



# 05-06

**ANNUAL REPORT**  
TO THE FOREIGN-TRADE ZONES BOARD

OCTOBER 1, 2005 - SEPTEMBER 30, 2006

STATE OF HAWAII, GRANTEE AND OPERATOR  
THROUGH ITS DEPARTMENT OF BUSINESS,  
ECONOMIC DEVELOPMENT & TOURISM



**H A W A I I**  
**FOREIGN-TRADE ZONE**  
NO. 9



# 05-06

## ANNUAL REPORT

TO THE FOREIGN-TRADE ZONES BOARD

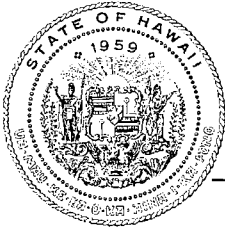
OCTOBER 1, 2005 - SEPTEMBER 30, 2006

**THIS REPORT HAS BEEN CATALOGED AS FOLLOWS:**

Hawaii. Dept. of Business, Economic Development and Tourism.  
Foreign Trade Zone Division.

Report - Hawaii Foreign Trade Zone 9. Honolulu: 1967-.  
Annual.

1. Free ports and zones-Hawaii.  
HF1418.H382.2006



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March 9, 2007

Mr. Andrew McGilvray  
Executive Secretary  
Foreign-Trade Zones Board  
U.S. Department of Commerce  
1401 Constitution Avenue, NW, Room 2814B  
Washington, D.C. 20230

Dear Mr. McGilvray:

Submitted herewith, in accordance with the Foreign-Trade Zones Act and the regulations of the Foreign-Trade Zones Board, are 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, 2006. The report includes information on the following subzones that were active during the year:

- Subzone 9A, Tesoro Hawaii Corporation
- Subzone 9D, Maui Pineapple Company, Ltd.
- Subzone 9E, Chevron Products Company
- Subzone 9F, The Gas Company

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Respectfully submitted,

Gregory P. Barbour  
Zone Administrator

Approved:

Theodore E. Liu, Director  
Department of Business, Economic  
Development & Tourism, State of Hawaii  
Grantee, Foreign-Trade Zone 9



# 05-06

## ANNUAL REPORT

TO THE FOREIGN-TRADE ZONES BOARD

OCTOBER 1, 2005 - SEPTEMBER 30, 2006



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The FTZ program has  
a particular focus on helping Hawaii manufacturers  
compete in external markets.

## ANNUAL REPORT

FOREIGN-TRADE ZONE 9  
HONOLULU, HAWAII

OCTOBER 1, 2005 - SEPTEMBER 30, 2006

### **Celebrating 40 Years of Serving Hawaii's Businesses: OVERVIEW OF HAWAII'S FOREIGN-TRADE ZONE PROGRAM**

The Foreign-Trade Zone Division of the Department of Business, Economic Development & 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 2006, our 40th year of operation.

Hawaii's continued strong economic recovery, a significant rise in petroleum prices, and increased fueling activity

pushed overall FTZ activity in 2006 up 34 percent over FY 2005 and over 140 percent in the past three years. This past fiscal year, the total value of merchandise received and forwarded in all activated FTZ sites in Hawaii reached \$8.7 billion. This high figure reflects the importance of petroleum activity to Hawaii's international trade and at the FTZ. Exports, a majority in the form of jet fuel, reached \$744 million in 2006. Finally, 373 companies used the Hawaii FTZ program in 2006; an increase of over 30 percent. Thirty-seven of the companies served were new to the FTZ program. These companies directly employed 1,163 people and an additional 1,085 people on a part-time or seasonal basis.

The FTZ program has a particular focus on helping Hawaii manufacturers compete in external markets. We had several notable accomplishments in 2006.

## NEWS RELEASE

December 19, 2005

### HAWAII FOREIGN-TRADE ZONE ACCEPTS 40,000TH SHIPMENT OF MERCHANDISE

On December 19, 2005 the staffers at Foreign-Trade Zone 9 celebrated the arrival of the 40,000th shipment of merchandise to enter the Zone since it started receiving cargo 39 years ago. The shipment consisted of roughly 20,000 pairs of Havaianas slippers from Brazil.

“This shipment is symbolic of the Department of Business, Economic Development and Tourism’s (DBEDT) long-standing effort to assist small businesses in Hawaii involved in international trade,” said DBEDT Deputy Director Mark Anderson. “In the years to come, as we further establish our Pier 2 site as a hub for international trade, we expect to be serving even more Island small businesses and making an even greater contribution to the welfare of Hawaii’s people. Small business owners like Claudio Ribeiro know how vital the Zone is to the well-being of Hawaii’s economy.”

The Ribeiro Corporation of Hawaii on the Island of Kauai was started in 1996. Since its beginning it has been one of the national leaders in importing Havaianas slippers from Brazil to the United States. Ribeiro Corporation uses FTZ9 as a gateway to do business with the mainland USA as well as the Pacific Rim with Havaianas slippers and other surf-related products manufactured in Hawaii or imported from other foreign suppliers.



From Right to Left, Scott Yoshida, FTZ 9 Operations Supervisor Congratulates Claudio Riberio, President of Riberio Corporation for being the recipient of the 40,000th shipment (zone lot). Inspecting the shipment are Customs and Border Protection Officers Denise Chang and Clayton Pasion.

# NEWS RELEASE

## FTZ9/DBEDT ENTER INTO PARTNERSHIP WITH EXPORT-IMPORT BANK OF THE UNITED STATES

April 26, 2006



Governor Linda Lingle announces the state's new city/state partnership in a video conference with Ex-Im Bank (acting) president James Lambricht.



Ted Liu, DBEDT Director, speaks with media after the press conference.

Governor Linda Lingle met via videoconference in April, 2006 with (acting) Chairman and President James L. Lambricht of the Export-Import Bank (Ex-Im Bank) of the United States to enter into a new partnership agreement to help Hawaii's small business exporters expand international sales opportunities and minimize financial risks. Ex-Im Bank is the official export credit agency of the United States and helps finance the export of U.S. goods and services to help create and sustain American jobs.

Under the agreement, the State Department of Business, Economic Development and Tourism (DBEDT) will join the Ex-Im Bank's City-State Partners Program, a national marketing initiative that brings export financing services to small- and medium-sized U.S. companies through cooperation with state and local governments and private sector organizations.

FTZ9 will lead DBEDT's partnership program with the Ex-Im Bank. The program will be part of the recently established one-stop shop for companies to receive assistance from in-house experts knowledgeable in international trade. These efforts are just beginning to gain traction in the Zone. The Zone serves more than 300 small and large businesses in Hawaii every year from its Pier 2 facility at Honolulu Harbor on the Island of Oahu.

"Many small businesses in Hawaii would like to explore export markets but find that financing is one of the key constraints," Governor Lingle said. "This new partnership will assist small businesses in Hawaii by facilitating access to working capital to build capacity to produce more goods as well as to credit insurance to reduce the risk of dealing with new customers overseas."

"Small businesses in Hawaii enjoy a unique geographical advantage," said Lambricht. "With Hawaii's strategic location in the middle of the Pacific Ocean, exporters are well-positioned to interact efficiently with businesses on the U.S. Mainland and throughout the Pacific region. Now, with this partnership they'll enjoy enhanced access to the many export finance services of Ex-Im Bank."

DBEDT Director Theodore E. Liu said this partnership program makes good sense for Hawaii business. "In a globally interdependent and competitive economy, only those communities who engage global markets for goods and services will achieve an ever-increasing standard of living," said Liu. "For Hawaii, that means increasing our efforts to export more to offshore markets. However, Hawaii's international trade sector is characterized by small businesses that may not have the resources or risk tolerance to participate in international markets."

FTZ9 plans to hold finance seminars over the next year in conjunction with Ex-Im Bank and local partners. DBEDT and Ex-Im officials will walk local businesses through the process of applying for a wide range of Ex-Im Bank financing tools including working capital support, export credit insurance and loan guarantees that will enable them to better compete in growth markets abroad.



# NEWS RELEASE

September 15, 2006

## NATURAL ENERGY LABORATORY OF HAWAII BECOMES STATE'S NEWEST FOREIGN-TRADE ZONE ADDITION

After several years of careful study and planning, FTZ9 took a major step forward when it received federal approval to expand its reach to the Natural Energy Laboratory of Hawaii Authority's (NELHA) 870 acre ocean science and energy technology industrial park at Kailua-Kona on the Island of Hawaii. Assistant Secretary David M. Spooner, Alternate Chairman of the Foreign-Trade Zones Board signed Board Order 1477 on September 6, 2006 designating the Kailua-Kona site as a non contiguous general purpose zone site.

U.S. Senator Daniel K. Inouye welcomed the addition of NELHA into Foreign-Trade Zone 9. "As a long-time supporter of both entities, I am pleased that NELHA will now be contributing to the growth of our Foreign-Trade Zone," Senator Inouye said. "By expanding into the research and testing of renewable energy, our Foreign-Trade Zone is poised to make even more contributions to Hawaii's economic growth. The addition of NELHA certainly brightens the future of both Foreign-Trade Zone 9 and our state."

DBEDT Director Theodore E. Liu hailed the Board's action, saying "the approval will allow trade-zone benefits to companies whose activities can't be done at Pier 2 because of limited space and zoning. It makes good business sense for NELHA to be part of the FTZ. I am confident this new site will enhance economic development in Hawaii County by lowering the cost of doing business for firms interested in starting or expanding their international trade activities," said Liu.

The federal approval clears the way for NELHA tenants to bring their own operations under the special advantages that a foreign-trade zone offers. This involves an application procedure with NELHA and DBEDT's Foreign-Trade Zone Division. Ron Baird, Chief Executive Officer at NELHA stated, "We are always looking for ways to assist our clients in expanding their business and leveling the playing field for them when it comes to international trade. Exports from NELHA's clients already account for a large percentage of the State's non-petroleum based exports and this will allow them to compete more effectively on a global basis."



### **NELHA becomes the state's newest FTZ addition.**

Pictured l-r: Mark Anderson, DBEDT Deputy Director; Ted Liu, DBEDT Director, Greg Barbour, FTZ administrator (standing); and Ron Baird, NELHA Chief Executive Officer.



NELHA site, Kailua-Kona, Hawaii

## FTZ9 Security Enhancements

We are also in the process of establishing the Pier 2 site as an ultra-secure facility. FTZ9 requested and received \$250,000 in capital improvement project funds from the State Legislature to replace its existing 20-year-old security system. In addition, FTZ9 has received a federal grant from the Department of Homeland Security for increased security measures in the amount of \$250,000.

A facility assessment was recently completed for Piers 1 and 2, Honolulu Harbor. This assessment recommended that procedures and systems be developed to provide additional security to protect against port vulnerabilities for all threat level conditions as indicated by the DHS Homeland Security Advisory System. General improvements for an advanced access control and surveillance system are being designed and will be installed in early 2007.

The new system will address the current vulnerabilities associated with disparate surveillance and security systems surrounding Honolulu Harbor environs. This will result in deterrence and improved visibility for monitoring unauthorized entry by both FTZ and personnel monitoring Honolulu Harbor. It will facilitate a rapid response by security personnel by allowing remote viewing of the building perimeters and critical areas from a central location or command center. It will significantly enhance the ability to control and monitor access to the site with fewer access points. It will block unauthorized access by vehicles. When the security upgrade is complete, the FTZ will be up to date with the latest advanced security measures and equipment, and this new system will benefit both FTZ customers and harbor users alike.

### Summary of Activity

In 2006, 373 companies used the Foreign-Trade Zone program, handling almost 200 different types of merchandise from over 30 countries. The total value of merchandise handled during this past year was up 33 percent compared to the previous year. This increase reflects higher petroleum pricing and a general increase in FTZ activity.

The total value of merchandise handled is the combination of the value of merchandise received (\$4,384,440,443) and the value of merchandise forwarded (\$4,277,583,893) from all active FTZ sites in Hawaii.

Merchandise can be received in an FTZ in domestic or foreign status. In 2006, domestic status merchandise valued at \$937,695,246 entered Foreign-Trade Zone sites in Hawaii. During this same period, \$3,063,199,471 of foreign-status merchandise entered FTZ sites. Of merchandise received in foreign status, \$1,611,289,632 was received in non-privileged foreign status and \$1,753,067,323 was received in privileged foreign status.

Merchandise from Foreign-Trade Zone sites in Hawaii is forwarded to both domestic and foreign markets. In 2006, \$3,155,053,456 of merchandise received was forwarded to the U.S. market; \$744,168,238 was forwarded to foreign markets; and, \$378,362,199 was forwarded to other U.S. FTZs. Finally, an estimated \$3.417 million of Customs duties were collected on merchandise entering the U.S. market from the Zone during the fiscal year.



Within Foreign-Trade Zone sites in Hawaii, a variety of value-added and manufacturing activities occurred that added between 3 and 75 percent to the value of merchandise forwarded. Companies reported that 1,163 employees were directly attributable to participation in the Foreign-Trade Zone program. An additional 1,085 people were employed on a temporary or seasonal basis.

Companies using the FTZ program made capital improvements of \$29.75 million to Zone facilities during the year.

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. As a result of these promotional efforts, 37 new firms used FTZ facilities in 2006.

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.

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 four 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.

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

- Approval to expand FTZ9 to include a site in Kailua-Kona, Hawaii at the Natural Energy Laboratory of Hawaii Authority's 870-acre ocean science and energy technology industrial park.
- Filing and acceptance of FTZ9's FY 2005 Annual Report to the Board.



**ACTIVE FOREIGN-TRADE ZONE SITES IN 2006**

Active General-Purpose Zone Sites	Active Special-Purpose Zone Sites
Pier 2, Honolulu Harbor Honolulu International Airport (fueling facility) James Campbell Industrial Park	9A Tesoro Hawaii Corporation 9D Maui Pineapple Company, Ltd. 9E Chevron Products Company, Ltd. 9F The Gas Company (SNG Plant)

# APPRECIATION EVENTS





May 26, 1972: James F. Gary, president of Hawaiian Independent Refinery, Inc. and Pacific Resources, Inc., presides over the dedication ceremony of the first oil refinery to be built in a foreign-trade zone.



August 4, 1970, Groundbreaking Ceremony: James Gary (PRI/HIRI), Governor John A. Burns, John Da Ponte (Foreign-Trade Zones Board) and Rev. Abraham Akaka (Kawaiahao Church).

Hawaii set a national precedent on May 26, 1972 when the first oil refinery in the United States began operations inside a foreign trade zone.

The authority, granted by the Foreign-Trade Zones Board in Washington, D.C. set the historic precedent when it approved operations to allow the refinery to refine foreign crude oil to produce aircraft and marine fuels for bonded sale to outbound planes and ships.

Today there are approximately 100 refineries and oil storage terminals in Foreign-Trade Zones across the nation.

Governor John A. Burns lauded the effort during the August, 1970 groundbreaking for the new Hawaiian Independent Refinery by noting that “the new refinery will provide new job opportunities, many of which will be in the technical field, aiding Hawaii’s move toward becoming a research and development center.”



H A W A I I  
FOREIGN-TRADE ZONE  
NO. 9

# PART I.

## SUMMARY OF ACTIVITY - GENERAL PURPOSE ZONE

Three general-purpose zone sites were active during FY 2006. 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 members of the maritime 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.

In addition to its normal activities, given that there is no official Central Examination Station (CES) in Honolulu, the FTZ provides space at a very nominal charge to small businesses for containers that are identified by U.S. Customs and Border Protection for further examination. Small businesses are only charged for labor, essentially cost recovery, to unstuff and stuff containers.

Promotional and marketing efforts. Over \$20,000 was spent on marketing in 2006. A total of 37 new firms began using the Pier 2 site in 2006.



**Activity.** The value of merchandise handled at the Pier 2 site in 2005 totaled \$58,280,111. This total represents the value of merchandise received (\$29,075,844) and the value of merchandise forwarded (\$29,204,267). During the year, 337 companies used the facility. We estimate that 337 companies used the facility on a regular basis. These companies imported or exported 167 different types of merchandise from 29 countries.

The facility received \$29,075,844 in merchandise of which \$24,129,664 was in foreign status. All foreign status merchandise was received in non-privileged foreign (NPF) status. Merchandise arrived at the Pier 2 site in a variety of ways:

- Container: 84 percent, or \$24,357,734
- Loose/less than container load: 16 percent, or \$4,681,384
- Mail: less than 1 percent, or \$36,725

Companies exported \$13,189,237 in merchandise from Pier 2 and forwarded \$16,015,030 to U.S. markets.

**Other uses.** The Pier 2 site continues to be used by a number of state and federal agencies. Customs and Border Protection uses the Pier 2 facility to perform selective examinations as Honolulu has no official Centralized Examination Station. Cargo is examined, weighed, inventoried, and stored. In addition, the U.S. Marshal Service uses the Pier 2 facility for storage of seized goods. Finally, the U.S. Department of Commerce Export Assistance Center is located in the offices at the Pier 2 facility.



**TOP FIVE COUNTRIES BY VALUE OF MERCHANDISE RECEIVED**

Country	Value of Merchandise Received
Japan	17,459,722
China	3,245,502
Thailand	1,112,554
Hong Kong	830,031
Taiwan	516,200

**TOP FIVE TYPES OF FOREIGN STATUS MERCHANDISE BY VALUE**

Merchandise	Value of Merchandise Received
Vehicles	16,708,672
Industrial Machinery	1,610,125
Wood Articles	969,468
Leather Articles	685,236
Beverages	617,910



**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 the FTZ Board by 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.

During fiscal 2006, the value of foreign jet fuel receipts into the Zone increased from \$357.9 million to \$384.6 million. This increase is a result of a higher average price of jet fuel that rose by approximately 26 percent; however, the overall increase was reduced due to a lower demand for jet fuel. During fiscal 2006 there was an 8 percent decrease or approximately \$74.6 million change in jet fuel brought into the zone.

Improvements in Zone services and facilities. There were no major improvements in Zone services and/or to the facilities during fiscal 2006. HFFC spent \$1,242,000 on minor improvements and maintenance of facilities within the Foreign-Trade Zone.

Promotion and marketing efforts. Numerous international 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 the fiscal year, eight companies supplied foreign-status jet fuel at Honolulu International Airport. Tesoro Hawaii Corporation (Tesoro) and Chevron Products Company (Chevron) supplied jet fuel in privileged and non-privileged foreign status by pipeline from their respective foreign-trade zone refineries in Honolulu (FTZ Subzones 9A and 9E). In addition, Pacific Fuel Trading Corporation, Japan Airlines, Itochu International Inc., Bradley Pacific Aviation, Chevron, Continental Airlines, Hawaiian Airlines Inc., Morgan Stanley, and Tesoro Hawaii 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), formerly Airport Group International, an airport fuel service company, to operate and manage the HFFC fuel facilities at Honolulu International Airport. ASIG employs approximately 77 persons 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 \$384.6 million was received and disbursed through the Zone site during fiscal 2006. Foreign-status fuel was used by as many as



31 carriers on approximately 35 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 tourism industry in Hawaii and to the financial efficiencies of the airline companies.

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 98,700 square foot site in the James Campbell Industrial Park general-purpose zone on June 12, 1998. 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.

Zone activity has increased from 2005 due to higher demands for locally produced polyethylene terephthalate (PET) products. The cost to locally produce intermediary components to manufacture finished products of PET food and beverage containers is lower than shipping them in from sources such as the U.S. mainland and foreign countries. Raw materials used for this process are imported from a foreign source through the Zone to promote the growth of Zone activity.

During FY 2006, Pacific Allied Products employed 62 persons, 6 of whom were temporary employees.

Pacific Allied's beverage containers are used for soft drink, water, juice and dairy bottling companies. Operating at near capacity in 2006, Pacific Allied Products did not have the need to engage in planned promotion or marketing efforts.

Pacific Allied Products' ability to operate as a Foreign-Trade Zone saves time and money through expedited deliveries and a cost benefit on reduced duty when shipping its finished product. These savings allow Pacific Allied to provide both large and small customers competitive prices against higher-volume mainland or foreign manufacturers, which in turn allows their business to thrive.





# PART II.

## USE OF ZONE BY BUSINESS FIRMS (GENERAL-PURPOSE ZONE 9)

All general-purpose zone sites served 369 businesses during fiscal 2006. Of these, 190 firms used the Zone on a continuous basis, employing up to 407 persons, 144 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 FACILITY

Automobiles, motorcycles, trucks	Label/relabel goods/remove labels.
Building materials	Open and inspect for Customs exams.
Drugs, medicines and cosmetics	Change zone status.
Food products	Verify contents.
Footwear	Convert to pallets.
Furniture	Examine for quality; inventory goods; verify contents.
General merchandise and miscellaneous products	Convert to pallets; open and inspect for Customs exams; remark cartons; transfer title.
Handicraft	Convert to pallets.
Household articles	Convert to pallets; verify contents.
Jewelry	Adjust inventory; create packages/additional units; inventory goods; remark cartons; repack goods; verify contents.
Leather goods	Change zone status; transfer title.
Lumber, plywood	Open and inspect for Customs exams.
Machinery and parts	Label/relabel goods/remove labels.
Printed matter	Label/relabel goods/remove labels; transfer title.
Textile floor covering	Inventory goods; label/relabel goods/remove labels; remark cartons.
Textiles	Convert to pallets; transfer title.
Tile	Create packages/additional units.



**Site II: Pacific Allied Products, Ltd.**

Polyethylene terephthalate	Manufacture food and beverage containers for soft drink, water, juice, and dairy bottling companies.
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**Site VI: Hawaii Fueling Facilities Corporation**

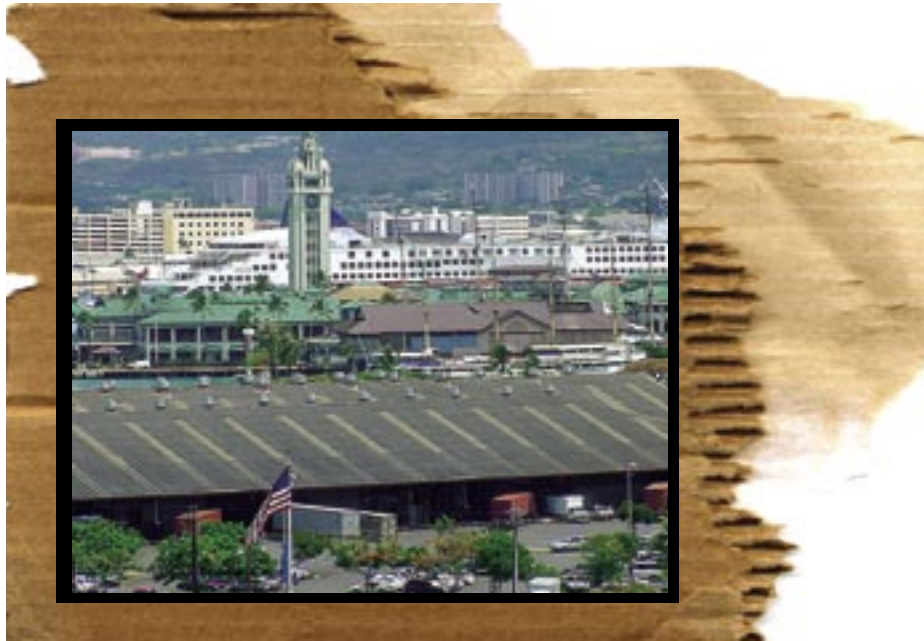
Jet fuel	Distribute jet fuel to aircraft at Honolulu International Airport via bonded pipelines and hydrants.
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**HAWAII FUELING FACILITIES CORPORATION  
List of Airline Users**

Air Canada	Federal Express	Pacific Air Cargo
Air Japan	Gemini	Philippine Airlines
Air New Zealand	Harmony Airways	Phoenix Fuel
Air MED	Hawaiian Airlines	Polar Air
Air Pacific	Island Air	Polynesian Airline
Air Transport International	Japan Airlines	Qantas Airways
All Nippon Airways	Kalitta Air	Thai Airways
Aloha Airlines	Korean Airlines	Trans Air
America West	Lufthansa	United Airlines
American Trans Air	Malaysian Airlines	United Parcel Service
Asia Pacific	MESA Airlines	World Airways
China Airlines	Northwest Airlines	
Continental Airlines	Omni Air	





# PART III.

## MOVEMENT OF MERCHANDISE (GENERAL-PURPOSE ZONE 9, SITES I, II AND VI)

The Zone handled 167 different items from 29 countries of origin, compared with 188 items from 33 countries during the preceding fiscal year.

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

	Beginning Value*	Ending Value
Domestic Status	18,528,201	17,901,754
Foreign Status	50,924,653	45,807,518
<b>Total:</b>	<b>69,452,854</b>	<b>63,709,272</b>

\*Beginning value is increased by \$13,148,457 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 \$3,452,337 and the increase for foreign status is \$9,696,120.

### B. Movement of Merchandise

Movement	Value
<b>Received:</b>	
Domestic Status	326,943,029
Foreign Status	156,498,095
From Other U.S. FTZs:	
• Domestic Status	82,388,232
• Foreign Status	254,332,284
<b>Total:</b>	<b>820,161,640</b>
<b>Forwarded:</b>	
To the U.S. Market	422,848,565
To Foreign Countries (Exports)	320,966,651
To Other U.S. FTZs	82,077,632
<b>Total:</b>	<b>825,892,848</b>

**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)

Category	Value
1. Jet Fuel	187,960,401
2. Vehicles	16,708,672
3. Polyethylene terephthalate	2,081,520
4. Industrial Machinery	1,610,125
5. Wood Articles	969,468

### E. Foreign Status Merchandise Received:

Nonprivileged Foreign:	\$222,869,978
Privileged Foreign:	\$187,960,401

**F. Customs duties collected on merchandise entered from all active general purpose zones during the fiscal year amounted to \$993,877.**



## 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](http://www.ftz9.org).



SUBZONE 9A FACILITIES INCLUDE  
 TESORO'S 95,000 BARREL-PER-DAY  
 OIL REFINERY COMPLEX.

# PART V.

## SUBZONE ACTIVITY

### SUBZONE 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, 2006, Tesoro's refinery crude unit throughput on an average daily basis was as follows:

- Total throughput (all sources) = 89,135 Barrels Per Day (BPD)

- Total crude oil throughput = 87,830 BPD.
- Total other throughput (mostly slop oil and off-test products) = 1,305 BPD.
- Total foreign oil throughput = 73,237 BPD, consisting of the following HTSUS numbers:
  - 2709.00.10 (Crude testing under 25 degrees A.P.I.) 14,598 BPD
  - 2709.00.20 (Crude testing 25 degrees A.P.I. or more) 58,639 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 94 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 6 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 7 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 10 percent of the total shipments during the period.

1. Percent export of total production	19%
Direct Exports	10%
Indirect Exports	9%
2. Current rated crude distillation capacity	95,000 BPD
3. Employment:	
Direct	250 employees
Indirect (e.g. contract employees)	450 employees
4. Volume of total crude oil receipts on an average daily basis	88,244 BPD
5. Volume of foreign crude oil receipts on an average daily basis	72,814 BPD
6. Estimated percentage of foreign crude receipts under 25 degrees API	22%

**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 88,000 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 feedstocks 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 feedstocks 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 feedstocks 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.

**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 sulfur to China and 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 \$7 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 \$22 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 150 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 300 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 700 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, 2005) \$1,000	Ending Value (September 30, 2006) \$1,000
Domestic Status/Duty Paid	651	237
Foreign Status	135,496	160,999
<b>Total:</b>	<b>136,147</b>	<b>161,236</b>

### 2. Movement of Merchandise in Subzone 9A

Movement	Value \$1,000
<b>Received:</b>	
Domestic Status/Duty Paid	407,780
Foreign Status	1,677,877
From Other U.S. FTZ's	0
<b>Total:</b>	<b>2,085,657</b>
<b>Forwarded:</b>	
To the U.S. Market	1,514,081
To Foreign Countries	216,978
To Other U.S. FTZs	228,755
Fuel Consumed	100,754
<b>Total:</b>	<b>2,060,568</b>

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 at Subzone 9A

Category	Value \$1,000	Main Countries of Origin
Crude Class IV	89,790	Australia, Indonesia
Crude Class III	1,242,222	Brunei, Libya, Malaysia, Oman, Saudi Arabia, U.A.E.
Crude Class II	334,780	Indonesia, China
Other	11,085	Indonesia
<b>Total:</b>	<b>1,677,877</b>	

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

Nonprivileged Foreign: 665,645  
Privileged Foreign: 1,012,232

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

**7.** In accordance with the Subzone 9A grant, fuel consumed within the FTZ is not entered for consumption. Such fuel totaled \$100.8 million during the year. No significant amount of merchandise was destroyed in the Subzone during the fiscal year.





THE PINEAPPLE CANNERY AT KAHULUI  
IS THE ONLY PINEAPPLE FACILITY OF THIS  
TYPE REMAINING IN HAWAII.



**SUBZONE 9D**

**A. Summary – Pineapple Cannery** (Maui Pineapple Company, Ltd.)

**Owner, operator and corporate affiliation.** Maui Pineapple Company, Ltd., a subsidiary of Maui Land & Pineapple Company, Inc., operates a pineapple cannery in Foreign-Trade Subzone 9D. The Subzone was authorized by FTZ Board Order 329 on April 25, 1986 and activated on April 30, 1986.

**Subzone site and plant facilities.** The Subzone is 100 miles east of the primary Zone and is located in the Kahului region of the island of Maui, encompassed by Kaahumanu Avenue, Kane Street, and Wakea Avenue, comprising an area of approximately 22 acres.

The pineapple cannery operation consists of the preparation, canning, warehousing, and shipment of canned pineapple, pineapple juice and fresh cut pineapple products. The site also contains a can manufacturing facility, storage facilities, a quality control laboratory, and a diesel-powered electrical generation plant.

**Employment.** During fiscal year 2006, the Subzone employed up to 251 persons, 107 of whom were full time. Also, there are 19 people involved in the Subzone activities who are employed in Maui Pine's corporate headquarters.

**Activities.** Maui Pine receives about one shipment of tinplate from Japan annually for production of sanitary cans which are used in the canning operation. Also, during the fiscal year, Maui Pine withdrew unfilled cans and matching lids from the Subzone and assessed duty at the applicable rate after the sale to other U.S. food processors. The tinplate is discharged from ships at Kahului Harbor and trucked to Subzone 9D.

The pineapple cannery at Kahului is the only pineapple facility of this type remaining in Hawaii. It has the capacity to process up to 225,000 tons of pineapple annually with production in 2006 of 80,000 tons. The cannery normally operates on two shifts from mid-June to mid-August and on one shift during the rest of the year.

A great majority of the pineapple products – canned fruit and juice - are shipped via container from Kahului Harbor to domestic U.S. markets. A lesser amount is shipped to foreign (mostly Japan and Canada) markets.

**Economic and business benefits.** Maui Pineapple Company, Ltd. benefits from being a Subzone user by the savings of not having to pay the U.S. Customs duties on imported tinplate.

**Public benefits to the local and national economies.** Foreign-Trade Zone procedures have strengthened the competitiveness of Maui Pine and enabled it to continue to be an important part of Hawaii’s manufacturing sector. As mentioned above, a total of 251 manufacturing jobs were supported by Maui Pine of which 107 were full time. With the multiplier effect, the total employment impact for the State of Hawaii was conservatively estimated at 380 full-time jobs. Exports totaled approximately \$340,000.



**B. Movement of Merchandise - Subzone 9D**

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

	<b>Beginning Value (October 1, 2005)</b>	<b>Ending Value (September 30, 2005)</b>
Domestic Status/Duty Paid	644,889	1,615,784
Foreign Status	4,476,714	2,019,368
<b>Total:</b>	<b>5,121,603</b>	<b>3,635,152</b>

**2. Movement of Merchandise in Subzone 9D**

<b>Movement</b>	<b>Value</b>
<b>Received:</b>	
Domestic Status/Duty Paid	34,651,282
Foreign Status	2,600,527
From Other U.S. FTZs:	
• Domestic status	0
• Foreign status	0
<b>Total:</b>	<b>37,251,809</b>
<b>Forwarded:</b>	
To the U.S. Market	33,680,387
To Foreign Countries (Exports)	5,057,873
To Other U.S. FTZs	0
<b>Total:</b>	<b>38,738,260</b>





**3. Level of Production.** In fiscal year 2006, the pineapple cannery processed about 80,000 tons of pineapple.

**4. Value Added.** The value added in the Subzone was estimated by value of sales from plant minus value of merchandise received at plant. The value added averaged approximately 27 percent of the value of merchandise received at the subzone.

**5. Categories of Foreign Status Merchandise Received at Subzone 9D**

Category	Value	Countries of Origin
Electrolytic Tinplate	2,600,527	Japan

**6. Foreign Status Merchandise Received:**

Nonprivileged Foreign: \$2,600,527  
Privileged Foreign: \$ 0

**7. Customs collection of duties and other fees (i.e., merchandise processing fees) on merchandise entered into U.S. Customs territory from the Subzone during the fiscal year amounted to \$17,503.**

**8. Merchandise destroyed in the Subzone during the fiscal year was valued at \$97,000.**



THE CHEVRON HAWAII  
REFINERY PRODUCT SLATE CONSISTS OF APPROXIMATELY  
20 DIFFERENT FINISHED PRODUCTS.

**SUBZONE 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.

**Employment.** At the end of fiscal year 2006, Chevron employed 205 full-time employees at its subzone. The subzone also had an average of 130 contractors (technical professional, clerical, skilled tradesmen, and laborers) to support maintenance and capital projects during the year. Distribution of the products refined at the Chevron subzone to customers throughout the Aloha State is managed by Chevron's Hawaii Marketing Region. Chevron employs 41 people at its terminal

and marine facilities on Oahu, Kauai, Maui, and the Big Island of Hawaii.

**Activities.** Chevron's Supply and Optimization Group continually look for the best opportunity crudes to refine into products to satisfy the needs of its customers. During the past year, the Chevron subzone received various crudes from several areas throughout the Pacific Rim. In all, 14 different types of crude oil were included in the refinery crude slate. The volume of crude oil received during the past year averaged 52,600 barrels per day. Approximately 98 percent of the crude oil received at the subzone came from foreign countries. The majority of the foreign crude received was classified as HTSUS 2709.00.2090. Approximately 1 percent of the foreign crude received was classified as HTSUS 2709.00.1000. Various non-crude receipts were 4,500 barrels per day.

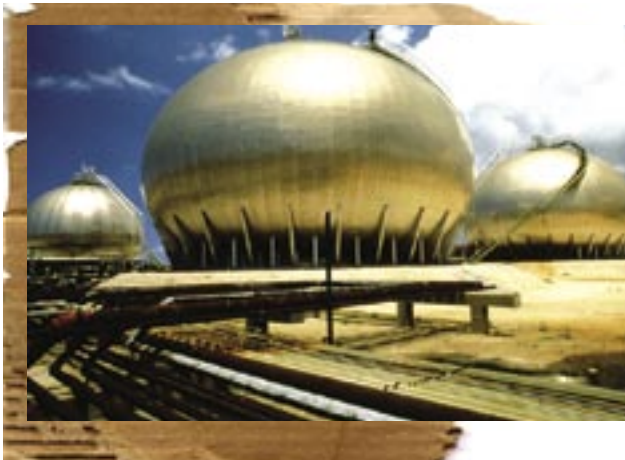
The Chevron Hawaii Refinery product slate includes: motor gasoline for Hawaii motorists; aviation gasoline for small aircraft; jet fuel for commercial airlines; diesel fuels for marine vessels, industrial machinery, and electric generation; liquified petroleum gas (LPG) for homes and industry; fuel oils for electricity and industrial power generation, and vessel bunker; and asphalt emulsion for road construction. The majority of products refined at the Chevron subzone are marketed in the State of Hawaii to satisfy local petroleum needs. Approximately 82 percent of the Subzone products are used in Hawaii.

Non-NPF products are motor gasoline, aviation gasoline, and jet fuel. Products attributed to NPF crude oil are naphtha, diesel, LPG, refinery gas, fuel oils, and asphalt. During the past year, non-NPF products were 48 percent of production and NPF products were 52 percent of production.

Products at the Chevron subzone are admitted and transferred by several pipeline networks and tank trucks. Chevron utilizes its 22-mile pipeline, which connect the refinery subzone with the Chevron Honolulu Marketing Terminal to transfer the majority of its refined products.

Marine pipelines to the Barbers Point offshore mooring are used to receive crude oil and petroleum products. The marine pipelines are also used to export refined products via tanker vessels. Pipelines to the Barbers Point Deep Draft Harbor facilitate inter-island product movements via barge. Various pipeline networks in the 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, fuel oil, asphalt, and liquified petroleum gas (LPG).

**Level of production.** Initially, the Chevron refinery had the capacity to process approximately 33,000 barrels of crude oil per day. Over the years, expansion and upgrading of the refining facilities have been undertaken to meet the changing needs for petroleum products in the Hawaiian Islands. Currently, the refinery crude unit has the capacity to process approximately 60,000 barrels of crude oil per day. Board Order 415 in 1988 approved Chevron's subzone application for up to 100,000 barrels per day crude feed capacity.



1. Percent export (of total production)	14%
Direct Export	9%
Indirect Export	5%
2. Current rated crude distillation capacity	60,000 BPD
3. Employment:	
Direct	205
Indirect (e.g., contract employees)	130
4. Volume of total crude oil receipts on an average daily basis	52,600 BPD
5. Volume of foreign crude oil receipts on an average daily basis	51,600 BPD
6. Estimated percentage of foreign crude receipts under 25 degrees API	1%

**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 \$0.5 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.

**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 2006, the Hawaii Refinery capital budget was approximately \$22.5 million. The capital program focuses on safe and reliable operation, energy efficiency, and environmental performance.

Chevron believes strongly in supporting programs that contribute to the quality of life throughout the Hawaiian Islands. Chevron is proud to enter its 10th year as partners with the Honolulu and Hawaii County police departments, as sole sponsor of the Chevron Keiki ID program, which provides a free identification card that parents can use to keep their children safe. In keeping with Chevron's long-standing support of Hawaii's students and the educational system, Chevron is a major corporate sponsor of the Hawaii State Science and Engineering Fair and also awards grants to unique and innovative project-based learning activities focused on science, engineering, and environmental stewardship through the Chevron Education Fund. Chevron also sponsors numerous collegiate scholarships for students enrolled full-time at the University of Hawaii, in the Colleges of Engineering, Business, and the School of Ocean and Earth Science and Technology. The company continues its sponsorship of the Hawaii High School Athletic Association (HHSAA), which administers state High School athletic championships statewide. Chevron also strongly supports initiatives which raise awareness about breast cancer and diabetes through its support of the Susan G. Komen Race for the Cure and the American Diabetes Association's Walk for Diabetes.

**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).

## B. Movement of Merchandise - Subzone 9E

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

	Beginning Value (October 1, 2005)	Ending Value (September 30, 2006)
Domestic Status	15,470,012	18,630,280
Foreign Status	72,849,894	158,596,613
<b>Total</b>	<b>88,319,906</b>	<b>177,226,893</b>

### 2. Movement of Merchandise in Subzone 9E

Movement	Value
<b>Received:</b>	
Domestic Status	166,552,096
Foreign Status	1,226,223,849
From Other U.S. FTZs:	
• Domestic Status	0
• Foreign Status	0
<b>Total</b>	<b>1,392,775,945</b>
<b>Forwarded:</b>	
To the U.S. Market <sup>1</sup>	1,135,927,677
To Foreign Countries (Exports)	100,411,714
To Other U.S. FTZ's	67,529,567
<b>Total</b>	<b>1,303,868,958</b>

<sup>1</sup> Includes merchandise consumed as refinery fuel.

**3. Value Added.** Subzone refining activities (labor, overhead, etc.) added approximately 7 percent to the values.

### 4. Main Categories of Foreign Status Merchandise Received at Subzone 9E

Category	Value	Main Countries of Origin
Crude Oil	1,226,223,849	China, Indonesia, Vietnam
Petroleum Products	0	
<b>Total</b>	<b>1,226,223,849</b>	

### 5. Foreign Status Merchandise Received by Category:

Non-privileged Foreign: \$673,348,927  
Privileged Foreign: \$552,874,922

**6.** Customs duties collected on merchandise entered into the U.S. Customs territory during the fiscal year amounted to approximately \$1,170,000.

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







THE GAS COMPANY'S  
SNG PLANT USES THE LURGI PROCESS TO CONVERT  
LIGHT HYDROCARBON INTO SNG.

**SUBZONE 9F**

**A. Summary - SNG Plant**

**Owner, operator and corporate affiliation.** Foreign Trade Subzone 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 approximately four 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 to supply central and eastern Oahu with utility gas service.

**Employment.** Direct employment at Subzone 9F totaled 32 employees. An additional 192 employees are located in The Gas Company's three other locations on Oahu.

**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 25 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 that 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;
- an incoming 5kV electrical feeder;
- a deluge/sprinkler system for the naphtha storage area;
- new stationary hydrocarbon monitors to monitor for leaks;
- a new high voltage transformer;
- a distributive control system (DCS) to run the plant and equipment to accommodate the use of reclaimed water as boiler feed water from the local water utility;
- a computerized maintenance management system (CMMS);
- an upgraded control system on its back-up Benfield system to the DCS; and
- a septic tank to replace their cesspool.



**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 under \$2.0 million for a full-time work force of 30 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**

Origin	Beginning Value (October 1, 2005)	Ending Value (September 30, 2006)
Domestic Origin/Duty Paid	2,655	1,183
Other U.S. FTZ	155,844	235,528
<b>Total:</b>	<b>158,499</b>	<b>236,711</b>

**2. Movement of Merchandise in Subzone 9F During Fiscal Year**

Movement	Value
<b>Received:</b>	
Domestic Origin/Duty Paid	1,768,839
Foreign Status	0
From Other U.S. FTZs	46,825,200
<b>Total:</b>	<b>48,594,039</b>
<b>Forwarded:</b>	
To the U.S. Market	48,515,827
To Foreign Countries (Exports)	0
To Other U.S. FTZs	0
<b>Total:</b>	<b>48,515,827</b>

**3. Value Added.** Value added by Subzone activities (labor, overhead, etc.) was 14.6 percent of the value of merchandise forwarded.

**4. Foreign Status Merchandise Received at Subzone 9F During Fiscal Year**

Category	Value
Naphtha	33,314,965

**5. Foreign Status Merchandise Received:**

Non-privileged Foreign:	\$ 46,825,000
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 \$35,293.**

**7. Merchandise destroyed or consumed (e.g. fuel) in the Subzone 9F during the fiscal year amounted to approximately 28,253 metric tons, valued at approximately \$11,222,899.**



# 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](http://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 the 870-acre science and technology park. This site was approved by the Foreign-Trade Zones Board in 2006. FTZ9 is discussing activation procedures with several water-bottling companies.



# APPENDIX

<b>Foreign-Trade Zone Advantages .....</b>	<b>A</b>
<b>Value of Merchandise Handled at All FTZ 9 Sites, 1966-2006 (Merchandise Received + Merchandise Forwarded) .....</b>	<b>B</b>
<b>Value of Merchandise Handled at the Honolulu Harbor General-Purpose Zone, 1966-2006 (Merchandise Received + Merchandise Forwarded) .....</b>	<b>C</b>
<b>Site Map: Foreign-Trade Zones in Hawaii .....</b>	<b>D</b>

# 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/ OBSCOLESCENCE

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.

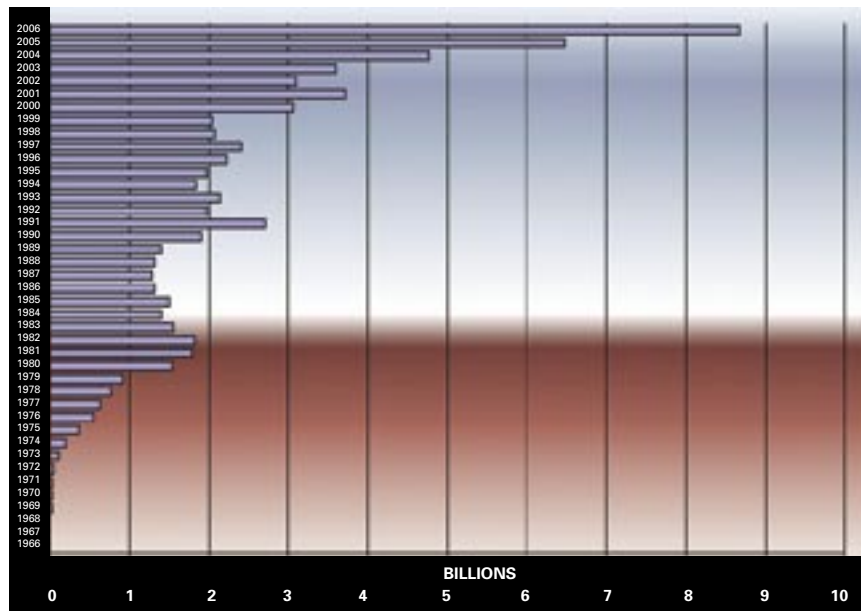
**CHANGING CIRCUMSTANCES**

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

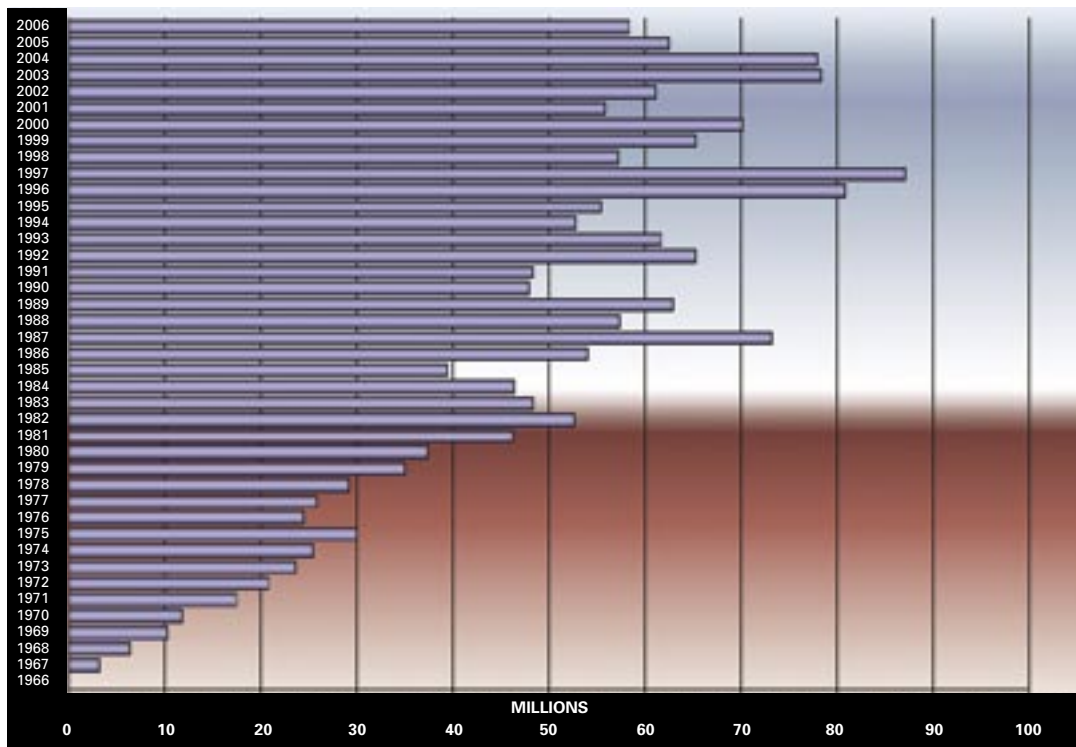
VALUE OF MERCHANDISE HANDLED AT ALL FTZ9 SITES, 1966-2006  
(Merchandise Received + Merchandise Forwarded)





# APPENDIX C

VALUE OF MERCHANDISE HANDLED AT THE PIER 2  
HONOLULU HARBOR GENERAL-PURPOSE ZONE, 1966-2006  
(Merchandise Received + Merchandise Forwarded)





# APPENDIX D

SITE MAP | FOREIGN-TRADE ZONES IN HAWAII

- A** Pier 2, Honolulu Harbor (Headquarters)

Hawaii Fueling Facilities Corporation,  
Honolulu Int'l Airport

Unicold Corporation, Honolulu

Hawaii Convention Center, Honolulu

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- 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

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- D** Maui Research and Technology Park  
Kihei, Maui

---
- E** Subzone 9D • Maui Pineapple Co., Ltd.  
Kahului, Maui

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- F** Hilo Foreign-Trade Zone, Hilo

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- G** Natural Energy Laboratory of Hawaii Authority  
Kailua Kona, Hawaii

This report is available online at:  
[www.ftz9.org](http://www.ftz9.org)



# 05-06

**ANNUAL REPORT**  
TO THE FOREIGN-TRADE ZONES BOARD

OCTOBER 1, 2005 - SEPTEMBER 30, 2006

STATE OF HAWAII, GRANTEE AND OPERATOR  
THROUGH ITS DEPARTMENT OF BUSINESS,  
ECONOMIC DEVELOPMENT & TOURISM



**H A W A I I**  
**FOREIGN-TRADE ZONE**  
NO. 9