Public-Private Partnerships: European Trends, America Ports

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Introduction to IMG Rebel

- **IMG Rebel is**
  - financial advisor and capital source (authority, investor, federal, state and local)
  - PPP transaction management (including many of the largest in the US)
  - Business process streamlining and technology implementation for infrastructure agencies
  - transport infrastructure, renewable energy, freight logistics and water utility

- **A global** track record in port finance & development, with major offices in
  - USA (Washington, DC)
  - Netherlands (Rotterdam)
  - Belgium (Antwerp)
  - South Africa (Johannesburg)
  - Philippines (Manila)
  
  With additional project offices in 11 other countries
**Introduction**

**Typical IMG Rebel Port Engagements**

1. **Financing:** TIFIA loan arrangement, Port of Long Beach, USA

2. **Strategic:** Analysis of alternative port management models, Germany

3. **Due Diligence:**
   - Business case Maasvlakte II port expansion, Rotterdam
   - Financial due diligence: port oil supply base, West Africa

4. **Transaction Management:**
   - Ngqura transaction, 2 mln TEU terminal, gov’t side, South Africa
   - Monrovia transaction, gov’t side, Liberia
   - Liquid bulk terminal, Le Havre, investor side, France
1. **Trends**: International trends influencing US ports

2. **Structure**: Changing the relationship between terminals & PAs

3. **Innovation** in financing & contracting of typical PA obligations

4. **Vision**: PAs and community development PPPs

**Focus:**
- Landlord port management model
- Alternative Port Authority roles in PPPs
- Master development leases
Trends & developments
As the world’s fleet changes, so will port & terminal infrastructure, but funding is scarce

1. **Panamax**: New locks in Panama channel: 5,000 TEU -> 13,000 TEU vessels

2. **Scale**: Increased competition through economies of scale: Maersk Triple E 18,000 TEU vessel

3. **Trickle down effect**: worldwide impact on ships in use on all shipping routes

4. **Infrastructure effect**: pressure on terminal & port infrastructure to accommodate (berth & channel drafts, gantry cranes...)

5. **Crunch**: Global financial crisis is hitting funding capacity of Port Authorities
   - Reliance on annual capex budgets
   - Limitation on long term financing capacity
   - Waiting for the federal government
The division of roles between the public port authority (landlord) and the private operators is changing:

1. Shift of investment scope and long-term risk from public to private
2. Port authorities are looking for other ways to contract & finance for their core missions
3. Flexibility and long-term concessions to terminal operators in return for risk-shifting and volume incentives
Framework for analysis
Mapping port assets in terms of investment time horizon and direct impact on the business case of a terminal.
Terminal operators like to invest in assets that have direct impact on their business, while port authorities take a longer view.
Changing interface
PA-terminal operators
The boundary between the scopes of terminal operators and port authorities is moving.

PAs change from cost driven to *value driven* approach.

Terminals invest in more than equipment (topside, quays?)

Not about BOTs, conflicts with Landlord port model.
Global Port Authorities are now focus on capturing surplus value of their assets rather than taking all risks and simply recovering cost.

- **A Competitive Edge**: In Europe, this trend is driven by EU research on intra-port competition: the most competitive and efficient ports are characterized by PPPs and higher private investment share in core infrastructure.
  - In a B-O-T (versus tradition), the private partner gets more exclusivity: Operating a terminal is a monopoly which should come up for tender.
  - Port Ministries want (and need) competition, and money.
  - Still a long way to go: vested interests are restraining growth of PPPs.

- **Ever-Higher Private Share**: More port investments coming from private side.
  - Change from shorter-term lease to more expansive PPP concession.
  - Operators given more flexibility for larger and longer term investments.
  - PPP incentives private partner to focus on attracting *volume*.
Rotterdam (IMG Rebel’s global headquarters) is a laboratory for tendering port terminals

- **Maasvlakte 2: Rotterdam World Gateway Terminal (2.5 mln TEU)**
  - Competition on
    - reservation fee,
    - land lease,
    - throughput guarantees
  - Operator invests in terminal except quay walls

- **Kop van Beer: oil terminal**
  - 3 mln m³ storage
  - PA looked for operator/shipper to secure throughput and shipping dues

- **Competition Benefits**
  - enables Port Authority to secure port dues and *capture surplus value*
  - shows combinations of operator + cargo owners + S/L
Port authorities push expenditure to private operator in return for lower revenues

Case Study: new oil terminal in France

- **Typically**, the PA provides berthing area, land fill & jetty

- **“French” system:**
  - shift investment burden to private sector (jetty, dredging, land fill, rail connection)
  - in return for a volume related discount on land lease fees

- **Pros / cons**
  - Operators optimize jetty design
  - Difficult for operator to invest, competitors benefit from facilities paid by PA in the past
New ways to contract & finance
Public port authorities look for new ways to carry out their tasks and deliver big projects.

- **IT / automation**
- **Terminal equipment**
- **SSGs**
- **topside**
- **Quays**
- **Hinterland infra**
- **Channel, locks**
- **Landfill**

**Investment horizon**
- **short**
- **long**

**Terminal business parameter**
- **high**
- **low**

**Private terminal operators**

- No cross over of terminal operations with PA tasks (BOT)
- Integrating contracting & finance of typical PA / public sector tasks (P3)
- Funding or value for money driven
Design-Build-Finance solves a PA funding problem and transfers development risk to private sector

- Development & finance of basis infrastructure for new container terminals in Port of Tema
- Significant interest from private sector, focus on finance and risk allocation

Diagram:

- Port Authority
- Terminal operator(s)
- SPV
- Escrow account
- Concession agreement
- DBF(M) agreement
- Concession Fees
- Annual payment
- Quay walls, landfill & Dredging
- Terminal infrastructure
- Equipment
- Contractor
- Financial investor
- Banks
“Paying for Availability” transfers full development and life cycle risk to private sector, finance is instrumental in transferring risk

Case Study: IJmuiden lock complex of Port of Amsterdam, extension with a new lock

- **Integrating** design, construction, maintenance, renewal and finance over a period of 30 years

- **Payment** based on *availability* of lock complex
  - Life cycle risk transfer
  - Finance instrument for risk allocation

- **Pros/cons:**
  - International expertise, transfer of construction & delivery risk, spreading payment
  - High risk premium of transfer existing complex
DBFM brings in a new financial profile and contractual structure

- State
- Port Authority

Contracting authority

- SPV
- Banks
- Financial investors
- Contractor
- Building contractors
- Maintenance contractors

EPC (M) consortium

- Direct agreement
- Project loan
- (quasi-)equity
- Sponsor equity

DBFM availability fee

Traditional outlay

Part of Availability Payment is at risk for SPV
A Broader Take on Port PPPs
1. **Unlocking Potential**: Many PAs control potentially-valuable land and waterfront that could be reconfigured to the benefit of community economic development AND the port, but PAs often lack the goal-driven financing and development-oriented organization to execute the requisite strategic development.

2. **Development Capital and Know-How**: Private partners are often willing and able to take strategic commercial and residential development risks (e.g., master-plan), and can be engaged under long-term PPP arrangements.

3. **Public-Use Infrastructure**: Supporting infrastructure (streets, utilities, transit, parking etc.) can be a part of the PPP Master Development Agreement.

4. **Port Improvement**: Relocation and improvement of port infrastructure is made part of the Master Development Agreement and/or is implemented in conjunction with the community redevelopment PPP.

5. **Virtuous Revenue Cycle**: New development and tax revenue for the community, and land rent and more efficient port facilities for the PA.
Case Study: Galveston
*Fill with Urban Redevelopment that Compliments and Reinforces existing environment.*
1. **Blurring Boundaries:** Port PPPs can extend beyond the port boundaries, fostering economic development *and* new revenue for the port and the city (examples: Chicago and Washington, DC waterfront)

2. **Two Types of Partnership Agreements:** Port DBFMs can work with commercial and residential development agreements – consolidated or piecemeal – to achieve community goals

3. **Requirements:**
   - institutional courage
   - state-of-the-art economic development skills and mindset
   - mutual recognition of public and private strengths and prerogatives,
   - innovative public + private financial structures, and
   - sophisticated and flexible PPP development agreements

*It can be done!*
Concluding remarks
1. **Changes in the global landlord port model** are taking shape
   - Global PAs increasingly **see and seize the surplus value** of their assets; it can happen in the US, too
   - Terminal operators expand their investment scope and become long-term, mutually-incentivized partners

2. Moreover, **within their own traditional scope**, PAs are finding new ways to finance -- and manage -- assets like quays, locks and interior infrastructure by combining design, construction, finance and maintenance
   - Tapping new funding sources
   - Efficient risk transfer

3. Finally, port PPPs can go **beyond port boundaries**, support community economic development ambitions
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