FTZ NO. 9

annual report

TO THE FOREIGN-TRADE ZONES BOARD

October 1, 2002 - September 30, 2003

HAWAII
FOREIGN-TRADE ZONE
NO. 9

State of Hawaii, Grantee and Operator
through its Department of
Business, Economic Development & Tourism

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February 19, 2004

Mr. Dennis Puccinelli
Executive Secretary
Foreign-Trade Zones Board
U.S. Department of Commerce
FCB – 4th Floor
Washington, D.C. 20230

Dear Mr. Puccinelli:

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 No. 9, Honolulu, Hawaii, for the fiscal year ending September 30, 2003. The report includes information on the following subzones that were active during the year:

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

If you have any questions regarding this report, please contact Mr. Mark Anderson, telephone (808) 586-2507, facsimile (808) 586-2512. For Subzones 9-A through 9-F, you may contact:

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Respectfully submitted,

Mark K. Anderson
Zone Administrator

Approved:

Theodore E. Liu, Director
Department of Business, Economic Development & Tourism, State of Hawaii
Grantee, Foreign-Trade Zone No. 9

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ANNUAL REPORT

FOREIGN-TRADE ZONE NO. 9
HONOLULU, HAWAII
OCTOBER 1, 2002 – SEPTEMBER 30, 2003

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 Zone Board in Washington D.C. As the FTZ grantee we are required and pleased to report on the activities that have taken place in foreign-trade zones in Hawaii during fiscal year 2003 (October 1, 2002 to September 30, 2003).

The goal of FTZ No. 9 is to increase the amount of international trading activity in Hawaii. For the past 38 years the FTZ program in Hawaii has helped companies participate in international trade by legally reducing their duty liabilities and by providing appropriate public-use facilities. In 2003, 303 companies, with 1,457 employees, used the FTZ program. Total merchandise handled increased 5.4 percent to reach $3.58 billion. This increase is due to a resumption of normal fueling activities at Honolulu International Airport, an increase in activity at the Pier 2 site, and a slight increase in oil refining activities. Companies using the FTZ program exported 35 percent of the merchandise they received.

For FTZ manufacturers in Hawaii, the FTZ program has been vital in allowing production activities to continue in our island state. We hope to identify additional ways the program can produce a cost-savings for companies that manufacture in Hawaii. The marketing and development staff are currently working with two additional manufacturing companies who are interested in acquiring FTZ status. We hope to submit applications for these companies in 2004.

In recent years, the FTZ program has expanded to include jet fuel activities at Honolulu International Airport (HIA). FTZ status for the fueling operations at the Honolulu International Airport has allowed airlines to be supplied with lower cost fuel, thus making Hawaii a more competitive destination. In the future, modifications to federal law may allow expanded benefits for airlines using HIA as a refueling center.

The FTZ program has invested heavily in creating an international trade incubation center at Honolulu Harbor. It is at this facility that we have undertaken the administrative costs to provide the benefits of the program to the many small businesses that characterize Hawaii's international trade sector. We offer a facility with complete warehousing services, office space, and manipulation areas. In addition, firms that provide international trade services like ships agents and customs brokers are located within the facility. The Bureau of Customs and Border Protection also maintains an office to assist FTZ users. And the Department of Commerce's Export Assistance Center in Hawaii uses the Pier 2 site as its headquarters. From this site, the Export Assistance Center assists companies with finding export markets for their products.

This past year saw the FTZ begin a three-year plan to increase its scope of services and types of facilities available to the public. While the FTZ program will continue to offer its core set of services, we will also begin to offer additional incubation-type services and invest in new facilities. In 2004, we expect to begin construction on a $3.25 million project to add an additional 10,000 square feet of rentable office space and 6,000 square feet of additional manipulation and temperature-controlled warehouse space. We expect to make an additional $3 million in improvements in 2005.

Finally, we have continued to provide our services in a fiscally responsible manner. The FTZ program is a self-sustaining operation and ended 2003 with net revenues of $112,636.

Summary of Activity

In 2003, 303 companies used the Foreign-Trade Zone program, handling 205 types of merchandise from 29 countries. The total value of merchandise handled during this past year was up 5 percent versus the previous year. This increase reflects the return to normal fueling activity at Honolulu International Airport and an increase in activity at other sites.

The total value of merchandise handled is the combination of the value of merchandise received ($1,796,311,209) and the value of merchandise forwarded ($1,788,130,024) from all active FTZ sites in Hawaii.

Merchandise can be received in an FTZ in domestic or foreign status. In 2003, domestic status merchandise valued at $661,409,906 entered Foreign-Trade Zone sites in Hawaii. During this same period, $1,084,506,303 of foreign-status merchandise entered FTZ sites. Of merchandise received in foreign status, $500,670,951 was received in non-privileged foreign status and $583,835,352 was received in privileged foreign status.

Merchandise from Foreign-Trade Zone sites in Hawaii is forwarded to both domestic and foreign markets. In 2003, $1,187,856,838 of merchandise received was forwarded to the U.S. market. Thirty-five percent of merchandise received or $336,175,667 was forwarded to foreign markets and $226,288,519 was forwarded to other U.S. FTZs. Finally, an estimated $2.324 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 1,457 employees were directly attributable to participation in the Foreign-Trade Zone program. An additional 1,340 people were employed on a temporary or seasonal basis.

Companies using the FTZ program made capital improvements of $45.2 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, 29 new firms used FTZ facilities in 2003.

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 13 sites on the islands of Oahu, Maui and Hawaii that have received FTZ designation. Of the 13 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 these sites.

ACTIVE FOREIGN-TRADE ZONE SITES IN 2003

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

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 FTZ-9's FY 2002 Annual Report to the Board.

National Partnerships. In conjunction with the National Association of Foreign-Trade Zones, the Hawaii congressional delegation, and the leadership of Mr. Sam Aucoin (Subzone 9A), FTZ #9 was able to assist in a process that resulted in a reinstatement of the sharing of duty benefits for Hawaii-based refineries and the Defense Logistics Agency. The result is that Hawaii oil refineries are better able to profitably sell jet fuel to the Defense Logistics Agency. Annual savings due to this change in policy is estimated at $200,000.

PART I. SUMMARY OF ACTIVITY – GENERAL-PURPOSE ZONE

Three general-purpose zone sites were active during FY 2003. 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 designed to be an incubation-type, common-use facility used primarily for distribution, storage, and transshipment activities. The 17-acre site has 300,452 square feet of covered space including 14,451 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 No. 9 is headquartered at this site. FTZ Board Order 188 established this site in 1982.

Firms take advantage of the FTZ program in this incubation-type facility and benefit by being able to share common warehousing costs. The public is charged for use of this facility on a per-unit 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. A conference room is 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, the FTZ handled over 1,186 TEUs for Border Security Team (BST) inspections by the Bureau of Customs and Border Protection, Department of Homeland Security. These services were provided for the Port of Honolulu prior to the arrival of the Mobile Vehicle and Cargo Inspection System (VACIS).

Promotional and marketing efforts. Close to $12,000 was spent in advertising in 2003. The FTZ supported the Governor's Export Awards. This award recognizes Hawaii's top exporting companies. In addition, we launched an advertising campaign which targeted firms that import or export dutiable merchandise. A total of 29 new firms began using the Pier 2 site in 2003.

Activity. The value of merchandise handled at the Pier 2 site increased 28 percent in 2003 to reach $78,150,033. Merchandise handled represents the value of merchandise received ($38,869,825) and the value of merchandise forwarded ($39,280,208). During the year, 258 companies used the facility. We estimate that 154 companies use the facility on a regular basis. These companies imported or exported 203 different types of merchandise from 28 countries.

The facility received $38,869,825 in merchandise of which $23,303,747 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:

- Air: 1 percent, or $241,668
- Container: 55 percent, or $21,233,745
- Loose/less than container load: 42 percent, or $16,442,622
- Mail: 3 percent, or $998,223

Companies exported $10,991,907 in merchandise from Pier 2 and forwarded $28,288,301 to U.S. markets.

TOP FIVE COUNTRIES BY VALUE OF MERCHANDISE RECEIVED

Country	Value of Merchandise Received
Japan	16,188,974
China	2,372,167
Hong Kong	1,363,686
Taiwan	948,170
Indonesia	552,158

TOP FIVE TYPES OF FOREIGN STATUS MERCHANDISE BY VALUE

Merchandise	Value of Merchandise Received
Vehicles	9,784,949
Engines	4,231,892
Jewelry	1,403,236
Cigarettes	1,087,124
Footwear	520,258

Other uses. The Pier 2 site continues to be used by a number of state and federal agencies. Customs and Border Protection performs selective inspections in a Centralized Examination Station located at this site. Cargo is examined, weighed, inventoried, and stored. The Pier 2 facility also serves as the U.S. Customs General Order warehouse for detained and seized cargo.

B. Hawaii Fueling Facilities Corporation (HFFC)

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.

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.

As approved in FTZ Board Order 751, the Zone site includes both the Jet A and Jet A-1 systems. Until August 2001, however, only the Jet A-1 system was activated because only Jet A-1 fuel was used on qualified flights. HFFC filed a request with the Port Director of Customs in Honolulu to activate the Jet A system. The Port Director approved that request by letter dated September 10, 2001. HFFC received and disbursed foreign status jet fuel through the Jet-A system beginning in March 2002.

During FY 2003, the value of foreign jet fuel receipts into the Zone increased from $139.1 million to $188.1 million. This increase is a result of a higher average price of jet fuel that rose by approximately 22 percent and an increase in the amount of jet fuel entered in foreign status and reclassified to domestic status.

There were no major improvements in Zone services and/or to the facilities during FY 2003. HFFC spends approximately $215,000 per year on general maintenance.

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.

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, six 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 Kapolei (FTZ Subzones 9A and 9E). In addition, Pacific Fuel Trading Corporation, Japan Airlines, Chevron, Bradley Pacific Aviation, Hawaiian Airlines Inc., and Tesoro 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.

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

HFFC contracts with Airport Group International, Inc. ("AGI"), an airport fuel service company, to operate and manage the HFFC fuel facilities at Honolulu International Airport. AGI employs 45 persons at the Airport, all of whom are involved in Zone activities.

Activities within the Zone site make a significant contribution to the Hawaii economy. Foreign-status fuel valued at more than $188.1 million was received and dispersed through the Zone site during fiscal 2003. Foreign-status fuel was used by as many as 30 carriers on approximately 40 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 duty and excise tax. 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.

Zone activity has increased from 2002 due to higher demands for locally produced polyethylene terephthalate (PET) products for economic reasons. 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.

Pacific Allied Products has made many improvements to its equipment during the year. The company has made significant commitment to modernize its equipment in the Zone; capital investment of over $600,000 for new equipment was made with plans for installation by year's end. Initial commitment has also been made to expand the manufacturing facility in the near future.

During FY 2003, Pacific Allied Products employed 53 persons, 46 of whom are full time and 7 contract workers. Employment growth in the coming year is anticipated as activities in the Zone increase.

PART II. USE OF ZONE BY BUSINESS FIRMS
(General-Purpose Zone No. 9)

All general-purpose zone sites served 299 businesses during fiscal 2003. Of these, 195 firms used the Zone on a continuous basis, employing up to 596 persons, 407 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	
Advertising materials	Verify contents; prepare/correct packing list; create packages/ additional units.
Automobiles, motorcycles and trucks	Verify marking requirements; label/relabel goods.
Beer	Destroy goods/empty containers; transfer title; transfer original to master lot; change zone status.
Building materials	Inventory goods; create packages/additional units; repack goods; assemble/disassemble goods; destroy goods.
Champagnes and wines	Verify contents; inventory goods; prepare/correct packing list; create packages/additional units; sort/consolidate goods; convert to piece count; remove samples; transfer original to master lot; change zone
Drugs, medicines and cosmetics	Inspect for damage.
Food products	Sort/consolidate goods; destroy goods/empty containers; remove samples; transfer title.
Footwear	Verify contents; remark cartons; create packages/additional units; repack goods.
Furniture	Verify contents; inspect for damage; remark cartons; destroy goods/empty container.
General merchandise and miscellaneous products	Verify contents; inventory goods; examine for quality; prepare/ correct packing list; label/relabel goods; remark cartons; create packages/ additional units; repack goods; sort/consolidate goods; transfer title; convert to carton.
Handicrafts	Repack goods; sort/consolidate goods; remark cartons.
Jewelry, silverware, watches	Inventory goods; create packages/additional units; sort/consolidate goods; destroy goods/empty containers; clean and tag; repair.
Leather goods	Transfer title.
Liquor	Sort/consolidate goods; convert to piece count; transfer original to master lot; change zone status; adjust inventory due to leakage.
Machinery and parts	Transfer title; temporary removal from FTZ.
Sporting goods and games	Label/relabel goods; assemble into final units.
Textiles	Repack goods; sort/consolidate goods; destroy.
Tobacco products	Destroy goods; empty containers; transfer original to master lot; convert to cartons.
Wearing apparel	Sort/consolidate goods; transfer title.

Site II: 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 AIRLINE USERS

Air Canada
Air Japan
Air New Zealand
Air Pacific
Aloha Airlines
All Nippon Airways
American Trans Air
Asia Pacific
Boeing Aircraft Services
China Airlines
Continental Airlines
Federal Express
Gemini
Hawaiian Airlines
Japan Airlines
Kalitta Air
Korean Airlines
Lufthansa
Malaysia Airlines
Northwest Airlines
Odyssey Aviation
Pacific Air Cargo
Philippine Airlines
Polar Air
Polynesian Airline
Qantas Airways
Thai Airways
United Parcel Service
United Airlines
World Airways

Site VI: Pacific Allied Products, Ltd.	
Polyethylene terephthalate	Manufacture food and beverage containers for soft drink, water, juice, and dairy bottling companies.

PART III. MOVEMENT OF MERCHANDISE
(General-Purpose Zone No. 9, Sites I, II and VI)

The Zone handled 205 different items from 29 countries of origin, compared with 220 items from 31 countries during the preceding fiscal year.

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

	Beginning Value*	Ending Value
Domestic Status	7,025,774	7,642,202
Foreign Status	20,859,310	35,887,170
[Plus Adjustment]	3,621,153	
Total:	31,506,237	43,529,372

**Beginning value is increased by $3,621,153 because of an adjustment in value made by the Hawaii Fueling Facilities Corporation.*

B. Movement of Merchandise

Movement	Value
Received:	
Domestic Status	173,716,312
Foreign Status	105,163,660
From Other U.S. FTZs:	
· Domestic Status	0
· Foreign Status	107,251,120
Total:	386,131,092
Forwarded:	
To the U.S. Market	203,403,665
To Foreign Countries (Exports)	170,704,292
To Other U.S. FTZs	0
Total:	374,107,957

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	188,119,633
2. Vehicles	9,784,949
3. Engines	4,231,892
4. Jewelry	1,403,236
5. Cigarettes	1,087,124
Total:	204,626,834

E. Foreign Status Merchandise Received:

Nonprivileged Foreign: $136,357,298
Privileged Foreign: $76,057,482

F. Customs duties collected on merchandise entered from the Zone during the fiscal year amounted to $873,444.

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 No. 9 program in Hawaii. The general-purpose zone occupies 17 acres of paved area at Pier 2/Fort Armstrong and includes 300,452 square feet of covered space. A variety of services and types of facilities are available at this complex on a per unit or per use basis. Office space and private warehouse space are available adjacent to the activated area. Access to office equipment and furniture is also provided.

Site II. Site II consists of 1,051 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 No. 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.

PART V. SUBZONE ACTIVITY

SUBZONE NO. 9-A

A. Summary for Tesoro Hawaii Corporation (Oil Refinery)

Owner, operator and corporate affiliation. Foreign-Trade Subzone No. 9-A 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 No. 9-A was initially authorized by FTZ Board Order No. 82 on April 20, 1970 and activated on April 7, 1972.

Subzone site and plant facilities. Subzone No. 9-A 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, 2003, Tesoro's refinery crude unit throughput on an average daily basis was as follows:

- Total throughput (all sources) = 77,800 Barrels Per Day (BPD)
- Total crude oil throughput = 76,400 BPD.
- Total other throughput (mostly slop oil and off-test products) = 1,400 BPD.
- Total foreign oil throughput = 57,100 BPD, consisting of the following HTSUS numbers:

  2709.00.10 (Crude testing under 25 degrees A.P.I.): 12,000 BPD
  2709.00.20 (Crude testing 25 degrees A.P.I. or more): 45,100 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 2 percent of total shipments during the period.

- The direct export activity for this reporting period consisted principally of bunker fuel sales to foreign ships, sulfur sales to China, and naphtha shipments to Japan. These export shipments accounted for approximately 11 percent of the total shipments during the period.

1. Percent export of total production Direct Exports Indirect Exports	21% 12% 9%
2. Current rated crude distillation capacity	95,000 BPD
3. Employment: Direct Indirect (e.g. contract employees)	 221 employees 663 employees
4. Volume of total crude oil receipts on an average daily basis	76,700 BPD
5. Volume of foreign crude oil receipts on an average daily basis	57,300 BPD
6. Estimated percentage of foreign crude receipts under 25 degrees API	21%

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 78,000 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 naphtha to Japan, sulpher 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 $3.6 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 $15 million for its 221 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 325 contractors (technical, professional, clerical, skilled tradesmen and laborers) throughout the year. Away from the refinery, Tesoro operations in Subzone 9-A partially sustain the employment of approximately 30 people in the company's corporate offices in downtown Honolulu as well as 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 9-A directly and indirectly contributes to the support of over 800 people in the state of Hawaii.

B. Movement of Merchandise – Subzone 9-A

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

	Beginning Value (October 1, 2002) $1,000	Ending Value (September 30, 2003) $1,000
Domestic Status/Duty Paid	0	0
Foreign Status	61,568	75,471
Total:	61,568	75,471

2. Movement of Merchandise in Subzone 9A

Movement	Value ($1,000)
Received:	
Domestic Status/Duty Paid	224,590
Foreign Status	642.097
From Other U.S. FTZs:	
• Domestic status	80,886
• Foreign status	0
Total:	947,573
Forwarded:	
To the U.S. Market	558,908
To Foreign Countries	109,600
To Other U.S. FTZs	224,983
Fuel Consumed	40,179
Total:	933,670

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 5 percent to the values.

4. Main Categories of Foreign Status Merchandise Received

Category	Value $1,000	Main Countries of Origin
Crude Class IV	178,572	Indonesia, Australia, Papua New Guinea, Malaysia
Crude Class III	312,671	Brunei, Vietnam, Malaysia, Oman, Russia
Crude Class II	121,038	Indonesia, Argentina, China, Ecuador
Jet	20,713	Korea
Diesel	4,623	Korea
Gasoline	4,480	Korea
Total:	642,097	

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

   Nonprivileged Foreign: $174,304
   Privileged Foreign: $467,793

6. Customs duties collected on merchandise entered into U.S. Customs territory from the Subzone during the fiscal year amounted to $966,000.

7. In accordance with the Subzone 9A grant, fuel consumed within the FTZ is not entered for consumption. Such fuel totaled $40.2 million during the year. No significant amount of merchandise was destroyed in the Subzone during the fiscal year.

SUBZONE NO. 9-D

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 9-D. 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 the fiscal year, the Subzone employed up to 508 persons, 237 of whom were full time. Also, there were 12 people involved in Subzone activities who are employed in Maui Pine's corporate headquarters.

Activities. Maui Pine receives about five shipments of tinplate from Japan annually for the 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 9-D.

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 normal production of around 187,000 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.

The equipment used in the production of pineapple, pineapple juice, and pineapple juice concentrate is constantly upgraded under a planned capital improvement program. Under this program, $662,000 was expended to acquire and upgrade new and existing equipment for the cannery, the warehouse, the can manufacturing plant, and the electrical power plant.

Currently, $2,492,000 in capital improvements are underway, and for calendar year 2004, approximately $200,000 is planned for the acquisition of new production equipment. These capital improvement projects will expand Maui Pine's product line and maintain the quality and productivity of the manufacturing process.

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 508 manufacturing jobs were supported by Maui Pine of which 237 were full-time. With the multiplier effect, the total employment impact for the State of Hawaii was conservatively estimated at 800 full-time jobs. Exports totaled approximately $2.6 million.

B. Movement of Merchandise – Subzone 9-D

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

	Beginning Value (October 1, 2002)	Ending Value (September 30, 2003)
Domestic Origin/Duty Paid	9,157,679	3,624,741
Foreign Status	4,078,271	2,270,543
Total:	13,235,950	5,895,284

2. Movement of Merchandise in Subzone 9-D

Movement	Value
Received:	
Domestic Origin/Duty Paid	38,638,351
Foreign Status	5,834,028
From Other U.S. FTZs:	
· Domestic Status	0
· Foreign Status	0
Total:	44,472,378
Forwarded:*	
To the U.S. Market	49,374,101
To Foreign Countries (Exports)	2,438,944
To Other U.S. FTZs	0
Total:	51,813,045

**Based on Customs value. Value added is described in Item 3 below.*

3. Value Added. Value added in Subzone activities (which include cost of labor, overhead, etc., of the can making and pineapple cannery operation) averaged approximately 37 percent of the value of merchandise forwarded.

4. Categories of Foreign Status Merchandise Received at Subzone 9-D

Category	Value
Electrolytic Tinplate	5,834,028

5. Foreign Status Merchandise Received:

   Nonprivileged Foreign: $5,834,028
   Privileged Foreign: $0

6. 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 was $19,559.

7. Merchandise destroyed or consumed in the Subzone during the fiscal year was valued at $267,108.

SUBZONE NO. 9-E

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

Owner, operator and corporate affiliation. The Hawaii Refinery, Foreign-Trade Subzone No. 9-E, 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 No. 415 on December 21, 1988, and Subzone 9-E 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.

In the late 1950's, Chevron negotiated the purchase of Campbell Estate land at the then undeveloped area of Barbers Point. On this site, ground was broken and Chevron began construction of the first oil refinery in the State of Hawaii. This development gave rise to the formation of what is now known as Campbell Industrial Park. With the Chevron Refinery as its anchor tenant, the area has developed into an industrial park with various types of warehousing, construction trade and supply, co-generation facilities, and a deep draft harbor.

The subzone's major plants include a Crude Unit and Fluid Catalytic Cracking Unit (FCC) along with various auxiliary units. The refinery tank field has the storage capacity of approximately 3.9 million barrels of crude, feedstocks, and products. This storage capacity enables Chevron to keep an ample supply of products on site, which provides an added safeguard for the energy needs of the state.

Employment. At the end of fiscal year 2003, Chevron employed 196 full-time employees at its subzone. The subzone also required an average of 63 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 handled by Chevron's Hawaii Marketing Region. Chevron employs 45 people at its marine terminal facilities on Oahu, Kauai, Maui and the Big Island of Hawaii. To monitor Chevron's maritime activities in Hawaii, Chevron Shipping's Honolulu Office maintains a staff of 3 people.

Activities. Chevron's Logistics and Trading Group continually seeks 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, 20 different types of crude oil were included in the refinery crude slate. The volume of crude oil received during the past year averaged 48,000 barrels per day. Approximately 85 percent of the crude oil received at the subzone was from foreign countries. The majority of the foreign crude received was classified as HTSUS number 2709.00.2090. Less than 2 percent of the foreign crude received was classified as HTSUS number 2709.00.1000. Various non-crude receipts were not significant at 1,700 barrels per day.

The Chevron Hawaii Refinery product slate consists of approximately 20 different finished products: several grades of motor gasoline for Hawaii motorists; aviation gasoline for small aircraft; jet fuel for commercial airlines; diesel fuels for transportation, industrial machinery, and electric generation; liquified petroleum gas (LPG) for homes and industry; fuel oils for electricity and industrial power generation, and vessel bunker; several grades of asphalt for Hawaii's roads and highways; and sulfuric acid used in fertilizer manufacturing. The majority of the products refined at the Chevron subzone are marketed in the State of Hawaii to satisfy local petroleum needs. Approximately 84 percent of the subzone products are used in Hawaii and the balance of the refined products are exported to Pacific Rim countries.

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 44 percent of production and NPF products were 56 percent of production.

Products at the Chevron subzone are admitted and transferred by several pipeline networks and tank trucks. Chevron utilizes its two 22-mile pipelines, 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).

During the past year, the Hawaii Refinery capital program continued to reflect the company's commitment to provide quality petroleum products, safe and reliable operations, and environmental compliance. The Hawaii Refinery's 2003 capital budget was $25 million, which was quite a bit higher than budgets in recent years due to several large projects. The $15 million FCC Revamp project replaced an aging reactor which is the main producer of automobile gasoline, and the $1.5 million Flare Sulfur Emission Reduction Project was designed to reduce flaring events. A new refinery laboratory was installed this year at a cost of $1.2 million. The refinery also spent $1.5 million to increase the reliability of its large storage tanks and another $1.5 million to upgrade its electrical infrastructure. The remaining $4.7 million is made up of a variety of small-scope projects which occurred during Chevron's five-year maintenance shutdown event that occurred in April and May.

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. This level is within the scope of authority granted by Board Order No. 415.

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 on approximately 40 percent of the foreign crude admitted into FTZ 9E.

The FTZ program was created in order 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 gives 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.

Chevron strives to be a good neighbor throughout the Hawaiian Islands and supports many community groups and events. In keeping with Chevron's long-term support of Hawaii's students and educational system, the Hawaii Refinery continues to provide direct funding to the Campbell and Kapolei school complexes for their annual student science fair project expenses. As the major corporate sponsor of the Hawaii Academy of Science State Science and Engineering Fair, Chevron provides science and engineering awards and scholarships for high school students annually. The company also continues its sponsorship package with the Hawaii High School Athletic Association (HHSAA) which is responsible for conducting State High School championship tournaments in 23 sports statewide. This year, Chevron was the major corporate sponsor for the Susan G. Komen Breast Cancer Foundation Race For The Cure and the title sponsor for the Chevron Walk for Diabetes in coordination with the American Diabetes Association. In partnership with the Police Departments in each county, Chevron continued its sponsorship of the Keiki I.D. Program at numerous community events and issued over 25,000 identification cards during the year.

Grant restriction. The original grant of authority, Board Order No. 415, was subsequently modified by Board Order Nos. 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 9-E

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

	Beginning Value (October 1, 2002)	Ending Value (September 30, 2003)
Domestic Origin/Duty Paid	8,394,937	10,777,740
Foreign Status	19,157,458	29,340,674
Total:	27,552,395	40,118,414

2. Movement of Merchandise in Subzone 9-E During Fiscal Year

Movement	Value
Received:	
Domestic Origin/Duty Paid	135,886,543
Foreign Status	430,471,730
From Other U.S. FTZs:	
· Domestic Status	0
· Foreign Status	0
Total:	566,358,273
Forwarded:	
To the U.S. Market [1]	481,565,304
To Foreign Countries (Exports)	42,318,431
To Other U.S. FTZs	29,908,519
Total:	553,792,254

[1] *Includes merchandise consumed as refinery fuel and unknown losses within the subzone.*

3. Value Added. Subzone refining activities (labor, overhead, etc.) added approximately 14 percent to the values.

4. Foreign Status Merchandise Received at Subzone 9-E During Fiscal Year

Category	Value	Main Countries of Origin
Crude oil	430,471,730	Indonesia, China, Vietnam
Petroleum products	0	
Total:	430,471,730	

5. Foreign Status Merchandise Received:

Nonprivileged Foreign: $290,441,860
Privileged Foreign: $140,029,870

6. Customs duties collected on merchandise entered into the U.S. Customs territory during the fiscal year amounted to approximately $778,000.

7. Merchandise destroyed or loss in Subzone 9-E during the fiscal year was valued at $190,000.

SUBZONE 9-F

A. <u>Summary – Synthetic Natural Gas (SNG) Plant (The Gas Company, LLC)</u>

<u>Owner, operator and corporate affiliation</u>. Foreign Trade Subzone No. 9-F is occupied by The Gas Company, LLC (formerly known as Citizens Communications Company, dba The Gas Company), where it operates its Synthetic Natural Gas (SNG) Plant. The Subzone was initially authorized by FTZ Board Order No. 98 on May 17, 1974 as part of Subzone 9-A 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 9-F. The Gas Company, LLC is the duly franchised gas public utility in the State of Hawaii.

<u>Subzone site and plant facilities</u>. Subzone 9-F 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 to supply central and eastern Oahu with utility gas service.

<u>Employment</u>. Direct employment at Subzone 9-F totaled 34 employees. An additional 194 employees are located in The Gas Company's three other locations on Oahu.

<u>Activities</u>. 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 9-A, 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 on the southern corridor of Oahu for more than 25 years. For Hawaii and the United States, that translates to ever-increasing investment in facilities and commensurate levels of local employment.

1. Continuous supply of public utility SNG. The SNG Plant's unfailing year-round operation assures a continuous supply of SNG as a part of Hawaii's 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 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. At that time, the SNG Plant's continuous flow of SNG was dependent on a 1909-era backup facility located in downtown Honolulu. The SNG Plant assures an uninterrupted supply of SNG by switching, when necessary, to backup equipment that was constructed at a cost of $6.5 million in 1978.

   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; a stainless steel multi-service cooler; an upgraded nitrogen filling system; modified superheated system vent; 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; and a new high voltage transformer.

Recently, a new 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 were installed. Additionally, in the past year, the SNG Plant installed a computerized maintenance management system (CMMS) and upgraded the control system on its back-up Benfield system to the DCS.

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 $2.0 million for a full-time work force of 34 employees. The SNG Plant continues to use 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 9-F

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

	Beginning Value (October 1, 2002)	Ending Value (September 30, 2003)
Domestic Origin/Duty Paid	1,393	3,773
Other U.S. FTZ	84,765	118,082
Total:	86,158	121,855

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

Movement	Value
Received:	
Domestic Origin/Duty Paid	887,700
Foreign Status	0
From Other U.S. FTZs:	19,636,765
Total:	20,524,465
Forwarded:	
To the U.S. Market	20,488,768
To Foreign Countries (Exports)	0
To Other U.S. FTZs	0
Total:	20,488,768

3. Value added. Value added by Subzone activities (labor, overhead, etc.) was approximately 14 percent of the value of merchandise forwarded.

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

Category	Value
Naphtha	19,636,765

5. Foreign Status Merchandise Received:

   Nonprivileged foreign: $19,636,765
   Privileged foreign: 0

6. Customs duties collected on merchandise entered into the U.S. Customs territory from the Subzone during the fiscal year amounted to approximately $34,579.

7. Merchandise destroyed or consumed (e.g., fuel) in the Subzone during the fiscal year amounted to approximately 26,558 metric tons, valued at approximately $4,739,615.

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

<u>Site III</u>. 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.

<u>Site IV</u>. 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.

<u>Site V</u>. 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.

<u>Site VII</u>. 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.

<u>Site VIII</u>. 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.

<u>Subzone 9-B</u>. The subzone, operated by HFM, a division of Kerr Pacific Corporation, was authorized by FTZ Board Order No. 274 on October 17, 1984 and activated on January 20, 1986. Located at Pier 23 in Honolulu Harbor, HFM leases

more than 72,000 square feet of flour milling, packing, office, and warehouse space on a long-term basis from the State of Hawaii. The subzone site is located within the flour packing and warehouse area. In addition, HFM leases over 35,000 square feet of grain elevator and flat storage space for wheat and feed grains. No merchandise in zone status was received or processed during the fiscal year. On June 29, 1999, the subzone operator filed a deactivation request with the Area Port Director of Customs.

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APPENDIX

Foreign-Trade Zone Advantages .... A

Value of Merchandise Handled at all FTZ #9 Sites, 1966-2003 (Merchandise Received + Merchandise Forwarded) .... B

Value of Merchandise Handled at the Honolulu Harbor General-Purpose Zone, 1966-2003 (Merchandise Received + Merchandise Forwarded) C

Site Maps: Foreign-Trade Zones in Hawaii .... D

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

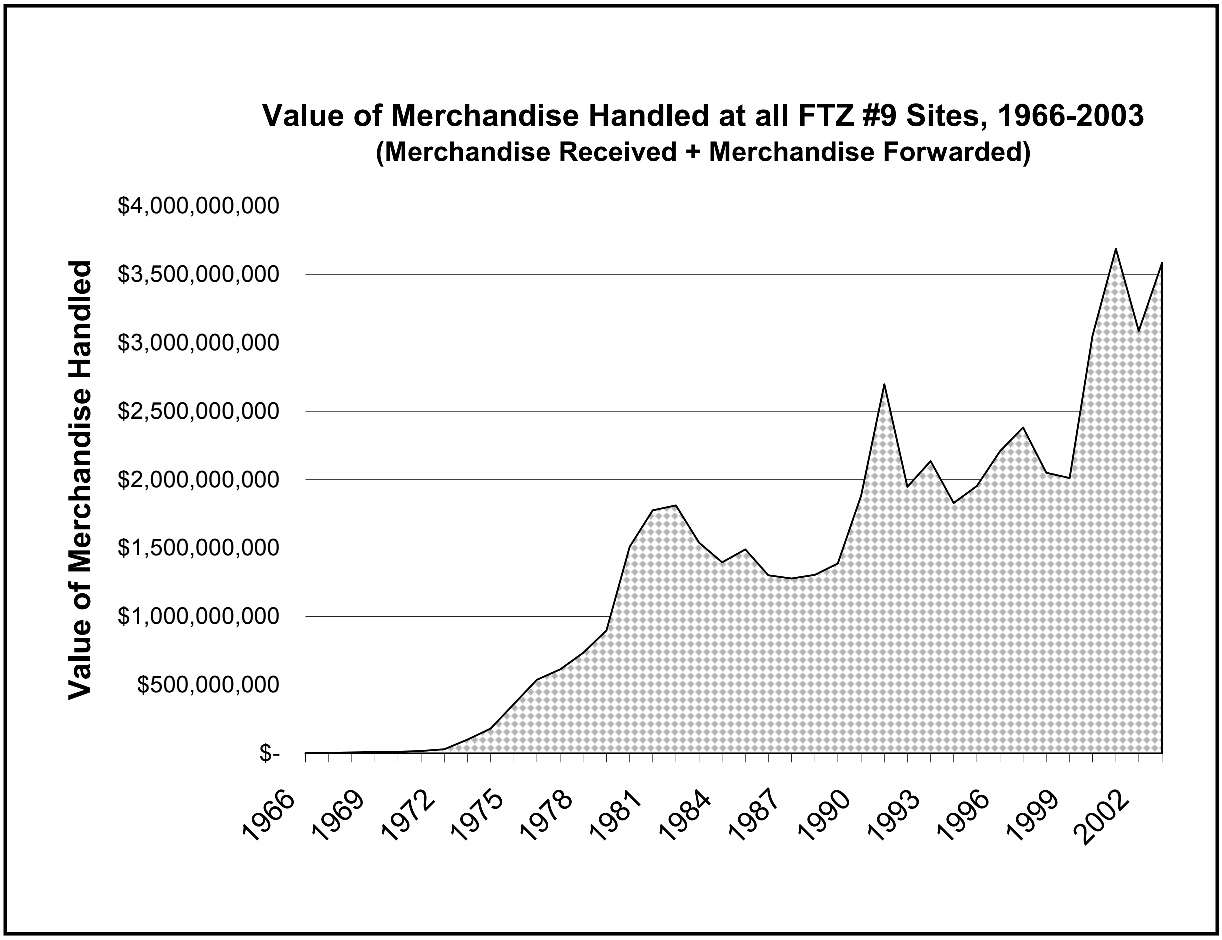
Title to merchandise may be transferred in an FTZ as long as there is not a "retail" sale.

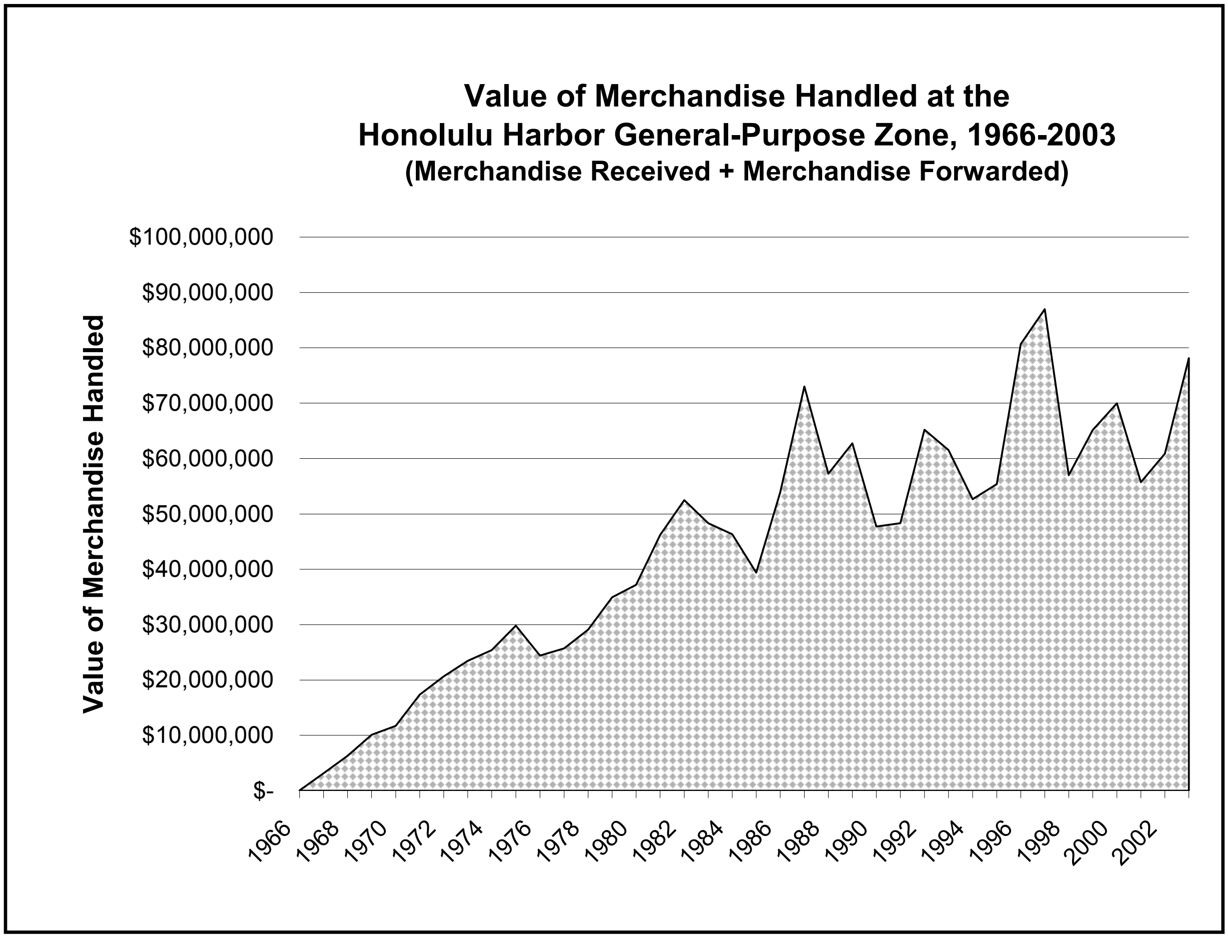
RECORD IDENTITY ACCOUNTING

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.


Value of Merchandise Handled at all FTZ #9 Sites, 1966-2003
(Merchandise Received + Merchandise Forwarded)
Value of Merchandise Handled
$4,000,000,000
$3,500,000,000
$3,000,000,000
$2,500,000,000
$2,000,000,000
$1,500,000,000
$1,000,000,000
$500,000,000
$-
1966
1969
1972
1975
1978
1981
1984
1987
1990
1993
1996
1999
2002


Value of Merchandise Handled at the
Honolulu Harbor General-Purpose Zone, 1966-2003
(Merchandise Received + Merchandise Forwarded)
Value of Merchandise Handled
$100,000,000
$90,000,000
$80,000,000
$70,000,000
$60,000,000
$50,000,000
$40,000,000
$30,000,000
$20,000,000
$10,000,000
$-
1966
1968
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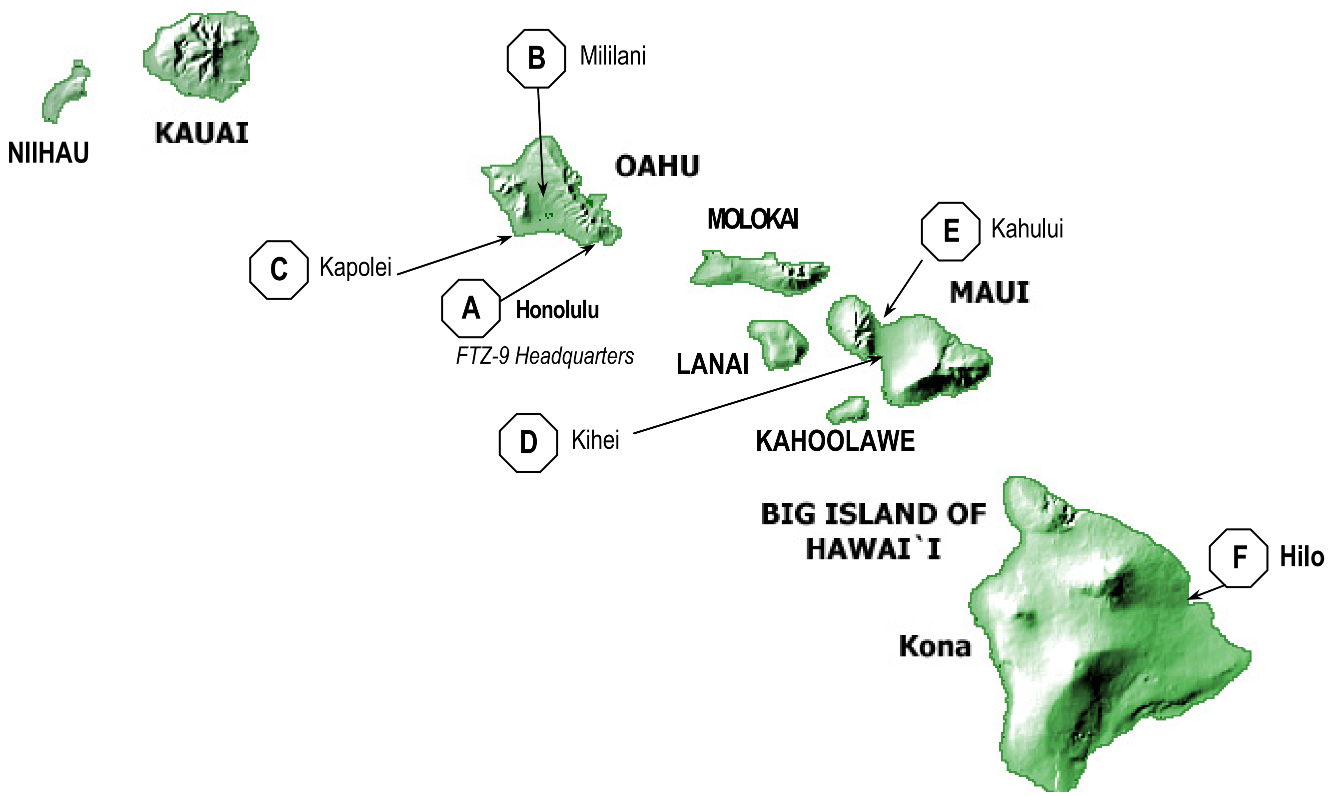
2002

Site Map
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

C

Subzone 9A: Tesoro Hawaii Corporation, Kapolei, Oahu

Subzone 9E: Chevron Products Company, Kapolei, Oahu

Subzone 9F: The Gas Company, Kapolei, Oahu

D

Maui Research & Technology Park, Kihei, Maui

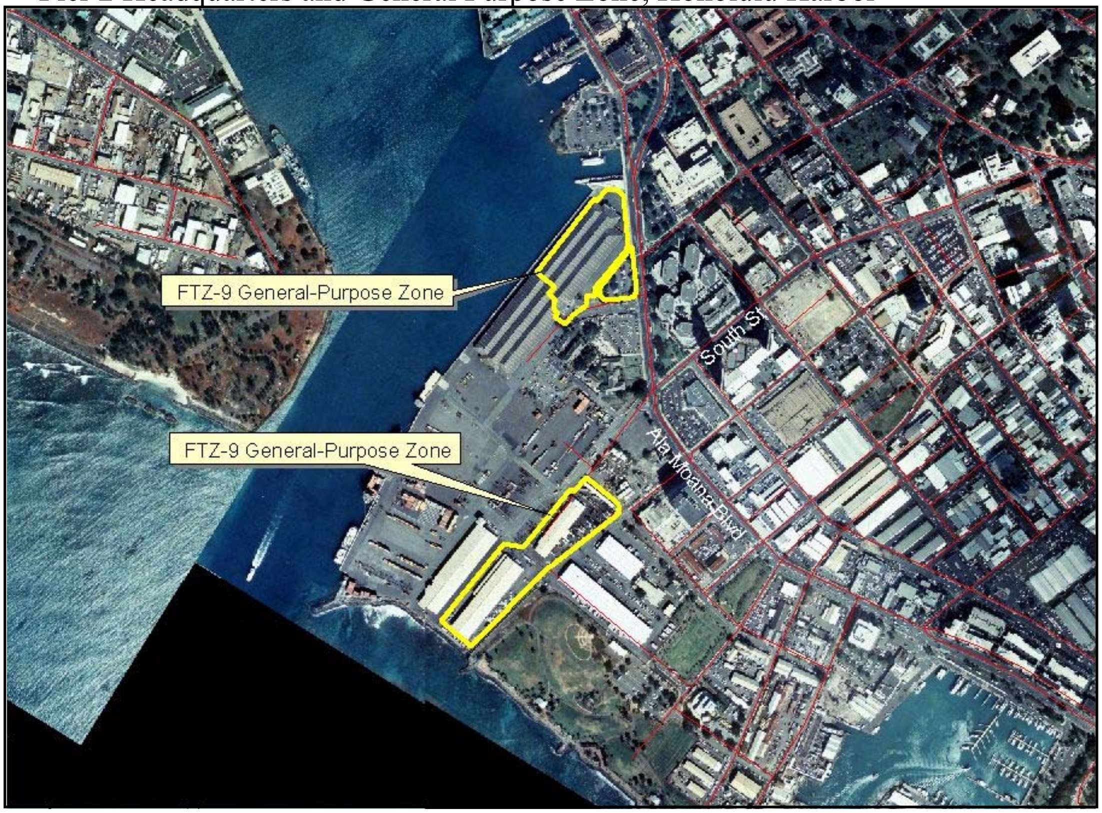
E

Subzone 9D: Maui Pineapple Company, Ltd., Kahului, Maui

F

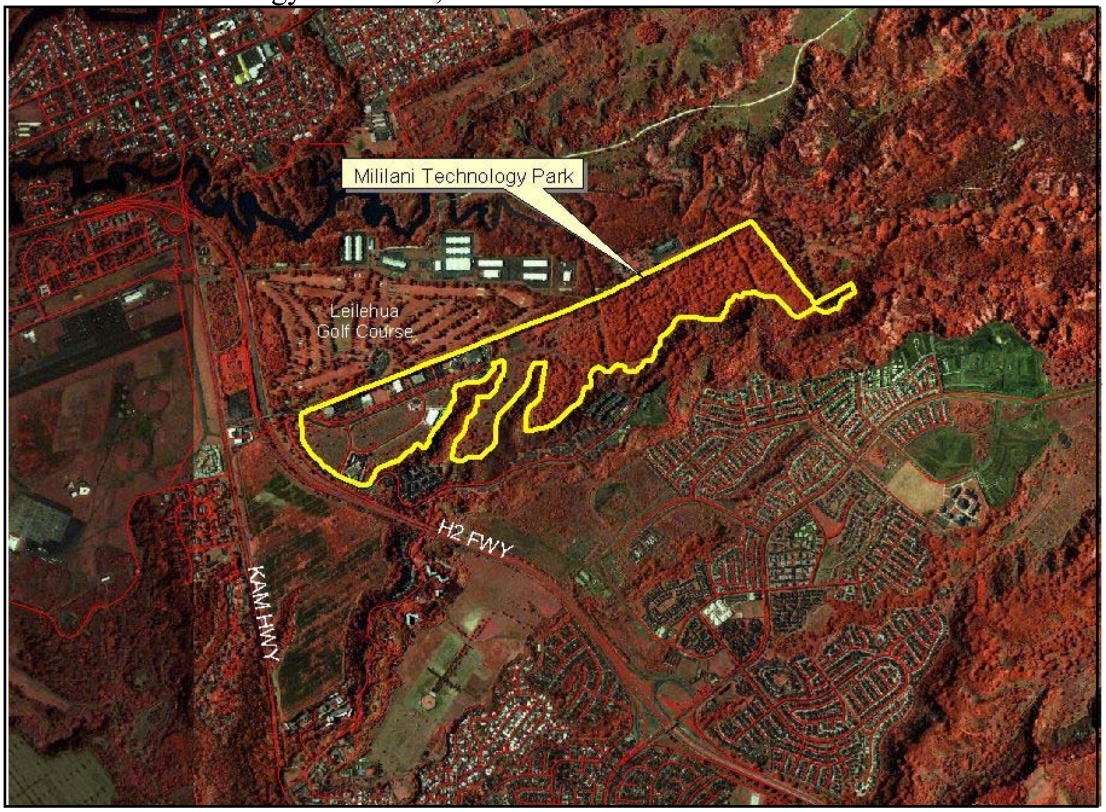
Hilo Foreign-Trade Zone, Hilo

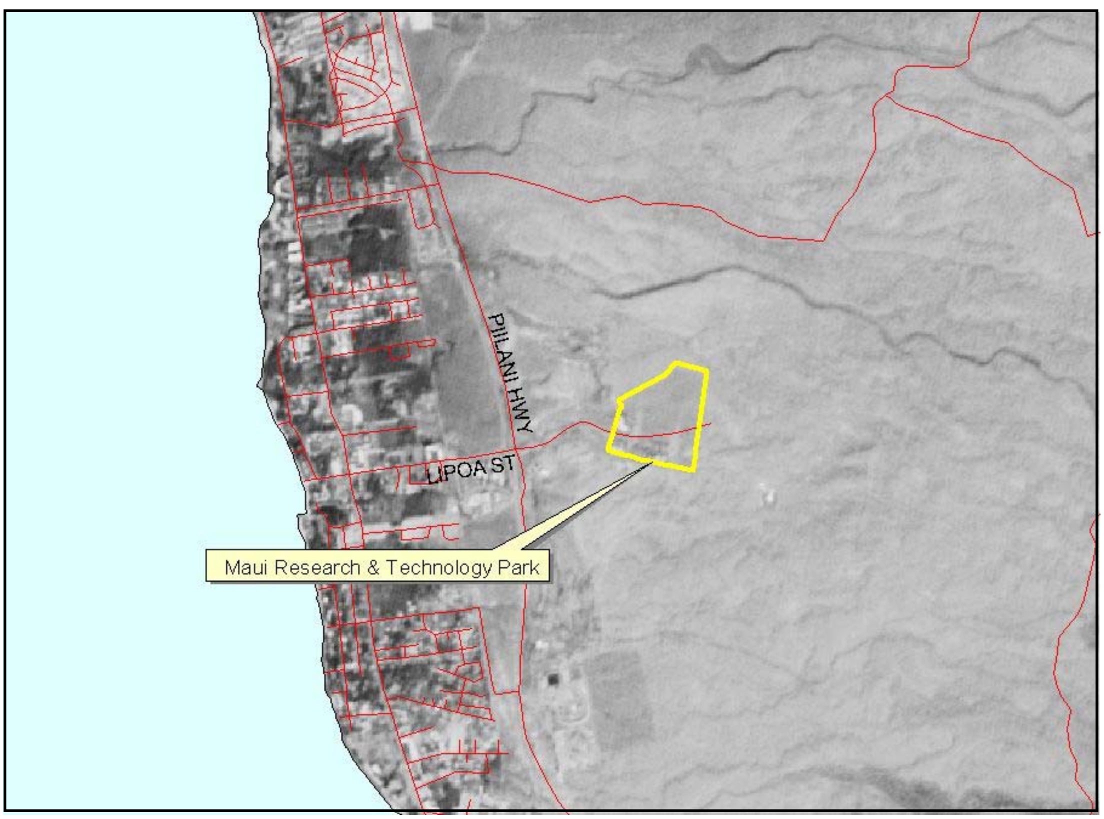
Pier 2 Headquarters and General Purpose Zone, Honolulu Harbor



James Campbell Industrial Park FTZ, Kapolei, Oahu

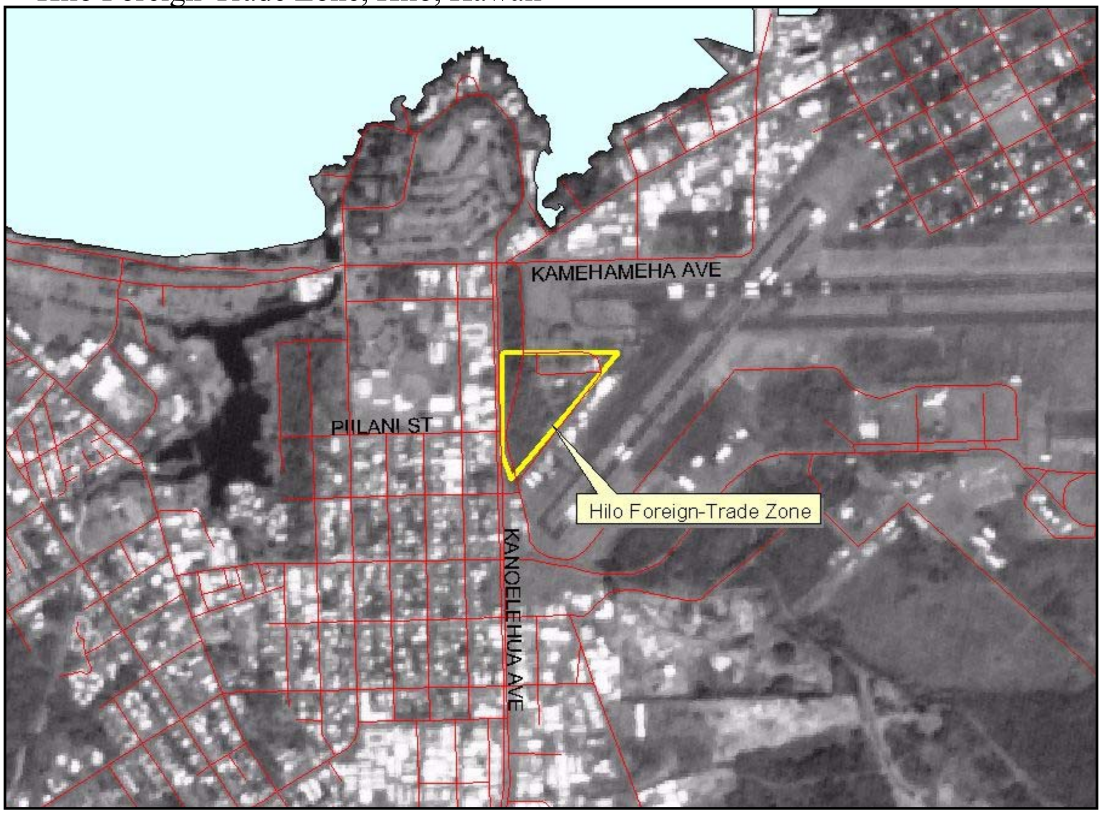
Mililani Technology Park FTZ, Central Oahu





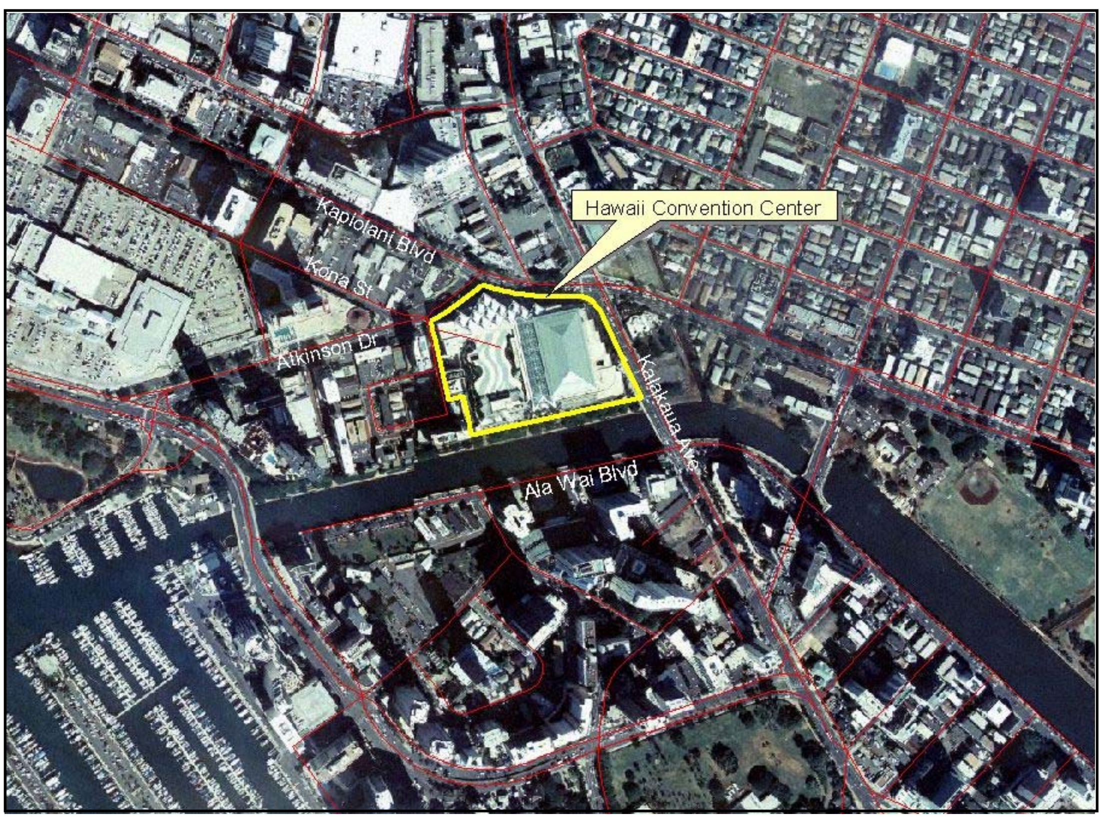
Maui Research & Technology Park FTZ, Kihei, Maui

Hilo Foreign-Trade Zone, Hilo, Hawaii



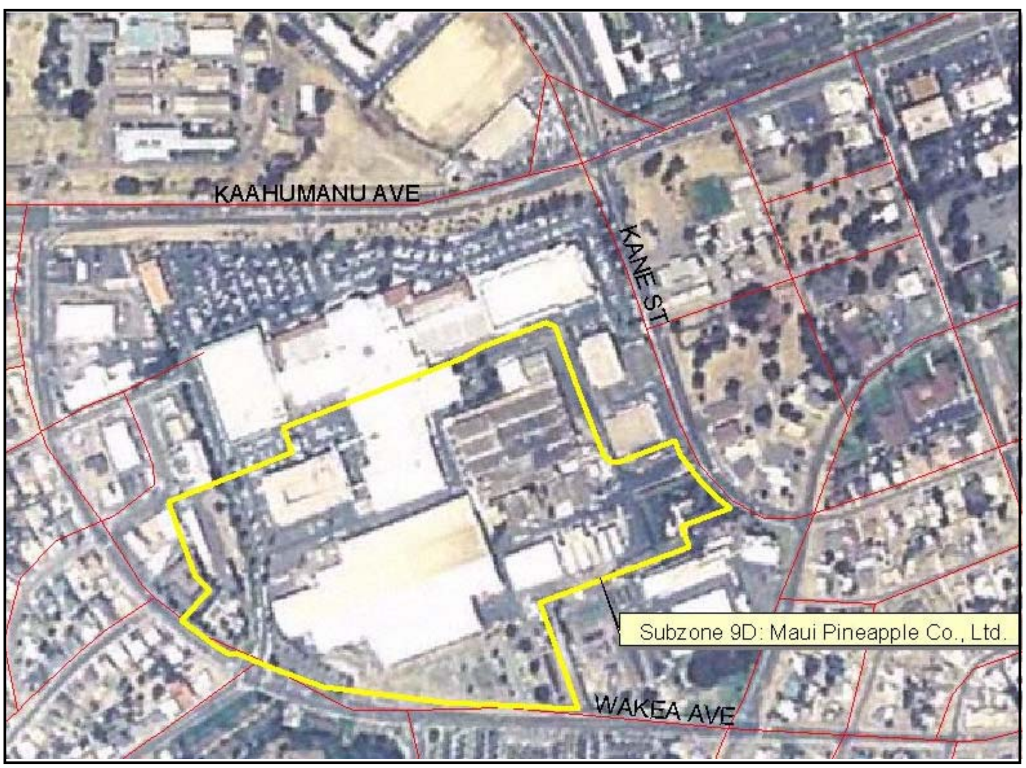
Hawaii Fueling Facilities Corporation FTZ, Honolulu International Airport

Unicold Corporation, Honolulu



Hawai`i Convention Center FTZ, Honolulu

Subzone 9A: Tesoro Hawaii Corporation, Kapolei, Oahu



Subzone 9D: Maui Pineapple Co., Ltd., Kahului, Maui

Subzone 9E: Chevron Products Hawaii, Kapolei, Oahu

Subzone 9F: The Gas Company, Kapolei, Oahu