



Executive Director's  
Report to the

Board of Harbor Commissioners

**DATE: DECEMBER 13, 2013**

**FROM: FINANCE**

**SUBJECT: ORDER NO. \_\_\_\_\_ - PROPOSED SALE OF 49% OF INTERNATIONAL TRANSPORTATION, INC., A DELAWARE CORPORATION, THAT OWNS 100 PERCENT OF TRAPAC, INC., A TENANT OF THE CITY OF LOS ANGELES HARBOR DEPARTMENT, TO BIF II TP AGGREGATOR (DELAWARE), L.P., A SUBSIDIARY OF BROOKFIELD ASSET MANAGEMENT, INC. AND SOLELY CONTROLLED BY IT**

**SUMMARY:**

Proposed is a request to provide consent to the sale of 49% of the ownership of International Transportation, Inc., a Delaware corporation (Tenant Holdco) that is currently a wholly owned subsidiary of the Mitsui O.S.K. Lines, Ltd. (MOL), to an entity (Transferee) legally known as BIF II TP Aggregator (Delaware), L.P., a Delaware limited partnership, a subsidiary of and controlled solely by Brookfield Asset Management, Inc., a Canadian corporation.

TraPac, Inc. (TraPac or Tenant), a wholly owned subsidiary of Tenant Holdco, initiated this request. With Trapac's ultimate parent, MOL, remaining unaffected and with the parent's existing guarantee untouched, the risk position of the City of Los Angeles Harbor Department (Harbor Department) continues unchanged.

**RECOMMENDATION:**

It is recommended that the Board of Harbor Commissioners (Board):

1. Approve the Order to consent to the sale of 49% of the ownership of International Transportation, Inc.
2. Authorize the Executive Director to execute and the Board Secretary to attest to the Order to consent to the sale; and
3. Authorize and direct the Board Secretary to transmit to the Los Angeles City Council for approval pursuant to Section 606 of the Charter of the City of Los Angeles the consent to the proposed transfer of 49% of the issued and outstanding shares of International Transportation, Inc., the holding company that owns TraPac, Inc., the tenant of the Harbor Department under Permit No. 881, as amended; and
4. Adopt Order No. \_\_\_\_\_.

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**DISCUSSION:**

Background/Context – Under Permit No. 881 (Permit) as amended dated September 29, 2009, the City of Los Angeles through the Board of Harbor Commissioners of the Port of Los Angeles granted to TraPac, the ability to operate through September 28, 2039 on the property specified under the Permit. TraPac operates at the northern end of the West Basin at Berths 136-147.

TraPac is a terminal operator that is wholly owned by Tenant Holdco, which in turn is wholly owned by MOL. MOL was founded in 1964, the result of a merger but has its roots going back to 1884. Originally part of the Mitsui trading group (known as a *zaibatsu*), it is now aligned with the Mitsui Sumitomo Group (known as a *keiretsu*), one of the largest business groups within Japan, with interlocking business relationships and shareholdings among other companies within the group.

Rights Under Permit – The Permit contains a provision for TraPac to obtain consent to transfer. Based on that provision, TraPac has requested that the Harbor Department consent to the sale of a minority share of Tenant Holdco to the Transferee owned by Brookfield Asset Management. Under Section 14.2 of the Permit (Attachment 1), if a transfer of shares takes place, the Tenant must provide to the City of Los Angeles (City) written notice at least thirty days before the proposed effective date of the transfer. Unless the City consents to that transfer in accordance with the procedures outlined in Section 14.2.1 of the Permit, the proposed acquisition of 49% of Tenant Holdco, would be prohibited. The Tenant has fulfilled the terms specified under Section 14.2 through its letter dated December 2, 2013 (Attachment 2). Further, in its letter and the associated Annex A, the Tenant has fulfilled the information requirements under Section 14.2.1.

Section 14.3 of the Permit sets forth a variety of factors including financial condition of the Transferee, any impact to the plans of the Harbor Department, and the character, experience and reputation of the Transferee to be considered in granting any consent and that the City will not unreasonably withhold its consent to a transfer. Staff has reviewed the information related to the factors and recommends consent.

Risk Considerations – Under the proposed sale, the Transferee will hold 49% of Tenant Holdco. The sale is a cash transaction purchasing existing shares with no new shares being issued. The Transferee will be a subsidiary of Brookfield Asset Management and be solely controlled by it. Brookfield Asset Management is a Canadian corporation that is listed on the Toronto and New York stock exchanges. The company has over \$175 billion of assets under management and has a 100-year history of owning and operating assets with a focus on property, renewable power, infrastructure, and private equity. However, as no special rights are contained in such ownership, the Transferee will hold a minority position in Tenant Holdco with no managerial control. MOL will continue in its guaranty (Attachment 3) of the timely payment and performance of all obligations of the

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**PAGE 3 OF 4**

**SUBJECT: SALE OF 49% OF INTERNATIONAL TRANSPORTATION, INC. TO A  
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Tenant arising under the Permit and MOL's obligations will continue until all debts, obligations and liabilities of the Tenant to the City under the Permit are paid and performed in full. Given such guaranty, the Harbor Department's risk position remains unchanged.

From Brookfield Asset Management's perspective, the full guarantee of MOL is also important as the return on the cash injection it is providing to MOL depends heavily on the shipping line's ability to maintain and increase container volume. In this respect, the risks of the Transferee and the Harbor Department align. Any payment of dividends will be determined by the board of directors of TraPac and be paid pro-rata to the shareholders.

**ENVIRONMENTAL ASSESSMENT:**

The proposed action is to provide consent to an Order to allow the sale of 49% of Tenant Holdco to the Transferee with no change in business operations. As an administrative activity, the Director of Environmental Management has determined the proposed action is exempt from the California Environmental Quality Act (CEQA) in accordance with Article II, Section 2 (f) of the Los Angeles City CEQA Guidelines.

**ECONOMIC BENEFITS:**

This Board action will have no direct employment effect.

**FINANCIAL IMPACT:**

The Harbor Department expects no fiscal impact if the consent is provided and executed. With no change in how business is operated at TraPac and with the continuing guarantee of MOL, it is expected that, at the minimum, over the course of the life of the permit that volumes and, as a result the associated revenues, will continue to meet what is currently being contemplated with TraPac.

**CITY ATTORNEY:**

The proposed Order is subject to approval as to form and legality by the Office of the City Attorney.

DATE: DECEMBER 13, 2013

PAGE 4 OF 4

SUBJECT: SALE OF 49% OF INTERNATIONAL TRANSPORTATION, INC. TO A  
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TRANSMITTALS:

1. Section 14, Permit 881
2. TraPac Transfer Notice Letter
3. MOL Guaranty

FIS Approval:  (initials)

CA Approval:  (initials)

  
KARL K.Y. PAN  
Chief Financial Officer

  
MOLLY CAMPBELL  
Deputy Executive Director

APPROVED:

  
GARY LEE MOORE, P.E.  
Interim Executive Director

Author: K. Pan