INFRASTRUCTURE BRIEF:
POLICY IMPLICATIONS OF A TRUMP PRESIDENCY

In this brief, we highlight our thoughts on the key impacts of a Trump administration on key infrastructure sectors in North America. While we acknowledge that Trump’s policies currently lack clarity and transparency, we are able to outline the broader implications based on his stated position on key infrastructure-related issues including:

- Deployment of substantial infrastructure investment to accelerate economic growth and productivity gains, especially through support in transportation and energy infrastructure. After winning the election, Trump reiterated his intention to substantially increase infrastructure investments and involve over $500bn in spending (‘double’ Clinton’s infrastructure target).
- Ensuring the US is energy independent by promoting America’s shale oil & gas reserves and clean coal reserves through eliminating barriers to responsible energy production.
- Reducing unnecessary regulation (including EPA’s Clean Power Plan) through a thorough agency review and changes to leadership positions.
- Restrictive trade and globalisation policies by imposing quotas and tariffs.

The overall impact on infrastructure is net positive. While there may be some negative implications for renewable exposed utilities beyond 2020, there is a net positive impact for sectors exposed to energy and domestic industrial production such as US rails and pipelines.

Crucially, the development of infrastructure across the US will require substantial commitment from the private sector. The success of the plan, and the fiscal stimulus that results, is dependent on the government’s ability to create an environment that supports significant private sector funding of infrastructure.

RENEWABLES & UTILITIES

Elimination of the Clean Power Plan will be negative for renewables in the medium to long term, but with limited near-term impacts.

- The trajectory of renewables build-out is likely to slow under a Trump administration post-2020. The Clean Power Plan (federally mandated emission reductions targets) will likely be cancelled.
- We do not expect renewable tax credits to be rolled back before 2020, and therefore we do not anticipate any impact to renewable project backlogs (important for portfolio stocks NEE, IBE and EDPR) for the remainder of the decade.
- There may be negative rate base growth implications for regulated utilities’ budgeting for electric transmission projects aimed at connecting the renewable generation sources and reduced spending on distribution networks preparing for higher renewable energy mix. A potential shift more towards gas-
fired generation and away from renewables in the medium-term would likely result in lower electricity tariffs for rate-payers.

- Longer-term, the economic competitiveness of renewable power as well as State based emissions policy will continue to drive growth, regardless of whether or not there is federal policy support.

**PIPPINES**

**Reduced regulatory hurdles will be a tailwind for North American pipeline companies looking to connect shale reserves to demand centres.**

- Trump has a more constructive stance towards energy infrastructure build-out, including streamlining permitting and approval processes for natural gas and oil pipelines. We expect the Federal Energy Regulatory Commission (FERC) to include a new Republican Chairman and two new commissioners by the end of 2017 (all current Democrat members are likely to leave or resign), and pave the way for a smoother permitting process for pipelines.

- Projects that have been halted or cancelled due to Government interference have an improved likelihood of being approved under a Trump presidency. For example, TransCanada’s C$8bn Keystone XL pipeline that was rejected by Obama in 2015 has a higher likelihood of receiving a presidential permit under a Trump administration. Trump’s 100-day action plan cites the project as a vital energy infrastructure project blocked by the previous government that he intends to move forward, vowing to lift ‘the Obama-Clinton roadblocks’ that stood in the way of the project.

- Reduced regulation and US ‘energy independence’ goals will benefit exploration and production companies and promote US oil and gas production (and subsequently pipeline volumes).

**RAIL**

**Trump’s infrastructure plan and fossil fuel stance will likely see a strong increase in the haulage of building materials and improved longer-term coal outlook.**

- Rails have some direct exposure to coal - CSX (circa 16% of 2016 revenue), NSC (15%) and UNP (12%). Coal is likely to benefit from pro-coal policies, including the US not proceeding with the Clean Power Plan. Coal is therefore likely to remain a higher share of the US electricity fuel mix post 2020 than previously expected.

- Improved oil and gas production benefits US rails through movements of materials, frac sand, and crude by rail. In the long-term, it is likely that increased gas production could lead to lower gas prices and substitution by US utilities from coal to gas in the generation mix (although, this is likely to be less negative than current projections).

- Trade policy implications (e.g. tariffs on Chinese steel) plus government infrastructure spending, should benefit US domestic industrial producers and the rails through improved haulage of building material. Alternatively, there could be potential negatives from trade barriers for the Canadian rails, and for the Mexican exposed Kansas City Southern and UNP (10% volume exposure).

- Trump will have the power to nominate three new Surface Transportation Board (STB, the rail regulator) members, effectively giving the Republicans control of the STB, reducing regulatory risk (e.g. reciprocal switching policies).
CONCLUSION

While it is difficult to price in the impact of the election outcome accurately at this stage, we see a Trump administration as overall positive for infrastructure. Renewables will be weaker than expected but favourable economies of scale and State policies continue to support a positive longer-term outlook. Rail and pipelines will be large beneficiaries through his infrastructure stimulus plans and constructive regulatory regimes.

Infrastructure across the US will require substantial commitment from the private sector and listed companies have ready access to capital and the operational skills to play a major role in the much needed modernisation of US infrastructure.

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