

Governor's Logistics Task Force Meeting
February 15, 2012
Raleigh, NC

Lt. Governor Walter Dalton, Chairman of the Logistics Task Force, called the meeting to order at 1:10 p.m. on Wednesday, February 15, 2012 in Raleigh with the following members present:

Gene Conti, Keith Crisco, Nelson Cole, Jeff Strader, Beth Austin, Pat Long, Earl Brinkley and Dee Blackwell. Mike Evers attended on behalf of Paul Friday. David Willauer and Dan Danieley participated by phone.

Members absent were: Dee Freeman, Clark Jenkins, Michael Walters, Danny McComas, Dawn Clegg, Allen Joines, Buddy Shavender, Terry Bellamy, Jerry Orr, Bob Morgan, Gary Teng, Paul Kauffmann, Larry Wooten, Lew Ebert and John Atkins.

Chairman Dalton welcomed everyone to Raleigh and introduced Tom Bradshaw, newly-appointed Statewide Logistics Director. Mr. Bradshaw thanked the Chairman, and stated that he is excited about the new role and continuing to work with the Task Force.

Chairman Dalton introduced Mark Sutherland. Col. Sutherland gave an update on the initiative to market North Carolina for military ground force system maintenance. Sutherland first presented to the Task Force in the spring at Ft. Bragg. He noted the Department of Defense is morphing in a big way, due to budget constraints, a move toward privatization, and evolving threat scenarios. A big focus involves looking for efficiencies in logistics systems. North Carolina is the center of mass for East Coast military operations, and we have a value proposition to make, as we can help the military by reducing the cost for transportation of equipment. There are rail and highway improvements in the works that should make the state even more attractive for this initiative.

Consolidation of maintenance operations is a part of the proposition, and the F35 Strike Force Fighter is an example of how both branches can use the same maintenance operations. Privatization of maintenance operations is already working at several North Carolina sites, with Oshkosh Defense in Jacksonville as an example. This is consistent with the vision of the Defense Business Board. Sutherland showed the Task Force a video explaining the initiative.

Military logistics is a \$182 billion business. Maintenance is a significant portion. The research is complete, with funding provided by NCDOT, the Eastern Region, the Southeast Region, and numerous counties. The game plan is set, and we are in implementation mode now. Targeted outreach is underway. The state's congressional delegation is to be briefed eye-to-eye in March.

This is not about shutting down existing depot operations in Albany, GA or Anniston, AL. It is about handling the vast amount of military repair and reset that will exceed their capabilities. Primarily, this will be a private industry decision on how they can most efficiently and cost-effectively provide service to the military. Sutherland opined that the military will become a nuisance to the Ports in Charleston and Jacksonville in a post-Panamax world, just as has already happened at Long Beach, Alameda, and San Francisco, where military operations were basically run off from the ports.

Earl Brinkley noted that while North Carolina ranks 3rd in military troops, the state ranks only 29th in the value of military contracts, so this is a huge opportunity to improve that status.

Chairman Dalton thanked Col. Sutherland for his report. The Task Force approved the minutes from the previous two meetings.

Chairman Dalton recognized Seth Palmer to give a report on North Carolina's Foreign Trade Zone Program. Palmer noted that Lou Tapper of Longistics reported to the Task Force on FTZ basics at a previous meeting. North Carolina has six FTZ's, three of which are owned and/or operated by state agencies. Those FTZ's are the Port of Wilmington, the Port of Morehead City, and the NC Global TransPark. The remaining three are operated by the Triangle J Council of Governments, the Piedmont Triad Partnership, and the Charlotte Regional Partnership.

Mr. Palmer described what an FTZ is, and listed some of the tax/duty advantages of utilizing FTZ's. Per staff analysis at the directive of the Logistics Coordinating Council to investigate what is needed to "Maximize Foreign Trade Zone advantages and utilization through coordinated efforts of State transportation entities," the following became evident:

- 1) The zones under state control are generally underutilized;
- 2) The state has a limited collaborative marketing effort for Foreign Trade Zones;
- 3) The state's zones might be better suited by utilizing the new "Alternative Site Framework" put forth by the US Foreign Trade Zones Board;
- 4) Due to the legislated transfer of the Ports Authority and Global TransPark to NCDOT, modifications will need to be made to the authorizing grants for the respective zones to reflect their current organizational structure; and
- 5) A Timeline should be developed for completion of necessary modifications to respective zones.

Chairman Dalton asked if Alternative Site Framework FTZ's can cross state lines. Palmer replied that it is unclear at this point, although there are certainly areas such as northeastern North Carolina with multi-state potential. It is also currently unclear as to whether one large ASF FTZ could encompass all three of the state-owned FTZ, per Secretary Conti's inquiry.

Pat Long offered that we all need to work together to market the FTZ's, and that it is a long sell. We can start with small companies and build. Jed McMillan added that we can do seminars to educate businesses of the advantages of utilizing FTZ's, as the GTP has done some in the past.

Chairman Dalton thanked Mr. Palmer for his presentation. (A copy of Palmer's PowerPoint presentation is attached.)

Chairman Dalton recognized Seth Palmer again to discuss the Task Force and its reports. The Seven Portals Study is complete, and each Task Force member was given a Master Report along with a CD containing each of the seven Regional reports.

The Maritime Strategy Study is nearing completion, and a draft report will be presented to members of the Maritime Study Advisory Council by February 19th. Task Force members will receive the draft report by email. A final round of three public information sessions to be held in Brunswick, New Hanover, and Carteret Counties will take place in early March. Following those events, the Maritime Strategy Study team will put together its final report.

The Final Report of the Governor's Logistics Task Force is being drafted. Palmer reported that a newly formatted draft report will go out to members in the next week and a half, and members were asked to submit comments. Chairman Dalton stated that the comments already received have been helpful and they have been incorporated into the report. Please keep them coming.

The meeting was adjourned at 2:45 p.m.

(Foreign Trade Zone presentation attached below)

FOREIGN TRADE ZONES

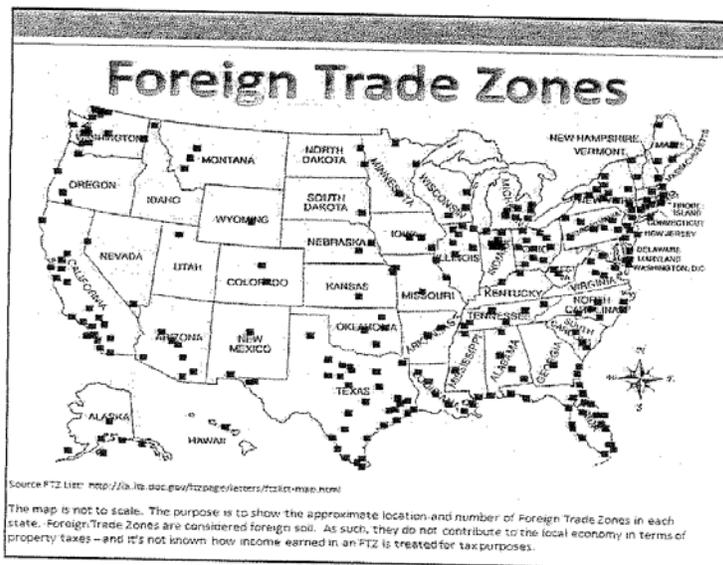
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What is a Foreign Trade Zone?

• A **foreign-trade zone (FTZ)** is an area within the United States, in or near a U.S. Customs port of entry, where foreign and domestic merchandise is considered to be outside the country, or at least, outside of U.S. Customs territory. Certain types of merchandise can be imported into a Zone without going through formal Customs entry procedures or paying import duties. Customs duties and excise taxes are due only at the time of transfer from the FTZ for U.S. consumption. If the merchandise never enters the U.S. commerce, then no duties or taxes are paid on those items.

What is a Foreign Trade Zone?

- Created by the Foreign Trade Zones Act of 1934
- Foreign Trade Zone #1 is in Staten Island, New York [currently operated by the NY/NJ Port Authority]
- Foreign Trade Zones are regulated by the US Foreign Trade Zone Board, which operates through the US Department of Commerce
- Currently, there are 279 registered zones nationwide



FTZ Terminology

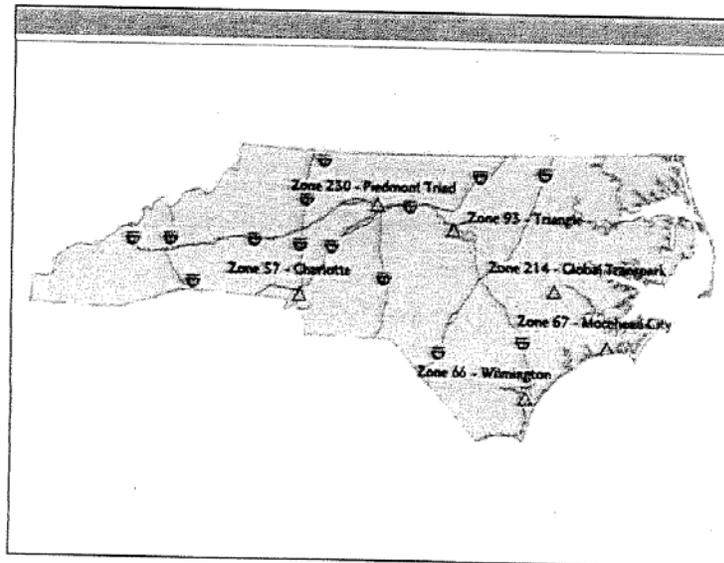
- **General-purpose Zone (GPZ)** A general-purpose zone is established for multiple activities by multiple users. Storage, distribution, testing, repackaging and repair are some of the possible activities in a GPZ. Processing or manufacturing in a GPZ requires the permission of the Foreign-Trade Zones Board.
- **Subzone** A special-purpose zone established as part of a zone project for a limited purpose that cannot be accommodated within an existing general-purpose zone. Subzones must be sponsored by the grantee of a general-purpose zone.
- **Grantee** A corporation to which the privilege of establishing, operating and maintaining a foreign-trade zone has been granted by the Foreign-Trade Zones Board. Grantee corporations must be either public corporations or private corporations organized for the purpose of establishing a zone project. Examples of public entities that might receive an FTZ grant include: a political subdivision (including a municipality), a public agency, or a corporate municipal instrumentality of one or more states. Qualified private corporations must be chartered for this purpose under a law of the state in which the zone is located.

What can you do in a FTZ?

Activities Permitted in a Foreign Trade Zone Merchandise Entering the Zone May Be:		
Assembled	Manufactured (w/ special permits)	Repackaged
Tested	Stored	Destroyed
Sampled	Salvaged	Mixed
Relabeled	Processed	Manipulated

North Carolina Foreign Trade Zone Program

- Currently there are six (6) Foreign Trade Zones located throughout the state.
- Of these six, three are owned and/or operated by state agencies.
- These zones, numbers 66, 67, and 214, are located at both North Carolina Ports facilities [Wilmington and Morehead City] and the North Carolina Global TransPark.
- The other 3 are operated by the following agencies:
 - Zone 93: Triangle J Council of Governments
 - Zone 230: Piedmont Triad Partnership
 - Zone 57: Charlotte Regional Partnership



Example of a FTZ—NCGTP (FTZ 214)



Plan for redevelopment of FTZ program

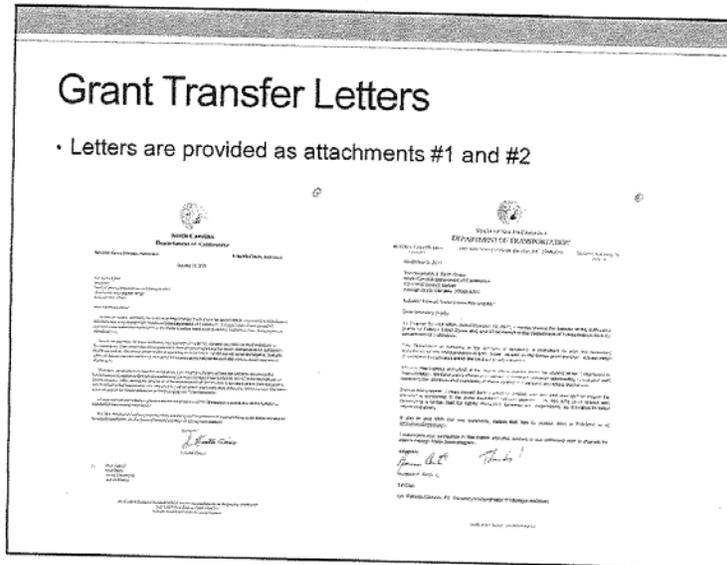
- Directive was Twofold
 - First, due to the recent transition of the Ports Authority and the Global TransPark to NCDOT, it was realized that efforts needed to be taken to better understand both entities FTZs and their respective operations.
 - Second, the Logistics Coordinating Council directed staff to examine FTZs through its recommended project list—"Maximize Foreign Trade Zone advantages and utilization through coordinated efforts of State transportation entities"

Results from Staff Analysis

1. The zones under state control are generally under-utilized
 - a) Both zones 66 and 67 have not had significant utilization since their creation in 1981
 - b) The NC Ports Authority does not possess a strategic marketing plan for marketing zones 66 and 67
 - c) Due to non-use, both zone 66 and 67 would need significant work to regain the ability to fully function as a Foreign Trade Zone (e.g. Customs inspection, inventory management system, etc.)
 - d) Zone 214 (NCGTP) has active subzone operations (off-site) but has no active operations on the site proper due to existing management/operator agreements
2. The state has a limited collaborative marketing effort for Foreign Trade Zones

Results from Staff Analysis

3. The state's zones might be better suited by utilizing the new "Alternative Site Framework" put forth by the US Foreign Trade Zones Board
 - a) The ASF format allows existing zones greater flexibility in operations, especially as it relates to zone boundaries
 - b) For example, under the current framework, a zone's boundaries only exist to the bounded limits of its grant site plan. Under ASF, a zone's boundary can be anywhere within a specific geographic area (i.e. county, list of counties, region of the state)
4. Due to the legislated transfer of the Ports Authority and Global TransPark to NCDOT, modifications will need to be made to the authorizing grants for the respective zones to reflect their current organizational structure
 - Request letter from Secretary Crisco (NC Dept. of Commerce as the original grant holder) regarding transfer—copies of letter to NCDOT and reciprocal letter of response attached as #1 and #2
5. Develop a timeline for completion of necessary modifications to respective zones



- ## Timeline
1. Contract with outside consultant to complete following items: Grant Transfer for zones 66, 67, and 214; Alternative Site Framework (ASF) applications for zones 66, 67, and 214; Boundary modifications for zones 66, 67, and 214; Development of additional documentation for zones 66, 67, and 214
 - A. Timeline:
 - B. Contract Development and Consultant Selection
 - C. Consultant Engagement
 - D. Contract Completion
 2. Communication with respective regional partnerships, counties and municipalities regarding FTZ boundaries and zone characteristics
 - a. Timeline:
 - i. Development of communication plan
 - ii. Communication with respective entities

Timeline

3. Development of FTZ Marketing and Communication Plan—
collaborative effort between respective zone operating entities
(NCSA and NCGTP), NC Department of Commerce, regional
partnerships, local government entities, and other interested parties
 - a) Timeline:
 - b) Development of stakeholder list
 - c) Initial Meeting of stakeholders
 - d) Plan Development
 - e) Plan Completion and Implementation
4. Selection of permanent Administrator for all or select group of
zones under the authority of the Department of Transportation
 - a) Development of scope of work
 - b) Application/Hiring Process
 - c) Administrator (s) in place
5. Development of plan for the recruitment and retention of
operators/site managers for respective zones

QUESTIONS
