



# FOREIGN

# TRADE

# ZONES

Lowering the cost of manufacturing and assembly in the US is a key element of the Foreign-Trade Zones program.

Port Tampa Bay

# FOREIGN TRADE ZONES



## Foreign trade zones strengthen US operations

By Scott S. Taylor

**THE MORE THINGS** change the more they stay the same. The Foreign-Trade Zones (FTZ) program was enacted in 1934, at a time when tariffs on imported products were high, as a way to increase jobs and facilitate investment in the United States through expanded global trade. Since the beginning of 2018, domestic customs duties have risen on a wide range of imported materials used in US manufacturing

and distribution operations supplying domestic and international markets. Increased customs duties are threatened on a wide range of additional products, including all motor vehicles and parts and European Union- and French-origin products. Year to date, more than \$30 billion in additional Harmonized Tariff Schedule of the United States (HTSUS) Chapter 99 duties have been collected.

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Some of the new total customs duty rates are reminiscent of 1934 levels.

The FTZ program is a safe harbor that provides flexibility for companies creating or maintaining jobs and investment in the United States. Foreign trade zone status fosters competition in the global economy by lowering the cost of products imported and exported from the United States. Reforms in the program, such as the Alternative Site Framework (ASF),

significant number of imported items. However, these duties are not assessed on exports by companies utilizing an FTZ established for a US-based facility with American workers. This is particularly relevant for additional duties imposed on aluminum and steel imports under Section 232, where refund of duties paid through duty drawback is not available.

Even for those companies distributing products in the United States from an FTZ,

within 3,200 companies in the United States.

The value of shipments into US zones totaled \$669 billion, which is a 9.1 percent (\$59 billion) increase from the previous year's total of \$610 billion. Program use has also increased over the last year, as more companies are structuring zones to mitigate the impact of increased duty rates imposed by the Trump Administration. As of August 12, there were 292 zones and 829 subzones approved, an increase of nearly 24 percent over last year for subzones. This year between January 1 and April 23, the FTZ Board authorized 69 new zone facilities under ASF. As of August 12, the number of ASF applications approved for FTZ grantees was 177, marking a 7 percent increase over last year and representing more than 90 percent of all zone projects. It is expected that 2019 annual totals will also reflect an overall increase in zone applications and activity.

The FTZ program continues its original mission, established during its inception in the Great Depression, to support US companies and create jobs and warehouse and manufacturing facility investments in the United States.

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have streamlined the Department of Commerce application process, resulting in significant increased program use by smaller and medium-size US companies located in the United States.

In these turbulent times for US trade, the FTZ program provides a level of management control as well as more flexibility for American-based operations. Many companies that, in the past, imported duty-free or low-duty-rate items had no need to defer or avoid the customs duty payments. Recent HTSUS Chapter 99 duties have added rates of 10 to 25 percent on a

customs duties can be delayed while the product is stored in a zone. Lowering the cost of doing business in the US as much as possible is a fundamental element of remaining competitive with overseas companies. This is a key aspect of the program, which has always been dedicated to supporting American jobs at US-based facilities.

According to the latest US Foreign-Trade Zones Board Annual Report, published in October 2018, more than 450,000 American workers were employed in domestic zones

## PORT OF BROWNSVILLE PLAYS PIVOTAL ROLL IN NORTH AMERICAN TRADE

**THE PORT OF** Brownsville's proximity to Mexico uniquely positions the port to serve as the key transshipment gateway delivering goods and materials to nearby multinational manufacturing centers on both sides of the border. This has led the port to rank among the leading US steel ports, moving more steel into Mexico than any other domestic competitor. In 2018, the port moved 3.2 million short tons of steel across the southern border.

In addition to growing exports of steel, recently implemented Mexican oil reforms are contributing to the uptick of cargo crossing the border. Ultra-low sulfur diesel, premium gasoline, and specialty lubricants make the trip southbound with increasing volumes and frequencies. Fuel imports, like No. 6 fuel, travel northbound by unimpeded rail crossings to the port as well.

These increases firmly entrench the port's foreign trade zone as a consistent leader among its peers. In the latest report to Congress, FTZ No. 62 ranked second for the value of exported goods out of 293 foreign trade zones in the United States, reaching \$3.6 billion for the reporting period. This is the third time in and as many years that the port's FTZ has ranked No. 2.

For the fiscal period ending Dec. 31, 2018, the port set new bars of success with 11.3 million short tons of total cargo and more than \$24 million in total operating revenue.

According to a Martin Associates' report, cargo activity at the port's marine terminals and rig repair operations support \$3 billion in total Texas economic results, creating more than 51,000 jobs. Of those, 8,500 local and regional direct, indirect, and induced jobs are generated at the port by marine cargo vessel activity and ship and rig repair. Those jobs infuse more than \$2.6 billion into the regional economy annually. These impacts distinguish the port as the region's leading economic driver. ■

