



Executive Director's
Report to the
Board of Harbor Commissioners

DATE: OCTOBER 10, 2012

FROM: BUSINESS & TRADE DEVELOPMENT

**SUBJECT: RESOLUTION NO. _____ APPROVAL OF FOREIGN-TRADE
ZONE GENERAL PURPOSE OPERATING AGREEMENT BETWEEN
THE CITY OF LOS ANGELES HARBOR DEPARTMENT AND
QUIKSILVER, INC., FTZ 202, SITE 20C**

SUMMARY:

The City of Los Angeles Harbor Department (Harbor Department), as the Foreign-Trade Zone (FTZ) grantee, establishes General Purpose Operating Agreements with FTZ operators to oversee their FTZ operations. The Harbor Department received a request from Quiksilver, Inc. (Quiksilver) to activate its site within FTZ 202, Site 20C, located at 11310 Cantu Galleano Ranch Road, Mira Loma, California, 91752. Site 20C is a building within 141.79 acres of FTZ 202, Site 20. This site is approximately 50 miles north-east of the Port of Los Angeles (Port). Quiksilver will be operating its warehouses under the FTZ procedures. The proposed FTZ Operating Agreement (Agreement) will provide a term of five years with three, five-year renewal options.

RECOMMENDATION:

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

1. Approve the proposed Foreign-Trade Zone Operating Agreement between the City of Los Angeles Harbor Department and Quiksilver, Inc.;
2. Direct the Board Secretary to transmit the Foreign-Trade Zone Operating Agreement to the Los Angeles City Council for approval pursuant to Section 373 of the Charter of the City of Los Angeles and Section 10.5 of the Los Angeles Administrative Code;
3. Upon approval by the City Council, authorize the Executive Director to execute and the Board Secretary to attest to the Foreign-Trade Zone Operating Agreement; and
4. Adopt Resolution No. _____.

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**SUBJECT: GENERAL PURPOSE OPERATING AGREEMENT WITH QUIKSILVER,
FTZ 202, SITE 20C**

DISCUSSION:

Background – The Foreign-Trade Zone Act of 1934, as amended (19 U.S.C. 81a-81u) was established to support United States (U.S.) commerce and create jobs by reducing import duties or excise taxes by deferring payment of duties, thereby making it attractive for companies to perform some work on their products in the U.S. rather than offshore. The definition of a FTZ is a restricted access site located in the U.S. Customs and Border Protection (CBP) territories. The importer may defer payment of duties and other fees until the merchandise is brought into U.S. commerce for consumption.

Need for Agreement – The Harbor Department, as the grantee, is required by the FTZ Board to have an operating agreement with FTZ site operators. Quiksilver employs approximately 568 full-time employees. The square footage of the building is 683,200 to include warehouse and office space on 37.85 acres (Transmittal 2). All operators shall follow rules and procedures as outlined in the Department of Homeland Security's FTZ manual, such as providing a secured area within the FTZ. Quiksilver agrees to keep its warehouses open to support the PierPass Program and shall notify truck drivers, truck brokers, and trucking companies that the trucks serving the container terminals must confine their routes to the designated Wilmington Truck Route.

Need for Approval – Quiksilver is requesting approval from the Harbor Department to execute the proposed Agreement (Transmittal 1) to operate Site 20C as a FTZ warehouse and distribution center for consumer products, apparel, accessories, and other merchandise for sale in the national market. Occasionally, the products are re-exported from the warehouse. Quiksilver, Site 20C is located within a designated FTZ industrial site, FTZ 202, Site 20. As such, this company is not required to submit an application to the FTZ Board. However, the company does need approval from CBP to activate as a FTZ site.

If Quiksilver does not obtain approval as an operator with FTZ status from the Harbor Department, they potentially have the choice of going to another FTZ in California such as Long Beach, San Diego, Palmdale, etc., or even going out of state. Since FTZ facilities exist in every state, Quiksilver can potentially shift its employees to work elsewhere as a result of seeking FTZ status in another location.

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FTZ 202, SITE 20C**

Harbor Department Fiscal Requirements – This proposed Agreement will not require funding by the Harbor Department. Quiksilver paid a \$5,000 activation application fee and will pay an annual fee of \$5,000 to the Harbor Department for each year of the five-year term of the proposed Agreement for a total of \$25,000.

ENVIRONMENTAL ASSESSMENT:

The proposed action is approval of a FTZ Operating Agreement with Quiksilver to activate its site within FTZ 202, Site 20C, located in Mira Loma. As an activity involving the issuance of a permit to use an existing facility involving negligible or no expansion of use, the Director of Environmental Management has determined that the proposed action is exempt from the requirements of the California Environmental Quality Act (CEQA) in accordance with Article III, Class 1 (14) of the Los Angeles City CEQA Guidelines.

ECONOMIC BENEFITS:

Approval of the proposed Agreement will have no employment impact.

FINANCIAL IMPACT:

Quiksilver has already paid the Harbor Department a \$5,000 activation application fee. If the proposed Agreement is approved, the Harbor Department will receive an annual fee of \$5,000 (per FTZ Tariff No. 1) for five years from Quiksilver. Should the renewal options be exercised subsequent to the completion of the initial term of the Agreement, compensation will also be \$5,000 per year. Although there is no direct cost to the Harbor Department arising from this proposed Board action, the Harbor Department does incur FTZ related expenses. During calendar year 2011, approximately \$80,000 was spent on outside FTZ related consulting services while \$149,000 in revenue was collected from the Harbor Department FTZ operators.

Approving the proposed Agreement with Quiksilver creates an entity that confers among other advantages, tax and operating benefits to the operator, and provides a tool for economic development. As the Harbor Department is a designated grantee of FTZs under the State of California enabling legislation, granting FTZ status to Quiksilver allows more efficient operations and allows Quiksilver to remain competitive.

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CITY ATTORNEY:

The City Attorney's Office has prepared and approved proposed Agreement as to form and legality.

TRANSMITTALS:

1. Proposed FTZ Operating Agreement for Quiksilver, FTZ 202, Site 20C
2. Quiksilver, FTZ 202, Site 20C map

FIS Approval: MP (initials)

CA Approval: QPB (initials)



MICHAEL DiBERNARDO
Director of Business Development

FOR 
KATHRYN McDERMOTT
Deputy Executive Director

APPROVED:



GERALDINE KNATZ, Ph.D.
Executive Director

M. Morimoto