



# Memorandum

**TO:** COMMUNITY & ECONOMIC  
DEVELOPMENT COMMITTEE

**FROM:** Nanci Klein

**SUBJECT: FOREIGN TRADE ZONE AND  
SISTER CITIES PROGRAMS**

**DATE:** June 17, 2022

Approved

*Rosalyn Hughes*

Date

6/17/22

## RECOMMENDATION

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

## BACKGROUND

International trade and investment are critical to San José's economy. The City's profile has grown internationally as a result of increased engagement with regions across the globe. International affairs have been part of the Office of Economic Development and Cultural Affairs workplan for several years, with the Foreign Trade Zone and Sister Cities programs being the most prominent. The Foreign Trade Zone is an important economic development program that the City administers for San José and the region. The national Sister Cities program is a network of cities across the globe that work to build community engagement with partner cities.

## ANALYSIS

### Foreign Trade Zone Program

The federal Foreign Trade Zone program is one of the nation's earliest economic development initiatives. The U.S. Congress passed the Foreign Trade Zones Act in 1934 to foster U.S. leadership in global commerce and trade. In 1974, the City applied to the Foreign Trade Zones Board, which is part of the U.S. Department of Commerce, for Foreign Trade Zone authority for San José and the region (the San José Foreign Trade Zone was defined as an area of 60-miles or 90-minutes driving time from the San José border). San José Foreign Trade Zone 18 was approved that year and was the 18<sup>th</sup> Foreign Trade Zone established nationwide. Today there are nearly 200 active Foreign Trade Zones nationwide and 17 in California.

A Foreign Trade Zone is a territory in the United States that is outside of a U.S. Customs area. Thus, a Foreign Trade Zone is in international commerce for Customs purposes. This allows foreign merchandise to be admitted into a Foreign Trade Zone duty-free. Duties are paid when

the foreign merchandise is removed from the Foreign Trade Zone and enters U.S. territory. There is no time limit for goods admitted into a Foreign Trade Zone and deferral of duty payments can be beneficial to a company. Many foreign components have a higher U.S. duty rate than the finished product of the component. The Foreign Trade Zone allows the user to pay an inverted tariff, paying the lower duty when the finished product enters U.S. commerce. Finally, there are no duties on foreign merchandise admitted into the Foreign Trade and exported. The Foreign Trade Zone can result in significant cost savings for the San José area and U.S. companies, encourage investment in the U.S., and support U.S. manufacturing and trade.

Activities in a Foreign Trade Zone often include storage, assembly, manipulation, testing, repair, destruction, and production/manufacturing. Imported production equipment can be assembled and tested in a Foreign Trade Zone, with duties paid at the time the equipment is put into production. The Foreign Trade Zone streamlines Customs procedures which results in cost savings and improved efficiencies.

The City is the grantee of Foreign Trade Zone 18 and oversees the Foreign Trade Zone in San José and the region. A grantee is typically a state, county, or city government, airport or seaport authority, and committed to operate the Foreign Trade Zone as a public benefit and economic development tool for their area. In 2012 the City redesignated Foreign Trade Zone 18 with the Foreign Trade Zones Board and designated San José, Santa Clara County, Santa Cruz, Scotts Valley, Fremont, Hayward, Newark, and Union City as the service area. Through this redesignation, the Foreign Trade Zone application and federal application review was significantly streamlined for Foreign Trade Zone projects in the San José region. This also made it practical for smaller and mid-size companies to operate their sites as a Foreign Trade Zone. The proposed FY2022-23 Fee Schedule includes an annual Foreign Trade Zone fee of \$1000 which is paid by each active operator, an application fee of \$700 for a company seeking to apply for Foreign Trade Zone authority, and a fee of \$3000 for the preparation of an operating agreement with the City.

Today, there are nine companies that operate their business as a Foreign Trade Zone under the City's grant of authority, including Maxar Space, Lam Research, Tesla, RK Logistics Group, Bloom Energy, Enovix, Roambee, Innovusion, and Epoch International Enterprises. The proposed FY2022-23 Fee Schedule includes an annual Foreign Trade Zone fee of \$1,000 which is paid by each active operator, an application fee of \$700 for a company seeking to apply for Foreign Trade Zone authority, and a fee of \$3000 for the preparation of an operating agreement with the City. By operating as a Foreign Trade Zone, these companies are able to lower their costs and improve logistical operations. Importantly, the Foreign Trade Zone enhances employment, manufacturing and trade.

As grantee, the City is technically the applicant on behalf of the company. Most of the operators have production/manufacturing authority for their Foreign Trade Zone, which entails a separate application process, and often includes multiple site locations. Foreign Trade Zone operators often work with the City and U.S. Customs and Border Protection to increase or decrease the

activated area of their Foreign Trade Zone based on their needs. Flexibility to adapt to changing market conditions is a key asset of operating as a Foreign Trade Zone.

The number of Foreign Trade Zone 18 operators and the level of activity have increased in recent years. For the calendar year 2020, the Foreign Trade Zones Board 82<sup>nd</sup> Annual Report to the U.S. Congress reported \$625 billion in merchandise received in Foreign Trade Zones across the U.S. and \$94 billion in exports. San José Foreign Trade Zone 18 activity ranged from \$10 billion to \$25 billion in merchandise received, \$5 billion to \$10 billion in exports, and employment of up to 26,000 within the Foreign Trade Zone. The number of companies operating as a Foreign Trade Zone under the City's grant of authority has increased in each of the past five years and activity within the Foreign Trade Zone has steadily increased. In the early 1980s, Olympus America and New United Motor Manufacturing Inc. were the first two companies to operate under the City's Foreign Trade Zone authority when changes to the program allowed companies to apply for their own designation and engage in manufacturing and production.

Of Foreign Trade Zones in California, only Los Angeles has a higher dollar value in Foreign Trade Zone merchandise received at \$25 to \$50 billion. Long Beach is also in the \$10 to \$25 billion range of San José. The San José Foreign Trade Zone ranks first among California Foreign Trade Zones in exports, with Los Angeles second at \$1 to \$5 billion, followed by San Francisco and Long Beach. The number of people employed in Foreign Trade Zone 18, in the range of 25,000 to 26,000, is considerably higher than other Foreign Trade Zones in the state.

The Office of Economic Development and Cultural Affairs works closely with the U.S. Department of Commerce Foreign Trade Zones Board and U.S. Customs and Border Protection, in managing the Foreign Trade. As Foreign Trade Zone grantee, the City is the applicant to the federal Foreign Trade Zones Board and U.S. Customs and Border Protection when a company seeks Foreign Trade Zone authority or to alter or expand their Foreign Trade Zone. Staff works closely with companies prior to, during, and following the application process. The City works with Foreign Trade Zone operators on an annual report which is included in a report of nationwide Foreign Trade Zones and submitted to Congress by the Secretary of the U.S. Department of Commerce. [The 82<sup>nd</sup> Annual Report of the Foreign Trade Zones Board to the Congress of the United States](#) showed the growth of San Jose Foreign Trade Zone 18 and that the level of activity, trade and employment ranks high among Foreign Trade Zones in California and the nation.

Staff is engaged with local companies and key partner organizations and agencies throughout the region to expand Foreign Trade Zone 18 and the economic growth that can be attributed to the Foreign Trade Zone. Staff regularly engages with economic development and business organizations in the geographic areas represented in the San José Foreign Trade Zone service area and the U.S. Department of Commerce Commercial Office in San José. The Foreign Trade Zone brings economic benefits to companies, provides flexibility in their operations, and enhances the global competitiveness of companies operating in the U.S.

### Sister Cities Program

The City of San José is a charter member of Sister Cities International, the national organization established in 1956 following a White House Conference on Citizen Diplomacy that was organized by President Dwight Eisenhower. President Eisenhower envisioned an organization that could help to forge bonds between people from different cities across the globe. The Sister Cities mission is to promote peace through mutual respect, understanding, and cooperation – one individual and one community at a time.

Sister Cities International is a non-profit organization based in Washington, D.C. that formally recognizes Sister Cities between U.S. and international cities, counties, and states. According to the Sister Cities International 2019 Annual Report, 471 U.S. communities engage in 1,800 Sister City partnerships in 138 nations.

A Sister City affiliation is a broad-based formal city-to-city relationship that involves city and community engagement in economic development, education, the arts, business, sports, civic affairs, faith-based organizations, humanitarian work, government, and other programs.

San José was among the first cities in the U.S. to establish a Sister City affiliation. The 1957 Sister City linkage with Okayama, Japan was the third Sister City relationship established in the U.S. and remains a very strong bond now in its eighth decade. Additional Sister City affiliations were established by the City with San José, Costa Rica (1961); Veracruz, Mexico (1975); Tainan, Taiwan (1977); Dublin, Ireland (1986); Pune, India (1992); Ekaterinburg, Russia (1992); and Guadalajara, Mexico (2014).

Because Sister City affiliations are permanent, formal city-to-city relationships and require ongoing city government participation and financial support, the City reviews, evaluates and approves Sister City affiliations. Following an extensive review process, the Council votes on a proposed Sister City affiliation.

Each Sister City affiliation is led in the community by a non-profit Sister City committee or association that is recognized by the City to plan and implement Sister City programs in the community. Five of the eight Sister City programs are currently active, with regular activities and active community organizations – Okayama, Tainan, Dublin, Pune, and Guadalajara. The Office of Economic Development and Cultural Affairs manages the City agreements with each Sister City program committee or association and provides up to \$2,500 annually to support Sister City programs in the community.

While the pandemic brought challenges to the Sister Cities program, the Sister City organizations remained engaged, and there was regular communication with our partner cities. However, many programs were paused in 2020 and 2021. Despite the many challenges, Sister City activities strengthened San José through the efforts of community members.

Among the highlights were virtual exchanges in 2020 and 2021 involving San José and Okayama high school students and students from other parts of the world. After two years of in-person exchange programs in Okayama and San José in 2018 and 2019 and the opportunity for students to experience international travel and culture, the program changed to a remote exchange. San José Okayama Sister Cities is working on a virtual student exchange program with Okayama scheduled in August 2022, with the hope of returning to an in-person exchange in 2023. The San José Pune Sister City Organization continued during the pandemic to assist an all-girls high school in Pune through an educational and humanitarian initiative that also includes the students at St. Francis High School in Mountain View. The San José Tainan Sister City Association worked during the pandemic to aid the community by providing the City with PPE items when such items were in short supply across the nation. Through the Sister City relationship, the Government of Taiwan and the city of Tainan also provided PPE items to the City which were distributed to the community. The San José Dublin Sister City Organization looked to engage with Ireland following a cybersecurity breach that impacted the national health service. The St. Patrick's Day Shamrock Run which benefits a scholarship program for Dublin and San José university students resumed in 2022 following two years as a virtual event.

## **CONCLUSION**

Restrictions during the pandemic delayed Foreign Trade Zone projects in 2020 and 2021 but regular activities and in-person meetings have resumed in 2022. Staff will continue efforts to expand this important federal/City economic development program and enhance engagement with partner organizations and businesses in FY 2022-23 and beyond.

Staff believes that Sister City programs in the community will resume in 2022-23, with new opportunities for engagement for community members and enhanced linkages with our Sister Cities across the globe.

## **COORDINATION**

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

## **PUBLIC OUTREACH**

This memorandum will be posted on the City's website for the June 27, 2022, Community and Economic Development Committee meeting, and shared with San José Okayama Sister Cities, the San José Tainan Sister City Association, the San José Dublin Sister City Program, the San José Pune Sister City Organization, the San José Guadalajara Sister City Association, and companies operating as a Foreign Trade Zone under the City's Foreign Trade Zone grant of authority.

COMMUNITY & ECONOMIC DEVELOPMENT COMMITTEE

June 17, 2022

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/s/

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