

PORT OF NEWPORT MINUTES

April 26, 2016

Commission Work Session

I. CALL TO ORDER

Commission President Walter Chuck called the Commission Work Session of the Port of Newport Board of Commissioners to order at (TIME) pm at the South Beach Activities Room, 2120 SE Marine Science Drive, Newport, Oregon.

Commissioners Present: Walter Chuck (Pos. #1), President; Ken Brown (Pos. #4), Vice-President; David Jincks (Pos. #2), Secretary/Treasurer; and Patricia Patrick-Joling (Pos. #5). Stewart Lamerdin (Pos. #3) was not in attendance.

Management and Staff: Kevin Greenwood, General Manager; Jim Durkee, NOAA Facilities Manager; and Karen Hewitt, Administrative Assistant.

Members of the Public and Media: Josh Hulsey, Oregon DulseEnergy (Dulse) and Oregon State University (OSU); Chuck Toombs, Oregon Dulse and OSU; Sarah Wang, Oregon Dulse; and Cheryl Meloy, Oregon Dulse. Caroline Bauman, Economic Development Alliance of Lincoln County, arrived as the meeting was about to adjourn.

II. DULSEENERGY SEAWEED LEASE OPPORTUNITY and PURSUIT OF INFRASTRUCTURE GRANTS FOR WATER INTAKE.

Greenwood provided some background for the presentation by Dulse found in the packet. He introduced Josh Hulsey as the operational representative of Dulse. Josh said that the company was researching growing the product in a land based environment. The current environment for the seaweed grown at the Hatfield Marine Science Center (HMSC) is water from the Bay, from which the seaweed gets its nutrients. Greenwood added that Dulse owned the rights to the product, which is best known as "bacon flavored" seaweed, in large part due to the attention it had received in the media over the past year. Toombs introduced himself as a marketing professor at OSU, where the Dulse seaweed production and marketing became a class project. He said that Dulse was already producing several products at HMSC and in Portland.

Greenwood added information from the Governor's Regional Solutions Team, provided in the Staff Report in the packet, and added there had been positive responses from the Oregon Department of Environmental Quality and the Oregon Department of State Lands. The Oregon Department of Fish and Wildlife had expressed some concerns about the water intake. Greenwood said he and Fuller had met with representatives from the City of Newport and HMSC, where it was discussed that the work be done with the Port's cooperation to allow the Port to use some of the intake. Greenwood said the intake planned would be far from the final needs for Dulse, but it was a good sign that HMSC was willing to work with the Port.

Toombs said he was working on Dulse, which had non-exclusive rights with OSU. The company was interested in expanding from small to large tanks. Currently five to six products have been developed and marketed with the most successful being salad dressing. The salad dressing was the number one seller at New Seasons, with 450 bottles sold in the first week compared to 150 bottles of Hidden Valley Ranch. Dulse is currently in negotiations with Whole Foods Market to include a commitment to take all

production of the dressing not sold through New Seasons. Toombs is looking for the location where Yaquina Bay Fruit Processing recently vacated as a primary facility. Currently, 700K lbs of seaweed is produced but the demand is 300M lbs. The plant at the Port would be a pilot plant employing approximately 40 employees, and the company was looking to expand to additional plants on the Oregon Coast. Later, the company could look to dehydrating and processing the seaweed at the plant. There is a high demand in Asia, which represents about 90% of the world seaweed production, and in which Oregon seaweed is considered a specialty product. Dulse wants to make their product an Oregon brand and develop the American market.

Wang said she grew up in China and had moved to the United States, all while developing her career from accountant to Financing and Marketing. She met Toombs and thought that Dulse seaweed was a great product. Wang reviewed the presentation materials in the packet.

Toombs had become interested in the HMSC patented seaweed which he learned grew at 10% per day and had been sold at Whole Foods Market for \$60 per pound. He approached the Food Innovation Center who hired consultants and chefs, including NoMo restaurant (rated #1 in the world). The chef at NoMo found that when the seaweed was deep fried it tasted like bacon which led to the large media response. Dulse is ready to supply Whole Foods when a location is secured. The company had been preapproved in Washington State but would prefer Oregon and a closer proximity to OSU. Wang added that the seaweed was a high quality product with high nutrient content. Hulsey said his background was in fisheries and fisheries management, and started a HMSC as a volunteer. He said the seaweed needed controlled lighted conditions. HMSC had developed successful tanks and he is working on perfecting the aquaculture. Hulsey suggested four large 2000 gallon tanks would supply the current product needs, but the company was looking to have 300 tanks in the future. In response to a questions from Patrick-Joling, Toombs said the initial activity at the new location would be farming, but future development may include drying and freezing, which is currently done by a co-packer. Hulsey showed the Commissioners a sample of the raw product. The salad dressing produced contains 6% dulse seaweed. Meloy added that the market for the product is growing and, in our current economic environment, consumers are willing to pay more for products that are natural, organic, and provide health benefits. Wang said high protein products like dulse seaweed are sought after, and this product is current in China but new to the United States, where Oregon provides the water conditions and consumer preference for local products. Toombs added that the seaweed production would offset carbon emissions.

Wang referred to page 15 in the presentation showing differences in lab results in small vs. large tanks. Josh said that initial challenges were lighting and the presence of too many nutrients, which led to other algae, cysts, filaments and other invertebrates that could overtake the seaweed and impede growth or lead to failure of the seaweed. Developing better light control and sand filtering addressed these issues to achieve an 8% growth rate. Additional work will continue to improve the system, which may include UV treatment. He was also confident that aquaculture was an up-and-coming industry in the US.

Wang said this project includes major startup costs. The company is looking to grants and investors to provide capital. Toombs said there has been a lot of investor interest and they are close to a commitment from a pulp mill operation. The company is more concerned with getting the pilot plant up and running, which would be the first commercial seaweed facility in the US. He expressed confidence in the Dulse team and suggested the relationship between Dulse and the Port would be mutually beneficial. The aquaculture created could be emulated by other entities. Hulsey said a graduate student was involved in the project as well looking to improve the nutritional value, and a functioning facility would provide additional research opportunities. Wang said a location near HMSC could contribute to the company's growth.

Patrick-Joling asked about the reference to "flexible" payments in the presentation. Wang said that they expected to have cash flow 6 months after the facility is built. The company would also need time to adjust from research to business. Hulsey said the facility at HMSC was maxed out. Greenwood asked about the "4 areas" needed per the presentation. Toombs said that should be 4 acres, which would provide room for growth. He said the company is looking to maximize profitability. Greenwood asked if the \$200K referenced for site improvements include the piping needed, and how that would be funded. Wang said she understood the pipe would be provided by the Port as part of the lease. Greenwood said he was applying for a grant that would provide approximately \$5000, which would also provide for required NEPA reporting. The USDA had not expressed a concern about the piping because it is permanent. The 150K gallons per minute provided would be adequate in the short run, but in 18 months to two years a larger intake between South Beach and the eel grass estuary would be needed, which would present some concerns. Finding grants for \$200K would be difficult in the short term. Toombs said the company would rather have their own water rather than relying on HMSC. If no water intake was available, they would need to find another location. Josh suggested that the intake running down the jetty would minimize impact. In addition, the Aquarium source of water by OSU has not yet been explored, nor has running from the same dock as HMSC.

Greenwood said that as landlord the Port would work with Dulse to apply for permits, but the permits would be the responsibility of Dulse. Greenwood asked what the company would do if obtaining permitting was unsuccessful; Toombs said they would want an escape clause in the lease. Greenwood said the Port does not have the capital available to pay for the piping, and the deadline for the USDA grant application was May 1st. He said the Port could review the company's engineering.

Toombs acknowledged there will be hurdles to face but wanted to move ahead with a lease as soon as possible. Jincks said that site had been used as an incubator for various businesses over the years, and suggested that Greenwood develop a lease proposal. Patrick-Joling said this looked like a great product; Patrick-Joling and Brown will meet with Greenwood to help develop the proposal. Greenwood said he was asking for formal direction from the Commission at the Regular Meeting. Commission approval would also be needed in the future for an easement with the City of Newport and the final lease. Greenwood also said that Durkee's office space, currently at the proposed location, would need to be moved. Potential sites included space at the House of Spirits, the South Beach maintenance building, or MOC-P. Durkee also asked if there would be an unpleasant smell from the facility; Josh said no and the outflow would be discharged at OSU. Josh added that Trident and OSU share the patent. OSU would receive 3% of wholesale, so they are in support of the product. Trident had been using the product to feed abalone.

III. ADJOURNMENT

Having no further business, the meeting adjourned at 1:10 pm.



Walter Chuck, President

ATTESTED:



David Jincks, Secretary / Treasurer

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