

Back to basics



Credit: Aeronview

CAPTIVE AUDIENCE: Rotterdam's place catering to the German hinterland steel mills affords it a desirable high cargo captivity level



Ports looking to position themselves to secure finance would do well to go back to basics, **Felicity Landon** advises

AS LONG AS there is production of goods, and the consumption of those goods is spread all over the world, then logistics and cargo flow operations will follow – and that makes ports a pretty safe bet for many investors.

So far, so good – but it doesn't logically follow that every port offers the same irresistible attractions. Ports should look carefully at just what they are proposing, because potential investors will certainly be doing just that. In short, they should go back to basics, says Jos van de Leur, senior manager with the Rotterdam-based finance and strategy advisor Maritime and Transport Business Solutions.

Those basics are the quality of the underlying business and concession contract, presuming a stable legal, political and regulatory environment, he says. "If the business case is sound and any concession contract well balanced, and if you bring your project to the market in a fair and open way, it is possible to raise finance for any good project.

"In the years before the economic downturn, when there was more demand for terminal capacity than supply, everybody was trying to buy capacity in

Jos van de Leur
MTBS



“Investors will be looking to see whether the port is handling large volumes, and how captive those volumes are for that particular port”

one way or another. Now cargo volumes have decreased by 20%-30%, it is back to basics. Investors will be looking to see whether the port is handling large volumes, and how captive those volumes are for that particular port.”

If the revenues of a project are based on long-term contracts or cargo flow bound through the port, and if revenue has a high level of “captive”, then the risk profile is clearly lower, he adds.

“For example, at the Port of Rotterdam, as long as there are steel mills and energy plants in the

German hinterland, then the coal and ore flows will come.

“On the other hand, a lot of smaller ports serve only their direct hinterland, and that gives them a strong position, because no other ports are in the position to compete with them.

“The starting point is always where does the cargo come from and where does it go to. Then try to argue and explain by asking – why, why, why? If cargo flow is to some extent captive to the port then you can use revenue bound to the cargo flow for your finance argument.”

Investors would also be encouraged by guarantees such as minimum amounts of cargo from or cooperation with shipping lines, and the port’s own influence on variable price/tariff levels.

“Furthermore, it helps, of course, if you have a convincing record as a port authority and have proved in the past that you always pay debts without any problem.”

A port authority can do a lot of things to make themselves more attractive to investors in terms of types of leases, contracts, flexible concession payments, etc, says Mr van de Leur.

So what would be the real “no-no” items that would switch investors off? For a really good example, we need look no further than the British government’s disastrous implementation of backdated business rates, which have hit port companies around England and Wales and raised protest from British and foreign businesses alike.

At a recent Portcentric conference in the UK, Lisa Fitch, supply chain consultant with infrastructure

investor BNP Paribas, said the decision to charge business rates backdated to 2005 was one of the major hurdles facing the development of portcentric operations.

There are clear examples of foreign investors backing off as a result of the backdated rates fiasco, says Dave Pendleton, business development director at Mersey Maritime. “This was clearly an issue of concern for some of the investors and banks that spoke at the conference about investing in portcentric solutions. The feeling is, how can we trust the government not to do this again?”

Port consultant Nigel Nixon says that any political risk is a huge turn-off for potential investors in a port project.

“The big ‘no’ factors are labour unrest or shortage of labour; a difficult site where the civil engineering costs outweigh any logistic advantage; and political risk,” he says.

“Investors don’t want to find themselves in a position where there is a tax-free zone, they set up a business to take advantage, and then the government changes and the advantages are taken away.

“If the port is in a location that has an exceptionally lengthy planning process, that is also a real negative. There has to be political will – if the local council wants to support employment, then they are going to have to get their fingers out and give support to a project. Sadly, the UK is a very bad example of this – and it can put an awful lot of people off.”

Customs and other regulatory bodies are another issue: “You want minimal disruption to trade movement

Nigel Nixon
NNCL



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by unnecessary bureaucracy,” says Mr Nixon. “And security is vital; unless you are prepared to address security, you will clearly be at a disadvantage.” **PS**



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