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# Manufacturers flock to foreign trade subzones

*Tariff, tax advantages boost competitiveness*

● *But general purpose zones may be leveling off in growth, says the retiring fo-reign trade zone program administrator.*

**BY RICHARD LAWRENCE**

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WASHINGTON — The 63-year-old foreign trade zones program is entering an era in which manufacturers — not warehouses or distribution centers — increasingly dominate the scene.

A growing number of manufacturers are using the tariff and tax advantages offered by the trade zones to boost their competitiveness. For economic development agencies, the program is a way to boost local investment, jobs and revenue.

## **Growth plateau seen**

But the number of general purpose zones, where warehouse/distribution and manufacturing facilities co-mingle, may soon plateau, says John J. Da Ponte Jr., the program's executive secretary.

About 150 general purpose zones are active, 75 others have been approved and 40 applications, for new or expanded facilities, are under review by the Foreign Trade Zones Board, which is chaired by the Commerce Department.

This means that more than two-thirds of the roughly 300 U.S. ports of entry have zone status, said Mr. Da Ponte,

"I don't see too many more" general-purpose zone projects, he said.

By contrast, he said, there seems to be no limit on the ever-rising number of subzones, as manufacturers respond to increasing international competitive pressures.

Unlike a general purpose zone, a subzone typically is used exclusively by one manufacturer.

Moreover, a subzone can be anywhere, as long as it is linked administratively to a general purpose zone in the same state. By contrast, a general purpose zone must be within 60 miles of a port of entry.

## **180 subzones active**

About 180 subzones are active, more than 200 others are approved and requests for another 40 are pending.

Subzone users range from small firms to giant multinationals and include both U.S. and foreign companies. So far, automakers, oil refiners and pharmaceutical, computer and office equipment manufacturers are the biggest users.

When Mr. Da Ponte, who retires this week, became executive secretary in 1974 only a dozen general purpose zones and fewer than half a dozen subzones existed. Total shipments were about \$200 million a year.

In fiscal 1996, shipments hit a record \$163.6 billion. About 3,550 firms now use the program.

Though most zone shipments are to and from the U.S. market, zone exports are rising. In fiscal 1996, they topped \$17 billion, up sharply from a few years earlier.

The FTZ board, encouraging the

use of zones as an export platform, offers a special fast-track approval procedure for applicants planning to export. On average, for every \$2 of goods imported into zones, about \$1.20 in merchandise is exported.

## **Mid-1970s takeoff**

The FTZ program's takeoff since the mid-1970s, Mr. Da Ponte said, reflects myriad factors, including more flexible zone rules, sophisticated electronic merchandise management systems helping expedite customs processing, a growing awareness of zone program benefits, and expanding international trade and investment.

Despite falling tariffs, as the United States implements the North American Free Trade Agreement and other trade pacts, "we have seen no lessening of interest in the FTZ program," Mr. Da Ponte said.

One reason, he suggests, is the persisting problem of inverted tariffs, where U.S. import duties on parts exceed those on finished products. Subject to the FTZ board's approval, firms operating in zones may avoid the higher parts duties when they bring the finished product into U.S. customs territory.

This, together with the program's tariff deferrals and export-related duty exemptions as well as tax exemptions granted by some states, still makes for substantial cost savings, Mr. Da Ponte said.

The sheer expansion of international trade and rising competitive pressures virtually assure the program's continuing growth, he said. Making the program "doubly important" to U.S. businesses, he added, is that it counters similar programs offered by most other countries to their companies.