



Memorandum

TO: COMMUNITY AND ECONOMIC
DEVELOPMENT COMMITTEE

FROM: Joseph Hedges

SUBJECT: FOREIGN TRADE ZONE
ALTERNATIVE SITE FRAMEWORK
APPLICATION

DATE: October 13, 2011

Approved

Date

Oct. 13, 2011

COUNCIL DISTRICT: City-Wide

RECOMMENDATION

Adopt a resolution authorizing the City Manager to submit a Foreign Trade Zone Alternative Site Framework application to the Foreign Trade Zones Board of the U.S. Department of Commerce for the City of San Jose.

OUTCOME

The Alternative Site Framework application would reorganize the City's current Foreign Trade Zone designation and designate the City of San Jose as the Service Area. The new designation will allow all companies in San Jose to seek expedited activation of Foreign Trade Zone status for buildings.

BACKGROUND

At the August 22, 2011 Community and Economic Development Committee meeting, the Committee accepted a report from the Office of Economic Development for the Foreign Trade Zone Alternative Site Framework application and directed staff to further review the proposed boundary or service area, which was limited to an area of North San Jose. After discussions with the U.S. Department of Commerce Foreign Trade Zones Board, it was determined that the City is able to submit an application for a much larger contiguous area – the entire City.

A Foreign Trade Zone (FTZ) is territory in the U.S. that is outside of U.S. Customs jurisdiction. Thus, merchandise is considered to be in international commerce and not subject to federal duties while in the FTZ. Companies or individuals using the Foreign Trade Zone are able to delay, reduce or eliminate U.S. Customs duties on imported merchandise. Duties are not paid on foreign merchandise while in a Foreign Trade Zone. This can result in a cost savings for a company. Duties are paid when imported merchandise is removed from the Zone and enters U.S. Customs territory. A company, however, can achieve a cost savings on imported merchandise that is assembled or manufactured into a finished product by paying a lower duty

To: Community & Economic Development Committee
Date: October 13, 2011
Subject: **Foreign Trade Zone Alternative Site Framework Application**
Page 2

rate (U.S. duty rates are often higher on components than a finish product). Finally, no duties are paid on foreign merchandise that enters a Foreign Trade Zone and is then exported. The Foreign Trade Zone allows manufacturing and distribution companies to be more competitive in the global economy and encourages companies to keep production and jobs in the United States.

The two types of Foreign Trade Zones are General Purpose Zones and Subzones. A General Purpose Zone is a facility for multiple users and is used primarily for distribution, packaging, storage and manipulation of products. The City contracts with San Jose Distribution Services, a private warehouse-logistics company to operate the General Purpose Zone. The General Purpose Zone is located at 2055 South Seventh Street in the Monterey Corridor.

A Subzone is a Foreign Trade Zone designation for a single company. Space Systems Loral and Lam Research became Subzones under the City's Foreign Trade Zone jurisdiction and the City Council on June 14, 2011 approved a resolution authorizing the City Manager to submit a Subzone application on behalf of Tesla Motors. Upon approval of the application, a company enters into an agreement with the City and works with U.S. Customs and Border Protection to activate the Foreign Trade Zone site.

ANALYSIS

The Foreign-Trade Zones Board of the U.S. Department of Commerce has created a new application designation that existing Foreign Trade Zone grantees can pursue.

San Jose's Foreign Trade Zone is a traditional designation, which limits the number of specific Foreign Trade Zone sites. San Jose's General Purpose Foreign Trade Zone is currently limited to 330,000 square-feet.

The newly established Alternative Site Framework Foreign Trade Zone will allow the City, in its role as grantee, to designate all of San Jose a single contiguous area as its Service Area. The Alternative Site Framework designation allows up to 2,000 acres to be activated as Foreign Trade Zone sites.

Upon approval of the City's application, companies located within this newly designated Service Area would have the ability to apply to the City and the Foreign Trade Zones Board to activate their site as a Foreign Trade Zone. The Foreign-Trade Zones Board seeks to complete the application review within 30-days for warehousing and distribution uses and 75-days for manufacturing uses.

The Alternative Site Framework Foreign Trade Zone designation will allow companies and developers throughout San Jose to access the benefits of the Foreign Trade Zone, which until now have been limited. The Foreign Trade Zone designation will result in cost savings, potentially improve operational functions, and enhance the global competitiveness of San Jose companies. The new Foreign Trade Zone designation would particularly benefit companies engaged in manufacturing and global trade. San Jose area companies exported over \$21 billion of merchandise in 2009, which ranked eighth among U.S. city/regions. The entire San Jose Enterprise Zone would be included in the newly designated San Jose Foreign Trade Zone, which would bring an additional cost benefit to the companies and enhance marketing of the City.

To: Community & Economic Development Committee
Date: October 13, 2011
Subject: Foreign Trade Zone Alternative Site Framework Application
Page 3

During the application review and thereafter, staff will engage in outreach with San Jose companies, brokers and developers to market the Foreign Trade Zone benefits. The new designation will allow all companies in San Jose to reduce costs and enhance their ability to compete in the global business environment.

EVALUATION AND FOLLOW-UP

Not applicable

COORDINATION

The Attorney's Office and staff from the Redevelopment Agency were consulted on reorganization of the Foreign Trade Zone.



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For questions please contact Joseph Hedges, International Program Manager, at 535-8186.