

FOREIGN-TRADE ZONES



The best US trade program

Witnessing five decades of extraordinary FTZ growth

By Marshall Miller

FOREIGN-TRADE ZONES (FTZs) are the only US trade program that requires investment in US land, buildings, equipment, highly skilled/high value-added employment, and materials to achieve significant US customs duty and associated financial savings. FTZ production provides “import substitution” of finished products made in US FTZs for domestic imports. In 1934, Congress

structured a unique US trade law that encourages increased US employment and business activity by equalizing the customs duty rate applied to FTZ-finished products with imported products made in foreign countries. Unlike the North American Free Trade Agreement (NAFTA) or the US-Mexico-Canada Agreement, the 14 other US free trade agreements (FTAs) with 21 countries,

and preferential trade programs like the Generalized System of Preferences, African Growth and Opportunity Act, and Caribbean Basin Initiative, US customs duty savings with the FTZ program can only be achieved by US investment and US employment – and not investment and employment in foreign countries. The FTZ program uniquely provides a legal structure to reduce US

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Motor vehicle manufacturing is one of the many industries benefiting from FTZs over time.

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In 1973, six people met to create the National Association of Foreign Trade Zones (NAFTZ) with the goals of promoting the US Foreign-Trade Zone program globally, simplifying FTZ management, and educating FTZ grantees and operators. While Congress had passed the US Foreign Trade Zone statute in 1934, there was never any US government funding and staffing to promote the zone program and facilitate its growth. The NAFTZ was intent on helping make the zone program the best US trade program that uniquely requires US investment and employment to achieve financial savings. Every major element of FTZ management was designed and implemented in a cooperative effort between the NAFTZ, the Foreign-Trade Zones Board (FTZ Board), and US Customs and Border Protection (CBP) and, its predecessor, the US Customs Service (Customs).

In 1970, the FTZ Board had approved 13 zone projects and seven subzones located in six states and Puerto Rico, with 1,246 firms employing 1,461 US workers. At that time, 11 percent of the merchandise received in zones was domestic, with total receipts of \$105 million and \$15.6 million in exports. In the 1970s, the NAFTZ succeeded in a five-year effort to update the Customs regulations to limit the Customs value of FTZ-manufactured products to the value of foreign material and not include the value of domestic labor and overhead (19 C.F.R. § 146.48(e), a departure from Customs' prior practice. To streamline management, the NAFTZ worked with Customs to create Customs Forms 214, 215, and 216, replacing five Customs forms. *Armco Steel Corporation v. Stans*, 303 F. Supp. 262 (S.D.N.Y. 1969); *aff'd* 431 F.2d 779 (2d Cir. 1970)) was the first major FTZ court case that confirmed the FTZ Board could authorize subzones and allow imported steel to be admitted into an FTZ to manufacture lighter aboard ship (LASH) barges duty-free. The first NAFTZ promotional focus was on zone status for major portions of US deep-water ports, large scale industrial parks, and the first subzones in Hawaii for petroleum refining and in Puerto Rico for chemical production. By the end of the decade, there were 48 new zone projects and six new subzones.

By 1980, the NAFTZ had achieved remarkable results in only seven years — 58 zone projects in 30 states and Puerto Rico and 14 subzones with 1,370 companies employing 11,700 US workers. At that time, 34 percent of the merchandise received in zones was domestic merchandise, with total receipts of \$2.6 billion and \$700 million in exports. In 10 years, this represented a 346 percent increase

in zone projects, 100 percent increase in subzones, 701 percent increase in employment, and 5,000 percent increase in dollar volume — all a direct result of NAFTZ efforts.

The 1980s were a period of substantial changes to FTZ management, championed by the NAFTZ. The American economy needed a means to encourage foreign companies to open manufacturing and warehouse facilities in the United States, with investments in new plants, equipment, and employees. A major US impediment to new, necessary investment was the additional expense of higher Customs duties on parts as compared to directly competitive imported finished products. When a product produced overseas could be imported duty-free or at a low duty rate, why relocate production to the United States, where the US-made product and its parts were dutiable at a higher rate? The US FTZ program uniquely provided the opportunity to US and overseas motor vehicle and parts companies, pharmaceutical firms, electronic equipment companies, shipyards, petroleum refineries, and others to establish new or maintain and grow existing facilities and employment. The result was a significant expansion of FTZ production in the 1980s, including but not limited to the manufacture of the first IBM PCs/printers/ATMs in three FTZ production facilities in North Carolina; the manufacture of Apple computers in two manufacturing facilities in California and Colorado; the establishment of the NASSCO shipyard in San Diego and subsequently 38 other shipyards in the Gulf Coast and East Coast; the Eli Lilly pharmaceutical plant in Indiana; a wide range of US and foreign motor vehicle manufacturing plants, including General Motors/Ford/Chrysler, Kawasaki (motorcycles, police bikes, and jet skis), Volkswagen, Nissan, and Toyota in many states; the largest audio and videotape manufacturing plant in the world for Sony in Dothan, Alabama; AT&T telephones in Shreveport, Louisiana; Caterpillar construction machinery in Illinois; Bayer agricultural chemicals in Kansas City, Missouri, and subsequently over 20 chemical plants; Berg steel pipe production in Florida; General Electric-manufactured refrigerators, stoves, dishwashers, washing machines/dryers, wind turbines, and jet engines in Kentucky, Ohio, and Florida; petroleum refining for CITGO, Chevron, Valero, Marathon, Flint Hills, and others in Texas, Louisiana, and nationally; Winnebago motor homes in Iowa; Kawasaki industrial engines in Maryville, Missouri; IFF flavors and fragrances in New Jersey; Hitachi auto parts in Kentucky; and many others.








At that same time, the NAFTZ worked with industry to support a wide range of Customs

import expenses for new, established, or reshored US production. It also provides a unique public/private partnership requiring direct engagement with the FTZ grantee (principally US port authorities, municipalities, state development agencies, and not-for-profit organizations) in this strong and very successful US economic development tool. Unlike many other government initiatives, the FTZ program does not involve any government subsidies.

Since I began my involvement in the FTZ program 53 years ago, I have witnessed startling growth in FTZ use and production encompassing a wide range of merchandise previously made in foreign countries. As many US companies examine reshoring and foreign-based firms decide to produce merchandise in the United States, the FTZ program provides a time-honored legal structure to reduce the cost of US reshoring and US production.

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The increase in US FTZ activity from 1970 to today

	1970	2020
 Zone projects:	13	297
 Subzones:	7	1,035
 Companies:	1,246	3,400
 US worker employment:	1,461	478,500
 Domestic receipts:	11 percent	59 percent
 Total receipts:	\$105.6 million	\$624.9 billion
 Exports:	\$15.6 million	\$94.2 billion

Source: National Association of Foreign-Trade Zones

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headquarters rulings issued in the 1980s that further facilitated the ability to manufacture product in US FTZs and support the new investment opportunities in the United States. To expedite activity, the NAFTAZ worked with Customs to structure new FTZ Direct Delivery and Weekly Entry procedures. In conjunction with Customs headquarters, the NAFTAZ helped create the first FTZ Manual in 1980, the first major amendment to the Customs FTZ Regulations in 1986, the first major update to the FTZ Board regulations, and multiple amendments to the Foreign-Trade Zones Act (e.g., recognizing "producibility" for petroleum-refining production and exempting FTZ merchandise from *ad valorem* personal property tax). One of the most significant NAFTAZ-sponsored changes to the FTZ program was the Customs Audit-Inspection program that eliminated full-time, on-site Customs inspectors who were compensated by FTZ operators at each FTZ. As a result, a wide range of major industries increased FTZ utilization.

By 1990, there were 169 zone projects and 186 subzones located in 48 states and Puerto Rico, with 2,210 companies employing 216,350 US workers. At that time, 78 percent of the merchandise received in zones was domestic merchandise with total receipts of \$90.5 billion and \$11.6 billion in exports. Additional major

NAFTZ initiatives in the 1990s included the FDA Weekly Entry Filing program, the Temporary Removal procedure to facilitate repair and testing, and production machinery legislation to allow the deferral and potential reduction of duty payments. Uniquely, the NAFTAZ structured a key provision in NAFTA to define the "NAFTA territory" to include US FTZs, even though FTZs are uniquely outside the US Customs territory. Similar terminology was used in all US FTAs to confirm that FTA-qualified products could be produced in US FTZs and exported to FTA countries duty-free. The 1990s saw major new FTZ activities including Hewlett-Packard computers/printers; Nokia cell phones in Fort Worth, Texas; Deere-Hitachi in North Carolina; Kodak single use cameras, photocopiers, and many other products made in Rochester, New York; Imation data storage in multiple states; Stihl power tools in Virginia; BMW vehicles produced in South Carolina; over 50 pharmaceutical production plants for Bristol Myers Squibb, Merck, Abbott, and others; Mercedes vehicles produced in Alabama; many more similar motor vehicle and parts firms; and a significant increase in petroleum production.

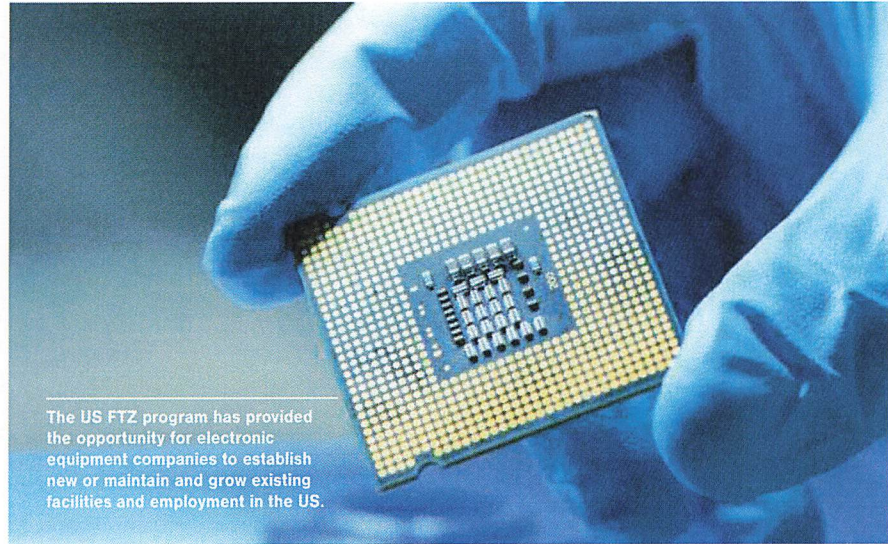
By 2000, FTZ activity had grown to 244 zone projects and 458 subzones in all 50 states and Puerto Rico, with 2,420 companies employing 340,000 US workers. At that time, 64 percent of the merchandise received into

the zones was domestic merchandise with total receipts of \$238 billion and \$15 billion in exports. This decade was marked by continued significant expansion of the FTZ program. An amendment to the FTZ Act permitted weekly Customs entry for warehousing and manufacturing. Following the 2008 global financial crisis, President Obama directed federal agencies to respond by facilitating and simplifying the process to secure FTZ status. As a result, the FTZ Board radically reduced the time to secure FTZ status from one year to 30 days or less and FTZ Board production manufacturing approval secured in four months with interim authority in 30 days. These FTZ Board actions alone significantly increased FTZ activity. Major industrial involvement included Intel integrated circuits in Arizona; AstraZeneca pharmaceuticals in Delaware; Vestas wind turbines in Colorado; Canon printer cartridges in Virginia; Makita power tools in Georgia; production of all large projection Sony televisions in New Stanton, Pennsylvania; Michelin tires in South Carolina; Black+Decker products in Fort Mill, South Carolina; Microchip Technology semiconductors in Arizona; Lam Resources wafer fabrication equipment in California; Rolls Royce engines in Indianapolis, Indiana, and Mt. Vernon, Ohio; Airbus aircraft in Alabama; Space Systems/Loral satellites in California; and many others.

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Today, there are 297 zone projects and 1,035 subzones, with 3,400 companies employing 478,500 US workers. Fifty-nine percent of the merchandise received in the zones is domestic material with total receipts of \$624.9 billion and \$94.2 billion in exports. The increase in US FTZ activity is extraordinary from 1970 to today: zone projects from 13 to 297, subzones from seven to 1,035, companies from 1,246 to 3,400, US worker employment from 1,461 to 478,500, domestic receipts from 11 percent to 59 percent, total receipts from \$105 million to \$624.9 billion, and exports from \$15.6 million to \$94.2 billion.

The NAFTAZ has a long and successful record of collaboration with the FTZ Board and CBP/Customs in structuring the only US trade program that supports reshoring by US companies and establishing new overseas firms' US production facilities through the reduction of US import expense. FTZ production results in American-made products using highly skilled/high value-added US employment in place of imported finished products and foreign labor. Today, 371,500 persons out of the total 478,500 are employed in US production operations. The unique public/private partnership



The US FTZ program has provided the opportunity for electronic equipment companies to establish new or maintain and grow existing facilities and employment in the US.

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with FTZ companies (FTZ operators and users) and the states, counties, cities, seaports, airports, and private not-for-profit corporations (FTZ grantees) — two of the main FTZ stakeholder groups that comprise the NAFTAZ membership — has been the

driving force behind the growth and success of the FTZ program. ■

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