ANNUAL REPORT TO THE FOREIGN-TRADE ZONES BOARD

FY10 · Hawaii FTZ9

October 1, 2009 to September 30, 2010

HAWAII FOREIGN-TRADE ZONE NO. 9

State of Hawaii, Grantee and Operator

Through its Department of Business, Economic Development & Tourism

THIS REPORT HAS BEEN CATALOGED AS FOLLOWS:

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This report is available online at *www.ftz9.org*.

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August 30, 2011

Mr. Andrew McGilvray
Executive Secretary
Foreign-Trade Zones Board
U.S. Department of Commerce
1401 Constitution Avenue, NW, Room 2111
Washington, D.C. 20230

Dear Mr. McGilvray:

As grantee of Foreign-Trade Zone 9, I am submitting, in accordance with the Foreign-Trade Zones Act and the regulations of the Foreign-Trade Zones Board, an original and one copy of the annual report covering the operation of Foreign-Trade Zone 9, Honolulu, Hawaii, for the fiscal year ending September 30, 2010. The report includes information on the following subzones that were active during the year:

- Subzone 9A, Tesoro Hawaii Corporation
- Subzone 9E, Chevron Products Company
- Subzone 9F, The Gas Company

This report was prepared by Gregory Barbour, former Zone 9 Administrator. As you know, Mr. Barbour recently left to oversee one of the Zone-approved sites in Kailua-Kona, Hawaii. If you have any questions regarding this report, please contact me at telephone (808) 587-5374, facsimile (808) 586-2513, or e-mail david.j.sikkink@ftz9.org. For Subzones 9A, 9E and 9F, you may contact:

	Telephone	Facsimile
9A: Mr. Anthony Tonucci	(210) 626-6395	(210) 579-4574
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Respectfully submitted,

David J. Sikkink
Acting Zone Administrator

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Enclosures

PIER 2, HONOLULU HARBOR (photo credit: Gregory Barbour)

ANNUAL REPORT

FOREIGN-TRADE ZONE 9
Honolulu, Hawaii
October 1, 2009 – September 30, 2010

Overview of Hawaii's Foreign-Trade Zone Program

The Foreign-Trade Zone Division of the Department of Business, Economic Development and Tourism administers the federal grant issued to the State of Hawaii in 1965 by the Foreign-Trade Zones Board in Washington, D.C. Hawaii has a large and diversified Zone program with its nine authorized general-purpose sites and five subzones. Its great location at Pier 2, excellent support facilities, and professionally experienced staff make it one of the best Trade Zones in the nation. As the Foreign-Trade Zone (FTZ) grantee, we are pleased to report to you the activities that have taken place in foreign-trade zones in Hawaii in 2010, our 44th year in operation.

There are currently 14 sites on the islands of Oahu, Maui and Hawaii that have received FTZ designation. Of the 14 sites, three general-purpose zone sites and three special-purpose subzone sites are active. The Foreign-Trade Zone Division is responsible for ensuring that U.S. Customs and Foreign-Trade Zones Board regulations are followed at all of these sites.

Based on value, FTZ activity increased significantly in 2010. This past federal fiscal year, the total value of merchandise received and forwarded in all activated FTZ sites in Hawaii was almost $8.4 billion. The total value of merchandise handled is the combination of the value of merchandise received ($4,230,938,772) and the value of merchandise forwarded ($4,161,476,239) from all active FTZ sites in Hawaii. This high figure reflects the importance of petroleum to Hawaii's international trade and at FTZ9 sites.

Merchandise can be received in an FTZ in domestic or foreign status. In 2010, approximately 85 percent of merchandise was entered in a foreign status. Specifically, domestic status merchandise valued at $666,290,885 entered Foreign-Trade Zone sites in Hawaii. During this same period, $3,564,647,887 of foreign-status merchandise entered FTZ sites. Of merchandise received in foreign status, $1,931,063,734 was received in non-privileged foreign status and $1,633,584,152 was received in privileged foreign status. There were over 44 different types of foreign merchandise received from over 23 countries.

Merchandise taken out of Foreign-Trade Zone sites in Hawaii is forwarded to both domestic and foreign markets. In 2010, $3,295,112,129 of merchandise received was forwarded to the U.S. market. Exports, a majority in the form of jet fuel, reached $584,824,240 in 2010. This is up over last year and is a result of the increase in oil prices in 2010. It should be noted that the demand for jet fuel also increased in 2010 due to the stronger visitor industry in Hawaii. In addition, $281,539,870 of merchandise was forwarded to other FTZs in the U.S. Finally, an estimated $3,302,978 of customs duties were collected on merchandise entering the U.S. market from FTZ sites in Hawaii during the fiscal year.

Another measure of the impact of FTZ9 on the local economy is the value of capital investments in FTZ sites throughout Hawaii. The value of these investments has fluctuated over the past ten years in the $20 million to $60 million range annually. In 2010, these investments were $29,118,169.

The FTZ9 is a service-oriented organization. It assists a large number of businesses in Hawaii and creates a multitude of various kinds of jobs. In 2010, 242 companies used the Hawaii FTZ program; the majority of these were small businesses. Over 20 of the companies served were new to the FTZ program. These businesses directly employed 782 people and an additional 767 people on a part-time or seasonal basis. Within Foreign-Trade Zone sites in Hawaii, a variety of value-added and manufacturing activities occurred that added between 3 and 10 percent to the value of merchandise forwarded.

The FTZ program has a particular focus on helping Hawaii manufacturers compete in external markets. We feel it is our duty to try to make the benefits of the FTZ program available to as many qualifying companies as possible. During the past year, we have been engaged in a number of activities to increase the number of companies participating in the Foreign-Trade Zone program. The FTZ has engaged in several seminars with the U.S. Department of Commerce, Small Business Administration, local Chambers of Commerce and financial institutions in promoting the FTZ program to veterans, small- and medium-sized businesses and new companies.

In addition, the Foreign-Trade Zone incubator hub is proving to be a specialized and unique international trade facility within Honolulu Harbor by providing a "one-stop shop" for businesses to access custom brokers, shipping companies and warehousing under one roof. This reinvention has directly assisted businesses with their importing of foreign goods.

The Hawaii Foreign-Trade Zone marketing plan is looking to reinforce the FTZ motto, *"Where International Trade Meets New Opportunities."* The FTZ is looking at increasing its exposure with an advertising schedule to several key business publications and redesigning its website to increase its focus on marketing the Pier 2 site as well as keeping the large amount of information available on the site. The advertising will target the FTZ message of who, what and how the FTZ can help with businesses in international trade. In addition, the Hawaii Foreign-Trade Zone has worked with federal and state agencies in hosting seminars on the programs and services available to help small- and medium-sized businesses with growth and international trade. Another area where the FTZ has increased promotion is in its video teleconferencing (VTC) seminars with State of Hawaii agencies in Asia. This provides businesses the opportunity to link with overseas buyers interested in their products and creates sales opportunities to businesses before they travel abroad, giving them great added value in seeking sales in the global markets.

A handy list of the different ways in which a Foreign-Trade Zone can benefit a company is attached at the end of this report as Appendix A.

Board Actions. These are actions that require formal application and review by the Foreign-Trade Zones Board in Washington, D.C.

- Filing and acceptance of FTZ9's FY 2009 Annual Report to the Board.
- Filing and approval of minor boundary modification for Subzone 9E (Chevron Products Company) to remove 55,706 sq. ft. at Kapalama jet storage facility located at Pier 38 from the subzone and adding 5.13 acres at Honolulu Marine Terminal petroleum storage facility at Pier 30, Honolulu Harbor [A(27f)-71-2009, 11/17/2009)].

PART I. SUMMARY OF ACTIVITY

General Purpose Zone

Three general-purpose zone sites were active during FY 2010. These sites include (A) the Pier 2, Honolulu Harbor warehouse; (B) the Hawaii Fueling Facilities Corporation at Honolulu International Airport; and (C) Pacific Allied Products, Ltd. at James Campbell Industrial Park.

A. Pier 2, Honolulu Harbor

The Pier 2 facility is a common-use facility used primarily for distribution, storage, and transshipment activities. The seven-acre site has 190,000 square feet of covered space including 26,000 square feet of office and exhibit space. Revenue generated from use of this facility supports the statewide marketing and administration of the Foreign-Trade Zone program in Hawaii. Foreign-Trade Zone 9 is headquartered at this site. FTZ Board Order 188 established this site in 1982.

Firms take advantage of the FTZ program at the Pier 2 facility and benefit by being able to share common warehousing costs. The public is charged for use of this facility on a per-unit (cubic foot) or per-use basis. Specialized services are available to allow manipulation and value-added activities. Immediately adjacent to the warehouse area, Zone users may lease office and exhibit space as well as make use of office equipment. Conference rooms are also available for use at a nominal charge to tenants and members of the maritime and international trade community.

An information system supports the warehouse activities at Pier 2. Zone users are able to view their inventory levels, create preliminary receiving and delivery tags, code zone lots with item codes, print price lists, and perform other transactions that involve their stored merchandise.

Activity. The value of merchandise handled at the Pier 2 site in 2010 totaled $48,604,984, an increase of over 35 percent from 2009. This total represents the value of merchandise received ($26,470,246) and the value of merchandise forwarded ($22,134,738). During the year, 204 companies used the facility. These companies imported or exported 40 different types of merchandise from 20 countries.

The facility received $26,470,246 in merchandise of which $17,987,164 was in foreign status. All foreign status merchandise was received in non-privileged foreign (NPF) status. Companies exported $9,754,054 (an increase of almost 70 percent) in merchandise from Pier 2 and forwarded $12,380,6841 to U.S. markets. Merchandise arrived at the Pier 2 site in two ways:

- Container: approximately 75 percent
- Loose/less than container load: approximately 25 percent

B. Hawaii Fueling Facilities Corporation (HFFC)

Hawaii Fueling Facilities Corporation, Inc. (HFFC) is operator of the activated portion of the expansion site of Foreign-Trade Zone 9 that includes the storage and delivery facilities owned and/or leased by HFFC for jet fuel used at Honolulu International Airport. The facilities consist of 16 jet fuel storage tanks on Sand Island Access Road in Honolulu and 10 additional tanks at Honolulu International Airport along with associated Jet-A and Jet-A-1 pipelines and related equipment. The facilities were approved by FTZ Board Order 751 on June 19, 1995 and activated on September 1, 1997.

Developments, shipment trends and growth factors. The Zone Site consists of two separate but parallel systems for the storage and delivery of jet fuel. The "Jet A" System is dedicated to jet fuel that satisfies the ASTM D-1655 specification for jet A fuel. The "Jet A-1" System is dedicated to fuel that satisfies the ASTM D-1655 specification for jet A-1 fuel. The difference is in the freeze point: jet A has a -41 degree specification; jet A-1 has a -47 degree requirement. During fiscal 2006, a change was made to allow for the receipt of either Jet A or Jet A-1 in both systems. This change did not significantly impact any of the Zone operations.

As approved by FTZ Board Order 751, the Zone site includes both the Jet A and Jet A-1 Systems.

During fiscal 2010, the value of foreign jet fuel receipts into the Zone increased from $248.6 million to $413.3 million. This increase is a result of a higher average price of jet fuel that increased by approximately 32.7 percent. In addition, the overall increase was due to a higher demand for foreign status jet fuel. During fiscal 2010, there was a 25 percent increase or approximately 45.0 million gallons more of foreign status jet fuel was brought into the Zone.

Improvements in Zone services and facilities. HFFC spent approximately $1,118,169 on minor improvements and maintenance of facilities within the Foreign Trade Zone. There were no major improvements in Zone services and/or to the facilities during fiscal 2010.

Promotion and marketing efforts. Numerous airlines used foreign status fuel received and disbursed through the Zone site. All users promote the Zone in their negotiations with fuel suppliers. All subzone refiners with access to the Zone site are aware that a foreign-trade zone expansion site has been activated at that facility.

Export and transshipment activity. Foreign status fuel received at the Zone site is primarily intended for use on aircraft in international and other trades described in section 309 of the Tariff Act, as amended (19 U.S.C. 1309).

During October 1, 2009 through September 30, 2010, six companies supplied foreign status jet fuel at Honolulu International Airport. Tesoro Hawaii Company (FTZ Subzone 9A) and Chevron Products Company (FTZ Subzone 9E) supplied jet fuel in privileged and non-privileged foreign status by pipeline from their respective foreign-trade zone refineries in Kapolei. In addition, Hawaiian Airlines Inc., Japan Airlines, Tesoro Hawaii, Trafigura A.G. and Vitol S.A. supplied foreign-refined jet fuel by vessel admitted in non-privileged foreign status. All fuel was admitted into the Zone site in the name of HFFC.

Summary of manufacturing and processing activity. No manufacturing or processing activity occurs in the Zone site. The site is approved solely for the receipt, storage and disbursement of jet fuel.

Employment within the Zone site. HFFC contracts with Aircraft Services International Group (ASIG), an airport fuel service company, to operate and manage the HFFC fuel facilities at Honolulu International Airport. ASIG employs approximately 42 full-time persons and 90 contractors at the Airport, all of whom are involved in Zone activities.

Contribution to local and national economy. Activities within the Zone site make a significant contribution to the Hawaiian economy. Foreign status fuel valued at more than $413.3 million was received and disbursed through the Zone site during fiscal 2010. Foreign status fuel was used by as many as 40 carriers on approximately 25 qualified flights daily. The Foreign Trade Zone enables the airlines that operate at Honolulu International Airport to purchase jet fuel for international flights free of duties and excise taxes. These benefits reflect the longstanding policy of the United States not to impose such costs on airlines and vessels in international commerce. It helps the airlines hold down fuel costs which, in turn, contributes to the important visitor industry in Hawaii and to the financial efficiencies of the airline companies.

Security. Security is a requirement for obtaining and maintaining the FTZ status. HFFC continuously operates with a high level of security as outlined in the operator's manual. Highlights of the plan include the facility being manned 24 hours a day, 365 days a year, perimeter fencing, lighting, restricted access to the premises and video surveillance.

In summary, foreign-status fuel satisfied significant demand by airlines operating qualified flights from Honolulu International Airport. This demand provided an important outlet for foreign-status fuel produced by domestic Zone refiners.

C. Pacific Allied Products, Ltd., James Campbell Industrial Park FTZ

Pacific Allied Products, Ltd. reactivated its 2.3-acre site in the James Campbell Industrial Park general-purpose zone on June 12, 1998. This manufacturing site has subsequently doubled in size and now comprises 4.1 acres. Pacific Allied Products, Ltd. Manufactures food and beverage containers of polyethylene terephthalate (PET) under Zone procedures by virtue of a grant of authority (FTZ Board Order 735) issued by the Foreign-Trade Zones board on May 5, 1995. FTZ Board Order 735 authorized this activity until July, 2000. Subsequently, in a letter dated June 23, 2000 from the Foreign-Trade Zones Board, the authority to conduct plastic food/beverage container manufacturing was extended until July 1, 2001. FTZ Board Order 1177, issued on July 17, 2001, extended manufacturing authority on a permanent basis by removing the five-year time restriction on manufacturing.

Grant restriction. FTZ Board Order 1177 restricts Pacific Allied Products production to Hawaii and export markets only.

Developments/trends in shipments/activity, and factors affecting growth. The Zone activity has slightly increased from 2009 due to higher demands for locally produced polyethylene terephthalate (PET) products. The cost to locally manufacture PET-based preforms and containers is lower than shipping them in as-finished products from sources such as continental U.S. and foreign countries. Raw materials used for this process are being shipped in from foreign source through the Zone to promote the growth of Zone activity.

There were no changes or improvements in Zone services and facilities during the year.

Promotion and marketing efforts. In 2010, Pacific Allied Products engaged in various local trade shows to promote preform and container availability from its manufacturing plant.

Summary of general-purpose zone activity. Pacific Allied Products, Ltd. manufactures beverage containers of polyethylene terephthalate (PET) for soft drink, water, juice, and dairy bottling companies. As a manufacturer, its shipments are currently all to Hawaii customers, as the prohibitive cost of receiving finished goods here is the same reason the company would likely not export to foreign or mainland customers.

Employment within the activated Zone area. During the report period, Pacific Allied Products, Ltd. employment figures averaged 53 total headcount, 51 of which were full time. No contract workers were employed.

Contribution to local and national economy. Pacific Allied's ability to operate as a foreign-trade zone saves the company time and money through expedited deliveries and a cost benefit on reduced duty when shipping finished product. These savings allow the company to provide both large and small customers competitive prices against higher-volume mainland or foreign manufacturers, which in turn allows their businesses to thrive.

PART II. USE OF ZONE BY BUSINESS FIRMS

General-Purpose Zone 9

All general-purpose zone sites served 242 businesses during fiscal 2010. These firms employed 465 persons, 275 of whom were full-time employees.

Manipulation, manufacturing and processing operations conducted in general-purpose zone sites included:

SITE I: PIER 2 WAREHOUSE AND DISTRIBUTION
Automobiles, motorcycles, trucks: Label/relabel goods/remove labels.
Handicraft: Convert to pallets.

SITE II: PACIFIC ALLIED PRODUCTS, LTD.
Polyethylene terephthalate: Manufacture food and beverage containers for soft drink, water, juice, and dairy bottling companies.

SITE VI: HAWAII FUELING FACILITIES CORPORATION
Jet fuel: Distribute jet fuel to aircraft at Honolulu International Airport via bonded pipelines and hydrants.

HAWAII FUELING FACILITIES CORPORATION List of Users		
Air Canada	Bradley Pacific Aviation	North Shore Aviation
Air Japan	Castle & Cooke Aviation	Pacific Fuel Trading Corp.
Air MED	Chevron	Philippine Airlines
Air New Zealand	China Airlines	Qantas Airways
Air Pacific	Continental Airlines	Schuman Aviation
Air Service	Delta Airlines	Tesoro
Air Transport International	Epic Aviation	Trafigura
Alaska Airlines	Federal Express	Trans Air
All Nippon Airways	Hawaiian Air Ambulance	United Airlines
Aloha Air Cargo	Hawaiian Airlines	United Parcel Service
American Airlines	Island Air	US Airways
American Trans Air	Japan Airlines	World Fuel
Asia Pacific	Knight Trucking	
Atlas Air	Korean Airlines	

PART III. MOVEMENT OF MERCHANDISE

General-Purpose Zone 9, Sites I, II, and VI

The Zone handled 44 different items from 23 countries of origin in 2010, compared with 124 items from 23 countries during the 2009 fiscal year.

A. Merchandise in the Zone at Beginning and End of Fiscal Year

	Beginning Value [1/]	Ending Value [2/]
Domestic Status	19,681,482	23,407,616
Foreign Status	26,321,115	24,352,318
Total:	**46,002,597**	**47,759,934**

[1/] *Beginning value for 2010 is increased by $12,865,550 because of an adjustment in value made by the Hawaii Fueling Facilities Corporation to account for an increase in the average price of jet fuel. The increase for domestic status is $5,583,242 and the increase for foreign status is $7,282,308.*

[2/] *Ending value is decreased by $266,556 because of an adjustment in value made by Pacific Allied Products, Ltd. to account for PET product received and processed but not yet shipped.*

B. Movement of Merchandise

Received	**Value**
Domestic Status	314,892,574
Foreign Status	288,647,714
From Other U.S. FTZs:	
•Domestic Status	104,091,057
•Foreign Status	147,082,476
Total:	**854,713,821**
Forwarded	
To the U.S. Market	432,304,711
To Foreign Countries (Exports)	329,159,710
To Other U.S. FTZs	104,091,057
Total:	**865,555,478**

C. Value Added. Because of the variety of activities conducted at these three Zone sites, it is difficult to accurately estimate the contribution from Foreign-Trade Zone procedures to the value of all merchandise forwarded. A range of 3 to 20 percent added to the value would be an approximation.

D. Main Categories of Foreign Status Merchandise Received (Top Five)

TOP FIVE COUNTRIES BY VALUE OF MERCHANDISE RECEIVED

Country	Value of Merchandise Received
Japan	13,414,416
China	2,246,729
Taiwan	722,281
Philippines	616,324
Thailand	474,368

TOP FIVE TYPES OF FOREIGN STATUS MERCHANDISE BY VALUE

Merchandise	Value of Merchandise Received	Country
Vehicles	13,621,120	China, Japan, South Korea, Taiwan
Wood Products	673,545	China, Indonesia, Philippines, Taiwan
Toys/Sports Equipment	529,629	China, Thailand
Printed Books/Newspaper	506,465	Brazil, China, Hong Kong, South Korea, Taiwan
Plastic Articles	500,239	China, Hong Kong, Indonesia, Japan, Taiwan, Thailand

E. Foreign Status Merchandise Received:

Nonprivileged Foreign: $343,019,349
Privileged Foreign: $92,710,841

F. Customs duties. Customs duties collected on merchandise entered from the all active general purpose zones during the fiscal year amounted to $1,056,978.

PART IV. PHYSICAL FACILITIES – AVAILABLE AND ACTIVATED

Site I. Site I is located at Pier 2, Honolulu Harbor, on the island of Oahu. The original Zone site was activated on June 15, 1966, and the Zone relocated to its present site on November 15, 1982. This site also serves as the headquarters for the FTZ 9 program in Hawaii. The general-purpose zone occupies 7 acres of paved area at Pier 2 and includes 190,000 square feet of covered warehouse space. A variety of services and types of facilities are available at this complex on a per-unit or per-use basis. Approximately 26,000 square feet of office space and a limited amount of non-bonded warehouse space for domestic goods manipulation are available adjacent to the activated area.

Site II. Site II consists of 1,033 acres zoned for industrial uses at James Campbell Industrial Park in Ewa, Oahu. This expansion site includes the Barbers Point Deep Draft Harbor and was approved by the Foreign-Trade Zones Board on August 21, 1987. A portion of this site was reactivated on June 12, 1998.

Site VI. Site VI is adjacent to Honolulu International Airport on the island of Oahu. This site includes the tanker terminal at Pier 51, bulk storage along Sand Island Access Road, fueling facilities at Honolulu International Airport, and pipelines connecting these facilities. This site was approved by the Foreign-Trade Zones Board on June 19, 1995 and activated on September 1, 1997.

Zone Schedule

The rates, charges, rules and regulations of Foreign-Trade Zone 9 are contained in ***Tariff No. 1***. Copies of this tariff are available for inspection and may be purchased upon request at $5 per copy from the FTZ offices at Pier 2, Honolulu Harbor. A copy is also available on-line at no charge at www.ftz9.org.

PART V. SUBZONE ACTIVITY

SUBZONE NO. 9A

A. Summary for Tesoro Hawaii Corporation (Oil Refinery)

Owner, Operator and Corporate Affiliation. Foreign-Trade Subzone 9A is occupied by Tesoro Hawaii Corporation, a wholly-owned subsidiary of Tesoro Petroleum Corporation. Tesoro Hawaii Corporation (Tesoro) is the Subzone owner and operator. Subzone 9A was initially authorized by FTZ Board Order 82 on April 20, 1970 and activated on April 7, 1972.

Subzone Site and Plant Facilities. Subzone 9A is situated on approximately 203 acres in Campbell Industrial Park, Kapolei, Hawaii, about 24 miles west of the primary zone in Honolulu. Facilities include Tesoro's 95,000 barrel-per-day oil refinery complex which includes the main processing units, storage tanks with a capacity of 5.2 million barrels of crude oil and refined products and administrative and utility buildings.

Activities:

a. Inputs. For the year ended September 30, 2010, Tesoro's refinery crude unit throughput on an average daily basis was as follows:

- Total throughput (all sources) = 64,015 Barrels Per Day (BPD)
- Total crude oil throughput = 63,609 BPD
- Total other throughput (mostly slop oil and off-test products) = 407 BPD
- Total foreign oil throughput = 62,069 BPD, consisting of the following HTSUS numbers:

  2709.00.10 (Crude testing under 25 degrees A.P.I.): 21,391 BPD
  2709.00.20 (Crude testing 25 degrees A.P.I. or more): 40,678 BPD.

b. Production. The current rated capacity of the refinery is 95,000 BPD.

- The primary non-NPF attributed products are gasoline, jet fuel, diesel and residual fuel oil. These products account for 54 percent of total output.
- The types of customers for the non-NPF products include various wholesale gasoline and diesel customers (including jobbers and Tesoro branded gasoline stations); various commercial airlines and the military for the jet fuel; electric power producers for the residual fuel oils; and also various ocean-going vessels (both foreign and domestic) for the residual fuel oils.
- The primary products produced from NPF attributed crude oil are asphalt, propane, fuel gas and naphtha. These products account for 46 percent of total output.
- The types of customers for the NPF products include various paving companies for the asphalt, various wholesalers for the propane, the refinery itself for the fuel gas, and a synthetic natural gas manufacturer for the naphtha.
- Tesoro occasionally ships products to its sister refineries in Kenai, Alaska, Anacortes, Washington, and Martinez, California. The total of such inter-company shipments accounts for approximately 4 percent of total shipments during the period.

- The direct export activity for this reporting period consisted principally of bunker fuel sales to foreign ships. These export shipments accounted for approximately 7 percent of the total shipments during the period.

Current production compared to Board-approved production. Board Order 100, issued in 1974, authorized the refinery to operate at 125,000 BPD crude distillation capacity. Current production of about 65,000 BPD is well within this range.

Economic and Business Benefits. Tesoro faces strong competition in all sectors of its business operations. Foreign-Trade Zone (FTZ) status has helped improve the company's competitive position in the industry. Specifically, FTZ status provides opportunities for the following economic benefits:

- Cash flow savings from the deferral of paying customs duties and fees on imports of crude oil and other refinery feed-stocks from the time of importation, when such duties and fees otherwise would be due, to the time of withdrawal of finished products into U.S. commerce.

- Avoidance of customs duties on imported feed-stocks attributable to finished products withdrawn from the FTZ for exportation, or, where drawback presently is available, cash flow savings from not paying the duties on such feed-stocks as opposed to paying the duties, refining, exporting, filing for drawback and then waiting for drawback payment.

- Duty savings based on the FTZ operator's election to enter certain finished products (e.g. asphalt, fuel oils, refinery fuels and liquid petroleum gases) at the finished product rates as opposed to the crude oil rate, otherwise termed "inverted tariff" benefits.

Tesoro's annual FTZ savings based on the above items is estimated to be $1 million. FTZ status has made the company more competitive by reducing operating costs, improving margins and enabling it to compete more effectively in foreign markets.

SUBZONE 9A HIGHLIGHTS

1.	Percent export of total production	9%
	Direct exports	7%
	Indirect exports	2%
2.	Current rated crude distillation capacity	95,000 BPD
3.	Employment:	
	Direct	250 employees
	Indirect (e.g., contract employees)	510 employees
4.	Volume of total crude oil receipts on an average daily basis	64,954 BPD
5.	Volume of foreign crude oil receipts on an average daily basis	62,069 BPD
	Estimated percentage of foreign crude receipts under 25 degrees API	34.5%

Public benefits to the local and national economies. FTZ status is helping Tesoro remain competitive in the petroleum industry. For Hawaii and the country, that translates into keeping an operating oil refinery in business on U.S. land with an ever-increasing investment in facilities and commensurate levels of local employment. Public benefits include:

- Assured supply of domestically-produced petroleum products. Tesoro's presence in Hawaii means a reliable supply of locally produced transportation fuels and energy products for the airlines, ocean-going ships, buses, public/private vehicles, agriculture producers, small businesses, electric power producers, and diverse service activities that make the state go. Tesoro reduces risk to an economy that otherwise would have to depend on out-of-state and foreign suppliers for much of its petroleum supplies.

- More competitive in foreign markets. Tesoro's success as an exporter of petroleum products into foreign markets helps the U.S. achieve a more favorable balance-of–trade position with foreign countries. Tesoro's FTZ status has helped to level the playing field with regard to the company's ability to compete head-on with foreign refiners. Tesoro's direct exports of bunker fuels to foreign ships as well as indirect exports of jet fuel to foreign airlines are good examples of FTZ benefits.

- Increased investment in U.S. refining. FTZ status has increased Tesoro's profitability and the commitment of senior management to continue investing in the plant. During the past year, Tesoro completed several capital projects totaling about $11 million in its continuing program of facilities investment. Many other capital investment projects are planned for the refinery for the following and succeeding years.

- Jobs and buying power for U.S. workers. On an annual basis, Tesoro salaries in the Subzone are expected to provide direct local buying power of more than $25 million for its approximately 250 full-time refinery employees. In addition, due to various ongoing capital projects, including periodic turnarounds at the refinery, Tesoro partially supports the employment of approximately 200 contractors (technical, professional, clerical, skilled tradesmen and laborers) throughout the year. Away from the refinery, Tesoro operations in Subzone 9A partially sustain the employment of approximately 310 people who work in supply, distribution and service operations (including Tesoro branded gasoline stations) throughout the state of Hawaii. We estimate that Tesoro Subzone 9A directly and indirectly contributes to the support of over 760 people in the state of Hawaii.

B. Movement of Merchandise - Subzone 9A

1. Merchandise in Subzone 9A at Beginning and End of Fiscal Year

	Beginning Value (October 1, 2009) $1,000	**Ending Value** (September 30, 2010) $1,000
Domestic Status/Duty Paid	344	6,272
Foreign Status	129,838	170,616
Total:	**130,182**	**176,888**

2. Movement of Merchandise in Subzone 9A	
Received	**Value $1,000**
Domestic Status/Duty Paid	148,738
Foreign Status	1,760,928
From Other U.S. FTZs	0
Total:	**1,909,666**
Forwarded	**Value $1,000**
To the U.S. Market	1,596,850
To Foreign Countries	180,608
To Other U.S. FTZs	85,502
Fuel Consumed	---
Total:	**1,862,960**

Explanation of Discrepancies: Fuel consumed is not entered into U.S. commerce per Tesoro's Grant.

3. **Value Added**. Activities in the Subzone (labor, overhead, etc.) added approximately 3 percent to the values.

4. Main Categories of Foreign Status Merchandise Received		
Category	**Value $1,000**	**Main Countries of Origin**
Crude Class IV	0	
Crude Class III	1,011,095	Oman, Russia, Saudi Arabia
Crude Class II	584,722	Indonesia, Australia, Argentina
Other	165,111	Other
Total:	**1,760,928**	

5. Foreign Status Merchandise Received ($1,000)

   Non-privileged Foreign: 887,327
   Privileged Foreign: 873,601

6. Customs duties collected on merchandise entered into U.S. Customs territory from the Subzone during the fiscal year amounted to $1 million.

7. In accordance with the Subzone 9A grant, fuel consumed within the FTZ is not entered for consumption. Such fuel totaled $87.2 million during the year. No significant amount of merchandise was destroyed in the subzone during the fiscal year.

SUBZONE NO. 9E

A. Summary - Oil Refinery (Chevron Products Company, Hawaii Refinery)

Owner, operator and corporate affiliation. The Hawaii Refinery, Foreign-Trade Subzone 9E, is owned and operated by Chevron Products Company, a division of Chevron U.S.A. Inc. Approval of the State of Hawaii application requesting a special-purpose subzone for Chevron's refining facility at Barbers Point was granted by Board Order 415 on December 21, 1988. Subzone 9E was activated on April 1, 1990.

Subzone site and plant facilities. Chevron's Hawaii Refinery is situated in Campbell Industrial Park, approximately 22 miles west of the primary zone in Honolulu. The Chevron subzone facility occupies approximately 248 acres of land. The refinery facility includes a Crude Unit, Fluid Catalytic Cracking Unit (FCC), and various auxiliary units. The refinery tank field has the storage capacity of approximately 3.9 million barrels of crude, feedstocks, and products.

Subzone 9-E includes Chevron's Honolulu Marine Terminal located on Nimitz Highway in Honolulu. The non-contiguous site occupies 5.13 acres, with petroleum storage capacity of approximately 402,000 barrels, and a 269 foot pier on Honolulu Harbor.

Employment. At the end of fiscal year 2010, Chevron employed 223 full-time employees at its subzone. Approximately 67 core contractors (technical professional, clerical, skilled tradesmen, and laborers) are used throughout the year to support maintenance and capital projects.

Activities. Chevron's Supply Optimization Group continually looks for the best opportunity crudes to refine into products to satisfy the needs of its customers. During the past year, nine different types of crude oil were included in the refinery crude slate. The volume of crude oil received during the past year averaged 48,500 barrels per day. The majority of the crude received was classified as HTSUS 2709.00.2090. Less than 1 percent of the crude received was classified as HTSUS 2709.00.1000. Various non-crude receipts were 2,600 barrels per day.

The Chevron Hawaii Refinery product slate includes: motor gasoline for Hawaii motorists; aviation gasoline for small aircraft; jet fuel for commercial airlines; diesel fuels for marine vessels, industrial machinery, and electricity generation; liquified petroleum gas (LPG) for homes and industry; fuel oils for electricity and industrial power generation.

The majority of products refined at the Chevron subzone are marketed in the State of Hawaii to satisfy local petroleum needs. Approximately 14 percent of the subzone production is exported to foreign countries. Additionally, 6 percent of the subzone products are shipped to Chevron and other facilities on the U.S. West Coast.

The primary non-NPF attributed products are motor gasoline, aviation gasoline, jet fuel, and naphtha. During the past year, non-NPF attributed products were 55 percent of production. Products attributed to NPF crude oil are diesel, LPG, refinery gas, and fuel oils. NPF attributed products account for 45 percent of production.

Products at the Chevron subzone are admitted and transferred by several pipeline networks and tank trucks. Chevron owns and operates two Honolulu pipelines which connect the refinery subzone with the Chevron Honolulu Marine Terminal and the jet fuel facilities for the Honolulu International Airport. Marine pipelines to the Barbers Point offshore mooring are used for crude oil receipts and for the receipt and shipment of petroleum products. Pipelines to Barbers Point Deep Draft Harbor facilitate receipt and shipment via vessels and barges. Various pipeline networks in Campbell Industrial Park are used to transfer products between Chevron and another refinery, and to customers in the industrial park. The subzone truck loading racks are used for sales of aviation gasoline and liquified petroleum gas (LPG).

Level of production. Board Order 415 in 1988 approved Chevron's subzone application for up to 100,000 barrels per day crude feed capacity. Currently, the refinery crude unit has the capacity to process approximately 60,000 barrels of crude oil per day.

Economic and business benefits. Foreign-Trade Zone status for the Chevron Hawaii Refinery enables duty deferral on products identified as being refined from foreign crude oil while they remain in the subzone. Duty is paid only upon the transfer of products into U.S. Customs territory. Additionally, Zone procedures enable certain refined products to be dutiable at rates lower than that of crude oil, placing those products at duty rates equal to that of the same products from foreign suppliers. Zone procedures also eliminate the payment of duty on those products that are exported. It is estimated that FTZ procedures allow duty savings of approximately $0.6 million annually.

The FTZ program was created to stimulate international trade and create jobs and investment in the U.S., rather than abroad. Since subzone activation, Chevron has regularly exported refined products from the Hawaii subzone to Pacific Rim countries. Adequate demand for some of the products that come from refining a barrel of crude oil does not exist in the Hawaii market. Consequently, the export markets provide a practical alternative. Export activity has helped Chevron and contributes to improving the U.S. balance of trade. However, the export markets are very competitive given the worldwide source of supply. FTZ procedures afford duty saving opportunities which in turn reduce operating costs and enhance Chevron's ability to maintain its Hawaii Refinery and compete with other suppliers of petroleum products in the Hawaii market and the Pacific Rim.

SUBZONE 9E HIGHLIGHTS

1. Percent export of total production	
Direct exports	13%
Indirect exports	1%
2. Current rated crude distillation capacity	60,000 BPD
3. Employment:	
Direct	223 employees
Indirect (e.g., contract employees)	67 employees
4. Volume of total crude oil receipts on an average daily basis	48,500 BPD
5. Volume of foreign crude oil receipts on an average daily basis	47,600 BPD
Estimated percentage of foreign crude receipts under 25 degrees API	—

Public benefits to the local and national economies. Hawaii, more than any other state, depends on oil for its energy needs. The islands, unlike states on the continental U.S., have no indigenous source of crude, natural gas, or coal. Additionally, Hawaii's isolation makes it impossible to buy generated power from other states. At its Hawaii subzone, Chevron refines crude oil into quality petroleum products primarily for use in the islands. Chevron's ability to refine and store petroleum products in Hawaii plays a vital role in ensuring that the energy needs of the state are satisfied.

The Chevron subzone provides highly desired manufacturing jobs with high wages and offer a diversity of employment opportunities in an economy dominated by service industries. In addition to direct employment within the subzone, Chevron's presence supports the employment base of the local trades and services industries that are utilized by the refinery.

FTZ status helps Chevron's operating cost efficiency and in turn provides an incentive for continued investment in its U.S. refining facilities. For 2010, the Chevron subzone capital program was approximately $17 million. The capital program focuses on safe and reliable operation, energy efficiency, and environmental performance.

Chevron values the community in which we live and work. We strive to maintain strong partnerships with local entities that align with our company vision to provide educational opportunities to Hawaii's youth, enhance health and safety awareness, and support environmental stewardship and conservation. Chevron continues its sponsorship of the Chevron Keiki ID program for the 14th consecutive year, partnering with the Honolulu Police Department to provide children with a free identification card, a tool for parents to keep keiki safe. Through the Chevron Hawaii Education Fund, a partnership with the Hawaii Science Teachers Association (HASTA), the company funds grants that provide quality, hands-on learning opportunities for students in the areas of conservation, environmental stewardship and science. Chevron also takes a strong interest in providing advanced educational opportunities for Hawaii's college students by funding $20,000 in scholarships for those enrolled as engineering and marketing majors at the University of Hawaii. In achieving the company's vision of using our resources responsibly, Chevron is a proud sponsor of Hawaii's Fishing and Seafood Festival, in which the motto *"Fish today, for fish tomorrow,"* serves as an effective reminder to protect the environment for future generations. Furthermore, Chevron strives to raise awareness of breast cancer and diabetes by providing ongoing support of the Susan G. Komen Race for the Cure and the American Diabetes Association's Step Out for Diabetes Walk.

Grant restriction. The original grant of authority, Board Order 415, was subsequently modified by Board Orders 517, 769, and 1116. Currently, the grant is subject to the following two conditions:

1. Foreign status (19 CFR §§ 146.41, 146.42) products consumed as fuel for the refinery shall be subject to the applicable duty rate.

2. Privileged foreign status (19 CFR § 146.41) shall be elected on all foreign merchandise admitted to the subzone, except that non-privileged foreign (NPF) status (19 CFR § 146.42) may be elected on refinery inputs covered under HTSUS Subheadings 2709.00.1000 – 2710.00.1050, 2710.00.2500 and 2710.00.4510 which are used in the production of:
   - petrochemical feedstocks and refinery by-products (examiner's report, Appendix "C");
   - products for export; and
   - products eligible for entry under HTSUS 9808.00.30 and 9808.00.40 (U.S. Government purchases).

Chevron's inventory control and recordkeeping system has design controls to ensure compliance with the current grant restrictions.

B. Movement of Merchandise - Subzone 9E

1. Merchandise in Subzone 9E at Beginning and End of Fiscal Year		
	Beginning Value (October 1, 2009)	**Ending Value** (September 30, 2010)
Domestic Status/Duty Paid	17,725,013	12,510,812
Foreign Status	61,433,894	100,270,160
Total:	**79,158,907**	**112,780,972**

2. Movement of Merchandise in Subzone 9E	
Received	**Value**
Domestic Status	97,129,860
Foreign Status	1,332,247,929
From Other U.S. FTZs	0
Total:	**1,429,377,789**
Forwarded	**Value**
To the U.S. Market[1]	1,228,752,381
To Foreign Countries	75,056,530
To Other U.S. FTZs	91,946,813
Total:	**1,395,755,724**

[1]Includes merchandise consumed as refinery fuel.

3. ***Value Added.*** Subzone refining activities (labor, overhead, etc.) added approximately 5 percent to the values.

4. Main Categories of Foreign Status Merchandise Received

Category	Value	Main Countries of Origin
Crude Oil	1,332,247,928	Vietnam, Thailand, Indonesia
Petroleum Products	0	
Total:	**1,332,247,928**	

5. Foreign Status Merchandise Received by Category:

   Non-privileged Foreign: $664,975,617
   Privileged Foreign: $667,272,311

6. Customs duties collected on merchandise entered into the U.S. Customs territory during the fiscal year amounted to approximately $1.2 million.

7. No merchandise was destroyed in Subzone 9E during the period.

SUBZONE NO. 9F

A. Summary - SNG Plant

Owner, Operator and Corporate Affiliation. Foreign Trade Subzone No. 9F is occupied by The Gas Company, LLC, where it operates its Synthetic Natural Gas (SNG) Plant. The Subzone was initially authorized by FTZ Board Order 98 on May 17, 1974 as part of Subzone 9A and activated on March 12, 1975. On March 18, 1997, The Gas Company's SNG Plant was granted its own subzone status and became Subzone 9F. The Gas Company, LLC is the duly franchised gas public utility in the State of Hawaii.

Subzone Site and Plant Facilities. Subzone 9F is situated on slightly less than 4.5 acres of land in Campbell Industrial Park, Kapolei, Hawaii, approximately 24 miles west of the primary Zone. The SNG Plant's rated capacity is approximately 16.7 million cubic feet (150,000 therms) of SNG per day and is used to supply southern Oahu from Kapolei to Hawaii Kai with utility gas service.

Employment. On average, 34 employees of The Gas Company work in Subzone 9F. In addition, 44 different vendor/contractors were retained to do work for The Gas Company in Subzone 9F.

Activities. Since Hawaii has no indigenous fossil fuels, Honolulu's gas utility system uses SNG made from crude oil derivatives. The Gas Company's SNG Plant uses the Lurgi process to convert light hydrocarbon into SNG. The plant is exceptionally clean and environmentally sound. Redundancy throughout the plant allows for equipment maintenance without interruption of SNG production.

The SNG Plant's maintenance management system is supported by a microcomputer network which organizes the flow of information relating to all repairs or breakdowns in the plant through a work order tracking system and equipment history files. The system schedules and monitors a preventive maintenance program and also provides easy access for spare parts lists and current stock status. Various work stations throughout the plant have access to this information.

Feedstock for the SNG Plant is provided by Tesoro Hawaii Corporation whose refinery adjoins The Gas Company's SNG Plant.

The SNG Plant's Subzone-produced SNG is entered for consumption into the Customs territory and is distributed to The Gas Company's utility customers through its underground gas pipeline system. A by-product of SNG production, carbon dioxide, is also entered for consumption into U.S. Customs territory to be used to manufacture dry ice and liquid carbon dioxide.

Economic and Business Benefits. The SNG Plant directly benefits by being next to another FTZ Subzone, Subzone 9A, which has an oil refinery owned and operated by Tesoro Hawaii Corporation. As the refinery uses refined crude oil from both domestic and foreign sources, it produces the feedstock used by the SNG Plant, thereby assuring that it will have a constant flow of feedstock from a next-door source.

Public Benefits to the Local and National Economies. Foreign Trade Zone status has helped The Gas Company to remain competitive in its production and distribution of SNG along the southern corridor of Oahu for more than 35 years. For Hawaii and the United States, that translates to a company with a long-term commitment to operating and growing within the state of Hawaii, maintaining and adding new facilities, which in turn contributes towards a steady employment base.

1. Continuous supply of public utility SNG. The SNG Plant's year-round operation assures a continuous supply of SNG for its public utility gas company in Honolulu. Preferred by business and residential customers for its clean, infinitely adjustable heating value, SNG provides a low-cost alternate energy source.

2. Facilities investment. In 1974, with a reliable supply of naphtha feedstock from the adjoining refinery, it was possible for The Gas Company to construct its initial SNG Plant at a cost of $7.8 million. Prior to that, SNG was manufactured in a 1909-era facility located in downtown Honolulu. The SNG Plant was more efficient, had a larger rated capacity than the downtown facility that it replaced, and has, over time, proven itself to be a reliable source of SNG. In 1978, backup equipment was added to the original facility at a cost of $6.5 million.

Shortly after it initiated Zone operations in 1975, the SNG Plant began sales of carbon dioxide, a by-product of its production of SNG, to a distributor operating in the U.S. Customs Territory marketing dry ice and liquid carbon dioxide. Today, the SNG Plant is Hawaii's major producer of carbon dioxide.

Over the years, the SNG Plant has maintained a modern and environmentally sound facility. Significant facility investments have included: expanded laboratory, office areas and equipment; state-of-the-art computer equipment; back-up production equipment; a closed loop water conservation system; modifications to permit the use of various feedstocks; additional storage tanks; expanded maintenance and warehouse spaces; a demineralizing unit with a strainer system to assure pure water for boilers; energy saving, high-efficiency electrical motors; installation of remote shut-off controls on various units; a fire suppression deluge/sprinkler system for the naphtha storage area; new stationary hydrocarbon monitors to monitor for leaks; a new high voltage transformer; a distributed control system (DCS) to run the plant; equipment to accommodate the use of reclaimed water as boiler feed water from the local water utility; a computerized maintenance management system (CMMS); a septic tank to replace their cesspool; and an upgraded video security system.

3. Jobs and buying power for U.S. workers. During the report period, the SNG Plant salaries in the Subzone provided for direct local buying power of just over $2.5 million for a full-time work force of 34 employees. The SNG Plant also continues to use outside contractors to perform tasks such as environmental consulting, specialty welding, mechanical integrity inspection, air conditioning maintenance, landscaping, janitorial services and certain capital projects.

B. Movement of Merchandise - Subzone 9F

1. Merchandise in Subzone 9F at Beginning and End of Fiscal Year		
	Beginning Value (October 1, 2009)	**Ending Value** (September 30, 2010)
Domestic Origin/Duty Paid	3,103	4,730
Other U.S. FTZ	205,941	180,439
Total:	**209,044**	**185,169**

2. Movement of Merchandise in Subzone 9F	
Received	**Value**
Domestic Origin/Duty Paid	1,439,394
Foreign Status	0
From Other U.S. FTZs	35,741,768
Total:	**37,181,162**
Forwarded	**Value**
To the U.S. Market	37,205,037
To Foreign Countries (Exports)	0
To Other U.S. FTZs	0
Total:	**37,205,037**

3. **Value Added.** Value added by Subzone activities (labor, overhead, etc.) was 8.8 percent of the value of merchandise forwarded.

4. Foreign Status Merchandise Received at Subzone 9F

Category	Value
Naphtha	35,741,768

5. Foreign Status Merchandise Received:

   Non-privileged Foreign: $ 35,741,768
   Privileged Foreign: 0

6. Customs duties collected on merchandise entered into U.S. Customs territory from the Subzone during the fiscal year amounted to approximately $46,000.

7. Merchandise destroyed or consumed (e.g. fuel) in Subzone 9F during the fiscal year amounted to approximately 25,578 metric tons, valued at approximately $10,968,784.

PART VI. PHOTOGRAPHS

The annual submission of photographs (8" x 10" glossy) for each Zone and Subzone site depicting current activities is not required. Foreign-Trade Zone No. 9 does, however, periodically submit photographs to the Foreign-Trade Zones Board with the understanding that they may be reproduced in government publications or released to the public. Photographs of Zone facilities are available at our web site, *www.ftz9.org*.

PART VII. ZONE EXPANSION SITES AND SUBZONES AUTHORIZED BUT NOT YET IN OPERATION

Site III. Located at the Mililani Technology Park (MTP) in central Oahu, Site III encompasses 109 acres zoned for commercial and light industrial use. Approval for this expansion site was granted on November 16, 1988. The availability of FTZ procedures at the MTP is intended to facilitate high technology activities there. Castle and Cooke Properties actively seeks qualified FTZ tenants. It continues to work closely with the Department of Business, Economic Development & Tourism and other organizations (both public and private), the High Technology Development Corporation, The Chamber of Commerce of Hawaii, and the Oahu Economic Development Board to promote Zone utilization.

Site IV. Located at the Maui Research and Technology Park in Kihei, Maui, Site IV consists of 59 acres zoned for research and high-technology related uses. This expansion site was approved by the Foreign-Trade Zones Board on June 9, 1992. Temporary activation was approved by the Honolulu District Director of the U.S. Customs Service on April 25, 1995.

Site V. Located in the city of Hilo, adjacent to the Hilo International Airport (General Lyman Field) on the island of Hawaii, Site V encompasses 31 acres zoned for commercial and light industrial uses. This expansion site was approved by the Foreign-Trade Zones Board on June 9, 1992. Temporary activation of this site was approved by the Honolulu District Director of the U.S. Customs Service on July 3, 1995. The County of Hawaii and the Department of Business, Economic Development & Tourism are striving to improve marketing efforts for this site.

Site VII. Located in the city of Honolulu in the airport industrial complex on the island of Oahu, Site VII consists of 7 acres for public cold storage and distribution. This expansion site was approved by the Foreign-Trade Zones Board on June 19, 1995.

Site VIII. Located in the city of Honolulu adjacent to Waikiki in the Kapiolani business district on the island of Oahu, Site VIII is situated on 9.67 acres. This expansion site was approved by the Foreign-Trade Zones Board on June 19, 1995. Activation is event-dependent.

Site IX. Located on the Island of Hawaii, this site is comprised of the Natural Energy Laboratory of Hawaii Authority's (NELHA) 870-acre ocean science and technology park. This site was approved by the Foreign-Trade Zones Board in 2006. NELHA is discussing activation procedures with a water-bottling company.

APPENDIX A

FOREIGN-TRADE ZONE ADVANTAGES

CASH FLOW

U.S. Customs duties are paid only if and when imported merchandise is shipped into the U.S. Customs territory and is subject to duty. Merchandise transferred to another zone, exported, or destroyed may avoid U.S. Customs duties. Inventory is held in the FTZ without duty payment.

EXPORTS

No U.S. Customs duties are paid on merchandise exported from an FTZ. Normally while the drawback law allows the recovery of U.S. Customs duties previously paid after the merchandise is exported, rarely are all exports subject to drawback. Exports to NAFTA countries of unused merchandise are rarely recovered. In an FTZ, the duties are simply never paid.

WASTE/SCRAP/DEFECTS/DAMAGE/ OBSOLESCENCE

U.S. Customs duties are significantly reduced or eliminated on merchandise subject to these accountable losses.

INVERTED U.S. CUSTOMS DUTY SAVINGS

In an FTZ, uniquely, the FTZ user may elect to pay the duty rate applicable to either component materials or the finished product manufactured from the component material, depending upon which is lower. In some cases, the rate may be zero or "duty free." The reduction or elimination of U.S. Customs duties is significant.

NONDUTIABILITY OF LABOR, OVERHEAD, AND PROFIT

U.S. Customs duties are not owed on labor, overhead and profit attributed to production operations in an FTZ. If the same production operation were done overseas, the value of the labor, overhead and profit would be subject to U.S. Customs duty.

STAGED DUTY REDUCTIONS

Under the Uruguay Round of GATT, many articles have U.S. Customs duties reduced yearly. Nonprivileged foreign status merchandise utilizes the rate of duty in effect as of the shipment date from the zone.

REDUCED CYCLE TIME

Delays relating to U.S. Customs clearances are eliminated. Special direct delivery procedures expedite the receipt of merchandise in company facilities, reducing inventory cycle time.

WEEKLY ENTRIES

Weekly entry procedures significantly reduce paperwork and expense. Duties are owed only when and if merchandise is transferred from the zone to the U.S. Customs territory. No duties are owed on exports, zone to zone transfer, certain scrap/waste, etc. Merchandise processing fees are paid only with the entries.

HARBOR MAINTENANCE FEE

Fees are paid quarterly on merchandise admitted in the FTZ, not on the U.S. Customs entry, creating a cash flow advantage.

TAXATION

By Federal statute, tangible personal property imported from outside the U.S. and held in a zone, and tangible personal property produced in the U.S. and held in a zone for exportation, are not subject to State and local ad valorem taxes. Many states and Puerto Rico have tax incentive laws based upon zone status.

PRODUCTION MACHINERY

Machinery for use in a zone may be assembled and installed before duties are owed on either the parts or finished product rate.

INTERNATIONAL RETURNS

A number of firms that export have a percentage of the exports returned to the United States. U.S. Customs duties are owed each time merchandise of foreign origin that has not been registered with U.S. Customs is returned. American Goods Returned merchandise can be verified. By being returned and admitted to an FTZ, no U.S. Customs duties are paid upon return.

COUNTRY-OF-ORIGIN MARKING/LABELING

No country-of-origin labels are required on merchandise admitted to the FTZ. Merchandise shipped into U.S. Customs territory must have appropriate origin labeling which will vary depending on the circumstances.

SECURITY

The FTZ is subject to U.S. Customs Service supervision and security requirements. Unauthorized withdrawal of merchandise, such as employee pilferage or stealing, is a violation of 18 U.S.C. 549, 3571, carrying a penalty up to two (2) years in a federal penitentiary, fines not more than $250,000, or both per offense.

ANTIDUMPING/COUNTERVAILING DUTIES

Use of an FTZ defers the payment of these duties until merchandise enters the U.S. Customs territory. Exported merchandise is never subject to these duties. Note that recovery of these duties is not available under the drawback law.

SPARE PARTS

To service many products, spare parts must be on hand in the United States for prompt shipment. However, it is impossible for most firms to know the requirements for spare parts, especially with new products. Spare parts may be held in the FTZ without U.S. Customs duty payment, generating cash flow savings. Obsolete parts may be destroyed without duty payment.

U.S. QUOTA

Most merchandise may be held in an FTZ, even if it is subject to U.S. quota restriction. When the quota opens, the merchandise may be immediately shipped into U.S. Customs territory. Voluntary restraint and orderly marketing agreements are not impacted by FTZ use.

QUOTA AVOIDANCE

Quota merchandise may be substantially transformed in an FTZ into a non-quota article that may be entered into the U.S. Customs territory free of quota restrictions.

QUALITY CONTROL

The FTZ may be used for quality control inspections to ensure that only merchandise that meets specifications is imported and duty paid. All other materials may be repaired, returned to the foreign vendor, or destroyed.

INVENTORY CONTROL

Operations in an FTZ require careful accounting of receipt, processing, manufacturing, and shipment of merchandise. Firms have found that the increased accountability reduces inventory error, receiving and shipping concerns, and waste and scrap.

ENTIRETIES PROVISION

An importer can choose whether or not the entireties provision (all necessary parts classified as the finished product) is utilized at entry.

EXHIBITION

Merchandise may be held for exhibition in the zone without U.S. Customs duty payment. At a later date the merchandise may be imported or exported.

INSURANCE COSTS

The insurable value of merchandise held in an FTZ need not include the U.S. Customs duty payable on the merchandise. Cargo insurance rates should be reduced because imported merchandise is shipped directly to an FTZ.

ZONE-TO-ZONE TRANSFER

Significant benefits accrue to the in-bond transfer of merchandise from one zone or subzone to another for distribution or manufacture without U.S. Customs duty payment. A network of zone projects provides opportunities to reduce or eliminate duties.

TEMPORARY REMOVAL PROCEDURE

Merchandise may be removed from an FTZ into the U.S. Customs territory for certain activities and returned to the FTZ without U.S. Customs duty payment.

COMPLIANCE WITH FEDERAL LAWS

Merchandise may be admitted into an FTZ without being subject to a wide array of Federal laws that would otherwise prohibit the importation. Upon shipment into the U.S. Customs territory, the merchandise must meet all applicable requirements.

ENTERPRISE ZONE COORDINATION

Foreign-trade zone advantages may be combined with those of enterprise zones for enhanced financial gain.

TRANSFER OF TITLE

Title to merchandise may be transferred in an FTZ as long as there is not a "retail" sale.

RECORD IDENTITY ACCOUNTING

Specific physical identification of merchandise is unnecessary in an FTZ. The UIN systems allows FIFO record identity inventory accounting.

CHANGING CIRCUMSTANCES

As U.S. laws and especially U.S. Customs laws change, location in an FTZ allows a firm greater flexibility in addressing these changing circumstances.

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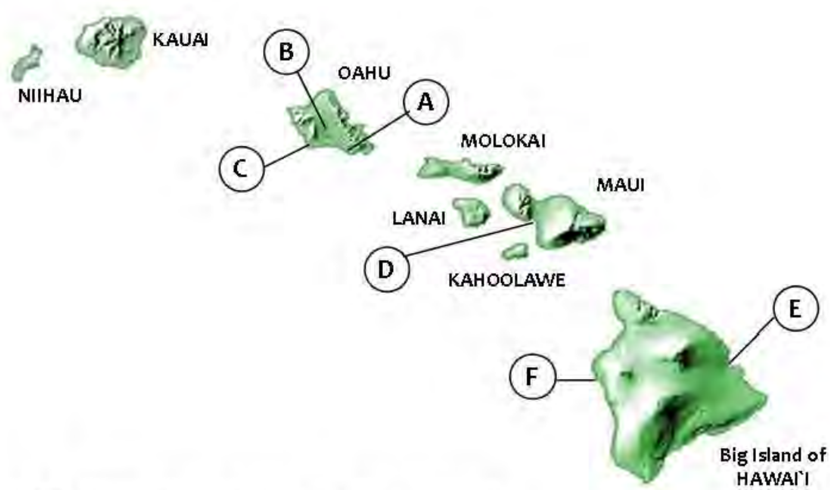
APPENDIX B
SITE MAP OF FOREIGN-TRADE ZONES IN HAWAII



A
Pier 2, Honolulu Harbor (Headquarters)

Hawaii Fueling Facilities Corporation
Honolulu International Airport

Unicold Corporation, Honolulu

Hawaii Convention Center, Honolulu

B
Mililani Technology Park, Central Oahu

C
James Campbell Industrial Park
Kapolei, Oahu

Subzone 9A: Tesoro Hawaii Corporation
Kapolei, Oahu

Subzone 9E: Chevron Products Company
Kapolei, Oahu

Subzone 9F: The Gas Company
Kapolei, Oahu

D
Maui Research and Technology Park
Kihei, Maui

E
Hilo Foreign-Trade Zone, Hilo

F
Natural Energy Laboratory of Hawaii Authority
Kailua Kona, Hawaii

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