

0150-06030-0011

**TRANSMITTAL**

TO Eugene D. Seroka, Executive Director Harbor Department	DATE	COUNCIL FILE NO.
FROM The Mayor	COUNCIL DISTRICT 15	

**PROPOSED EIGHTH AMENDMENT TO PERMIT NO. 733 WITH EAGLE MARINE SERVICES, LTD, FOR CREDIT RELATED TO CMA-CGM BENJAMIN FRANKLIN**

Transmitted for further processing and Council consideration.  
See the City Administrative Officer report attached.

  
MAYOR

Ana Guerrero

MAS:ABN:10160112t

REPORT FROM

## OFFICE OF THE CITY ADMINISTRATIVE OFFICER

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Date: July 29, 2016

CAO File No. 0150-06030-0011

Council File No.

Council District: 15

To: The Mayor

From: Miguel A. Santana, City Administrative Officer



Reference: Correspondence from the Harbor Department dated June 17, 2016; referred by the Mayor for report dated June 21, 2016

Subject: **PROPOSED EIGHTH AMENDMENT TO PERMIT NO. 733 WITH EAGLE MARINE SERVICES, LTD, FOR CREDIT RELATED TO CMA-CGM BENJAMIN FRANKLIN**

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### SUMMARY

The Harbor Department (Port) Board of Harbor Commissioners (Board) requests approval of Resolution No. 16-7957 authorizing a proposed Eighth Amendment (Amendment) to Permit No. 733 (Permit) with Eagle Marine Services, Ltd (EMS), a container terminal operator at the Port of Los Angeles (POLA). The proposed Amendment will provide a one-time credit to EMS in the amount of \$99,354, toward the deferral of one month in rental costs due to the POLA. The one-time credit (or incentive) will be for CMA CGM, the owner of the "ultra large container vessel (ULCV or mega ship), Benjamin Franklin, currently one of the largest container vessels in the world. In April 2016, the 18,000 Twenty-foot Equivalent Unit (TEU) cargo container vessel, the Benjamin Franklin, made its first call to the EMS container terminal at Pier 300. A TEU is a standard cargo container size of approximately twenty feet. The POLA charges fees to lease its terminals to handle incoming and outgoing cargo, normally based on the length of water frontage used by the vessels secured to its wharf. The Port states that the vessel call by Benjamin Franklin generated an additional revenue amount of \$612,177 for the POLA.

### BACKGROUND

The Port states that Permit No. 733 authorizes EMS to operate containerized cargo for a terminal area within the POLA for a contract term of 30 years ending in December 2026. The Permit with EMS is on approximately 261 acres of POLA property at Pier 300. The terminal operations include maintenance and repair facilities, on-dock rail services, service berths, wheeled and grounded operations, and an integrated system for vessel, rail and gate operations. EMS is a terminal operating subsidiary of the shipping line American President Lines (APL). APL is a member of a six-member global shipping alliance (called G6 Alliance) of shipping line vessel operators. These six leading container shipping lines create one of the largest vessel partnerships in order to share vessel space, increase efficiency and reduce supply chain costs. According to the Port, the movement of containerized cargo vessels through the POLA supports thousands of direct and indirect jobs in Los Angeles and the five-county regions.

## **PROPOSED EIGHTH AMENDMENT TO EMS**

The Port states that container vessels which call at the POLA are normally separated into seven different categories ranging from small container vessels to ultra-large container vessels. The mega ships have a capacity to carry 14,500 TEUs or more cargo containers on the ship. Benjamin Franklin is currently one of the largest container vessels in the world, with a capacity to carry up to 18,000 TEUs. The ship is about a third larger than the biggest container ships that currently call at the POLA. The Benjamin Franklin made its first successful vessel call to the POLA's Pier 400 in December 2015 and its first call to the EMS container terminal at Pier 300 in April 2016. The Port states that the vessel call by Benjamin Franklin to the EMS terminal generated \$612,177 in additional revenue for the POLA.

The Port states that it works with these and other carriers by developing various programs and incentives for participating shipping line tenants to maintain and improve their businesses at the POLA in the areas of intermodal (ship, rail and truck) containerized cargo and the import and export of merchandise. The Port states that the increasing size and capacity of the cargo containers and vessels presented infrastructure and logistical issues that the POLA and terminal operators had to plan for and resolve. Those issues included deployment of skilled labor and infrastructure, such as rail and truck transport, to efficiently load, unload and move cargo from the wharves into the delivery chain without creating congestion. The Port has successfully improved its capacity to handle ships of all current sizes.

The Port requests to provide a one-time credit to CMA-CGM and EMS to assist them with the deferral of costs in bringing the Benjamin Franklin to the POLA. The Port and EMS agreed that EMS would apply the one-time credit (or incentive) amount of \$99,354 toward a one-month rental payment. The incentive includes a one-time credit or cost reduction of \$29 dollars per loaded cargo container for each container under the operation of CMA CGM or its affiliates. The proposed cost reduction to the Port will include a total one-time credit amount of \$99,354. The one-time credit, divided by the \$29 dollars per container, will equal a total of 3,426 loaded containers. The incremental cargo containers moved by Benjamin Franklin through the EMS terminal would generate revenue of \$612,177, less the \$99,354 credit, would result in a net revenue gain of \$512,823 for the POLA. The Port states that it is not obligated to provide incentives to EMS and CMA CGM, but believes that the POLA and EMS would be able to improve the relationship with current and other potential customers (such as shipping lines, vessel sharing alliances and tenant operators.)

## **CITY COMPLIANCE ISSUES**

The City Attorney has approved the proposed Amendment as to form and legality. The proposed action is approval of an Eighth Amendment to provide a one-time rent credit to assist EMS with costs associated with bringing the Benjamin Franklin to Pier 300 terminal of EMS. In accordance with Charter Section 606, the Council must approve the proposed contract amendment since the term of the Permit exceeds five years. The Port Director of Environmental Management has determined that the proposed action is an Amendment to the existing Agreement and an administrative activity and is therefore exempt from the requirements of the California Environmental Quality Act (CEQA) under Article II, section 2(f), of the Los Angeles City CEQA Guidelines.

## **RECOMMENDATION**

That the Mayor:

1. Approve Harbor Department (Port) Board of Harbor Commissioners Resolution No. 16-7957 authorizing the proposed Eighth Amendment to Permit No. 733 with Eagle Marine Services, Ltd, to provide a one-time credit to EMS in the amount of \$99,354, and
2. Return the document to the Port for further processing, including Council consideration.

## **FISCAL IMPACT STATEMENT**

Approval of the Harbor Department (Port) request to amend Permit No. 733 with Eagle Marine Services (EMS) will provide a one-time credit or incentive to EMS in the amount of \$99,354, to be applied toward a one-month rental payment. The vessel call by the Benjamin Franklin generated an additional revenue amount of \$612,177 for the POLA. The generated revenue to the EMS of \$612,177, less the \$99,354 credit, would result in a net revenue gain of \$512,823 for the POLA. The incremental number of containers generated total revenue of \$612,177, less the \$99,354 credit, resulting in a net gain of \$512,823 in generated revenue. The Port states that it is not obligated to provide incentives to EMS and CMA CGM, but believed that the POLA and EMS would be able to improve the relationship with current and other potential customers.

## **TIME LIMIT FOR COUNCIL ACTION**

Pursuant to Charter Section 606, "Process for Granting Franchises, Permits, Licenses and Entering Into Leases," and the Los Angeles Administrative Code Section, "Limitation and Power to Make Contracts," unless the Council takes action disapproving a contract that is longer than five years within 30 days after submission to Council, the contract will be deemed approved.