MANAGING MEMBERS
ACTION ITEM

Item No. 9A
Date of Meeting May 7, 2024

DATE: April 29, 2024

TO: Managing Members

FROM: John Wolfe, CEO

Sponsor: Tong Zhu, Chief Commercial & Strategy Officer

Project Manager: Andre Elmaleh, Sr. Manager, Business Development

SUBJECT: 2024 Vessel Service Agreements (VSAs)

A. ACTION REQUESTED

Request the Managing Members of The Northwest Seaport Alliance (NWSA) authorize the NWSA Chief Executive Officer, or his delegate, to enter into Vessel Service Agreements (VSAs) with the following customers from May 8, 2024 through September 30, 2024 in substantially the same form as presented.

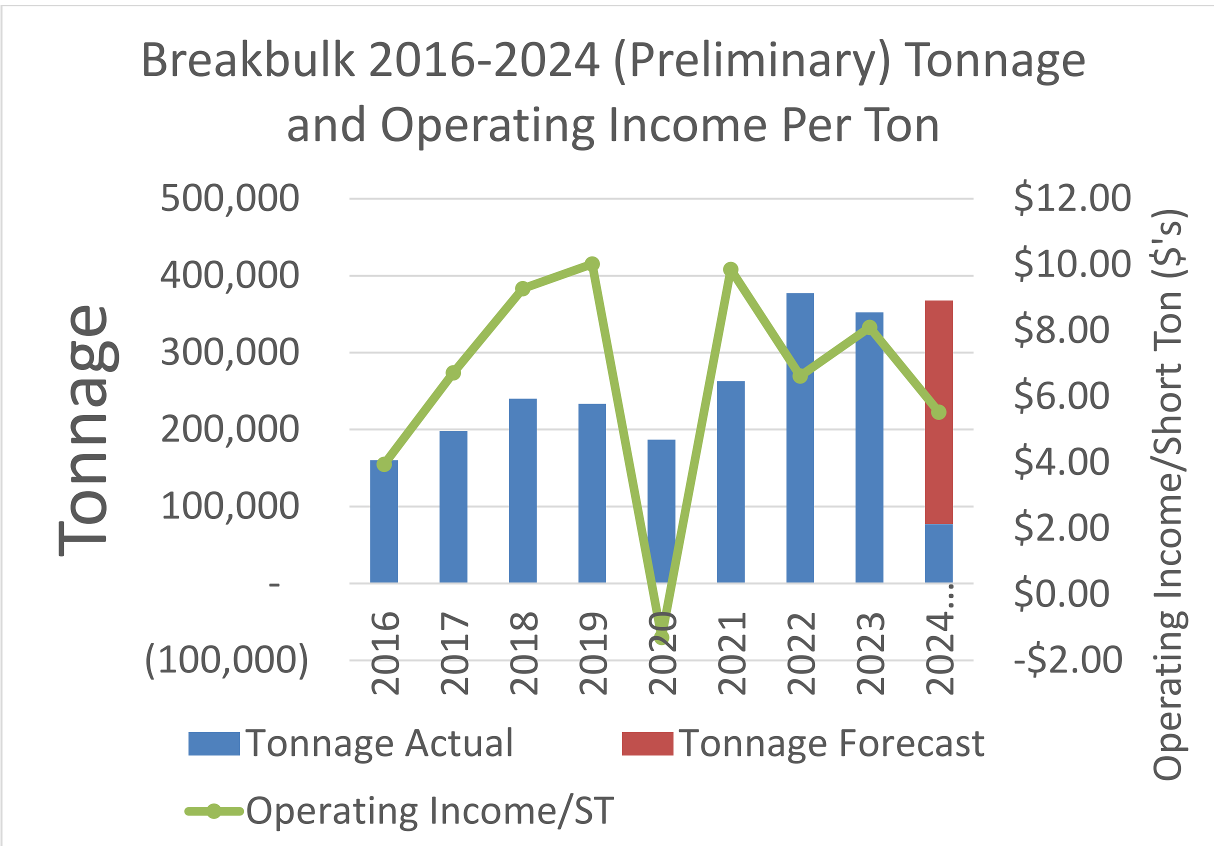
- MOL (Americas) LLC acting for an on behalf of Mitsui O.S.K. Lines, Ltd.
- “K” Line America, Inc. on behalf of Kawasaki Kisen Kaisha, Ltd. (“K” Line)
- Hyundai-Glovis Co., Ltd.
- Liberty Global Logistics, LLC

B. SYNOPSIS

The Northwest Seaport Alliance operates breakbulk terminals at East Blair 1 (EB-1), Terminal 7 and the Blair Terminal. These facilities handle import and export cargo for Roll-on/Roll-off (Ro/Ro) shipping lines. NWSA cargo operations include yard handling and delivery to/from truck or rail carriers. All vessel loading and unloading is performed by stevedores selected by the shipping line. While the NWSA public tariff provides pricing for use of the facility, a Vessel Service Agreement is a common negotiation tool for ports to attract shipping lines, ensure port exclusivity and increase cargo volume. It allows ports and carrier customers to negotiate reasonable rates discounted from the published tariff based on anticipated volumes, labor rate increases and market conditions.

C. BACKGROUND

The global breakbulk Ro/Ro market is rebounding strongly from the pandemic and the trade war. This market is expected to remain strong through the next year.



The breakbulk line of business is an important part of the Cargo Diversification Strategy (Goal 3.A.1) for the NWSA. It creates between 12-40 longshore jobs per day, as well as other trucking, stevedoring and service-related jobs locally.

VSAs have been key to attracting and retaining the world's largest Ro/Ro shipping lines and their breakbulk cargo to NWSA facilities. The negotiated discount from the public tariff is designed to anchor existing customers and to entice new cargo. The published tariff is like that of a window sticker for a new automobile, it is usually the starting price of a negotiation for discounts based on volume or exclusivity.

The NWSA and the Port of Tacoma (prior to the formation of NWSA) have entered into service agreements with various steamship line customers for over 20 years. Service agreements typically focus on the highest volume commodities and specific business sectors that move through the gateway.

Examples include:

- Tariff Item: 333.000 Machinery Farm and Construction Equipment
- Tariff Item: 324.000 Houses or Buildings Modules

Staff aims to retain a healthy profit margin while considering the overall cost of breakbulk operations and market conditions. Typical discounts range between 15% to 60% from the published tariff depending on the customer and the types of commodities they wish to handle. All other cargoes not specified in the service agreement are charged per the published tariff rates.

Charges for military cargo from any nation are assessed according to the published tariff.

The International Longshore Warehouse Union (ILWU)/Pacific Maritime Association (PMA) West Coast Labor Agreement expired in July of 2022. It took through most of 2023 to negotiate a new contract. Since neither staff nor the shipping lines would know the impact of the new ILWU/PMA Agreement, we entered into Interim Service Agreements with MOL, Hyundai GLOVIS and “K” Line under CEO authority with a not to exceed amount of $300,000. Please note that we are currently in the sixth year of a 10-year WWL Vessel Service Agreement which contains a retro-active billing feature which is why it is not up for consideration at this time.

The terms of the interim VSAs state that they will retroactively pay the difference between the rate they were charged under the old agreement and the new rate, or if they elect not to enter a new agreement then they will owe the difference paid vs. what they would have been charged under the tariff.

The discount for the Hyundai-GLOVIS Agreement was coming near the $300,000 threshold, so their interim agreement was ended in May 2023 and they have been charged at the public tariff rate. However, staff still tracked their potential discount and as part of their new agreement, they will be credited with the difference between the tariff charges they paid and the new rates.

To help standardize Vessel Service Agreements in the future, staff will be bringing forward multi-year Service Agreements with all interested carriers.

D. FINANCIAL IMPLICATIONS

The retroactive agreement will result in approximately $500,000 of non-operating revenue in 2024 for the amount applicable to 2022 and 2023. The 2024 budget assumed the increase in rates.

The business at EB-1 is expected to provide approximately $2 million in income in 2024. The costs at EB-1 have increased due to the new ILWU contract and the increase in lease expense associated with the EB-1 wharf and the tribal property used to support this business. Staff will examine the tariff rates to determine if further increases are supported by the marketplace to offset these increases.

EB-1 Terminal Financials in Millions of Dollars (update forecast/budget)

	2022 Actual	2023 Actual	2024 Budget
Revenue	$11.3	$13.4	$12.4
Operating Expenses before Depreciation:	$8.8	$10.6	$10.4
Operating Income before Depreciation:	$2.5	$2.9	$2.0
Operating Margin	22%	21%	16%

E. ATTACHMENTS

- Proposed MOL (Americas) LLC VSA
- Proposed “K” Line America, Inc. on behalf of Kawasaki Kisen Kaisha, Ltd. (“K” Line) VSA
- Proposed Hyundai-Glovis Co., Ltd. VSA
- Proposed Liberty Global Logistics, LLC VSA

F. PREVIOUS ACTIONS OR BRIEFINGS

- September 30 - October 4, 2022, Interim Vessel Service Agreements with multiple ocean carriers.
- September 8, 2021, Managing Member action: One-year Vessel Service Agreements with multiple ocean carriers
- September 1, 2020, Managing Member action: One-year Vessel Service Agreements with multiple ocean carriers, and 12th Amendment to the Service Agreement with Wallenius Wilhelmsen Logistics
- October 1, 2019, Managing Member action: One-year Vessel Service Agreements with multiple ocean carriers
- June 4, 2019, Managing Member action: Extension of Vessel Service Agreements for three months
- June 5, 2018, Managing Member action: Ten-year Vessel Service Agreements with multiple ocean carriers
- February 7, 2018, Managing Member action: Ten-year Vessel Service Agreement with WWL

Item No.: 9A
Meeting Date: May 7, 2024

Vessel Service Agreements

THE NORTHWEST SEAPORT ALLIANCE
SEATTLE + TACOMA

Andre Elmaleh
Senior Manager, Business Development

1

ACTION REQUESTED

Request the Managing Members of The Northwest Seaport Alliance (NWSA) authorize the NWSA Chief Executive Officer, or his delegate, to enter into Vessel Service Agreements with the following customers from May 8, 2024 through September 30, 2024 in substantially the same form as presented.

- MOL (Americas) LLC acting for an on behalf of Mitsui O.S.K. Lines, Ltd.
- "K" Line America, Inc. on behalf of Kawasaki Kisen Kaisha, Ltd. ("K" Line)
- Hyundai-Glovis Co., Ltd.
- Liberty Global Logistics, LLC

THE NORTHWEST SEAPORT ALLIANCE
SEATTLE + TACOMA

2

Key Terms

- **Term:** May 8, 2024, through September 20, 2024
- **Considerations**
  - Port exclusivity commitment
  - Discounted tariff on certain commodities (average 32%)
  - If VSA customers perform a "Double Call" docking at more than one terminal during the same sailing, the customers will pay for only one dockage period.
  - Retro Active Billing/Credits: For Interim Service Agreements

THE NORTHWEST SEAPORT ALLIANCE
SEATTLE + TACOMA

3

4

5

Examples of Different Types of Cargo Handled by our VSA Customers

THE NORTHWEST SEAPORT ALLIANCE
SEATTLE + TACOMA

6

Background

- Service agreements have been key to attracting and retaining the world's largest Roll-on/Roll-off (Ro/Ro) shipping lines and their breakbulk cargo to The Northwest Seaport Alliance facilities. The negotiated discount from the public tariff is designed to anchor existing customers and to entice new cargo. When negotiating an agreement, staff and the customer focus on the highest volume commodities and specific pieces of business targeted to move under this agreement.

- VSAs are typically negotiated after the PMA/ILWU rates and assessments are updated.

- VSAs provide the NWSA with the following:
    - New cargo opportunities
    - Exclusivity of port calls and/or a minimum annual guarantee of cargo

THE NORTHWEST SEAPORT ALLIANCE
SEATTLE + TACOMA

7

Background Continued

Typical Port Operations Include:

Import
- Receive cargo from the steamship line
- Conduct inventory and damage inspections
- Move the cargo to a place of rest
- Use reach stackers/forklifts to load trucks/trains (if necessary)

Export
- Receive the cargo from the exporter via truck or rail
- Inspect the cargo
- Use top picks/forklifts to unload the trucks/trains (if necessary)
- Move the cargo to a place of rest
- Release cargo to the vessel stevedore for load onto the vessel

THE NORTHWEST SEAPORT ALLIANCE
SEATTLE + TACOMA

8

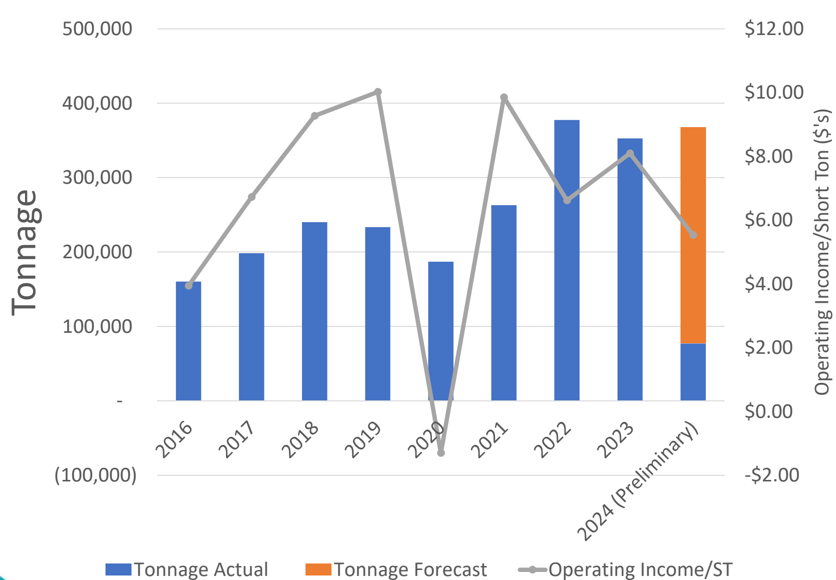
Interim Service Agreements

- In October of 2022 Staff entered into Interim Vessel Service Agreements with MOL, "K" Line and Hyundai GLOVIS under CEO Authority
- The terms of the Interim Agreement provide that the Carriers will pay the difference between the amount charged under the Interim Agreement and the new negotiated amount. If they elect not to enter into a new Vessel Service Agreement, then they will be charged at the public tariff rate retro active to October 2022.
- Hyundai –GLOVIS:
  - Interim Agreements have a maximum amount of $300,000 so in May of 2023 the agreement was suspended and subsequent vessels were charged at the Tariff rate.
  - Staff continued to track the discount Hyundai GLOVIS would have received under the VSA and as part of their new Agreement being voted on today, the NWSA will provide a credit for the difference they were charged at the Tariff rate vs. the new rate.
- Future VSAs: Most VSAs in the future will be multi-year in length and will be brought forward for consideration in September of this year.

THE NORTHWEST SEAPORT ALLIANCE SEATTLE + TACOMA

9

2016-2024 (preliminary) Tonnage and Operating Income Per Ton



THE NORTHWEST SEAPORT ALLIANCE SEATTLE + TACOMA

10

EB-1 Terminal Operations Revenue ($M)

	2022 Actual	2023 Actual	2024 Budget
Revenue	$11.3	$13.4	$12.4
Operating Expenses before Depreciation	$8.8	$10.6	$10.4
Operating Income before Depreciation	$2.5	$2.9	$2.0
Operating Margin	22%	21%	16%

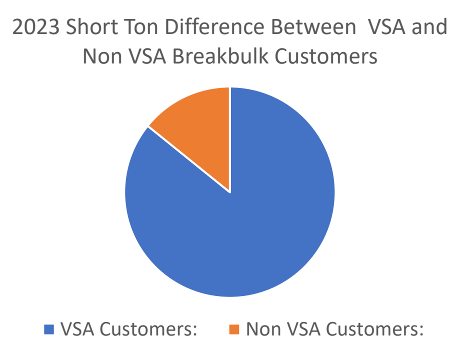
The retroactive agreement will result in approximately $500,000 of non-operating revenue in 2024 for the amount applicable to 2022 and 2023. The 2024 budget assumed the increase in rates.

THE NORTHWEST SEAPORT ALLIANCE SEATTLE + TACOMA

11

Breakbulk Customers

- Excludes military billed at the tariff
- Five-year revenue varies between 5% and 12% (excluding military)
- Revenue and tonnage do not always correlate due to nature of the cargo
- 2023 direct revenue from VSA customers other than WWL is $203,813



THE NORTHWEST SEAPORT ALLIANCE SEATTLE + TACOMA

12

ACTION REQUESTED

Request the Managing Members of The Northwest Seaport Alliance (NWSA) authorize the NWSA Chief Executive Officer, or his delegate, to enter into Vessel Service Agreements with the following customers from May 8, 2024 through September 30, 2024 in substantially the same form as presented.

- MOL (Americas) LLC acting for an on behalf of Mitsui O.S.K. Lines, Ltd.
- "K" Line America, Inc. on behalf of Kawasaki Kisen Kaisha, Ltd. ("K" Line)
- Hyundai-Glovis Co., Ltd.
- Liberty Global Logistics, LLC

THE NORTHWEST SEAPORT ALLIANCE
SEATTLE + TACOMA

13