and potentially challenging ideas. In contrast, it was exciting and refreshing to see such a strong level of transparency and innovation among the parties on this project, to develop, discuss and work through a large number of alternative options: a true example of a public-private partnership.

At Macquarie Capital we have considerable experience in managing multinational consortia for complex PPPs, working closely in partnership with procuring authorities. This includes work with Transport for London on the Silvertown Tunnel (UK) and the BAAK consortium for the Blankenburg Connection (Netherlands), as examples. The levels of engagement between the private and public sectors for these projects worked well, and this is something that we have taken forward for this specific project. It is one of the reasons that this project has moved through the tender and financial close periods – and is now being delivered. When the private and the public sectors come together in a collaborative way, you can overcome major challenges and find ways forward to deliver innovative solutions that work for everyone.

For example, when we were discussing the funding model, we had to be open and explain to the NPRA that there were certain elements of the tender documents that lenders could find challenging. At the same time, we worked with the NPRA and the lenders through potential alternative options. This was very much a transparent process that ultimately allowed all parties to come together and agree on a middle ground to take forward.

We also took this approach when discussing the currency risk involved in this international project and how best to manage this. Norwegian kroner have not typically been used to back larger, complex PPP projects in Europe. We looked at various financing options for this project including the use of euros but in the end, on the advice of the Norwegian finance ministry, the NPRA decided that the financing should be entirely in Norwegian kroner. This eliminated the risk of foreign exchange as the equity and the debt would all be funded and repaid in Norwegian kroner, and the construction and operations partners would also be paid in Norwegian kroner.

All PPPs have their own unique challenges that need to be managed, they are not always easy, but I strongly believe that by working openly and in a partnership spirit, you provide a forum for all parties to share their diverse ways of thinking, resulting in better outcomes for everyone with more seamless delivery. ■

FOOTNOTES

1 – Statens Vegvesen: Sotra Link is the winner of the rv. 555 Sotra Connection PPP contract

2 – Det Kongelige Samferdselsdepartement: Meld. St. 33 (2016–2017) Melding til Stortinget: Nasjonal transportplan 2018–2029

3 – <https://www.worldhighways.com/wh8/news/norwegian-road-construction-costs-jump-129>