



# Memorandum

**TO:** COMMUNITY AND ECONOMIC  
DEVELOPMENT COMMITTEE

**FROM:** Nanci Klein

**SUBJECT: FOREIGN TRADE ZONE 18 AND  
SISTER CITIES PROGRAMS STATUS  
REPORT**

**DATE:** June 14, 2024

Approved

Date

6/14/24

## RECOMMENDATION

Accept staff's report on the City's Foreign Trade Zone 18 and Sister Cities programs.

## BACKGROUND

International affairs, trade and investment have been part of the Office of Economic Development and Cultural Affairs (OEDCA) work plan for several years and includes management of the City's Foreign Trade Zone 18 and Sister Cities programs.

The Foreign Trade Zone 18 and Sister Cities programs have a long history in San José. This year marks 50 years since San José Foreign Trade Zone 18 was approved by the U.S. Department of Commerce Foreign Trade Zones Board and 68 years since the City joined the national Sister City network of United States cities partnering with international cities on community and municipal initiatives.

The Foreign Trade Zone enhances national and local economic development and the global competitiveness of companies operating in the United States, facilitating growth in manufacturing, trade, and employment in San José and California. The Sister Cities program provides a platform for residents, businesses, community organizations, students and educators, and others to engage with San José's global partner cities in initiatives of mutual interest, including economic development, trade, investment, education, the arts, and community programs.

### Foreign Trade Zone 18 Program

This year marks 90 years since the U.S. Congress passed the Foreign Trade Zones Act, which established the Foreign Trade Zone program in the United States. The legislation was designed

to grow commerce and trade in the United States and demonstrate leadership in the emerging global trading system. Initial Foreign Trade Zones locations were largely at the nation's leading seaports. The City's 1974 application to the federal government created the nation's 18<sup>th</sup> Foreign Trade Zone. The Foreign Trade Zone was first located in north San José in an industrial warehouse building, and the street was renamed Trade Zone Boulevard. The Foreign Trade Zone activity during that time was limited to storage, warehousing, and distribution of foreign merchandise.

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 considered to be in international commerce for customs purposes. This allows foreign merchandise to be admitted directly into a Foreign Trade Zone duty-free. Duties are paid to the federal government only when the foreign merchandise is removed from the Foreign Trade Zone and enters United States commerce. Many individual foreign components have a higher duty rate than the finished product in which they are utilized. The Foreign Trade Zone allows a company to pay an inverted tariff to the federal government, paying the lower duty rate when the finished product enters United States commerce versus having to pay a higher rate on the products foreign components. Importantly, no duties are paid on foreign merchandise that is exported from the Foreign Trade Zone, as this merchandise has technically not entered into the United States. In addition to delaying, reducing, or eliminating federal duties on imported merchandise, the Foreign Trade Zone streamlines customs procedures, resulting in cost savings and improved efficiencies for a business.

Activities in a Foreign Trade Zone often include storage, assembly, manipulation, testing and repair. Beginning in the early 1980s federal guidelines allowed manufacturing and production in Foreign Trade Zones and companies were able to apply through a grantee for Foreign Trade Zone authority for company sites.

### Sister Cities

San José has been a leader in the national Sister Cities program since this initiative was launched in 1956 following a White House conference on citizen diplomacy hosted by President Dwight Eisenhower. The City became a charter member of the Sister Cities network and was invited by the federal government to establish one of the nation's first Sister City affiliations. In 1957, the City Council approved a Sister City affiliation with Okayama, Japan, the third oldest Sister City in the United States,

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

## ANALYSIS

### Foreign Trade Zone 18 Program

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The City is the grantee of Foreign Trade Zone 18 and manages the Foreign Trade Zone in San José and the region. A grantee is typically a city, county or state government, airport or port authority committed to operating the Foreign Trade Zone as a public benefit and advance economic development. The San José Foreign Trade Zone service area is San José, the cities and towns in Santa Clara County, Santa Cruz, Scotts Valley, Fremont, Hayward, Newark and Union City. Any site zoned by the local authorities within this service area for an industrial or research and development use is eligible to be Foreign Trade Zone through an application process led by the City.

There are currently 11 companies that are Foreign Trade Zones under the City's grant of authority, including Maxar Space, Lam Research, Tesla, The RK Logistics Group, Bloom Energy, Enovix, Roambee, Epoch International Enterprises, Seyond, Prism Team Services, and ISE Labs. Most of the companies have Foreign Trade Zone manufacturing or production authority. Staff interacts regularly with Foreign Trade Zone companies on their operations and with federal partners responsible for the management and enforcement of the program, the

United States Department of Commerce Foreign Trade Zones Board and the United States Customs and Border Protection.

There are nearly 200 active Foreign Trade Zones across the United States and Puerto Rico. In 2022, Foreign Trade Zone activity nationwide exceeded \$1 trillion for the first time, and over 500,000 workers were employed within a Foreign Trade Zone, which is also a record. Nearly 70% of the merchandise admitted into a Foreign Trade Zone is domestic product, which highlights the importance of the program to the United States economy. There are 17 Foreign Trade Zones in California, and the San José Foreign Trade Zone ranks first among California Foreign Trade Zones in employment and exports. Along with Los Angeles and Long Beach, San José’s Foreign Trade Zone has the largest amount of activity.

In 2023, the San José Foreign Trade Zone activity was nearly \$25 billion, exports were \$6.2 billion, and employment was over 30,000. The San José Foreign Trade Zone encompasses an area larger than the City itself, and a significant number of San José residents are employed by companies that are part of the City’s Foreign Trade Zone. Based on data provided by companies, over 5,000 San José residents are employed by these companies.

San José Foreign Trade Zone companies recently shared statements to the City about the importance of the Foreign Trade Zone and the value of their operations. One company cited the savings of duties on foreign merchandise that is assembled by the company for export and the ability to save on scrap. A company that provides third party logistics remarked on the solutions the company is able to offer their clients and the competitive edge in global trade facilitation. A start-up company shared the value of the Foreign Trade Zone to the company’s new manufacturing line and their ability to import from across the world and build their products in Silicon Valley.

Staff will continue efforts with businesses, partner organizations, and the community to enhance and expand the Foreign Trade Zone program in San José and the region. Many factors enter into a company’s decision to operate as a Foreign Trade Zone, but OEDCA aims to add one or two companies per year. In January 2024, ISE Labs became the City’s newest Foreign Trade Zone operator for their company sites in San José and Fremont.

San Jose Foreign Trade Zone 18  
 Companies Establishing Foreign Trade Zone Operations  
 2019 - 2024

<b>Company</b>	<b>Year</b>	<b>Industry</b>
Bloom Energy Corporation	2019	Energy
Enovix Corporation	2020	Battery
RoamBEE Corporation	2021	Tracking Devices
Seyond, Incorporated	2022	LiDAR Technology
Prism Team Services Inc, of the East Bay	2022	Warehouse and logistics

<b>Company</b>	<b>Year</b>	<b>Industry</b>
Epoch International Enterprises, Incorporated	2022, 2024	Manufacturer of Electric Boards
ISE Labs, Incorporated	2024	Semi-conductor Components

### Sister Cities

Each Sister City affiliation is led by a non-profit Sister City committee or association that is recognized by the City to plan and implement Sister City programs in San José that will advance the Sister City relationship. OEDCA staff manages City agreements with each Sister City organization and provides up to \$3,000 annually to support Sister City programs in the community. The Okayama, Tainan, Dublin, Pune, and Guadalajara Sister City programs are active, with registered non-profit organizations that plan Sister City programs in the community. The Sister City organizations are comprised of San José residents (and residents of other communities that are interested in supporting the City's Sister City program) who volunteer their time to plan programs to advance San José's Sister City relationships. San José State University and community organizations have also made significant contributions for many decades in helping to advance San José's international relationships across the globe.

A key Sister City initiative in 2023-2024 was the three-day visit by the Lord Mayor of Dublin, Ireland, and the City Council delegation. The Lord Mayor and City Council delegation met with the Mayor, City Manager, City Manager's Budget Office, Community Energy, Housing Department, and OEDCA and received briefings on Smart Cities and Blue Zones. Meetings were also held with Team San José and the San José Sports Authority. San José State University hosted roundtable discussions with several San José arts organizations. The delegation attended a San José Sharks game, a San José Rotary luncheon, and dinner with the San José Dublin Sister City Program Board. OEDCA staff organized the program for the Dublin officials. The engagement with City officials and community organizations advanced the Sister City relationship now in its 38<sup>th</sup> year, with a key focus of advancing economic and cultural relations with Dublin.

Additional Sister City activities over the past year include the annual St. Patrick's Day Shamrock Run in the Downtown, which included over 3,000 participants, a reception and community celebration of the City Hall Pune Sister City photo exhibition, a Lunar New Year of the Dragon celebration, and this summer's exchange program in Okayama hosted by the City of Okayama. Eight San José high school students will travel to Okayama in July for a one-week exchange program with Okayama and other international students.

There is interest in a Sister City affiliation with Shenzhen, China. OEDCA staff is currently developing an estimate of staff time required to develop the appropriate protocols and strategies for this engagement. Once completed, OEDCA staff will bring the information to City Council in fall 2024.

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**Subject: Foreign Trade Zone 18 and Sister Cities Programs Status Report**

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**COORDINATION**

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

/s/

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