

SB2020

Establishes an agricultural foreign-trade zone; specifies boundaries, jurisdiction, and benefits.



**DEPARTMENT OF BUSINESS,
ECONOMIC DEVELOPMENT & TOURISM**

NEIL ABERCROMBIE
GOVERNOR

RICHARD C. LIM
DIRECTOR

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Statement of
Richard C. Lim, Director
Department of Business, Economic Development, and Tourism
before the
**Senate Committees on
ECONOMIC DEVELOPMENT, GOVERNMENT OPERATIONS AND HOUSING
AND
TRANSPORTATION AND INTERNATIONAL AFFAIRS
AND
AGRICULTURE**

Wednesday, January 29, 2014
2:45 PM
State Capitol, Conference Room 16

in consideration of
SB 2020 RELATING TO ECONOMIC DEVELOPMENT.

Chairs Dela Cruz, English and Nishihara; Vice Chairs Slom, Dela Cruz and Kouchi; and Members of the Committees.

The Department of Business, Economic Development, and Tourism, (DBEDT) **supports** the overall intent of this bill. This bill is to establish an agricultural Foreign-Trade Zone in Central Oahu. As the federally chartered operator of Foreign-Trade Zones in Hawaii, DBEDT stands ready to assist in this initiative.

There are several considerations which will need to be taken into account prior to an area being designated and activated as a Foreign-Trade Zone. Foreign-Trade Zones are areas established and designated by the federal government where merchandise of every description may be held without being subject to Customs duties and other ad valorem taxes. In other words, commercial merchandise (both foreign and domestic) receives the same treatment by Customs as if it were outside the commerce of the United States. These zones are designed to lower the cost of U.S.-based businesses engaged in international trade through tariff and tax relief while creating and retaining employment and capital investment that result from those operations.

Foreign-Trade Zones, or FTZs, are approved and designated by the Foreign-Trade Zones Board in Washington, D.C. through a formal application process and must also gain the concurrence of U.S. Customs and Border Protection. Under the review process, U.S. Customs will examine a list of every commodity within the FTZ and

determine whether the product will be manipulated or commingled with other elements to effect a change in commodity status of the final product. More importantly, U.S. Customs will examine whether tariff and/or tax relief will be realized through the use of Foreign-Trade Zone procedures. After the Foreign-Trade Zones Board gives its approval to establish a Foreign-Trade Zone, the site is awarded activation status by U.S. Customs and Border Protection upon review and approval of the project's standard operating procedures. The process generally takes a year, and once established, users of the Zone can take advantage of the level and timing of duty payments and certain Customs procedures afforded by FTZs.

Thank you for the opportunity to submit testimony on this bill.

NEIL ABERCROMBIE
GOVERNOR

SHAN TSUTSUI
LT. GOVERNOR



STATE OF HAWAII
DEPARTMENT OF TAXATION

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To: The Honorable Donovan M. Dela Cruz, Chair
and Members of the Senate Committee on Economic Development, Government
Operations, and Housing

The Honorable J. Kalani English, Chair
and Members of the Senate Committee on Transportation and International
Affairs

The Honorable Clarence K. Nishihara, Chair
and Members of the Senate Committee on Agriculture

Date: Wednesday, January 29, 2014
Time: 2:45 P.M.
Place: Conference Room 16, State Capitol

From: Frederick D. Pablo, Director
Department of Taxation

Re: S.B. 2020, Relating to Economic Development

The Department of Taxation (Department) appreciates the intent of S.B. 2020, and provides the following information and comments for your consideration.

S.B. 2020 would create an "Agricultural Foreign Trade Zone" on certain designated parcels of land in the State, to be administered by the Department of Business, Economic Development, and Tourism (DBEDT). This measure is intended to provide the same benefits a business would receive in a Foreign Trade Zone to businesses in an "Agricultural Foreign Trade Zone" whose services relate to agriculture.

The Department notes that a Foreign Trade Zone (FTZ) is created by federal law, specifically Chapter 19, Section 81 of the United States Code, and is intended to be a zone in which international trade can occur without incurring United States customs duties. Although Hawaii's FTZ is administered by the DBEDT, the FTZ is not a construct of Hawaii law and must be established by the United States Congress. Likewise, although the Governor approves

companies to apply for participation in the FTZ, the companies must apply to the Foreign Trade Zones Board, a federal entity, to be approved for participation in the program.

Further, the only prohibition on State activity within any FTZ is the prohibition on *ad valorem* taxation by the State within the FTZ, created by Chapter 19, Section 810(e) of the United States Code. The Department notes that generally agricultural products and commodities are not subject to *ad valorem* taxation under Hawaii's current tax system.

If the intent of the legislature is to provide tax incentives for agricultural trade, the Department suggests utilizing the existing Enterprise Zone law rather than using terminology associated with federal programs.

Thank you for the opportunity to provide comments.



STATE OF HAWAII
AGRIBUSINESS DEVELOPMENT CORPORATION

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TESTIMONY OF JAMES J. NAKATANI
EXECUTIVE DIRECTOR
AGRIBUSINESS DEVELOPMENT CORPORATION

BEFORE THE SENATE COMMITTEES ON ECONOMIC DEVELOPMENT,
GOVERNMENT OPERATIONS AND HOUSING
AND
TRANSPORTATION AND INTERNATIONAL AFFAIRS
AND
AGRICULTURE

Wednesday, January 29, 2014
2:45 p.m.
Conference Room 16

SENATE BILL NO. 2020
RELATING TO ECONOMIC DEVELOPMENT

Chairpersons Dela Cruz, English, and Nishihara and Members of the Joint
Committees:

Thank you for the opportunity to testify in support of Senate Bill No. 2020. This bill seeks to establish an agricultural Foreign Trade Zone (FTZ) in Wahiawa, Oahu. The Agribusiness Development Corporation (ADC) supports the establishment of a FTZ because of the potential impact it could have on leveling the playing field for Hawaii's agricultural related industries.

The FTZ Program was authorized by Congress in 1934 (FTZ Act - 19 USC 81a-81u) and is used across the nation to help encourage value-added manufacturing at home-based facilities in competition with foreign alternatives

by allowing delayed or reduced tax payments on foreign merchandise, as well as other savings.

According to Federal law, goods are not technically imported until they leave the FTZ and into the Customs territory of the Federal government. As a result, Customs tax is deferred until merchandise is imported from a designated zone into the commerce of the United States. Instead of companies having their capital tied up in Customs taxes on their inventory, they can use that money for other purposes.

ADC has recently acquired former plantation land and facilities in Wahiawa to create an agricultural hub in Central Oahu. A FTZ would add another layer to the ongoing efforts by many to create jobs and reduce the overhead cost for agricultural operations and related activities.

As Hawaii transitions from a monocrop plantation system into diversified farming, our value-added and support businesses must remain competitive in order to venture in today's global marketplace. By keeping the cost down for ag-related operations that require foreign materials for production, the State could potentially create new industries in the islands, rather than shipping them overseas.

ADC would make an amendment to page 1; line 18, the first TMK should read (7-1-002-009 instead of 7-1-002-099).

Thank you for the opportunity to provide testimony on this measure.



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COMMITTEE ON ECONOMIC DEVELOPMENT, GOVERNMENT OPERATIONS AND
HOUSING

Senator Donovan M. Dela Cruz, Chair
Senator Sam Slom, Vice Chair

COMMITTEE ON TRANSPORTATION AND INTERNATIONAL AFFAIRS

Senator J. Kalani English, Chair
Senator Donovan M. Dela Cruz, Vice Chair

COMMITTEE ON AGRICULTURE

Senator Clarence K. Nishihara, Chair
Senator Ronald D. Kouchi, Vice Chair

Wednesday, January 29, 2014
2:45 p.m.

Room 16
SB 2020

RELATING TO ECONOMIC DEVELOPMENT

Aloha Chairs, Vice Chairs and Committee members:

I am Christopher Manfredi, President of the Hawaii Farm Bureau Federation (HFBF). Organized since 1948, the HFBF is comprised of 1,832 farm family members statewide, and serves as Hawaii's voice of agriculture to protect, advocate and advance the social, economic and educational interest of our diverse agricultural community.

HFBF stands in strong support of SB 2020.

This is an innovative approach to directly help farmers and ranchers be competitive in the international marketplace; to access new and emerging markets and to strengthen and expand existing ones. We applaud the introducers for their vision and initiative for advancing this measure and we respectfully ask that the members of these committees do the same by passing this bill.

Thank you for the opportunity to comment on this measure.



SB 2020, Relating to Economic Development
Senate EGH/TIA/AGL Committees
Wednesday, January 29, 2014
2:45 pm
Conference Room 16

Testimony by: Larry Jefts
Position: Support

Chairs Dela Cruz, English and Nishihara and Members of the Senate
EGH/TIA/AGL Committees:

I am Larry Jefts, co-owner of our Sugarland Growers, Inc., a family run farm with more than 35 years experience of Hawaii farm experience on Molokai and Oahu.

We support SB 2020, which seeks to establish a foreign trade zone for agricultural related businesses. This is one of the tools needed to help farmers and ranchers as well as agriculture-related businesses become more competitive with overseas producers that compete with Hawaii producers.

Your support of this measure is appreciated. Thank you for the opportunity to present testimony. I can be reached at (808) 688-2892 if there are any questions.

Sugarland Growers Inc.
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From: mailinglist@capitol.hawaii.gov
To: [EGHTestimony](#)
Cc: mauibrad@hotmail.com
Subject: Submitted testimony for SB2020 on Jan 29, 2014 14:45PM
Date: Thursday, January 23, 2014 5:23:57 PM

SB2020

Submitted on: 1/23/2014

Testimony for EGH/TIA/AGL on Jan 29, 2014 14:45PM in Conference Room 016

Submitted By	Organization	Testifier Position	Present at Hearing
Brad Parsons	Individual	Comments Only	No

Comments: Senators: Your Tax Map Key numbers in the bill are incomplete. They do not identify Oahu with a first digit "1".

Please note that testimony submitted less than 24 hours prior to the hearing, improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.

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From: mailinglist@capitol.hawaii.gov
To: [EGHTestimony](#)
Cc: mendezj@hawaii.edu
Subject: *Submitted testimony for SB2020 on Jan 29, 2014 14:45PM*
Date: Friday, January 24, 2014 11:28:12 AM

SB2020

Submitted on: 1/24/2014

Testimony for EGH/TIA/AGL on Jan 29, 2014 14:45PM in Conference Room 016

Submitted By	Organization	Testifier Position	Present at Hearing
Javier Mendez-Alvarez	Individual	Oppose	No

Comments:

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