



**THE PORT
OF LOS ANGELES**

Executive Director's
Report to the
Board of Harbor Commissioners

DATE: JUNE 12, 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 LAXFUEL
CORPORATION, FTZ 202, SITE 25**

SUMMARY:

The City of Los Angeles Harbor Department (Harbor Department), as 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 LAXFUEL Corporation (LAXFUEL), Los Angeles, California to activate its Site 25 within FTZ 202, for the storage and delivery of jet fuel servicing the Los Angeles International Airport (LAX). Site 25 consists of various liquid bulk terminal refineries, storage tanks, and pipelines totaling 710.8 acres. Please note that the pipelines and refineries are not owned by the Harbor Department. Site 25 includes three liquid bulk terminals located on Harbor Department property at Berths 118, 119, 167, 168, 169, 188, and 189. In August 2011, the FTZ Board approved Board Order 1779 establishing Site 25 as a new site within FTZ 202. LAXFUEL will be operating its facilities under 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 LAXFUEL Corporation;
2. Direct the Board Secretary to transmit the proposed 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;

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3. Upon approval by the City Council, authorize the Executive Director to execute and the Board Secretary to attest to the proposed Foreign-Trade Zone Operating Agreement; 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.

The purpose of FTZ 202, Site 25 (Transmittal 2) is to provide the means for international carriers at LAX to use jet fuel free of customs duties and fees. The only imported product will be jet fuel. LAXFUEL will store the fuel and deliver it to the airport for use on international flights. The LAXFUEL FTZ site does not include any petroleum refineries and no manufacturing will occur in the FTZ.

The main benefits of FTZ status for LAXFUEL is the ability to commingle imported jet fuel with domestic fuel in storage and use storage tanks more efficiently. In the past, the LAXFUEL storage facilities have been in customs bonded status (and those tanks will remain in bonded status until the FTZ is activated). Within the bonded system, the imported jet fuel is free of customs duties and taxes, so there is no additional savings for LAXFUEL when they convert to FTZ status. However, under the rules for bonded storage, the imported fuel must be physically segregated from the domestic fuel. This is costly because it imposes artificial limits on tank storage capacity. Under FTZ law and regulations, foreign and domestic merchandise may be commingled so long as adequate inventory records of each are maintained.

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LAXFUEL acknowledges that this proposed Agreement has no bearing on any lease or other agreement it has with the City of Los Angeles. This proposed Agreement cannot be construed as granting any right under, or expectation in connection with, any other agreement, including any leases or permits, held by LAXFUEL.

Need for Agreement – The Harbor Department, as the grantee, is required by the FTZ Board to have an operating agreement with FTZ site operators. LAXFUEL has 38 full-time employees to run its airport operations. The total acreages of the jet fuel delivering system are 710.8 acres including refineries, terminals, pipelines and office space. 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.

Need for Approval – LAXFUEL is requesting approval from the Harbor Department to execute the proposed Agreement (Transmittal 1) to operate Site 25 as a FTZ jet fuel delivering system for their customers serving LAX. LAXFUEL, Site 25 is a FTZ Board approved site located within FTZ 202.

If LAXFUEL 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 and Palmdale. Since FTZ facilities exist in every state, LAXFUEL can potentially shift its employees to work elsewhere as a result of seeking FTZ status in another location.

Harbor Department Fiscal Requirements – This proposed Agreement will not require funding by the Harbor Department. LAXFUEL has paid the \$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.

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ENVIRONMENTAL ASSESSMENT:

The proposed action is approval of an agreement with LAXFUEL for the activation of their site within FTZ 202, Site 25. As an administrative activity, the Director of Environmental Management has determined that the proposed action is exempt from the California Environmental Quality Act (CEQA) in accordance with Article II, Section 2(f) of the Los Angeles City CEQA Guidelines.

ECONOMIC BENEFITS:

Approval of the proposed Agreement will have no employment impact.

FINANCIAL IMPACT:

If the proposed Agreement is approved, the Harbor Department will receive from LAXFUEL \$5,000 (per FTZ Tariff No. 1) in FTZ fees per year for five years. Should the renewal options be exercised subsequent to the completion of the initial term of the proposed 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 revenues was collected from all of the Harbor Department's FTZ operators.

Approving the proposed Agreement with LAXFUEL 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 LAXFUEL allows more efficient operations and allows LAXFUEL to remain competitive.

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CITY ATTORNEY:

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

TRANSMITTALS:

1. Proposed FTZ Operating Agreement for LAXFUEL FTZ 202, Site 25
2. LAXFUEL FTZ 202, Site 25 map

FIS Approval: VR (initials)

CA Approval: TRM (initials)



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Director of Business & Trade Development



KATHRYN McDERMOTT
Deputy Executive Director

APPROVED:



GERALDINE KNATZ, Ph.D.
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