PORT OF PORTLAND

TERMINAL 6

Industry Leader Committee

Meeting #2

August 3, 2017 3:00-6:00 pm

Welcome

Michael Kosmala, Coraggio Group

Committee Charge & Study Focus

Charge:

Provide industry knowledge and guidance to the Port of Portland leadership on the Port's future role in container shipping at Terminal 6 and a sustainable business model for managing and developing the container business.

Areas of Focus:

- The Port of Portland's future role in the container shipping at Terminal 6
- The value proposition of Terminal 6 to container carriers and potential terminal operators
- Use of Terminal 6 to provide efficient market access for cargo shippers
- Possible niches in the direct trans-ocean container service market for Terminal 6
- Use of Terminal 6 as a feeder to other west coast terminals
- Financially sustainable operating models that maximize business opportunity and provide effective service to shippers and carriers

Collaboration Principles

Michael Kosmala, Coraggio Group

Collaboration Principles

Purpose:

- Guide how the group will interact with one another
- Help maintain positive, constructive dialogue
- Drive shared understanding and accountability
- Determine how and what information will be shared publicly
- Agree on support systems and information sharing between meetings
- Align on expectations for engagement and preparation

ACTION: Review, collect input, and agree on principles

Situation Analysis

Nolan Gimpel, Advisian

Port of Portland T6 Business Strategy

Task 1 – Situation Analysis

Nolan Gimpel, Project Manager, Advisian
July 28, 2017

Key Events 2016-2018

- Hanjin went out of business
- Hapag Lloyd acquired United Arab Shipping Company
- CMA CGM acquired APL
- COSCO merged with China Shipping
- Maersk acquired Hamburg Sud
- Japanese carriers (MOL, NYK and K Line) announced their desire to become one line in 2018
  - COSCO announced its intent to purchase OOCL
  - COSCO is now rumored to want to purchase CMA CGM which is easily accomplished with Robert Yildrem of Turkey selling his 25% stake in CMA CGM

Lots of changes in the industry in 2016-2017

Four Alliances became three:

- THE Alliance 27% of Transpacific Share
  - NYK
  - MOL
  - K Line
  - Hapag-Lloyd
  - Yang Ming Line
- 2M Alliance 20% of Transpacific Share
  - MSC
  - Maersk
- Ocean Alliance 40% of Transpacific Share
  - COSCO
  - OOCL
  - Evergreen
  - CMA CGM

Additional Transpacific Carriers

In addition to the alliances, there are several independent carriers in the transpacific trade lanes

- WAN HAI
- Pacific International Lines (PIL)
- SM Lines
- ZIM
- HMM (Buys slots from 2M Alliance)
- Westwood
- Matson (EB ONLY)

Of these carriers, only HMM and Westwood serve the PNW

Changes in the Industry – Part 1

- Alliances now control all of the routings and terminal selections for the carriers
- Alliances exist to fill big ships and to reduce operating costs/not to improve service
- Beneficial Cargo Owners (BCOs) have fewer choices of carriers
- BCOs have fewer choices of routes
- BCOs have a lack of visibility as to how their cargo moves

Changes in the Industry – Part 2

- Carriers suffer from rate volatility
- Carriers are rationalizing port calls and terminal operations
  - Note: T5 in Seattle and the West Sitcum (APMT) in Tacoma are empty
- Carriers are operating ever larger ships for the economics and ports must provide the required channel depth, berth length and crane supply and outreach
- Surge capacity at terminals is being stretched
- Transpacific capacity up by 5% in 2017 over 2016

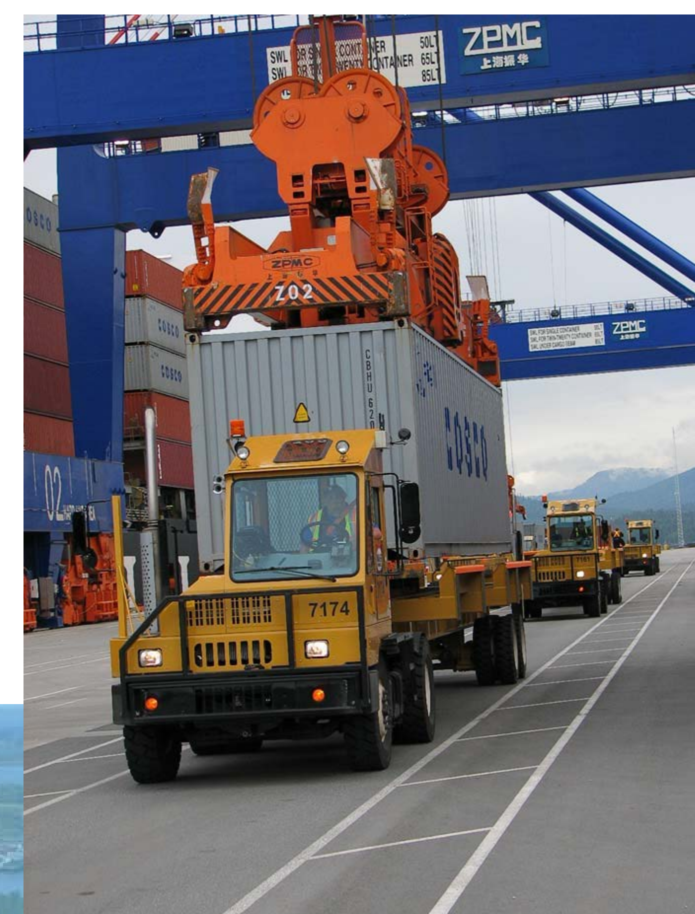
Transpacific and PNW Services

- 2016 - 46 transpacific services; 2017 there are 39
- 2016 - 18 PNW services; 2017 there are 12:
  - 2M – 2
  - Ocean – 4
  - The Alliance – 3
  - Zim – 1
  - HMM – 1
  - Westwood – 1

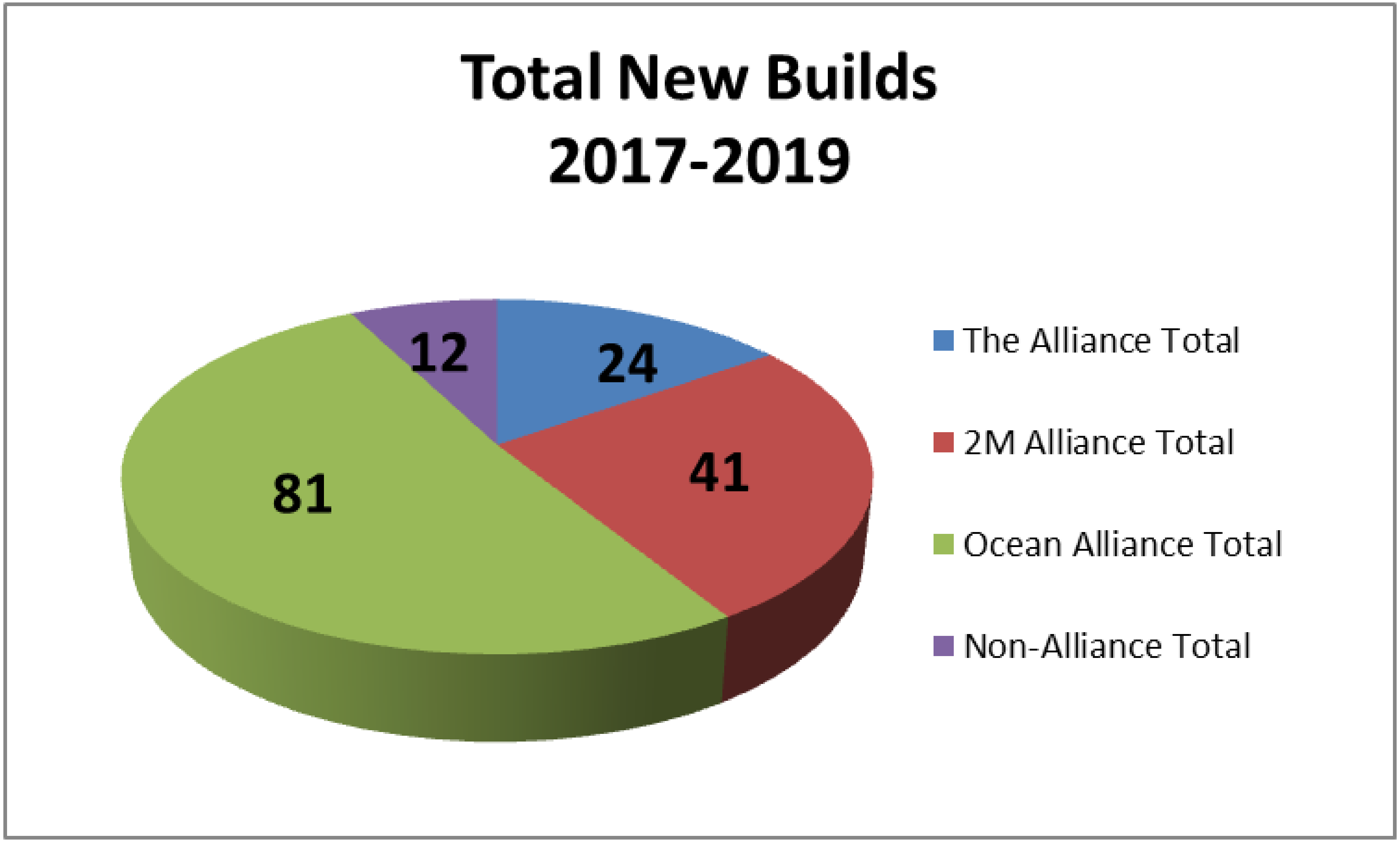
- As of today, 8 of these services have vessels that could physically call Portland
- All of these carriers except HMM and Westwood have large order books for big ships (greater than 15,000 TEUs)
- As the big ships are deployed in the Asia-Europe trade, larger vessels are cascaded into the transpacific

The Order Book- Totals

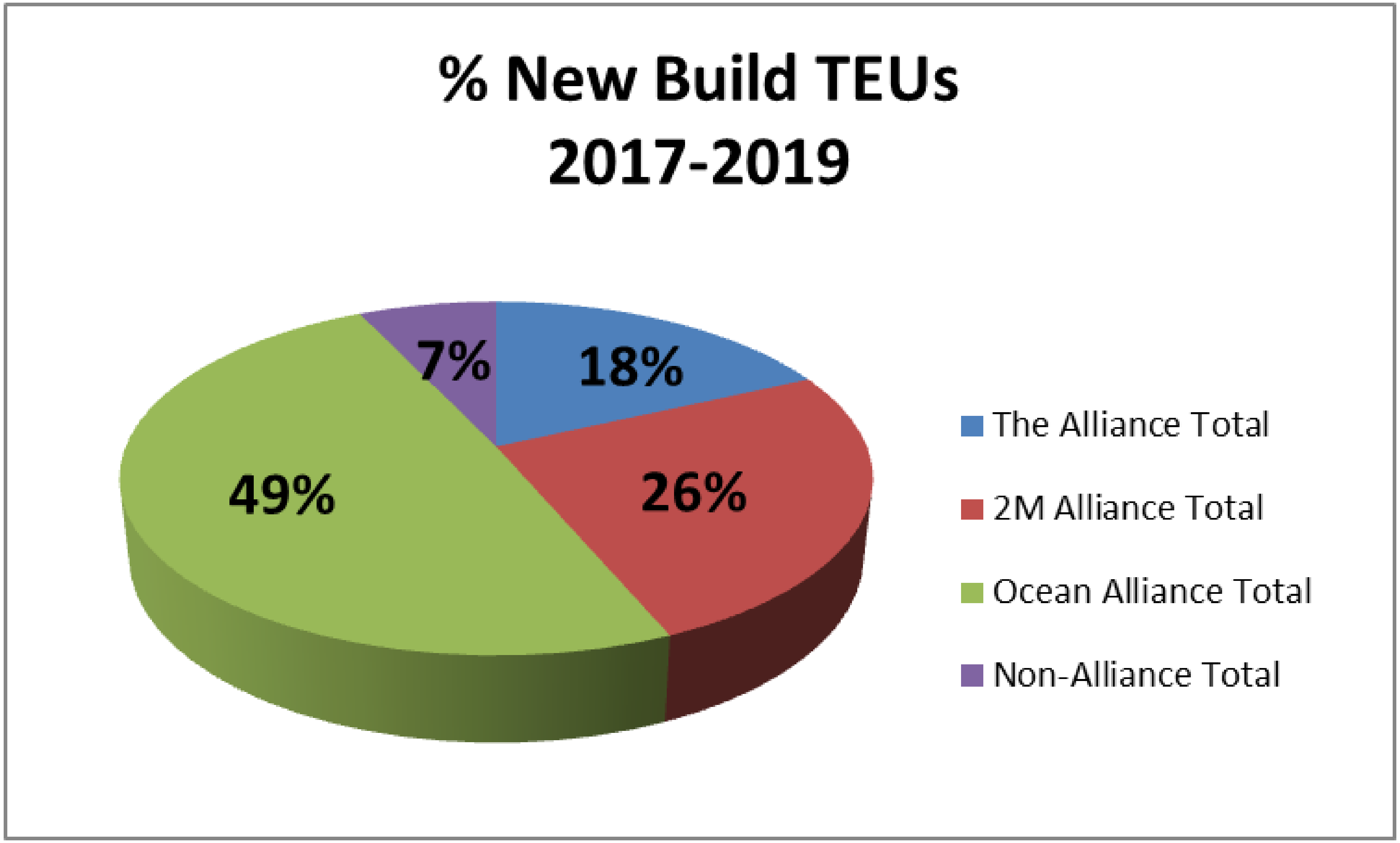
Alliance	2017 # Vessels	2017 Avg TEUs	2017 Total TEUs	2018 # Vessels	2018 Avg TEUs	2018 Total TEUs	2019 # Vessels	2019 Avg TEUs	2019 Total TEUs	Totals Vessels	Totals Avg TEU	Totals TEUs
The Alliance Total	9	16,300	146,522	14	14,400	201,546	1	14,000	14,000	24	15,100	362,068
	16%		20%	15%		18%	13%		11%	15%		18%
2M Alliance Total	30	13,100	390,558	11	11,100	121,710	-		-	41	12,500	512,268
	53%		52%	12%		11%	0%		0%	26%		26%
Ocean Alliance Total	16	11,800	188,626	60	11,900	710,213	5	18,000	90,000	81	12,300	988,839
	28%		25%	65%		63%	63%		71%	51%		49%
Non-Alliance Total	2	11,800	23,600	8	11,800	94,400	2	11,800	23,600	12	11,800	141,600
Totals	57	13,146	749,306	93	49,200	1,127,869	8	15,950	127,600	158	12,688	2,004,775



The Order Book-Total New Builds (Alliances)



The Order Book- % TEUs of New Builds (Alliances)



The Bottom Line

- Limited opportunities for Trans-Pacific service
  - Ship size limiting factor
- With industry changes, expect to see fewer choices of carriers and routes
- Cascading of vessels will introduce new/altered services and routes
- Other trade lanes viable
  - Central and South America
  - Europe
  - Australia

Key Takeaways

- Any surprises?
- What "hit the mark" for you?
- What clarifying questions do you have?

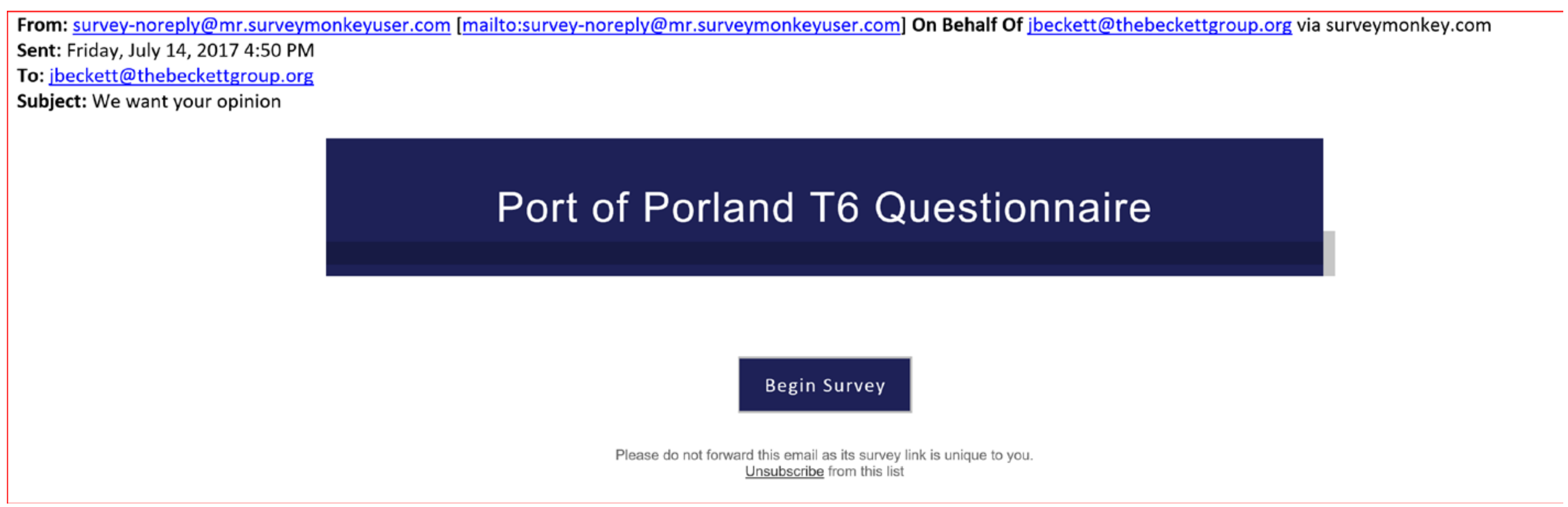
ILC Survey
Summary of Strengths, Weaknesses, Opportunities, and Threats (SWOT) Themes

Michael Kosmala, Coraggio Group

Nolan Gimpel, Advisian

ILC Survey Responses

- Survey Invitation were sent out to ILC members and alternatives
  - 27 invitations went out
  - 22 opened the invitations to the survey
  - 12 surveys were completed (as of 7/19)

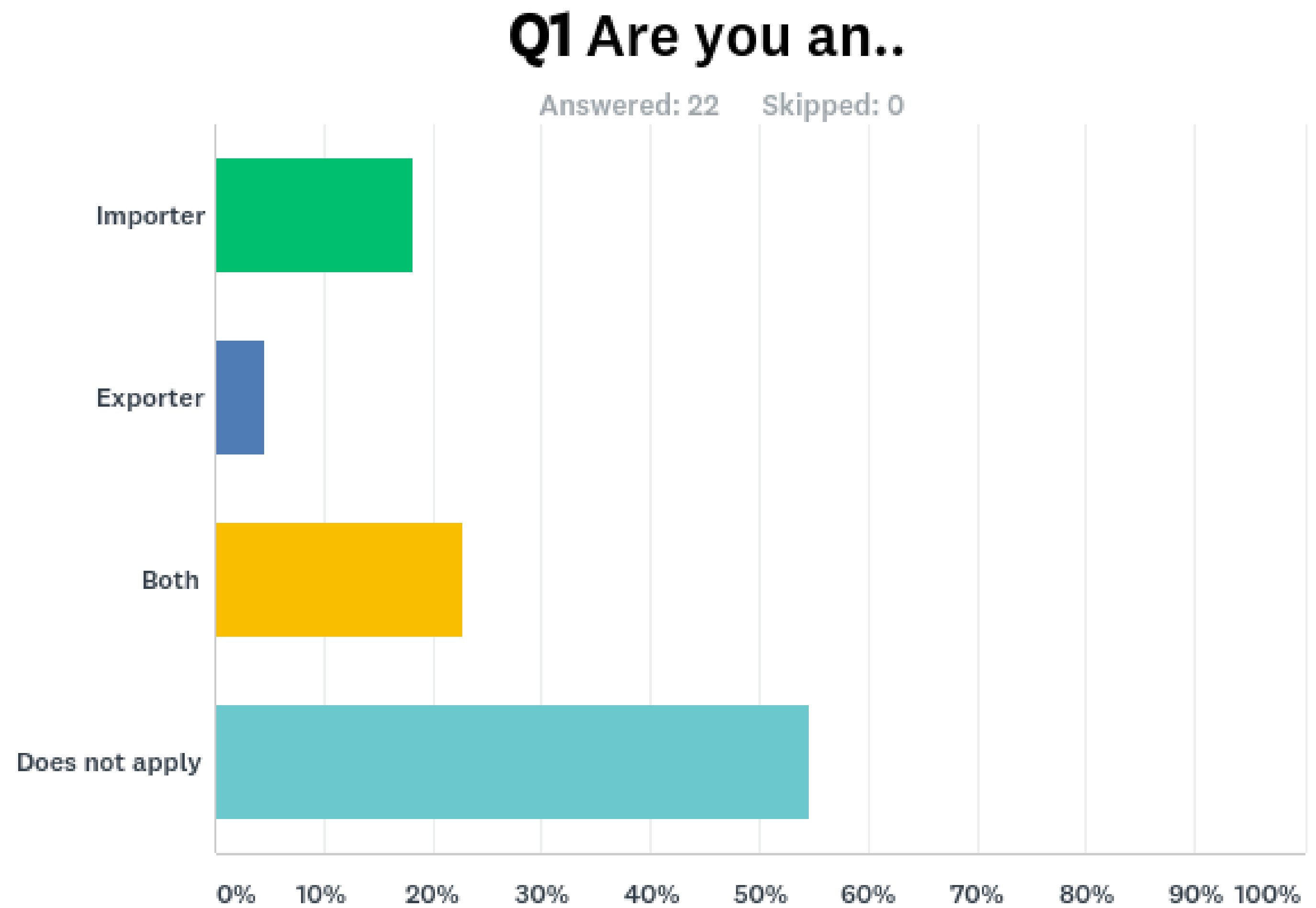

From: survey-noreply@mr.surveymonkeyuser.com [mailto:survey-noreply@mr.surveymonkeyuser.com] **On Behalf Of** jbeckett@thebeckettgroup.org via surveymonkey.com
Sent: Friday, July 14, 2017 4:50 PM
To: jbeckett@thebeckettgroup.org
Subject: We want your opinion

Port of Porland T6 Questionnaire

Begin Survey

Please do not forward this email as its survey link is unique to you.
Unsubscribe from this list

ILC Survey Responses



ILC Survey Responses Section II - SWOT

Strengths (Q8) - 12 Responses, 10 skipped

- Low cost Transportation Choice for Oregon low valued export commodities such as hay and lumber or price sensitive ag- products
  - Positioned closer to all parts of Oregon Importers and Exporters (2/12)
  - Good Location for shippers in Oregon, Idaho, SE Idaho, SW Washington (3/12)
  - No Local competition / Good Location (1/12)
  - Much cheaper than trucking to Tacoma (2/12)
- 400 Acre multi-use facility with adjacent on-dock Rail
  - Infrastructure already in place/ Empty facility (2/12)
- Rail Infrastructure / Inland Point Intermodal (3/12)

ILC Survey Responses Section II - SWOT

Strengths (Q8) - 12 Responses, 10 skipped - Continued

- Good Barge service to Boardman, OR; Pasco, WA; and Lewiston, ID (2/12)
- Demand for service already exists (2/12)
- Capacity and Interest in finding new market (1/12)
- Small Market Advantages (1/12)
- Terminal used to offer 6 days free-time (demurrage) (1/12)
- Skilled and available work force (1/12)

ILC Survey Responses Section II - SWOT

Weaknesses (Q9) - 12 Responses, 10 skipped

- Shipping Line Alliances- fewer ports/ larger ships (5/12)
- Location/Distance upriver: two pilots, must burn clean fuel for longer (ECA) & River depth (5/12)
- Transit time/ operating cost 4/12
- Labor Issues/ Jurisdiction conflicts (4/12)
- If T6 reaches capacity, then there will be bottlenecks, i.e., roads (2/12)
- Insufficient volumes at T6 (2/12)
- Need incentives for ships to call (2/12)
- Aging equipment (1/12)

ILC Survey Responses Section II - SWOT

Opportunities (Q10) - 10 Responses, 12 skipped

- Good alternative to Seattle/ Tacoma (1/10) (6/10)
  - Congestion at Seattle/ Tacoma (3/10)
    - Cost of moving products to and from Seattle/ Tacoma (1/10)
    - Trucking regulations in Seattle/ Tacoma (1/10)
- POP is willing to restart service in a creative way (1/10)
- Support at Governor's office and port leader to find a solution (1/10)
- Make it an Inland Point Intermodal hub (2/10)
- Cranes that work (1/10)
- Available Labor (1/10)
- Local Ag companies can capitalize on speed to market (1/10)
- Promote transload facilities near Port (1/10)

ILC Survey Responses Section II - SWOT

Threats (Q10) 11 Responses, 11 skipped

- Ships too larger for T6/ River (4/11)
- Labor Issues (3/11)
- Can’t compete with larger ports (2/11)
- Faster More efficient port, i.e., in Mexico (1/11)
- E-commerce/ 3D Printing- Moving away from ocean containers (1/11)
- Less and Less Ocean carriers in the market place (1/11)
- Carriers losing money (1/11)

SWOT Activity

Considering the…

- Situation Analysis
- ILC SWOT Survey Responses to date

What gaps exist in our ILC SWOT?

What are the key themes for each SWOT quadrant?

Break

SWOT Activity (continued)

Considering the…

- Situation Analysis
- ILC SWOT Survey Responses to date

What gaps exist in our ILC SWOT?

What are the key themes for each SWOT quadrant?

Next Meeting Date and Focus

September 28, 2017

SWOT Follow-up, Market Analysis, Operating Model Analysis, and Alternatives Analysis