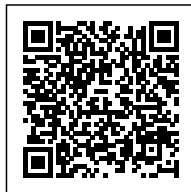


FIRST EIB BOND KICKSTARTING CAPITAL MARKETS

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The inaugural deal under the Europe 2020 Project Bond Initiative demonstrates investor demand and hope for a rise in activity

Escal, a joint venture between ACS Group and Canadian company Dundee Energy, has issued a €1.4bn bond for its Castor underground gas storage project in Spain, prompting a boost to the market, say lawyers. The deal is the first under the European Investment Bank's (EIB's) trophy Europe 2020 Project Bonds.

"The success of the deal highlights the demand from investors to help kick-start capital market investment for large scale strategically important infrastructure projects," says Charles Poole Warren, lead Partner for the project at Allen & Overy Spain advising global co-ordinator Banco Santander.

Luxembourg-based vehicle Watercraft Capital issued the fixed income securities, due December 2034 and the deal secured lead roles for a trio of law firm. Watson Farley & Williams (Rodrigo Berasategui) represented Watercraft, Clifford Chance (Eduardo García and Antonio Henríquez) acted

for the EIB and Allen & Overy (Charles Poole-Warren and Ignacio Ruiz-Cámara) for Banco Santander. Project bonds are presently largely limited to markets such as Canada and US, where pension funds and life companies are big investors, however they have long-been promoted as viable mechanisms for long-term project debt in places such as Spain, say lawyers. And the country has used a number of project bonds before the crisis on assets such as toll roads.

The Castor bond refinances existing bank debt, rather than funding a new-build project, so major project risks – such as design and construction – have been cleared. Multilateral support from the EIB also boosts investor confidence say lawyers – the EIB is to provide €500m for the package, a €200m liquidity line and also buys €300m-worth of bonds. This means the Castor the bond is not a full, commercial offering and may not prove to be a game-changer in Spain, just yet.

Spain's main problem is macro-economic. "The biggest challenge now for bonds is Spain's sovereign rating," says Mike Wilkins, Managing Director of infrastructure at Standard & Poor's (S&P). "The Castor bond was rated at BBB while Spain as a country is rated at BBB- and few bonds are issued in a place where the country rating is lower than the debt being offered."

To compound matters, Escal has to stop its injection of gas into Castor in October following a temporary suspension order from the Spanish government regarding micro-seismic activity. While S&P said that only a major delay in the final commissioning would affect the project's credit, the general outlook in Spain is negative.

Therefore, while a promising step forward, to keep taking advantage of the Europe 2020 initiative, say lawyers, Spain's project bond market needs confidence to be genuinely successful.