

# FTZs exercise in economic creativity

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While Billy Graham is in Portland preaching the gospel of the Lord, Marshall Miller is preaching the gospel of the Foreign Trade Zone and drawing some big crowds of his own.

Miller, a principal in the Kansas City, MO, law firm of Miller & Co., said Wednesday he and his firm have helped more than 150 FTZs get established and helped draft many of the regulations that govern the zones.

And Miller personally co-founded the National Association of Foreign Trade Zones and serves as its general counsel.

Put simply, a foreign trade zone is an area where a wide variety of work can be done without the zone user paying customs duties on products brought into the zone. Duties are paid on the applicable portion of a product once it leaves the zone for domestic distribution.

Using a foreign trade zone is an exercise in creativity - an exercise that allows each business to accomplish a specific business goal regardless of how narrow or broad the ultimate objective, Marshall told a 170-plus person audience at a seminar sponsored by the Port of Portland. The conference was expected initially to attract around 60 people.

While some companies gear entire operations around FTZs, others use the zones for limited purposes, Miller said. For example, a company that imports an electronics component that has a high failure rate might use the zone for the purpose of importing and processing that component alone, he added.

In that case, the company does not pay customs duties on the component until it is put into a product shipped to the domestic market. Failed components can be destroyed on the premises without the need to pay duties. Why pay duties on components that are useless, Miller asked.

Apparently, that type of question is one many companies are asking.

Foreign trade zones were established in 1934 but little used until recently. In 1970, there were 10 general purpose

zones and two sub-zones that employed 1,400 people and generated \$206 million in business.

Today, there are 180 general purpose zones and 222 sub-zones. The zones employ 220,000 people and generate \$250 billion in business, Miller said.

International trade is important locally as well, said Carter MacNichol, director of real estate management and development for the Port of Portland. One in nine jobs and 18 percent of Oregon's economy is tied to international trade, he said.

"Certainly our future is tied to international trade," MacNichol commented.

The Port of Portland operates several FTZs itself and has two companies that operate zones at Portland International Airport, said Peggy Krause, Port senior real estate associate and foreign trade zone representative.

Almost 3,500 acres of Port property is located within an FTZ, a total that includes all of the marine terminals; the ship repair yard; the Rivergate Industrial District, which has 1,600 acres available for sale; north and south cargo facilities at Portland International Airport; 600 acres at the Air Trans Center; and 458 acres in the Portland International Center.

Miller said there are clear reasons why FTZs are gaining in popularity. There are no longer national economies but a world economy, and one function of that economy is that the United States no longer makes all components and materials at home. Over the past decade, companies have stopped accepting customs duties as just a fact of life and begun looking at those costs just as they look at taxes, he said.

The movement first gained momentum in the 1970s when Volkswagen decided to locate a manufacturing facilities in the United States, Miller said. Those plans, however, ran into a snag when Volkswagen realized it paid more in duties on components that it did for finished automobiles.

When Volkswagen discovered the

FTZ, which would allow it to import components duty free and then pay the lower duty on a finished product, access to that zone became a requirement in the company's facilities search.

That spurred cities, counties, business parks, port authorities and other entities to get FTZ status.

Foreign trade zones can take different forms. In Portland, the Port of Portland is the grantee, meaning it is the entity that establishes, operates and maintains the zone.

Klause said a company can become part of the zone by either conducting business through a third-party operator such as a public warehouse, utilizing a general purpose system such as the Port's facilities at Terminal 6 or the Evergreen and Sea-Air facilities at the airport, or the company can do it itself by building a facility within a zone or applying for sub-zone status.

A sub-zone falls under the umbrella of the general purpose zone. Continental Mills, a Pendleton company, is a sub-zone of the Port's general purpose zone.

So what can you do in an FTZ? An operator can clean, store, test, sample, relabel, assemble, repair, etc., Miller said.

It is important to remember that those activities are not ultimately free from duty payments, he noted. Once a product or component leaves the zone and enters the domestic marketplace, it is subject to duties. But if the product or component is re-exported or destroyed, the duties are avoided.

The savings can be enormous, he added. In one example, a company that brings in \$42.5 million of imported materials per year could enjoy savings of more than \$5 million when comparing overseas production to FTZ production.

Ultimately, those cost savings mean lower consumer prices and economic vitality, Miller said.

"Those savings mean you're also investing in America, you're buying materials in America and you're employing people in America," he emphasized.