

**PORT OF SEATTLE**  
**MEMORANDUM**

**COMMISSION AGENDA**

**Item No.** 6a

**Date of Meeting** March 23, 2010

**DATE:** March 16, 2010

**TO:** Tay Yoshitani, Chief Executive Officer

**FROM:** Tom Tanaka, Senior Port Counsel  
Linda Styrk, Seaport Managing Director

**SUBJECT:** Resolution No. 3635: Second Reading and Final Passage. Application to Reorganize General Purpose Foreign Trade Zone No. 5 under the Alternative Site Framework

**ACTION REQUESTED:**

Second Reading of Resolution No. 3635 - A resolution providing the Chief Executive Officer (CEO) with the authority to submit an application to reorganize General Purpose Foreign Trade Zone No. 5 under the Alternative Site Framework program and for the CEO to implement the program through agreements with prospective companies that desire to utilize the Port's Foreign Trade Zone ("FTZ"), after prior notification to the Port of Seattle Commission.

**SYNOPSIS:**

The Alternative Site Framework ("ASF") program is intended to simplify the process for extending our Foreign Trade Zone No. 5 authority to new users. The Port's intent in applying is to improve our competitive position with prospective FTZ users by enabling more efficient processing of customer requests for use of our FTZ authority. The FTZ Board in Washington, D.C. requires that FTZ grantees such as the Port submit a resolution authorizing application for the Alternative Site Framework program. The Port will submit the application in compliance with federal and state statutes, and the application will be consistent with all other Port policies and procedures. Port staff will notify the Commission five days before any agreements with individual companies are sent to the FTZ Board.

**BACKGROUND:**

An FTZ is a location in the United States legally considered to be outside U.S. Customs jurisdiction. Shippers can bring goods into an FTZ without making a formal customs entry or paying duty charges. Within an FTZ, goods can be stored, manipulated, manufactured and subsequently either re-exported, or entered into the U.S. for consumption. Once shippers take the goods outside the FTZ for domestic consumption, they make a formal entry filing and pay applicable duties. There are a variety of benefits shippers can derive from the use of an FTZ. Any company that has a facility in the U.S. that imports either parts, materials or components for manufacturing or finished goods or

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parts for distribution can realize customs duty savings through tariff differentials between imported components and finished products, as well as by lowering administrative costs through the reduction of paperwork and the number of entry filings.

Foreign Trade Zones are located in all 50 states and Puerto Rico. The Foreign Trade Zone Board granted the Port's application to establish, operate and maintain Foreign Trade Zone No. 5 on June 27, 1949. The Port has operated a foreign trade zone since that time, either directly on Port property or through extending FTZ authority to operators within King County. The current land area of our FTZ is 1,390 acres. This boundary "footprint" can be transferred under our current FTZ program from Port-owned acreage to other sites in King County, and, in unusual cases, can be extended to areas within other counties. The main impediment to implementing the current program is the time and expense involved with applying for this kind of boundary modification. The ASF program makes designating a new FTZ site much easier. The ASF program also has the benefit of increasing the available acreage for FTZs to 2,000 acres. At the moment, this is more than enough room for expansion.

Initially, the Port itself operated FTZ No. 5. Operations peaked in the mid-1980's through mid-1990's when the Port operated T-104 and T-106 and offered a multitude of services including warehouse, distribution, transportation facilities. Honda, Kawasaki, Hasbro and Tyco were among the biggest users of the Port's T-106, while other customers used T-104 to manipulate their cargo in an FTZ environment. In the late 1990's, Port labor costs grew too high, and this change led to a decline in customer demand for Port warehouse services, including the FTZ.

In the early 2000's, the Port phased out the use of our FTZ, though FTZ service was still offered using a customer's own warehouse. In 2000, due to the growth of our cruise business, Fairn & Swanson, supplier of wine and spirits to cruise ships, began using an FTZ for its ship replenishment stock. The Port, as Grantee, submitted an FTZ boundary modification application to encompass Fairn & Swanson's warehouse, which is located outside Port-owned land near Sea-Tac Airport. Fairn & Swanson's business subsequently expanded with our cruise business, and it has run a successful FTZ operation for 10 years.

The Port wishes to extend and encourage use of its FTZ authority to attract warehouse and distribution activity. Such activity will anchor existing cargo and may bring new cargo and jobs to our region. The Port is interested in facilitating its FTZ authority utilization by restructuring Foreign Trade Zone No. 5 under the Alternative Site Framework ("ASF") program as announced by the FTZ Board a year ago. At present, we are planning on using this framework to reach an agreement with Amer Sports, a supplier of athletic equipment, for an FTZ operation, through a cooperative agreement with the Port of Everett. Amer Sports is expected to ship its goods through our seaport facilities, although some may be shipped through the Port of Tacoma, as well.

The ASF program will allow the Port to designate facilities in King County as an FTZ. The main advantage of the new procedures is to enable more efficient processing of customer requests for use of our FTZ authority by shortening the procedures necessary to establish these facilities. We will then offer this as a tool for both currently operating companies within our region, and as a marketing strategy to attract new companies. Companies that assemble finished products from individual

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components for export, as well as companies involved in high value-added manufacturing are natural beneficiaries of such arrangements.

### **STRATEGIC OBJECTIVES:**

The Port is committed to promoting use of this authority for existing warehouse and distribution facilities, or businesses interested in establishing a warehouse or distribution facilities in our region with FTZ capabilities to retain and attract cargo, and to maintain, protect and grow jobs in our region. It will also allow us to build strategic relationships with communities like Auburn and Kent that are engaging in economic development strategies. This request supports our strategic objectives to support seaport vitality and create economic opportunities in the region.

### **FINANCIAL IMPLICATIONS:**

At this time, non-Staff expenses associated with requests for use of the Port's FTZ authority are passed through to the requestor either directly or covered through Port of Seattle Terminal Tariff No. 4, as applicable. Staff time is accommodated within the Port's annual budget. Although the Port is the 'Grantee,' that does not imply that the Port does all the paperwork; most will be handled by the company itself or a 3<sup>rd</sup> party it might designate.

### **ECONOMIC IMPACTS:**

We expect to receive increased economic benefits from higher TEU levels at our seaport by expanding activity under our FTZ, including direct and indirect jobs related to container movements, light manufacturing and assembly, warehouse, distribution, trucking and related businesses. No negative impacts were identified.

### **ENVIRONMENTAL SUSTAINABILITY/COMMUNITY BENEFITS:**

Community benefits include increased opportunity for job growth as well as increased tax base generated by economic activity in those facilities designated as FTZs, especially those in South King County. (See Economic Impacts)

### **PROJECT SCHEDULE:**

The Port will submit a final application to the FTZ Board in Washington, D.C. The processing time for this review is approximately six months. At that time, we will be in a position to move forward with requests for FTZ designations under the Alternative Site Framework program.

At this time, Port staff is forming a group to consider how to best administer, promote and market our FTZ. Among questions to consider are how to minimize administrative demands on the Port, how to use FTZs more proactively to attract businesses, how to identify and communicate with particular firms or sectors that are unaware of the advantages of FTZs, how to

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combine this new advantage with current marketing efforts, and how to work strategically with governments and business associations to strengthen our ability to use this as an economic development tool. This group will provide a briefing to the Port Commission once a strategy is developed for implementation, which will include the notification procedure being used to inform the Commission of potential agreements.

### **ALTERNATIVES CONSIDERED/RECOMMENDED ACTION:**

- Submit an application to reorganize General Purpose Foreign Trade Zone No. 5 under the Alternative Site Framework and for Port staff to execute an agreement with any prospective companies that desire to utilize the Port's FTZ. **This is the recommended alternative.**
- Do not submit an application to reorganize General Purpose Foreign Trade Zone No. 5 under the Alternative Site Framework. Under this alternative, requests would be handled using the "Boundary Modification" framework which is more tedious and time consuming to administer and hinders our ability to compete for prospective FTZ business. This is not the recommended alternative.

### **ATTACHMENTS:**

Exhibit A – Resolution No. 3635

Exhibit B – Application to the Foreign Trade Zone Board to reorganize General-Purpose Foreign Trade Zone Number 5 under the Alternative Site Framework is available electronically.

### **PREVIOUS COMMISSION ACTIONS OR BRIEFINGS:**

March 9, 2010 – First Reading of Resolution No. 3635.