

Hopewell has undertaken to build an elevated transport system in Bangkok. But now there is some doubt as to whether or not Hopewell will go ahead with the project. **Ben Davies** reports for BT from Bangkok

Which route will Hopewell take?

WHEN Gordon Wu announces his final decision on whether to go ahead with the Hopewell mass transit project in Bangkok, he may well be dictating the future direction of project finance in Thailand. It will not be the first time that a project of such a scale has rested on the decision of one man — nor even bitten the dust at so late a stage. The SkyTrain, first touted as long ago as 1971, has still to be finally given the go-ahead.

But Hopewell's project is different. It received the green light more than twelve months ago and was heralded as one of the most innovative as well as one of the most comprehensive projects to have been initiated.

The seeds of the deal were laid back in October 1989 when the Ministry of Transport and Communications (MOTC) and the State Railway of Thailand (SRT) invited international tenders for an elevated transport system. In November last year, Hopewell signed a contract with the SRT/MOTC and paid 300 million baht (\$519.5 million) to the SRT as its first compensation payment.

Under the scheme Hopewell undertook to build an elevated community train system, an elevated railway and an overhead expressway. To compensate for the low charge of transport per km, Hopewell would be granted a concession to develop several hundred rai of prime located real estate.

At the time, the scheme was heralded as a breakthrough. But 12 months after signing the contract is mired in uncertainty.

The crux of the latest and final stumbling block has been the question of whether to grant a 15-year exemption from paying withholding tax on the overseas borrowings that would form the main component of the 80 billion

baht financing. Hopewell says this was part of the original understanding and that a verbal undertaking had already been made with the Board of Investments (BoI) to this effect.

But earlier this month, the government rejected the exemption, saying that it had never offered such terms and did not want to make a special case. The decision was further explained by the fact that the BoI has no jurisdiction to grant such terms which are a matter for the Ministry of Finance.

The bombshell was not expected. But it comes at a critical time. With the Lavalin SkyTrain system still to be finally sealed and with the recent debacle of the NPC2 petrochemical complex, international financiers say they want greater evidence of the government's commitment.

Delays alone have cost the Hopewell project dearly. From an original pricing of 0.60 baht per passenger-kilometre, the price has

scheme will be further delayed.

Perhaps the biggest crux for Hopewell is likely to rest on the matter of financing the deal. Originally Hopewell had intended to finance the project with 20 billion baht worth of equity, 50 billion baht in overseas loans and 10 billion baht in local loans. But the cabinet's decision will result in a loss of the project's surplus cash flow in the first few years and act as a strong disincentive to the banks unless other forms of collateral can be drawn up.

Chai Na Sylavan, a senior executive at Bangkok Bank, recently went on record as saying that the cabinet's decision could well place the deal in jeopardy.

Some observers say the current impasse reflects not only the government's desire to avoid setting a precedent, but an overall concern both about the cost and the viability of the entire project. Government officials say that Hopewell's projections on rental of land are grossly understated.

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now been revised to 0.90 baht per passenger kilometre.

But the upfront costs could be nothing compared with the possible fallout, the loss in opportunity and the delays that once again look set to bring traffic to a standstill.

The government has said that its offer to Hopewell is final and has instructed the SRT to undertake feasibility studies for an alternative version of the much vaunted transit system. The study alone will take six months to complete. Furthermore, without the expertise of an international consortium, the suspicion, say project financiers, is that the

They also suggest that Mr Wu has failed to demonstrate the necessary commitment and hint that he will use private contractors, just pocketing a handy profit.

The suspicion also exists that the government is trying to worm its way out of an understanding that it no longer wants. A recent report drawn up by international consultants Wilbur Smith Associates shows that if all seven current transit systems are adopted, the systems would have to be stacked 30 metres high in some areas. That alone would contravene regulations near the Royal Family's Chitralada Palace which for security reasons puts the limit

at 20 metres.

"The whole thing is a nightmare," said one banker. "Is it possible that nobody did their sums correctly?"

Some of that blame is attached to Hopewell. It is claimed that it did not undertake sufficient feasibility studies and has constantly underplayed how attractive the terms are. Others say that considering the risks involved in such an undertaking, the rewards had to be high. But the fact that the contract was signed, without all the finalities being known, is perhaps the biggest indictment.

"It's merely a symptom of larger disease," said one project financier currently in another of the mass transit systems. "Can this government keep its end of the bargain? And if not, do they realise that they can't get everything for free?"

Whether or not the project goes ahead will be known by Dec 8. Whichever way the decision goes will have far bigger repercussions than for those who will use the mass transit system. As one banker told BT "It's the government's last shot. If they go down on this one, who else can afford to deal with them."

For Hopewell it has also come to a crux. So far the company has spent 100 million baht on a feasibility study as well as issuing 1,500 million baht bid bonds and paying for advisers. If the company is to go ahead with the project, officials say it needs exemptions or deferrals on taxes. But for it to backdown at this late stage means significant losses.

Meanwhile, every day traffic continues to move at an average of 8km per hour in the capital, pumping out one ton of lead into the air and building on Bangkok's already tarnished image as the infrastructural nightmare of South-east Asia.

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