



**THE PORT
OF LOS ANGELES**

Executive Director's
Report to the
Board of Harbor Commissioners

DATE: JUNE 1, 2017

FROM: CARGO MARKETING

SUBJECT: RESOLUTION NO. _____ - APPROVAL OF SECOND AMENDMENT FOR FOREIGN TRADE ZONE GENERAL PURPOSE OPERATING AGREEMENT NO. 2606 BETWEEN THE CITY OF LOS ANGELES HARBOR DEPARTMENT AND NIPPON EXPRESS USA, INC. FTZ 202, SITE 7B

SUMMARY:

Staff requests the approval of a Second Amendment (Second Amendment) of Foreign-Trade Zone (FTZ) Operating Agreement No. 2606 between the City of Los Angeles Harbor Department (Harbor Department) and Nippon Express USA, Inc. (Nippon Express) to continue operating its warehouses within FTZ 202, Site 7B, located at 990 Francisco Street, Torrance, California 90502. The Harbor Department, as the FTZ grantee, establishes General Purpose Operating Agreements with FTZ site owners to oversee their FTZ operations.

FTZ Operating Agreement No. 2606 between the Harbor Department and Nippon Express has an original term of a five year agreement with three, five year renewal options. The first extension commenced on August 1, 2012, and is set to expire on July 31, 2017. Nippon Express wishes to continue operating its warehouses under the FTZ program and is requesting the Harbor Department to extend the Agreement, as required by the FTZ Board.

Site 7B consists of three warehouses totaling approximately 300,000 square feet and office space on 93 acres located approximately nine miles from the Port of Los Angeles. Nippon Express will be operating its warehouse under FTZ procedures as a multi-usage site. This proposed Second Amendment will not require funding by the Harbor Department.

Upon approval, the agreement will remain in effect through July 31, 2022.

RECOMMENDATION:

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

1. Find that the Director of Environmental Management has determined that the proposed action is exempt from the requirements of the California Environmental

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Quality Act (CEQA) under Article III Class 1 (14), of the Los Angeles City CEQA Guidelines;

2. Approve the proposed Second Amendment of the Foreign-Trade Zone Operating Agreement No. 2606 between the City of Los Angeles Harbor Department and Nippon Express USA, Inc.;
3. Direct the Board Secretary to transmit the proposed Second Amendment of Foreign-Trade Zone Operating Agreement No. 2606 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;
4. Authorize the Executive Director to execute and the Board Secretary to attest to the proposed Second Amendment of Foreign-Trade Zone Operating Agreement No. 2606; and
5. Adopt Resolution No. _____.

DISCUSSION:

Background and Context – The FTZ 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 an 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 the U.S. 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. This proposed Second Amendment will extend the term of this Agreement to July 31, 2022 (Transmittal 1). Nippon Express is a U.S. company with its head office located in New York, New York, employing approximately 29 full-time and part-time employees working within the FTZ activated area. Nippon Express has continually operated its FTZ warehouses at 990 Francisco Street, Torrance, California FTZ 202, Site 7B since 1998. This facility consists of approximately 300,000 square feet of warehouse and office space on 93 acres (Transmittal 2) and is within the FTZ 202 service area (Transmittal 3).

Nippon Express shall follow the rules and procedures as outlined in the Department of Homeland Security's FTZ manual, such as providing a secured area within the FTZ. Nippon Express agrees to keep its warehouses open to support the PierPass Program

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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 – Nippon Express is requesting approval from the Harbor Department to execute the proposed amendment to operate Site 7B as a multi-usage FTZ warehouse for a term of 5 years to continue operating this site as a FTZ warehouse. Nippon Express receives, stores, re-labels, repackages, manages inventory, and distributes various imported products which will be distributed for U.S. consumption. Occasionally, products are re-exported from this warehouse.

If a company 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, a company can potentially shift its employees to work elsewhere as a result of seeking FTZ status in another location.

Harbor Department Fiscal Requirements –This proposed Second Amendment will not require funding by the Harbor Department. Nippon Express will pay an annual fee of \$7,750 to the Harbor Department for the term of the proposed Amendment.

ENVIRONMENTAL ASSESSMENT:

The proposed action is approval of a proposed Second Amendment with Nippon Express, to operate its site within the FTZ 202 service area at Site 7B, located in Torrance, which an activity is involving the issuance of a permit to use an existing facility involving negligible or no expansion of use. Therefore, 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.

FINANCIAL IMPACT:

If the proposed Second Agreement is approved, the Harbor Department will receive \$7,750 annually from Nippon Express (per FTZ Tariff No. 2).

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 2016, approximately \$48,606.25 was spent on outside FTZ related consulting services, while \$336,688 in revenue was collected from the Harbor Department FTZ operators.

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CITY ATTORNEY:

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

TRANSMITTALS:

1. Proposed Second Amendment of FTZ Operating Agreement for Nippon Express FTZ 202, Site 7B
2. FTZ 202, Site 7B Map
3. FTZ 202, Service Area Map



ERIC CARIS
Director of Cargo Marketing

FIS Approval: mg (initials)
CA Approval: CD (initials)

Mark Bleavin FOR

MICHAEL DiBERNARDO
Deputy Executive Director

APPROVED:



EUGENE D. SEROKA
Executive Director