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Jones Act trades: reality trumping political bluster

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The Jones Act media wars have continued, with boosters of the US cabotage regime fighting back against a recent onslaught of anti-Jones Act diatribes authored by conservative funded think tanks.

The media fusillade was reinforced by an important real world development- an improved credit rating for an important player in the coastal trades. In the past month, well known players including the Cato Institute and American Enterprise Institute had bashed the Jones Act- blaming it for high gasoline prices.

One author went so far as to link the US prohibition on crude oil exports, based on mid 1970's oil security concerns, with the Jones Act. Shipowners scored a major victory this week with an article in OPIS (Oil Price Information Service) that was widely distributed by Jones Act proponents. The OPIS article, quotes Poten & Partners' Business Development executive Megan McCurdy, who adds a great deal of reality to a debate full of non-economics. She describes a market that is very firm, but not irrationally exuberant; most importantly she notes that the market in the Northeastern United States is also supplied with refined products from Europe, which competes with the upcoast US flag moves.

In the real world, which provides the grist for the Think-tanks on both sides of the aisle, the ratings agency Standard & Poors (S & P) has revised its credit outlook for US Shipping Corp (USSC) upward from "Stable" to "Positive". Earlier in the month, the Moody's rating agency had also raised its rating. Additionally, USSC's "B-" corporate credit rating was re-affirmed. This is impressive for an entity that emerged after the bankruptcy of one of three mid 2000s Master Limited Partnerships (MLPs), US Shipping Partners.

Following the partnership's bankruptcy filing, its lenders divided it into two pieces. In a complicated series of transactions, a major lender to the partnership- Blackstone Group, took over the entity's deepsea refined products tankers, rebranded it as American Petroleum Tankers (APT)- and subsequently sold this fleet onward to Kinder Morgan, an owner of pipelines and terminals. Seven other vessels in the fleet, including four newly constructed ATBs, went to the re-emergent US Shipping Corp, now a corporation rather than a partnership.

Along the way, lenders' equity was gradually purchased on the cheap by distress investors. The firm, still private, achieved a "B" issue rating, one notch above the corporate rating, on $200m of rated “Term Loan B” debt outstanding- a type of deal where institutional investors to take pieces of loans put in place by banks.

The analysts at S & P focus on debt and credit, but in doing so, study particular transport sectors in detail. S & P acknowledges the company’s highly leveraged finances, but sees the counterbalancing positives in its: “…multi-year charters with credit-worthy counterparties and the improving fundamentals within the US liquid transportation markets.” Downside risks mentioned in S&P’s report are mainly cyclical if the market were to cool down, charters might be renewed at levels below those currently in effect. The upside scenario, which might result in a further credit upgrade, would result from a continued bubbling over in the market (not withstanding OPIS reporting Poten as saying that Jones Act coastal trades are “…adequately supplied…”). Additionally, S & P would also welcome optional prepayment of debt, beyond paydowns required in existing deals, which would lower financial leverage.

S & P’s report provides a window in this important coastal shipping market- which has improved markedly increased coastal shipments of crude oil, refined products and chemicals with the U.S. shale oil boom. Besides USSC, which does not move crude oil, players include Overseas Shipholding Group, Crowley and Seabulk Tankers, part of Seacor- which recently entered into a joint venture with a financial partner to expand in this sector. Cynics watching the flow of articles might guess that the Koch family, founders of the Cato Institute and still involved at board level, may have lost out to Kinder Morgan on the APT sale and having been hurling sour grapes.