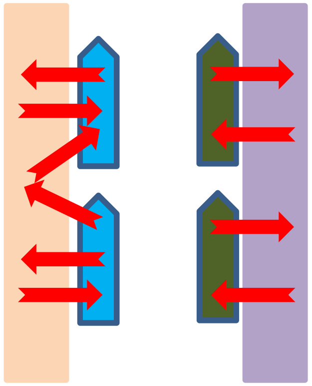
11th Trans Middle East 2015

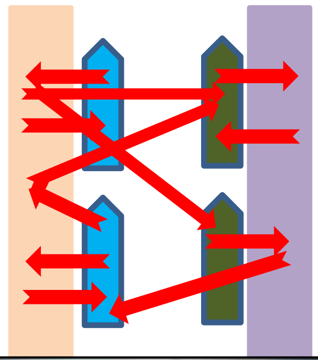
Qatar 6-7th May 2015

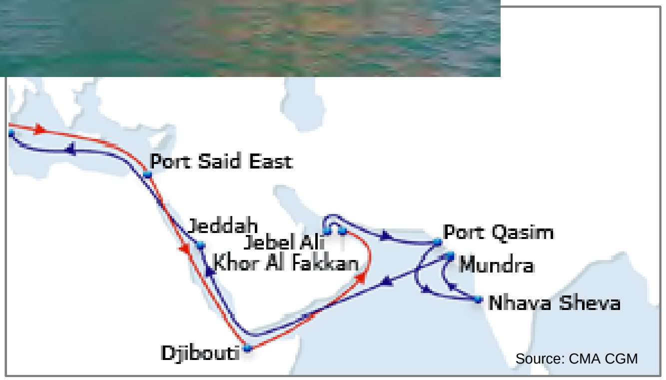
Promoting public-private partnerships in the Middle Eastern ports sector

Evaluation of PPPs in ports worldwide – Evolution and future trends

Dr Jonathan Beard, Vice President, ICF





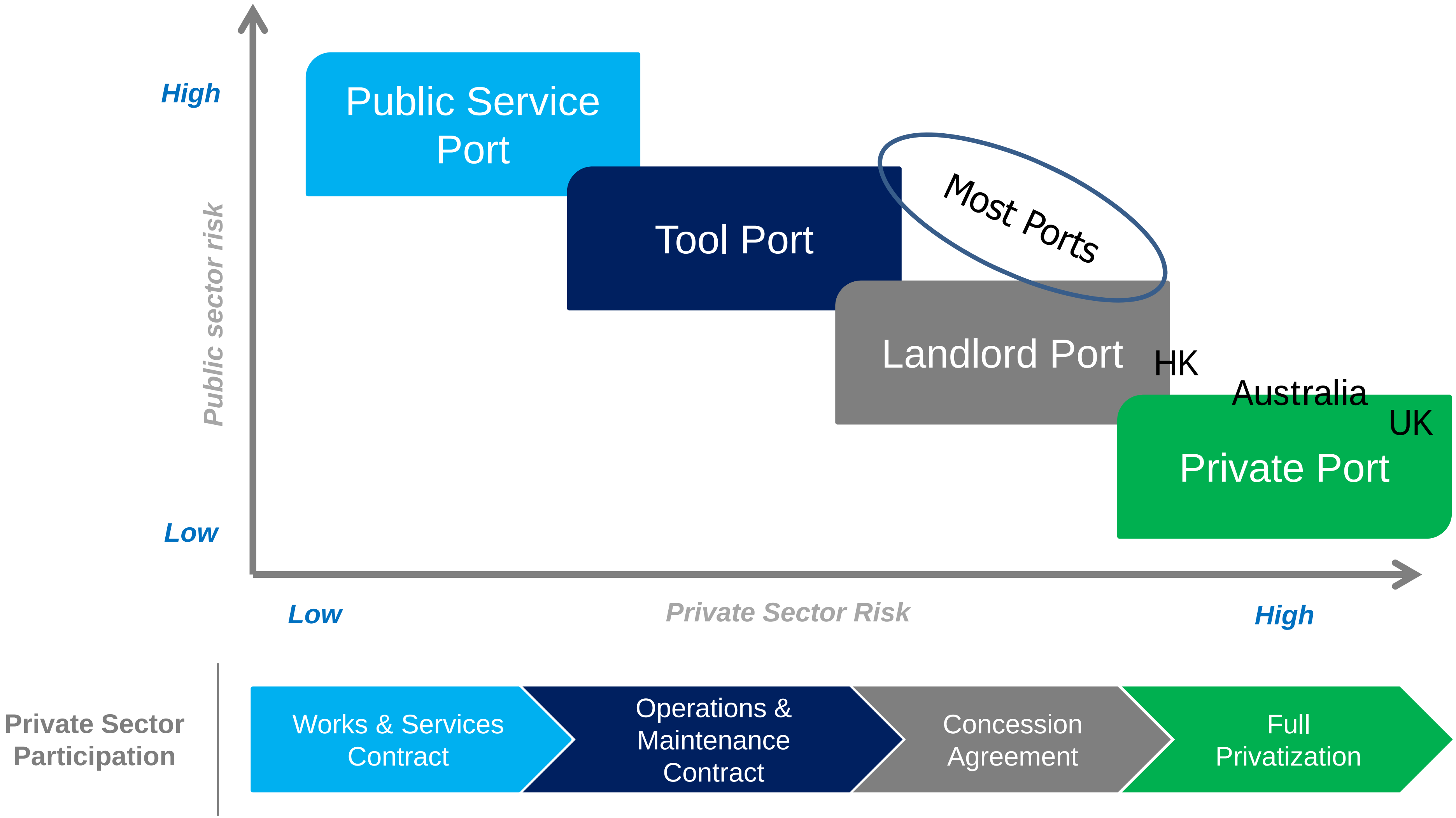


Agenda

- PPP overview – models on a theme
- Key issues to bear in mind – some common pitfalls
- Wrap – PPPs in an ideal world

Private Sector Involvement in the Port Sector

'PPP' now used to describe a range of models, many not strictly PPPs



Evaluating Port PPPs

Lessons Learned - Some Key Issues and Challenges

- Healthy demand growth is beneficial, but does not guarantee success
- Key issues to bear in mind for public and private sectors:
  - Supply side response, barriers to entry and Greenfield vs brownfield / the resilience of older, inner city terminals
  - Cargo mix and revenue type
  - ‘Freedom to price’ and revenue risk
  - Ensuring competition without fragmentation
  - Government ability to deliver supporting infrastructure, and supporting links in the supply chain
  - Bidding re-runs / programme delay
  - Environmental risks, including climate change

...but Healthy Demand Does Not *Guarantee* Successful PPPs

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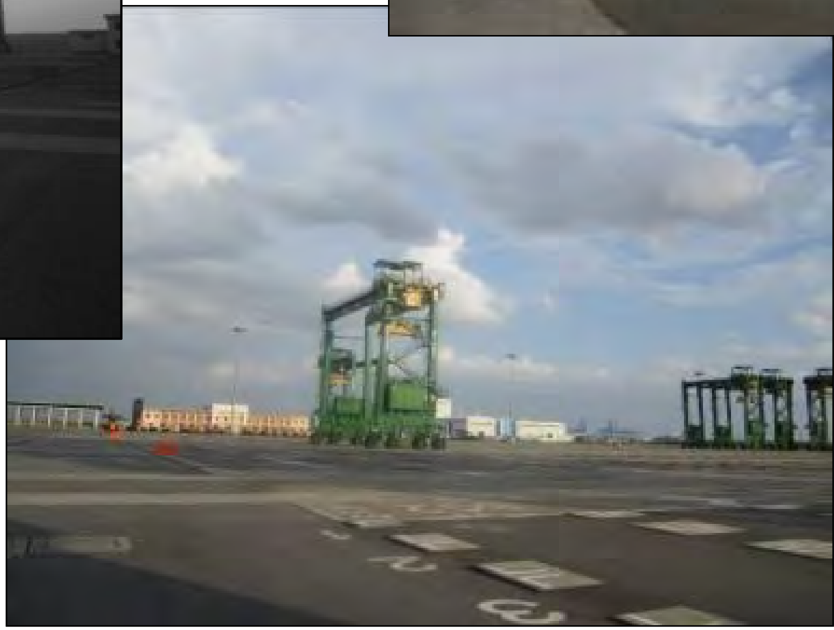
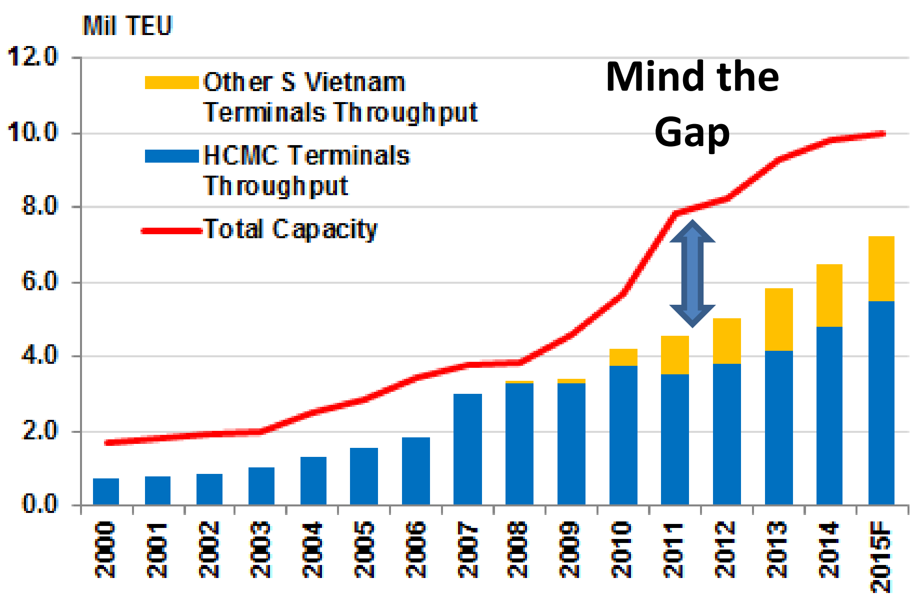


How Responsive is Supply Side – Barriers to Entry?

….and beware older, inner city terminals – they may be surprisingly resilient

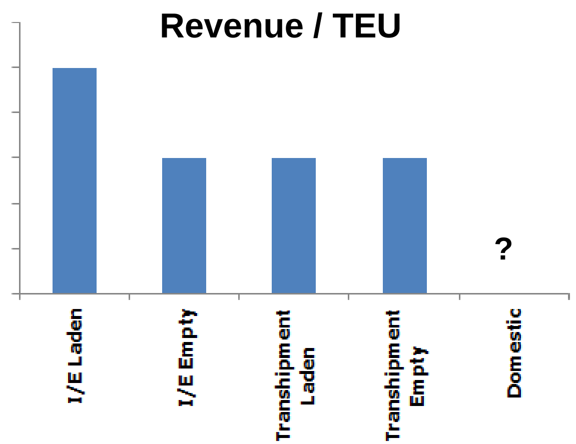
- Older terminals not phased out and more resilient than anticipated – a common tale: e.g. Muscat / Sohar; Bangkok / Laem Chabang; Busan New Port / Busan Northport; Shanghai the exception?
- Public side of PPP has not performed - landside infrastructure has lagged
- Competition between operators, yes!...but fragmented development with little opportunity to phase / achieve economies of scale



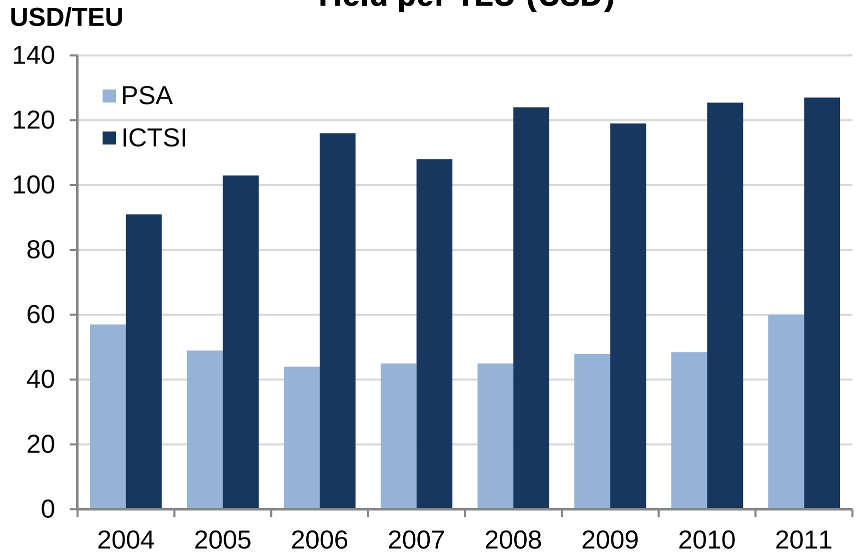
Source: ICF

Revenue Risk - Cargo Mix…

- Overlapping but different drivers affect competition for Import/Export (I/E) and *International* Transhipment
- I/E is the prime market: **highest revenue per lift** and provides a “fixed” incentive for carriers to call – India, Major African States, Vietnam, Philippines, etc. should be well positioned
- Domestic & feeders may be other segments (e.g. China, Indonesia). Typically lower revenue per lift, but still impact terminal capacity
- ***International*** transhipment provides a useful top-up, but **competition** takes place over greater distance (e.g. Jebel Ali, Colombo, Salalah, Klang, Singapore, PTP, etc.), may often include state-backed competitors and may include potential conversion of feeder ports to direct (e.g. India)



TS – Double the Volume but not Double the Revenue
ICTSI versus PSA as a Proxy for “OD Versus Transhipment” Yield per TEU (USD)



Source: ICF; ICTSI; UBS

Revenue Risk – Freedom to Price or Tariff Control?

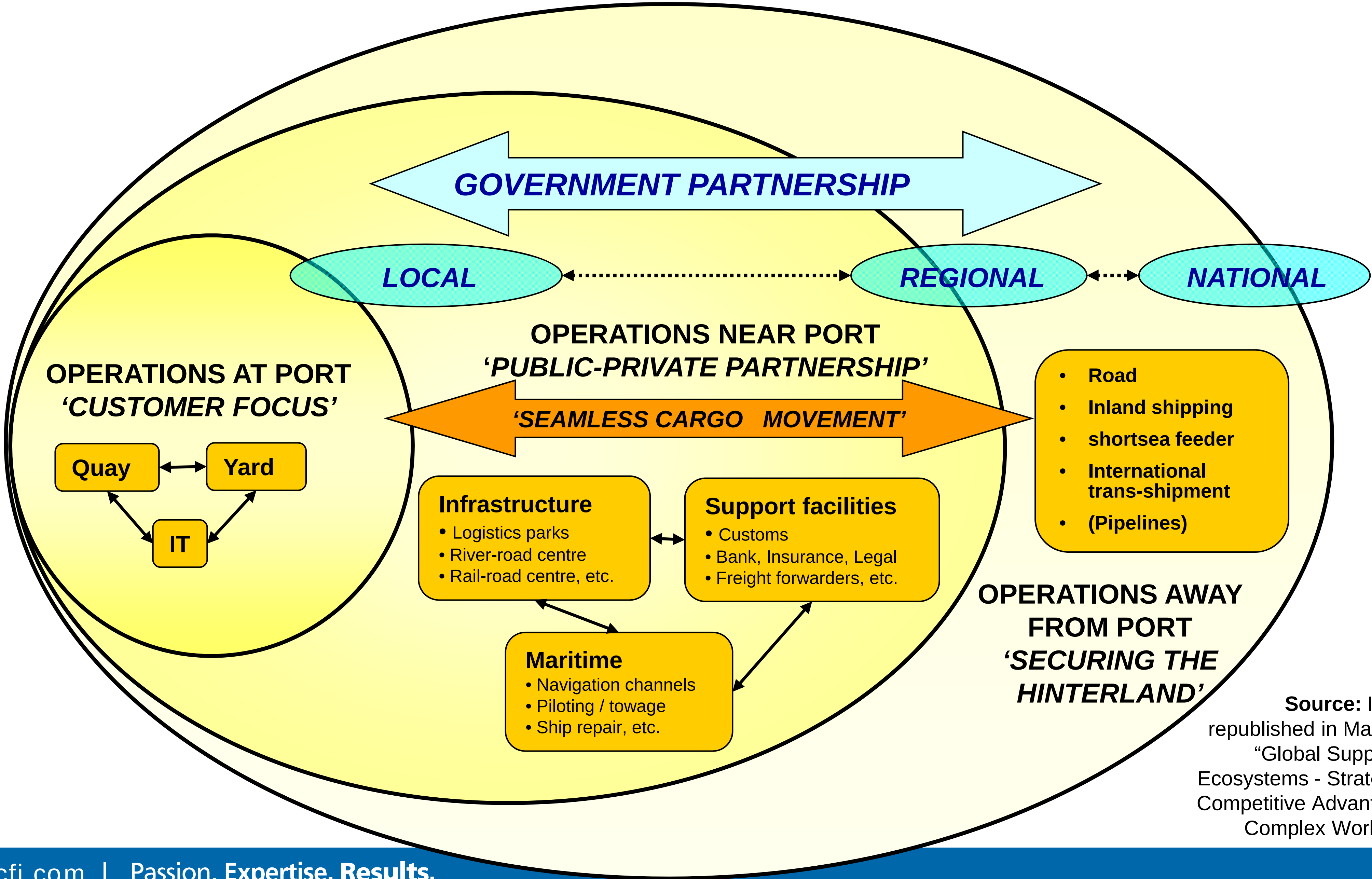
…and regulation of major cost items, e.g. leases terms / rent

- **Freedom to price** is preferred, but surplus capacity will put downward pressure on tariffs
  - Removal of price controls in **S. Vietnam** originally favoured, but rates fell to < USD 40 for a 20' container before the floor of USD 46 for a 20' was mandated August 2013
- **Tariff control** poses additional regulatory risk, but transparent system with clear scope for adjustment mitigates some of this:
  - **Indonesia / Priok:** regulated, but transparent mechanism with upward (and downward adjustment)

  Vs
  - **Thailand / Laem Chabang:** regulated, but limited transparency and no increase >20yrs
- **Cost control:** reviews of rateable value, rents, etc.
  - e.g. Melbourne and possible significant increase for DPW concession (to be independently determined)
- Competitive concession bid – **revenue share / upfront payment**: seductive for port authority / government, but private bidders often over-commit (e.g. Mumbai) to the detriment of all

Outside the gate? You're only as good as the weakest link

…and terminal operators do not control all the supply chain links



Source: ICF; also republished in Mark Millar, "Global Supply Chain Ecosystems - Strategies for Competitive Advantage in a Complex World", 2014

Ability of Government to deliver supporting infrastructure

Source: ICF

Bidding re-runs / programme delay - 1

Pushes up project risk and damaging to economic development

- **High revenue weighting:** e.g. upfront payment, revenue share, etc.
- **E.g. India, Mumbai – JNPT 4^{th} container terminal** (4.8 Mn TEUs).
  - First bidding cancelled due to lack of participation
  - 2^{nd} round (began in 2009): mired in legal controversies. APMT excluded - won earlier GTI bid hence not permitted to bid. Successfully challenged in court, but then backtracked & decided not to bid.
  - 2^{nd} round winning PSA-ABG consortium backed out in 2012, after offering **50% revenue share**
  - 3^{rd} round: Neither PSA nor APMT excluded from the bidding process, to the chagrin of some industry stakeholders.
  - Feb 2014, awarded to PSA…again…at 35.79% revenue share
- This model is understandably attractive to the port authority / government – see also New Priok (Indonesia) which has upfront “beauty” payment + 0.5% share of gross revenue (fixed) and a lease payment that equates to US$37 per TEU (at full throughput - 1.5mil TEUs for CT2/3)

Bidding re-runs / programme delay - 2

Pushes up project risk and damaging to economic development

- **Beware the power of the incumbent – defensive bids**
- **E.g. Philippines, Subic Bay**: 1996 offered 25 yr lease, bid evaluation on two main criteria: investment plan and royalty payments.
  - 3 bids, offering royalty payments of:
    - $20.50/TEU from HPH,
    - $15.08/TEU from Royal Port Services, and
    - $57.80/TEU from ICTSI, but with a smaller development plan - a defensive bid to keep HPH out of the Philippines and protect tariffs at Manila? (see also HPH defensive bids in Hong Kong)
  - Awarded to HPH, challenged and then re-bid in1997
  - Further delays and challenges not resolved until 2001
  - New plan and bids, concession finally awarded to ICTSI 2007.
  - Despite 10% utilisation (32,000 TEU at 1st berth) 2nd berth also awarded to ICTSI 2011 (no other bidders). Meanwhile traffic at congested Manila rose to 3.7m TEU in 2012

Environmental Concerns

Increasing project risks related to environmental impacts & climate change

- Overlapping areas of concern:
  - **"Green port" / "Green supply chains"**: broaden focus from biodiversity / ecological, etc. from impact of new developments to additional concerns around air pollutants and Greenhouse Gas Emissions (GHG)….will become an issue in emerging markets
  - **Climate change:** impacts over life cycle of port assets? **Long time horizons**. Planning, implementation, concessions run 20-30 years+ (e.g. New Priok IPC II 70-yr concession, London Gateway even longer). Direct impacts for project finance
  - **Public sector best placed to handle?** See revised approach for Vancouver Roberts Bank T2

What's at risk?

- Performance of fixed assets
- Supply chain integrity
- Availability and demand for resources (e.g. water, energy)
- Demand for goods and services

→

Potential financial impact

- Reduced asset value
- Unplanned CAPEX, increased OPEX
- Reduced efficiencies
- Reduced availability of insurance
- Inability to meet projected financial returns
- Need for innovation

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Non-financial impacts

Climate change also has the potential to affect achievement of non-financial objectives, especially on **development**, **community,** and **environmental** issues

Wrap - Port PPPs & Beyond

In an ideal world public sector would establish...

- Transparent (and simple) selection procedure
- Clear and committed timelines for phase in (and out) of new capacity…including option to develop adequate economies of scale where possible (note impact of mega vessels / alliances at major ports)
- Deliver supporting infrastructure
- Regulation via competition is preferred, but may not be possible in early stages
- Be wary of defensive plays by incumbents
- Fair and clear allocation of risk and reward between both 'Ps' ...and be clear on policy objectives
- **Establish a track record**

In an ideal world...

Thank You – Any Questions?

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