



# Memorandum

**TO:** COMMUNITY & ECONOMIC  
DEVELOPMENT COMMITTEE

**FROM:** Lee Wilcox

**SUBJECT:** Foreign Trade Zone and  
Sister Cities programs

**DATE:** June 3, 2025

Approved

Date

6/6/25

## **RECOMMENDATION**

Accept the report on the City's Foreign Trade Zone and Sister Cities programs.

## **BACKGROUND**

International trade and investment help to drive San José's economy and enhance employment opportunities. The City's profile has grown internationally because it has engaged with cities and regions across the globe, as well as welcomed companies seeking to invest and grow their business in the United States. International affairs have been part of the City Manager's Office of Economic Development and Cultural Affairs work for several years, including the Foreign Trade Zone and Sister Cities programs. The Foreign Trade Zone is an important federal economic development program that the City administers for San José and the region. The national Sister Cities program is a network of U.S. cities that work to build community engagement with partner cities across the globe.

### **Foreign Trade Zone 18 Program**

A Foreign Trade Zone is a site in the United States that is outside of a United States Customs area. A Foreign Trade Zone is in international commerce for Customs purposes. This allows foreign merchandise to be admitted into a Foreign Trade Zone without a Customs clearance. Duties are paid to the federal government only when foreign merchandise is removed from the Foreign Trade Zone and enters U.S. territory. There are no duties on foreign merchandise exported from a Foreign Trade Zone, as the merchandise has not entered the United States.

The City Manager's Office of Economic Development and Cultural Affairs regularly interacts with two key federal partners, the U.S. Department of Commerce Foreign

Trade Zones Board and United States Customs and Border Protection, to manage the Foreign Trade Zone program. The Foreign Trade Zones Board reviews and approves applications for new Foreign Trade Zone projects and administers the program across the 50 states and Puerto Rico. United States Customs and Border Protection activates a Foreign Trade Zone site and ensures federal compliance with Foreign Trade Zone operations.

### Sister Cities Program

San José has been active in the national Sister Cities program since 1956, following a White House conference on citizen diplomacy that led to People-to-People programs and Sister Cities. Cities and counties across the United States have established 1,800 Sister City partnerships with cities in 138 nations since the program was established.

A Sister City affiliation is an official City Council-approved partnership with an international city that encourages programs, exchanges, and activities in education, sports, and the arts. San José became a charter member of the Sister Cities network and was invited by the federal government to establish one of the nation's earliest Sister City affiliations. In 1957, the City Council approved a Sister City affiliation with Okayama, Japan. The City subsequently established seven additional Sister City affiliations, including San José, Costa Rica (1961), Veracruz, Mexico (1975), Tainan, Taiwan (1977), Dublin, Ireland (1986), Pune, India (1992), Ekaterinburg, Russia (1992), and Guadalajara, Mexico (2014). Sister City affiliations are meant to be permanent, formal city-to-city relationships that require ongoing city government participation and some financial support. City staff reviews and evaluates proposed Sister City affiliations. Following an extensive review process, the City Council votes on a proposed Sister City affiliation.

This report will update the Community and Economic Development Committee on the San José Foreign Trade Zone and Sister Cities activities and developments over the past year.

## **ANALYSIS**

### Foreign Trade Zone 18 program

Operating with a Foreign Trade Zone designation enhances the global competitiveness of companies operating in the United States. In addition to cost savings, securing the Foreign Trade Zone designation brings operational efficiencies to a company. The City is the grantee of the San José Foreign Trade Zone, or the administrator of this federal program, for San José and the region. In November 2024, the City marked the 50<sup>th</sup> anniversary of establishing San José Foreign Trade Zone 18. The City recognized the companies that have contributed to the growth of the regional economy by operating as foreign trade zones.

A grantee is typically a city, county, state government, airport, or seaport authority committed to operating the Foreign Trade Zone as a public benefit and advancing economic development. The Foreign Trade Zone statute defined a grantee's territory as 60 miles or 90 minutes driving time from the grantee's border. In 2013, the City redesignated the Foreign Trade Zone with the United States Department of Commerce. It defined a new service area that includes San José, the cities and towns in Santa Clara County, Santa Cruz, Scotts Valley, Fremont, Hayward, Newark, and Union City. Any site zoned by local authorities within this service area for industrial, manufacturing, and research, and development can potentially be designated as a Foreign Trade Zone. The grantee is the applicant to the federal government to establish a new Foreign Trade Zone project or alter an existing one. A grantee is not limited to their service area. Still, a grantee's service area has an expedited application review, and the federal government application fee (\$4,000 to \$6,500) is waived, resulting in a significant company benefit.

There are currently 11 companies that are Foreign Trade Zones under the City's grant of authority, including Maxar Space, Lam Research, Tesla, RK Logistics, Bloom Energy, Epoch International Enterprises, Seyond, ISE Labs, LYM International Group, Halo Industries, and Quanergy Solutions. Most companies have manufacturing or production authority for their Foreign Trade Zone. Three new San José Foreign Trade Zone projects were approved by the Foreign Trade Zones Board in the past year and are expected to admit merchandise into the Foreign Trade Zone this year. Several companies have communicated with the City in 2025 regarding new Foreign Trade Zone projects. Staff has been engaged with companies, the Foreign Trade Zones Board, and United States Customs and Border Protection about prospective new Foreign Trade Zone projects.

Nationwide Foreign Trade Zone activity totaled \$949 billion in 2023, and employment exceeded 550,000.<sup>1</sup> Nearly 68 percent of merchandise admitted into a Foreign Trade Zone was domestic, which highlights how this program supplements domestic manufacturing components, supporting operations of companies in the United States that might otherwise be relocated offshore. San José Foreign Trade Zone activity in 2023 totaled between \$10 and \$25 billion, which ranked among the top Foreign Trade Zones, according to the *85<sup>th</sup> Annual Report of the Foreign Trade Zones Board to the Congress of the United States*. Employment in the San José Foreign Trade Zone was approximately 32,000, and exports totaled \$5 billion.

In April 2025, a Presidential Executive Order changed the benefits of operating within a Foreign Trade Zone.<sup>2</sup> The order locked the tariff rate of foreign merchandise at the time it enters the Foreign Trade Zone, thereby eliminating the "inverted tariff" benefit for goods subsequently brought into United States commerce. While companies can no

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<sup>1</sup> This is the most recent available Foreign Trade Zone data.

<sup>2</sup> <https://www.federalregister.gov/documents/2025/04/07/2025-06063/regulating-imports-with-a-reciprocal-tariff-to-rectify-trade-practices-that-contribute-to-large-and>

longer pay a lower duty rate on finished products manufactured within a Foreign Trade Zone and then imported into the United States, they still significantly benefit from delayed duty payments on merchandise held within the Foreign Trade Zone and, crucially, avoid all duties and tariffs when products manufactured or assembled in a Foreign Trade Zone are exported.

### Sister Cities Program

Staff manages City agreements around four of the eight established Sister City relationships and provides up to \$3,000 in reimbursable expenses annually in each agreement to support Sister City programs in the community. The Okayama, Dublin, Pune, and Guadalajara Sister City programs are active and work to advance the Sister City relationship. The Sister City organizations are non-profits registered with the State of California and comprised of San José residents (and members of other communities interested in supporting San José's Sister City program). San José State University and community organizations, including the San José Rotary and many arts and cultural organizations, have made significant contributions for decades to build and grow San José's international relationships.

During the past year, delegation visits strengthened Sister City relationships with Dublin, Ireland, and Okayama, Japan. In September 2024, a San José delegation visited Dublin to advance the City's 39-year linkage with Dublin. The delegation included four members of the Council, the City Manager, the City Clerk, and members of the San José Dublin Sister City program. The four-day visit to Dublin included meetings with the Dublin Lord Mayor and city leaders, the Dublin Chamber of Commerce, and Enterprise Ireland. The Dublin City Council provided several presentations on various Dublin programs and operations. The San José delegation learned of the Dublin City Council's approach to housing, planning, design, and business support. The San José Dublin Sister City Program reached out to the developers of the Portal Project, which initially linked Dublin and New York, hoping to bring the Portal Project to San José to have a live video link with Dublin.

The 68-year Sister City affiliation with Okayama was celebrated in April 2025 with a three-day visit by a 20-member delegation from the Okayama City Council and the Okayama Chamber of Commerce. The delegation's visit marked the first by an Okayama delegation since 2017. The City of Okayama plans to construct an indoor sports arena. A key factor in their visit to San José was to tour the SAP Center to learn about a sports facility's economic impact on a community. To this end, the City hosted the delegation to a San José Sharks game and received a behind-the-scenes tour of the SAP Center from the staff at Sharks Sports and Entertainment. The Okayama delegation was recognized with a commendation from the City Council, and the City Librarian provided the delegation a tour of the MLK Library. The San José Rotary also hosted the delegation at their weekly member luncheon. In recognition of long-standing Okayama/San José State University ties, San José State University President Cynthia Teniente-Matson hosted the delegation for a luncheon at her residence. In a meeting

with staff and San José Okayama Sister Cities, the City of Okayama conveyed their interest in hosting a San José delegation in 2027 for the 70<sup>th</sup> anniversary of the Sister City affiliation and will plan to organize an Okayama delegation visit to San José the following year.

Key Sister City community activities in Fiscal Year 2024-2025 included the participation of six San José high school students in an international exchange program in Okayama. The one-week program, organized and hosted by the City of Okayama, allowed the San José students to interact with students from Okayama and other parts of the world. San José Okayama Sister Cities coordinated the participation of the San José students. In March 2025, the San José Dublin Sister City Program organized the annual Shamrock Run in Downtown San José, which has become San José's leading St. Patrick's Day event. The Run was sold out with over 2,300 participants. The Shamrock Run raises funds for the Pat McMahon Scholarship Program, which fosters educational opportunities for San José and Dublin college students.

Sister City programs and activities for Fiscal Year 2025-2026 will include the 2026 Shamrock Run, the resumption of the Spirit of Ireland Award, and a San José State University-University College Dublin student exchange. A University College Dublin student will enroll at San José State University for the 2026 spring semester and receive an internship with a technology company as part of the program. In summer 2025, San José Okayama Sister Cities will organize a one-week cultural and educational activities program in San José for eight Okayama middle and high school-age students.

## **COORDINATION**

This memorandum has been coordinated with the City Attorney's Office and the City Manager's Budget Office.

/s/

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