COMMISSION
AGENDA MEMORANDUM

**Item No.** 10d

ACTION ITEM

**Date of Meeting** June 25, 2024

**DATE:** June 18, 2024

**TO:** Stephen P. Metruck, Executive Director

**FROM:** Stephanie Jones Stebbins, Managing Director, Maritime
Linda Springmann, Director, Cruise Operations & Maritime Marketing

**SUBJECT:** **Carnival Corporation Preferential Berthing Agreement and Cruise Dashboard**

## ACTION REQUESTED

Request for Commission Authorization for the Executive Director to enter a 10-Year Preferential Berthing Agreement with Carnival Corporation (Carnival), which includes Carnival, Princess Cruises, and Holland America Line brands. The Agreement includes environmental and community requirements in addition to business terms; and requires data sharing to support a new public Cruise Dashboard for transparency along with tracking and reporting on performance over the term of the agreement.

## EXECUTIVE SUMMARY

The proposed 10-year agreement provides the Port of Seattle a long-term commitment from Carnival to deliver a minimum passenger guarantee, significant actions to drive decarbonization and air quality benefits, as well as other environmental, social and community commitments that align with the Port's goals, values, and commitment to social, environmental and economic sustainability.

Through this agreement, Carnival agrees to the following noteworthy terms:

- Provide a guaranteed minimum number of passengers to Seattle annually.
- Deploy 100% shore power capable vessels to the Port of Seattle by 2026
- Pilot test a non-fossil fuel in Seattle
- Commitment to developing potential decarbonization pathways and associated prerequisite assumptions regarding fuel supply and/or technology advancements and provide to the Port.
- Continue participation in the ECHO and Quiet Sound programs to reduce underwater noise.
- Develop a Responsible Sourcing pilot program for Seattle to promote use of small, diverse, disadvantaged, and local suppliers.
- Provide the Port with pre-season, weekly, and post-season reporting on specified environmental performance metrics.

- Meet annually to review progress on commitments, decarbonization and environmental action, and overall performance. The Port will consider these factors in granting an extension following the initial 10-year term.

The agreement has a 10-year term, with a 5-year extension option through 2038. The total revenue generated over the term of the agreement is estimated to be $185M, and $273M if extended. It includes a revenue-passenger guarantee of 550,000 passengers annually, which is estimated to guarantee $146M in revenue during the 10-year term and an additional $68M if extended. The passenger fee and dockage rates start at 90% of tariff with an annual increase of 4.5%. The rate structure also includes five-year resets to 90% of tariff in 2029 and 2034, if the extension is granted and with continued 4.5% increases.

The data sharing terms in the agreement will allow the Port to develop and maintain a public-facing dashboard of cruise performance data to enhance transparency and build public awareness of cruise operations in Seattle and the Alaska market. The Port intends to make continuous improvements to the dashboard and eventually include vessel-specific details and other publicly relevant information. Additionally, the data sharing terms in this agreement will support development of annual maritime emissions inventories to track and communicate cruise lines' progress toward the Port's climate and air goals.

The agreement also commits Carnival to allow vessels from other cruise lines to plug into their shore power equipment at Pier 91. Carnival currently owns and operates the shore power connections at the pier. This term will remove a significant barrier which currently limits connections by non-Carnival vessels at Pier 91.

The shore power connection at Pier 66, scheduled for activation this summer, achieves the Northwest Ports Clean Air Strategy goal to electrify all three cruise berths by 2030, six years earlier than anticipated. This has laid the groundwork to achieve the Commission's shore power directive of 100% connection of homeport shore power vessels by 2027, three years ahead of the 2030 goal set in the Maritime Climate and Air Action Plan (MCAAP). It is the Port's intent to require all cruise vessels (from all brands) to plug into shore power in the future.

## JUSTIFICATION

This agreement aligns with the Port's Waterfront Guiding Principles (Commission Motion 2019-02) to support the financial sustainability of the Port, to expand economic, cultural and community benefits, to incorporate leading edge environmental stewardship and sustainability practices; and to provide facilities that exceed existing regulations beyond maximizing the use of the Port's deep-water facilities and industrial lands to serve maritime industrial uses. It also aligns with our Century Agenda goals of providing positive economic impact to the region and supporting a thriving workforce. Furthermore, this agreement represents an ambitious and collaborative step forward with Carnival Corporation toward the Port's goal of being the greenest port in North America. The terms of this agreement specifically advance the following:

- The Port's Century Agenda goal two, to advance this region as a leading tourism destination and business gateway; and goal three, to responsibly invest in the economic growth of the region and all its communities; and goal four, to be the greenest and most energy-efficient port in North America.
- The Northwest Ports Clean Air Strategy goal for 2030:
  - To achieve 100% of major cruise and container berths with shore power installed
- The MCAAP goals for 2030:
  - To support domestic and international efforts to phase out emissions from ocean-going vessels.
  - To have shore power infrastructure installed at all cruise ship berths.
  - To achieve 100% of homeport cruise ship calls connected to shore power.
  - To support continual advancements in equipment efficiency and emission reduction from ocean-going vessels
  - To support continual advancements in equipment efficiency and emission reduction from cargo handling equipment

The climate benefits of shore power use are significant. Plugging into shore power can reduce diesel emissions from cruise ships at berth by 80 percent and GHG emissions at berth by 66 percent, on average, using Seattle City Light energy sourced primarily from hydropower. The terms in this agreement represent an essential component of the Port's efforts to achieve environmental goals. Based on modelled scenarios, using the 2024 cruise season as an example, and assuming all ships are shore power capable and have access to a shoreside power connection per the future requirements in this agreement, the Port would see the following estimated emissions benefits:

- Avoids estimated 11,833 metric tons $CO_2e$
- Equivalent to 13% of at total cruise emissions in the Airshed (based on airshed totals in 2022 Cruise Emissions scaled to 275 calls)
- Equivalent to 9% of total Port maritime Scope 3 emissions in the Airshed

In addition to economic and environmental leadership, the agreement commits Carnival to increased local economic impact through tourism and provisioning efforts that grow participation by local, small, and disadvantaged businesses. The agreement prioritizes social and workforce development efforts including internships, donations, and educational ship engagements.

### *Office of Equity, Diversity & Inclusion Collaboration*

The Port's Office of Equity Diversity and Inclusion informed the elements related to tracking and measuring improvement on local provisioning, specifically related to Women and Minority owned Businesses, donations to local non-profits, ship tours for workforce development purposes, and annual reporting of disaggregated organizational demographics by hierarchy for shipboard and land-based programs. In addition, the agreement includes a new Market Incentive for establishing a baseline of provisioning sourced from local, small and disadvantage businesses by the end of 2025 and tracking annual growth.

## DETAILS

Collectively, the following three elements provide transparency, equity, and economic benefit from the Port's cruise business:

Cruise Dashboard

The Cruise Dashboard (version1) was created with the assistance of the Port's Business Intelligence Team. Multiple data sources were utilized to construct a visual representation of the 2023 cruise season which includes key elements for homeport ships, number of calls, number of passengers, passengers utilizing Port Valet, shore power connectivity and the resulting CO2 emissions avoided. Additionally, the agreement with Carnival allows the Port to collect additional data, which will be incorporated into the dashboard as the data becomes available. This will include cruise line fleet profile data such as shore power capability, and information on vessels' Advance Wastewater Treatment Systems, Exhaust Gas Cleaning Systems, and noise reduction technology.

Shore Power Requirement

To accelerate the Port's goal requiring cruise ships to utilize shore power connections and to maximize the investment in shore power infrastructure, the Port is accelerating its goal to have all homeport vessels plugging into shore power requirement by three years, from 2030 to 2027. Cruise lines have adequate time to redeploy their homeport fleets so that ships calling in Seattle by 2027 should be shore power capable and commissioned. Princess Cruises and Holland America brands installed the original shore power equipment at Terminal 30 in 2004 and then relocated the two connection points to Pier 91 in 2009 when the Port relocated the cruise facility. These were the 2$^{nd}$ and 3$^{rd}$ shore power installations in the world. Princess Cruises and Holland America remain owners of the shore power infrastructure at Pier 91.

Carnival Corporation Preferential Berthing Agreement

Carnival Corporation includes Carnival Cruise Line, Princess Cruises and Holland America Line brands homeporting in Seattle. Sister brand, Cunard Line's Queen Elizabeth will join in 2025.

Carnival has had preferential use agreements with the Port since 2009. These agreements provided certainty to the Port in terms of revenue, but also provided Carnival the ability to make capital investments in shore power—a significant benefit to the Port—and investments elsewhere in the region and the Alaska market. The most recent Carnival agreement dated March 4, 2019, included a three-year term with two, one-year extension options. During the pandemic and the loss of cruise operations for over a year, these two extensions were granted bringing the agreement through the 2023 season.

In 2023 Carnival Corporation brands brought 140 ship calls to Seattle representing 48% of the Port's cruise calls. Carnival brands represented 100% of the Shore Power connections in 2023 with 102 ships plugging in achieving a 73% connectivity rate for their Seattle-based fleet. In 2024 Carnival brands will again have six of their brand's ships committed to the Seattle market with the number growing to seven ships in 2025.

This proposed agreement is a world-class example of how the Port can leverage business agreements to advance shared priorities. Examples of how this agreement is innovative include the following:

- It includes robust terms in length of agreement and rates,
- It advances the Port's environmental commitments,
- It establishes social and economic impact as priorities and requirements.

**Terms:** The agreement provides a 10-year term, from 2024-2033, with a mutually agreeable option to extend from 2034–2038. The Port explicitly states in the agreement that the approval of the extension will be based on decarbonization progress and the demonstrated achievement of other sustainability terms. It includes a revenue-passenger guarantee of 550,000 passengers per year and provides the cruise line with historical berthing rights for day-of-week used the prior year. To preserve the historical berthing rights for day-of week, the agreement adds a 12-call minimum per homeport vessel per season to ensure prime dates are utilized. The specified rate represents 90% of Tariff with an annual increase cap of 4.5%. This rate structure also includes a five-year reset to 90% of Tariff at each five-year mark of 2029 and 2034, if the extension is granted and with continued 4.5% increases.

The agreement also includes a security provision via a $3M letter of credit or surety bond which matches previous agreements; typically, for leases, Port procedures require 6 Months of rent as a security bond. This security provision was modeled on previous agreements granted by the Port.

**The environment:** The new agreement upholds environmental compliance commitments, such as ongoing participation in the Memorandum of Understanding between Washington Department of Ecology (DOE), Port of Seattle and the cruise lines, and introduces new commitments. Through this agreement, Carnival also affirms their commitment to continue to partner with the DOE and others on public engagement and policy making around the use of exhaust gas cleaning systems, adherence to the Port's stormwater best management practices, and reporting on shore power connectivity. The agreement adds significant new provisions including piloting a non-fossil fuel in the 2024 or 2025 season and striving for a minimum of 5% non-fossil fuel use for the Seattle-based vessel fleet by 2030 and beyond. It commits Carnival Corporation to developing potential decarbonization pathways and associated prerequisite assumptions regarding fuel supply and/or technology advancements and sharing the results with the Port by December 31, 2026. Shoreside, the agreement requires Carnival to incentivize ground handlers and stevedores (if contracted directly) to use of low emission equipment with a goal to use zero emission shoreside equipment by 2030.

**Social and economic impact**: The agreement includes a new market incentive opportunity for tracking and growing economic impact to the region via pre/post overnight stays and WMBE/local provisioning growth. This includes piloting a responsible sourcing program in Seattle including supplier assessment mapping and development of procedures that promote & train small, diverse, tribal and disadvantaged local suppliers. To support educational and workforce development Carnival will offer ship tours, two or more internships locally, and a commitment to explore opportunities to donate reusable goods to local non-profit organizations. The agreement also requires Carnival to partner with maritime-focused non-profit entities to assist in creating curriculum and experiential field-based learning opportunities and internships for students as part of Maritime-focused workforce development programs and to collaborate with the Port on Anti-human trafficking efforts, signing on to the Port Allies Against Human Trafficking Pledge.

***Schedule***

The new Cruise Dashboard is launched for the full 2023 season and be updated as the season progresses, and we receive new data. The dashboard will expand to include the new "Fleet Profile" detail. Each year within a month of the cruise season's end the Port will publish the updated dashboard for that completed cruise season.

## ALTERNATIVES AND IMPLICATIONS CONSIDERED

The Port's options are to decline another agreement and have Carnival pay Tariff or enter into a Preferential Berthing Agreement with a 10-year term and a 5-year optional extension.

**Alternative 1** – Decline to enter into a preferential berthing agreement with Carnival Corporation.

Cost Implications: no view of expected revenues or number of port calls further than one-year in advance. Losing one 2,500 passenger ship for 20 turns amounts to approximately $3M dollars in revenue to the Port in addition to related jobs and economic impact to the community.

Pros:

(1) Port has ultimate flexibility should another customer enter the market.

Cons:

(1) No long-term commitment or visibility to ship calls, passengers, revenues.
(2) Loss of collaboration on Environmental, Social, Community efforts as included in proposed new agreement.

This is not the recommended alternative.

**Alternative 2** – Enter into a 10-year agreement with a 5-year option at the Port's discretion, with Carnival Corporation for berthing at Terminal 91.

Cost Implications: guaranteed passenger visits and revenue visibility for the next 15 years to allow for capital, expense budgeting, and employment planning. Related commitments to regional economic impact and jobs to support cruise calls and their customers.

Pros:

(1) Provides certainty for Port of Seattle related to projected incomes.
(2) 10-year window gives time for innovations in technology related to alternative fuels and other decarbonization efforts to evolve and be in place for the next possible agreement.
(3) Continues a long-term relationship with our customer who has historically had similar term-lengths.
(4) 5-year option is tied to decarbonization effort and achievements.

Cons:

(1) Unpredictability over the next 10-years of environmental innovations and Carnival's willingness to enter into amendments to take advantage of these mid-agreement.
(2) Locking-in berthing guarantees gives no flexibility if new customer approaches the Port to enter into the market.

***This is the recommended alternative.***

## FINANCIAL IMPLICATIONS

A preferential berthing agreement will provide certainty of future revenues that could not be guaranteed without an agreement. The 2024 passenger and dockage fee rates in this agreement are set at 90% of tariff rate as an incentive that commits Carnival Group to a minimum amount of long-term cruise sailings and revenue. The 550,000 minimum revenue passenger guarantee would secure present value revenues of approximately $146M during the 10-year term and an additional $68M during the 5-year extension period.

### *Financial Analysis and Summary*

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|---|---|
| Project cost for analysis | N/A |
| Business Unit (BU) | Cruise Operations |
| Effect on business performance (NOI after depreciation) | 10-Year Minimum Annual Guarantee Revenue (PV): $146M<br><br>15-Year Minimum Annual Guarantee Revenue (PV): $214M<br><br>Estimated 10-Year Passenger Revenue (PV): $185M<br>Estimated 15-Year Passenger Revenue (PV): $273M |
| IRR/NPV (if relevant) | N/A |
| CPE Impact | N/A |

## ATTACHMENTS TO THIS REQUEST

(1) Preferential Berthing Agreement
(2) Presentation slides

## PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

June 14, and June 18, 2024 – Commissioners were briefed on final terms
February 2024 – Commissioners briefed on status of agreement
December 2022 – Briefed Commissioners on initial plan for negotiation and term inclusions