



OFFICE
CITY CLERK
2014 JUL 10 PM 12:41

AGENDA REPORT

TO: HENRY L. GARDNER
INTERIM CITY ADMINISTRATOR

FROM: Rachel Flynn

SUBJECT: Application to Expand the Foreign Trade Zone

DATE: June 24, 2014

City Administrator
Approval

Date

7/8/14

COUNCIL DISTRICT: City-Wide

RECOMMENDATION

Staff recommends that the City Council adopt:

A Resolution Authorizing The City Administrator To Submit A Foreign Trade Zone Alternative Site Framework Application And To Sign And Enter Into An Agreement With The Foreign Trade Zone Board Of The U.S. Department Of Commerce

EXECUTIVE SUMMARY

This report and resolution asks City Council to authorize the City Administrator to submit an application to the Foreign Trade Zone Board to convert Oakland FTZ #56 to the new Alternative Site Framework (ASF). The ASF is an optional “framework to manage the Foreign Trade Zones with greater flexibility for their expansion,” using a simple “minor boundary modification” rather than the prior, more complicated, time consuming and acreage-restrictive boundary adjustment process.

The ASF will allow more sites in Oakland, including manufacturing and assembly operations, to utilize the advantages of the deferred customs and duties payments provided through the existing FTZ license. The ASF framework eases and expedites the process of designating new individual subzones, reporting through Oakland’s FTZ #56, to become either “Usage-driven” site for specific company operations, or a “Magnet Site”, incorporating several companies’ operations. The maximum “Service Area” for any new Zones within the ASF framework is within 60 miles, or 90 minutes driving time, of the goods point of entry (Port of Oakland).

International Trade is critical to the Bay Area, particularly to the Port of Oakland. The presence of the FTZ #56 stimulates economic growth and development by encouraging companies to expand operations with its boundaries. FTZ #56 provides direct competitive advantage to the Port and to all customers of the Port through immediate relief of customs duties and or delays

Item: 6

Community & Economic Development Committee
July 22, 2014

caused by goods clearance. Approximately \$400 million worth of goods flowed through FTZ #56 in year 2012.

OUTCOME

The expansion of FTZ #56 through a conversion to the Alternative Site Framework will:

- Enhance attraction of manufacturing and goods movement through the Port of Oakland;
- Increase employment in the region through attraction of increased production and processing of imported materials and components into finished products within the region;
- Increase licensing fees, which can cover administrative costs of management; and
- Support the Port of Oakland, which generates over 73,000 jobs in Northern California, and its competitive advantage as the fourth largest Port on the West Coast.

Economic Development staff will obtain the services of a consultant to prepare an application to expand its service area, pending the concurrence of proposed jurisdictions, to include Alameda County, Contra Costa County, and portions of Solano County, and incorporated cities which are within the sixty mile / 90 minute drive time distance of the Port of Oakland. The City seeks to act regionally with the shared goal of strengthening the East Bay regional economy through global trade for existing and new businesses, while furthering the reputation of Oakland as a regional center of international trade and manufacturing. In addition, the counties of Sonoma, Napa, and San Joaquin or portions thereof, which qualify within the 60 miles / 90 minute drive time of the Port of Oakland entry point, will be approached by the City for inclusion in the ASF framework application. While some if not all of these areas are already included within the San Francisco Foreign Trade Zone, there is no conflict with overlap per the FTZ Board regulations. Fiscally, the expected outcome is revenue generation through license fees for by the various ASF centers and facilities which will cover expenses of the zone expansion.

BACKGROUND/LEGISLATIVE HISTORY

Foreign Trade Zone legislation was enacted by Congress in 1934 with a legislative purpose "to provide for the establishment, operation, and maintenance of foreign-trade zones in ports of entry of the United States to expedite and encourage foreign commerce." In 1981 the Oakland International Trade Center operated the FTZ #56 on behalf of the City. This was followed by an agreement with Pacific American Warehousing & Trucking Company (PACAM) in 1998, and a subsequent transfer of the operating rights of FTZ #56 to Matson Logistics, which continues today to administer and operate the license on behalf of the City. Matson currently pays the City approximately \$10,000 per year in licensee fees.

Oakland's Foreign Trade Zone (FTZ) #56 currently covers an active area of 3.3 acres, employing 15 people directly in FTZ related operations. The annual value of shipments into the FTZ #56 is approximately \$400 million, and the annual value of exports through the FTZ is approximately \$106 million. FTZ #56 handled about 95 transactions in the calendar year 2012. Products typically processed within FTZ #56 include Beverages/Spirits (primary source: Mexico); Food Products (primary source: Brazil); other consumer products (China); Beverages/Wine (France); and Beverages/Spirits (Whisky—England). Electronic (computer) equipment in large part originates from Malaysia and India. An additional sub-zone of FTZ #56 is operated by Fair & Swanson in the Estuary Area, with about 1.34 active acres and 14 direct employees. Neither the Matson-operated primary zone area of 500,000 sq., nor the Fair & Swanson sub-zone would be affected by the conversion to the Alternative Site Framework, as each can continue as currently operated.

Matson Logistics has been the licensee for Foreign Trade Zone #56 since 2008. Foreign Trade Zones (FTZ) are restricted-access sites that are considered outside the U.S. Customs territory, but are located in the United States. Merchandise that is held within an FTZ can defer, reduce, or eliminate customs duties on foreign products admitted into zones for the duration of their storage, exhibition, assembly, manufacture and processing, thereby deferring or reducing actual costs of imported goods or components of the production process. As a grantee the City is responsible for the management of the zone and the annual reporting of zone activity to the FTZ Board. This is accomplished through a contract with a Zone Administrator, currently Matson Logistics, which currently has 500,000 of warehouse space dedicated to this purpose.

The 2012 FTZ report for the existing operation, consisting of approximately 250,000 sq.ft. states that FTZ #56 served approximately 25 operators, with a total employment of 69 persons. Such operators processed about 71 shipments, with a total value of merchandise received being \$423,283,476. The main categories of foreign merchandize received and processed included:

- Electronic machinery, \$215,185,528 (origin Malaysia)
- Electronic machinery and equipment: \$51,552,223 (origin India)
- Beverage/spirits: \$11,548,282 (original England)
- Beverages/spirits: \$9,179,396 (origin Mexico)
- Food Products: \$5,308,903 (origin Brazil)

ANALYSIS

If the City Council authorizes the City Administrator and staff to proceed with the ASF application, staff will work with a consultant to approach the cities and counties identified within sixty miles (see **Attachment A**, Proposed FTZ #56 ASF boundary map) to ask for a letter of support. Staff will work with the East Bay Economic Development Alliance in this process, in addition to relevant economic development organizations and municipalities in Napa, Sonoma

and Solano counties. The City will submit an application for the ASF framework of its existing license by the fall of 2014.

The ASF foreign trade zone structure allows for either individual site to be designated a "Usage-Driven" individual site for one specific operation, or a "Magnet-Site" which has the ability to serve multiple customers. Once the ASF is established and approved by the FTZ Board, any new Usage-Driven or Magnet site may be established through a simple boundary modification, which would involve staff or a designated representative (consultant) to finalize the designation, for which an administrative fee may be charged. Magnet sites (described as large industrial sites or business parks), while not the true goal of the ASF, will be an appropriate designation for larger areas, such as the Oakland Global Logistics Center or the new 360,000 sq.ft. Pardee Lane warehouse, which it is presumed will be multi-tenanted sites.

There would likely be no change to the current relationship with the administrator (Matson Logistics) for the present General Purpose Zone, which includes up to 500,000 sq.ft. for the existing operation. The additional burden of administration, resulting from new sites designated as ASF sites for Oakland License #56, will be analyzed by staff in consideration of several alternatives. Reporting to the Federal Customs & Border has been eased for the new ASF program sites. Reporting is entirely electronic, avoiding prior cumbersome forms, allowing each ASF-designated site to self-report. Each site would be responsible for licensing fees, payable to the City/ Economic Development Department. Currently the fees bring in about \$12,000 annually, as set forth in the terms of Matson's license agreement with the City, which commenced in 2008 at \$10,000 per year, adjusted upwards since via a 3% annual cost-of-living increase.

PUBLIC OUTREACH/INTEREST

City staff made presentations in the winter of 2014 to the various cities and counties of Alameda and Contra Costa through the East Bay Economic Development Alliance on the Alternative Site Framework and the expansion of the Foreign Trade Zone #56. Staff plans to make presentations at the Oakland Metropolitan Chamber of Commerce and the Port-City Liaison Committee. Together with the future consultant, staff will do a series of presentations for various jurisdictions to solicit support for the ASF application and expanded service area.

COORDINATION

The staff of the Economic Development Department have worked with Matson Logistics, the Port of Oakland staff, East Bay Economic Development Alliance and its member cities and county jurisdictions in regard to measuring potential engagement by companies and owners of sites which would qualify as regional "magnet sites" in the ASF framework. Oakland has consulted with staff of the with the Foreign Trade Zones in San Jose and San Francisco, both

which have undergone expansion of their own zones in the past two years. Staff has joined the National Foreign Trade Zones Association in order to stay current with regulations and best practices.

This report and resolution have also been reviewed by the Office of the City Attorney and by the Budget Office.

COST SUMMARY/IMPLICATIONS

There are no cost implications associated with passage of the proposed resolution, which would authorize staff to apply for and sign an agreement with the federal FTZ Board/US Department of Commerce.

FISCAL IMPACT

The expansion of the Foreign Trade Zone through the Alternative Site Framework will bring enhanced revenue to the City to support Zone expansion administration and reporting. The expenses of the individual site administration will be absorbed by site savings in customs duties.

SUSTAINABLE OPPORTUNITIES

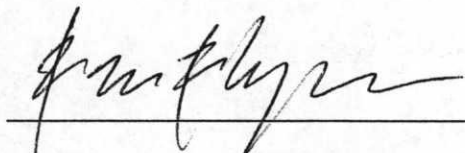
Economic: The ASF modification for FTZ #56 will encourage more domestic manufacturing and assembly of goods locally by its cash savings, deferral and/or increased efficiency customs payment methods, thereby increasing jobs and revenue in Oakland and the included surrounding service area.

Environmental: The Foreign Trade Zone increases options for organic certified temperature controlled and dry goods storage, thereby optimizing the Port of Oakland as entry and exiting point for such goods. The ASF will further incentivize storage, processing and turnaround of goods within a short distance from the Port of Oakland, thereby reducing truck trips from the regional freeways and reducing air particulate pollution.

Social Equity: There is an increased potential for increased warehousing, logistics and manufacturing jobs as a result of the ASF framework adoption for FTZ #56. Such industries provide entry level- through middle income wage skilled labor positions, providing living wage jobs for Oakland and neighboring area residents.

For questions regarding this report, please contact Margot Lederer Prado, Senior Economic Development Specialist, 238-6766

Respectfully submitted,

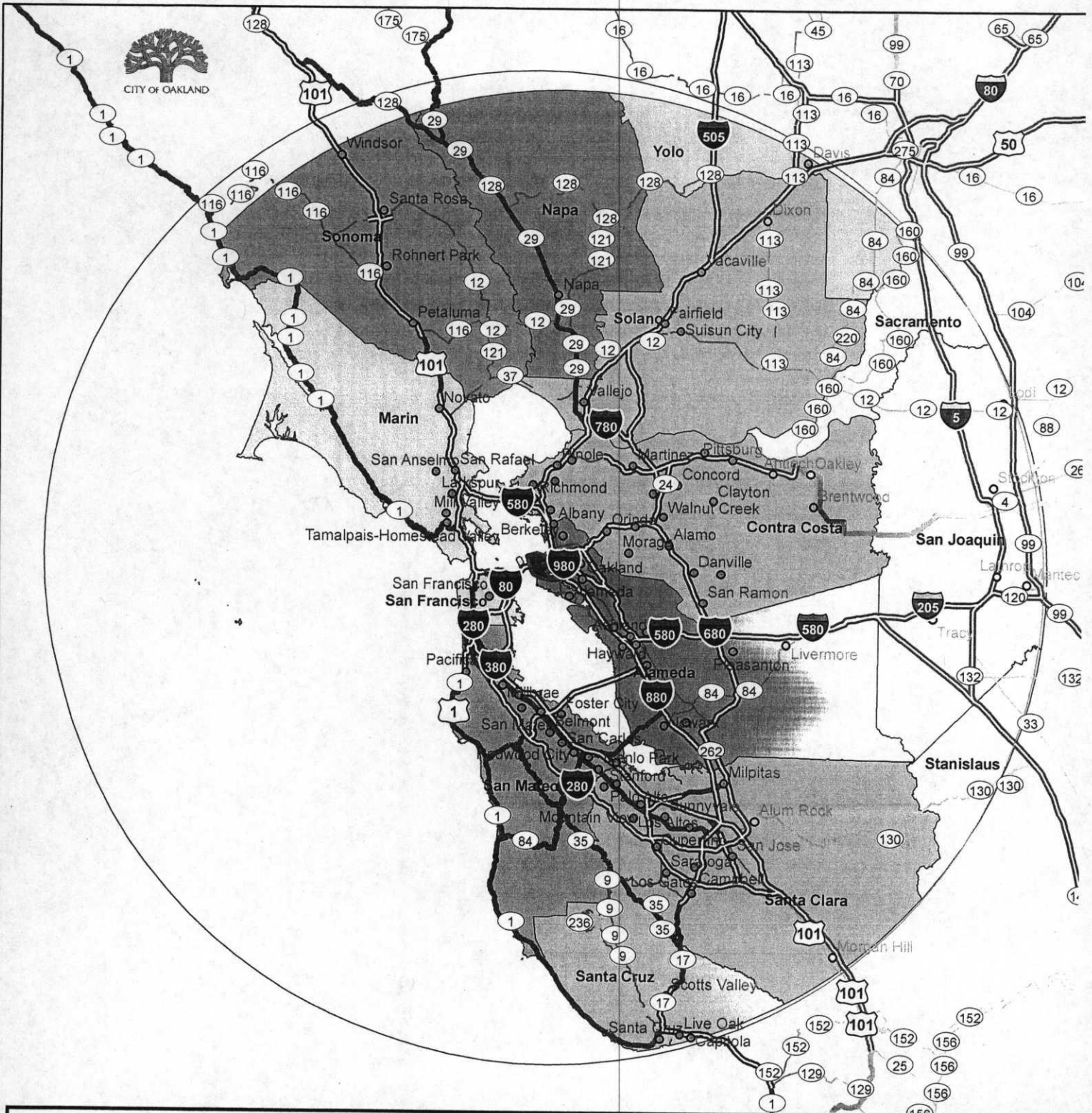


Rachel Flynn, Interim Director
Department of Economic
& Workforce Development

Reviewed by: Aliza Gallo, Economic Development
Manager

Prepared by: Margot Lederer Prado
Senior Economic Development Specialist

Attachment A. Map of Proposed FTZ Expansion Area



**Potential Expansion Zone for Foreign Trade Zone License #56 City of Oakland-
Areas within 60 miles/90 minutes drive-time from CBP Port of Entry (Port of Oakland, CA)**

Attachment A



Prepared by: OPW & TID GIS Team, June, 2014



01.73.5 7 Miles

[Signature]
City Attorney

OAKLAND CITY COUNCIL

FILED
OFFICE OF THE CITY CLERK
OAKLAND

RESOLUTION No. _____ C.M.S.

2014 JUL 10 PM 12:41

Introduced by Councilmember _____

A RESOLUTION AUTHORIZING THE CITY ADMINISTRATOR TO SUBMIT A FOREIGN TRADE ZONE ALTERNATIVE SITE FRAMEWORK APPLICATION AND TO SIGN AND ENTER INTO AN AGREEMENT WITH THE FOREIGN TRADE ZONE BOARD, U.S DEPARTMENT OF COMMERCE

WHEREAS, The City of Oakland is a municipal corporation organized under its charter and the laws of the State of California, and;

WHEREAS, the U.S. Foreign Trade Zone program was created by the Foreign Trade Zones Act of 1934 to expedite and encourage foreign commerce; and

WHEREAS, the City of Oakland entered into its initial License Agreement with the Foreign Trade Zone Board to operate Oakland Foreign Trade Zone #56 in 1981 to encourage economic activity through encouragement of international trade, assembly processing and manufacturing, and local jobs; and

WHEREAS, this designation allows companies within federally-licensed Foreign Trade Zones to delay, reduce, and or eliminate U.S. customs duties on imported merchandise, raw materials and or components, and allows manufacturing companies thereby to be more competitive in the global economy, retaining jobs and production domestically ; and

WHEREAS, the FTZ Board has created a new Alternative Site Framework Foreign Trade Zone designation that existing FTZ #56 can pursue by application to the Foreign Trade Zone Board, U.S. Department of Commerce, which allows for a simplified expansion to areas within 60 miles or 90 minutes drive-time of the port of entry for FTZ #56 now, therefore be it

RESOLVED, the Interim City Administrator is authorized to submit a Foreign Trade Zone Alternative Site Framework application and authorized to sign an agreement with the Foreign Trade Zone Board, U.S. Department of Commerce, to designate all of Oakland and those areas which agree to inclusion and are within ASF distance guidelines, and be it

6

**COMMUNITY & ECONOMIC
DEVELOPMENT CMTE.**

JUL 22 2014

RESOLVED, that the City Attorney shall review and approve as to form and legality all agreements resulting from the submission and subsequent approval of the Alternative Site Framework for Oakland Foreign Trade Zone #56.

IN COUNCIL, OAKLAND, CALIFORNIA, _____

PASSED BY THE FOLLOWING VOTE:

AYES - BROOKS, GALLO, GIBSON MCELHANEY, KALB, KAPLAN, REID, SCHAAF and PRESIDENT KERNIGHAN

NOES -

ABSENT -

ABSTENTION -

ATTEST: _____

LaTonda Simmons
City Clerk and Clerk of the Council
of the City of Oakland, California

6

**COMMUNITY & ECONOMIC
DEVELOPMENT CMTE.**

JUL 22 2014