



**THE PORT  
OF LOS ANGELES**

Executive Director's  
Report to the  
Board of Harbor Commissioners

**DATE: JULY 10, 2012**

**FROM: BUSINESS & TRADE DEVELOPMENT**

**SUBJECT: RESOLUTION NO. \_\_\_\_\_ APPROVAL OF SECOND  
AMENDMENT TO FOREIGN-TRADE ZONE OPERATING AGREEMENT  
NO. 08-1995-A BETWEEN THE CITY OF LOS ANGELES HARBOR  
DEPARTMENT AND CONOCOPHILLIPS COMPANY, SITE C**

**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. On May 1, 1998, the Harbor Department entered into Foreign-Trade Zone (FTZ) Operating Agreement No. 1995 (Agreement No. 1995) with TOSCO Refining Company (TOSCO) to operate FTZ 202, Site C. In January 2003, the Board of Harbor Commissioners (Board) approved the reassignment of Agreement No. 1995 from TOSCO to ConocoPhillips Company (COPCo). On July 2, 2008, the Board approved the First Amendment to extend Agreement No. 1995, assigned as Harbor Department Agreement No. 08-1995-A (Agreement No. 08-1995-A), for another five years.

In March 2012, the Harbor Department received a request from COPCo assigning all of COPCo's rights and delegating all of its duties, past and prospective, in connection with Agreement 08-1995-A, to Phillips 66 Company (P66Co). COPCo also wishes to exercise their second renewal option to extend Agreement No. 08-1995-A. The original term of the agreement was for ten years with three, five-year renewal options which commenced May 1, 1998. The proposed Second Amendment (Amendment) will approve reassigning all rights and duties to P66Co as the new operator for FTZ 202, Site C and to extend the agreement for a second term of five years through to April 2018. Except as amended, all remaining terms and conditions of Agreement No. 08-1995-A shall remain in full force and effect. There is no cost to the Harbor Department if approved.

**RECOMMENDATION:**

It is recommended that the Board of Harbor Commissioners:

1. Approve the proposed Second Amendment to Foreign-Trade Zone Operating Agreement No. 08-1995-A between the City of Los Angeles Harbor Department and Phillips 66 Company;

**DATE: JULY 10, 2012**

**PAGE 2 OF 4**

**SUBJECT: SECOND AMENDMENT TO FTZ OPERATING AGREEMENT WITH CONOCOPHILLIPS COMPANY, SITE C**

2. Direct the Board Secretary to transmit the proposed Second Amendment 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 proposed Second Amendment to Foreign Trade Zone Operating Agreement No. 08-1995-A; and
4. Adopt Resolution No. \_\_\_\_\_.

**DISCUSSION:**

Background – The Foreign-Trade Zone Act of 1934, as amended (19 U.S.C. 81a-81u), was established to support 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 territories. The importer may defer payment of duties and other fees until the merchandise is brought into the U.S. market for consumption.

Need for Agreement – COPCo's parent and sole shareholder, ConocoPhillips (COP), has officially separated its refining and marketing business, and exploration and production business into two separate standalone companies. COP will continue to be a global exploration and production company and Phillips 66 (PSX) will be a global refining and marketing company.

Site Operator formerly known as COPCo, wishes to assign to P66Co (a wholly owned subsidiary of PSX), all of COPCo's rights and to delegate all of its duties, past and prospective, in connection with Agreement No. 08-1995-A. P66Co will be responsible for managing and operating the site. P66Co employs approximately 600 full-time employees and 300 contract employees. FTZ 202, Site C consists of four refining and storage facilities and office space on parcels totaling 727 acres (Transmittal 1). One site is located within the Port of Los Angeles at Berth 148-151. The remaining sites are not located on Harbor Department property. All activities shall be performed in accordance with FTZ procedures.

P66Co acknowledges that Agreement No. 08-1995-A has no bearing on any lease or other agreement it has with the City of Los Angeles. Agreement No. 08-1995-A cannot be construed as granting any right under or expectation in connection with any other agreement, including any leases or permits, held by P66Co.

**DATE: JULY 10, 2012**

**PAGE 3 OF 4**

**SUBJECT: SECOND AMENDMENT TO FTZ OPERATING AGREEMENT WITH CONOCOPHILLIPS COMPANY, SITE C**

Need for Approval – COPCo is requesting approval from the Harbor Department to change operators for FTZ 202, Site C from COPCo to P66Co and to extend Agreement No. 08-1995-A. This proposed Amendment (Transmittal 2) will allow for an operator reassignment to P66Co and the continued operation of Site C for another five-year term. Any change made to an original operating agreement between the Harbor Department and operators requires an amendment to the agreement, per FTZ Board requirements. This is an administrative requirement for the Harbor Department.

**ENVIRONMENTAL ASSESSMENT:**

The proposed action is approval of an operator change and second extension to Agreement No. 08-1995-A between the Harbor Department and COPCo. The proposed Amendment would allow changing the operator and extend the existing agreement with no changes to operations. As an activity involving the extension of an agreement 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) under Article III, Class 1 (14) of the Los Angeles City CEQA Guidelines.

**ECONOMIC BENEFITS:**

Approval of the proposed Amendment will have no employment impact.

**FINANCIAL IMPACT:**

Since the approval of the First Amendment with COPCo, the Harbor Department to date has received \$150,000 in annual fees for the original term of 10 years and the first extension of five years. For the proposed second five-year extension Amendment, the Harbor Department will receive \$10,000 annually (per FTZ Tariff No. 1) in fees for the third term to commence on May 1, 2013 to April 30, 2018. 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 revenues was collected from all of the Harbor Department's FTZ operators.

Approving the proposed Amendment with P66Co 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 P66Co allows more efficient operations and allows P66Co to remain competitive.

DATE: JULY 10, 2012

PAGE 4 OF 4

SUBJECT: SECOND AMENDMENT TO FTZ OPERATING AGREEMENT WITH CONOCOPHILLIPS COMPANY, SITE C

If not approved, the Harbor Department will forgo \$10,000 a year in fees. If P66Co does not obtain approval 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 this state. Since FTZ facilities exist in every state, P66Co can potentially shift its employees to work elsewhere.

**CITY ATTORNEY:**

The Office of the City Attorney has prepared and approved the proposed Second Amendment as to form and legality.

**TRANSMITTALS:**

1. FTZ 202, Site C map
2. Proposed Second Amendment to FTZ Operating Agreement No. 08-1995, FTZ 202, Site C

FIS Approval: WR (initials)

CA Approval: JM (initials)



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APPROVED:



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