THE NORTHWEST SEAPORT ALLIANCE
MEMORANDUM

MANAGING MEMBERS
ACTION ITEM

Item No. 5B.2
Date of Meeting June 4, 2019

DATE: May 24, 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 15-month Vessel Service Agreements with the following RO/RO Shipping Lines from July 1, 2019 to September 30, 2020:

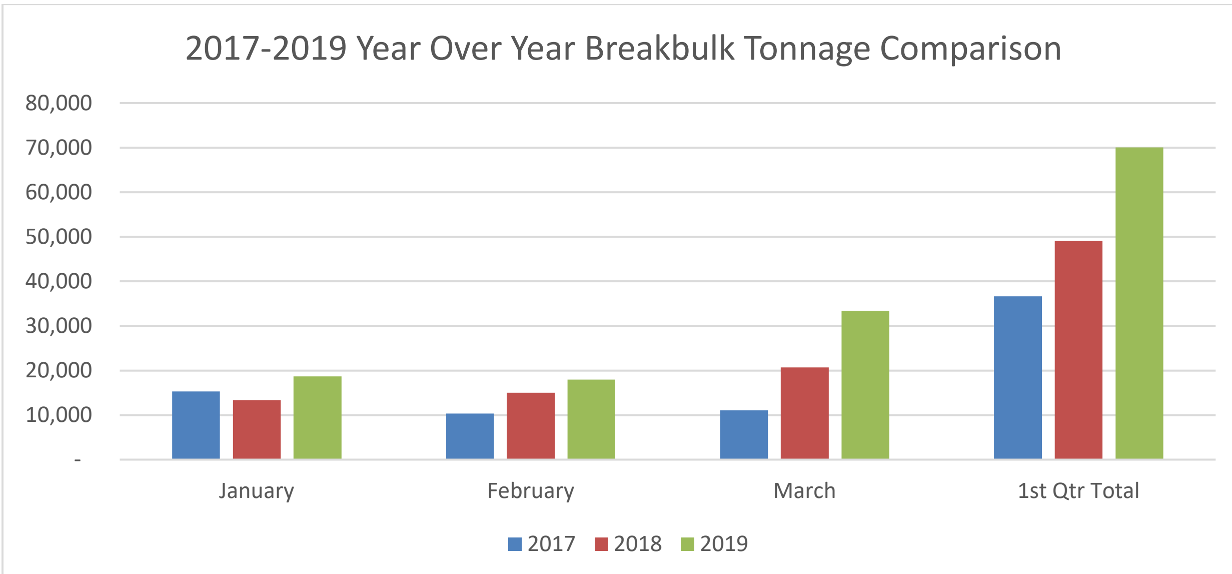
- NYK Ro-Ro
- Mitsui OSK (MOL Ro-Ro)
- World Logistic Services (current VSA user)
- Hyundai-GLOVIS Ocean Group
- Siem Car Carriers
- Eastern Car Liner (ECL)
- “K” Line Ro-Ro (current VSA user)

B. SYNOPSIS

The Northwest Seaport Alliance (NWSA) operates the breakbulk terminals at East Blair 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. Contributing factors include strengthening 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.

Vessel Service Agreements are typically one year in length and aligned with the annual tariff update in July. This year we are changing the term of the vessel service agreements to allow for additional negotiating time with the Ocean Carriers. The following year we will resume one-year agreements beginning on October first and ending on September 30th. The timing of these agreements has to happen after the ILWU/PMA rate adjustment wages, benefits and assessments until the July time frame to begin the rate discussions.

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 published 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.

D. FINANCIAL IMPLICATIONS

EB-1 Terminal Financials

	2019 (April YTD actual + Budget)	2018 (actual)
Revenue:	$8,439,095	$8,568,518
Operating Expenses before Depreciation:	$6,719,482	$6,301683
Operating Income before Depreciation:	$1,719,613	$2,266,835

Please note that for the first quarter of 2019, EB-1 Operating income before depreciation is 228% above forecast

E. ALTERNATIVES CONSIDERED AND THEIR IMPLICATIONS

- **No Action Alternative:** 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.

- **Recommended Action:** Managing Member approval to allow the CEO or delegate to enter into one-year vessel service agreements with the following ocean carriers:

- NYK Ro-Ro
- Mitsui OSK (MOL Ro-Ro)
- World Logistic Services (WLS)*
- Hyundai-GLOVIS Ocean Group
- Siem Car Carriers
- Eastern Car Liner (ECL)

- "K" Line Ro-Ro*

* indicates a current vessel service agreement customer

F. ATTACHMENTS TO THIS REQUEST

- Computer slide presentation.

G. PREVIOUS ACTIONS OR BRIEFINGS

- 6/5/2018: Managing Member Action, 1 Year Vessel Service Agreements with multiple Ocean Carriers.
- 2/7/2018: Managing Member Action, 10 Year Vessel Service Agreement with WWL