Terminal 6 Industry Leader Committee
MEETING #3 NOTES

Thursday, September 28, 2017 3:00 – 6:00 pm
Port of Portland Headquarters – 7200 NE Airport Way, Portland, OR 97218
8th floor Chinook Conference Room

3:00 – 3:15 pm	Welcome – Michael Kosmala, Coraggio

Slides #1-2 – Meeting #3 Presentation link: https://popcdn.azureedge.net/pdfs/9-28-17%20T6%20Industry%20Leader%20Committee%20Meeting%203%20Presentation.pdf

Updates on the Committee/Introductions: Amer Badawi has left Columbia Grain for a position with the United Nations. Jeff Van Pevenage will be his replacement. He will attend the 11/16 meeting. Ken Norwood has retired from Union Pacific; Robert Brown will replace him on 11/16. Kit Labelle from Hampton Lumber has taken a new job; Steve Kimery will replace her on 11/16. Brian Flood is standing in for Jonathan Berndt from Expeditors. Port Commissioner Linda Pearce is unable to attend due to a work conflict. Round table introductions.

Recap of 8/3 Meeting: At the 8/3 ILC meeting, we reviewed the Industry Analysis and conducted a SWOT on Terminal 6. The committee received a copy of the 1) consolidated Terminal 6 SWOT with ILC and Port staff input, 2) follow-up information on vessels in the world container ship fleet, and turnaround of containers to shippers at other West Coast Ports; and 3) 8/3 meeting summary. These handouts can be found in the Meeting Material #3 links: https://popcdn.azureedge.net/pdfs/T6%20Consolidated%20SWOT%20-%209-28-17.pdf, and https://popcdn.azureedge.net/pdfs/Follow-up%20from%20Information%20Requests%20from%208-3-17%20ILC%20Meeting.pdf.

The Committee did not have any changes to the 8/3 meeting notes, or any questions about the SWOT.

Overview of 9/28 Agenda: Nolan Gimpel from Advisian will provide an overview of the Market Analysis and Operating Model Analysis. For both of these topics, we will have committee questions and committee breakout exercises. This work will inform the tasks for our 11/16 meeting: Alternatives Analysis and Financial Analysis.

Business Updates: Keith Leavitt, Port Chief Commercial Officer, provided updates on Terminal 6 business opportunities driving getting equipment up and running. These are operating on a parallel path with the study on a sustainable container business model.

The Port reached a milestone with ILWU – settling our litigation and resetting the relationship. The Port wanted to prove the concept before publicizing this agreement. The Port is working to bring monthly general cargo and container service with SWIRE Shipping to Terminal 6. The Port is going to Hong Kong next month as part of the Governor's Asia trade mission to meet with SWIRE's parent company Cathay Pacific. They are also actively working on a rail-shuttle concept to Puget Sound container ports. Curtis

Robinhold, Port Executive Director, noted that the Port had focused on three buckets of work for Terminal 6: Get Terminal 6 operations up. Get labor issues ironed out. Bring back commercial business. The Committee expressed appreciation for steps toward resetting the ILWU relationship and preparing the terminal for business activity. ILWU noted that the Terminal 6 agreement was a team effort with all involved – both ILWU and IBEW. Agreement was ratified by ILWU membership and supported by ILWU International.

Ken O'Hollaren, Port Marine Director, discussed the Terminal 6 marketing efforts that the Port is undertaking on a parallel track. Ken reported that he had spent the past two weeks in Asia on marketing calls, visiting 9 carriers in 4 countries. In these visits, the Port provided updates on operational changes, labor relationship reset, and reinforced the Port terminal 6 is ready to go, and made the case for new service. Called on 9 carriers in total. This trip helped the Port increase awareness that Terminal 6 is now under the ports operation and control. All carriers were attentive, and pleased to hear the news. The Port has called on all of these carriers in the past. The Port is planning additional carrier calls as part of the Governor's trade mission with PIL in Singapore, ZIM in Hong Kong, and SWIRE in Singapore. A committee member mentioned a rumor that Yang Ming is planning on calling Terminal 6, but Ken indicated that this is not true; however Yang Ming is considered a targeted carrier based on the feedback we received in Shanghai.

3:15 – 3:45 pm	Market Analysis – Nolan Gimpel, Advisian and Michael Kosmala, Coraggio

Slides #3-6
Nolan Gimpel provided an overview on the Terminal 6 Market Analysis and case studies. He started by noting that the Port hired the Advisian consultant team to come up with a sustainability business strategy for Terminal 6 which includes identifying operating models to realize the potential of this underutilized asset. There is as much cargo in the region as a place like Philadelphia, but cost and competition pose a big challenge for Portland. To add a new ship in a rotation costs about $7-$13M of vessel and fuel costs to come up the river. As discussed, only some vessels can transit the river due to depth restrictions that other West Coast ports do not have. Vancouver and Seattle Terminal 5 that have made game changer investments to accommodate container vessels.

Slides #7-10
In the Port's market capture region of Oregon, southwestern Washington and Idaho, exports account for 58% of containers, and imports account for the balance. Portland handled 225,537 containers in 2014 while the Northwest Seaport Alliance (NWSA) handled 1,906,00 containers – a 23%-73% ratio with Oakland assuming the balance. At peak, Portland has handled approximately 200,000 containers. Most commodities – except straw and husks - would continue to move regardless of whether there is a Portland service and in fact have moved through other NWSA ports with the loss of Portland service.

Slides #11-14
Asia is the destination for 87% of regional export containers and source of 89% of regional imports. This is why competitive, weekly TransPacific service is the focus of regional shippers as well as the Port.

Slide #15
In comparing Portland to other West Coast ports. On the positive side: Portland has loyal shippers and a strong export market. The flow of containers by barge is also a plus. On the negative side: There is a smaller population base. The river requires dual pilotage and limits vessel size. Due to limited competition, carriers have pricing power.

Slides #16-18

Port of Hueneme – located 60 miles northwest of Los Angeles and a large population capture base - has done well without a line haul container service. It can work. The Port moves fresh/frozen food product containers headed to South/Central America trade route.

Port of San Diego has a diverse portfolio of real estate like the Port but a larger population area. It has a smaller container market focused on fresh and frozen food with South America as its primary trade route.

Port of Philadelphia serves a large population base with a modest but growing container market. The Port has benefited with significant federal/state subsidies for channel deepening and terminal improvements. Philadelphia has some of the same difficulties as Portland as the terminal is it is located upriver. South/Central America is the primary trade route, but the port also has Europe/ANZAC (Australia-New Zealand) services.

Slide #19

Bottom line, Portland has a large container market attractive to container carriers (407K TEUs), but Portland's ability to capture that cargo depends upon several factors outside the Port's control (depth, size, efficiency, intermodal). The cost of calling on Portland is significant but could be offset by other services including a niche service. Portland faces strong competition from Pacific Northwest terminals that have advantages. Other niche ports around the US have built a good niche container business through specialization, partnerships and government support. Those ports were built around niche Beneficial Cargo Owners (BCOs) which do not exist in the Portland region to any extent. The questions are: How much container traffic can Portland capture v. those containers moving to other northwest ports? Will a container carrier come given the costs? Portland will have to compete for a string in an existing service - either an expanded string that will slow down/extend rotation time, or replacement of an existing port call.

Slide #20

Michael Kosmala asked the committee: 1) What things hit the mark?, 2) Any surprises?, and 3) Anything missing?

Committee questions and comments:

- What does NESOI on Slide 13 mean? Not otherwise specified.
- Explain the statement that if you add a call in a string, you add a week. Move from a 35-day rotation to a 42-day rotation.
- Surprised by 407,000 TEU figure. Consultant and Port team identified cargo missing. Adjusted service boundary to capture Hapag-Lloyd.
- Why 2014 data? Last full year that Portland had service.
- What's going to motivate a carrier to call Portland direct? Benefit of being the only one calling Portland.
- Will this be a new carrier or a return of a carrier that has called on Portland? More than likely will be a new carrier or an independent carrier. Three alliance groups control 90% of Asia. That's a good place to start.
- Had 10 years' experience with Hanjin. Previously Portland had three Asia lines – ZIM, Hyundai and K-Line. Also Hapag-Lloyd to Europe. Carriers had proprietary leases at other Pacific Northwest terminal with minimum annual guarantees.
- Slot chartering had a lot to do with the minimum annual guarantees (MAG). The terminal lease agreements specified the MAG.
- Intermodal traffic to Seattle is essentially a boat call. This does not require population base, or channel depth. If the Port attracts a carrier, Portland could be a second port of call due to delays

from congestion at Pacific Northwest Ports. Consultant comment: Intermodal typically gets offloaded at the first port of call. It is unlikely that any significant volume of intermodal cargo would be willing to ride to the second port of call.

- 5 years ago, adding 7 days was not a problem.
- Portland used to be a third port of call and some of us were okay with this.

3:45 – 4:25 pm	Operating Model Analysis – Nolan Gimpel and Michael Kosmala

Slides #21-22
Nolan Gimpel provided an overview on the Operating Model Analyses.

Slides #23
Operating Port Terminal model – The public port owns and operates the terminal and all equipment. This model is dependent on cargo, investment and absorption of all risk. The port hires labor directly. This model offers the highest amount of reward as the port is taking on all the risk as no partner or lease is included in the equation. This was the operating model that the Port used from 1974-1993.

Slide #24
Semi-Operating Port Terminal model – The public port owns the terminal, may participate in management of the terminal, but contracts out for terminal operations and labor. Equipment could be owned by the port or terminal operator. The Port used this operating model from 1993-2011 with Marine Terminal Corporation (MTC)/Ports America Group (PAG). It was originally MTC and they were bought by PAG. This is a good model if the Port does not have in-house capacity to operate the terminal. The arrangements with the operator could be fixed fee, cost plus or some combination of those models.

Slide #25
Landlord Terminal – The public port owns the terminal but leases it out to a terminal operator or carrier for operations. This is the arrangement the Port had with ICTSI from 2011-17. There are variations of this with Port or operator maintaining equipment. The more services that the Port has to maintain, the greater the chances of conflict.

Slide #26
Concession Terminal – The public port offers a long-term concession to a tenant (25-50 years). The concessionaire typically provides the equipment and all improvements to the terminal. The port typically has no exposure to maintain terminal assets. This model requires upfront investment from the port in infrastructure and then turning over to a concessionaire after a bidding process.

Slides #27-28

- Ocean carrier's perspective – berth availability, cargo availability, dependability, vessel productivity, terminal operating fees, alliance alignment
- Terminal operator's perspective – operator control, revenue potential v. volumes, terminal productivity, labor, minimum annual guarantee throughput
- Pot's perspective – financial support, inland infrastructure required, political capital, amount of risk
- Shipper perspective is similar between models – reliability (on time), scheduled service, best cost
- Labor perspective – work environment, work rules, productivity, and employment hours

The graph shows the differences between the four models in terms of risk/reward and control. In the Port Operating Model, the Port has all the control and all the risk. In the Semi-operating model, the Port has medium risk, medium control. In the Landlord model, the Port's risk is mitigated. In the Concession model, the Port has low risk and low control, but there are examples where this has fallen apart. Ports America left Port of Oakland's Outer Harbor Terminal. Terminal 5 in Seattle closed for a potential modernization project. APL left Seattle Terminal 5 and moved to Southern California when they determined that it was $9-10 M a year cheaper to buy out than continue the concession contract. They also needed to make their MAG in Southern California. The Portland lease with ICTSI was terminated.

Slide #29

This slide shows terminal models with less than 500K TEUs. Portland market is 400 TEUs. There is no right answer to this. It's what works for the tenant and port. The devil is in the detail.

See link for handout on various operating models found at container ports across the country: https://popcdn.azureedge.net/pdfs/NAFTA%20REGION%20PORT%20CONTAINER%20TRAFFIC%202016%20-%209-28-17%20T6%20ILC%20Meeting.pdf.

Committee question:

- Why is there no Port Operating model on the West Coast? The Landlord model has worked. There are smaller breakbulk operating models on the West Coast (Seattle and Tacoma), but nothing for container operations.

Slides #30-31

The bar chart shows you where the Port has been in terms of container volumes from 1975 to 2015 when service ended.

Committee question:

- Is there a process the port has gone through on operating expenses? Every port is different in how it manages operating expenses. Keith Leavitt responded: Direct expenses are clear. Overhead is less clear. Unified port authorities have to address this issue. Curtis Robinhold: Our goal is for Terminal 6 to break even – in and of itself by separating out the indirect allocation.

Slide #32

There are no definitive answers. The consultant team has not yet done the Financial Analysis and Alternatives Analysis. This effort will help map what it will take to break even, and identify what volumes can be obtained and what amount of operating support may be needed. This will help inform the strategy to get there. There is an opportunity to bring in SWIRE – a monthly container service and grow container service to a point where it is self-sustaining.

Slide #33

Michael Kosmala asked the committee: For each of the four Operating Models, what clarifying questions do you have?

Committee comments and questions:

- Is there an ability to gauge costs at other ports? West Coast contract is the same. Some information is available. The Port has a good idea about what things cost.
- There are no guarantees. Workforce/labor is motivated to do what they can. 10 containers will be processed differently at two terminals. Depends on the equipment and how the yard is managed. Manning and trucks cut into costs.
- Portland is looking at helping move things as expeditiously as possible. Everyone has to have a little skin in the game. Labor and management need to work together to stay engaged, keep lines of communication open, and solve issues. Labor is now involved in joint marketing.
- As volume declined between 1995 and 2000, what was the loss of revenue? The peak loss was $100M. It's hard to determine an effective model because the market changed. In the Semi Operating Model days at Terminal 6, the Port was still negotiating with carriers. It was a cost plus operation. Stevedores did not lose $100M. The Port did. At this time, the Port was not getting revenue out of rates. This approach was not sustainable. There are variations of the model that could work. The Landlord model is unique to Portland and the ICTSI contract. There will be

complexities with future landlord models. Through this model, the Port lost control over the business.

- There are years where money was made. See the Financial Analysis.
- It would be nice if the Port could overlay financials on the bar chart of container volumes. *The Port will provide this as follow-up information to the committee.* Data is available from 1995 on. No good data for 1975-1995.

4:25 – 4:40 pm	Break

Slide #34

4:40 – 5:45 pm	Operating Model Activity – Michael Kosmala

Slides #35-38
Michael Kosmala facilitated a committee breakout activity on the 4 Operating Models using a propelling question approach. A propelling question pairs a bold ambition with a significant constraint to reveal potential strategic breakthroughs (i.e. solutions). Potential strategic breakthroughs were shared with the full committee and transcriptions for each Operating Model have been provided in the summary of the small group engagement activity.

The following is a summary of the operating model breakout table reports shared with the full committee.

Operating Model #1: Concession

Potential Customer

Potential Customer: Shippers & Cargo Owners

In 1-3 sentences, describe this customer's experience with the Port of Portland.
Customer interaction with the Port would be minimal. Shippers would lose port access mandate but gain business model efficiency.

What business needs or goals do they have?
Cost efficient access to markets. Dependable service & competitive rates.

Opportunities and Constraints

Opportunities

- Initial capex investment start of contract
- Long term business view due & length of term
- Act nimble – go up & down with demand
- Full autonomy on rate negotiations

Constraints

- High risk to concessionaire
- Loss of control could negatively impact shipper IE "Rates"
- No public subsidy fund
- Full exposure to market risk

Propelling Question (Ambition + Constraint)

How can **we assure competitive market access for shippers** when **all control of the business has been ceded to a 3rd party**?

Potential Solutions (Can If Statements)

1. We can, if **we negotiate lease terms that requires competitive services for shippers.** *Consideration:* Could limit profitability of operator
2. We can, if **we initiate & maintain international shipper, outreach & advocacy program.** *Consideration:* Could be ineffective if no "teeth" in #1
3. We can, if **the Ports of Portland can continue to market to ocean carriers and other potential "partners".** *Consideration:* Legal risk if interfering in commercial relationships. Undermine unknown commercial strategies of concessionaire & other stakeholders.

Operating Model #2: Landlord

Potential Customer

Potential Customer: The Operator/Tenant

In 1-3 sentences, describe this customer's experience with the Port of Portland.
Must recruit carriers, operate efficiently, have relationship with labor – continuous tension between costs + service.

What business needs or goals do they have?
Cargo, ships, labor peace, low rent, willing markets, cost controls/caps

Opportunities and Constraints

Opportunities

- Collaborative marketing
- Infrastructure + assets in place (turnkey operation)
- Low transaction costs to start
- Potential incentives from landlord
- Challenged alternatives (Seattle congestion)
- Niche service can be priced well

Constraints

- Contractor/landlord
- No carriers/limited markets
- Uncertain labor environment (reputation)
- Alternatives available/competitive
- Stevedore pricing

Propelling Question (Ambition + Constraint)

How can we **challenge/compete with alternative ports** when **we have an uncertain labor environment and reputation?**

Potential Solutions (Can If Statements)

1. We can, if **we lower the cost of entry – resources, decrease rent**
2. We can, if **we find a way to have everyone with skin in the game. If we could get a guaranteed productivity level**
3. We can, if **we can show a viable operating model. Prove the cargo is there.**

Operating Model #3: Semi – Operating

Customer

Customer: BCO – Beneficial Cargo Owner

In 1-3 sentences, describe this customer's experience with the Port of Portland.
We had great service @POP. We had mediocre service @POP. We had less-than-acceptable service @POP.

What business needs or goals do they have?
Fast, reasonably priced, consistency, predictability, reactionary/customer service, neutral profitability

Opportunities and Constraints

Opportunities

- Allows to have multi-carrier calls
- Can create a new approach– choose who is responsible for what
- Creates competition
- Long-term operation/commitment
- Some parts are interchangeable

Constraints

- Accountability – who do I talk to
- BCO has no say to how operating model is created/managed
- Profitability – between all entities
- Disputed resolution between the parties with financial interest
- Difficult to define who is responsible for what

Propelling Question (Ambition + Constraint)

How can **we achieve long-term commitment by all parties**, with **BCOs**, with **profitability for all entities?**

Potential Solutions (Can If Statements)

1. We can, if **BCO's commit volume.** *Implications: Who are the current BCO's? Would they consider moving their cargo back through POP? What is the goal? Are your operations hindering where you want to go?*
2. We can, if **we minimize overall cost.** *Implications: Focus on labor, capital, & operating expenses to all parties.*
3. We can, **if all parties continue to do his/her committed process at the cost & level of efficient and quality of job. Contracts that keep every entity's skin in the game – an investment; as well as expanded profitability sharing.**

Operating Model #4: Port Operating Model

Customer

Customer: Carrier

In 1-3 sentences, describe this customer's experience with the Port of Portland.
Niche terminal with non-stable relations between port, terminal & labor. Customized service according to carrier's needs.

What business needs or goals do they have?
Productivity, consistency, competitive cost, & aligned rail, port, carrier services

Opportunities and Constraints

Opportunities

- Relationship with carrier
- Incentive to make it work
- Different values
- High reward

Constraints

- Lack of experience
- Economies of scale
- High risk

Propelling Question (Ambition + Constraint)

How can **we compete and succeed**, with **carriers**, when **we have little experience, cost concerns & high risk**?

Potential Solutions (Can If Statements)

We can, if **we build an experienced operations team.**
We can, if **we provide a high level of service so cost is less of a factor.**
We can, if **we mitigate risk by building a viable product in the short term. This viable product will attract other opportunities for the port.**

Committee comment and questions on engagement exercise include:

- How does the Port view future operation of the Port?
- If cannot have labor productivity commitments, need to control fixed costs (labor and other elements) to get traction in the market.
- A huge incentive to get labor productivity is not needed.
- If cannot define costs, hard to get a decision. Example rate for barge when ICTSI operator. The response was will tell you when we unload as it depends on number of boxes on the barge. As a result, service ceased. Knew rail and truck costs but not shipping costs. People can only make educated decisions based on costs.
- With respect to a BCO strategy, who are BCOs in the region? People who need to move cargo. If know costs, then BCOs can commit. Give them an option not to go elsewhere. Give us a reason to do. Every party has to have skin in the game to make this work – labor, railroads, service providers, shippers, port. Part of marketing strategy but also part of business model assessment. Gives more weight to pitch to carrier.
- Think outside of this region – not just Kroger. Other BCOs. Hewlett-Packard, Walmart, Amazon. Maybe transloading – rail connection. Minimize 4-7 day additional transit time. There is room to capitalize on congestion at other ports – use to minimize extra rotation time. Predictability is a selling point – customers want consistency.
- In the Semi-Operating Model, the Port was active in marketing. In the Landlord model, ICTSI was not active in marketing.
- Big risk is the high fixed costs. The Port only has three years of money in the bank. BCOs could help make profitable in 2-3 years.
- With truck electronic logs, congestion will be an increasing issue as cannot turn trucks in 8 hours without relay stations.

5:45 – 6:00 pm	Next Meeting Date, Focus and Meeting Evaluation – Michael Kosmala

Slide #39

Michael Kosmala expressed appreciation for the committee's time on behalf of the consultant team and Port. He noted that there are two more meetings.

The fourth meeting of the Terminal 6 Industry Leader Committee is scheduled for Thursday, November 16 from 3-6 pm. The focus of this meeting will be the Alternatives Analysis and Financial Analysis. This will be an important meeting as it will help inform the consultant final recommendation on the business study and committee guidance on the consultant recommendation.

6:00 pm	Adjourn

In attendance:
Committee Members (14): Del Allen, Brenda Barnes, Bob Carroll, Brian Flood (for Jonathan Berndt), Stu Follen, Jana Jarvis, Don Karls, Keith Leavitt, Gary Neal (on phone), Neil Salstrom, Mike Stanton, Bob Wilkerson (for Patricia Villalonga), Tom Yu, Greg Zanavich
Consultant Team (2): Nolan Gimpel, Michael Kosmala
Port Team (8): Teresa Carr, Jim Daly, Randy Fischer, Lise Glancy, Melanie Mesaros, Ken O'Hollaren, Curtis Robinhold, Greg Theisen

Not able to attend:
Committee Members (7): Amer Badwi (to be replaced by Jeff Van Pevenage), John Ducker, Kevin Koronko, Kit Labelle (to be replaced by Steve Kimery), Ken Norwood (to be replaced by Robert Brown), Linda Pearce, Guy Stephenson
Ex Officio Members (2): Rep. David Gomberg, Sen. Bill Hansell