

## Water Carriers Working Group

Small Group: Sustainability and Profitability

Meeting Memory January 28, 2021

### Contact List

- Mary Alice Evans , Office of Planning, [REDACTED]
- Christopher Edwards | Director of Finance and Treasurer Young Brothers, LLC; [REDACTED]; Pier 40; 1331 N. Nimitz Hwy; Honolulu, HI 96817; [REDACTED]
- Anand Samtani - [REDACTED]
- Jeffrey K. Akamine; Engineer III (PUC); [REDACTED]
- Mike Victorino Jr. (ILWU), [REDACTED]
- Stevette Santiago YB [REDACTED]

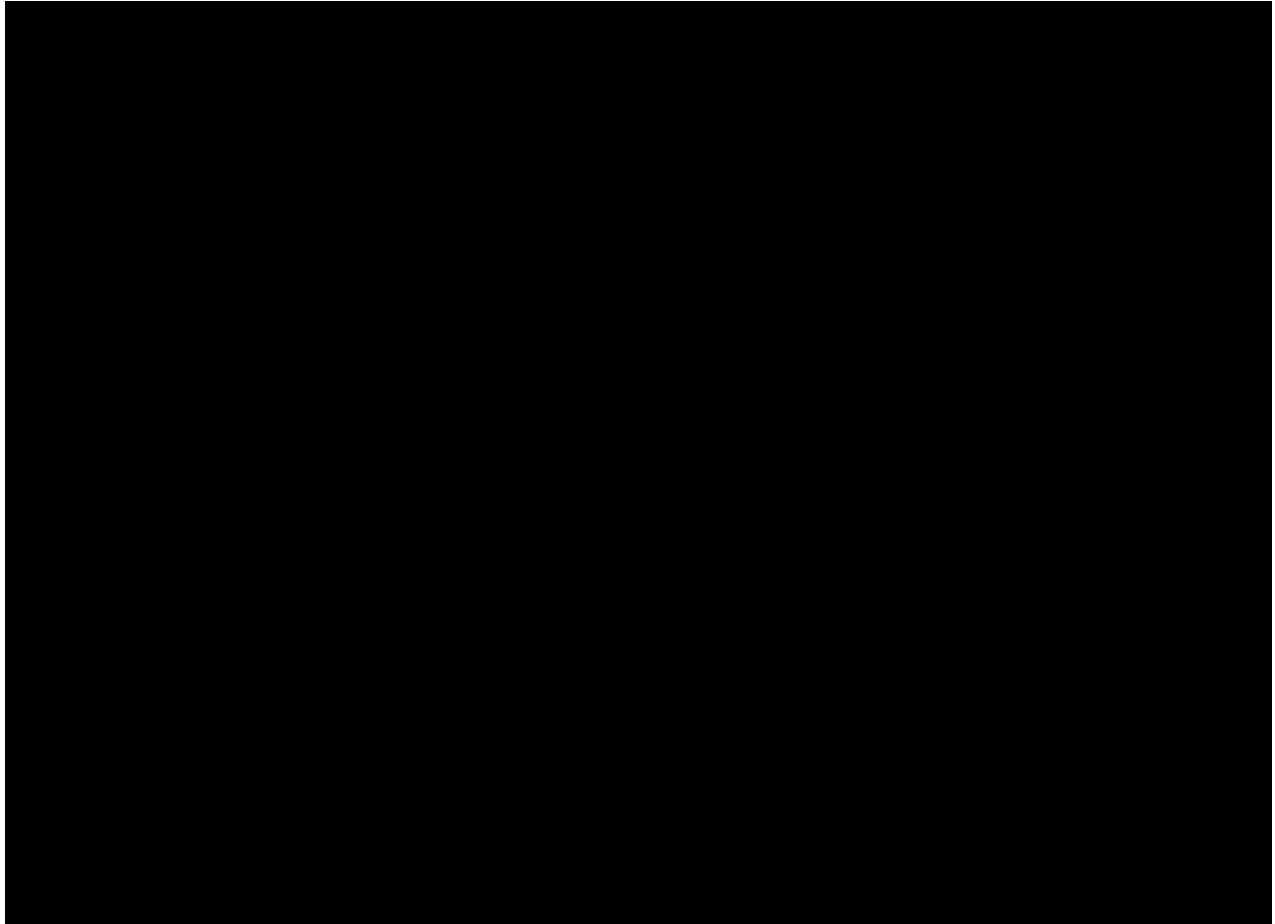
### Added (1/28) new attendees

- Jesse Andrade: ILWU Member/Unit 4209 Chair: International Longshore and Warehouse Union, Local 142; [REDACTED]
- William "Baba" Haole IV: Division Director of Hawaii Longshore Division International Longshore and Warehouse Union, Local 142; [REDACTED]
- Kris Nakagawa: Vice President of External and Legal Affairs: Young Brothers LLC; [REDACTED]
- Naomi Landgraf: District Representative – Maui (PUC); [REDACTED]

### Agenda:

- 1) Intro
- 2) Define a goals
- 3) Brainstorming to reach goals

### Attendees



**Conversation:**

**1) Defining Goals**

- What will it take to restore YB back to a sustainable health without sacrificing employees
- Baba
  - There are things that YB can be looking in to increase profits like a rate increase
- Stevette
  - Also need to consider the customer in the process
- Chris Edwards
  - What would YB need to catch up with its bill payments?
  - Increasing rates to keep up with rising costs: from labor, supplies, overhead,
  - Looking at intra-state shipping down 20% since beginning of COvid-19
  - Specific islands being supported by other routes
  - How to make LCL profitable?
  - Container customers are subsidizing by paying more and it will drive other customers somewhere else

**2) Brainstorming to reach goals**

- Chris Nakagawa

- Non-profitable routes and customers
- Mary
  - Hawaii fresh discount off shift cost load to container customers
- Baba
  - LCL Cargo like 1 or 2 items is difficult to make more profitable and costs YB a lot.
- Jeff
  - Matson offers something similar to PODs moving container could YB offer something like this? Having LCL be handled offsite in this manner might have cost benefit.

Missing responses describing how YB currently offers that type of service and freight-forwarding companies and moving companies operate in concert with YB to do this.

- **Create a subsidy for the less profitable activities**
- **Make the unprofitable activities more efficient**
- Baba(ILWU)
  - Shipping under the radar other container ships are shipping inter-island without any regulation from PUC
- Jeff (PUC) If the unprofitable routes are Lanai and Molokai can YB use Maui as a hub for Lanai and Molokai instead of having to travel all the way to Oahu? It seems like more cargo is currently going from Oahu to Lanai and Molokai than there is cargo coming from them to Oahu.
- Lanai Molokai
  - What percentage is perishable and non perishable
- Jesse
  - If YB missed a shipment route then grocery shelves would be empty
- Jeff(PUC)
  - Why are the inter-islands shipping their agricultural products to Oahu if they can't fill their food shelves?
- Jesse
  - It is for products like eggs and milk how are you going to get that?
- Chris Edwards
  - Lanai Molokai What percentage is perishable and non perishable
  - Sometimes the inefficiencies arise because of poor tetris-ing and not from a lack of shipping load.
- Mike
  - They were doing multiple stops loading at Honolulu can load one barge with multiple port destinations
- Naomi(maui PUC)
  - Does YB have any thing internally to increase efficiency like reducing touch points.

## Meeting Summary

### Path 1

Create a subsidy for less profitable activities. And tenably a subsidy for all inter-island goods that aren't profitable but vital for survival such as eggs and milk.

- Pump more money in from State or federal or allow YB to change the rates specifically targeting these goods
- Offset internally the cost of these services with charging more for container forwarding which is what is profitable
  - Key deterrent is container only shippers get snipped by companies because it is too expensive to work with YB so they choose a different ship.

### Path 2

Make the unprofitable activities more efficient

- Use alternate hub to serve least profitable routes Oahu direct Molokai and Oahu direct Lanai
  - What is more expensive (cost of labor) or (cost of fuel + ship wear and tear)?
  - This would add more touches and complicates logistics because destination Cargo would have to be split between perishable and non-perishable. Refrigerated and non-refrigerated containers, LCL, live stock etc all benefit from spending less time at sea and in Young Brothers hands.
- Ships in the past would make multiple stops around Maui County, also at two ports on the Big Island
- Reduce the amount of offloading and movements required to get a container from point of origin to destination

## Water Carriers Working Group

Small Group: Sustainability and Profitability

Meeting Memory February 4, 2021

### Contact List

- Mary Alice Evans , Office of Planning, [REDACTED]
- Christopher Edwards | Director of Finance and Treasurer Young Brothers, LLC; [REDACTED]; Pier 40; 1331 N. Nimitz Hwy; Honolulu, HI 96817; [REDACTED]
- Anand Samtani - [REDACTED]
- Jeffrey K. Akamine; Engineer III (PUC); [REDACTED]
- Mike Victorino Jr. (ILWU), [REDACTED]
- Stevette Santiago YB [REDACTED]
- Jesse Andrade: ILWU Member/Unit 4209 Chair: International Longshore and Warehouse Union, Local 142; [REDACTED]
- William “Baba” Haole IV: Division Director of Hawaii Longshore Division International Longshore and Warehouse Union, Local 142; [REDACTED]
- Kris Nakagawa: Vice President of External and Legal Affairs: Young Brothers LLC; [REDACTED]
- Naomi Landgraf: District Representative – Maui (PUC); [REDACTED]

### Added (2/4) Needs emails for attendees

- David Veltri [REDACTED]
- Zachary Harris [REDACTED]
- Corey Robertson [REDACTED]

### Agenda:

- 1) Review last meetings discussion
- 2) Continue fleshing out current situation and identifying paths forward
- 3)

Attendees

SR 125 - Group: Sustainability and Profitability (Part II) Chat Files Details +

Accepted

February 4, 2021 1:00 PM - 2:30 PM

Microsoft Teams Meeting

\*\*\*placeholder\*\*\*

Microsoft Teams meeting

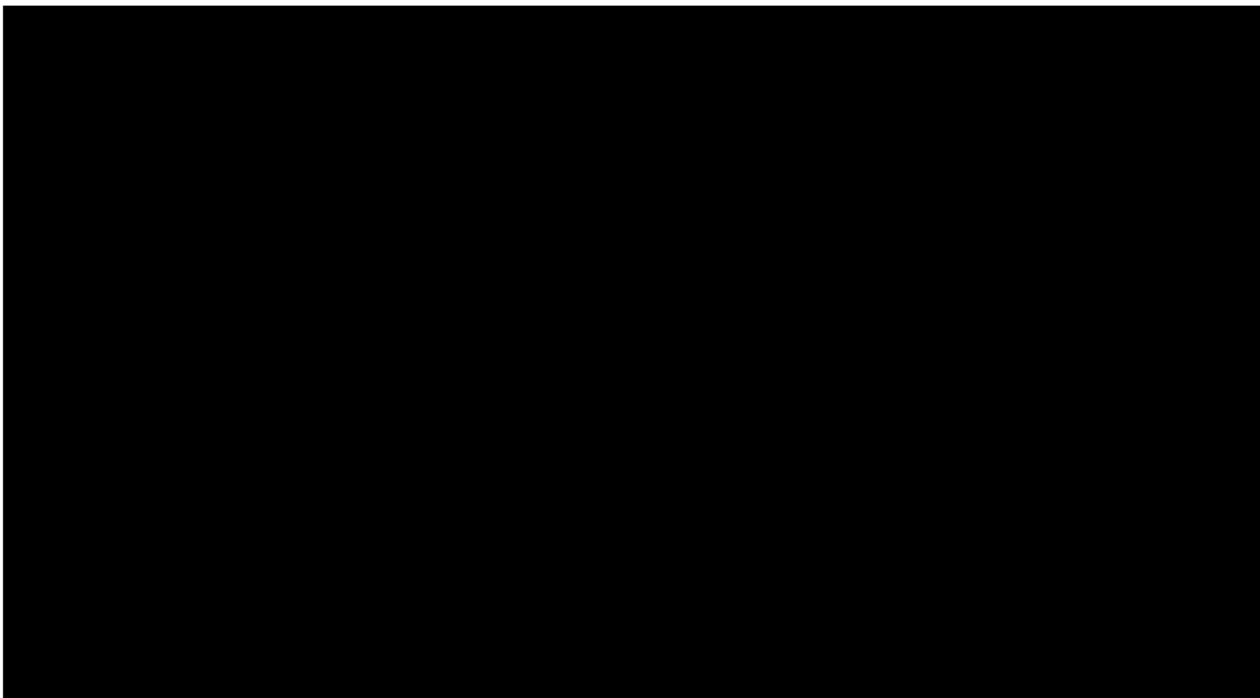
Join on your computer or mobile app

[Click here to join the meeting](#)

[Learn More](#) | [Meeting options](#)

**Tracking**

- CE Chris Edwards Organizer
- JA Akamine, Jeffrey K Accepted
- WI William Baba Haole IV Unknown
- MS Samitani, M.Anand Unknown
- M [Redacted] Unknown
- SS Stevette Santiago Unknown
- ME Evaris, Mary Alice Unknown
- NL Landgraf, Naomi N Unknown
- KN Kris Nakagawa Unknown
- JY Jesse VB Unknown



Mary: Review of last weeks meeting

Chris Edwards: we talked about a profitability concept and how that relates to an independent financial outlook from lenders and parent company.

Jeff: Would utilizing smaller barges to specialize in the low volume shipments and the least profitable routes help, maybe something focusing with roll on and roll off capability because reduction of Cargo touches was discussed.

Jesse: At Kaunalapau, Lana'i part of that strategy is already being used with AMS 250, KRS 286 roll on roll off capability smaller barges specifically to serve the smaller shipments to Molokai and Lanai.

Mary: History of supplementing unprofitable routes by balancing the costs by offsetting with profitable routes.

Chris Edwards: Filed for rate increases in 2018, cost increased but during those years it did not incrementally increase and the current ask is a catchup for the last five years.

Mary: Did Matson and Pasha have a rate increase?

Chris Edwards: Generally, Matson and Pasha have been able to have rate increases about 20% over the last 5 years:

Zachary Harris: On average matson and pasha have been increasing rates 5-6.5% annually, for variable costs, fixed inflationary increases, labor related costs. Union related and labor related contractual costs have been increasing by 3% each year. YBs costs is about 70% for labor, and it was footed mostly by AFRA. Similar to HECO we need something like the RAM adjustments they use.

Kris Nakagawa: Matson and Pasha have the flexibility to increase their rates,

Jesse: Does labor costs include the equipment used as well? Tugs, etc.

Chris Edwards: No, those are separate line item costs.

Chris Edwards entered fact correction email 2/9/2021:

The information presented in YB's rate case, and the union labor (IBU/ILWU) and related costs are approximately 60% instead of the 70% mentioned in the meeting. In Docket No. 2019-0117, page 31 of 48 in the direct testimony of Chris Edwards (YB T-7) shows total labor as 59.1% of total operating expenses.

Here's the table:

Operating Expense Summary (in 000's)	2017	2018	2019	2020
	Actual	Actual	Forecast	Budget
Total Labor <sup>A</sup>	\$ 47,214	\$ 55,055	\$ 57,598	\$ 62,499
Total Non-Labor <sup>B</sup>	41,809	48,621	46,427	43,241
<b>Total Operating Expense</b>	<b>\$ 89,023</b>	<b>\$ 103,676</b>	<b>\$ 104,025</b>	<b>\$ 105,740</b>
<b>Labor Ratios</b>				
Labor as % of Total Operating Expense	53.0%	53.1%	55.4%	59.1%

#### NOTES

A - Labor is comprised of Wages, Payroll Taxes, and Contributions, Welfare Plans expense for Cargo Handling, Maintenance and Voyage.

B - Non-Labor equals total Cargo Handling, Maintenance & Voyage expense less Labor.

The intent was to highlight that Young Brothers is inherently different from HECO regarding its cost structure.

While HECO has other types of fixed costs (generation, transmission, distribution) that outweigh labor costs, Young Brothers is a labor intensive company with a limited amount of fixed costs, comparatively. This is especially true when the administrative and general labor costs are included, which would

increase the overall labor costs to approximately 66% of total operating expenses (page 34 of the testimony shows the A&G wages, payroll tax & fringe amount).

\*\* missing discussion pieces

Naomi: To clarify, is YB stating that out of the 70% cost the ILWU associated fees and contracts as the lowest cost on the totem pole?

Kris Nakagawa: 20 years ago were able to use most profitable routes to help least profitable right now we are giving IAP 30% of income and also subsidizing local producers to send inter-island Island Ag Products. Young Brothers have been keeping the marketplace going

David Veltri: To clarify the customers of Young Brothers have been creating the environment and providing the subsidy to create this system

Mary: Would an unregulated market allow Young Brothers to stay in business?

Chris Edwards: One of the models was run was to charge market prices for LCL. The pricing is so cheap for Young Brothers for LCL that customers are willing to line up for hours waiting to get cargo on barges

Anand: What would be price differential for market price vs PUC regulated price for LCL?

Chris Edwards: It would cost \$60 to ship a dryer with Young Brothers whereas other services cost \$120. But YB would have to perform a full survey for items.

Jesse: What type of increases would market price increases include? If you implemented that to make YB affordable.

Chris Edwards: across the board the reduction of volume is hurting Pac lines and freight forwarding required a 20% shipping rate increase to stay afloat for Stop and Transit (SIT)

Mary: Pahsha and Matson can only forward items from the mainland. Do local businesses have the option to transport goods grown or built in Hawaii to use Matson and Pasha?

Kris Nakagawa: They are supposed to use only young brothers for goods made in Hawaii

Mary: If it is not able to be policed does that mean local producers have been shipping full containers and going around YB?

Chris Edwards: No not necessarily, we are mostly looking at Big Box stores like Costco and Home Depot. In Hawaii

Mary: Is this a fair statement? That the changes in the market and changes in the economy have contributed to the decline in YB in the last 20 years?

Chris Edwards: Yes.

Mary: Is it possible from a regulation side to help contribute to bringing YB back to profitability

Anand: Yes, there is. Looking at the 70% labor cost which is looked at as a fixed cost there isn't a lot that can be done. But the variable costs is where we can potentially look toward for savings opportunities.



Chris Edwards: Under a market environment with similar volumes to pre-covid times with tourism in full swing it was profitable because the system that was built and maintained to keep consistent arrivals and loading. (The system was tuned for a specific flow of goods, if something is done to tune it for the current flow who is to say that when we return to previous volumes that it then would make even more shortfalls).

Mary: (missed, convo)

Chris Edwards: synopsis (it is like a conveyor belt system) cannot really treat a barge or port as a standalone system because when one vessel finishes loading the port has to prep for the next arrival offloading and so on to make that vessel ready for its loading and next sailing, this is especially true for Oahu. {recorder's side note: is this consistent across all islands?}

Chris Edwards: YB benefits from an imperfect little monopoly on unprofitable cargo,

Mary: Didn't one of the mainland carriers have approval to move Hawaii goods?

Group Answer: Pasha had a temporary approval to move goods until 2013. Reference docket 2009-0059, during which Young Brothers acted as Intervenor to Pasha's Hawaii Transport Lines LLC division.

<https://dms.puc.hawaii.gov/dms/index.jsp> search for 2009-0059

Mary Evans: Is pasha and Matson regulated by the Freight Maritime Commission (FMC) or some other entity to operate?

Kris Nakagawa: Matson and Pasha have Freight Traff 60 that is regulating {this is what allows them to ship mainland originating goods between islands and potentially ship LCL generated by freight forwarders and moving companies for residential customers specifically addressing cargo between Honolulu, and the ports of the islands of Hawaii, Maui and Kauai.}

[Matson Navigation v. Hawaii Pub. Util. Com'n, 742 F. Supp. 1468 \(D. Haw. 1990\) :: Justia](#)

In summary:

Chris Edwards: What is our deliverable to the larger group?

Mary Evans: Have to check in

Unspecified attendee: Rate adjustments and rate making

Jesse: To answer Jeffs question regarding the conveyor belt, there are other group meetings taking a specific look at operations to improve what can be changed without affecting reliable time tables and consistent schedules.

Jeff: Maybe create a specific list of items that YB is being asked to transport at a loss and make a list to suggest to the legislature to subsidize those specific producers and goods to go along with allowing YB to charge Market Rate for transporting those goods.

Chris Edwards: There is a lot of information that YB has available on the goods being shipped between Islands.