Trains, trucks and financial engineers roaming the waterfront…

Contributed by
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Well, those mainstream media guys have made my choice of topics very easy; this past Thursday, the Wall Street Journal carried a "above the fold" front page story about congestion at U.S. seaports, courtesy of big container vessels that stretch, stress and then ultimately fracture existing logistics infrastructures. Articles do not randomly find such prominence- the article was a placement courtesy of cargo importers, big retailers who have been taking all manner of abuse from the carriers, so its their turn to bash back. This article, actually quite well written, takes aim at "Mega-Ships"- those big behemoths, leviathans, whatever you'd call them, taking upwards of 10,000 20' boxes (or their equivalent) on voyages to a port near you.

The non-compatibility of landside terminals and infrastructure (access points to highways and rails) with the trend towards the larger ships (which have come into service more quickly than originally envisioned) was central point of the WSJ piece- which centered on terminals in the Norfolk, Va area. Unlike the Asia to Europe route (plagued with overcapacity and the lowest pricing in many years), carriers bringing boxes into the States have been able to sock it to the cargo importers.

The big infrastructure fail is not for lack of communication; the liner guys and port people do exchange views- both formally and informally. But sometimes technologies are simply ill-suited, at a particular point in time, for a particular purpose. Remember ULCC's, tankers of 500,000 deadweight tonnes, built in the 1970s but never gaining commercial practicality. Consider the two or three years needed to build a ship, and compare that with the timelines (of perhaps more than a decade) needed to develop or rebuild transport infrastructure in large metropolitan areas in the U.S. Unlike burgeoning Asian locales like Shanghai or Singapore (where ships handling 18,000 boxes make port calls), it's not really possible to build a "Greenfield" port 30 miles outside of town.

While the mega vessels (defined here as vessels with a container capacity of up to about 14,000 boxes of 20' length- or "TEU"s) might handily "fit" into the Asian ports (and their European destinations), that's decidedly not the case in Norfolk/ Portsmouth, or Los Angeles/ Long Beach. Yes, the vessels' dimensions enable them to enter the terminals, but, like clothing purchased hastily off the rack, they are ill-suited for the logistics networks that power supply chains beyond the wharf.

There are some paradoxes at work; the issues raised are not about maintenance of channels and dredging (a popular news item until very recently). In fact, the American Association of Port Authorities (AAPA), the trade association for ports throughout the Americas, has praised the U.S House of Representatives for passing a bill that (if it goes the distance) includes provisions freeing up money to spend on maintaining harbors. But it was actually the AAPA which provided grist for the WSJ article, in its "State of Freight" survey, released in late April, along with an economic impact study from Martin Associates (a specialist in port economics).

From an investment perspective, are there any implications? After all, the WSJ is hardly aimed at traffic managers and logisticians. The AAPA, in its reports, suggests that U.S. ports will require some $29 billion of landside infrastructure investment by 2025. Some of this money might come from Federal programs like "Tiger Grants" (administered by the US Department of Transportation) and a handful of other funding sources, with colorful acronymic names like TIFIA, BATIC, DERA, CMAQ and RRIF.

One very intriguing tidbit, deep within the State of Freight report, touches upon what we'd call Mergers and Acquisitions (M & A). The authors note that: "Having up-to-date on-dock and near-dock rail able to accommodate all the discretionary cargo that must be moved to and from a port's hinterland is a big priority for U.S. seaports. The need is so urgent that several ports have purchased rail lines to ensure access to their existing freight network and for business development." The inner M&A guy in me is wondering whether such investments will extend beyond short line railroads, to ocean carriers (unlikely) or ship assist companies (usually privately owned cash cows- the types of businesses that PE guys sometimes salivate about)? If rail hookups are in play, then liaisons with trucking companies (also a source of excitement to certain types of PE guys) should not be out of the question. We will save the idea of offshore feeder ports, in Panama and the Caribbean, for another article, but savvy readers should already be smelling the money here.

Another angle concerns the need for private investors to join public entities; these are described as Public Private Partnerships (PPP)- another bill, this one in the Senate, would actually seek preferential tax treatment for PE investment in landside infrastructure. Recently, there's been a rejiggering of port investment by pension funds and the like, as the fruits (or not) of deals cut circa 2004 – 2007 now need to be harvested. Notably, Deutsche Bank sold out its stake in Prince Rupert (a port in Western Canada) to DP World, while Goldman Sachs and partners Infra Capital have de-accessioned a big stake in Associated British Ports over to a new group of investors- including a large Canadian pension fund. If landside infrastructure becomes a choke point (as the AAPA insists that it already has), then look for a new group of investors to climb aboard.

Could the U.S infrastructure deficits have any impact on listed equities that we talk about- Costamare (with its biggest vessels at 9,500 TEU and partly owned vessels as big as 14,000 TEU), Danaos (topping out at 13,000 TEU), Box Ships (vessels of up to 6,500 TEU), Global Ship Lease (mostly vessels below 8,000 TEU), Seaspan (mostly at 10,000 TEU and below) and maybe Euroseas (a hybrid of bulk and smallish container ships)? In my way of thinking, any types of congestion and non-alignment is actually good for shipping; fine-tuned smoothly running supply chains are not the shipowner's friend. So, at the margin, the answer is "yes". More than half of vessels in the liner trades are out-sourced (ie leased in from the likes of the names mentioned here), and the more that carriers struggle with inadequate landside facilities, more vessels will be needed to move the same amount of trade flows. These names, all with some sort of PE representation in the shareholders roster, are sometimes very acquisitive as they try to enhance their brand values. While bureaucrats try to parse all the acronyms, the PE sector may find creative ways to offer value around particular waterfronts that their liner company portfolio companies are trying to serve.