



**Terminal 6 Industry Leader Committee  
MEETING #5 NOTES**

**Thursday, December 21, 2017 3:00 – 6:00 pm**

**Port of Portland Headquarters – 7200 NE Airport Way, Portland, OR 97218  
8<sup>th</sup> floor Chinook Conference Room**

3:00 – 3:15 pm	Welcome – Michael Kosmala, Coraggio
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- Agenda Review
- Terminal 6 Business Updates
- Follow-up Information from November 16 Meeting

**Slide 2. Welcome.** Michael Kosmala reviewed the agenda and asked the committee if there were any questions on the follow-up information provided to the committee on 12/8/17 on: 1) the Impact on Breakeven if 10% Increase in Productivity Chart; and 2) the Historical Productivity Levels Since 1994 Chart.

- *Questions/Comments from the committee: “Are salaries allocated proportionally to the marine business?” Response from Rob Schultz from the Port: Historically, the container business received a large portion of the corporate overhead total, but the Port is currently revisiting its allocation methodology for corporate overhead to all General Fund business lines.*

**Slide 3. Business Strategy.** Ken O’Hollaren provided Terminal 6 business updates:

- **SWIRE UPDATE:** Terminal 6 started to receive containers in mid-December. The first vessel is expected to move January 19.
- **BNSF gate opened this week for their intermodal service.** The first train is expected Tuesday, January 2.
  - Rail will eventually be a scheduled service.

3:15 – 3:40 pm	Committee Questions for Consultant/Port from November 16 – Michael Kosmala, Coraggio
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- Discuss Themes
  - Within and beyond the Business Study scope

**Slide 4. Questions & Feedback from Meeting #4.** Michael Kosmala summarized the major themes of questions/comments for the consultant provided by committee members at our last meeting as shown

on this slide. Nolan incorporated responses to those questions within the Business Study Scope in his preliminary findings.

*Questions/Comments from the committee:*

- Several members emphasized that state legislative support is an area of opportunity. One dimension discussed was whether the state could provide some “bridge funding” assuming there’s a winning Terminal 6 container strategy that is financially sustainable.
- “What was the context on the crane workforce training?”
  - Response from Keith Leavitt from the Port: That is in the category of if - we ramp up operations, do we have the workforce to operate the facilities and cranes? It was more aligned with the aging workforce with labor and having experienced drivers (for productivity). If you do not have the lifts, you’re not meeting the productivity levels.

3:40 – 4:25 pm	Consultant Business Study Findings – Nolan Gimpel, Advisian
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**Slides 5-15. Consultant Findings on Study Questions.** Nolan reviewed his preliminary findings on each of the six study questions:

- What is the value proposition of Terminal 6 to container carriers and prospective container terminal operators?
- What are the concerns regarding the value proposition of Terminal 6 to container carriers and prospective container operators?
- How can Terminal 6 be used to provide efficient market access for cargo shippers?
- Is there a “niche” in the direct trans-ocean container service market that Terminal 6 can occupy?
- What is the business model that maximizes business opportunity at the terminal but is financially sustainable, both for the Port and/or potential private partners?
- What is the Port’s future role in container shipping and determine a sustainable business model for managing and developing the container business?

*Questions/comments from the committee:*

- One member raised a concern that the electronic logging for trucks is an overstated problem, noting that electronic logging devices do not change any of the rules. Another member asked, “Then why is price going up?” Response from the committee member: Because there are capacity issues.

**Slide 16. Committee Engagement.** Michael asked the committee if there were clarifying questions, any surprises, anything missing.

*Questions/comments from the committee:*

- “If the Port shrinks the Terminal 6 container footprint, is there revenue attributed to the non-Terminal 6 portion of the footprint?”
  - Response from Rob Schultz from the Port: Yes, the Mixed-Use Terminal scenario includes non-container revenue.
- “How would labor look at the shrinking of Terminal 6?”
  - Response from labor: That’s what we had before, where you had about a quarter of the terminal as a steel terminal. Labor is fine with this. Labor has always understood that the container service was always difficult on its own.

- “With the vessel sizes getting bigger, wouldn’t that make Terminal 6 more viable or attractive to carriers who are outside of the Alliance?”
  - Response from Nolan Gimpel: Yes, I think that is what the Port is focused on.
- “Time MAY be on our side because T-6 may be attractive to some carriers.”
  - Response from Nolan: Yes, but those carriers may not make it that long.
- “Part of the problem with Puget Sound is that there is an equipment imbalance. Some of the problems in Tacoma are short-term. Tacoma is in the process of completing a \$2 billion improvement program that is supposed to be done this year.”
- “It seems like with that much of an investment, costs will eventually go up.”
- “Your breakeven is 148K vessel moves. How does this compare to historical?”
  - Response from Rob: We have done 148K vessel moves before.
- “What is the net operating loss?”
  - Response from Rob: 148K vessel moves is a breakeven.
- “What is the financial impact if the Port got back to 100,000 vessel moves?”
  - Response from Rob: \$4.5 million annual loss at 100,000 vessel moves.
- “What is the value of this terminal to the State of Oregon?”
  - Without some outside help, the Port will burn through the capital that we have right now. We will be unable to sustain Terminal 6 if it takes 10 years to get to breakeven (148K vessel moves).
- Comment from Kathryn Williams from the Port on economics related to Terminal 6: In a Trade and Logistics fact sheet on international trade, it was estimated that \$15 million dollars in state and local tax revenue were generated from containers moving through Portland in 2014. (Note: The February 2016 Trade and Logistics Initiative Steering Committee Report noted that the annual increased trucking costs to Oregon shippers from the loss of Terminal 6 service is estimated to be \$15.1 million in 2015 dollars. This estimate does not reflect the potential loss or freight equalization benefits and the resulting added business cost impacts to all Oregon shippers moving cargo through the ports of Seattle and Tacoma. Smaller shippers are likely to have less negotiating leverage and more likely to suffer delays in shipments.)
- “We are looking at current situation, but I don’t know that we are looking at what is coming. Is there hope that the steel contract will return?”
  - Response from Port: From what we understand, the Port of Vancouver contract has about 4 years left, but we are hopeful for its return.
- “The terminal use agreement that the Port of Portland had with Evraz was very beneficial for Evraz. If they got the same terminal use agreement that they had previously, would that be helpful to the business model that we have now?”
  - Response: Revenue from any mixed-use cargo at Terminal 6 will help offset costs.

Response from Port: It was a good agreement. We need something like that to stabilize the revenue base. 4:25 – 4:40 pm                      Break

**Slide 17. Break.**

4:40 – 5:45 pm                      Committee Guidance – Michael Kosmala, Coraggio

- Conversations to Date
- Committee Discussion and Input
  - Business Study Findings: What is your conclusion?
  - January 10 Commission

- Post January 10: Guidance/Interest Moving Forward

**Slide 18. Committee Discussion and Input to Port Leadership.**

- “Very productive process/study and done in a constructive way. Great roadmap but it also demonstrates that all terminals are faced with similar problems – especially the smaller ports. I am concerned because we really do see shippers prefer to go through Tacoma for their own good reasons. You do the calculations and this will be a big challenge. My biggest concern is the logistics chains get developed and are now being developed recognizing that things will be moved up to the Puget Sound.”
- “Came into this committee thinking the Port was going to let us down easy regarding container service. Pleasantly surprised that the Port is supporting getting containers back.”
- “The State has got to get behind this. It is paramount to get major importers and to provide them with some tax incentives from the State. The Port and consultants have done a tremendous job providing numbers, information, and opportunity to share this information.”
- “What is the cost when it comes off the dock in Seattle? That makes Portland look more attractive. Give me a reason to be here and I will be here.”
- “Congestion. Prince Rupert took away a lot of that congestion. The vessels are getting larger, but there will always be business for these cascading vessels and the niche market. Time will come again soon and the volume will continue to grow. There will be a need for Portland service in the future.”
  - Response from Port: Over the years, the Port has tried to market the east-west intermodal connection to Chicago, but without success. Carriers were always wanting to go where they had a proprietary lease – Portland never had that. The First Port of Call issue has been a big issue in this.
- “Maybe looking at being a Second Port of Call?”
  - Response from Port: Recently, the conversation has shifted towards transloading – appears to be a more viable option for us.
- “Being Second Port of Call is not a big concern to most. Waiting a couple extra days is no big deal.”
- “What about Nike to Memphis? Intel? Microsoft? If you could talk to these customers, you might find a market.”
  - Response from Port: These strategies have been tried. And they need to be tried again.
- “There needs to be a transloading focus in this market. Oregon will come. If you are going to put money into marketing, you need to go to the Midwest.”
- “Asia is going through an economy shift. They are going to a consumer shift. Figure out how to get them here.”
- “Westbound vessels are half of what is going on. But for importers, the manufacturing is getting farther and farther away. Moving from China down to Vietnam (example). This means you have to have a bigger ship to make it pay just because the cost of the distance is so great now. There is a huge amount of competition.”
- “Does the POP have people marketing around the United States?”
  - Response from Ken O’Hollaren from the Port: We do not have folks around the U.S. besides Portland, but we do have overseas reps.

**January 10<sup>th</sup> Port Commission Meeting and Interest in a Shippers Committee Moving Forward:**

Keith Leavitt urged committee members to attend the Port Commission meeting and share their perspectives. We have a Commission that is up-to-speed, but they have not taken the deep dive that

the committee has. They will be hearing the report out and Nolan delivering a lot of the answers to the questions that you just heard. There will be time to testify if you want to add any comments. Your engagement is an important part of this business study. Please contact Teresa Carr or Lise Glancy if you would like to want to attend or share comments. We will send out a meeting invitation so you can get this on your calendar.

Keith Leavitt thanked the committee for their time. He noted that the Industry Leader Committee has been an outstanding process that he would like to see continued, similar to the Port’s international air service committee that has been instrumental in helping regain and grow new nonstop international and domestic routes. The Port would like to have a committee focused on the success of Terminal 6 as an outcome of this process. The committee could include the membership of the Industry Leader Committee and others. The Port expects the meetings could be as -needed or quarterly. Keith stated that, “You all care so much about the success of Terminal 6 container operations here. I hope you will participate.” He also noted the need to get feedback on the services at Terminal 6 and invited the committee to let the Port know their interests and thoughts. Keith added his thanks to the consultant team, facilitator and Port team that helped make this integrated process work.

Several committee members noted that they would be honored to serve on this ongoing committee. The group stressed that the diversity of the committee should continue as we are all in this together. (During the social hour, several more committee members expressed an interest in participating in an ongoing committee.)

*Comments/questions from the committee:*

- “I do think you’ll have to have some sort of committee moving forward.”
- “I remember years ago when you were at your old location and labor wasn’t present in conversations like these. There was a missing piece. That is what made this group work- representatives from all aspects of the business included.”
- “This has been a phenomenal effort. The Port did a great job pulling expertise together. It was a very constructive approach with no negativity as expected.”
- “Time has been well spent. Pleasant experience. Thanks to Port staff.”

5:45 – 6:00 pm	Closing Comments – Keith Leavitt and Michael Kosmala
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- Port Commission Meeting – January 10, 2018 9:30 am – Consultant Recommendation and Committee Guidance
- Meeting Evaluation

**Slide 19. Closing Comments and Evaluation.** Michael closed the meeting, reinforcing the invitation to committee members to provide comments to the Port commission at the January 10 Commission meeting. He asked committee members to complete evaluations on the process, and join the Port for a social hour to thank all for their participation.

6:00 pm	Adjourn – Michael Kosmala, Coraggio
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**Committee Members in Attendance (13):** Del Allen, Allports Forwarding; Brenda Barnes, Geo S. Bush; Bob Carroll, IBEW Local 48; Stu Follen, SL Follen; Jana Jarvis, Oregon Trucking Associations; Kevin Koronko, Dr Martens; Keith Leavitt, Port; Neil Salstrom, Toyo Tanso; Mike Stanton, ILWU Local 8; Guy

Stephenson, Westwood Shipping; Bob Wilkerson, The Kroger Group; Tom Yu, Expo Freight; Greg Zanavich, Tidewater

**Others in Attendance (13):**

*Consultants (3):* Nolan Gimpel, Advisian; Jim Daly, Tangent Services; Michael Kosmala, Coraggio  
*Port of Portland (10):* Kelley Bonsall, Teresa Carr, Lise Glancy, Daren Griffin, Josie Langhorst, Kristen Leonard, Melanie Mesaros; Rob Schultz, Greg Theisen, Kathryn Williams

**Committee Members Not in Attendance (10):**

Amer Badawi, Columbia Grain (new job); Jonathan Berndt, Expeditors; John Ducker, Columbia Sportswear; Don Karls, BNSF; Kit LaBelle, Hampton Lumber (new job); Gary Neal, Port of Morrow; Ken Norwood, Union Pacific (retired); Linda Pearce, Port Commission; Senator Bill Hansell; Rep. David Gomborg

**Supplement to 12/21/17 Industry Leader Committee Meeting Notes:** Below is a December 19, 2017 article from Lloyds Loading List on how Asia-West Coast North America ocean freight market has continued its six-year run of strong demand.

## **Asia-WCNA market continues six-year growth trend**



**Will Waters** | Tuesday, 19 December 2017

But freight rates remain under pressure and US West Coast terminals are losing cargo to Canadian and East Coast terminals, Drewry analysis notes

**The eastbound Asia to West Coast North America ocean freight market has continued its six-year run of strong demand growth, although freight rates remain under pressure ahead of the annual contracting season and US West Coast terminals are losing cargo to competitors in Canada and the East Coast, analysis by Drewry reveals.**

Headhaul Asia to West Coast North America container traffic was buoyant in the third quarter, rising by 6.7% year-on-year, although a “disappointing” return for October – when volumes slid by 1.9% – weakened the year-to-date growth rate to 5%, Drewry noted.

It said: “October’s slightly weaker throughput growth is somewhat distorted by Hanjin’s collapse of a year ago – since in October 2016 the backlog of the carriers’ exports were being cleared – but while eastbound flows have been tailing off, we expect them to lift off again in January as importers replenish inventories before factories in Asia close for the Chinese New Year holidays in mid-February.”

But Drewry said the US West Coast terminals “continue to face an uphill struggle to limit the seepage of cargo either to the Canadian ports of Vancouver and Prince Rupert, or to an eastern seaboard routing”. In the first 10 months of 2017, USWC imports grew by only 1.4%, whereas discharges over the Canadian berths climbed by 18% and USEC ports saw volumes rise by 6.6%. The much smaller US Gulf Coast market recorded nearly 30% uplift in Asian imports, Drewry noted.

“Nonetheless, there is tangible growth in the market and Drewry expects the eastbound Asia-WCNA trade to surpass the annual rate achieved in 2016 of 4.6%; the 12-month rolling average showed growth of 5.7%, as of October,” the container shipping analyst added.

But the favourable demand conditions have not had a corresponding positive impact on the spot rate market “where, instead, capacity supply and fighting for share between the carriers have been more the determining factors”. Despite a number of void sailings Asia to WCNA, capacity has continued to creep up – “with the available slots up by around 10% in the final months of 2017 and January 2018, according to our preliminary findings”, Drewry noted.

“Headhaul ship utilisation remains just above 90%, usually sufficient to support freight rates, but a combination of softer demand and the influx of additional capacity has seen load factors come off from the peak months of July and August when ships were full.

“Since Chinese New Year in February, eastbound rates to the West Coast have barely averaged more than \$1,450 per 40ft and, as the year end approaches, were hurtling towards the \$1,000 threshold – some 30% down on where they stood during the final weeks of 2016.”

Drewry concluded: “With more capacity expected to arrive, carriers will be pinning their hopes on a strong pre-Chinese New Year cargo rush to revive flagging spots rates ahead of the annual contracting season.”

[https://www.lloydsloadinglist.com/freight-directory/news/Asia-WCNA-market-continues-six-year-growth-trend/70977.htm?mc\\_cid=07333c90e0&mc\\_eid=03fa1fe18c#.WkQAqE2Wy7Z](https://www.lloydsloadinglist.com/freight-directory/news/Asia-WCNA-market-continues-six-year-growth-trend/70977.htm?mc_cid=07333c90e0&mc_eid=03fa1fe18c#.WkQAqE2Wy7Z)