WATER CARRIERS WORKING GROUP – SUB-COMMITTTE ON RATES

February 25, 2021

Approved minutes from February 12, 2021 meeting

Recapped discussion on Rate Setting from prior meeting

- Possibility to reinstate AFRA (or similar interim adjustment program) as a short-term solution that could be implemented now (low-hanging fruit)

  Majority of the small group agreed that an interim rate adjustment mechanism is needed for the water carrier to remain sustainable and profitable, but another member cautioned that there must be a reasonable nexus to justify increases to specific lines (or as a whole) so that the water carrier wouldn't be given unfettered authority to use this rate tool indiscriminately. There needs to be accountability in adjusting rates.

- LCL to remain regulated or deregulate and re-price at market

  No consensus was reached on this topic as some ports simply do not have the volume nor consolidation alternatives to make deregulation feasible. Types of regulated cargo may need to be looked at on a port-by-port basis if this is going to be a viable solution.

Continued discussion on Rate Setting

- Price individual routes separately or price on the sustainability/profitability as an entire operation (i.e. standalone or subsidized model)

  If we try to price the sustainability/profitability as an entire operation, then we are in the same position as we are today. Might be better to price routes separately based on their sustainability/profitability by route and then look for subsidies (or federal assistance) to make up the difference on negative earners.

  Currently there's a cross-subsidy structure: unregulated cargo, autos, and regulated on the profitable routes help carry the regulated unprofitable cargo. (YB shared link to tariff 5A – Local-Tariff-No.-5-A-Effective-09.01.2020.pdf (htbyb.com) covering commodity types and pricing by port).

  Cost of service docket covers the whole of operations. Difficult to decouple individual routes in terms of profitability.

- Maintain current weekly routes (Maui 3x, Kauaʻi 2x, Kawaihae 2x, Hilo 2x, Molokaʻi 2x, and Lānaʻi 1x) or allow alternative route scheduling

  Consider reducing some of the existing fixed-routes and replace with modified fixed-route and flex-route schedules. Routes are established by Commission order (rule based), not by statute.

Consumers need predictability for supply-chain needs. Might need added warehouse space to store cargo between shipping dates if sailings are reduced.

During disasters/emergencies, what happens to regular shipping schedules when having to move equipment and supplies for disasters? Need policy on how regular intrastate cargo moves while carrier also attends to the emergency needs of each affected area.

Tradeoff on the number of routes vs. level of efficiency. Pricing is higher when less efficient.

While reduced sailings have created increased daily burdens when delivering higher volume, the efficiencies that may have been lost in a day are borne out over a week of operations.

- Suggestions on Agricultural and Livestock pricing beyond the current 30% discount (subsidies, tax credits, higher prices for other cargo, etc.)

  Current discounted prices are established by tariff and approved by HPUC.

  Some Ag products are inelastic in their pricing due to competition from mainland produce. Despite "buy local" advertising, consumers are only willing to pay so much for local produce. O'ahu is greatest market within Hawai'i due to population.

Draft of Status Report

- Steve Hunt provided a partially completed WCWG Small Group Status Report for discussion and editing
- Made initial edits through group discussion and consensus
- Sent out revised draft to group members for further refinement and suggestions with a due date on March 9th

Next Meeting – March 12, 2021 8:30 – 10:00 am