

THE NORTHWEST SEAPORT ALLIANCE
MEMORANDUM

MANAGING MEMBERS
ACTION ITEM

Item No. 5C
Date of Meeting July 2, 2020

DATE: June 18, 2020
TO: Managing Members
FROM: John Wolfe, CEO

Sponsor: Don Esterbrook, Deputy CEO

Project Manager: Tom Bellerud, Director, Business Development

SUBJECT: **The 2020 Northwest Seaport Alliance (NWSA) Intermodal Rail Incentive Program for Gateway Growth**

A. ACTION REQUESTED

To request authorization and funding of the 2020 Northwest Seaport Alliance (NWSA) Intermodal Rail Incentive Program for Gateway Growth at \$1,000,000.

B. SYNOPSIS

For the first time in a decade, West Coast ports are seeing a decline in imports from Asia. Retention and growth of cargo volumes is a primary objective of West Coast ports during this period of uncertainty, which is seeing unprecedented Pandemic impacts, tariff threats and shifting of manufacturing plants from China to S.E. Asia. This, along with aggressive expansion of Canadian intermodal capacity as well as East coast and gulf coast intermodal expansion, has caused on-going rail cargo declines at the NWSA.

C. PROBLEM STATEMENT

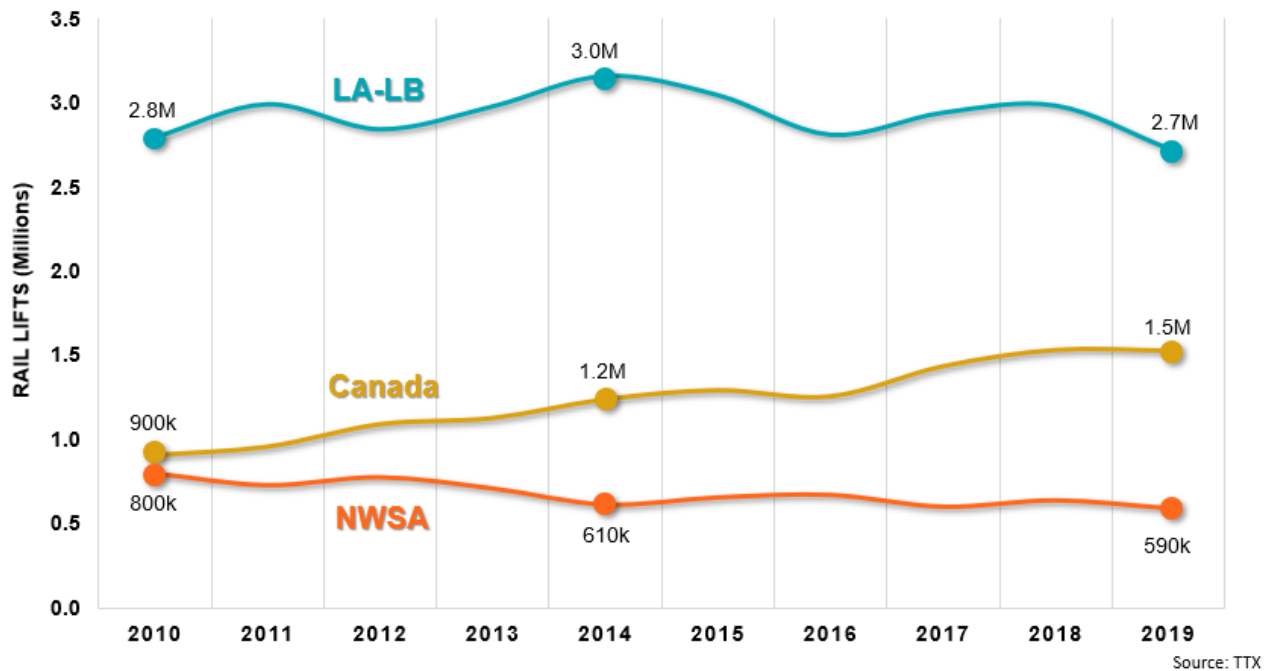
As a discretionary gateway, approximately 50% of the cargo utilizing our gateway is not destined, nor originates, in our local region. Cargo owners of this discretionary freight which is destined to inland locations have choices as to what gateway best meets their business needs. Typically, this selection comes down to two primary factors: price and service.

Of these factors, intermodal rail service through the NWSA gateway is widely considered by our customers to be at a high level. Therefore, we need to find a way to address the price component to better compete with the Canadian rail option.

D. OBJECTIVE

- Attract incremental intermodal cargo volume
- Recapture and grow market share
- Improve financial returns and asset utilization

West Coast Intermodal Volume Trends



E. UNIQUE FEATURES OF THE PROPOSED INTERMODAL RAIL INCENTIVE PROGRAM

- This will be a strategic, targeted approach where specific inland rail ramp locations are selected that currently attract Canadian rail volume.
- Perhaps most significantly, we are partnering with the Class 1 railroads to jointly target inland locations to create a competitive package for the ocean carriers, including our rail incentive. This package offers strong incentive to win back cargo from Canada, and is a Win/Win for the railroads, ocean carriers, the NWSA and ultimately the Beneficial Cargo Owner (BCO).
- We are also working very closely with the ocean carriers to ensure we have the right pricing package in place to secure this incremental cargo. Current feedback has been encouraging.

F. FINANCIAL IMPLICATIONS

The incentive program is estimated to result in at least 15,000 incremental rail moves at an expense of \$750,000 to \$1,000,000. Revenue from these incremental lifts, along with other cash available, are expected to cover a large portion of the incentive costs.

The financial impact of the incentive program is a decrease in net income ranging from \$200,000 to \$300,000. The actual amount will vary based on the distribution of cargo between the North and South harbors, and between terminals within each harbor, and will be split between 2020 and 2021 depending on the timing of the incremental volume.

G. ALTERNATIVES CONSIDERED AND THEIR IMPLICATIONS

- **No Action Alternative:** Concern that further deterioration of our valuable international rail cargo product will occur. Current trends and outside influences indicate further decline would be likely.
- **Recommended Action:** Approve the proposed Intermodal Rail Incentive Program with the goal of re-capturing Canadian cargo and growing our international volumes moving through The NWSA gateway.

ATTACHMENTS TO THIS REQUEST

- PowerPoint presentation.



**THE NORTHWEST
SEAPORT ALLIANCE**
Gateway to Solutions

Item No.: 5C
Date of Meeting: July 2, 2020

The 2020 Northwest Seaport Alliance Rail Incentive Program For Gateway Growth

Presenter: Tom Bellerud
Director, Business Development

Action Requested

To request authorization and funding of the 2020 Northwest Seaport Alliance (NWSA) Intermodal Rail Incentive Program for Gateway Growth at \$1,000,000.



Synopsis

For the first time in a decade, West Coast ports are seeing a decline in imports from Asia.

Retention and growth of cargo volumes is a primary objective of West Coast ports during this period of uncertainty which is seeing unprecedented Pandemic impacts, tariff threats and shifting of manufacturing plants from China to S.E. Asia.

This, along with aggressive expansion of Canadian intermodal capacity as well as East Coast and gulf coast intermodal expansion, has caused on-going rail cargo declines at the NWSA.

Problem Statement

As a discretionary gateway, approximately 50% of cargo utilizing our gateway is not destined, nor originates, in our local region.

Cargo owners of this discretionary freight destined to inland locations have choices as to what gateway best meets their business needs.

Typically, this selection comes down to two primary factors: price and service.

Of these factors, intermodal rail service through the NWSA gateway is widely considered by our customers to be at a high level.

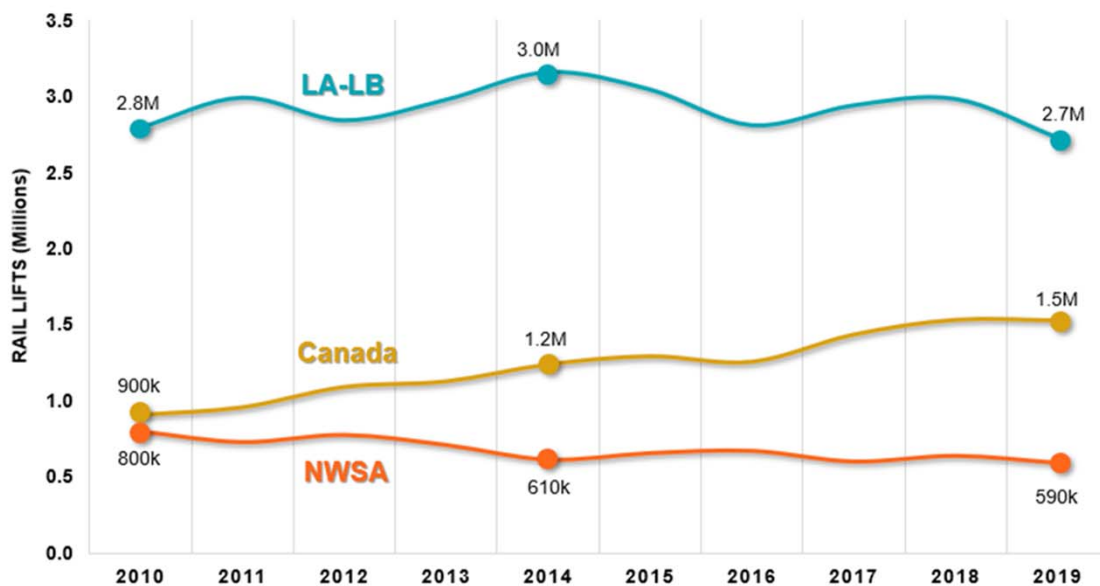
Therefore, we need to find a way to address the price component to better compete with the Canadian rail option.

Rail Incentive Program For Gateway Growth Objectives

- Attract incremental intermodal cargo volume
- Recapture and grow market share
- Improve financial returns and asset utilization

West Coast Intermodal Volume Trends

Confidential pursuant to 46 U.S.C. § 40306; 46 C.F.R. §535.608; and 46 C.F.R. 535.701(i)(1) and as authorized by PORT OF SEATTLE/POR OF TACOMA ALLIANCE AGREEMENT – FEDERAL MARITIME COMMISSION (FMC) AGREEMENT NO. 201228



Source: TTX

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Unique Features of the Proposed 2020 NWSA Intermodal Rail Incentive Program For Gateway Growth

- Strategic, targeted approach to select specific inland rail ramp locations that currently attract Canadian rail volume.
- We are partnering with the Class 1 railroads to jointly target inland locations to create a competitive package for the ocean carriers, including our rail incentive. This package offers strong incentive to win back cargo from Canada and is a Win/Win for the railroads, ocean carriers, the NWSA and ultimately, the Beneficial Cargo Owner (BCO)
- Also working closely with the ocean carriers to ensure we have the right pricing package in place to secure this incremental cargo. Current feedback has been encouraging.

Proposed Term Sheet

2020 Northwest Seaport Alliance Intermodal Rail Incentive Program for Gateway Growth

NON – BINDING PROPOSED TERM SHEET

All NWSA Commercial Transactions are subject to NWSA Managing Member approval in a Public Meeting

ARTICLE	
Term	One-year incentive plan, renewable annually. Initial start date set for July 2, 2020 upon approval by Managing Members.
Targeted Inland Markets	Incremental import and export cargo volumes moving To/From specific inland rail hub locations via NWSA gateway.
Participating Ocean Carriers	All ocean carriers calling NWSA terminals are eligible to participate in the program provided they have completed and returned the appropriate documentation.
Measurement Period	Rail lift volumes to the specific inland ramps will be measured quarterly, then compared to same quarter 2019 to determine incremental growth. 2019 rail volumes will be used as the baseline for the first 12 months of the incentive program.
Payment Timeframe	Incentive payments will occur quarterly once all quarterly rail volumes have been reported and calculated.
Rail Incentive	Each incremental rail lift to/from qualifying inland ramps will be eligible for an incentive payment.
Incremental Cargo Volume Estimate	Anticipated year 1 rail cargo growth is 15,000 rail lifts.
Total Incentive Requested	\$1,000,000 over 12-month period.
Estimated Rail Incentive Paid Out	\$750,000
Estimated Net Financial Impact	The financial impact of the program is a decrease in net income ranging from \$200,000 to \$300,000 with payout for 15,000 incremental rail lifts annually. The actual amount will vary based on the distribution of cargo between the North and South harbors, and between terminals within each harbor.
Program Partners	This rail incentive program was designed in coordination with the Class 1 Railroads serving the NWSA gateway.

Financial Implications

The incentive program is estimated to result in at least 15,000 incremental rail moves at an expense of \$750,000 to \$1,000,000. Revenue from these incremental lifts, along with other cash available, are expected to cover a large portion of the incentive costs.

The financial impact of the incentive program is a decrease in net income ranging from \$200,000 to \$300,000. The actual amount will vary based on the distribution of cargo between the North and South harbors, and between terminals within each harbor, and will be split between 2020 and 2021 depending on the timing of the incremental volume.

Alternatives Considered and Their Implications

No Action Alternative: Concern that further deterioration of our valuable international rail cargo product will occur. Current trends and outside influences indicate further decline would be likely.

Recommended Action: Approve and implement the proposed Intermodal Rail Incentive Program with the goal of re-capturing Canadian cargo and growing our international volumes moving through The NWSA gateway.

Action Requested

To request authorization and funding of the 2020 Northwest Seaport Alliance (NWSA) Intermodal Rail Incentive Program for Gateway Growth at \$1,000,000.