

THE NORTHWEST SEAPORT ALLIANCE
MEMORANDUM

MANAGING MEMBERS
ACTION ITEM

Item No.	<u>7A</u>
Date of Meeting	<u>October 1, 2019</u>

DATE: September 17, 2019

TO: Managing Members

FROM: John Wolfe, CEO

Sponsor: Tong Zhu, Chief Commercial Officer & Chief Strategy Officer

Project Manager: Andre Elmaleh Sr. Manager, Business Development

SUBJECT: 2019-2020 Vessel Service Agreements

A. ACTION REQUESTED

Request authorization for the CEO or delegate to enter into Vessel Service Agreements with the following Ro-Ro Shipping Lines from October 1, 2019 to September 30, 2020:

1. Mitsui OSK (MOL Ro-Ro)
2. World Logistic Services
3. "K" Line Ro-Ro

B. SYNOPSIS

The Northwest Seaport Alliance (NWSA) operates the breakbulk terminals at East Blair 1 (EB-1), Terminal 7 and the Blair Terminal in the South Harbor. These facilities handle import and export cargo for 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, Vessel Service Agreements are a common way for ports to attract shipping lines, ensure port exclusivity and increase cargo volume by providing a negotiated discount from the public tariff.

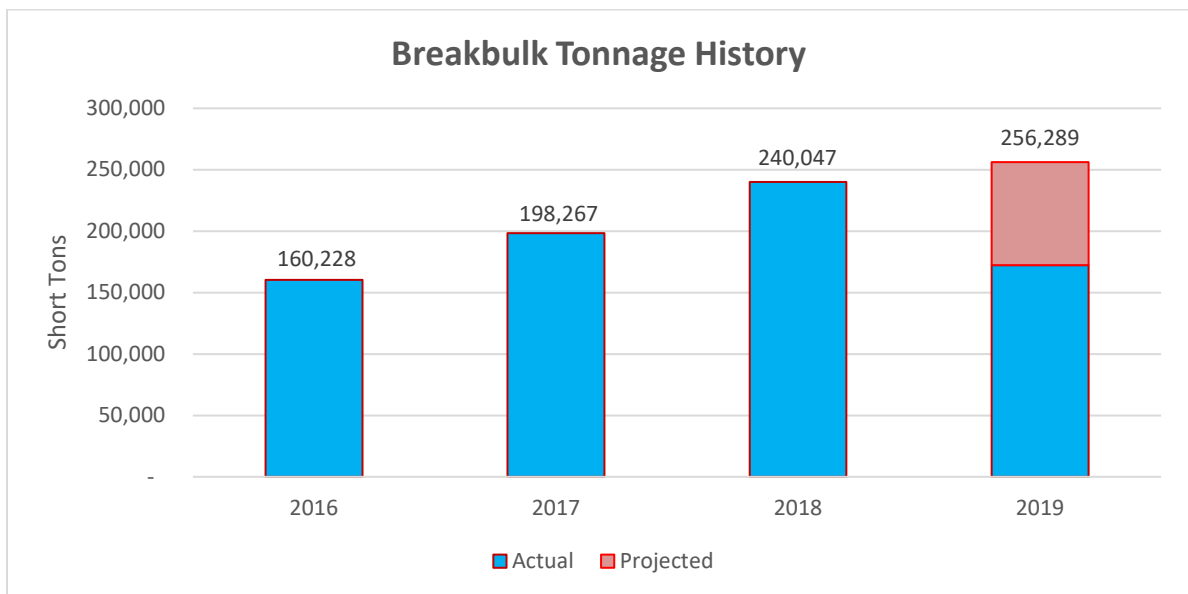
C. BACKGROUND

The global breakbulk Ro-Ro market has continued to grow over the past year and the trend is expected to continue. The NWSA has followed this trend with the

following Year-over-Year volume tonnage increases:

- 2017: 21.3%
- 2018: 17.1%
- 2019: 14.0%

Contributing factors include growing global demand for construction, mining and agricultural equipment. NWSA Commercial staff continues to work to retain existing customers and recruit new customers.



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.

Service agreements 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 public tariff is similar to a window sticker of a new automobile. It is usually the starting price of a negotiation for discounts based on volume or exclusivity.

The NWSA has entered into service agreements with various customers for over 20 years with many different steam ship lines. 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.

Examples include:

- Tariff Item: 333.000 Machinery Farm and Construction Equipment
- Tariff Item: 324.000 Houses or Buildings Modules
- Tariff Item: 309.000 Pleasure Boats on Trailers:

Staff will then look at the overall cost of the breakbulk operation to include equipment and labor, and then will negotiate a discount from the tariff with the customer which ensures a compensatory rate of return. The typical discounts range between 15% to 30% from the published tariff depending on the customer and the commodity they wish to handle. All other cargo not covered by the service agreement including the military is charged at the public tariff rate.

To maximize the benefit of our Non-Container terminals there are certain requirements for a Ro-Ro/Breakbulk terminal to operate:

- Dock Strength: Minimum requirement is 1,000PSF
- On Dock Rail: The NWSA utilizes on dock rail on a weekly basis to serve regular BCO cargo as well as special project cargo
- Synergy with Auto terminals: The vessels carrying cargo for both Auto terminal will often have Breakbulk cargo as well

Based on the above conditions, EB-1 is designated as the primary breakbulk terminal supported by the Blair dock as well as Terminal 7.

D. FINANCIAL IMPLICATIONS

Breakbulk Line of Business (\$ million)

	<u>2019 Forecast*</u>	<u>2018 (actual)</u>
Revenue:	\$12.1	\$11.0
<u>Operating Expenses before Depreciation:</u>	<u>\$8.2</u>	<u>\$7.5</u>
<u>Operating Income before Depreciation:</u>	<u>\$3.9</u>	<u>\$3.5</u>

**based on August year to date 2019 + forecast*

- Annualized based on August 2019 year-to-date
- Revenue from VSAs excluding WWO:
 - 2018: \$475,000
 - 2019 (Includes Actual plus Projected): \$510,000
- Military Shipments:
 - For 2019 Staff budgeted for two small Military shipments
 - August 2019 YTD U.S. Military movements have provided \$1,446,395 in revenue
 - 2018 Military Revenue: \$1,219,620

- Revenue for the military shipment which went through Terminal 5 in September of 2018 is not included

E. ALTERNATIVES CONSIDERED AND THEIR IMPLICATIONS

- **Alternative 1, Utilize the current Public Tariff:** There would be significant risk to retaining carriers who do not have a multi-year agreement with The Northwest Seaport Alliance. These carriers would seek alternative more cost-effective gateways should authorization for the agreements not be granted.
- **Alternative 2, Modify the Public Tariff to reflect VSA pricing:** This would offer the pricing the customers are looking for without an exclusivity provision and would provide visibility to competing ports thus lessening our competitive position.
- **Alternative 3, Recommended Action:** Managing Member approval to allow the CEO or delegate to enter into Vessel Service Agreements with the following Ocean Carriers from October 1, 2019 through September 30, 2020:
 1. Mitsui OSK (MOL Ro-Ro)
 2. World Logistic Services
 3. "K" Line Ro-Ro

F. ATTACHMENTS TO THIS REQUEST

- Computer slide presentation.

G. PREVIOUS ACTIONS OR BRIEFINGS

1. 6/4/2019: Managing Member Action, three-month extension of Vessel Service Agreements
2. 6/5/2018: Managing Member Action, one-year Vessel Service Agreements with multiple Ocean Carriers.
3. 2/7/2018: Managing Member Action, 10-year Vessel Service Agreement with WWL



Item No.: 7A-supp
Date of Meeting: October 1, 2019

Vessel Service Agreements

Presenter: Andre Elmaleh
Title: Senior Manager, Business Development

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EB-1

Blair

Terminal 7

HYLEBOS WATERWAY

BLAIR WATERWAY

SITCUM WATERWAY

PUYALLUP RIVER

COMMENCEMENT BAY

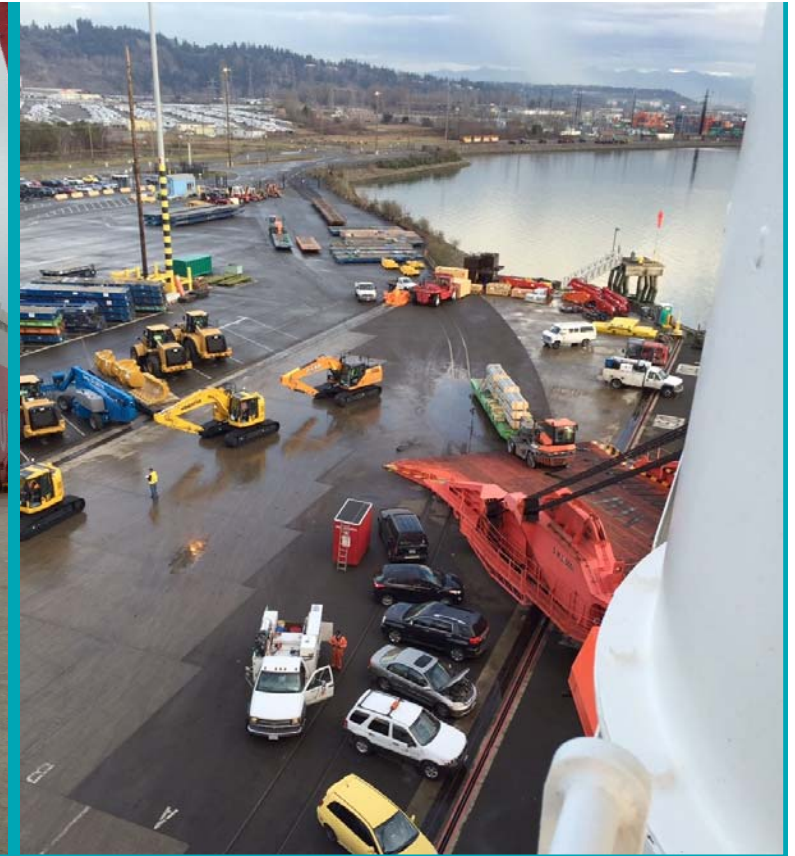
54th Ave

Taylor Way

Lincoln Ave

Alexander Ave

PORT OF TACOMA ROAD



Background

- Service agreements 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 NWSA has entered into service agreements with various customers for over 20 years with many different steam ship lines. 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 one year in length and aligned with the annual tariff update in July.
- **VSAs provide the NWSA with the following:**
 - Exclusivity of port calls and/or a minimum annual guarantee of cargo
 - New cargo opportunities



Background Continued

Typical Port Operations Include:

Export:

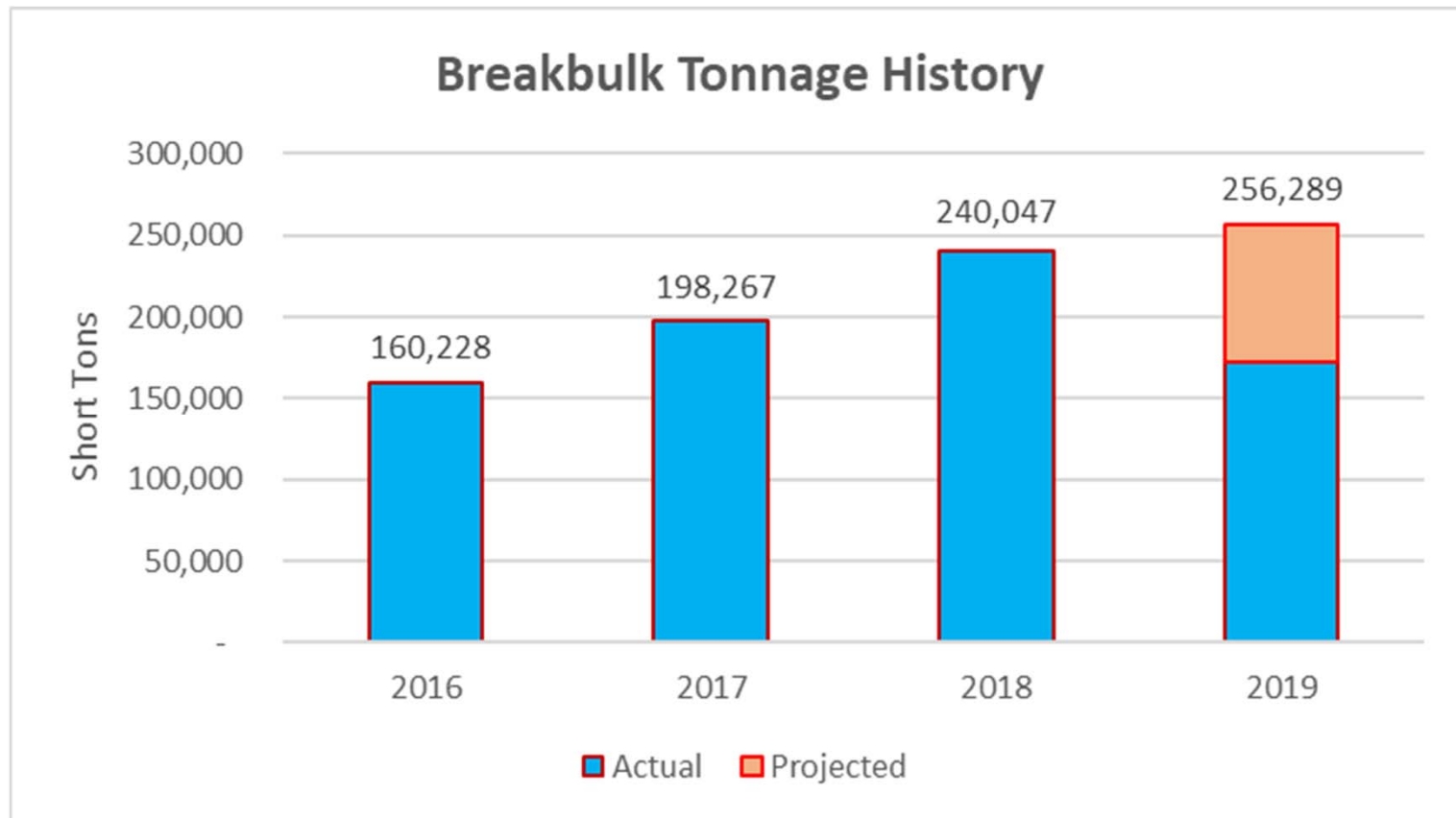
- Receive the cargo from the exporter via truck or rail
- Inspect the cargo
- Use top picks/forklifts to unload the trucks/trains (if necessary)
- Moves the cargo to a place of rest
- Release cargo to the vessel stevedore for load back onto the vessel

Import:

- Receive cargo from the steamship Line
- Conduct inventory and damage inspections
- Move the cargo to a place of rest
- Use top picks/forklifts to load trucks/trains (if necessary)



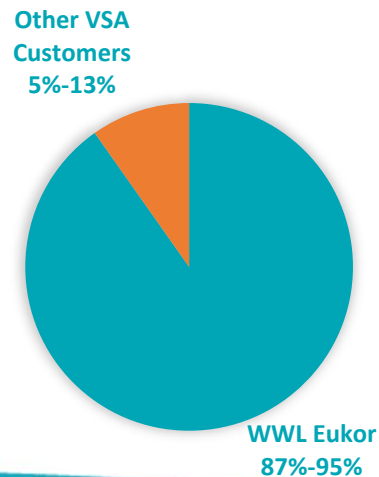
Year Over Year Breakbulk Tonnage Comparison



Breakbulk Customers

- Excludes Military billed at the Tariff
- 5-year revenue varies between 5% and 12% (excluding military)
- Revenue and Tonnage do not always correlate due to nature of the cargo
- Revenue from VSA customers other than WWL is:
 - 2018: \$475,000
 - 2019: \$510,000

VSA CUSTOMERS 5 YEAR % OF TONNAGE



Financial Analysis

- **Breakbulk Line of Business (\$ million)**

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