

0150-08244-0008

TRANSMITTAL

TO
Eugene D. Seroka, Executive Director
Harbor Department

DATE
07/26/21

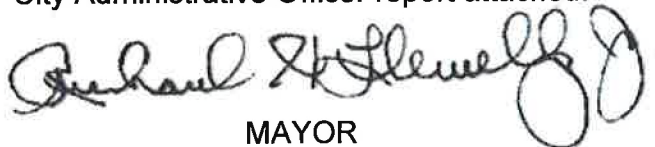
COUNCIL FILE NO.

FROM
The Mayor

COUNCIL DISTRICT

**PROPOSED FOREIGN-TRADE ZONE (FTZ) OPERATING AGREEMENT WITH NIPPON
EXPRESS USA INC. FOR FTZ 202, SITE 4E**

Transmitted for further processing and Council consideration. See the
City Administrative Officer report attached.



MAYOR

MWS:JCY:10220003t

(Rich Llewellyn for)

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: July 12, 2021

CAO File No. 0150-08244-0008

Council File No. --

Council District: --

To: The Mayor

From: Matthew W. Szabo, City Administrative Officer



Reference: Correspondence from the Harbor Department dated April 15, 2021; referred by the Mayor for report May 5, 2021

Subject: **PROPOSED FOREIGN-TRADE ZONE (FTZ) OPERATING AGREEMENT WITH NIPPON EXPRESS USA INC. FOR FTZ 202, SITE 4E**

RECOMMENDATIONS

Approve the Harbor Department (Port) Resolution No. 21-9777 authorizing the proposed Foreign-Trade Zone (FTZ) General Purpose Operating Agreement No. 21-9792 with Nippon Express USA Inc. for FTZ 202, Site 4E for a term of five years, with three additional five-year renewal options for a total agreement term of up to 20 years; and, return the Resolution document to the Port for further processing, including Council consideration.

SUMMARY

The Harbor Department (Port) Board of Harbor Commissioners (Board) requests approval of Resolution No. 21-9777 authorizing proposed Foreign-Trade Zone (FTZ) Operating Agreement No. 21-9792 (Agreement) with Nippon Express USA Inc. (Nippon Express) to operate its facility located at 18651 Ferris Place in Carson, California, approximately 10 miles from the Port of Los Angeles, as an FTZ site within FTZ 202, Site 4E. The proposed Agreement is for a term of five years, with three additional five-year renewal options, contingent upon Board approval, for a total agreement term of up to 20 years. Nippon Express will operate and manage its FTZ warehouse facilities and operations as a multi-usage FTZ warehousing site, providing services to the public such as logistics, handling, storage, inventory and quality control of various materials, components and consumer products, which will go on to be sold in the domestic market or be re-exported. Nippon Express will be subject to FTZ Tariff No. 2 rates, including an annual administrative operating fee of \$7,750, payable to the Port.

Nippon Express, with a regional office in Long Beach, California, is the United States arm of an international company, Nippon Express Co. Ltd, which provides international transport, logistic, warehouse, and distribution services. FTZ 202, Site 4E consists of approximately 264,203 square feet of warehouse and office space on 13.8 acres of land. Nippon Express operates and occupies

approximately seven acres of the Site 4E space and employs 56 full-time employees at the FTZ site. Nippon Express took over this site and operations, effective April 1, 2021, from sister company Nippon Express NEC Logistics Inc., which previously held the FTZ Operating Agreement for Site 4E (C.F. 14-1334). Nippon Express also holds an FTZ operating agreement with the Port for FTZ 202, Site 61, located in Long Beach and performs similar functions as a multi-usage FTZ site (C.F. 12-1371).

Nippon Express will operate under Federal FTZ Operating rules and regulations. The United States (U.S.) Government's Federal FTZ Board designated the Port as the Grantee/Administrator of the FTZ 202 region for the City of Los Angeles and the surrounding region. An FTZ is a secure, U.S. Customs and Border Protection Agency (Customs)-regulated area located in or near a U.S. port of entry where merchandise may be stored, manipulated, or manufactured prior to import or export without being subject to Customs tariffs or fees. Tariff and import fees are only charged if the merchandise is officially imported into the US for consumption. The Port's and the FTZ program's goal is to stimulate economic growth and development in the U.S., facilitate efficient cargo transit and support the local, state and national economy. The Port administers FTZ 202 as a service to its customers and the surrounding business community to promote international trade and commerce in the region and throughout the U.S. All activities are performed in accordance with Federal FTZ procedures. See the Attachment for an overview of FTZ policies and guidelines for this Agreement.

The Port will receive, per FTZ Tariff No. 2, an annual payment from Nippon Express of \$7,750 totaling \$38,750 for the five-year term. The Port states that it spends these funds on indirect or outside expenses for FTZ-related administrative services. During Fiscal Year, 2019-20, the Port states that it spent \$30,181 for FTZ-related consulting expenses and collected \$361,536 in revenue and fees from all FTZ 202 operations.

The proposed Agreement complies with City requirements and has been approved as to form and legality by the City Attorney. The Port reports that the proposed action is an administrative activity and is therefore administratively exempt from the requirements of the California Environmental Quality Act (CEQA) in accordance with Article II, Section 2(f) of the Los Angeles City CEQA Guidelines.

FISCAL IMPACT STATEMENT

The proposed Foreign-Trade Zone (FTZ) Operating Agreement between the Harbor Department (Port) and Nippon Express USA Inc. (Nippon Express) requires Nippon Express to pay an annual administrative fee of \$7,750 per year for a total of \$38,750 for the five-year term. All funds will be deposited in the Harbor Revenue Fund. The recommendations in this report comply with Port Financial Policies in that any expenditures made for FTZ-related expenses will be paid by appropriate Port revenues and fees. There is no impact on the City General Fund.

ATTACHMENT

OVERVIEW OF FOREIGN-TRADE ZONES (FTZ), OPERATING AGREEMENT

The Federal FTZ Board designated the Harbor Department (Port) as the Grantee/Administrator of FTZ No. 202 for the City of Los Angeles and the surrounding region. The following is an overview of FTZ Operator policies and guidelines.

The Port enters into FTZ Operating Agreements with various companies who have applied for FTZ status with the Federal FTZ Board and have been approved by the United States (U.S.) Department of Homeland Security Customs and Border Protection (Customs) to activate a site. The Federal FTZ Board grants authority under the amended FTZ Act of 1934, which is administered through Federal FTZ and Customs regulations. The federal government established the FTZ Act to support U.S. commerce and create jobs by reducing import duties or excise taxes by deferring payment of duty, thereby making it appealing for companies to perform work on their products in the U.S. instead of offshore. The FTZ program's goal is to stimulate economic growth and development in the U.S., facilitate efficient cargo transit and support the local, State and national economy.

An FTZ is an area comprised of individual, secure access sites located in or near the port of entry for Customs, but legally considered to be outside the U.S. for the purpose of tariff laws and Customs entry procedures. It is the U.S. version of what is known internationally as free-trade zones. Qualified public or private companies sponsor FTZ sites and may operate the facilities themselves or contract for the operation with public or private firms. The operations are either multi-use—such as distribution and logistics companies opening their services to the public, or single-use—run by a company importing and managing its own goods for sale. All operations must adhere to published tariff rates—in this case, the published rates applicable are the Port Tariff No. 2 rates, terms and conditions. These spaces and operations are under the supervision of the Federal FTZ Board and Customs and are required to operate within U.S. law.

The Port FTZ No. 202 is a multi-zone FTZ currently operating more than 30 sites with 35 contracted FTZ general purpose operators and four Subzone operators. The sites include approximately 5,400 acres of facilities on Port property and at Los Angeles International Airport, nearby industrial parks and other outlying locations. The FTZ is not intended to generate a profit for the Port, but is provided as a service to its customers and the surrounding business community to promote international trade in the U.S. These operations are monitored by the Port under the supervision of the Federal FTZ Board and Customs and are required to operate within U.S. law.

The FTZ Operator is normally required to pay a one-time application fee of \$7,500 and an annual administrative operating fee of \$7,750 or \$10,000 per year for an initial term of five years, with three subsequent five-year renewal options, in the same amount, for a contract term up to a total of 20 years. The proposed Agreement renewal options are subject to approval by the Board and Customs concurrence. The proposed Agreement with the FTZ Operator becomes effective the first of the month following Council approval and remains in effect for an initial term of five years. Either the Port or FTZ Operator can terminate the proposed Agreement at the end of the each term or by submitting a 180-day prior written notice.