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The question of federal and private capital for U.S. infrastructure

U.S. politicians are united that the maritime infrastructure needs a revitalization. Donald Trump and his cabinet face big challenges but have ambitious plans. By *Barry Parker*

During the very contentious 2016 Presidential campaign, one item of agreement, surprisingly, between the two candidates, was the need to revitalize the U.S. infrastructure. Trade flows generally require properly maintained channels for vessels, networks of landside facilities, and surface transportation to the hinterland, along with smooth interfaces among nodes throughout supply chains. In 2017, and beyond, look for more »private« investment in infrastructure, including around U.S. ports.

A series of studies by the American Society of Civil Engineers (ASCE) tallied up potential costs of the failures to invest in infrastructure; a discussion of port and waterway investments said: »A historic competitive advantage of U.S. industry has been relatively inexpensive transportation costs, both internally and for international shipments. If ... water port infrastructure is poorly maintained or allowed to become outdated, the effects will lead to increased cost of goods moved to domestic and international destinations because of increased time it takes to move goods along inland waterways and to load and unload cargo at ... marine ports, as well as inland ports....«

The 2016 ASCE study, »Failure to Act«, offered a funding matrix broken down by

sectors; the »Inland Waterways and Marine Ports« will require 112bn\$ of funding (not including private facilities) between 2016 and 2040, of which 43bn\$ is unfunded. The American Association of Port Authorities (AAPA), an advocacy group for ports throughout the States (and farther afield to Canada, Central and South America), in its 2015 »State of Freight« report, estimated that 29bn\$ of investment in landside infrastructure seaport projects would be needed through 2025. This compares with the ASCE estimate for the same time period, which includes inland waterways, of 37bn\$ (\$15bn\$ unfunded).

Even before the great attention to Infrastructure brought about by the 2016 election, policy makers were already thinking about how to fund freight-related infrastructure improvements. The AAPA report was written following the late 2015 passing of the Fixing America's Surface Transportation (FAST) act – the first time that Federal government funding was allocated for moving freight. Under FAST, each state is required to develop a freight plan – which would enable access to this new tranche of Federal money – 11bn\$ (over a five year period). By late 2016, most states had prepared such plans. With FAST (enacted a year prior

to the 2016 election), ports now have a seat at the table. With the surprise election result, there is even more excitement from the ports sector, with AAPA President and CEO Kurt Nagle saying: »President-Elect Trump has put forth an ambitious goal of investing up to 1 tr\$ to rebuild America's infrastructure, for which freight transportation and ports are vital components.«

The key improvements sought by ports are on the land side. In late November, the AAPA sent a detailed set of suggestions and recommendations to President-elect Trump's transition planning team. The key recommendations related to supply chains are to:

- Eliminate Bottlenecks and Expand Capacity Through Landside Investments
- Modernize and Fully Maintain Federal Navigation Channels Through Waterside Investments

The letter to the new administration is really a call for additional funding of »multimodal projects« – to help fill the gap (between 15 and 29bn\$, from the two studies). A very specific call to action implores policy makers to look at »...creating a sustainable freight trust fund that can address the growing multimodal demand for multimodal projects. Sustainable multimodal funding that can directly fund the freight programs created by the FAST Act should also be explored.«

Federal funding is critical for maritime trade. Ste-



Wilbur Ross is well-known in the maritime industry for his investments

Vessel at Port of Savannah, recipient of 44 mill. \$ 2016 FAST-Lane grant, for Port of Savannah International Multi-Modal Connector



Photo: Port of Savannah

ve Rothberg, a Partner in Mercator International, a leading port planner, told HANSA: »Given that the new Administration wants to promote infrastructure development and exports concurrently, there are several projects for selected US ports and waterways that require Federal funding involvement and if completed, would likely lead to greater tonnages of multiple commodities shipped to offshore markets. A prime example would be accelerated Federal funding that would enable the US Army Corps of Engineers to undertake and finish several lock/dam improvement projects on the Upper Mississippi River, thereby facilitating increased exports of Midwest corn, soybeans, and other grain products.«

Investments in actual ports, or modal connectors, have increasingly been structured at Public-Private-Partnerships (P-P-P), a description for various financing contours for infrastructure projects, as governments have tried to navigate funding constraints. Donald Trump's choice for Secretary of Commerce, the billionaire investor Wilbur Ross (known to HANSA readers because of his investments in two tanker companies: Diamond S, and Navigator Holdings) has presented a plan that would stimulate the »private« side of the equation. Referring to Trump's »1 tr\$ of infrastructure investments,« he says that an equity investment of 167bn\$ would be required (assuming prudent leverage). Mr.

Ross suggests that the U.S. Government provide a tax credit (ITC) of 82% of the equity investment in infrastructure projects, which would provide a quick return on capital and lowers the total cost of financing by between 18% and 20% (see example in sidebar). One way to think about this credit is that equity gets an almost immediate return of much of its invested capital, on Day 1.

How might P-P-Ps be applied to maritime projects? Ms. Kathleen Broadwater, Deputy Executive Director at the Maryland Port Administration, talked about a project to raise the roof of a 100+ year old railway tunnel near Baltimore to allow passage of double-stack container trains, on a conference call to discuss the State of Freight report. She described a finance structure where 1/3 of the funding would be sourced from a large railroad, 1/3 would come from the state of Maryland, and 1/3 would be funded through Federal incentives tied to the FAST program. Mr. Rothberg, from Mercator, had also told HANSA, »There are also several projects involving the deepening the navigation channels of selected export-oriented ports on the Gulf Coast and South Atlantic that would lower exporters' inland transport costs and lead to higher exports of multiple dry bulk and liquid bulk products.«

It is possible to think of a P-P-P where an investment in a new bulk terminal (by a private business that could take advan-

tage of the ITC) is coupled with a deepening (by the Federal government through the U.S. Army Corps of Engineers) of approaches to that terminal, which would reduce the per unit transport costs. Similarly, improvements to deepen harbor channels would allow larger vessels to transport the dry and liquid bulk cargoes mentioned by Mr. Rothberg. Mr. Kurt Nagle, the CEO of the AAPA, pointed out on the State of Freight phone conference that »...private investment needs to see a financial return.«

Every political discussion has two sides; opponents to President-elect Trump's ideas on infrastructure (across the entire transport spectrum) point out that sorely-needed maintenance of existing arteries and facilities, which does not generate financial returns, is what is needed. Cabinet appointees Wilbur Ross – with deep experience in the steel business, too – and Secretary of Transportation nominee Elaine Chao (from the Foremost Maritime shipping family) are keenly aware of how supply chains work. The Strategy and Policy Forum, a group of business leaders advising Donald Trump, included Adebayo »Bayo« Ogunlesi, the Chairman and Managing Partner, Global Infrastructure Partners (and previously a top executive at Credit Suisse), an expert on P-P-Ps and infrastructure finance. Hopefully, this esteemed pool of talent can help the new administration balance opposing positions and build infrastructure projects. ■

| Investment Tax Credit example (private sector investment) | | | |
|---|-------------------|--|---|
| The Big Picture – \$ 1 Trillion of new Infrastructure | | | |
| Total equity | \$ 166-67 Billion | | |
| Total debt | \$ 833.33 Billion | | |
| Example project shown here is subset | | 0.12 % of total shown above | |
| Project name: Bulk Terminal Enhancement | | | |
| | | Total Payments on Debt Interest plus Principal (20 yr 4.5 %) | Total Payments on Debt Payments on Debt (30 yr 5.0 %) |
| | | Equity earns 9 % return | Equity earns 10 % return |
| Project cost | \$ 200,000,000 | | |
| Equity | \$ 33,333,333 | | |
| Debt | \$ 166,666,667 | \$ 270,833,333 | \$ 356,333,333 |
| Apply the 82 % investment tax credit | | | |
| Project cost | \$ 200,000,000 | | |
| Equity | \$ 33,333,333 | | |
| Debt | \$ 166,666,667 | \$ 221,666,667 | \$ 284,166,667 |
| Magnitude of the reduction due to ITC | | 18% | 20% |
| Look at it a different way – consider equity outstanding | | | |
| Without ITC | \$ 33,333,333 | | |
| With ITC | \$ 6,000,000 | | |

Source: based on »Trump versus Clinton on Infrastructure« an analysis by Wilbur Ross and Peter Navarro