

THE NORTHWEST SEAPORT ALLIANCE
MEMORANDUM

MANAGING MEMBERS
ACTION ITEM

Item No. 5A
Date of Meeting September 1, 2020

DATE: August 21, 2020

TO: Managing Members

FROM: John Wolfe, CEO

Sponsor: Tong Zhu, Chief Commercial & Strategy Officer

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

SUBJECT: 2020-2021 Vessel Service Agreements (VSAs)

A. ACTION REQUESTED

Request authorization for the CEO or their delegate to:

- 1) Enter into 12-month Vessel Service Agreements (VSAs) with the following RO/RO shipping lines from October 1, 2020 to September 30, 2021:
 - World Logistic Services
 - “K” Line Ro-Ro
- 2) Enter into the 12th Amendment to the Service Agreement with Wallenius Wilhelmsen Logistics (WWL)

B. SYNOPSIS

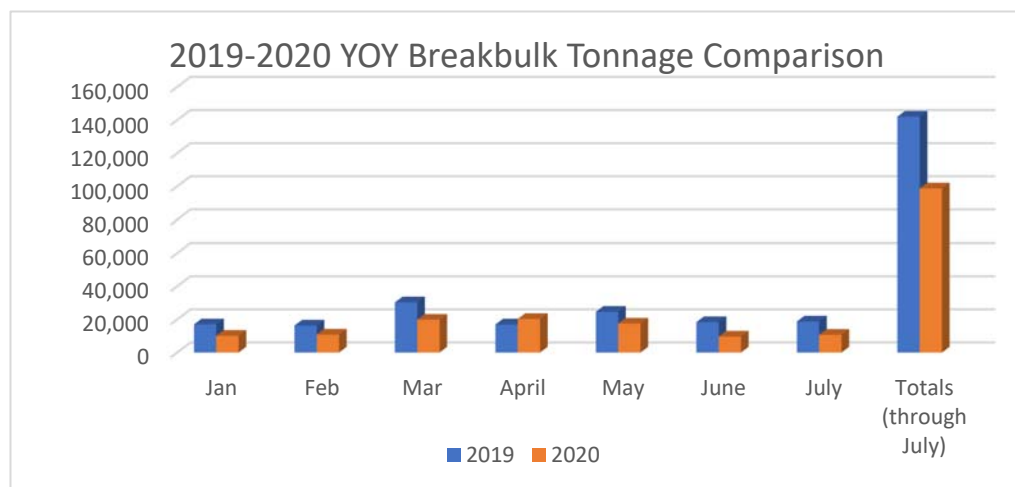
The Northwest Seaport Alliance (NWSA) operates breakbulk terminals at East Blair 1 (EB-1), Terminal 7 and the Blair Terminal in Tacoma. These facilities handle import and export cargo for RO/RO shipping lines. NWSA cargo operations include yard handling and delivery to/from truck or rail carriers. All 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. A Vessel Service Agreement (VSA) 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.

In anticipation of a possible supplemental labor rate increase from the Pacific Maritime Association (PMA) before July 1, 2021, language has been added to the VSAs and the WWL VSA amendment. To streamline the process, staff recommends the effective date for the

WWL VSA amendment be changed from October 1, to September 30 so it is consistent with other VSAs.

BACKGROUND

The global breakbulk RO/RO market has suffered from the pandemic and the on-going trade wars. This market is expected to be flat for the next twelve months before returning to pre-pandemic levels. NWSA commercial staff continue 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 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.

VSAs are typically one year in length, beginning in October and concluding at the end of the following September. By moving the dates of authorization, this allows staff sufficient time to negotiate with the ocean carriers after the PMA/ILWU rates have been identified (usually in late June).

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 35% from the published tariff depending on the customer and the types of commodity 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.

C. FINANCIAL IMPLICATIONS

EB-1 Terminal Financials in Millions of Dollars

	2020 (May YTD actual + Forecast)	2019 (actual)
Revenue:	\$6.9	\$9.3
Operating Expenses before Depreciation:	\$6.2	\$6.9
Operating Income before Depreciation:	\$0.7	\$2.4

D. ALTERNATIVES CONSIDERED AND THEIR IMPLICATIONS

- **No Action Alternative:** No service agreements would mean carriers will need to pay according to the published tariff.
These carriers will likely seek alternative ports that are more cost-effective.
- **Recommended Action:** Managing Member authorization for the CEO or their delegate to:
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E. ATTACHMENTS TO THIS REQUEST

- Computer slide presentation

F. PREVIOUS ACTIONS OR BRIEFINGS

- 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



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Vessel Service Agreements

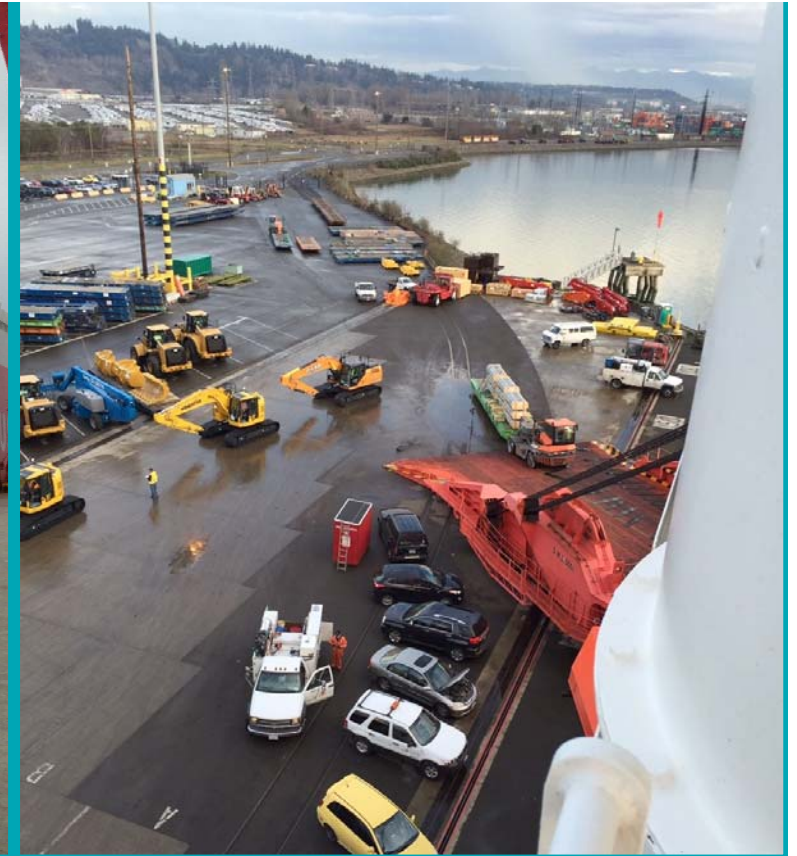
Presenter: Andre Elmaleh
Senior Manager, Business Development

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Background

- Service agreements have been key to attracting and retaining the world's largest RO/RO shipping lines and their breakbulk cargo to The Northwest Seaport Alliance (NWSA) 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.
- VSA's are typically negotiated after the PMA/ILWU rates and assessments are updated. However, this year the PMA may issue a supplemental assessment, so the VSAs contain a provision for an increase in rates should this occur.
- In 2019, the Managing Members authorized the timing of Vessel Service Agreements to move from a July 1 start date to an October 1 start date to allow staff to negotiate rates. Included within the 12th Amendment to Vessel Service Agreement with WWL is a change to move the effective start date to October 1.
- **VSA's provide the NWSA with the following:**
 - New cargo opportunities
 - Exclusivity of port calls and/or a minimum annual guarantee of cargo

Background Continued

Typical Port Operations Include:

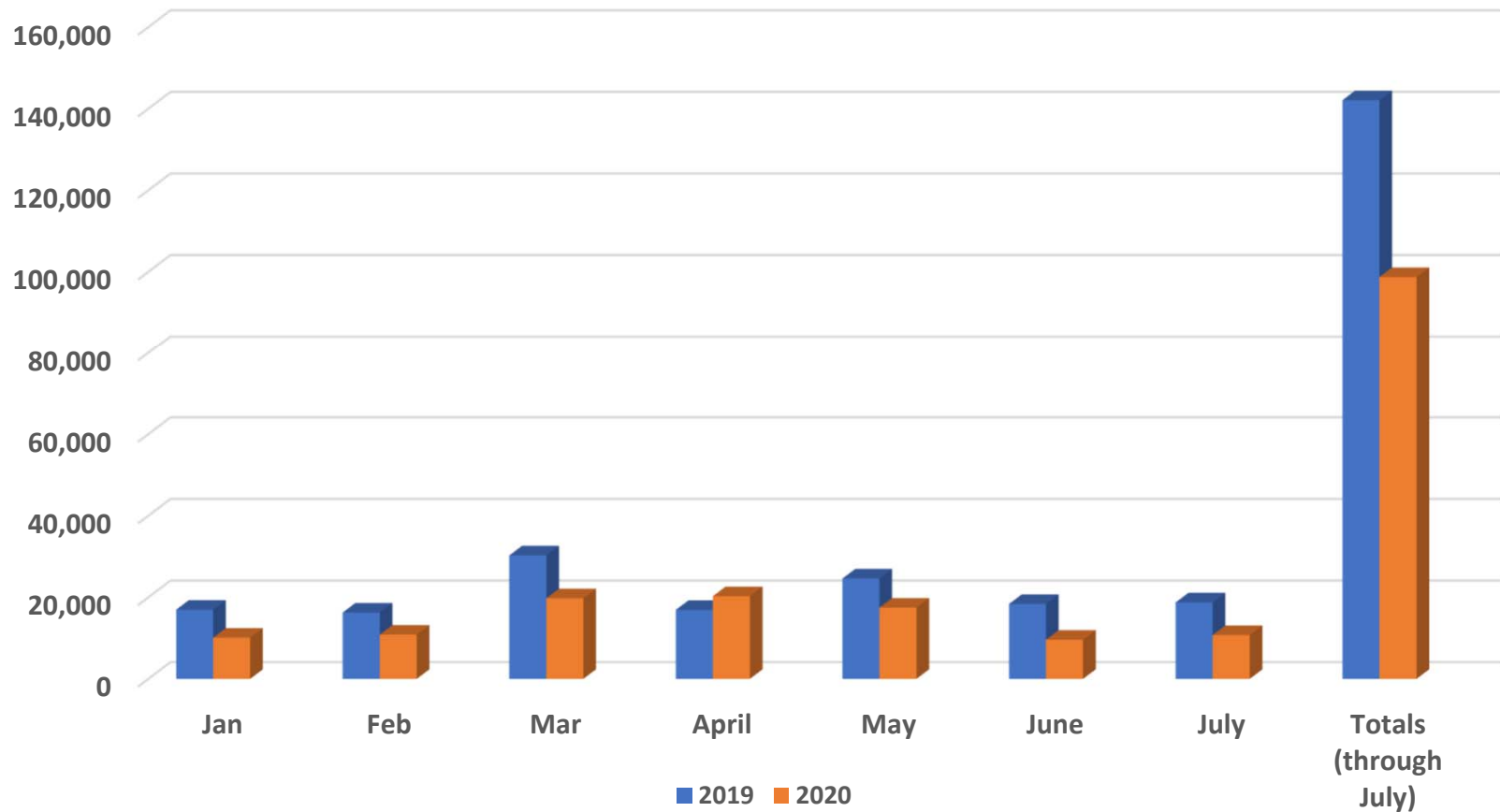
Import

- Receive cargo from the steamship line
- Conduct inventory and damage inspections
- Move the cargo to a place of rest
- Use top picks/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 back onto the vessel

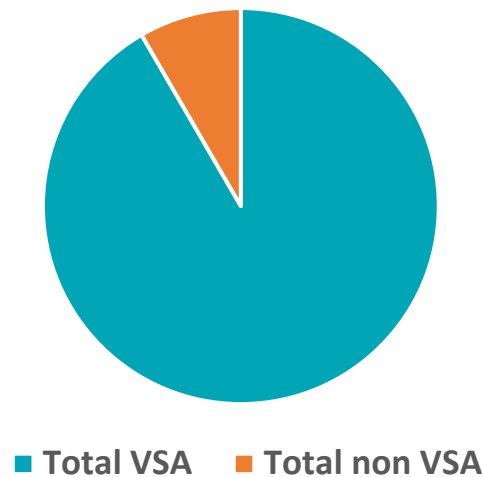
YOY Breakbulk Tonnage Comparison



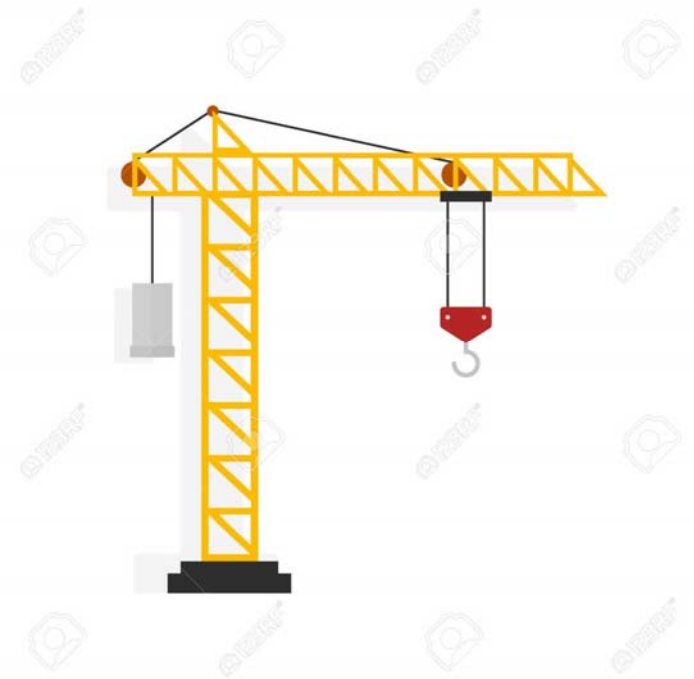
Breakbulk Customers

- 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
- 2019 direct revenue from VSA customers other than WWL is \$505,000

Tonnage History 2016-2020 Total



Examples of Different Types of Cargo Handled by our VSA Customers



Key Terms

- **Term:** October 1, 2020 through September 30, 2021
- **Key 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, not two



EB1 Terminal Operations Revenue (\$M)

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