



An Essential Element In Global Production

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DURING the last year, every indicator of U.S. foreign trade zone growth—dollar volume, jobs, investment, approved and pending projects—has dramatically increased.

Global business continues its realization that the FTZ Program is a very effective tool to lower the cost of U.S. production so as to make U.S. operations more attractive as compared to similar activity in a foreign country.

While these statements are simple, the results may be financially dramatic and create the exact intent of Congress: encouraging U.S. investment and jobs.

The world marketplace for products has arrived and the U.S. FTZ program is an essential element in global production. It is an unusual item that is solely produced from U.S. materials today. In almost every industry, foreign sourced materials of some kind are essential.

The FTZ Program takes this business reality and creates financial savings for U.S.-based activity. It also provides a much better mechanism to increase U.S. material use because the operations are located near U.S. parts and material suppliers.

The FTZ Program continues to be used by companies with a sophisticated view of financial management and the import/export process. These firms understand that the U.S. FTZ Program provides unique financial advantages to U.S.-based warehousing and production activity.

FTZ-based production operations have received well-deserved attention over the last few years. They now represent the single largest factor in the program in dollar volume, use of U.S. materials, jobs and investment. As America struggles to regain its productive edge, the use of FTZs lower costs, thereby retaining and encouraging new industrial activity.

Two effective FTZ uses are sometimes overlooked.

Increasingly, as firms broaden their mix of products for the consumer, spare parts warehousing in the U.S. becomes a significant factor. The financial concern with spare parts is that no one knows when, if ever, the spare parts will be used and in what quantity.

Holding those spare parts in an FTZ offers a significant financial advantage. The cash flow savings can be significant

and those spare parts that are not used and will not be returned overseas can be destroyed with no Customs duties owed.

Most importers discover defective merchandise or determine obsolete merchandise some time after Customs duty payment. In an FTZ, defective merchandise can be repaired, returned to the vendor or destroyed, generally eliminating the Customs duty expense. Obsolete merchandise may be exported or destroyed, creating similar savings. In certain industries, these savings are considerable.

The U.S. is the largest user of FTZs in the world for one basic reason: it is the largest marketplace. Just as U.S. companies in the 1960's searched worldwide to be involved in new markets, global firms have re-examined the U.S. marketplace. The world economy will not stand still for companies that do not take every economic advantage of the circumstances.

Few Americans realize that the largest computer exporter in Japan is IBM and two of the largest auto producers in Europe are General Motors and Ford. These and thousands of other U.S. companies have a significant market advantage because they operate in the overseas marketplace. So, thousands of U.S. and overseas-based companies now use the U.S. FTZ Program for the same purpose with the resulting benefit of U.S. production, jobs and investment.

New Developments

The last year has seen some interesting new developments. A number of smaller cities, such as Finlay and Portage, OH, Casper, WY, and St. Paul, AK, have

secured foreign-trade zone status for their communities.

Larger communities such as San Diego and Anchorage have culminated many years of consideration of their FTZ project with Board Orders establishing multiple site operations.

The evolution of the program whereby geographic areas have more than one zone Grantee continued. The increased use of the FTZ Program by the oil refining industry was enhanced with the approval of five new production facilities in Texas and Louisiana.

The first vehicle tire production facility was approved and a textile production operation was restructured from a general-purpose zone to a subzone.

One of the most notable zone projects for the long-term development of the program was the approval of eight Eastman Kodak facilities in Rochester, NY, with total employment in excess of 40,000 people.

U.S. companies solidified their leading position in the use of the FTZ program in the last year, led by General Motors with 20 zone operations, Chrysler with 13 and Ford with 12.

Oversight

The rapid expansion of the FTZ Program has not been overlooked. The General Accounting Office and the International Trade Commission have conducted four studies in four years. The Customs Regulations were rewritten in 1986; in the fall of 1989, we expect new Foreign trade Zones Board regulations.

The U.S. Commerce Department conducted two internal studies of the program and the Congressional Research Service prepared a report. Congress has amended the Foreign-Trade Zones Act six times in the last five years. Four recent Congressional hearings involved the program.

With all of this activity, no proof of injury or economic harm has been found. The FTZ Program continues to operate as Congress intended. Foreign-trade zones continue to offer unusual financial opportunities for firms, and should be carefully considered by corporations who wish to take part in the global economy. □