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0150-12405-0000

T R A N S M I T T A L

TO Eugene D. Seroka, Executive Director Harbor Department	DATE 09/01/2023	COUNCIL FILE NO.
FROM The Mayor	COUNCIL DISTRICT 15	

**RESOLUTION NOS. 23-10188 AND 23-10189 AND PROPOSED
OWNERSHIP TRANSFERS AND GUARANTEES FROM OCEAN NETWORK EXPRESS
HOLDINGS, LTD. AND OCEAN NETWORK EXPRESS PTE. LTD.
UNDER PERMINT NO. 881 WITH TRAPAC, LLC**

Approved and transmitted for further processing including Council consideration.
See the City Administrative Officer report attached.


MAYOR
(Chris Thompson for)

Attachment
MWS/PJH/YC/JVW:SHF:10230205t

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: June 29, 2023

CAO File Nos. 0150-12404-0000
0150-12405-0000

Council File No.
Council District: 15

To: The Mayor

From: *Yolanda Chavez*
for Matthew W. Szabo, City Administrative Officer

Reference: Correspondence from Los Angeles Board of Harbor Commissioners (Board) dated May 25, 2023 regarding May 25, 2023 Board Resolutions; referred by the Mayor for report on May 25, 2023

Subject: **RESOLUTION NOS. 23-10188 AND 23-10189 AND PROPOSED OWNERSHIP TRANSFERS AND GUARANTEES FROM OCEAN NETWORK EXPRESS HOLDINGS, LTD. AND OCEAN NETWORK EXPRESS PTE. LTD. UNDER PERMIT NO. 881 WITH TRAPAC, LLC**

RECOMMENDATIONS

1. Approve Los Angeles Harbor Department (Port) Resolution No. 23-10188 authorizing approval and consent to the transfer of 49 percent ownership of TraPac, LLC (TraPac) under Permit No. 881 (Permit) to the Skipjack entities, and ratification of the 2022 transfer resulting from a repurchase of a 49 percent interest in TraPac that was held by Brookfield Asset Management, Inc.;
2. Approve the Port Resolution No. 23-10189 authorizing approval and consent to the transfer of 51 percent ownership of TraPac under the Permit to United Pacific Ports B (UK) Ltd., and approval of terminating the existing guaranty and the proposed guarantees furnished by Ocean Network Express Holdings, Ltd. and Ocean Network Express Pte. Ltd.;
3. Adopt the May 25, 2023 Board of Harbor Commissioners findings that the proposed actions are administratively and categorically exempt from the requirements of California Environmental Quality Act (CEQA) under Article II Section 2(f) and Article III Class 1(14) of the Los Angeles City CEQA Guidelines; and
4. Authorize the Port Executive Director, or designee, to execute the proposed agreements, already approved as to form by the City Attorney, and return the Resolutions to Port for further processing, including Council consideration.

SUMMARY

The Los Angeles Board of Harbor Commissioners (Board) requested approval of its May 25, 2023

Resolution Nos. 23-10188 (Attachment 1) and 23-10189 (Attachment 2) authorizing approval and consent to the transfers of ownership of TraPac, LLC (TraPac) under Permit No. 881 (Permit) with Los Angeles Harbor Department (Port); approval of the termination of the existing Permit guaranty furnished by Mitsui O.S.K. Lines, Ltd. (MOL); and approval of the proposed guarantees furnished by Ocean Network Express Holdings, Ltd. and Ocean Network Express Pte. Ltd. (ONE). The transfers will change the ownership of TraPac from 100 percent owned by MOL to 51 percent by ONE and 49 percent by Macquarie Infrastructure Partners Inc. (MIP)

The proposed transfers of ownership and new guarantees have been approved as to form by the City Attorney. Pursuant to Section 14 under the Permit, a transfer of more than 25 percent of the economic interest in TraPac constitutes a transfer and requires the Board's consent and must also be approved by Council. Our office has reviewed the requests and recommends approval.

BACKGROUND

TraPac is a container terminal operator at Berths 136-147 of the Port of Los Angeles (POLA) under the 30-year Permit, as amended, through September 28, 2039. Currently, TraPac is 100 percent owned by International transportation, Inc. (ITI), which is 100 percent owned by MOL, a Japanese shipping line. The existing guaranty for the Permit is furnished by MOL.

ONE, a Singapore private limited company, is a subsidiary of Ocean Network Express Holdings, Ltd., a Japanese corporation. ONE was founded in 2017 as a joint venture, which integrated the container shipping business of Nippon Yusen Kabushiki Kaisha, Ltd. (NYK), MOL, and Kawasaki Kisen Kaisha, Ltd. (K Line). The company was formed as part of a larger process of consolidation that was occurring in the container shipping industry at that time.

Transfer of Minority Interest (Port Resolution 23-10188) – Skipjack Terminal Holdings, L.P. and Skipjack (ECI) Holdings, LLC are two private funds managed and controlled by MIP, an indirect subsidiary of Macquarie Group Limited (MGL). On May 25, 2023, the Board approved and consented to the acquisitions by the two Skipjack entities, which resulted in the transfer of 49 percent aggregate of the direct and indirect ownership of TraPac under the Permit from MOL and ITI to MIP. The Board also approved the ratification of MOL's repurchase of 49 percent ownership interest in ITI from Brookfield Asset Management, Inc. in 2022

Transfer of Majority Interest and New Guarantees (Port Resolution 23-10189) – United Pacific Ports B (UK) Ltd. (UPP), a United Kingdom private limited company, is a wholly owned subsidiary of ONE. On May 23, 2023, the Board approved and consented to the transfer of partial ownership of ITI from MOL, which translates to 50 percent ultimate indirect ownership interest in TraPac, to UPP; and approved to replace the existing guaranty furnished by MOL with the proposed guarantees furnished by Ocean Express Holdings, Ltd. and ONE (the new guarantors).

Ultimate Ownership Composition – If both Port's Resolutions described in this report are approved, ONE through its subsidiary UPP will hold indirect 51 percent interest in TraPac and the MIP-controlled Skipjack entities will hold, in aggregate, the remaining 49 percent direct and indirect interest in TraPac.

New Guarantees - The Port's finance staff has reviewed the financial information pertaining to Ocean Network Express Holdings, Ltd., ONE as well as MOL for the most recently available three fiscal years. Port staff has observed that ONE was more liquid, less leveraged as well as more profitable relative to MOL as of March 31, 2022. Securing an additional guarantor beyond ONE provides further financial capability to pay obligations under the Permit. Port staff determined that the proposed guarantees furnished by the new guarantors are more favorable to the Port than the existing guaranty furnished by MOL under the Permit.

All remaining terms and conditions of the Permit and terminal operations remain unchanged under the proposed actions. TraPac will remain the tenant under the Permit. The proposed actions are not expected to affect TraPac's day-to-day terminal operations at the POLA.

It is noteworthy that Ocean Network Express Holdings, Ltd. and ONE are also the proposed new guarantors in connection with the ownership transfer under Port's Permit 692 with Yusen Terminals LLC. Port's staff assessed the companies' financial resources in the context of the collective liabilities and determined that they appear to possess a reasonable level of financial wherewithal to serve as guarantors under both permits.

CITY COMPLIANCE

The City Attorney has reviewed and approved the proposed transfers of ownership of TraPac under Permit No. 881, the termination of the existing guaranty furnished by MOL, and the proposed guarantees furnished by Ocean Network Express Holdings, Ltd. and ONE as to form. Pursuant to Charter Section 606, Council approval is required because the permit term exceeds five years.

California Environmental Quality Act (CEQA) – On May 25, 2023, the Board determined that the proposed actions are administratively and categorically exempt from requirements of the CEQA in accordance with Article II Section 2(f) and Article III Class 1(14) of the Los Angeles City CEQA Guidelines.

FISCAL IMPACT STATEMENT

The proposed transfers of ownership and guarantees do not have any additional fiscal impact. The minimum annual guaranteed compensation obligations under the Permit remains to be approximately \$40.9 million. As of the most recently completed fiscal year, Port staff observed that key liquidity, leverage and profitability metrics of the new guarantors are stronger relative to the existing guarantor. There is no impact on the City's General Fund. The recommendations in this report and proposed actions comply with the Port's Financial Policies.

Attachment 1 – May 25, 2023 Harbor Board report, Resolution 23-10188

Attachment 2 – May 25, 2023 Harbor Board report, Resolution 23-10189