



## TERMINAL 6 INDUSTRY LEADER COMMITTEE MEETING #2 SUMMARY

Thursday, August 3, 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

Meeting #2 Presentation Link: <https://popcdn.azureedge.net/pdfs/08-03-2017.pdf>

<b>3:00 – 3:10 pm</b>	<b>Welcome – Michael Kosmala, Coraggio</b>
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### Slides #1-3

Michael Kosmala opened the meeting. After committee introductions, Michael provided a recap of 6/28 meeting. Requested input on meeting summary. Added Brenda Barnes and Tom Yu to the **6/28 meeting summary handout**.

Reviewed committee charge and 8/3 agenda. Focus of meeting: Collaboration Principles, Industry Situation Analysis and Terminal 6 Strength, Weakness, Opportunity and Threat Analysis.

<b>3:10 - 3:25 pm</b>	<b>Collaboration Principles – Michael Kosmala</b>
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### Slides #4-5

Michael Kosmala provided committee updated [Collaboration Principles](#) and [Antitrust Guidelines](#) handouts to committee members. Committee request for potential conference call access for those committee members not able to attend in person. This option will be available with advance request. General agreement on principles.

<b>3:25 – 4:15 pm</b>	<b>Industry Situation Analysis – Nolan Gimpel, Advisian</b>
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### Slides #6-18

Nolan Gimpel reviewed the Industry Situation Analysis slides.

There are three buckets of activity:

- Consolidation – Disappearance of carriers in the trades (particularly Transpacific). American flag carriers (over 20) no longer exist. 6 Japanese carriers are now 3 carriers. The three Japanese carriers are expected to become one Japanese line in 2018.
- Rationalization – Bigger and bigger ships with impacts to shippers, importers, service alternatives and ports.

- Commoditization – There is no differentiation anymore between carriers. Boxes go to multiple ships. No visibility on routings. No one knows what ship their cargo will be on, no one knows which terminal it will go to.

#### **Slide # 8 - Key Events 2016-2018**

- Bottom line: Fewer and fewer carriers, bigger ships and fewer strings.

#### **Slide #9 – Lots of changes in the industry**

- Four Alliances became three. Alliances control 85-92% of the Transpacific trade. There are not many carriers outside of these Alliances anymore in the Pacific.
- Focus on Transpacific because this is the main trade route for Portland to tap into.
- The Alliances choose what the routings will be. The Alliances have to agree how ships are routed, what carriers contribute how many ships to each string, what ships go to which ports/terminals, what type/size of ships they will be. Overall, the decision making process within the alliance is cumbersome, convoluted and time consuming. Change in short term is even more difficult.

#### **Slide #10 – Additional Transpacific Carriers**

- There are a few companies who operate as independents.
- Of all carriers, only HMM and Westwood would work in Portland.
- 6,500 TEU ships are competing with larger ships giving rise to the question of long term viability.

#### **Slide #11 – Changes in the Industry Part 1**

- Ocean carriers challenged in managing supply and demand.
- There are less routes, less choice of service and visibility.

#### **Slide #12 – Changes in the Industry Part 2**

- There have been big changes from projections of growth everywhere.
- Carriers are suffering from rate volatility.
- We are seeing a big change from where we were 5-6 years ago. Some of that is because terminals in other places have become more efficient. Some of the reason is because of the improvements of the rail infrastructure. Some of the reason is because of the larger ships that are coming through.
- Cargo has eroded and moved to LAX, Prince Rupert, and East Coast because these ports can handle the larger ships and have economies of scale as well as superior infrastructure.
- In spite of the economics, it is a burden on ports. Ports have to provide the deeper channels, crane length, and berth extension, etc.
- Terminal 5 in Seattle and West Sitcum in Tacoma are empty because they cannot handle the big ships despite good intermodal access. With \$300-\$400M in investment, Seattle's Terminal 5 could be a great operating terminal.
- Seattle's Terminal 46 is also likely to relocate someday (perhaps to T5) due to its location in the middle of downtown Seattle.
- Carriers, terminal operators and customers are suffering because of the sheer volume that comes through the terminal with each ship. Getting the cargo through the big terminals in LA for example and through the gate (or onto a train) is taking time. In many cases 5 days after ship arrival.
- Capacity still up despite fewer calls.

#### **Slide #13 – Transpacific and PNW Services**

- Between 2016 and 2017, 46 West Coast Transpacific services reduced to 39.
- PNW Transpacific services reduced from 18 to 12 over same period.
- 8 of the West Coast services have vessels today that would fit in Portland.
- Important to note – every one of these carriers except HMM and Westwood are all on the order books for bigger and bigger ships.
- As the big ships are deployed in the Asia-Europe trade, larger vessels are being moved to the Transpacific.

#### **Slide #14 – The Order Book Totals**

- Bottom line – 158 ships are on order. The average size is 12,688 TEUs. Some are bigger and some are smaller. Lots of larger vessels (>10,000 TEU) and smaller vessels (<4,000 TEU) on order, but not many on order in between.
- One mega vessel being delivered each week in the Asia Europe trade.
- *Question from the committee: What is the total TEU projected to be delivered in 2018?*
  - There are a number of vessels on order for 2018. Here is a list by line:
    - Maersk 89,700 TEU including 13,200 of small feeder vessels
    - MSC 34,500
    - CMA 89,700 including 13,200 of small feeder vessels
    - Cosco 536,500 including 43,500 of small feeder vessels
    - OOCL 21,413
    - EML 22,400 of small ships
    - YML 42,000
    - NYK 42,000
    - MOL 20,000
    - K Line 70,000
    - PIL 82,600
  - Total on order for 2018 is 1,050,000 not including orders that are not attributable to carrier because they are for a pure vessel owner (like Seaspan).

#### **Slides #15-16 – The Order Book (Alliances)**

- *Question from the committee: Is there a schedule to retire outdated vessels?*
  - As vessels are “cascaded” between services, a certain amount will be retired or scraped due to factors such as age or undesirable vessel characteristics...size, speed, fuel burn, etc. These decisions are made the owners on an individual basis.
- Ocean Alliance has 50% of capacity in the Transpacific trade. Those with capacity will get more of the market share.
- Long term, there are limited options as vessel sizes increase. Presently, there are fewer options than even a year ago. Sustainability is important to carriers as well as to the ports and terminal operators who need to make a financial commitment to support the entry of a carrier, not to mention to the customers who would be changing cargo routings. All those involved have to look at the pragmatic side of how long the carrier will be able to call.

#### **Slide #17 - The Bottom Line**

- The bottom line – there are limited possibilities.
- There may be some short term opportunities – however, we want to find a sustainable option/s.
- Niche services will be explored

#### **Slide #18 – Key Takeaways**

- *Question from committee – What is the largest ship that can call Terminal 6?*
  - 6,500 TEU. Restriction in channel depth, crane reach. 3,500 to 5,000 TEU more realistic.
- *Question from committee – Did you look at foreign terminals who are in the same ballpark as Portland? Are they going to be around for a while?*
  - It really depends on the market and the trade. They would probably be for a regional service only... the largest of vessels are going to call the ports with most opportunity, most reliable operations and best infrastructure. When there were 6 Japanese carriers, Japan was a key market. Now China is the key Asian market and there are a lot of big and up and coming ports.
- *Question from the committee: Are you going to find a river-based ports in other countries?*
  - Yes, typically those are barge services connecting to larger Ports.
- *Question from the committee: What is Portland is competing with?*
  - A new operation in China that has all of the infrastructure and capability in the world to handle these ships and a good deal more cargo potential. Ship owners and alliances will make decisions

on how much time they have in the entire voyage to spend in port and which port calls will yield the most revenue.

- *Question from the committee: Are there any plans to update terminals to accommodate these larger ships in the PNW?*
  - Not currently. Terminal 18 can do a lot but has limitations. A train track bifurcates the terminal, and Terminal 18 cannot handle what they have now. Same with Terminal 46. West Sitcom Terminal could handle the largest of vessels but not without a large capital investment. The same is true for the General Central Peninsula in Tacoma. In next 3-4 years, there may be capacity in Tacoma.
  - If Cosco buys OOCL and ultimately CMA, cargo will go through Long Beach Container Terminal which is fully automated and owned by OOCL.
- *Comment from committee: Smaller TEUs in PNW. Don't see a return on investment. There is population and rail investment in LAX.*
- *Comment from committee: Years back, smaller ships were the work horse of the industry. Then built ships to move through Panama Canal. Expect there will be some correction in the market to force owners to smaller ships. If you are looking at a long term for the Port, you will want to be able to handle the smaller ships.*
  - Note from Advisian: You can always handle the smaller ships and it is true that carriers may feel that 10,000 TEU or 12,000 TEU is ideal for the Pacific, vs. the 18,000 TEU or 20,000 TEU ships deployed in the Asia – Europe trade.
- *Question from committee: How does marine insurance industry feel about bigger ships if one sank?*
  - Charge more to cover liability.
- *Question from the committees: What is the entire fleet size?*
  - As of 2016, there were about 50,000 vessels of all kinds in the world. Container ships accounted for about 5,000. With the rush for new buildings, this may have gone up but not to 11,000 ships. 158 new orders out of 5,000+ ships mean that new orders are a small percentage of the total. However, if you look at the number of ships over 10,000 TEUs and then the new orders over 10,000 TEUs, the size of this segment of the fleet is more than doubling.
- *Comment from the committee: I am positive that Portland can be successful. Otherwise, if I were Westwood, I would say I'd be done in 3-4 years.*
- *Question from the committee: What's Westwood vision?*
  - The model that Westwood uses is really a niche carrier service (regional carrier). These large carriers have multiple services and these ships need to go where the boxes are truly commoditized. But they have to be full to make money. When you look at a port, what a carrier is looking at it is: 1) productivity, 2) safety record, and 3) how long does it take to get stuff off the dock and onto the rail (intermodal)?
  - See a mix of local and intermodal here. Believe can support 3 carriers here. More volume available than goes to Seattle/Tacoma. Portland is not alone here. Savannah is on a river. There was a demand that was created there because distributions went in first. Philadelphia on the Delaware river. Another example of a successful port.
  - This is a different world. Portland isn't in the game that other ports are of investing in costly infrastructure and huge amount of public money to move commodities that can be manufactured anywhere in the world.
  - Intermodal a real positive. Prince Rupert and Vancouver dynamic ports. Started on this 10 years ago. Second terminal in Prince Rupert opens next month. Pure intermodal. Vancouver is the most intermodal port and has great opportunity.
  - We should take care of what the region produces, focus on that. That would be very positive. First, Portland needs to have a reputation for being productive and keeping boxes moving. Load and discharge model. If anymore movement than that, there is no profit. Short sea shipping is great on paper but more domestic model.
- *Question from committee: What is the average number of TEUs for Terminal 6?*
  - 350K TEU at the upper range. 200-250K TEU average. Roughly 50 ships a year at a minimum if capacity.

- Question from a committee: How many ships on a yearly basis to make this worthwhile?
  - Lot of variables. Weekly service with around 50 ships a year.
- Question from committee: How quickly and how much freight return if service?
  - Response from Keith Leavitt: Discussion of business model relates to volume question. Portland's breakeven was about 200-250K container moves in the past (200-250K container moves equates to about 350-450K TEUs). If we got 50% cargo back, whether that would be enough depends on rates and productivity.
- Comment from committee: Wouldn't we want to look at 5 days a week to determine feasibility in our baseline model.

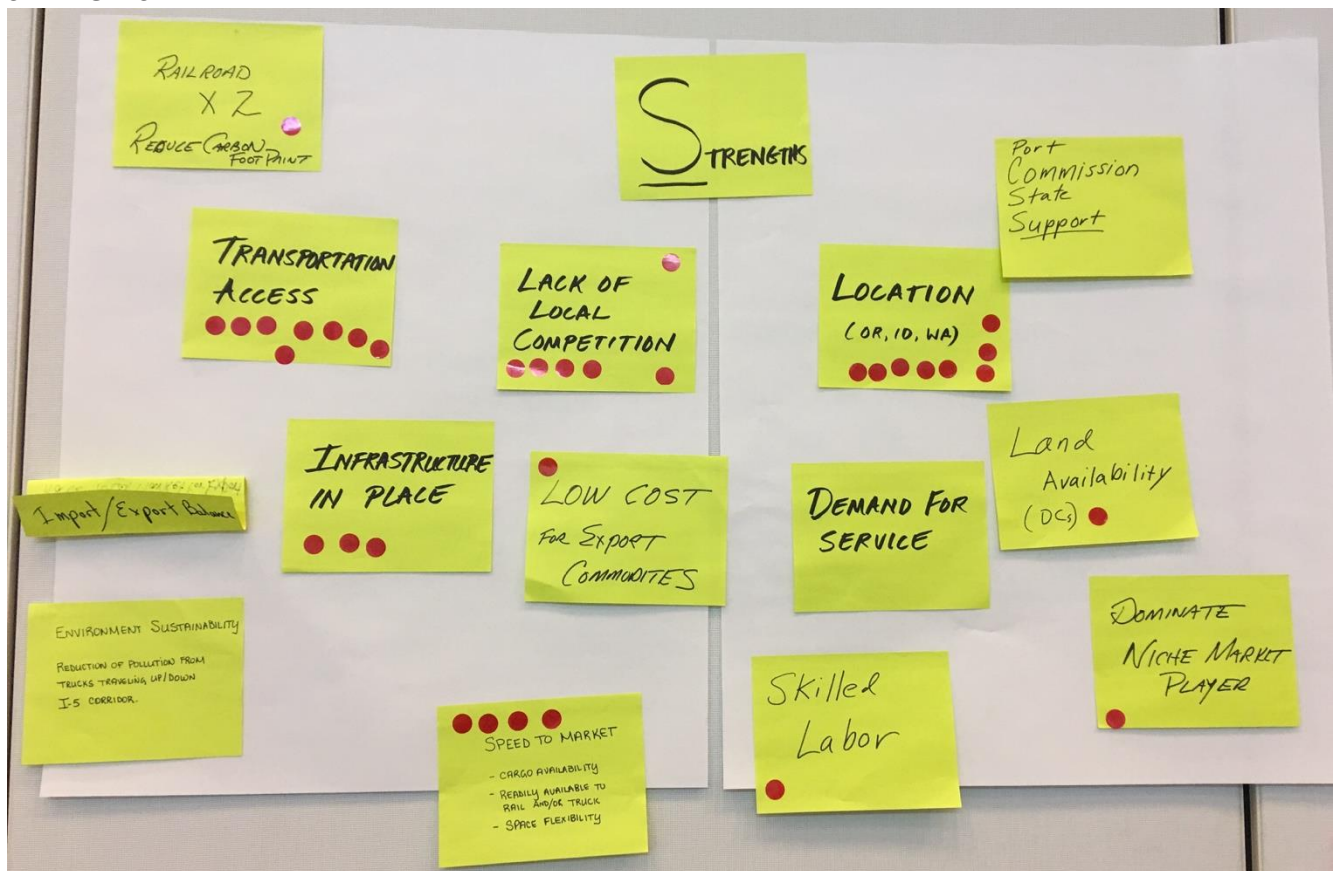
4:15 – 4:55 pm                      Terminal 6 Strengths, Weaknesses, Opportunities, and Threats (SWOT) – Nolan Gimpel and Michael Kosmala

**Slides #19-29**

Michael Kosmala reviewed the SWOT survey conducted by Advisian, and noted that the Port had completed a similar SWOT. At the next meeting, we will provide a combined SWOT, highlighting variances.

Instructed each committee table on SWOT Activity: Discuss Strengths and Weaknesses related to Terminal 6, and put on post-it notes. Committee shared post-its by table group and Michael asked the Committee to place two dots in each quadrant. Key themes are noted below in parentheses based on the number of dots.

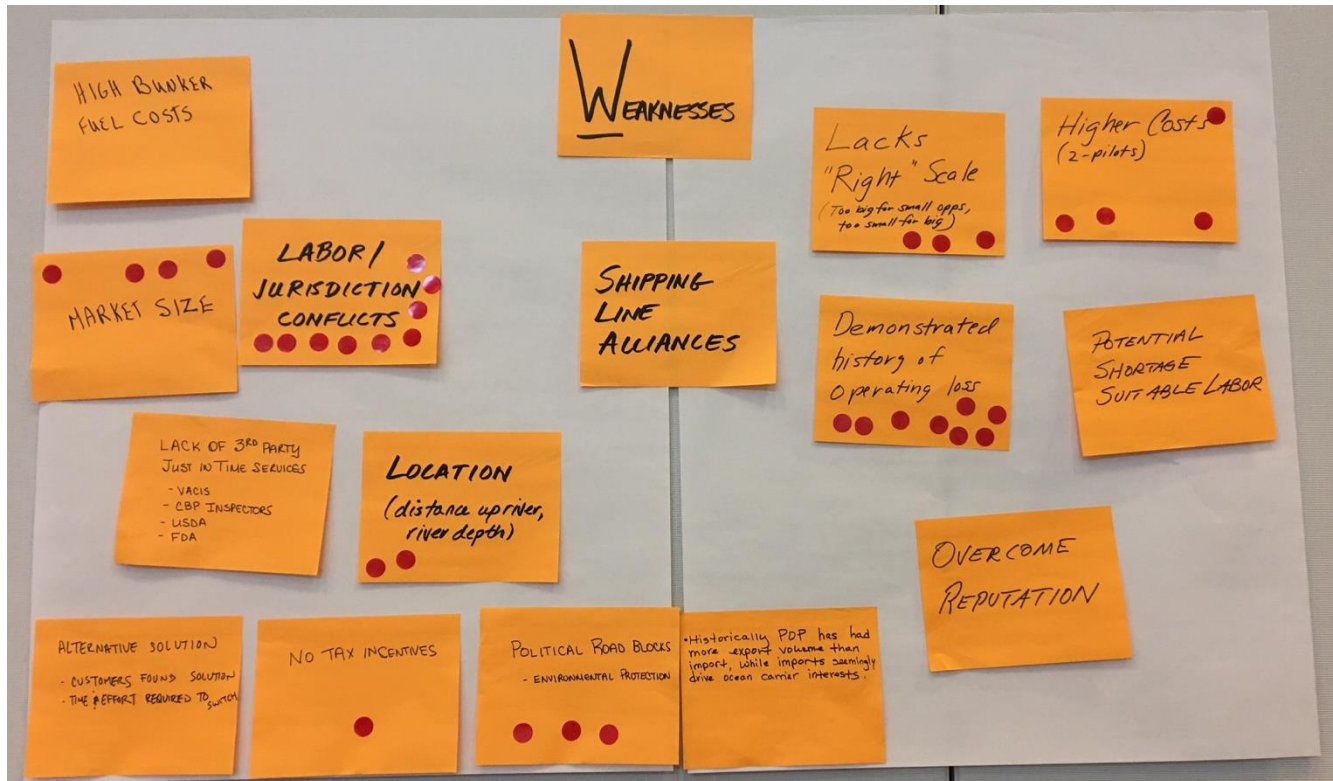
**STRENGTHS:**



- Transportation access (8).
- Location – Oregon Idaho, and parts of Washington (8).
- Lack of local competition (5).
- Speed to market - cargo availability, readily available to rail and/or truck, space flexibility (4).
- Infrastructure in place (3).
- Land availability within region and at Port – offer opportunity for development (1).

- Railroads – 2 railroads East, West, North and South access – green state/reduced carbon footprint – opportunity to move larger volumes - breakbulk containerization **(1)**.
- Dominant niche market player. 6,500 TEUs too big. Portland could dominate in this region in the 3,500 - 5,000 TEU size ships **(1)**.
- Skilled labor – Seattle skilled labor goes to cruise ships so productivity rates down and safety issues **(1)**.
- Oregon home of commodities – low cost derivative for exports, higher freight prices attractive to carriers **(1)**.
- Port commission and state support. Import/Export balance. Local market for exports.
- Environmental sustainability – traffic off I-5 corridor.
- Demand for service.

## WEAKNESSES:



- Potential shortage of labor – if looking at 3-4 services, 400-person labor force may not be sufficient. Companies struggling to find skilled manual labor in the region. ILWU should be urged to continue to hire. On the other hand, could draw labor from Puget Sound **(9)**.
- Demonstrated history of operating loss. Whether Port or private outfit, no one has made any money here **(8)**.
- Market size **(4)**.
- High cost trip from the ocean to Portland. 2 pilotages – cost recaptured in rates **(4)**.
- Political roadblocks to infrastructure due to environmental community/protectations **(3)**.
- Terminal itself is not the right scale - too big for small opportunities / too small for big opportunities **(3)**.
- High bunker fuel costs. Lack of completion for fuel for ships **(2)**.
- Not a lot of tax incentives in Oregon – whether they are import or export **(1)**.
- Lack of 3<sup>rd</sup> party inspection services (VACIS, CBP, USDA, FDA, etc.).
- Customers have found new solutions – time and effort to switch routing.
- Portland has had more export weight in containers than imports. Less attractive to ocean carriers.
- Reputation. Lost business, carrier insecurity.
- Never see one million TEUs like Long Beach which allows rate adjustments. Portland must divide costs among containers we have.

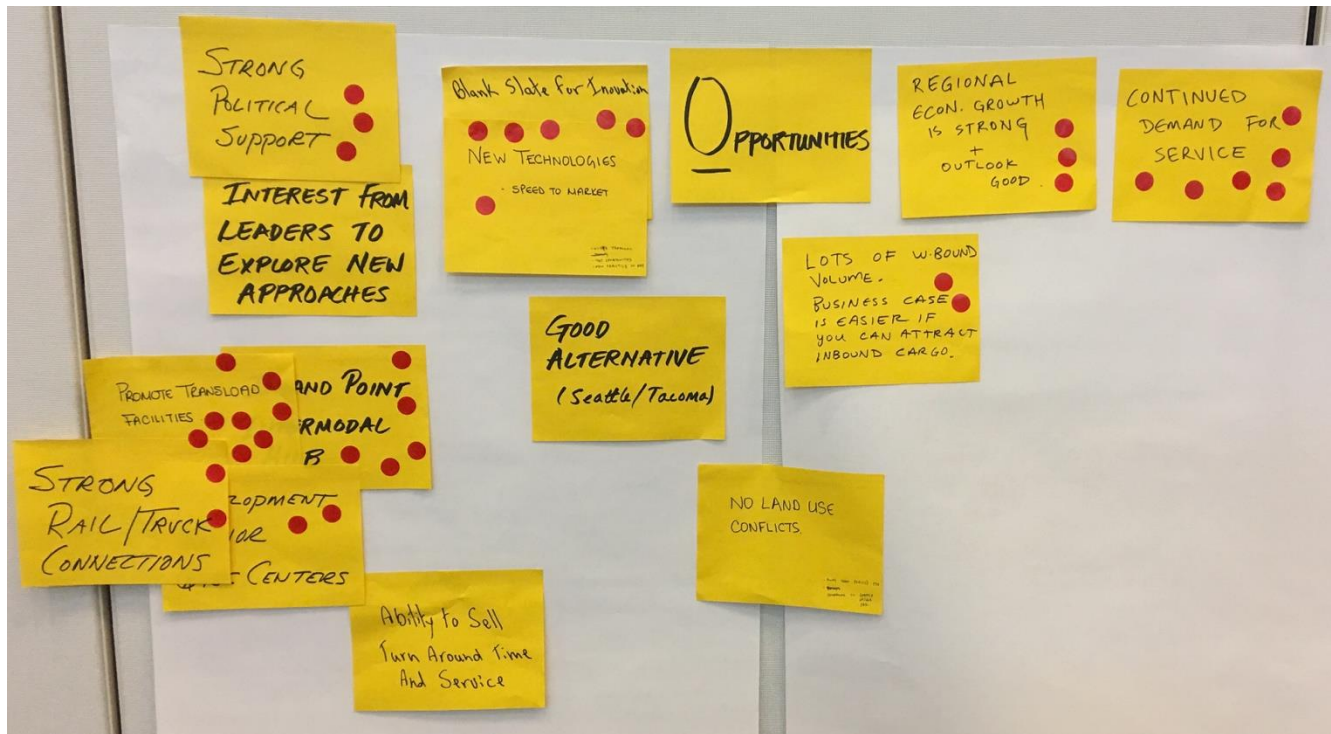
- Comment from committee: Would like a full fleet picture (new orders and existing fleet). Percentage in 3,500-5,500 TEU range.
- Comment from committee: Would like data on turnaround to shippers.

4:55-5:15 pm Break

5:15 – 5:40 pm Terminal 6 SWOT (continued) – Nolan Gimpel and Michael Kosmala

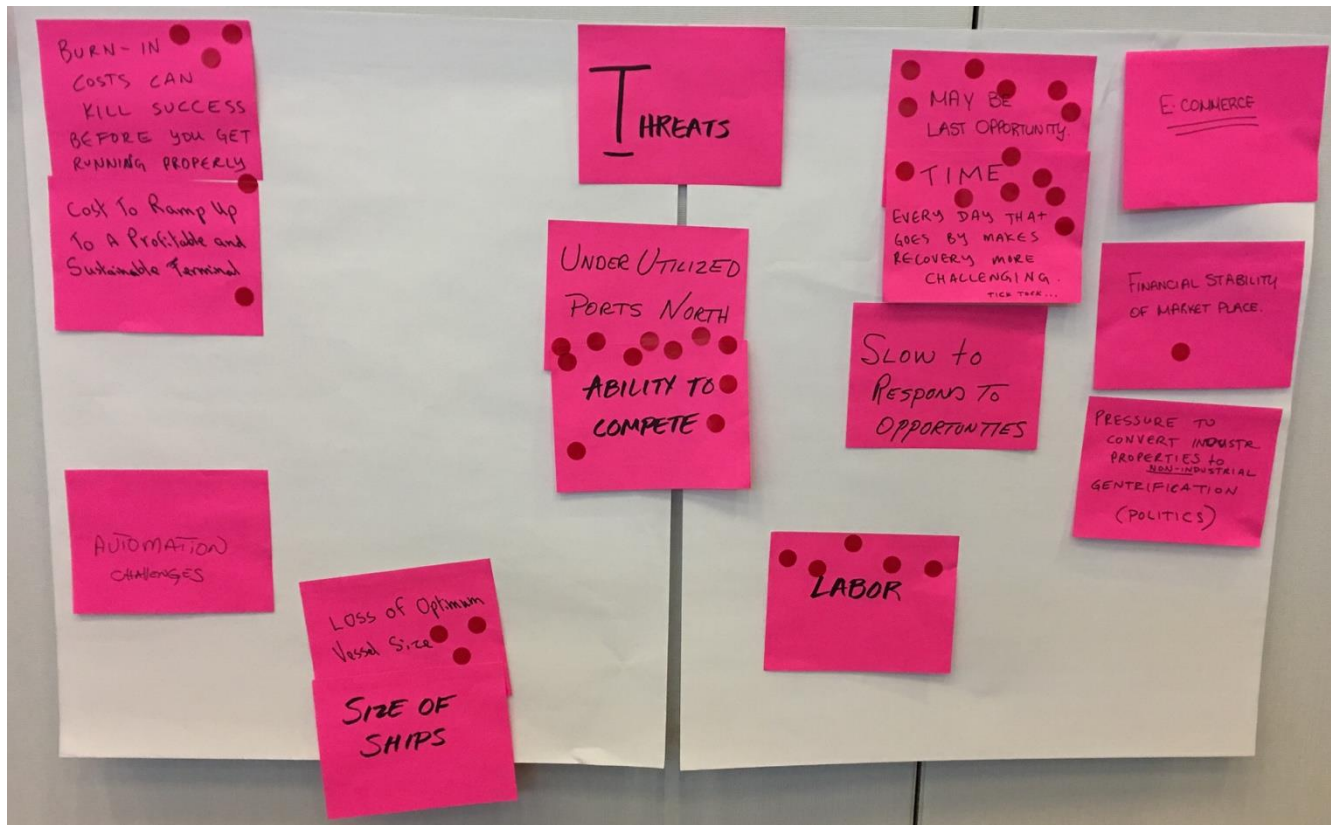
After break, Michael instructed each committee table on SWOT Activity: Discuss Opportunities and Threats related to Terminal 6, and put on post-it notes. Committee shared post-its by table group and Michael asked the Committee to place two dots in each quadrant. Key themes are noted below in parentheses based on the number of dots.

**OPPORTUNITIES:**



- Strong truck/rail connections – N/S/E/W and tracks available. Development of major distribution centers (Amazon – Troutdale). Promote transload opportunities promoting West Coast transload (IPI) could lead to potentially more attractive rates – distribution factor important for companies. Intermodal hub (17).
- Blank slate for innovation – no displacing current customers. Try new technologies and incorporate to get speed to market (6).
- Continued demand for service (6).
- Regional economic growth strong/outlook good (3).
- Strong political support. Interest from leaders to explore new approaches (3).
- Lots of westbound volume – business case easiest if can attract inbound cargo (2).
- Portland has no land use conflicts – Terminal is out of public eye compared to Seattle.
- Ability to sell turnaround time and service.
- Good alternative (Seattle/Tacoma).

## THREATS:



- Underutilized port to the north – ability to compete **(11)**.
- Tick tock – every day this goes by it is harder to get it going again **(7)**.
- May be our last opportunity for this to happen - we need to get it right **(6)**.
- Costs to ramp up to a profitable terminal. Burn-in costs can kill success before you get running properly **(5)**.
- Labor **(5)**.
- Loss of optimism with vessel size – if feeder vessels are taken out of fleet – problem for Portland **(3)**.
- Financial stability of the market place **(1)**.
- Slowness to respond to opportunities - decisions have to be made – keep momentum going – keep contacts open and available.
- E-commerce- containers down because of e-commerce.
- Pressure to convert industrial to non-industrial properties. Gentrification. Politics (e.g., I-5 bridge).
- Automation challenges – need volume to get automation.

### Committee discussion followed:

- *Comment from committee: Negative industry situation analysis, but despite bigger planes, PDX is still number one airport. Similar model on the marine side. On order does not mean built or used. There may be other ships that can be used that can bring more optimism.*
- *Comment from committee: We are small and nimble like Apple v. IBM. Move fast to get niche opportunity.*
- *Comment from committee: There are other ports like Portland (Philadelphia and Savannah). We should explore other niche opportunities.*
- *Comment from committee: Might it be possible to create an incentive package to attract a limping shipping line to build on. There are models that we can look at like Boeing's deal with unions in addition to the infrastructure piece.*
- *Comment from Curtis Robinhold: Can we get volumes back fast enough. Can we create a narrative for the long term?*
- *Comment from committee: There is a sense of urgency. Every day we are losing opportunity from customers going to other ports.*



- *Comment from committee: Downturn is a risk. Now is the time. If cannot make it now, when can we get customers back.*
- *Comment from Keith Leavitt: We need to walk before we can run. We need to remember that there are many steps that need to be successful before we can focus on the end game. Meetings with labor/fundamentals that demonstrate to the market we can run.*
- *Comment from committee: Short term wins will help drive up reputation. Timing for market may be perfect. The main reason for this carrier consolidation is to make money. Rates are going to go up – this could help us in our efforts by making more attractive for carriers. If paid more, then speed and reliability will be important and support our Portland mission.*
- *Question from the committee: What’s in it for the Port? What will make this financial sustainable for the Port?*
  - *Response from Curtis Robinhold: We cannot afford to operate at a loss. We cannot use airport money to subsidize General Fund business. We have money from the termination of the Our negotiations with ICTSI included resources for a re-launch (cash and equipment). But we can only do that for something that is sustainable. We have a 2-3 years to get to sustainable. We need to right size the operation and overhead. We cannot subsidize with the General Fund. The General Fund is the same bucket that owes the Superfund.*

<b>5:50 – 6:00 pm</b>	<b>Next Meeting Date and Focus –Michael Kosmala, Coraggio Group</b>
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**Slides #30**

The next meeting is scheduled for **Thursday, September 28 from 3-6 pm** at the Port Headquarters. Meeting #3 will focus on a SWOT Follow-up, Market Analysis, Operating Model Analysis, and Alternatives Analysis.

Please complete the evaluation form before you leave.

<b>6:00 pm</b>	<b>Adjourn</b>
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**In attendance:**

Committee Members (18): Linda Pearce, Del Allen, Amer Badawi, Brenda Barnes, Jonathan Berndt, Bob Carroll, John Ducker, Jana Jarvis, Don Karls, Kevin Koronko, Kit Labelle, Keith Leavitt, Ken Norwood, Neil Salstrom, Mike Stanton, Guy Stephenson, Patricia Villalonga, Tom Yu; Consultant Team (2): Nolan Gimpel, Michael Kosmala; Port Team (8): Curtis Robinhold, Teresa Carr, Lise Glancy, Ken O’Hollaren, Jim Daly, Randy Fischer, Greg Theisen, Melanie Mesaros

**Not able to attend:**

Committee Members (5): Stu Follen, Greg Zanovich, Gary Neal, Rep. David Gomberg, Sen. Bill Hansell