Case study: the Vasco da Gama Bridge project

Text 1

In 1991 the Portuguese Government decided to build a second Tagus crossing in Lisbon. Over the years, and because of **high congestion** of the "April 25th" bridge, the only bridge over the Tagus in Lisbon, several plans had been developed for a new crossing (tunnel or bridge) in order to reach the most populated areas of the southern bank of the Tagus. However, the government decided for a bridge just north of Lisbon, linking to a low population region in the other side of the river.

This choice allowed North-South traffic to circumvent the city of Lisbon and also circumvented many urban planning problems in both sides of the river, but deviated the crossing to a preserved region: the new bridge would run over 400-ha of abandoned salt pans that were very important for millions of migratory birds on their way between Europe and Africa. Of course, there was public concern over **environmental problems**, namely because the government had decided to grant this project a special status exempting it from the usual environmental appraisal. Beside the sensitivity of the southern bank, the bridge would be a very **long** bridge (12km, of which 11km over water) and **construction period** would be bounded due to the need to finish the works and open the bridge to traffic before the grand opening of the Expo'98 World Exhibition.

The Expo'98 World Exhibition was the **flag event** associated with a major **urban renewal project**. Expo'98 was to be held in 1998 in Lisbon, in an originally degraded area bordering the Tagus, close to the proposed northern anchorage point for the "Vasco da Gama" bridge. The **340-ha** site was the largest industrial area inside the city, including an oil-refinery, a large slaughterhouse, waste dump and treatment facilities, along with military and port warehouses. The refinery was obsolete, the port facilities were unusable and in general the equipment was degraded. Soil would have to be cleared and fully treated prior to the event. Government declared the public interest of this renewal operation, and assigned to a government-funded firm, ParqueExpo, urban planning authority over the entire area.

The **success** of the renewal project depended on the advance sale of land, in order to obtain funds for land acquisition, demolition and soil decontamination, for the resurfacing of the whole area, and for the construction of exhibition pavilions and several architectural landmarks. Land value depended on the credibility of government commitment to deliver the renewal project and to build convenient accessibilities and public equipments. The World Exhibition's fixed opening-date was critical for the success of the global project, as well as the construction of the new bridge.

The engineering risk of the project, and the need to complete it in a short period, induced the government to use a **PPP scheme**. But the huge cost of the bridge (€900m euros) could not be balanced by toll-collection, so the government decided to give the PPP concessionaire the right to operate and collect tolls in **both** Tagus bridges. "April 25th" bridge's low toll levels were to be **raised** steadily during the construction of "Vasco da Gama" bridge, converging to a common level, the one that guaranteed overall balance. **No public money** would be spent on the project.

In 1994, Lusoponte, a consortium of Portuguese, British and French firms, won the international public tender for the concession to design, build, finance and operate the new crossing, obtaining, for **28 years**, exclusive rights to explore all future crossings near Lisbon, the right to collect tolls in both bridges at pre-defined rates, and the responsibility for extensive environmental protection measures during and after construction. The contract was subject to **earlier termination** in case total traffic (in both bridges) reached 2250 million vehicles before completing 28 years.

REQUEST: Identify and discuss the main risks to the public sector arising from this project.

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Risk table

Risk description	Probability of occurrence (low/medium/high)	Impact (low/medium/high)		
		Private partner	Public partner	Shared
Construction risk				
Traffic risk				
Environmental risk				
Financing risk				
***Force majeure* risks**				

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Text 2

In 1994, after contract close, the announcement that users of the old "April 25th" bridge would pay **increased tolls** to the "Vasco da Gama" concessionaire was perceived by the public as **cross-subsidisation**. After the first **50% increase** (from €.50 to €.75), a huge opposing movement built up over the "April 25th" bridge tolls, with constant horn-honking and several highway blockades cutting access to the bridge at peak hour. The protests weakened the government and, after elections, the new government gave in and decided to **keep** "April 25th" bridge' **tolls at a low level** and **compensate** Lusoponte for the loss of revenue. And later, taking into consideration all changes introduced, the government decided to **renegotiate** the contract.

REQUEST: How to manage the risks arising from this event? What are the risks linked to this policy change and to this compensation/renegotiation?

Risk description	**Probability of occurrence (low/medium/high)**	**Impact (low/medium/high)**		
		Private partner	**Public partner**	**Shared**
Construction risk				
Traffic risk				
Environmental risk				
Financing risk				
***Force majeure* risks**				

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Text 3

The initial decision, by government, to create a dual tolling system (with lower toll levels in the "April 25th" bridge) led to **additional changes** to the rules: e.g. the government allowed the scrapping of tolls in "April 25th" bridge during the month of August; and created discounts for frequent-user trucks. All this required compensation to Lusoponte, of course.

In order to compensate partially for Lusoponte revenue losses, government allowed Lusoponte to benefit from favourable tax rules. And, later, Portugal entered the *euro zone*, and Lusoponte was refinancing the project, so all this contributed to a significant change in the contract and in its financial balance.

During renegotiation, the concessionaire complained not only about loss of revenue from lower "April 25th" bridge tolls, but also about **traffic diversion**. It required also compensation for a few minor problems. The result of the renegotiation was the **increase in the term of the contract**, from 18 years to 35 years, and the **payment of compensation** by government. In the process, the clause allowing for the **early termination** of the contract was scrapped, meaning that the effective term increase was between 7 and 11 years. And some responsibilities (e.g. the maintenance of "April 25th" bridge) and risks were **transferred back** to the State.

According to the Court of Auditors (Tribunal de Contas, Audit Report 47/2001, *Auditoria ao Acordo Global celebrado entre o Estado e a Lusoponte*, November 2001) "the final result of the renegotiation does not protect well the public interest", "transferring back to the State risks that were supposed to be responsibility of the concessionaire" and "burdening the State and bridge users, and benefiting the concessionaire". (However, as formal legal requirements were all satisfied, the Court gave its *nihil obstat* to the renegotiated contract.)

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Text 4 (new airport location, need for a new Tagus bridge)

In 2007 the previous decision to build the new Lisbon airport in Ota, a site north of the Tagus, was reversed by the government and (with the support of almost all experts) a new location was selected, in the southern bank of the Tagus, no far from the anchorage of "Vasco da Gama" bridge.

This decision prompted government to foster plans for a third Tagus crossing, due to the increased traffic across the river for access to the new airport.

And it prompted Lusoponte to remind its monopoly rights for the operation of all car crossings over the river.

REQUESTS:

- **What are the risks created/increased/reduced by this airport location decision?**
- **What are the risks created/increased/reduced by the possible construction of a third Tagus crossing?**
- **How can the government mitigate them?**