# Ports – The Most Private of Public Assets

May 24, 2017

BMO Capital Markets®

# Container Shipping Alliances

## PREVIOUS ALLIANCES (PRE-APRIL 2017)

### 2M
MSC
MÆRSK

### G6
**Grand Alliance**
Hapag-Lloyd
NYK Line
OOCL

**New World Alliance**
APL
MOL 商船三井
HMM

### O3
CMA CGM
CSCL
UASC

### CYKHE
COSCO
"K" LINE
YANG MING
HANJIN
EVERGREEN

## CURRENT

### 2M
**33% global fleet capacity[1]**

MÆRSK
HAMBURG SÜD – Maersk to acquire (Dec-16)
MSC
HMM – 2M strategic cooperation launched (Mar-17)

### Ocean Alliance
**27% global fleet capacity[1]**

CMA CGM
NOL APL – CMA CGM acquired (Jun-16)
CSCL, COSCO – Merged (Mar-16)
EVERGREEN
OOCL – Reportedly looking to sell (Jan-17)

### THE Alliance
**17% global fleet capacity[1]**

Hapag-Lloyd
UASC – Hapag-Lloyd to acquire (Apr-16)
YANG MING
MOL 商船三井, "K" LINE, NYK LINE – Announced container shipping and terminal operations merger in April 2018 (Oct-16)

### Independent[2]
ZIM – Rumored to be looking to sell international network (Nov-16)
WAN HAI LINES LTD.
X-PRESS FEEDERS
PIL
KMTC LINE

Source: Alphaliner, JOC
1. Projected fleet capacity based on operated fleet size as at May 2017 (Alphaliner).
2. Container shipping lines without an alliance and with over 100,000 TEUs of capacity as at May 2017.

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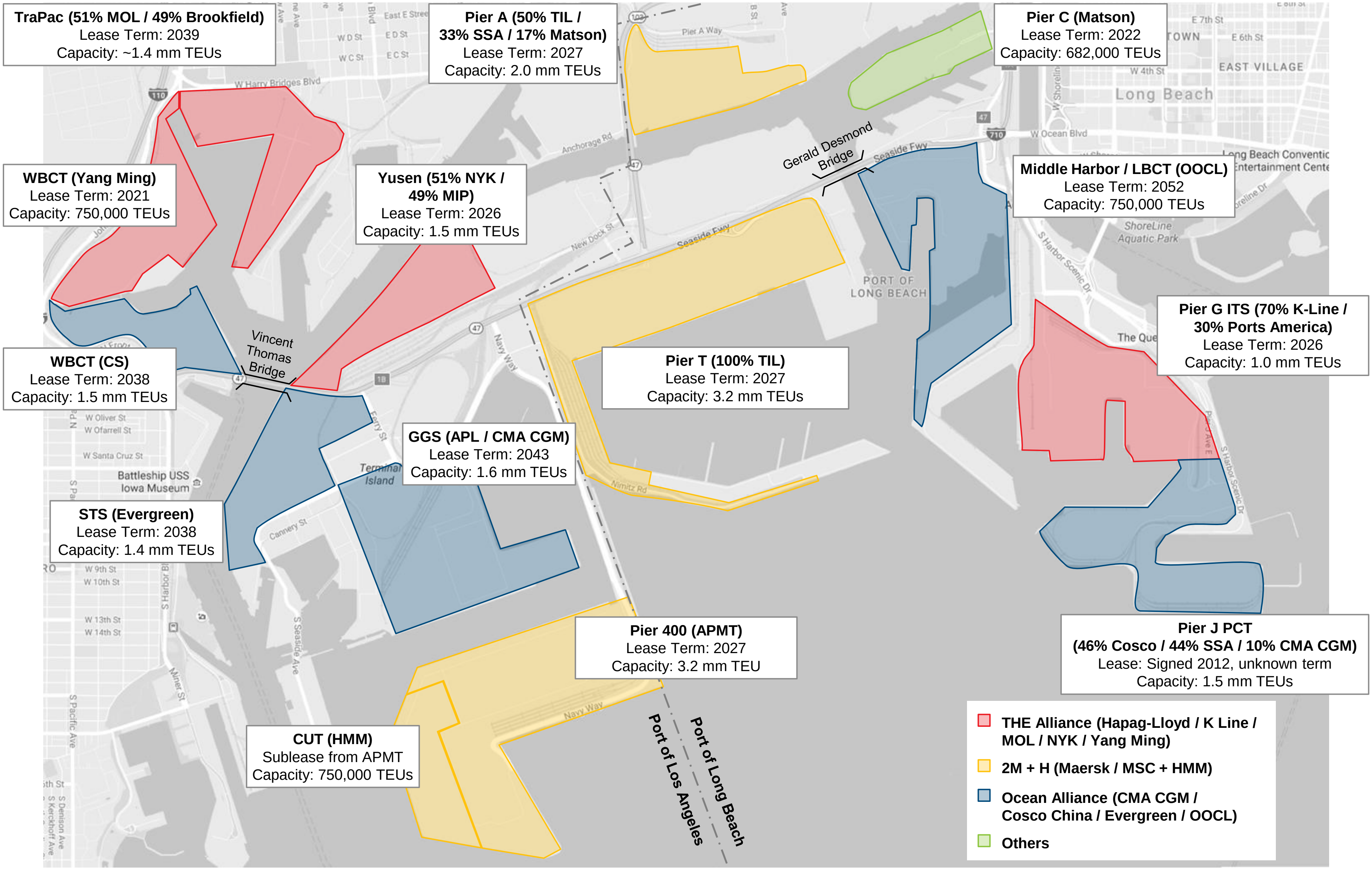
# San Pedro Gateway Container Terminals

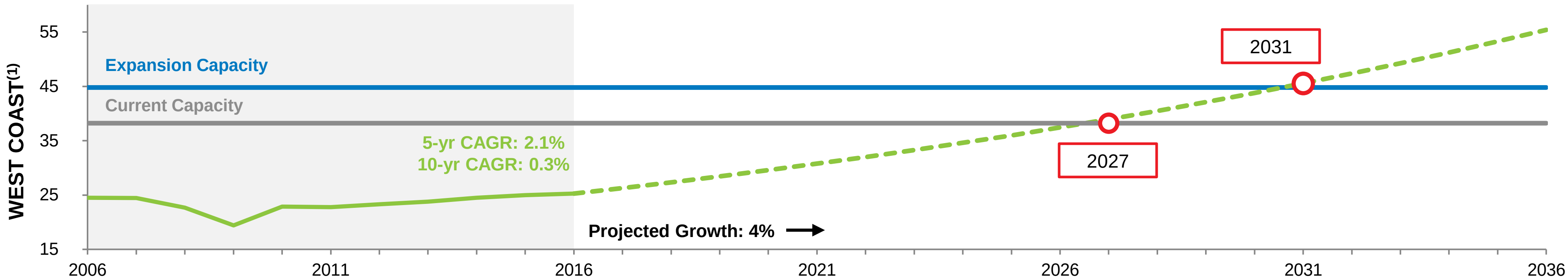


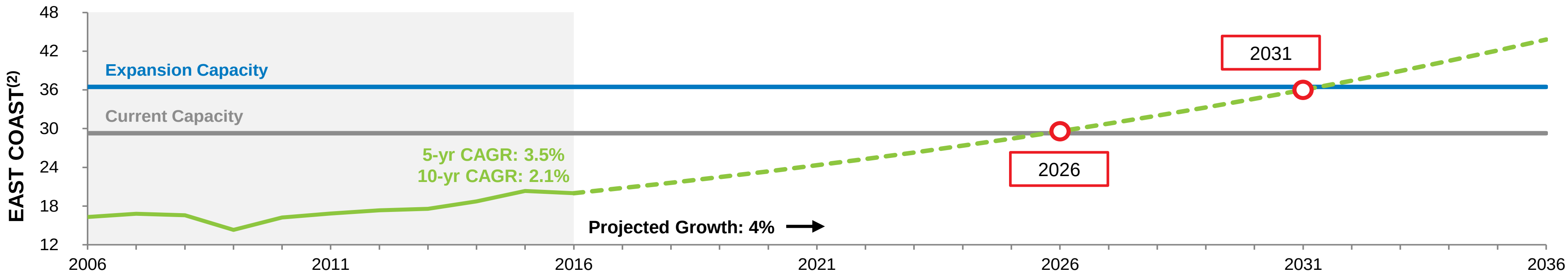

Capacity reflects currently capacity at each terminal with no credit for ongoing expansion or redevelopment projects, ongoing or planned capacity expansion noted in italics.

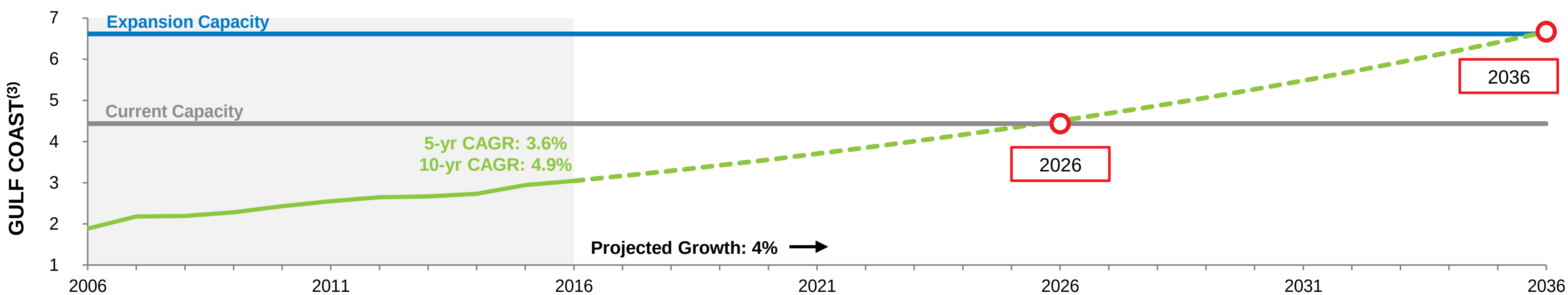
1. Lease extended for a total 50 year term on 24 October 2016, previously through 2026.

# North American Container Capacity by Coast

*(Shown in millions of TEUs)*




1. West Coast includes Vancouver Fraser Port Authority, Prince Rupert, Seattle / Tacoma, Oakland, Los Angeles, and Long Beach.
2. East Coast includes Halifax, Montreal, Baltimore, Charleston, Virginia, Jacksonville, Miami, New York / New Jersey, Everglades, and Savannah.
3. Gulf Coast includes Houston, Mobile, New Orleans, and Tampa.

# Two Hypothetical Ports

**Scenario Overview**

- There are two ports with the following dynamics:
  - Compete on draft
  - Compete on berth availability
  - Compete on efficiency
  - Compete on price

**Port A**

Requests $80 million for berth improvements

*"Critical to economic development – a big new customer hangs in the balance"*

**Port B**

Requests $120 million for dredging

*"Has a large new carrier service lined up – means 125 new direct jobs"*

Net Effect: Lowered the cost to international carriers by $200 mm; no change in the U.S. economy – "A Race to the Bottom"

# Current Need for Port Funding as Part of Infrastructure Investment

- American Society of Civil Engineers – in their 2017 “Infrastructure Report Card” for the U.S.:
  - Makes no mention of direct investment in marine terminals – such investment is assumed to be taken care of between:
    - Expansion plans at going-concern port gateways
    - Private terminal expansions
  - Does state that of $29 billion in “connectivity” projects (non-terminal), $11 billion are being federally funded
    - Dredging
    - Highway connectivity
    - Bridge-deck height restrictions
      - Gerald Desmond Bridge Replacement (on-track to open 2018)
      - Bayonne Bridge “Raise the Roadway” (elevated roadway opened Feb-19; project completion expected mid-2019)


**Funding Sources**

| | (US$ mm) |
|---|---|
| TIFIA | $325.0 |
| LA Metro | $17.3 |
| POLB | $117.0 |
| State / Caltrans | $153.7 |
| Federal Funds | $675.0 |
| **Total** | **$1,288.0** |


**Funding Sources**

| | (US$ bn) |
|---|---|
| PANYNJ (funded through raised tolls & fees) | $1.3 |
| **Total** | **$1.3** |

Source: U.S. Department of Transportation, Port Authority of NY & NJ website

# Funding Needs for Ports

- There will always be a need for funding support for non-revenue-producing assets
  - Dredging money should come from Federal funds – Harbor Maintenance Tax
  - Local connectivity – enhancements should be state funded
- There is no need for more "free money" targeting container ports
  - Grants targeted to grow container ports do not result in net gains to U.S. ports
  - Larger ships mean lower shipping costs – favors imports
  - Infrastructure is not fully-costed to users – for every dollar of "free money" put into additional capacity at container terminals, the Ports' collective ability to raise its handling charges is weakened
- Grants should focus on expanding and supporting U.S. exports
  - Tie all Federal grants to export commodities and jobs created by export opportunities
  - Require any grant recipient to show substantial and increasing commitment to exports

**Government should stop providing indirect subsidization through grants to:**

- Foreign carriers
- Foreign producers
- Container import operations

# National Infrastructure Bank

- **Purpose:**
  - Provide grants and loans to large infrastructure projects of regional and national significance that are not already covered by existing Federal loan programs
  - Provide loan guarantees to State or local governments issuing debt to finance qualified infrastructure projects
  - Borrow on the global capital market and lend to entities and commercial banks for funding of infrastructure projects
  - Purchase, pool, and sell infrastructure-related loans and securities, which would require the Board to establish criteria for determining project eligibility for financial assistance
- **Proposed Funding:**
  - Would initially require appropriations or investment from asset managers
    - Repatriated tax dollars recently suggested
    - Loans to projects would be more expensive if private shareholders involved
  - Difficult for program to be self-sufficient with ongoing revenue from loan repayments
- **Ideal Investments:**
  - Large greenfield infrastructure projects for social, energy, utility, and transportation infrastructure
  - Ports operate on a going-concern basis, and rationalize growth from existing demand

**Concerns:**

- Does not address bottleneck issues
  - Permitting red tape remains, even for infrastructure replacement projects
- Likely not to be financially self-sufficient over time
  - Would likely require ongoing appropriations, which would invite political agendas to intervene
  - Lack of clear objectives and project performance criteria
- Cannot function like a quasi-governmental agency (such as Fannie Mae and Freddie Mac), where private shareholders benefitted from public sponsorship

# Best Practice – Asset Recycling

- Australia and Canada have embarked on process of asset recycling via complete concession of Port Authorities
  - Raises for greater proceeds through monetization of wharfage / dockage / demurrage
  - Decreases operating costs dramatically in “landlord” structures
- **Melbourne Process**
  - Australia's largest container and multi-cargo port,
    - 2.64 million TEU throughput in 2016
  - **Oct-16:** 50-year lease awarded to private consortium in for US$7.4 million
    - Proceeds used for new road, rail, and regional infrastructure projects
- **Canadian Process**
  - The Government of Canada engaged advisors in late 2016 to evaluative potential monetization opportunities for 21 federally-owned airports and 16 federally-owned ports
- **U.S. Hurdles**
  - State & Local Port Sponsors – favor current structure despite inefficiencies

*Port of Melbourne, Australia*

*Port of Vancouver, Canada*

# Disclaimer



All values in this document are in US$ unless otherwise specified