THE NORTHWEST SEAPORT ALLIANCE
MEMORANDUM

MANAGING MEMBERS
ACTION ITEM

Item No. 5A
Date of Meeting June 6, 2017

DATE: April 26, 2017

TO: Managing Members

FROM: John Wolfe, CEO

Sponsor: Bari Bookout, Chief Commercial Officer, Non-Container

Project Manager: Andre Elmaleh, Sr. Manager, Business Development, Non-Container

SUBJECT: 2017-2018 Vessel Service Agreements

A. ACTION REQUESTED

Request authorization for the CEO or delegate to enter into one-year Vessel Service Agreements with the following RO/RO Shipping Lines from July 1, 2017 to June 30th 2018:

- NYK
- Mitsui OSK (MOL)
- World Logistic Services (WLS)
- Eukor Car Carriers
- Hyundai-GLOVIS Ocean Group
- Siem Car Carriers
- Eastern Car Liner (ECL)
- Wallenius Wilhelmsen Logistics (WWL)
- “K” Line

B. SYNOPSIS

The Seaport Alliance operates the Breakbullk terminals at East Blair 1, Terminal 7 and the Blair Terminal. 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. The public tariff provides pricing for use of the facility, as well as the handling of cargo. 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 seen a decline in volumes over the past few years and 2017 is expected to be soft as well. Contributing factors include softening global demand for construction, mining and agricultural equipment, the strong US Dollar and continued competition from container carriers for traditional RO/RO cargo. The NWSA continues to handle a steady flow of this cargo and has maintained our existing customer base. We have increased efforts to secure new business. The Breakbulk line of business is an important part of the Cargo Diversification strategy (Goal 3.A.1) for The Northwest Seaport Alliance. 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 assure regularity of calls 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.

Vessel Service Agreements are typically one year in length and aligned with the annual tariff update in July. Timing the start of the agreements and tariff updates for a mid-year beginning allows staff to establish rates in alignment with the changes to the PMA/Longshore agreement.

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

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 still gives a compensatory rate of return. The typical discounts range between 15% to 30% from the public tariff depending on the customer and the commodity they wish to handle. All other cargo not covered by the service agreement is charged at the public tariff rate. In addition, military cargo from any nation is not included in vessel service agreements.

Tariff and Vessel Service Agreement rates cover the following operations:

- Import:
  - Receive the cargo from the steamship line
  - Conduct inventory and damage inspections
  - Move the cargo to a place of rest
  - Use top picks or forklifts to load trucks if necessary
- Export:
  - Receive the cargo from the exporter via truck or rail
  - Inspect the cargo
  - Use top picks or forklifts to unload trucks and rail cars if necessary
  - Move the cargo to a place of rest
  - Release the cargo to the vessel stevedore for to load onto the ship

FINANCIAL IMPLICATIONS

Breakbulk Line of Business

	2017 (actual + forecast)	2016 (actual)
Revenue:	$9.0M	$10.5M
Operating Expenses before Depreciation:	$7.0M	$ 7.5M
Operating Income before Depreciation:	$2.0M	$ 3.0M

2017:

- January - April are actual; May - December Budget
- Military shipments are not budgeted, but actual results will include the military if shipments occur
- YTD Includes $0.7M revenue from U.S. Military Shipments

2016

- Includes $1.8M revenue from U.S. Military Shipments

D. ENVIRONMENTAL IMPACTS / REVIEW

Permitting: No impacts.

Remediation: No impacts.

Stormwater: No impacts.

Air Quality: All vessels operating within Emission Control Area (ECA) are required to burn low sulfur fuel.

E. ATTACHMENTS TO THIS REQUEST

- Computer slide presentation.