PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA **Item No.** 7b

Date of Meeting May 18, 2010

DATE: May 12, 2010

TO: Tay Yoshitani, Chief Executive Officer

FROM: Bari Bookout, Director Seaport Marketing

SUBJECT: Seaport Business Objectives & Marketing Outlook

BACKGROUND:

The Seaport is focused on retaining current Seaport customers, positioning the Seaport to capitalize on growth opportunities as the market returns, and fostering the Port of Seattle's environmental initiatives. Our marketing strategy is implemented through formulation of sound business strategies, building of strong customer relationships, capitalizing on promotional opportunities, and the gathering and dissemination of market intelligence. This briefing is aimed at providing strategic information, business outlook and objectives of the Seaport to assist the Commission in its work on The Century Agenda.

BRIEFING OUTLINE:

The Seaport Team primarily focuses on the core container business at the Port of Seattle, but this briefing will also discuss the other Seaport lines of business.

Key Customer Segments for the Container Business are Marine Terminal Operators, Container Carriers, Shippers and Railroads. For the Cruise Business are Cruise Lines, the Business & Tourism Community, the Airport and Regulatory Agencies. The third segment includes other Marine Terminal Facility Operators such as grain ,tug & barge companies, and fishing and the diverse mix of maritime businesses which utilize the Port's industrial facilities .

Current drivers for business segments: In the Container segment, Marine Terminal Operators (MTOs) face overcapacity and aggressive competition for Ocean Carrier Business. Ocean Carriers, the customers of our MTOs, also face overcapacity and are in a very weak financial position coming out of 2009 where the industry sustained over $12 billion in losses. Shippers, the customers of our Ocean Carriers, face a constrained import market defined by high unemployment, and low consumer confidence. Exporters are seeing strong demand but face capacity constraints linked to the weaker import market. Railroads saw a downturn in 2009, but remained profitable. In the Cruise segment, demand outlook is good for this year but cruise lines face higher operating costs and thinner margins. Asian demand for grain has continued strong into 2010. Tug & barge operators are directly influenced by factors impacting the container, cruise and grain businesses. Fishing seems to be weathering the downturn reasonably well.

Industry Outlook: West Coast container ports, which include the Port of Seattle, have seen a steady decline in container market share since 1999 from 84% to 70% in 2009. Seattle's historical volumes are more erratic. We saw a large upturn in 2005 to an all-time high of 2.1 million TEUs, primarily due to a cargo shift from congestion in the Pacific Southwest ports, and a subsequent erosion of that volume as other gateways became more viable. The most conservative short-term growth projection of 3% per year will bring us to 1.9 Million TEU by 2015. While transpacific trade growth is now projected in the single digits over the long term, competition for this business will be more intense. The Port of Seattle is addressing these growth needs by investment in supporting infrastructure (Alaskan Way Viaduct, East Marginal Way Grade Separation, SR519, etc), dredging, dock enhancements and other items necessary to support growth and to keep our Port a competitive, viable alternative in the face of increasing competition for our core businesses.

The Seaport's cruise business continues on a positive growth trend despite the economic downturn, but the lines are increasingly sensitive to cost when deploying their vessel assets. Fishing will continue to be dependent on quotas, but the market for seafood remains strong. Tug and barge businesses are affected by both demand from Alaska and by the health of the marine businesses they support, such as container and cruise.

Competitive Threats: The Marketing Team has identified at least 4 major competitive threats to our container business. 1) The Panama Canal Expansion: Opening of the expanded canal in 2014 will give better economies of scale to the East Coast. East Coast Ports are expanding and aggressively pursuing business that traditionally moved through the West Coast. 2) Canada's Asia Pacific Gateway Initiative and Prince Rupert Port: A coordinated effort by Canadian governments and private sector businesses has targeted a marketing strategy at the POS's core customer base in the U.S. Midwest. Expansion of Prince Rupert Port from 500,000 TEU capacity to 2 million TEU capacity begins this year. 3) Gateway Costs and Productivity: Costs and the efficiency of cargo flowing through a port have great influence on the routing of cargo. Seattle is seeing escalating costs for maritime services and faces higher productivity from other competitor ports. 4) Trade Barriers and Fees:– These are a continuous challenge as governments look to supplement budget shortfalls. Canadian ports already enjoy an advantage around the Harbor Maintenance Fee. Any U.S. bound cargo transiting a Canadian port is not subject to this substantial *ad valorem* fee.

Approximately 70% of the import container cargo moving through the Port of Seattle is discretionary and is vulnerable to shifts to other gateways. Most of this cargo moves by rail to interior portions of the country, and our competitiveness is dependent on the railroads' corporate strategies to some degree. Upcoming construction impacts may influence routing decisions. Long term supply chain pattern changes are factors in port selection, as well.

Competitive threats for the cruise industry exist around the fact that the number of vessels are limited and, as mobile assets, they will be deployed in markets yielding the highest return. Any cost increases in the Alaska market increase the risk that companies will move their ships to other more lucrative markets. Additionally, both the tug and barge and fishing fleets depend on flexible and cost efficient berthing arrangements and well maintained facilities. The Port faces competition from nearby facilities in Washington.

Marketing Plan: Our marketing efforts seek to understand the competitive environment facing the Port of Seattle and our customers, and then formulate and implement a strategy by customer segment to influence business through our Port. We deliver our key messages of Fee Free Now; Faster, Better, Cleaner; The Green Gateway; and Collaboration (stakeholders, West Coast ports & railroads; joint marketing) to targeted accounts in individual marketing calls, at key events and speaking engagements and through media exposure and advertising. Joint marketing initiatives with other organizations, such as the U.S. West Coast Collaboration and Port of Tacoma, factor into our marketing efforts. We gather and disseminate industry intelligence from calls, trade events, publications and other industry data sources within the Port of Seattle organization to enable informed decision-making by the executive leadership team.

Marketing efforts are measured with key Seaport metrics such as container TEUs, cruise passenger count and vessel calls, berth utilization, grain volume, carrier retention, and Seaport NOI.

SUMMARY:

We will continue to focus on retaining our current customers, positioning the Seaport to capitalize on growth opportunities as the market returns and fostering the Port of Seattle's environmental initiatives. We will continue to deliver our key container messages of Fee Free Now; Faster Better Cleaner; Green Gateway; and Collaboration; and key cruise messages of Seattle as a proven vacation destination with easy and convenient airline connections.