

Concept Paper on Port Led Economic Development in Puerto Rico

Prepared by Seaport Consultants Asia and Torrado Developments

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Thesis: Effective and efficient ports are a vital part of today's globalized economy. Improving connectivity and port led economic development have been two of the most successful paradigm changing economic strategies implemented over the last fifty years. The private sector has understood these facts and demonstrated a willingness to invest large sums in such developments in places as far apart as Australia, Indonesia, Costa Rica, Arica and Cyprus. The underdeveloped ports of Puerto Rico represent a major investment opportunity for the private sector and one that will radically change the economic potential of the territory moving it into a new growth phase.

Seaport and Torrado formed a partnership in 2008 to pursue port based development opportunities in Puerto Rico. We have experience in a range of port related and special economic zone studies associated with to port led developments; developed a range of commercial opportunities and engaged with major commercial partners including:

- DP World, one of the world's top four container port developers;
- Inchcape Shipping Services, the world's largest port and shipping agency with large scale port investments throughout the world; and
- Picerne Developments, a successful Florida based developer.

Our studies have provided us with a deep understanding of:

- The extent of the failure of Government and their leadership in terms of investment in the port space;
- Why Puerto Rico's ports perform badly in terms of connectivity and efficiency;
- Approaches and implementation strategies that can succeed in transforming the ports of Puerto Rico;
- The scale of the revenue potential that successful port developments could deliver to the Government;
- How effective, successful port developments would be in changing connectivity, trade infrastructure and logistics costs as a consequence of stimulating the economy.

Over the last eight years it has not been possible to progress appropriate port investments through a combination of:

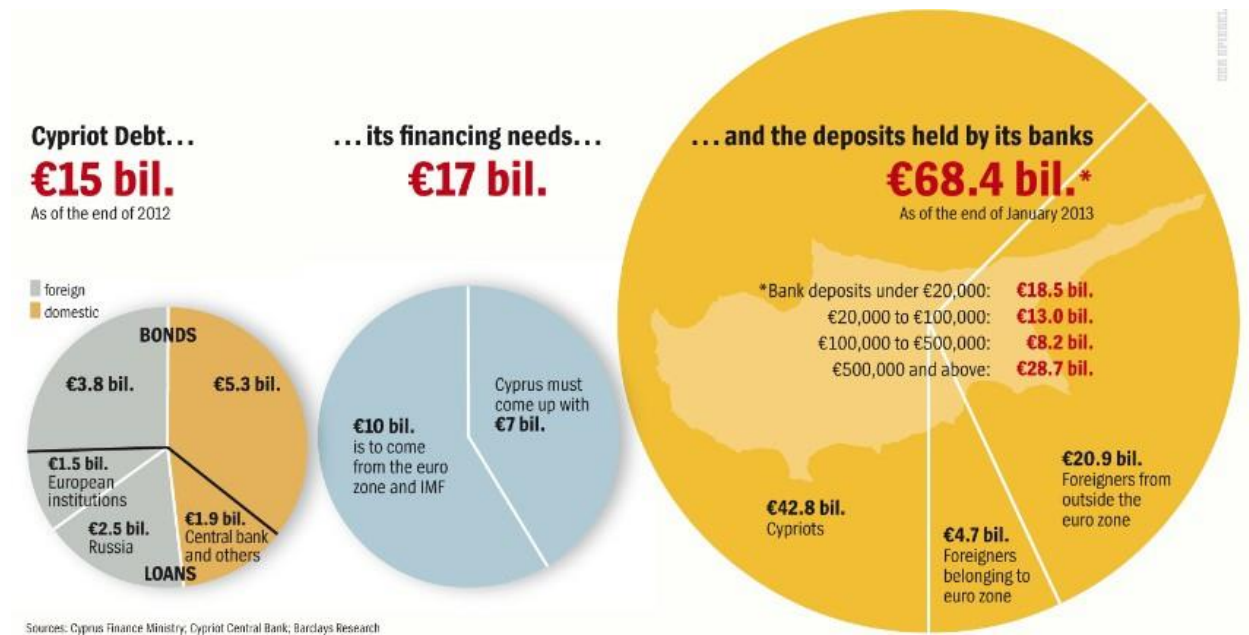
- Inappropriate regulatory interpretation;
- Inadequate processes and procedures within Government; and
- Securing Government land and associated agreements, which have been inhibited by vested interests.

Our efforts have given us unique insight into the obstacles and opportunities associated with the development of Puerto Rico's port assets. We believe understanding our efforts and approach can significantly advance the Task Force's mandate. Depending on the approach and specific market conditions, we have concluded that our approach to port development in Puerto Rico would allow the Government to retire between US\$ 5 and 10 billion of debt.

As examples of the potential of our approach the following paragraphs provide a case study where Seaport was instrumental in implementing a port strategy that permitted the Government

of Cyprus to transform their ports through new investment and creation of € 2 billion of value from their port assets in the midst of a debt crisis.

Cyprus entered a major debt crisis in 2012. To enable the crisis to be resolved the European Union extended € 10 billion of emergency loans at very low interest rates. As part of the “deal” the EU, supported by the IMF, required the Cypriot Government to improve the use of key assets as part of the earn out process with a focus on telecoms, power and ports.



For Cyprus, as an island, the port sector is critical to the economic success and it has underperformed for over 50 years. Its commercialization has provided the major success for the Cypriot Government in the earn out program both in improving the Island’s economic performance and delivering a major financial contribution to reduce the debt burden.

Seaport with Rothschild were responsible for restructuring Cyprus Ports Authority. They developed and then executed a market-orientated plan that removed ineffective legacy arrangements for cargo handling and replaced them with:

- A World Class Container Terminal with transshipment potential operated by one of Europe’s most respected container terminal operators
- A Multipurpose Terminal targeting new industrial users and development in a free trade zone with investment from a leading operator and developer of free trade zones
- A marine services company focused on delivering new service offerings that will support the development of the oil and gas sector in Cyprus and neighboring countries

The value created by companies that are deeply embedded in the port market needs to be understood. In 2014, as part of the Cypriot Government’s preparatory works, KPMG valued the port assets at Limassol, the main port in Cyprus at € 350m. Seaport and Rothschild rejected the plan proposed by KPMG and developed a truly market-orientated plan to release the value their analysis identified with the port. First by restructuring the cargo handling services by terminating contracts with a range of vested interest and then creating market-facing entities that could be understood and valued by major investors. The restructuring saw these entities valued by the market in completed transactions at over € 1,900m as the deal closed in April

2016. The process also left a substantial portion of the port in Government hands and free for the development of other port related developments.

Other examples existing around the world where appropriate port strategies have liberated substantial value, these include:

- The sale of long term leases for the Australian ports of Brisbane, Sydney and Melbourne that has generated nearly US\$ 15 billion for the Government;
- Over US\$ 2 billion for a concession to operate the Port of Piraeus in Greece, that was coupled with the transformation of the port into a major transshipment hub with growth rates over 20% per year.

Other countries generating cash or private investment from sales are Turkey, Sri Lanka, Canada etc.

Ignoring the financial value that can be created, the importance of improving the operations of the ports of Puerto Rico is critical to economic transformation. The ports perform badly against their Caribbean peers.



Port	2015	TEU/Ha	NCR TEU/hr	NBP TEU/hr
San Juan	1,100*	6,590	15*	30*
Kingston	1,653	16,497	30	90
Freeport	1,400	22,764	29	102



Freeport in the Bahamas serves a country of under 400,000, Kingston in Jamaica one of 2,800,000. The efficiency and effectiveness of their port facilities puts those in San Juan the gateway to Puerto Rico a US territory of 3,600,000 to shame.

Another important factor not obvious from pictures is that Kingston and Freeport can receive the world's largest container ships. The ports average size of vessel call is over 6,000 TEU and increasing rapidly to nearer 10,000 TEU. San Juan averages in the order of 1,000 to 2,000 TEU. When size controls costs this means that Puerto Rico pays far more for its ocean freight than Jamaica or the Bahamas.

Seaport and Torrado have outlined the preliminary structure of a port restructuring and development plan that would release very substantial funds to the Government of Puerto Rico. Its focus is port led economic development for Puerto Rico and it would stimulate the economy and transform the competitiveness of Puerto Rico. It has been prepared with the benefit of eight years of work in the sector in Puerto Rico and both addresses and mitigates the political and commercial risks inherent in any plan of this nature.

Seaport and Torrado are keen to present the plan in outline and then work with the task force to structure the required initiative; and then implement the plan in partnership with the board.

Seaport Consultants Asia is dedicated to the port and maritime sector. It has undertaken major studies and transactions in the sector for more than 10 years. Recent major transaction includes, the financing of Indonesia's largest ever port development and the restructuring and sale of Limassol Port in Cyprus. Strategic advice has been provided to the World Bank, Government of Malaysia, HSBC, Goldman Sachs, APMT and its parent Maersk among a wide range of other best- in-class players in the sector.

Torrado Developments is an entrepreneurial company based in Puerto Rico that identifies and promotes infrastructure developments. In nineteen years of operating in Puerto Rico, Torrado has conceived and led private public partnerships that resulted in projects with a market value of \$645,970,000. Recent major projects include, housing for the Central American Games, ATT telecommunication network infrastructure, solar energy retrofit of Maersk Pharmaceuticals manufacturing facilities in PR and special economic zone planning for the ports of Ponce and Mayaguez.

NO CONFLICT OF INTEREST

Although we work with major operators, investors and banks throughout the world we are not currently partnered with nor represent any local or international entity interested in investing in Puerto Rico or our plan. Though we have a presence in Puerto Rico and from previous work executed there have access to capable collaborators we have no vested interest or equity in specific solutions, Puerto Rican financial instrument or assets.