

THE NORTHWEST SEAPORT ALLIANCE
MEMORANDUM

MANAGING MEMBERS
ACTION ITEM

Item No.	5B
Date of Meeting	June 2, 2020

DATE: May 5, 2020

TO: Managing Members

FROM: **John Wolfe, CEO**
Sponsor: Tong Zhu, Chief Commercial & Strategy Officer
Presenter: Tom Bellerud, Director, Business Development

SUBJECT: Yang Ming Third Amendment - Lease Agreement Extension

A. ACTION REQUESTED

Request Managing Members of The Northwest Seaport Alliance (NWSA) authorization for the Chief Executive Officer or their delegate to approve the Third Amendment to the Yang Ming Line (YML) Lease Agreement which provides for a two-year lease extension to their IPI Rail guarantee.

B. BACKGROUND

Yang Ming is currently in the third year of a three-year IPI rail volume agreement with the NWSA which requires Yang Ming to provide 100,000 rail lifts through the NIM rail yard.

In year two of the agreement, YML had a 7,666 rail lift shortfall from their contractual commitment and has been invoiced \$203,149 as a shortfall penalty.

Yang Ming is looking to avoid paying the shortfall penalty and has engaged in negotiating other terms with the NWSA. Multiple discussions with YML have led to a conceptual proposal that include the following terms:

- 1) The original agreement in the Second Amendment would be extended two additional years and commit YML to an additional 33,000 rail lifts each of the two years.
- 2) Any shortfall during these two years would be invoiced at the current tariff facility fee rate (currently \$27.50 per rail lift).

- 3) Due to vessel deployment changes by The Alliance, YML rail cargo is now fairly evenly split between the NIM and WUT rail yards. Therefore, we propose allowing the YML rail cargo at WUT to count towards their two-year extension obligation.
- 4) Due to changes in vessel deployments by The Alliance, shifting of the PN4 service to WUT and the on-going global impacts to international cargo volumes, The NWSA will allow YML rail volumes to count against the year three commitment in the original three-year agreement.
- 5) In exchange, The NWSA would not require Yang Ming to pay the current invoice resulting from the year two shortfall.

C. FINANCIAL IMPLICATIONS

Financial Impact: The extension of the agreement guarantees that YML will continue to send container volume through the gateway for two more years and most likely make up the shortfall. The volume from the extension would potentially provide incremental income to the NWSA for cargo that may not have flowed through the gateway without this agreement.

D. ALTERNATIVES CONSIDERED AND THEIR IMPLICATIONS

No Action Alternative: If no action, YML would pay the shortfall penalty invoice. YML has been one of the few carriers showing volume growth during the past few months which we want to continue to encourage. YML also moves significant volume through Vancouver, B.C., so there is concern that without implementing this settlement we may be jeopardizing current volumes and limiting future growth opportunities.

Recommended Action: Authorize the Chief Executive Officer or his delegate to approve a two-year lease extension to the original three-year Yang Ming Line (YML) rail lift guarantee as called out in the second amendment of the Lease Agreement.

E. ATTACHMENTS TO THIS REQUEST

- Computer slide presentation
- Draft lease amendment

F. PREVIOUS ACTIONS OR BRIEFINGS

- Exec Session briefing – April 5, 2020
- First Reading – May 5, 2020



**THE NORTHWEST
SEAPORT ALLIANCE**
Gateway to Solutions

Item No.: 5B
Date of Meeting: June 2, 2020

Second Reading: Yang Ming Third Amendment

Presenter: Tom Bellerud
Director, Business Development

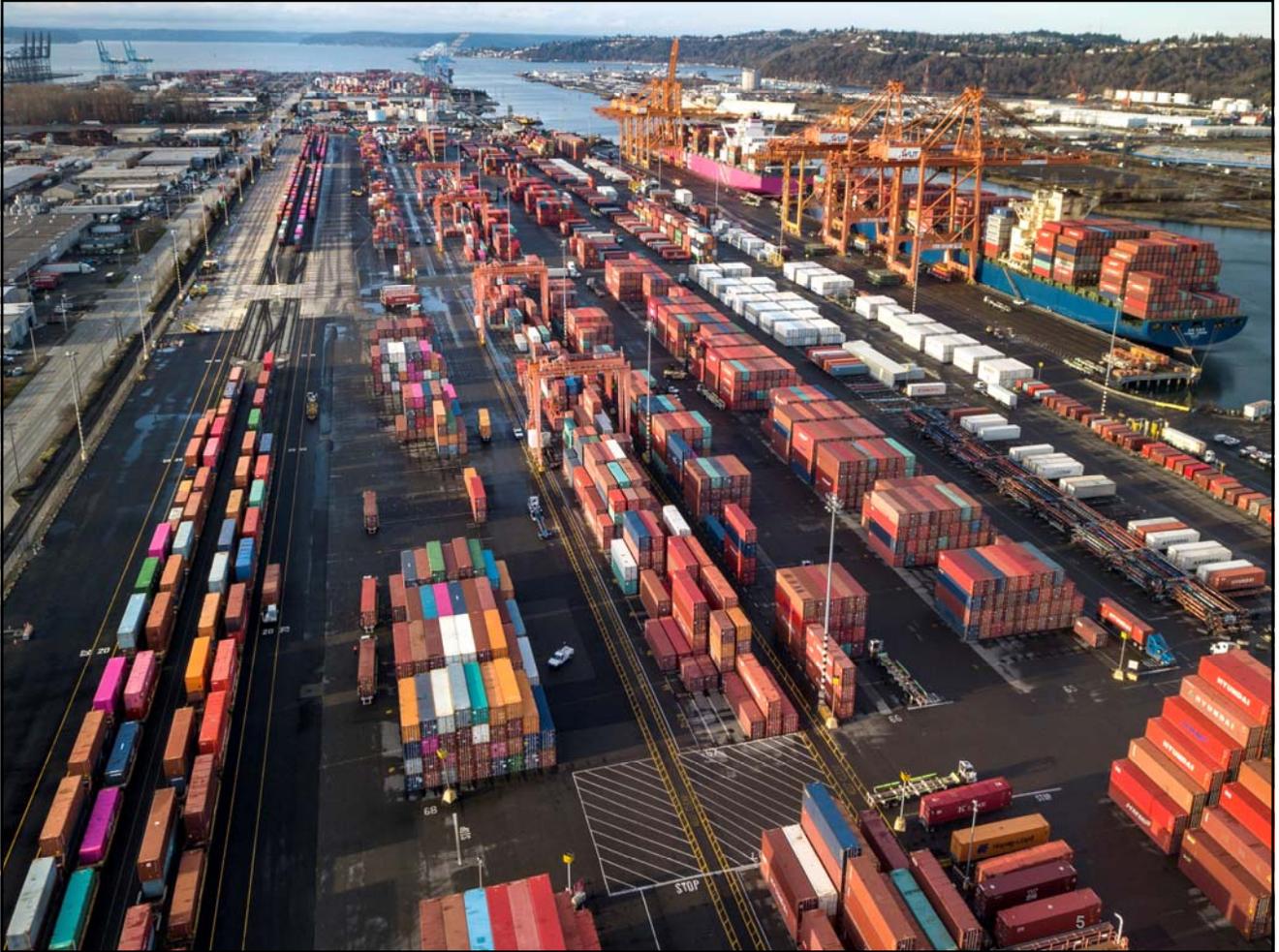
Action Requested

Request Managing Members of The Northwest Seaport Alliance (NWSA) authorization for the Chief Executive Officer or their delegate to approve the Third Amendment to the Yang Ming Line (YML) Lease Agreement which provides for a two-year lease extension to their IPI Rail guarantee.

Background

- Yang Ming is currently in the third year of a three-year IPI rail volume agreement with the NWSA which requires Yang Ming to provide 100,000 rail lifts through the NIM rail yard.
- In year two of the agreement, YML had a 7,666 rail lift shortfall from their contractual commitment and has been invoiced \$203,149 as a shortfall penalty.
- Yang Ming is looking to avoid paying the shortfall penalty and has engaged in negotiating other terms with the NWSA. Multiple discussions with YML have led to a conceptual proposal that include the following terms:
 - The original agreement in the Second Amendment would be extended two additional years and commit YML to an additional 33,000 rail lifts each of the two years.





Background

- Any shortfall during these two years would be invoiced at the current tariff facility fee rate (currently \$27.50 per rail lift).
- Due to vessel deployment changes by The Alliance, YML rail cargo is now fairly evenly split between the NIM and WUT rail yards. Therefore, we propose allowing the YML rail cargo at WUT to count towards their two-year extension obligation.
- Due to changes in vessel deployments by The Alliance, shifting of the PN4 service to WUT and the on-going global impacts to international cargo volumes, The NWSA will allow YML rail volumes to count against the year three commitment in the original three-year agreement.
- In exchange, The NWSA would not require Yang Ming to pay the current invoice resulting from the year two shortfall

Financial Implications

- **Financial Impact:** Approval of this request will mean forgoing collection of \$203,149 for the shortfall ending June 2019 and securing estimated net income of \$1,103,408 per year for two years starting July 2020.

Alternatives Considered and Their Implications

- **No Action Alternative:** If no action, YML would pay the shortfall penalty invoice. YML has been one of the few carriers showing volume growth during the past few months which we want to continue to encourage. YML also moves significant volume through Vancouver, B.C., so there is concern that without implementing this settlement we may be jeopardizing current volumes and limiting future growth opportunities.
- **Recommended Action:** Authorize the Chief Executive Officer or his delegate to approve a two-year lease extension to the original three-year Yang Ming Line (YML) rail lift guarantee as called out in the second amendment of the Lease and Operating Agreement.

Action Requested

Request Managing Members of The Northwest Seaport Alliance (NWSA) authorization for the Chief Executive Officer or their delegate to approve the Third Amendment to the Yang Ming Line (YML) Lease Agreement which provides for a two-year lease extension to their IPI Rail guarantee.