



**THE PORT
OF LOS ANGELES**
Executive Director's
Report to the

Board of Harbor Commissioners

DATE: AUGUST 23, 2018

FROM: CARGO MARKETING

SUBJECT: RESOLUTION NO. _____ - APPROVAL OF FIRST AMENDMENT TO FOREIGN-TRADE ZONE GENERAL PURPOSE OPERATING AGREEMENT NO. 2647 BETWEEN THE CITY OF LOS ANGELES HARBOR DEPARTMENT AND SONY ELECTRONICS INC., FTZ 202 SUBZONE SITE E

SUMMARY:

Staff requests approval of the First Amendment to Foreign-Trade Zone (FTZ) Operating Agreement No. 2647 (Agreement) between the City of Los Angeles Harbor Department (Harbor Department) and Sony Electronics Inc. (SONY), to continue operating its warehouse within FTZ 202, Subzone Site E, located at 2201 E. Carson Street, Carson, California 90810. The Harbor Department, as the FTZ grantee, establishes General Purpose Operating Agreements with FTZ operators to oversee their FTZ operations.

SONY's current FTZ Operating Agreement No. 2647 will expire on November 30, 2018. The term of the Agreement is ten years with two, five-year renewal options. SONY requests to continue operating its warehouse as an FTZ warehouse. The Harbor Department needs to execute the First Amendment to extend the Agreement, as required by the FTZ Board.

Subzone Site E consists of 521,856 square feet of warehouse and office space on 21.47 acres located approximately 10 miles from the Port of Los Angeles. SONY will operate its warehouse under FTZ procedures as a single-usage site. This proposed First Amendment will not require funding by the Harbor Department. If the proposed amendment is approved, the Harbor Department will receive \$10,000 annually from SONY (per FTZ Tariff No. 2).

RECOMMENDATIONS:

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 administratively exempt from the requirements of the California Environmental Quality Act (CEQA) under Article II Section 2(f) of the Los Angeles City CEQA Guidelines;

DATE: AUGUST 23, 2018

PAGE 2 OF 4

SUBJECT: GENERAL PURPOSE OPERATING AGREEMENT WITH SONY ELECTRONICS, INC. FTZ 202, SUBZONE SITE E

2. Approve the proposed First Amendment to Foreign-Trade Zone Operating Agreement No. 2647 between the City of Los Angeles Harbor Department and Sony Electronics Inc.;
3. Direct the Board Secretary to transmit the proposed First Amendment to Foreign-Trade Zone Operating Agreement No. 2647 to the Los Angeles City Council for approval pursuant to Section 373 of the Los Angeles City Charter 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 First Amendment to Foreign-Trade Zone Operating Agreement No. 2647; 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. The Harbor Department, as the grantee, is required by the FTZ Board to have an Operating Agreement with FTZ site operators.

Need for Agreement – This proposed First Amendment (Transmittal 1) will extend the term of this Agreement to November 30, 2023. A subsidiary of Sony Corporation, Sony Electronics Inc. is a U.S. company with headquarters located in Los Angeles, California and employs approximately 139 full-time and part-time employees working within the FTZ activated area. SONY has continually operated its FTZ warehouse at 2201 E. Carson Street, Carson, California, FTZ 202, Subzone Site E, since 2008. This facility consists of approximately 521,856 square feet of warehouse and office space on 21.47 acres (Transmittal 2) and is within the FTZ 202 service area (Transmittal 3).

Need for Approval – SONY is requesting approval from the Harbor Department to execute the proposed First Amendment to operate Subzone Site E as a single-usage FTZ warehouse for a term of five years. SONY 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 SONY 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

DATE: AUGUST 23, 2018

PAGE 3 OF 4

SUBJECT: GENERAL PURPOSE OPERATING AGREEMENT WITH SONY ELECTRONICS, INC. FTZ 202, SUBZONE SITE E

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

SONY 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.

ENVIRONMENTAL ASSESSMENT:

The proposed action is the approval of a First Amendment to FTZ Operating Agreement No. 2647 with SONY, which is an administrative activity. Therefore, the Director of Environmental Management has determined that the proposed action is administratively exempt from the requirements of the CEQA in accordance with Article II Section 2(f) of the Los Angeles City CEQA Guidelines.

FINANCIAL IMPACT:

If the proposed First Amendment is approved, the Harbor Department will receive \$10,000 annually from SONY (per FTZ Tariff No. 2).

Approval of the First Amendment is not anticipated to result in additional, incremental FTZ-related consulting service expenses being incurred by the Harbor Department. During Fiscal Year (FY) 2018, unaudited revenues of \$344,746 were collected from Harbor Department FTZ operators relative to FY 2018 unaudited expenses of \$36,575 incurred by the Harbor Department for FTZ-related consulting services.

DATE: AUGUST 23, 2018

PAGE 4 OF 4

SUBJECT: GENERAL PURPOSE OPERATING AGREEMENT WITH SONY ELECTRONICS, INC. FTZ 202, SUBZONE SITE E

CITY ATTORNEY:

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

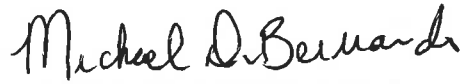
TRANSMITTALS:

1. Proposed First Amendment to FTZ Operating Agreement with Sony Electronics Inc., FTZ 202, Subzone Site E
2. FTZ 202, Subzone Site E Map
3. FTZ 202, Service Area Map

FIS Approval: MB
CA Approval: MA



ERIC CARIS
Director of Cargo Marketing



MICHAEL DiBERNARDO
Deputy Executive Director

APPROVED:



EUGENE D. SEROKA
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