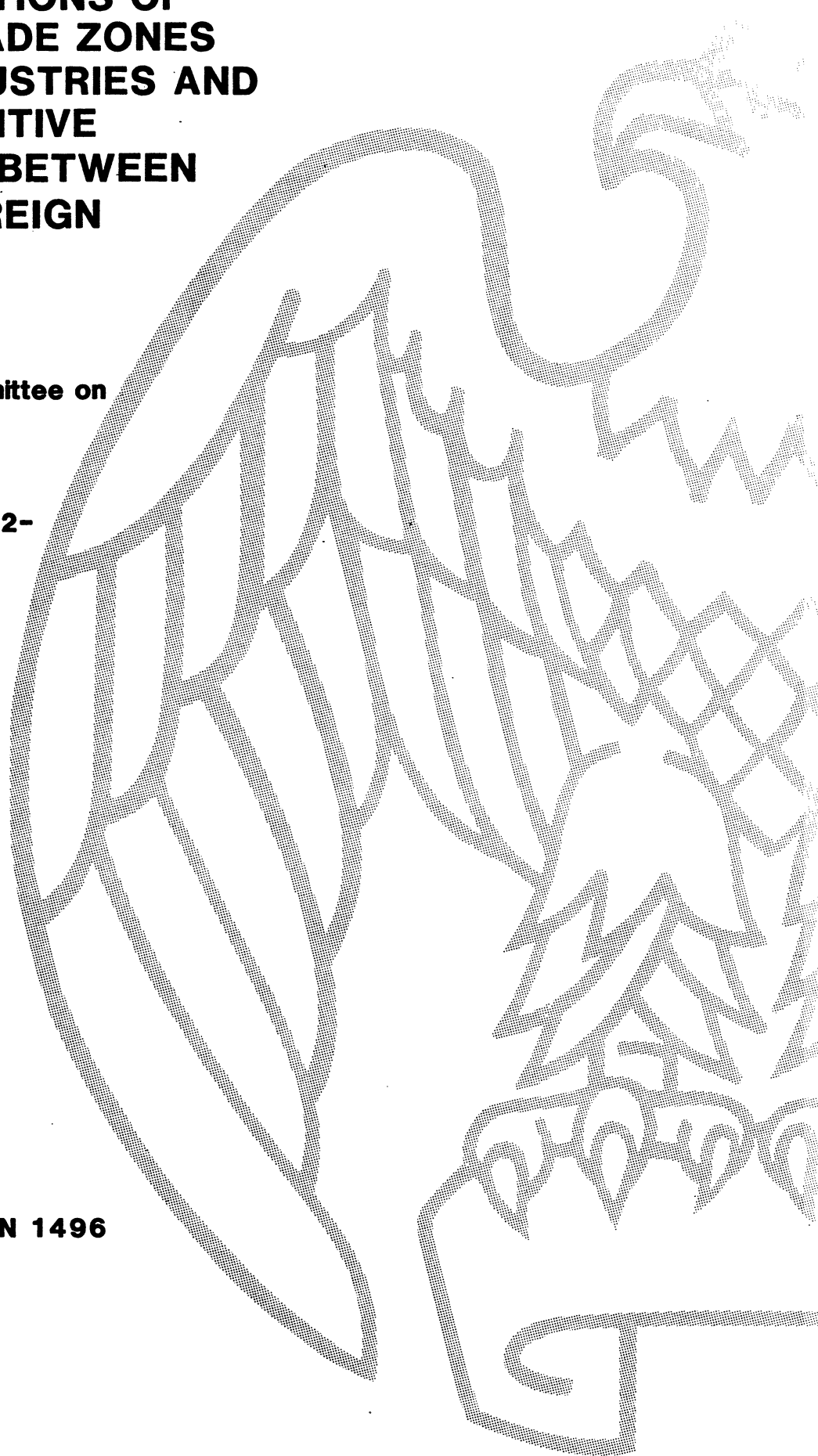


# **THE IMPLICATIONS OF FOREIGN-TRADE ZONES FOR U.S. INDUSTRIES AND FOR COMPETITIVE CONDITIONS BETWEEN U.S. AND FOREIGN FIRMS**

**Report to the Committee on  
Ways and Means,  
U.S. House of  
Representatives, on  
Investigation No. 332-  
165 Under Section  
332(g) of the Tariff  
Act of 1930**

**USITC PUBLICATION 1496**

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# UNITED STATES INTERNATIONAL TRADE COMMISSION

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## PREFACE

On May 31, 1983, the Chairman of the Committee on Ways and Means, U.S. House of Representatives, requested the United States International Trade Commission to institute an investigation pursuant to section 332 of the Tariff Act of 1930 into the implications of foreign-trade zones for U.S. industries and for competitive conditions between U.S. and foreign firms. 1/ The Chairman requested that the Commission review the effects on revenue collection, employment, and the economy in general, caused by the establishment of zones. In addition, the Committee requested that, with respect to foreign-trade zones, the Commission address such issues as their current administration and operation; trends in usage; benefits; major manufacturing industries and the nature of their operations in zones (with emphasis on special-purpose subzones); and safeguards in the zone system. On June 28, 1983, the Commission instituted an investigation under section 332(g) of the Tariff Act of 1930 (19 U.S.C. 1332(g)) into the implications of foreign-trade zones for U.S. industries and for competitive conditions between U.S. and foreign firms. 2/ The Commission's notice of investigation was published in the Federal Register on July 7, 1983 (48 F.R. 31310). A public hearing was held in Washington, D.C., on November 16 and 17, 1983, at which time all interested parties were afforded an opportunity to present information and data for consideration by the Commission. 3/

The information in this report was obtained from fieldwork, the Commission's files, the Foreign-Trade Zones Board, the U.S. Customs Service, private individuals and organizations, and responses to Commission questionnaires. Data and information obtained from the Foreign-Trade Zones Board include that for all users of both general-purpose zones and subzones that operated during 1978-82. 4/ Responses to the questionnaire by nine producers that operated principally in subzones for a 5-1/2-year period beginning in 1978 represented an estimated 90 percent or more of all manufacturing activity that occurred in foreign-trade zones in recent years; further, manufacturing in zones accounted for approximately two-thirds of the total value of shipments from all zones in recent years.

It should be noted that a significant portion of the data in this report are confidential. Thus, the report cannot be released to the public without revealing operations of individual firms.

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1/ The request from the Ways and Means Committee is reproduced in app. A.

2/ A copy of the notice of the Commission's investigation is reproduced in app. B.

3/ Lists of witnesses who testified at the hearing and of persons who submitted written statements are shown in app. C.

4/ Yearly references are on a fiscal-year basis (October-September), unless otherwise stated.





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Note.--The whole of the Commission's report may not be made public since it contains certain information that would result in the disclosure of the operations of individual concerns. This published report is the same as the report to the Committee on Ways and Means, U.S. House of Representatives, except that the above-mentioned information has been omitted. Such omissions are indicated by asterisks.



## EXECUTIVE SUMMARY

Foreign-trade zones (FTZ's) were created by the Foreign-Trade Zones Act of 1934 for the purpose of expediting and encouraging foreign commerce. Changes to the Act in 1950, a Board decision in 1952, and a Treasury decision in 1980 have broadened the objectives of the Foreign-Trade Zone program. According to the FTZ Executive Secretary, one of the ways the program is now used to sustain and create employment is by encouraging the retention or shifting of production activity that might otherwise be conducted abroad. FTZ's are secured areas under U.S. Customs supervision that are considered outside the customs territory of the United States. Zones are either general purpose or special purpose (subzones). In practice, the latter are single-firm manufacturing sites, whereas there is no limitation on the number of firms that can operate in a general-purpose zone. Merchandise may be moved into zones for storage, exhibition, manufacture, or other operations not otherwise prohibited by law. Import duties on foreign merchandise are not collected until the merchandise is entered into U.S. customs territory. The importer has a choice of paying duties on goods in their condition as admitted into a zone or in their condition at the time of entry into the customs territory. No duties are assessed on identifiable domestic merchandise entered into the customs territory from a zone, nor are any customs duties assessed on merchandise exported from a zone. FTZ's are generally sponsored by qualified public corporations which either operate the facilities themselves or through contracts with public or private firms.

The Foreign-Trade Zones Board (the Board) is responsible for the authorization and supervision of FTZ's and reports annually to the Congress for oversight of the FTZ program. Created by the Foreign-Trade Zones Act, the Board is made up of the Secretaries of the Departments of Commerce, Treasury, and the Army. One of the responsibilities of the Board is to receive and investigate applications for new zones (including their impact on U.S. commerce) to assure compliance with Federal laws, regulations and administrative actions. In its supervisory duties, the Board relies heavily on the U.S. Customs Service for zone administration. The Board has the ability to penalize violations of the terms of the zone grant or of the Foreign-Trade Zones Act, certain other provisions of Federal law and related Federal regulations through monetary fines or revocation of the grant.

It is the responsibility of the U.S. Customs Service under the FTZ Act to protect U.S. revenues and to provide for the admission of merchandise into zones, the processing of zone merchandise, inventory control of zone merchandise, and the admission of zone merchandise into the U.S. customs territory. The Customs Service, through the local district director of Customs, carries out the responsibilities of the Secretary of the Treasury under the FTZ Act.

The data gathered by the Commission on zone operations demonstrate that zones account for a growing volume of trade; that the employment directly and indirectly related to zone facilities has grown substantially, but that these jobs are not necessarily new employment opportunities; that the domestic content of merchandise exported abroad from zones has not been impressive; and that, as originally envisaged, zones have served as transshipment points to foreign ports. It remains unclear, however, whether the economic activity now taking place in zones would otherwise occur within the United States in the absence of foreign-trade zone status.

Whereas general-purpose zones are generally pursued as an area economic development tool, most subzone operations are pursued for the advantage of so-called "inverted tariff" situations. These situations exist when the rates of duty on zone-manufactured articles are lower than the rates applicable to the foreign components contained in the articles. Considerable controversy exists over whether subzones work to displace or encourage imports overall. Much of the controversy regarding the zone program involves manufacturing and assembly operations, where the comparative tariff advantages have the most significant overall economic effect. General-purpose zones, used largely for storage, distribution, transshipment and similar operations of the kind originally envisaged by the Foreign-Trade Zones Act have not attracted many such manufacturing operations. By contrast, the number of applications to perform zone manufacturing operations (primarily in existing plants) has grown significantly over the recent past, and this growth will probably continue. Global sourcing of parts of vehicles, machinery, electrical apparatus, and scientific equipment is evidenced by U.S. imports in excess of \$15 billion in 1982.

While one of the stated intentions of the 1934 Act establishing zones was to increase the competitiveness of U.S. products in foreign markets, zone status (particularly subzone status) is now being used to maintain or improve the competitive posture of firms operating in domestic markets. As noted in the report, much of the reported growth in zone operations is due to the increased usage of subzones by the automobile industry, where major foreign and domestic companies have obtained or intend to obtain subzone status for certain new and existing assembly plants. An effect of this practice is to provide an economic benefit to zone manufacturers and the local area, but it results in a loss of some tariff protection to domestic suppliers and can have an impact on domestic conditions of competition.

According to proponents and users of FTZ's, substantial benefits from FTZ's are conferred to the local and national economy, as well as to the firms located in the zones. Others raise the issue as to whether the benefits to a given zone user (or users), to any individual industry, and to the economy as a whole outweigh any corresponding loss of tariff protection to the domestic supplying industry, any potential increase in imports, and the real and potential discriminatory tariff effects. The present legislation does not require any evaluation of this issue by the Board before granting FTZ status. Under these circumstances, a mandatory cost benefit analysis may be a useful component of the application process.

In view of the growth and nature of zone usage, the potential effects of zones on conditions of competition in U.S. markets, the Board's lack of guidance regarding the granting of zone privileges for manufacturing purposes, and the Board's proposed changes in FTZ regulations, it has been asserted that a review of the standards for the establishment, duration, and operations of zones (particularly where manufacturing is contemplated) should be undertaken.

Highlights of the Commission's investigation of FTZ's are as follow:

- o From 1976 to the end of November 1983, the number of general-purpose zones authorized to operate grew from 21 to 91, and subzones increased from 5 to 30.

At the end of November 1983 there were 91 general-purpose zones and 30 subzones authorized to operate. Most of the increase in the number of FTZ's has occurred since 1976, when there were 26 zones, 21 of which were general-purpose zones. The proliferation of FTZ's can be attributed to a combination of factors: (1) an amendment to the act in 1950 allowing manufacturing in zones; (2) an amendment to the Board's regulations in 1952 permitting subzones; (3) an emerging realization by U.S. firms of the importance of international trade and the potential benefits provided by zones; and (4) the 1980 change in Custom's valuation practice that excludes from the appraised value of zone merchandise upon entry from a zone all costs incurred within the zone.

- o Economic activity in both general-purpose zones and subzones is concentrated in relatively few zones.

In 1982, eight general-purpose zones of the 74 approved together accounted for 90 percent (\$1.3 billion) of shipments from such zones. Seven subzones of the 19 approved accounted for virtually all shipments (\$2.4 billion) from such zones.

- o Economic activity in FTZ's increased during 1978-82, as the value of shipments rose from \$743 million (47 percent from subzones) to \$3.9 billion (61 percent from subzones).

During 1978-82, the value of shipments from FTZ's increased annually, from \$743 million to \$3.9 billion over the period. As a share of total shipments, subzones accounted for 47 percent in 1978 and for 61 percent in 1982.

- o Motor vehicles, including motorcycles, accounted for 61 percent (\$1.5 billion) of all subzone shipments in 1982, up from a base of zero in 1978, and the domestic content of these shipments has similarly increased.

Automobile manufacturers, both domestic and foreign, have displaced an oil refiner as the most active users of subzones. This trend is expected to continue, as economic activity in subzones continues to increase (\$2.8 billion in shipments in October 1982-March 1983 versus \$1.2 billion in October 1981-March 1982) and additional subzones are developed. Domestic content of subzones shipments has increased from \* \* \*.

- o Manufacturing in zones accounted for approximately two-thirds of the total value of shipments from all zones in recent years, more than 90 percent of which now takes place in subzones.

The value added by manufacture in subzones was \* \* \* in 1978. This figure then increased to \* \* \* in 1981 and fell to \$581 million in 1982.

In October 1982-March 1983, value added in subzones amounted to \$528 million.

- o U.S. imports of dutiable foreign merchandise from FTZ's, led by entries of autos, motorcycles, microwave ovens, TV's, and petroleum derivatives, experienced a downward trend during 1980-82, but were up in January-June 1983.

According to Census Bureau reports, U.S. imports of dutiable foreign merchandise from FTZ's amounted to \$1.0 billion in calendar year 1980, \$852 million in 1981, \* \* \* in 1982, and \* \* \* in January-June 1983. More than 90 percent of these imports consisted of metals and metal products (TSUS schedule 6) and chemicals and related products (TSUS schedule 4). As a share of total U.S. imports of all merchandise, dutiable merchandise from FTZ's averaged about 0.4 percent during 1980-82. Overall FTZ shipments (domestic and foreign content) to the U.S. market rose from \$507 million in 1978 to \$2.4 billion in 1982.

- o U.S. exports from FTZ's increased over six-fold from 1978-1982, but the domestic content of these exports was relatively small.

On the basis of Board data, U.S. exports from FTZ's rose annually from \$236 million in 1978 to \$1.5 billion in 1982. However, the Commission found that only a small portion of these shipments were exports of domestically produced merchandise with the overwhelming portion being of foreign origin. Exports of domestic merchandise from FTZ's made up a small portion of total U.S. exports.

- o Since 1978, the number of firms and of persons employed in FTZ's increased, but much of this increase can be attributed to conversion of preexisting plants to sub-zone status.

Paralleling the growth in FTZ's in recent years, the number of firms using zones rose from 956 (of which 646 were part time) in 1978 to 1,565 firms (of which 1,057 were part time) in 1982. Similarly, employment in zones, particularly subzones, also rose sharply. Total full-time FTZ employment in 1978 was \* \* \* (\* \* \* in subzones); in 1982, such employment was 23,789 (19,203 in subzones). Although data after 1982 for general-purpose zones are not available, employment in subzones in October 1982-March 1983 totaled 21,648, compared with 6,207 in the corresponding period of 1982. Still, when compared with total U.S. employment of about 100 million in 1982, employment in zones has been relatively small. Job creation by FTZ's cannot be fully attributed to the operation of zones; in many cases, zone employment would exist without FTZ status, including, but not limited to, those instances where pre-existing plants were converted to subzone status.

- o Owing principally to use of inverted tariffs, but also to duty deferral, FTZ users have reduced or postponed tariff liability on goods entering into the U.S. customs territory, but the net effect of zone operations on customs revenue has been small.

x

Through use of the inverted tariff (principally affecting manufacturing operations in subzones) and duty payment deferral (used



principally in general-purpose zones, but also in subzones), importers can reduce or postpone their tariff liability on goods entering into the U.S. customs territory. Because of the inverted duty rates, a zone user can reduce tariff liability by manufacturing or assembling components or raw materials subject to a higher rate of duty into finished products with a lower rate of duty. Duty deferral postpones duty payment until merchandise enters the U.S. customs territory. In this connection, for firms manufacturing in subzones, which accounted for about two-thirds of total FTZ shipments in recent years, duty savings resulting from the use of inverted duty rates increased from \* \* \* in 1979 to \$3.3 million in 1982; and in October 1982-March 1983, amounted to \$4.0 million. Savings resulting from duty deferral for these firms were small, amounting to an estimated \* \* \* in 1979, \$25,000 in 1982, \$31,500 in October 1982-March 1983. The amount saved by users of general-purpose zones could not be determined from available information.

Duties collected on merchandise imported from FTZ's in 1982 amounted to an estimated \$35 million, compared with total customs duties collected that year of \$8.7 billion.

o U.S. industry and labor raised a number of concerns about the foreign-trade zones program.

The concerns raised by representatives of industry and labor focused on reduced duty liability connected with increased manufacturing in zones, particularly in subzones; decreased Customs presence and control in zones; and the issue of the distance of subzones from a port of entry (adjacency). Those raising these concerns contend that the FTZ program has resulted in a net decrease in U.S. employment and has stimulated imports, rather than exports, causing injury to domestic industries' suppliers, and their employees. Some critics have asserted that the 1980 change in the Customs valuation regulation effectively reduced duties without Congressional approval. They also contend that the Board lacks authority to promulgate regulations authorizing subzones. Witnesses also expressed concern about the public interest investigations conducted by the Board when questions are raised about the net positive benefit of any application for zone status, and the related economic impact analysis.

o U.S. industry and labor also provided a number of recommendations as to how the foreign-trade zone program should be changed.

Recommended changes to the foreign-trade zone program include among others: (1) a complete prohibition or limit on manufacturing to products for export only; (2) modification of the public interest investigation (including the economic impact analysis) performed by the Board for controversial or "import sensitive" industries; (3) requiring that the economic impact analysis be conducted by another government agency or by the private sector; (4) more clearly defined criteria for assessing the potential impact of zone operations; (5) a more stringent "adjacency requirement" in order to reduce the number of subzones; (6) an increase in the staff level of the Board in order to aid it in carrying out its administrative and oversight functions; and (7) better indexing, including identification of companies seeking to manufacture a product, in the Federal Register notices notifying the public of applications for manufacturing in zones and subzones.

- o Zone users and proponents indicate that FTZ's have a secondary or indirect impact on the U.S. economy and on local areas.

According to FTZ users and proponents, the location of an FTZ in a community has a ripple or "dynamic" economic effect on both the local and on the U.S. economy. The availability of the zone broadens the overall development package an area can offer to attract firms. Substantial amounts of money have been invested in new plants and equipment. A major portion of this investment was done by foreign firms building in the United States for the first time. This investment gives local construction contractors work in addition to providing sales of machinery and equipment. Some firms located in zones encouraged supplying firms to locate in the area, causing ripple effects similar to those generated by the main business. Zone users purchase components and raw materials from U.S. vendors to produce products and to operate plants. Employment and equipment utilization is stimulated in the U.S. trucking, railroad, and airfreight industries. Zone users claim that, for every worker employed in a zone, about two additional workers are employed outside the zone. Zone users state that they pay substantial amounts of Federal, State and local taxes. Such users also claim zones have a positive impact on the U.S. balance of payments.

- o Firms have increasingly opted for FTZ operations in an effort to become competitive in the marketplace.

FTZ status does confer certain advantages for firms, depending on their individual needs; and, in some industries, firms have increasingly opted for zone status in an effort to reduce costs and become more competitive with domestic and foreign firms. This point is perhaps most clearly evident in the automobile industry, where more and more manufacturers (both U.S. and foreign) have sought zone status in recent years. These producers see in zones a mechanism (principally because of inverted tariffs, but also such advantages as duty deferral and the avoidance of drawback procedures) to reduce costs on imported components. Although the savings resulting from zone operations may not be substantial, firms, particularly those involved in manufacturing, view FTZ's as a means of reducing unit costs.

## FOREIGN-TRADE ZONES LEGISLATION AND SIGNIFICANT REGULATIONS

Foreign-trade zones (FTZ's), or free-trade zones as they are sometimes labeled, have been permitted in the United States since the passage of the Foreign-Trade Zones Act of 1934 (19 U.S.C. 81a et seq). The act (reproduced in app. D) provides in section 2 for the establishment of a Foreign-Trade Zones Board (the Board), consisting of the Secretaries of Commerce (who acts as chairman and executive officer), Treasury, and Army (formerly War), with authority to grant to private and public corporations the privilege of establishing and operating FTZ's in or adjacent to U.S. ports of entry.

Although the act did not define the term, an FTZ was envisaged to be a segregated area located in or near a customs port of entry which would be secured through customs supervision. An FTZ was to be considered outside the customs territory for purposes of the tariff laws, but still subject to other laws applicable to public interest, health, and safety. Since the area within the zone was "foreign," goods entering the zone were not subject to formal customs entry requirements. It was expected that zones would be used primarily for warehousing and transshipment or for minor processing and subsequent exportation, thus encouraging transport activity and reducing administrative burdens connected with the use of bonded warehouses and the processing of drawback claims. 1/

On the basis of the description of zones and activity allowed therein set forth in section 3 of the act, the Board has adopted the following definition of an FTZ:

. . . an isolated, enclosed, and policed area, operated as a public utility, in or adjacent to a port of entry, furnished with facilities for lading, unlading, handling, storing, manipulating, manufacturing, and exhibiting goods, and for reshipping them by land, water, or air. Any foreign and domestic merchandise, except such as is prohibited by law or such as the Board may order to be excluded as detrimental to the public interest, health, or safety may be brought into a zone without being subject to the customs laws of the United States governing the entry of goods or the payment of duty thereon; and such merchandise permitted in a zone may be stored, exhibited, manufactured, mixed or manipulated in any manner, except as provided in the act and other applicable laws or regulations. The merchandise may be exported, destroyed, or sent into customs territory from the zone, in the original package or otherwise. It is subject to customs duties if sent into customs territory, but not if reshipped to foreign points. 2/

Because of congressional concern that manufacturing would adversely affect U.S. industry, manufacturing and exhibition in zones were prohibited by the 1934 act. Consequently, prior to 1950, FTZ's served for the most part as

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1/ Statement of Emmanuel Celler, hearings on H.R. 3657 (Mar. 6 and 7, 1934, pp. 4-16).

2/ 15 CFR 400.101 (1983).

stopover points for merchandise during transshipment, and economic activity, in terms of the dollar volume of merchandise moving through zones, was relatively small.

In 1950, the Act was amended (Boggs Amendment) to permit manufacturing and exhibition in zones (app. D). The amendment was designed to eliminate administrative difficulties in deciding whether proposed zone operations constituted "manipulation" or "manufacturing"--the former operation being permitted since 1934. 1/

A further change occurred in 1952 when the Board amended its regulations to authorize "zones for specialized purposes" (special-purpose subzones) in addition to "general-purpose zones" created by the original act. The essential distinction between the two types of zones is that individual subzones, in practice, are used by only one firm, whereas there is no limitation on the number of firms that can operate in a general-purpose zone. Subzones were established to assist companies which were unable to relocate to or take advantage of an existing general-purpose zone. 2/

#### ESTABLISHMENT, REGULATION, AND REVOCATION OF FTZ'S

##### Administrative Process to Establish Zones

Each FTZ (general-purpose or subzone) must be the subject of a separate application filed with the Board. The applicant must be a corporation, either public or private, which was created for the specific purpose of operating a zone or which is empowered under its charter and bylaws to do so. 19 U.S.C. 81a-81b(a). By law, preference is to be given to public corporations in the granting of applications. Where the harbor facilities of a port of entry are owned and controlled by the State, and those of any other port are owned and controlled by a municipality, a public corporation may obtain zone status only if authorized to apply by an act of the pertinent State legislature. At least one zone can be approved at each customs port of entry, depending upon whether a port extends into more than one State or into two cities separated by water. Applications for more zones at a port will be approved only if existing or authorized FTZ's "will not adequately serve the convenience of commerce." 19 U.S.C. 81b(b). This language embodies congressional intent that FTZ's be utilized to encourage and expedite foreign commerce by providing importers and exporters with areas in ports of entry which may be used flexibly as conditions of commerce require. 3/

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1/ Thomas F. Clasen, U.S. Foreign-Trade Zone Manufacturing and Assembly: Overview and Update, 13 Law and Pol. in Int'l. Bus. 343-44 (1981).

2/ See generally Atkins, Doyle, and Schwidetzky, Foreign-Trade Zones: Sub-Zones, State Taxation, and State Legislation, 8 Den. J. Int'l Law & Pol. 447-48 (1979). However, the wording of the Foreign-Trade Zones Board regulations are quite broad, stating that such zones "may be authorized if the Board finds that existing or authorized zones will not serve adequately the convenience of commerce with respect to the proposed purposes." 15 CFR 400.304 (1983).

3/ See Fountain v. New Orleans Public Service, Inc., 387 F.2d 343 (C.A.5 1967).

Because of the wide variety of circumstances surrounding each application, the Board was afforded considerable discretion in granting zones and in approving operations to be permitted therein. 1/ The Board has developed, largely on its own, a framework for analysis for its case-by-case review of applications for FTZ's. The act specifies that the Board consider the proposed locations and plans including the physical features of the zone area, the environmental impact of the new activities, the available facilities and other infrastructure in and around the zone site, and the suggested means of financing the zone. Then, if conditions are sufficient and suitable for accomplishing a proper purpose, the Board is to grant the application. 2/ The Board's regulations then provide additional guidance as to the application requirements.

Before an FTZ grant can be made, the applicant must show "to the satisfaction of the Board that the anticipated commerce, benefits, and returns, both direct and indirect" warrant the creation of a new FTZ. 3/ The application for zone status (or for changes in zone operations, including new manufacturing) must be accompanied by 13 exhibits specified in the regulations, ranging from a detailed description of the site to evidence that the applicant corporation's governing body has authorized the official signing the application to do so. 4/ Of significance is the fifth exhibit, the economic survey, described as follows:

Exhibit No. 5. An economic survey showing in detail the potential commerce and revenue of the proposed zone and other direct and indirect benefits accruing therefrom; present foreign trade of the port area, including trans-shipment, reexport, and consignment trade; present transportation services, and possible increases in such services where necessary; comparative study of export rates on domestic commodities for mixing with foreign goods; analysis of transportation rates where applicable to zone activity; potential new markets for zone business; activities best suited to the particular zone; the impact that the operation of the zone is expected to have on the U.S. balance of trade; the expected environmental impact of the zone with details as to control measures not otherwise described in the next exhibit; and such other data as may be necessary to a determination of whether the establishment of the zone is justified to expedite and encourage foreign commerce in a manner compatible with domestic and foreign economic policy. [15 CFR 400.603(e)].

The degree of specificity which the Board requires as to each exhibit and the form of inquiry which the Board will undertake in each case can vary widely, depending upon the nature of activities to be undertaken and the opposition, if any, to the application. The Board is permitted to tailor its review to the situation surrounding an individual application, affording an

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1/ See: Armco Steel Corp. v. Stans, 431 F.2d 779 (C.A.2 1970).

2/ 19 U.S.C. 81F-g.

3/ 15 CFR 400.400.

4/ 15 CFR 400.603.

opportunity for all relevant factors to be taken into account. A request for approval of subzone status for an existing manufacturing operation can be afforded a different measure of scrutiny than a request for a general-purpose zone where no prospective users or specific activities are identified by the applicant at the time of filing.

Public notice of each application is given, including the type of projects being planned, the names and addresses of the applicants, the arrangements for public hearings, and the method of registering comments. 15 CFR 400.605. Again, considerable discretion is afforded to the Board in conducting such proceedings. 1/ Applications for modifying or expanding an established zone are treated in the same general fashion, both procedurally and substantively, except where minor boundary changes (not designed to expand zone operations) are sought. 15 CFR 400.607-.608. The latter may be authorized by the Executive Secretary of the Board.

When the Executive Secretary (the Board's principal operating official) finds that an application and exhibits are in order, he appoints an Examiners Committee and a chairman for it. 15 CFR 400.1308. The members of the committee are the examiner appointed by the Secretary, the regional commissioner of Customs or his designee, and the district engineer (from the Army Corps of Engineers) in whose district the zone would be located. The committee may conduct hearings and require more evidence in the course of its investigation; it then reports its findings to the Board for action. 2/

Hearings by either the committee or the Board are not required, even when an interested party so moves. However, hearings are frequently conducted on applications and are often held in the locality where the FTZ is to be located. The scope of the investigation varies from case to case depending on the facts. The Board may afford any party an opportunity to present evidence, oral or written (documentary). 15 CFR 400.1315. All evidence and arguments presented at the hearing are to be considered and given "full weight" by the committee or the Board, as appropriate. 15 CFR 400.1318. Ex parte evidence and arguments are not desired, unless new and material, since the hearing is intended as the forum for a "frank and full expression of views." Ibid. Although no FTZ applications have ever been formally denied following the hearing process, 3/ an appeal from a denial would presumably be taken to the Board. 4/ In practice, the Board makes every effort to assist the applicant in obtaining the grant whenever approval is in the public interest. 5/

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1/ The Department of Commerce and the National Association of Foreign-Trade Zones do not compile or publish data concerning the impact of FTZ's on U.S. industry. See Clasen, op. cit., p. 339, p. 344, note 47.

2/ Prior to the Board's final ruling granting or denying the request, a court challenge by zone opponents will not be heard; no violation of law has occurred at that stage, and the Board and other officials will be assumed to be following their rules. *Sinclair Oil Corp. v. Smith*, 293 F.Supp. 1111 (S.D.N.Y. 1968); *State of Oklahoma v. Smith*, 312 F.Supp. 770 (W.D.O.K. 1970).

3/ According to John J. DaPonte, Jr., Executive Secretary of the Board.

4/ Regulations of the Board do not set forth an appeal procedure but also do not say that denial would be final. 15 CFR 400.1306.

5/ According to John J. DaPonte, Jr., Executive Secretary of the Board.

As mentioned above, the Board may impose conditions on the grant of FTZ status and can revoke the grant in the event of noncompliance. Conditions may also be imposed after a zone is activated. 15 CFR 400.700-.702. 1/ The grantee may be called upon to show cause why the Board's contemplated action should not be taken, with the grantee's answer due in 30 days. This flexibility is a common feature in the administration of free-trade zones or free ports in other countries as well. 2/

Thus, the Board could place environmental controls to avoid pollution or nuisance hazards, require specific changes in construction plans, and impose safety or security criteria. Beyond this, it can control zone manufacturing operations by limiting the products to be made, requiring the exportation of any or some articles made in an FTZ, or setting the quantity which can be entered into the customs territory (although the act does not mention or require the Board to take into account the existence of international agreements or of commodity quotas created by other Government agencies). In practice, other than a few occasions where export has been required, there have been few restrictions until quite recently. Where problems exist, the Board generally works to achieve a consensus among the interested parties prior to approving the grant. The operations are monitored as necessary, with great reliance on Customs and on other parties to bring problems to the Board's attention.

#### The Special-Purpose Subzone and Its Regulation

The problems of evaluating the FTZ site and of determining the employment potential of zone operations are minimized in instances where special-purpose subzone status is sought for an existing manufacturing operation. Of crucial concern in relation to physical requirements is the capacity of the operator to segregate those parts of a facility included in the zone from the rest of a plant or site. As these established operations are located away from general-purpose zones, subzone locations avoid problems of inadequate design, space, or other features of existing zones or of zones located in crowded ports or warehouse areas. Such subzones, as creations of the Board, have great potential flexibility.

However, in considering applications for subzones, 3/ the Board conducts a more intensive review of the impact of the grant on domestic firms, beyond a review of "the convenience of commerce." Under current law and regulations, no criteria for this review are provided; the Board must consider each proposed operation in light of the conditions and history of the industry concerned. In some industries, such as that producing automobiles, most or

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1/ For example, a special-purpose subzone in the Chicago Regional Port District intended for the manufacture of steel tubing was approved with the condition that all manufactured articles be exported. 48 F.R. 31895, July 12, 1983.

2/ See Note, "Foreign-Trade Zone Manufacturing: The Emergence of a Free Trade Instrument," T. Kelleher et al., Handbook on Export Free Zones (1976, UNIDO).

3/ For a history of subzone applications through 1969, see Note, "Foreign-Trade Zone Manufacturing and Assembly," 13 Law and Pol. in Int. Bus. p. 461.

all of the large U.S. producers and some foreign firms use zones or subzones. In others, such as the bicycle and bicycle parts industries (where the dispute concerning the Huffy Corp.'s application for subzone status for one of its U.S. facilities has arisen), opposition arose from U.S. producers of parts and other bicycle producers not using or able to benefit from using an FTZ. Since the applicant for a subzone must show that a "specific public benefit" will be derived from its operation and that existing zones are insufficient, the existence of opposition to the application generally requires careful review.

In early 1983 the Board issued proposed regulations for public comment which would make the applicant's burden more specific. In them the Board states--

Because the Board will consider the broader impact of manufacturing operations in relation to competing domestic industries, the applicant should also address this area particularly where the operations involve import-sensitive products. 1/

In addition, the proposed regulations would add a detailed public interest provision, guiding the Board in regard to complaints or self-initiated reviews as to a zone's actual or potential detriment to public health or safety or the public interest. This change, according to the Board, is largely intended to be used in regard to subzone applications.

The Board would consider--

- (1) Whether the adverse effect is significant in relation to actual or potential public benefits,
- (2) Whether additional exports from the U.S. will be created,
- (3) Whether zone procedures will encourage activity related to import displacement or substitution,
- (4) Whether employment and investment will be generated or sustained in the U.S.,
- (5) Whether zone activity will undermine a remedial action or program in effect because of (an unfair trade practice), or materially or substantially harm an existing domestic industry. 2/

Zone activity exclusively directed at exports would be presumed to be in the public interest. Also, zone activity could be given approval for a limited time period in order to see if the argued public benefits have appeared. In any hearing or proceedings of such an investigation, participation and comment by interested parties would be sought.

In addition, an applicant for a subzone (or for a general-purpose zone) would be required under the new regulations 3/ to show that the potential site

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1/ 48 F.R. 7194 (Feb. 18, 1983). No definition of "import-sensitive" is provided, and the industries and products falling in this category are not enumerated.

2/ 48 F.R. 7196 (Feb. 19, 1983).

3/ 48 F.R. 16502 (Apr. 18, 1983).



is within 35 statute miles of a port of entry (which may be a Customs station staffed by at least one full-time Customs officer at the time an application is filed with the Board). The Board could approve a subzone located more distant from a port--

if the subzone operator agrees to deliver the merchandise and its appropriate Customs documentation to the adjacent port designated by Customs for inspection before admission to, and upon removal from, the subzone, and gives bond as required by the U.S. Customs Service to guarantee safe delivery and compliance with U.S. laws and regulations. 1/

The Board's proposed public interest regulations would enable it to investigate both existing and potential zone operations in general-purpose zones and in subzones. Not only would the effect of the zone activities on domestic industry be formally evaluated, but the Board would also consider such factors as local environmental impact, local opposition to the type of operation planned, or the identity or views of the applicant or operator. 2/

However, some flexibility does exist, both at present and under the proposed regulations, in terms of the designation of zone facilities, supplementing the operator's ability to activate and deactivate areas within the zone. The Board may currently approve an integrated zone, where no space in a factory or warehouse need be set aside as solely for zone use. The operator may instead use part of the area designated as the zone or subzone for nonzone activities and then activate it for zone use at a later date. Such changes and activities would be under Customs supervision; at a minimum, initial Board approval and permission from the district director of Customs to activate or deactivate an area would both be needed. Modifications in the size or boundaries of the zone or subzone and in the operations to be carried on must be formally approved by the Board, though minor changes can be given expedited approval by the Executive Secretary upon the district director's recommendation. 3/

#### Operational Constraints

Under current law, each approved zone is to be operated as a public utility, with a uniformly applicable rate schedule approved by the Board and made available to any interested person or Government agency (including State or local regulatory bodies). 15 CFR 400.1003. In general, no one except Board-approved Government officers may live in an FTZ, and no retail trade can be conducted without permits from the Board. 19 U.S.C. 810; 15 CFR 400.808-.809. Annual reports by the grantee of each FTZ must be filed with the Board, which itself must report annually to Congress. 19 U.S.C. 81p; 15 CFR 400.1002. Although the grantee may lease FTZ space to other persons (and contract with another person or entity to operate the zone), the grant cannot

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1/ Ibid.

2/ It should be noted that the Board defers in matters under the jurisdiction or regulation of another, such as the Environmental Protection Agency, and may refer such complaints or questions to the appropriate regulatory entities.

3/ 15 CFR 400.1301(j).

be sold, transferred, assigned, conveyed, or otherwise alienated (19 U.S.C. 81q; 15 CFR 400.701); and the Board-mandated uniform system of recordkeeping must be used. 15 CFR 400.1002a. Where the grantee makes such a contract with another person or firm to have the latter operate the FTZ, the grantee remains ultimately responsible for complying with all rules and conditions imposed by law and by the Board. Again, the Board has discretion in determining how each zone is to be operated.

### Revocation

The Board's procedures for revocation of an FTZ grant provide for notice to the grantee that in light of "repeated willful violations of any of the provisions of this [Act]" the grant is to be revoked. 19 U.S.C. 81r. Notice must be afforded 4 months prior to revocation; and the grantee must be given an opportunity to be heard, under the due process protections set forth in the act and regulations. 15 CFR 400.1201-.1203. Appeals from revocation orders, which are final and conclusive Board actions, are filed in the court of appeals for the Federal appellate circuit in which the zone is located. Thus, if the grantee fails to comply with any of the act's requirements--such as the provision and maintenance of facilities required in section 12 of the act (19 U.S.C. 81-1)--or the Board's orders, the Board can impose penalties 1/ or revoke the grant. The Customs Service, in particular the district directors of customs, plays a crucial role in the day-to-day supervision and enforcement process. Thus, for example, the district director decides on requests to manufacture, manipulate, or exhibit goods in the FTZ, with adverse rulings appealable to the Board. 15 CFR 400.803. In each instance of violations of the act or regulations, however, both the Board and the Customs Service attempt to achieve compliance by the grantee before action is taken.

### State Regulation

Although there exists no formal relation between Federal and State provisions regulating FTZ's, some States have attempted to clarify or affect the status of zones and zone goods geographically located with them. Such State controls, intended to supplement Federal law, are of two types: regulatory measures establishing how FTZ's fit into State law, and enabling acts governing applicants for FTZ's. As a guarantee for zone users, for example, some States have enacted statutes or amended their constitutions to exempt zone merchandise from ad valorem taxation. 2/ No consistent practice or form of treatment exists; Oregon, for example, exempts personal property "in transit" through it from some State taxes. 3/ To some extent, this diversity is a factor in the choice by an individual firm of the zone in which it will locate, since the cost of State taxes might equal any duty savings resulting from FTZ use. Other provisions of State law not related to taxation may also influence a company in selecting an FTZ; freedom from regulation or

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1/ Penalties of up to \$1,000 per day may be imposed for each violation. 19 U.S.C. 81s; 15 CFR 400.1200.

2/ See, e.g., Haw. Rev. Stat. sec. 212-8.

3/ Or. Rev. Stat. sec. 307.810.

very little regulation--a feature of many free zones in other countries 1/--is a significant benefit which may be derived from zone use.

Enabling laws creating and/or authorizing the corporations which can apply for zones, where necessary under the act, are likewise quite varied. Some States permit any corporate entity to apply for an FTZ to be located within State boundaries, 2/ and others permit only public corporations (the State, political subdivisions thereof, or public agencies or authorities) to apply. 3/ Along with Governmental entities, Kansas permits any nonpublic "not-profit corporation authorized to do business" there to apply; 4/ other States allow any private corporation, properly established under the corporation laws and organized to set up, operate, and maintain an FTZ, to file an application. 5/ Many States enact provisions authorizing enumerated entities to apply. 6/

"Special acts" are necessary if harbor facilities of one port of entry are owned by the State and those of any other port of entry are owned by a municipality. 7/ This requirement was apparently designed to place such State and municipal governments on an equal footing as to zone eligibility; absent this provision, municipalities in these circumstances could face lengthy proceedings in State legislatures to obtain bonding authority for zone financing. 8/ This criterion would apply only to States having more than one port of entry as well as the type of ownership described. In States having only one port of entry, or owning all ports' facilities where two or more ports had been designated, no special act is required under Federal law to authorize a public corporation 9/ to file an FTZ application. A copy of the charter of such public corporations is sufficient. 10/ However, legislation may still be useful to outline the structure and powers of such corporations. 11/

In many ways, State legislation resembles Federal statutes in granting wide latitude to zone grantees as to FTZ activities, frequently permitting "anything which the Board permits." Also, State statutes are not always clear and exhaustive in their treatment of FTZ's for legal purposes (i.e. jurisdiction, taxation, and so forth). The States depend upon the Federal

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1/ See W. Diamond and D. Diamond, Tax-Free Trade Zones of the World, 1980.

2/ See, e.g., Ala. Code sec. 33-1-30 (Supp. 1977); Ariz. Rev. Stat. sec. 44-6501 (1978).

3/ Hawaii omits private corporations from its FTZ laws. Haw. Rev. Stat. sec. 212-1 to -10. Public corporations approved by the governor can apply for FTZ's. sec. 212-2 and -3.

4/ Kan. Stat. sec. 12-825h (1973).

5/ Cal. Gov't Code sec. 6303 (West); Va. Code sec. 62.1-159 to -162 (1968).

6/ Alaska Stat. sec. 45.77.010 (1980); Ill. Ann. Stat. ch. 19 sec. 159.1 (Smith-Hurd 1963) [Port District of Chicago]; La. Civ. Code Ann. ART. 51:61 (West); NY [County] Law sec. 224 (McKinney 1979); Tex. [Corp. and Ass'ns] Code Ann. Art. 1446.1 et. seq.; Pa. Cons. Stat. Ann. sec. 3102 (Purdon).

7/ 19 U.S.C. 81b(d), enacted in 1976.

8/ See Atkins, Doyle, and Schwidetzky, op. cit., p. 464.

9/ 19 U.S.C. 81a(e) (1976); 15 CFR 400.105(a) (1977).

10/ 15 CFR 400.603(k).

11/ Atkins et al., op. cit., pp. 467 and 468.

Government in large part--other than policing and fire protection of zones--to supervise the FTZ's.

In addition, many issues of State versus Federal jurisdiction (such as whether a product may be brought into an FTZ if the product is illegal under laws of the host State--such as radar detectors in Virginia) remain unresolved. Some judicial decisions, as mentioned earlier, attempt to determine the jurisdictional nature of individual zones. These rulings address the question as resting upon the nature of the issue presented or the statute involved. The Fountain case, 1/ mentioned above, presents perhaps the most curious analysis. Louisiana is among the States, which by legislation authorize named entities to apply for FTZ's. In looking at one such provision, the Federal District Court for the Eastern District of Louisiana declined to take jurisdiction of an action for negligence where the injury occurred in an FTZ. The court reasoned that the State enabling act had given no ownership or proprietary interest to the U.S. Government and, thus, that no Federal jurisdiction could attach. As stated above, the appellate court affirmed this conclusion. This approach may be based in part on the feeling that a personal injury is not within the realm of Federal interest, since it is not directly related to commerce. Finding concurrent jurisdiction allows the courts to direct a cause of action to the appropriate forum for decision.

One decision does recognize that the States may exercise their police powers to regulate or prohibit the movement of goods from an FTZ into State territory. 2/ This power is not without limits, however; States cannot apply liquor-licensing restrictions where the liquor is not brought out of the zone into the State. 3/

## ZONE OPERATIONS AND HANDLING OF MERCHANDISE

### Role of the Customs Service in Zone Operations

The act (with certain exceptions) allows foreign or domestic merchandise to be brought into a zone without being subject to U.S. customs laws. 4/ At the same time, it requires the Secretary of the Treasury to "assign to the zone the necessary customs officers and guards to protect the revenue and to provide for the admission of foreign merchandise into the customs territory." 5/ Under this authority, the Customs Service has an active and integral role in all phases of zone operations. The district director of customs in whose district a zone or subzone is located is the official directly responsible for overseeing zone activities and acts as the designated representative of both the Board 6/ and the Customs Service.

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1/ 265 F.Supp. 630 (E.D. La. 1967).

2/ United States v. Yaron Laboratories, Inc., 365 F.Supp. 917 (N.D. Cal. 1972) [an unapproved drug made in an FTZ from foreign raw materials cannot be brought into California].

3/ During v. Valente, supra. See also Idlewild Bon-Voyage Liquor Corp. v. Epstein, 212 F.Supp. 376 (S.D.N.Y. 1962), as to duty-free shops.

4/ 19 U.S.C. 81c.

5/ 19 U.S.C. 81d.

6/ 15 CFR 4, 19 CFR 146.2.

In order to carry out its responsibilities under the act, the Customs Service has promulgated comprehensive regulations 1/ and issued detailed procedures 2/ under which zones are administered. These regulations and procedures relate primarily to the admission of merchandise into a zone, to the zone status of merchandise within a zone, and to the removal of merchandise from a zone. Additionally, they provide for the full reimbursement of Customs expenses incurred in zone supervision, regulate the transportation of merchandise to and from a zone, and establish statistical- and inventory-reporting requirements.

### Zone Supervision and Control

The zone grantee is primarily and legally responsible for the operation, maintenance, and administration of a zone. 3/ A grantee may employ a contract operator to carry out these functions. Both the grantee and the operator are obligated to act in accordance with the Board's regulations, those of the Customs Service, and any other applicable laws or regulations of Federal agencies. 4/ The Board is responsible for the supervision, direction, and control of the grantee. 5/ Usually, the Board relies on the district director of customs to supervise and control a zone.

The district director is responsible for monitoring compliance by the grantee or operator with the act or the Board's regulations. Should a violation occur, the district director reports the occurrence to the grantee for corrective action. If the grantee fails to remedy the situation, the district director then submits a written report to the Board for appropriate action. Under the act, only the Board has the authority to impose fines or revoke the zone grant. 6/

The district director is also responsible for insuring that the zone grantee and/or operator complies with all customs laws and regulations applicable to zone operations. In carrying out this responsibility, the district director may consult with appropriate regional customs officials or headquarters staff. All national Customs policies, practices, and procedures related to zones are established and issued by Customs Headquarters. 7/ Such documents provide detailed guidance and instructions to all district directors and other interested persons in order to insure uniform treatment within all zones.

The district director assigns the customs officers necessary to insure the security of a zone and to supervise the admission of goods into a zone, the storage, handling, manipulation, manufacturing, destruction of goods within a zone, or the constructive transfer or removal of goods from a zone.

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1/ 19 CFR 146.

2/ U.S. Customs Policies and Procedures Manual, Section 3210 Foreign Trade Zone Operations, Sept. 25, 1981.

3/ 15 CFR 400.100.

4/ Ibid.

5/ Ibid.

6/ 19 U.S.C. 81r.

7/ For example, PPM 3210 Foreign Trade Zone Operations.

Currently, customs officers are more likely to be involved in the last function. It is now common for a zone grantee or operator, after receiving authorization from the district director, to provide all guards and measures necessary to maintain the security of a zone.

#### Admission of Merchandise Into a Zone

Any merchandise, including over-quota merchandise, may be admitted into a zone unless it is prohibited by law on the grounds of policy or morals. 1/ Except in the cases of entered merchandise brought into a zone for manipulation or merchandise transiting a zone, goods may be admitted into a zone only after the filing of a proper application, including an indication of the desired zone status, with a written approval of the grantee, and a permit issued by the district director. 2/

Generally, the admission of goods into a zone is supervised by a customs officer. 3/ This supervision includes review of the transportation and admission documents, checking of seals, inspection, 4/ and quantity determination of the package in the shipment.

#### Handling of Merchandise in a Zone

Once admitted into a zone, merchandise may be stored, sold (except at retail), exhibited, broken up, repacked, assembled, distributed, sorted, graded, cleaned, mixed with foreign or domestic merchandise, or otherwise be manipulated or manufactured. 5/ The resulting articles can then be entered into the customs territory, exported, or destroyed.

Permission to manipulate, manufacture, or exhibit merchandise within a zone must be obtained from the district director. 6/ Applications for that permission must provide a full description of the proposed operation, designate the exact area in the zone to be used, identify the merchandise in detail, and specify the zone status of the merchandise. 7/ In the case of manipulation or manufacture, the application must also include a statement as to whether articles with one zone status are to be packed, commingled, or combined with articles having a different status. 8/ In most instances, such

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1/ 19 CFR 146.11.

2/ 19 CFR 146.12.

3/ Customs does not normally supervise the entrance into a zone of equipment and supplies, domestic packing, and repair materials, or persons, since control and inspection in these instances are the responsibility of the grantee or operator.

4/ The term "inspection" as used by Customs is limited to the viewing and accounting of the packed goods being admitted into a zone and does not entail an actual "examination" of the unpacked goods or articles.

5/ 19 U.S.C. 81c.

6/ 19 CFR 146.32(a).

7/ Ibid.

8/ Ibid.

applications are routinely granted; however, a denial by the district director may be appealed to the Board. 1/

### Inventory Control

From the time merchandise is admitted into a zone until it is removed or destroyed, the supervision of, and accounting for, that merchandise is accomplished through inventory control. Inventory control depends upon records maintained by customs officers and/or by the zone grantee, operator, or user.

When inventory records are kept by customs officers, a lot number is assigned to the goods at the time of admission, and an open file is established. Each time any operation affecting that lot occurs, the appropriate documentation is placed in the file and also recorded in a ledger. When the merchandise is finally removed from the zone or destroyed, the lot file is closed. Periodically, the merchandise record balances in each file are examined for accuracy and completeness. Under Customs procedures, a zone grantee, operator, or user may request to establish its own inventory and recordkeeping system under Customs supervision. This system is known as the Alternative Inventory Control System (AICS) and is used in lieu of recording by customs officers. Adoption of an AICS eliminates the need and expense of having customs officers on the site. This is especially significant for users of subzones where complex assembly or manufacturing operations are carried out.

Each AICS must be approved by the appropriate regional commissioner of customs and operates under a memorandum of agreement with the local district director. In addition, the grantee or operator must post a bond of not less than \$50,000. Although Customs does not specify the format of an AICS, it must meet certain stated objectives--namely, to maintain an audit trail for Customs, to provide accurate and timely reports for use in spot checks of inventories, to identify losses or excesses of goods, to account for or derive the physical output from a given input, and to provide all the information necessary to invoice, enter, classify, and appraise the goods upon entry into the customs territory.

At least once a year, under the AICS program, customs officers or zone personnel under Customs supervision conduct a full physical inventory count. The results of the count are then compared with the AICS records. If any large, systematic, or suspicious discrepancies are discovered, the regional director of regulatory audit is notified. If there is any evidence of violation of law, the resident or special agent for the area is also notified. 2/

Recently, the Customs Service, in response to the steady increase in the number of zones and in the volume of transactions, has begun and advocated use of the audit-inspection method of supervision as a means of dealing with their increased workload. 3/ On the basis of its experience after adoption of the

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1/ 19 CFR 146.32(b) and 146.32(c).

2/ Customs currently has ongoing investigations of at least two zones, but the nature and purpose of these investigations have not been indicated.

3/ See U.S. Customs Policies and Procedures Manual, Customs Directive 3210-03, Agreements for Audit-Inspection Procedures in Foreign Trade Zones.

audit-inspection method in regard to bonded warehouses, 1/ Customs has determined that it can be used equally well for FTZ's. The audit-inspection method, as adapted to zones, calls for physical examination of goods before, or upon admission to, zones, a practice heretofore followed only in relatively rare circumstances. It also calls for improved recordkeeping and supervision requirements of zone operators, payment of activation and annual reimbursement fees by operators, and Customs audits and spot checks of operator compliance with such agreements.

Upon approval of an application for an audit-inspection method agreement, the district director discontinues on-site physical supervision of an activated zone. In cases where Customs has been maintaining zone inventory records, the records are transferred to the operator if they are to become part of the operator's inventory control and recordkeeping system. 2/

All agreements call for the production of invoices and similar documentation by operators and for Customs examination of merchandise before or upon admission to a zone. Entries must also be presented to Customs for acceptance before a permit is granted for removal of goods from a zone. The agreements provide for the receipt into a zone of most domestic status merchandise without application to, or permit by, Customs. In addition, contrary to current practices, no permit is required in most cases to manufacture, manipulate, or destruct such goods within a zone. All other permit requirements, however, remain unchanged.

Under this scheme, district directors are responsible for approving applications, for verifying compliance with the agreements through merchandise examinations, document review, and spot check inspections, and for initiating and assessing liquidated damages for failure to comply with an agreement. Regional commissioners are responsible for verifying compliance through periodic regulatory audits, and for overall coordination of audit-inspection supervision of zones within their area.

Since the option to participate in an agreement for the audit-inspection procedure became available only in mid-August 1983, the degree of utilization and efficiency of the system cannot be determined at this time.

#### Statistical Reporting of Foreign-Trade Zone Merchandise

Until recently, detailed statistical reports concerning zone merchandise were prepared only when goods were removed for entry into the customs territory (submitted to the Bureau of the Census) or for exportation (submitted to the Department of Commerce). This practice left a large gap in the statistical reports of the volume of foreign merchandise arriving in the United States, since foreign goods admitted to a zone were not being reported. It also resulted in anomalous statistical reporting of goods

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1/ T.D. 82-204.

2/ Under an audit-inspection agreement, the zone operator may establish, within certain specified criteria, any inventory control and recordkeeping system. The criteria are essentially the same as those now used under an AICS, as noted above.



admitted to the zone in one form, but after manufacture or assembly removed in another form.

To remedy these problems, in June 1983, Customs directed that an application for admission of merchandise (whether foreign or domestic) to a zone be accompanied by a statistical reporting form which provides basic data about the shipment as well as its tariff classification under the Tariff Schedules of the United States (Annotated) and its value at the time of export. 1/ Before submission to Census, Customs performs a cursory review to correct any obvious errors, but does not verify the correctness of the information. Zone firms may arrange to submit the statistical information directly to Census.

#### CUSTOMS TREATMENT ACCORDED IMPORTS FROM FTZ'S

Because FTZ's are not considered to be within the U.S. customs territory, shipments into a zone from foreign sources are not considered importations, but shipments from the United States to a zone are considered exports from the United States. It is at the time goods are shipped from a zone into the customs territory that they are considered imported into the United States and are subject to the tariff laws. However, the laws concerning the dutiability of imports from FTZ's differ from the laws applicable to imports from other sources.

Section 3 of the act 2/ provides that articles imported into the customs territory from a zone are subject to the laws of the United States affecting imported merchandise. However, that provision goes on to provide special rules governing tariff treatment according to the U.S. or foreign origin of the good or their components and whether or not "privileged" status for the articles has been claimed and granted. In its regulations, the Board refers to the five status categories as--

- (1) privileged foreign merchandise,
- (2) privileged domestic merchandise,
- (3) nonprivileged foreign merchandise,
- (4) nonprivileged domestic merchandise; and
- (5) zone-restricted merchandise.

#### Privileged Foreign Merchandise

Under the act, the owner of foreign merchandise who is seeking admission for it, or who has already placed the goods in a zone, may with certain

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1/ 15 U.S.C. 400.804.

2/ 19 U.S.C. 81c.

limitations 1/ request the "privilege" of having those goods considered for Customs tariff classification and valuation purposes in their condition prior to transfer into the customs territory (i.e., in their condition as admitted to the FTZ). When privileged status is requested, the district director orders the merchandise examined, classified, and appraised, the taxes determined, and the duties liquidated in its condition on that date. Actual payment of liquidated duties is deferred until the goods enter the customs territory.

Since tariff classification, appraisement, and duty are determined at the time privilege is granted, the subsequent manipulation, transformation, or manufacture of the merchandise does not affect its tariff status at the time of entry into the customs territory. Furthermore, there is no time limit to enter the merchandise nor any obligation ever to enter it.

Privileged foreign merchandise status can confer certain advantages to persons intending eventually to import the goods into the customs territory. These include a high degree of certainty as to duty liability, which can influence whether the merchandise can be marketed at a profit or even whether it should be imported at all, and the ability to transform or modify goods while retaining the duty rate(s) applicable to the merchandise originally admitted into a zone (i.e., without subjecting it to the rate applicable to the final product at the time of entry into the customs territory). 2/

#### Nonprivileged Foreign Merchandise

This status category covers all foreign merchandise entered into a zone for which privilege has not been granted. Articles in this status are subject to duty treatment applicable in their imported condition at the time they enter the United States from the zone. Nonprivileged status is frequently invoked by zone users involved in the assembly of articles of foreign-made components where the rates of duty applicable to parts of the articles are higher than the rates applicable to the assembled article.

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1/ Merchandise is not eligible for privileged status if it has been manipulated or manufactured within a zone prior to the request for privileged status.

2/ A person could bring into a zone plain mens' knit shirts of manmade fibers weighing 8 ounces each with a value of \$5.00 each. Such shirts would be classified under Tariff Schedules of the United States (TSUS) item 379.90 with a duty rate of 21¢ per pound plus 32.5 percent ad valorem. In addition, ornamented motifs valued at \$1.00 each could be entered under TSUS item 353.50 with a duty rate of 15 percent ad valorem. If privileged status were requested, the duty liability for a shirt and a motif would be \$1.73, whereas if the motif is sewn onto the shirt and the finished shirt had nonprivileged status, it would be classified under TSUS item 379.26 with a duty rate of 40 percent ad valorem at a duty liability of \$2.40 based on a total value of \$6.00.

For example, automobile components can be brought into a zone as non-privileged foreign merchandise and then assembled into a complete automobile upon which duty is assessed. 1/

#### Other Zone Status Categories

Three other zone status categories are available: privileged domestic, nonprivileged domestic, and zone-restricted. Privileged domestic status may be granted to: (a) merchandise which is the growth, product, or manufacture of the United States on which all internal revenue taxes have been paid; (b) previously imported goods on which duty and taxes have been paid; or (c) goods previously admitted free of duty. As with privileged foreign status, privileged domestic status must be requested and granted. Subject to regulations respecting identity of articles and safeguarding of revenues, privileged domestic merchandise may be returned to the customs territory without entry and is free of quotas, duty, or taxes whether or not it has been combined with or made part of other zone articles. Privileged domestic merchandise, which loses its identity while in a zone, becomes nonprivileged foreign merchandise, and duty must be paid on it. 2/ By the use of privileged domestic status, domestic goods can be assembled with foreign goods into a new article subject to duty while the duty-free status of its domestic components is maintained.

Nonprivileged domestic merchandise is that which could have obtained the status of privileged domestic had the status been requested. Since zone users usually want to preserve the status (i.e., privileged) of domestic merchandise used in the assembly or manufacture of other articles, nonprivileged domestic status is rarely utilized.

The final status is that of zone-restricted merchandise. Such merchandise is foreign or domestic merchandise which is taken into a zone from the customs territory for the sole purpose of storage, exportation, or destruction. 3/ Zone-restricted merchandise may not be returned to the customs territory except where the Board deems a return to be in the public interest and issues an order to that effect.

Zone-restricted status is generally requested so that the merchandise may be considered to have been exported for Customs purposes or for the purposes of other Federal laws. For example, zone-restricted status may be used to meet certain requirements of the drawback, warehousing, or bonding provisions of the Tariff Act of 1930.

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1/ Currently, most automobiles are dutiable at 2.8 percent ad valorem, whereas most parts of automobiles (except certain articles manufactured in Canada) are dutiable at 3.6 percent ad valorem or higher.

2/ 19 CFR 146.23.

3/ Destruction of distilled spirits, wines, and fermented malt liquors is not generally permitted in a zone.

### Quota Merchandise

Merchandise covered by, or in excess of, a quota may be admitted to a zone unless it is excluded by an order of the Board. In general, zone merchandise is considered for quota purposes only in its condition at the time of transfer into the customs territory, regardless of whether it has been changed in form by manipulation or manufacture.

Exceptions to this general situation include merchandise subject to tariff-rate quotas which has been granted privileged foreign status and which must be liquidated at the higher or nonquota rate; and goods subject to laws, regulations, or administrative orders (such as in the case of import relief), the terms of which are written as to apply a quota to the goods in their condition as admitted into a zone, regardless of subsequent manipulation or manufacture.

### Valuation of Foreign-Trade Zone Merchandise

All merchandise entered into the customs territory is subject to appraisal by customs officers in order to determine its dutiable value. The bases upon which Customs appraises imported merchandise are set out in section 402 of the Tariff Act of 1930 (19 U.S.C. 1401a). 1/

As was discussed above, privileged foreign merchandise is appraised according to its condition and quantity on the date of filing the request for privileged foreign status. Such merchandise is valued in accordance with section 402. 2/

Articles composed entirely of nonprivileged merchandise or in part of nonprivileged merchandise and in part of privileged merchandise are appraised in accordance with their character and condition at the time of their constructive transfer into the customs territory and are also valued in accordance with section 402. 3/ However, the following expenses are excluded in determining the dutiable value of such merchandise:

1. The cost of fabrication or other processing as well as the general expenses and profit related to zone operations; and
2. All other expenses incurred in the zone incidental to placing the article in condition, packed ready for transfer, and freight, insurance, and similar costs incurred after the article is packed ready for transfer into the customs territory.

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1/ Prior to July 1, 1980, most merchandise was appraised under sec. 402 of the Tariff Act of 1930, as amended by the Customs Simplification Act of 1956 (19 U.S.C. 1401a). Effective on July 1, 1980, title 2 of the Trade Agreements Act of 1979 completely revised sec. 402 and repealed sec. 402a.

2/ 19 CFR 146.21(c)(3)(i).

3/ 19 CFR 146.48(e).

Prior to Treasury Decision 80-87, issued on February 4, 1980, the Customs Service had included the cost of processing nonprivileged merchandise in zones, and profit realized, in the dutiable value of such merchandise. Consequently, duty was assessed on the costs of domestic labor, overhead, facilities, and profit. That practice treated nonprivileged foreign merchandise transferred from a zone in the same manner as foreign merchandise exported directly from a foreign country.

The current appraisement practice resulted from rulemaking initiated by the Customs Service on October 4, 1978. 1/ During the proceeding, Customs received 293 comments on its proposal, with 286 favoring the rule.

Those supporting the proposal believed that the rule would allow operations now performed elsewhere to be conducted in the United States, would remove the unfair burden of double taxation imposed on labor in a zone (especially because local, State, and Federal taxes are imposed upon the investments made in the zone and income generated from the zone) and would result in substantial savings of customs duties for zone users. 2/ Those opposed indicated that adoption of the rule would result in injury to U.S. manufacturers of components and end products, would reduce demand for domestic raw materials, and not result in any significant investment. 3/ Customs, on adopting the rule, stated in T.D. 80-87--

In sum, it is Customs opinion that the proposal, on balance, will be beneficial to U.S. industries, employment, and the general U.S. economy by attracting increased assembly and manufacturing operations. Customs is sympathetic to industry concerns regarding zone activity that might affect domestic production adversely. However, as mentioned above, adequate safeguards against domestic injury exist under the regulations of the Foreign-Trade Zone Board.

#### GROWTH OF FTZ'S

##### Increased Zone Usage

From 1934, when the act was passed, until the end of November 1983, the Board has authorized 97 general-purpose zones and 36 special-purpose zones (subzones). Because of voluntary relinquishment of zone status due to insufficient activity, there were 91 general-purpose zones and 30 subzones authorized to operate under zone procedures by the end of November 1983. The map in appendix E shows the zone designation and location of each of these zones. In addition, as of that date, there were 26 pending applications for zone status (11 general-purpose and 12 subzones) and 3 for existing zone expansion and/or relocation. The following tabulation, compiled from data of

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1/ See 43 F.R. 45885, Oct. 4, 1978, advance notice of proposed rule-making; 44 F.R. 29489, May 21, 1979, notice of proposed rulemaking, and 45 F.R. 17976, Mar. 21, 1980, final rule (T.D. 80-87).

2/ A complete summary of comments can be found in T.D. 80-87.

3/ Ibid.

the Foreign-Trade Zones Board, shows the number of general-purpose zones and subzones authorized to operate by the Board at the end of each of the periods shown.

<u>Period</u>	<u>General-purpose zones</u>	<u>Subzones</u>
1936-40-----	1	0
1941-45-----	1	0
1946-50-----	6	0
1951-55-----	4	0
1961-65-----	7	2
1966-70-----	10	7
1971-75-----	18	5
1976-----	21	5
1977-----	30	6
1978-----	41	8
1979-----	49	10
1980-----	59	11
1981-----	67	14
1982 <u>1</u> /-----	74	19
January-November 1983 <u>1</u> /--	91	30

1/ According to the Board, in 1982 there were 44 general-purpose zones and 11 subzones active; in the 1983 period, there were 56 and 18 active, respectively.

The data show that in the 40 years from 1936, when the first FTZ was established at Staten Island, N.Y., until the end of 1976, only 21 general-purpose zones were authorized to operate under zone procedures. However, in the roughly 7-year period, 1977-83, an additional 70 zones were authorized. Similarly, although first permitted in 1952, significant numbers of applications for subzones were not filed until the early 1960's. 1/ Even then the number of individual firms seeking to obtain subzone status was small until the late 1970's and early 1980's. The growth of FTZ's in the late 1970's and early 1980's is attributable, in large part, to the combination of several factors which occurred over the course of three decades. First was the Boggs amendment in 1950 permitting manufacturing; second was the amendment in 1952 to the Board's regulations authorizing subzones; third was the change in customs valuation practice in 1980 which included only the value of the foreign content of merchandise as dutiable; and fourth was the emerging realization by U.S. firms of the importance of international trade and the increasing competitiveness of imports in the U.S. market.

Much of the increase in the number of FTZ's in the last 6.5 years has taken place in the interior portions of the country. Although FTZ's were traditionally located in ports along the U.S. coasts, in the more recent period, about half of new zones approved have been located at inland ports. Part of the explanation for this shift lies in the search by communities throughout the U.S. for ways to expand their economic base. In an effort to attract new firms, communities have increasingly viewed FTZ status not only as

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1/ There was a temporary subzone in San Francisco in 1953, established for the exhibition of foreign merchandise for June 19-30, 1953.

a viable device to encourage industry in their environs, but also as a way to expand into the area of international trade.

### Benefits of FTZ's

In an effort to compete, firms have looked increasingly at the benefits resulting from operating in an FTZ. There are many advantages associated with zone usage, and firms may opt for zone operation for one or more reasons, depending on their individual needs. In addition to the benefits associated with traditional operations such as warehousing, labeling, packaging, inspection, and sorting, other important benefits derived from FTZ usage are listed below.

(1) The ability to take maximum advantage of inverted tariffs: Perhaps the most important benefit for those firms involved in manufacturing in FTZ's is that they may take maximum advantage of so-called inverted, or upside down, tariff rates. As a consequence, manufacturing has become the single most important aspect of zone activity, accounting for more than 60 percent of the total annual value of merchandise shipped from FTZ's in recent years. Inverted tariffs (as applied to nonprivileged foreign merchandise) allow the importer to reduce tariff liability by manufacturing or assembling components or raw materials subject to higher rates of duty into a finished product with a lower rate of duty. Although manufacturing occurs in both general-purpose zones and subzones, it is conducted largely in subzones utilized by a single firm, frequently a large multinational company.

(2) Duty deferral: Since duty is not collected on merchandise when admitted into a zone, but only at the time of importation into the U.S. customs territory, the deferral of duty payment can provide cash flow advantages to a company that ultimately sells its product in the U.S. market. Duty deferral is utilized by firms active in both general-purpose zones and subzones, but principally those in the former.

(3) Quota avoidance: An FTZ user can avoid quota restrictions in several ways; e.g., quota-restricted merchandise may be admitted into an FTZ, manufactured into another product not so restricted, and then entered into the U.S. customs territory.

(4) Duty avoidance: Since duty is collected only on goods that enter the U.S. customs territory, foreign merchandise, which would be dutiable if imported into the U.S., such as fuel, can be consumed in an FTZ and never be placed in dutiable status. Similarly, merchandise admitted into an FTZ that does not meet importer specifications can be destroyed within the zone without payment of duty.

(5) Establishment of country of origin: Products manufactured in FTZ's entirely of foreign components can be exported bearing a "Made in USA" label. In addition, components from Communist countries which would otherwise be assessed column 2 rates of duty on entry into the U.S. can be manufactured into articles in an FTZ and entered under lower column 1 duty rates.

(6) Elimination of costs related to use of a bonded warehouse: The warehousing of merchandise in a bonded warehouse requires the posting of a bond by the importer, and such merchandise can be stored for only 5 years. By contrast, an FTZ user may enter merchandise into a zone without posting a bond and may store it there for an unlimited amount of time.

(7) Avoidance of drawback procedures: Under drawback procedures, applicable to non-FTZ related exportation of a domestic product, a manufacturer may receive a refund of 99 percent of the duty paid on any imported component incorporated into that product. Use of the drawback mechanism may entail large initial expenditures in duties, substantial paper work, and significant delay between the initial expenditure and the refund. The use of an FTZ avoids these expenditures and delays.

#### MERCHANDISE HANDLED IN FTZ'S

The total value of merchandise received in FTZ's from foreign and domestic sources and subsequently shipped from FTZ's to foreign or domestic markets equals the value of merchandise handled in FTZ's. Table 1 shows these data for 1978-82.

Although forty-four general-purpose zones and eleven subzones, received and shipped merchandise in 1982, 1/ 12 zones together accounted for 90 percent of the total goods handled. Profiles of general-purpose zones which accounted for 85 percent of merchandise handled by such zones in recent years, and of subzones, which accounted for virtually all of the merchandise handled in subzones in 1982 and thereafter, are provided beginning on page A-24 below.

#### Shipments From FTZ's

Table 2 shows the total value of merchandise shipped from FTZ's during 1978-82, including shipments to the customs territory and to third countries. It demonstrates not only the growth of zones in terms of economic activity, but also the increasing importance of subzones.

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1/ 1982 is the most recent year for which data from the Board showing both the value of merchandise handled plus commodity and source detail for merchandise received are available.



Table 1.--Merchandise handled in FTZ's: Merchandise received and shipped, 1978-82

(In millions of dollars)					
Item	1978	1979	1980	1981	1982
Received:					
Foreign-----	632	1,091	1,706	1,993	2,076
Domestic-----	174	431	889	1,032	1,324
Total-----	805	1,521	2,595	3,025	3,400
Shipped:					
Foreign-----	236	347	694	926	1,539
Domestic-----	507	1,108	1,750	1,961	2,393
Total-----	743	1,455	2,445	2,887	3,932
Grand total-----	1,549	2,976	5,040	5,912	7,332

Source: Foreign-Trade Zones Board.

Note.--Because of rounding, figures may not add to totals shown.

Table 2.--Shipments: Merchandise shipped from FTZ's, by types of zones, 1978-82

Year	Total shipments	General-purpose zones	General-purpose as a share of total	Subzones	Subzones as a share of total
	<u>Million dollars</u>	<u>Million dollars</u>	<u>Percent</u>	<u>Million dollars</u>	<u>Percent</u>
1978-----	743	391	53	352	47
1979-----	1,455	601	41	854	59
1980-----	2,445	954	39	1,491	61
1981-----	2,887	980	34	1,907	66
1982-----	3,932	1,525	39	2,408	61

Source: Foreign-Trade Zones Board.

#### Shipments from general-purpose zones

Although the data in table 2 illustrate the significant growth in the value of shipments from general-purpose zones--such shipments nearly quadrupled during 1978-82--one zone in McAllen, Tex., accounted for 45 percent of the total value of shipments from general-purpose zones in 1982. An additional seven zones (in Miami, Fla.; New Orleans, La.; New York City, N.Y.; Port Everglades, Fla.; San Jose, Calif.; Kansas City, Mo.; and Mayaguez, P.R.) together accounted for nearly 43 percent of such shipments in that year. Aggregated, these eight zones accounted for about 88 percent of total shipments from general-purpose zones in 1982, up from about 75 percent in 1978. Thus, although there were 44 general-purpose zones active in 1982 (and 56 by the end of November 1983), there was an obvious trend in 1978-83 toward

increased concentration of activity in a few general-purpose zones, as shown in table 3. Brief profiles of the eight principal general-purpose zones, as well as a synopsis of all other such zones, follow.

Table 3.--Shipments from general-purpose zones, by principal zones, 1978-82

(In thousands of dollars)						
Zone and number	1978	1979	1980	1981	1982	
McAllen, Tex. (12)-----	87,108	135,415	271,008	308,352	685,720	
Miami, Fla. (32)-----	-	8,143	74,436	159,825	227,830	
New Orleans, La. (2)---	55,822	34,345	80,171	75,994	118,180	
New York City, N.Y.						
(1)-----	96,698	91,800	115,150	100,190	78,695	
Port Everglades, Fla.						
(25)-----	7,771	10,759	36,990	58,156	74,680	
San Jose, Calif. (18)---	11,720	10,030	34,982	47,803	67,086	
Kansas City, Mo. (15)---	24,399	32,695	42,358	63,498	44,429	
Mayaguez, P.R. (7)-----	11,422	18,362	16,656	17,609	38,664	
All other-----	96,509	259,441	281,984	148,675	189,475	
Total-----	391,449	600,990	953,735	980,102	1,524,759	

Source: Foreign-Trade Zones Board.

McAllen, Tex. (FTZ No. 12).--On the basis of merchandise shipped or forwarded in 1982, the McAllen, Tex., general-purpose zone was by far the largest of such zones. Merchandise shipped from this zone increased from \$87 million, or 22 percent of merchandise shipped from all general-purpose zones in 1978, to \$686 million, or 45 percent of such shipments, in 1982. Among the more important operations conducted within the zone in recent years were the warehousing, inspection, repacking, labeling, and exportation of such goods as television parts, machine parts, apparel, electrical motors, jewelry, and watches, as well as the manufacture of certain medical equipment. In 1982, the zone served 105 firms, of which 17 occupied zone facilities on a continuous basis. Among the important firms utilizing the zone were Zenith Radio Corp.; General Electric Co.; Erika of Texas, a wholly owned subsidiary of National Medical Care, Inc. of Massachusetts; and Kimball Piano of Indiana. The McAllen zone is located in southwest Texas about 3 miles from the Mexican border via the Hidalgo port of entry on 29 net leasable acres out of a 40-acre block and about 60 miles from the Gulf of Mexico. The grantee for the zone is McAllen Trade Zone, Inc., a Texas nonprofit corporation, and the operator is McAllen Industrial Board, a joint venture of the city of McAllen and the McAllen Chamber of Commerce. The grant to establish the zone was received on October 23, 1970; it went into operation on June 5, 1973.

Miami, Fla. (FTZ No. 32).--Miami, the newest zone among the most active general-purpose zones, accounted for the second largest amount of shipments from such zones in 1982. In that year, shipments from Miami totaled \$228 million, or 15 percent of merchandise shipped from all general-purpose zones. This was up sharply from 1979 shipments of \$8 million, or 1 percent of merchandise shipped from all general-purpose zones, when the Miami zone

operated only about one-half of the year. Few manipulative operations are performed within the zone. The principal function has been to serve as a marketing and distribution point for a variety of products being shipped from Europe and Asia to the Caribbean and South America. Merchandise shipped included electronics articles, jewelry, clothing, textiles, and industrial items. In 1982, the zone served 150 firms, of which 110 occupied the zone on a continuous basis. The Miami zone is located on a 73-acre tract of land in Dade County, Fla., about 5 miles west of the Miami International Airport, a major air transportation hub to the Caribbean and South America. The grantee is Greater Miami Foreign-Trade Zone, Inc., a nonprofit corporation affiliated with the Greater Miami Chamber of Commerce. The grantee has contracted with Miami Free Zone Corp., a private Florida corporation, to operate the zone. The grant to establish the zone was received on September 6, 1977; it began operation on April 16, 1979.

New Orleans, La. (FTZ No. 2).---The New Orleans general-purpose zone was the third most active based on shipments from such zones in 1982, accounting for 8 percent (\$118 million) of all shipments from such zones in that year. This was an increase from \$56 million, or 14 percent of shipments from general-purpose zones, in 1978. Principal operations carried out in the zone in recent years were the inspection, repair, and quality control of such products as cameras, binoculars, fishing tackle, office machines, and electrical appliances, as well as the cleaning, grading, and mixing of casein.

During 1982, the zone served 196 firms, 12 on a continuous basis. Sears, Roebuck & Co. and Coflexip & Services, Inc., were among the major users. The grantee and operator has been the Board of Commissioners of the Port of New Orleans, a local governmental unit which is a part of the State of Louisiana and not of the city. The current zone site is situated on about 19 acres of land near the Napoleon Avenue wharf on the left bank of the Mississippi River in New Orleans, about 110 miles from the Gulf of Mexico. In August 1983, the grantee filed an application with the Foreign-Trade Zones Board to turn operation of the zone over to a private firm from Boston, Cabot & Forbes, and to move the zone to a new, larger 92-acre site (75 acres will be developed) east of the city in the Almonaster-Michoud Industrial District, which is being developed as an overall industrial park area with a foreign-trade zone as one element in the total economic development plan. New Orleans, the second oldest operating zone, received its grant on July 16, 1946, and began operation on May 1, 1947.

New York, N.Y. (FTZ No. 1).---New York City received the first foreign-trade zone grant on January 30, 1936, and began operation on February 1, 1937. In terms of merchandise shipped, it was the fourth largest general-purpose zone in 1982, shipping \$79 million of merchandise, or 5 percent of total such shipments. In 1978, its shipments amounted to \$97 million, or 25 percent of the total. In recent years, the major operations performed in the zone included the repacking, remarking, and inspection of such products as electrical goods, car cassettes, cameras, watches, and machinery. In 1982, the zone served 168 businesses, 14 on a continuous basis. The zone has been located at its current site in Building number 77 at the Brooklyn Navy Yard, Brooklyn, N.Y., for about 11 years. The grantee, New York City, made a contract with S & F Warehouses, Inc., a private corporation, to operate the zone. The operator also operates a U.S. Customs bonded warehouse and a free storage warehouse and is a licensed customs house trucking company, giving zone users a broad range of trade services.

Port Everglades, Fla. (FTZ No. 25).--The general-purpose zone in Port Everglades ranked fifth among such zones, having shipped 75 million dollars' worth of merchandise, or 5 percent of all merchandise shipped from general-purpose zones, in 1982, up from \$8 million in 1978, or 2 percent of the total. Principal zone activities in recent years included the reexport of office machines, the cutting of textiles, and the distribution of pharmaceuticals for international markets, as well as the manufacture of electronic components. In 1982, the zone served 91 firms, 19 on a continuous basis. The zone is located in Florida's deepest seaport area on the Atlantic Ocean on 30 acres of an 82-acre site in southeast Florida, about 20 miles north of Miami. The grantee and operator of the zone is the Port Everglades Authority, a nonprofit, Florida public corporation. It received the grant to establish the zone on December 27, 1976, and began zone operations in a temporary warehouse facility on July 19, 1977.

San Jose, Calif. (FTZ No. 18).--Based on the value of shipments from general-purpose zones, San Jose ranked sixth in 1982, shipping \$67 million, or 4 percent of merchandise shipped from all such zones, increasing from \$12 million, or 3 percent of the total, in 1978. The zone has a large business destroying defective integrated circuits. Other important operations include the storing and distribution of data processing equipment, office machines, certain sports equipment, and sugar. In 1982, 66 firms used the zone, 12 on a continuous basis. The grantee, the City of San Jose, made a contract with International Business Parks, Inc., to operate the zone as part of the city's overall economic development program within the 375-acre International Business Park complex in the city, of which 10 acres are zone activated. The city received the grant on November 27, 1974, and began zone operations on May 10, 1976.

Kansas City, Mo. (FTZ No. 15).--This general-purpose zone accounted for 3 percent of all merchandise shipped from such zones in 1982, or \$44 million, ranking it seventh among such zones. Although the value shipped had increased from \$24 million in 1978, its share of total shipments, 6 percent, was larger in the earlier year. In recent years, major activities performed within the zone included the storing, inspection, and distribution of agricultural chemicals, machinery, ceramic ware, communications equipment, televisions, and liquor. The zone served 99 firms during 1982. The zone has three sites, two of which are active. The largest and original site in the original grant, a 2,815,000-square-foot site in part of an underground limestone mine, is site No. 2, located on the north bank of the Missouri river about 7 miles east of downtown Kansas City, Mo. Site No. 1 is located at the facilities of its new operator, Midland International, a wholly owned subsidiary of Beneficial Finance. Midland imports and manipulates electronic goods and performs services for other firms using its international business and marketing expertise. In addition, on September 8, 1983, the Ford Motor Co. plant, several miles north of site No. 2, was activated as subzone 15A for the assembly of Tempo and Topaz automobiles. The grantee for FTZ No. 15 is Greater Kansas City Foreign-Trade Zone, Inc., a nonprofit Missouri corporation affiliated with the Chamber of Commerce of Greater Kansas City. The grantee also is the grantee for FTZ No. 17 in Kansas City, Kan. The operator of site No. 2 is Great Midwest Corp., a private corporation which has operated it since the site was activated. The grant was received on March 23, 1973; the zone was activated soon thereafter.

Mayaguez, P.R. (FTZ No. 7).--The general-purpose zone in Mayaguez ranked eighth on the basis of shipments from such zones in 1982--accounting for \$39 million, or 3 percent of shipments. Principal operations performed within the zone in recent years included the manufacture of medical products (pharmaceuticals), women's apparel, towels, and napkins; other operations included the cutting, packing, and forwarding of beef, poultry, and sea food products. The eight manufacturing firms served in 1982 all operated on a continuous basis. The zone is located on about 42 acres of land on the west central coast of the island in Mayaguez, P.R., about 4-1/2 miles from the main port area. The grantee and operator is the Puerto Rico International Development Co. (PRIDCO), an agency of the commonwealth, which operates the zone as part of its total economic development program for the island. PRIDCO is also the grantee for special-purpose subzone 7-B in Penuelas, operated by the Commonwealth Oil Refining Co., Inc. The grant to establish the general-purpose zone was made on June 27, 1960; it began operation on August 21, 1961.

Other general-purpose zones.--As discussed above, the eight major general-purpose zones together accounted for 88 percent of the value of shipments from general-purpose zones in 1982; the balance (\$189 million, or 12 percent) was accounted for by 36 active zones (see note to tabulation on p. A-30). In 1982, the value of shipments from these zones ranged individually from a low of \$54,000 (from Hartford, Conn.) to a high of \$24.9 million (from Honolulu). Operations performed consisted largely of the traditional activities associated with FTZ's, including the storing, inspection, packing, labeling, and sorting of a multitude of consumer and other products. Manufacturing in these general-purpose zones was minimal, except for FTZ No. 65, in Panama City, Fla., where large-diameter steel pipe is produced. In 1982, nearly 700 firms utilized these zones, mostly on a part-time basis.

#### Shipments from subzones

Table 4 shows that shipments from subzones rose sixfold in the 5-year period 1978-82, from \$352 million to \$2.4 billion.

Table 4 shows that in 1978 two subzones--9A and 3A <sup>1/</sup>--together accounted for all shipments of merchandise from subzones. By 1982, there were 10 firms <sup>2/</sup> engaged in subzone activities. Subzone activity, in terms of greater shipments from more firms, increased after 1980. As will be shown later, this trend was even more pronounced in October 1982-March 1983 compared with the situation in October 1981-March 1982.

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<sup>1/</sup> Shipments from subzones 3A by Lilli Ann were less than 0.05 percent of the total.

<sup>2/</sup> HIRI and Enerco are wholly owned subsidiaries of Pacific Resources, Inc., and operate in the same subzone (9A).

Table 4.--Shipments from special-purpose subzones, by subzones 1978-82

(In thousands of dollars)						
Subzone and number	1978	1979	1980	1981	1982	
Hawaiian Independent Refinery, Inc. (HIRI)						
(9A)-----	338,080	428,766	682,979	867,416	894,916	
Enerco (9A)-----	13,801	16,616	28,277	29,713	31,719	
Chrysler Corp. (70B)----	-	-	-	-	742,996	
Volkswagen of America (33A)-----	-	400,623	747,713	808,093	443,823	
Honda of America (46B)---	-	-	18,318	111,698	117,045	
American Motors Corp. (41A)-----	-	-	-	-	96,850	
Kawasaki Motors Manufacturing (59A)-----	-	-	-	86,799	56,097	
Ford Tractor Plant (70A)-----	-	-	-	-	22,303	
All other-----	1/ 74	2/ 7,914	3/ 13,586	4/ 3,205	5/ 1,918	
Total-----	351,955	853,918	1,490,872	1,906,924	2,407,668	

1/ All by Lilli Ann (subzone 3A), a manufacturer of textile apparel, located in San Francisco, Calif.

2/ 98 percent by Olivetti Corp. (subzone 24A), a manufacturer of typewriters, located in Harrisburg, Pa. (subzone is not currently active); balance of shipments, by Lilli Ann.

3/ 62 percent by Olivetti; 37 percent by Ronson Corp. (subzone 44A), a manufacturer of lighters, Woodbridge, N.J. (subzone lapsed in Oct. 1982); balance of shipments by Lilli Ann.

4/ 55 percent by Ronson; 34 percent by Olivetti; 10 percent by Northwest Pipe & Casing Co. (subzone 45A), a manufacturer of steel coil, Clockamus, Oreg. (subzone is not currently active); balance from Lilli Ann.

5/ 83 percent from Northwest Pipe & Casing; 13 percent by Nissan Motor Manufacturing Corp. U.S.A. (subzone 78A), Smyrna, Tenn., a manufacturer of motor vehicles. Shipments of \$245,000 reflect shipments of industrial machinery which exited the zone for repair. Nissan did not produce motor vehicles in the subzone until June 1983. The balance of "All other" shipments was by Lilli Ann.

Source: Foreign-Trade Zones Board.

#### Economic Activity in Subzones

As indicated earlier, manufacturing accounts for the largest share of total shipments of merchandise from FTZ's. Although not confined solely to subzones, manufacturing in such zones probably accounted for more than 90 percent of manufacturing in FTZ's in recent years, and the percentage is increasing. Principal products manufactured in subzones in October 1982-March 1983 included automobiles, trucks, tractors, motorcycles, televisions, microwave ovens, gasoline, jet fuel, diesel fuel, and liquefied petroleum gas. A profile of each of these subzones and pertinent data (developed from

Commission questionnaire responses) on the manufacturing performed therein are discussed below, as is a discussion of the general-purpose zone manufacture of large-diameter steel pipe.

Hawaiian Independent Refinery, Inc. (HIRI), and Enerco (Subzone 9A)

The grantee of both HIRI and Enerco is the State of Hawaii; both are wholly owned by Pacific Resources, Inc., a Hawaiian-based energy company. Subzone status was granted in 1972 for HIRI and in 1975 for Enerco. HIRI receives crude oil at its subzone and refines it into gasoline, jet fuel, diesel fuel, residual fuel, naphtha, and liquefied petroleum gas. Enerco manufactures synthetic natural gas and carbon dioxide. In terms of merchandise shipped from subzones during 1978-82, subzone 9A was the most important zone, accounting for virtually all shipments from subzones in 1978 (\$352 million, 96 percent of which was by HIRI) and for 38 percent (\$927 million, 97 percent by HIRI) in 1982. (However, \* \* \* in a subzone in the period October 1982-March 1983). Data on FTZ operations for HIRI and Enerco are presented in table 5.

Sanyo Manufacturing Corp. (SMC) (Subzone 14A)

The SMC plant is located in Forrest City, Ark., which was considered by the Board to be "adjacent" to the port of Memphis, Tenn. The grantee is the Little Rock, Ark., Port Authority. SMC is a subsidiary of Sanyo Electric Co., Ltd., of Japan. Although subzone status was not granted SMC until December 1982, the plant became operational in December 1976. Subzone operations, shown in table 6, consist of the manufacture of microwave ovens and color TV sets from parts of domestic and foreign origin. Of the total value of shipments shown above for October 1982-March 1983, \* \* \*.

Kawasaki Motors Manufacturing Corp. U.S.A. (Subzone 59A)

Kawasaki U.S.A.'s plant is located in Lincoln, Nebr., which was considered by the Board to be "adjacent" to the Lincoln port of entry. The grantee is the Lincoln Chamber of Commerce. The firm is a subsidiary of Kawasaki Heavy Industries, Ltd., of Japan. Although the plant became operational in April 1974, subzone operations did not begin until October 1980. Prior to 1982, subzone operations, data for which are shown in table 7, consisted of the assembly of motorcycles, jet skis, and snowmobiles, including some fabrication of subassemblies. Snowmobiles were phased out in 1981, however. \* \* \*.

Table 5.--HIRI and Enerco (subzone 9A): Selected data on FTZ operations,  
1978-82, October 1981-March 1982, and October 1982-March 1983

Item	1978	1979	1980	1981	1982	October 1981- March 1982	October 1982- March 1983
Shipments:							
Domestic-1,000 dollars--	***	***	***	***	***	***	***
Export-----do-----	***	***	***	***	***	***	***
Total-----do-----	***	***	***	***	***	***	***
Value added by manufac- ture-----do-----	***	***	***	***	***	***	***
Share of total value of shipments of--							
Domestic content							
percent----	***	***	***	***	***	***	***
Foreign content-----do-----	***	***	***	***	***	***	***
Total employment-----	***	***	***	***	***	***	***
Production and related workers-----	***	***	***	***	***	***	***
Hours worked by produc- tion workers							
1,000 hours----	***	***	***	***	***	***	***

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.



Table 6.--Sanyo Manufacturing Corp. (subzone 14A): Selected data on FTZ operations, October 1982-March 1983

Item	October 1982-March 1983
Shipments:	
Domestic-----1,000 dollars--:	***
Export-----do-----:	***
Total-----do-----:	***
Value added by manufacture-----do-----:	***
Share of total value of shipments of--:	
Domestic content-----percent--:	***
Foreign content-----do-----:	***
Total employment-----:	***
Production and related workers-----:	***
Hours worked by production workers	
1,000 hours--:	***

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

Table 7.--Kawasaki Motors Manufacturing Corp. U.S.A. (subzone 59A): Selected data on FTZ operations, 1981, 1982, and October 1981-March 1982, and October 1982-March 1983

Item	1981	1982	October 1981-March 1982	October 1982-March 1983
Shipments:				
Domestic-----1,000 dollars--:	***	***	***	***
Export-----do-----:	***	***	***	***
Total-----do-----:	***	***	***	***
Value added by manufacture-----do-----:	***	***	***	***
Share of total value of shipments of--:				
Domestic content-----percent--:	***	***	***	***
Foreign content-----do-----:	***	***	***	***
Total employment-----:	***	***	***	***
Production and related workers-----:	***	***	***	***
Hours worked by production workers				
workers-----1,000 hours--:	***	***	***	***

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

#### Berg Steel Pipe Corp. (FTZ 65)

Berg Steel Pipe is part of the general-purpose zone located in Panama City, Fla. The grantee is the Panama City, Fla., Port Authority. Berg Pipe, for which FTZ data are shown in table 8, is a privately held corporation with

Table 8.--Berg Steel Pipe Corp. (FTZ 65): Selected data on FTZ operations, 1982, October 1981-March 1982, and October 1982-March 1983 1/

Item	1982	October 1981- March 1982	October 1982- March 1983
Shipments:			
Domestic-----1,000 dollars--	***	***	***
Export-----do----	***	***	***
Total-----do----	***	***	***
Value added by manufacture-----do----	***	***	***
Share of total value of shipments of--			
Domestic content-----percent--	***	***	***
Foreign content-----do----	***	***	***
Total employment-----	***	***	***
Production and related workers-----	***	***	***
Hours worked by production workers			
1,000 hours--	***	***	***

1/ Firm did not begin operating in a foreign-trade zone until March 1982. Thus, data for October 1981-March 1982 were sparse and not reported.

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

majority ownership held by a German firm that manufactures steel pipe. Berg Pipe became operational in June 1980, but did not gain zone status until March 1982. The firm manufactures large-diameter steel pipe from hot-rolled carbon steel plate in diameters from 24 to 64 inches. Berg Pipe's FTZ grant was restricted in its original terms to require that privileged foreign status be claimed on all imports. Currently, import quotas are the only restriction on its foreign purchases.

#### Chrysler Corp. (Subzone 70B)

Chrysler Corp., a U.S. company, has its subzone plant located in Detroit, Mich. The Greater Detroit Foreign-Trade Zone, Inc., the grantee, is affiliated with the City of Detroit Chamber of Commerce. Although subzone operations did not begin until April 1982, the Chrysler plant commenced production in 1925. Subzone operations, data for which are shown in table 9, consist of assembling automobiles from various domestic components and foreign engines. \* \* \*.

#### Honda of America Manufacturing, Inc. (HAM) (Subzone 46B)

HAM's plant is located in Marysville, Ohio, which was considered by the Board to be "adjacent" to the Columbus customs port of entry. The grantee is the Greater Cincinnati Foreign Trade Zone, Inc. Approximately 95 percent of HAM is owned by American Honda Motor Co., Inc., Gardena, Calif.; the balance of ownership is with Honda Motor Co., Ltd., of Japan. HAM began operations at

Table 9.--Chrysler Corp. (subzone 70B): Selected data on FTZ operations, 1982, October 1981-March 1982, and October 1982-March 1983

Item	1982	October 1981- March 1982	October 1982- March 1983
Shipments:			
Domestic-----1,000 dollars--	***	***	***
Export-----do-----	***	***	***
Total-----do-----	***	***	***
Value added by manufacture-----do-----	<u>1/</u> ***	***	<u>1/</u> ***
Share of total value of shipments of--			
Domestic content-----percent--	***	***	***
Foreign content-----do-----	***	***	***
Total employment-----	***	***	***
Production and related workers-----	***	***	***
Hours worked by production workers			
1,000 hours--	***	***	***

1/ Estimated by the staff of the U.S. International Trade Commission.

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission, except as noted.

its current location in September 1979; subzone status began in April 1980. The firm, for which FTZ data are shown in table 10, produces motorcycles and parts and automobiles and parts; however, the production of automobiles did not commence until November 1982. \* \* \*. Manufacturing operations for motorcycles consist of fabrication of the frame (welding, cutting, and punching steel tubing); fabrication of certain components, such as fuel tanks and rear forks; production of plastic parts; subassembly operations; and painting. Automobile manufacturing includes stamping, welding, painting, plastic injection molding, and assembly operations.

Ford Motor Co. (Romeo tractor plant) (Subzone 70A)

Ford, a Delaware corporation, began operations at its Romeo, Mich., plant in August 1974 and became a subzone in June 1982. The grantee is the Greater Detroit Foreign Trade Zone, Inc. Subzone operations consist of manufacturing agricultural tractors and mechanical excavating or leveling machinery from domestic and foreign components. Data for Ford on FTZ operations are shown in table 11.

Table 10.--Honda of America Manufacturing Inc. (subzone 46B): Selected data on FTZ operations, 1980-82, October 1981-March 1982, and October 1982-March 1983 1/

Item	1980	1981	1982	October 1981- March 1982	October 1982- March 1983
Shipments:					
Domestic--1,000 dollars--	***	***	***	***	***
Export-----do-----	***	***	***	***	***
Total-----do-----	***	***	***	***	***
Value added by manufacture					
do-----	***	***	***	***	***
Share of total value of shipments of--					
Domestic content					
percent--	***	***	***	***	***
Foreign content-----do-----	***	***	***	***	***
Total employment-----	***	***	***	***	***
Production and related workers--	***	***	***	***	***
Hours worked by production workers					
1,000 hours--	***	***	***	***	***

1/ Data for 1980-82 are for motorcycles and parts; for the 1983 period, data are for motorcycles and parts and automobiles and parts.

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

Table 11.--Ford Motor Co. Tractor Operation (subzone 70A): Selected data on FTZ operations, 1982, October 1981-March 1982, and October 1982-March 1983 1/

Item	1982	October 1981- March 1982	October 1982- March 1983
Shipments:			
Domestic-----1,000 dollars--	***	***	***
Export-----do-----	***	***	***
Total-----do-----	***	***	***
Value added by manufacture-----do-----	***	***	***
Share of total value of shipments of--			
Domestic content-----percent--	***	***	***
Foreign content-----do-----	***	***	***
Total employment-----	***	***	***
Production and related workers-----	***	***	***
Hours worked by production workers			
1,000 hours--	***	***	***

1/ Plant did not begin subzone operations until June 1982.

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

American Motors Corp. (AMC) (Subzone 41A)

AMC, of which 48 percent is owned by Renault of France, has its subzone in Kenosha, Wis. The grantee is the Foreign Trade Zone of Wisconsin, Ltd. Although subzone status was granted in February 1982, the Kenosha plant has been in operation since 1902. Manufacturing operations performed in the production of automobiles, parts, subassemblies, and assemblies include, but are not limited to, forging, heat treating, welding, material handling, and painting. Data on AMC's FTZ operations are presented in table 12.

Table 12.--American Motors Corp. (subzone 41A): Selected data on FTZ operations, 1982, October 1981-March 1982, and October 1982-March 1983 <sup>1/</sup>

Item	1982	October 1981- March 1982	October 1982- March 1983
Shipments:			
Domestic-----1,000 dollars--	***	***	***
Export-----do-----	***	***	***
Total-----do-----	***	***	***
Value added by manufacture-----do-----	***	***	***
Share of total value of shipments of--			
Domestic content-----percent--	***	***	***
Foreign content-----do-----	***	***	***
Total employment-----	***	***	***
Production and related workers-----	***	***	***
Hours worked by production workers			
1,000 hours--	***	***	***

<sup>1/</sup> Plant did not produce under FTZ procedures to any significant degree until April 1982-September 1982. Thus, data are not reported for October 1981-March 1982.

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

Volkswagen of America (VW) (Subzone 33A)

VW is a wholly owned subsidiary of Volkswagenwerk Aktiengesellschaft, West Germany. Its U.S. plant is located in Westmorland County, Pa., adjacent to the Port of Pittsburgh. The grantee is the Regional Industrial Development Corp. of Southwestern Pennsylvania. Operations under zone procedures began in January 1979; the plant commenced operations in April 1978. At the facility, Volkswagen produces automobiles and some light-duty trucks from imported and domestic components. Trucks have accounted for only a small part of VW's total value of shipments from its FTZ facility. Components include, but are not limited to, engines, shock absorbers, transmissions, water pumps, radiators, and intake manifolds. Data on FTZ operations for VW are shown in table 13.

Table 13.--Volkswagen of America (subzone 33A): Selected data on FTZ operations, 1978-82, October 1981-March 1982, and October 1982-March 1983

Item	1979	1980	1981	1982	October 1981- March 1982	October 1982- March 1983
Shipments:						
Domestic						
1,000 dollars--	***	***	***	***	***	***
Export--do----	***	***	***	***	***	***
Total--do----	***	***	***	***	***	***
Value added by manufacture						
do----	***	***	***	***	***	***
Share of total value of shipments of--						
Domestic con- tent						
percent--	***	***	***	***	***	***
Foreign con- tent--do----	***	***	***	***	***	***
Total employ- ment-----	***	***	***	***	***	***
Production and related workers-----	***	***	***	***	***	***
Hours worked by produc- tion workers						
1,000 hours--	***	***	***	***	***	***

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

#### Total economic activity in subzones

Manufacturing in subzones has increased sharply since 1978, when virtually all subzone activity was accounted for by the Hawaiian Independent Refinery and Enerco in subzone 9A. Table 14, which aggregates the individual firm data shown above, demonstrates this point. 1/

As more firms began operating under FTZ procedures during the 5.5 year period shown, so too did economic activity accelerate. During 1978-82, the value of shipments rose by nearly 800 percent, from \$330 million to \$2.9 billion. Then, as large firms such as Chrysler, American Motors, Ford

1/ Though a manufacturer of steel pipe under FTZ procedures, Berg Steel Pipe Corp. operates in a general-purpose zone. However, in 1982, the value of shipments by Berg were \* \* \*.

Table 14.--Special-purpose subzones: 1/ Selected data on FTZ operations, 1978-82,  
October 1981-March 1982, and October 1982-March 1983

Item	1978 2/	1979 3/	1980 4/	1981	1982	October 1981- March 1982	October 1982- March 1983
Shipments:	:	:	:	:	:	:	:
Domestic	:	:	:	:	:	:	:
1,000 dollars---	***	***	***	***	2,140,405	871,012	2,323,666
Export-----do-----	***	***	***	***	766,355	351,297	482,188
Total-----do-----	***	***	***	***	2,906,760	1,222,309	2,805,854
Value added by	:	:	:	:	:	:	:
manufacture-----do-----	***	***	***	***	5/ 581,219	339,193	5/ 528,040
Share of total	:	:	:	:	:	:	:
value of ship-	:	:	:	:	:	:	:
ments of--	:	:	:	:	:	:	:
Domestic content	:	:	:	:	:	:	:
percent---	***	***	***	***	55	27	66
Foreign content	:	:	:	:	:	:	:
6/-----do-----	***	***	***	***	45	73	34
Total employment-----	***	***	***	***	19,163	6,187	21,628
Production and	:	:	:	:	:	:	:
related	:	:	:	:	:	:	:
workers-----	***	***	***	***	16,622	5,643	19,105
Hours worked by	:	:	:	:	:	:	:
production	:	:	:	:	:	:	:
workers	:	:	:	:	:	:	:
1,000 hours---	***	***	***	***	22,051	4,914	13,092

1/ Also includes Berg Steel Pipe Corp., which manufactures in a general-purpose zone. Does not include data for Lilli Ann, Olivetti, and Ronson, which together accounted for a negligible part of total shipments.

2/ All Hawaiian Independent Refinery, Inc., (HIRI), and Enerco.

3/ Data are for HIRI, Enerco, and Volkswagen.

4/ Data are for HIRI, Enerco, Volkswagen, and Honda.

5/ Includes estimate by the staff of the U.S. International Trade Commission for Chrysler.

6/ \* \* \*

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

Tractor, and Sanyo became active either in April 1982–September 1982 or subsequently, such shipments accelerated their sharp rise. In October 1982–March 1983, shipments were valued at \$2.8 billion, up from \$1.2 billion in October 1981–March 1982. Throughout the 5.5 year period, the United States was the primary market for these shipments. In this connection, from a total value of \$11.7 billion shipped in the period, 81 percent (\$9.5 billion) went to the domestic market.

Similarly, value added by manufacture showed a sharp irregular increase from \* \* \* in 1978 to \$581 million in 1982. The total value added in October 1982–March 1983 (\$528 million) was 56 percent greater than that in October 1981–March 1982. The value added in October 1982–March 1983, the most meaningful time frame since it included all of the firms previously discussed, amounted to 19 percent of the total value of shipments. The range was \* \* \*.

During the 5.5 year period, the total value of shipments consisted increasingly of domestically produced merchandise. In 1978, \* \* \* for customs purposes. However, the data reflect only those for HIRI and Enerco, which accounted for virtually all of manufacturing in subzones in that year. Over the next 3 years, as more firms became involved in subzone activity, the domestic content of shipments averaged about 28 percent. This share increased to 55 percent in 1982 and to 66 percent in October 1982–March 1983, owing to \* \* \*.

Paralleling the increase in the various economic aspects of subzone activity, total employment also rose significantly. From \* \* \* workers in 1978, employment rose to 19,163 in 1982, and to 21,628 in October 1982–March 1983 <sup>1/</sup> (a detailed analysis of FTZ employment is given later in this report).

#### FTZ manufacturing

Clearly, manufacturing in FTZ's, particularly in special-purpose subzones, has increased sharply since 1978. However, when related to specific industries, manufacturing in FTZ's is noteworthy only for those firms producing motorcycles and automobiles. Through the first half of 1983, the manufacture in FTZ's of such items as televisions, microwave ovens, steel pipe, jet skis, and refined crude oil products was small, both in terms of the total number of domestic producers of each of these products and the total value of shipments (both in and outside of FTZ's). Furthermore, on the basis of current zone usage and approved applications by the Board, the impact of these zone-manufactured products in the U.S. market is likely to be minimal.

In terms of total U.S. shipments, the manufacture in FTZ's of motorcycles has become significant in recent years. Moreover, although the manufacture in zones of automobiles was not particularly important through the middle of 1983 in terms of total U.S. auto shipments, all U.S. producers and several foreign-owned firms are either currently manufacturing or have been approved by the Board to produce these and other motor vehicles in U.S. zones. Consequently, the manufacture of these products in FTZ's is likely to gain added momentum in the near future.

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<sup>1/</sup> These data do not include employment of Lilli Ann, Olivetti, and Ronson.



Motorcycles.--U.S. production of motorcycles is accounted for by three firms, two of which (Honda and Kawasaki) operate under FTZ procedures. In 1982, the estimated value of domestic shipments was \$260 million, about \* \* \*.

Automobiles.--In October 1982-March 1983, the value of shipments of automobiles from FTZ's by Chrysler, AMC, VW, and Honda together approximated \$1.7 billion. The total value of domestic shipments for the period is estimated to have amounted to \$22.5 billion. Thus, automobiles produced in FTZ's accounted for about 7 percent of total U.S. shipments. This percentage most certainly increased in April 1983-September 1983 and subsequently as both General Motors (in Atlanta and Doraville, Ga.) and Ford (in Wayne, Dearborn, and Wixom, Mich., and Kansas City, Mo.) began production of automobiles under FTZ procedures.

#### U.S. IMPORTS FROM FTZ'S

Data showing U.S. imports of privileged foreign and nonprivileged foreign merchandise entered into the customs territory of the United States are available from the Department of Commerce only for the 3.5-year period beginning in calendar year 1980. Data for July 1982-June 1983 are not publicly available and were provided to the Commission under a special contract. These data are considered business confidential, because publication would reveal business information about the individual operations of certain zone users. It should be noted that the data for the full 3.5-year period should be used with caution, because Census has experienced difficulty in developing its data-gathering system, resulting in inconsistent reporting of data over the period. Table 15 shows that total imports from FTZ's dropped annually from a value of \$1.0 billion in 1980 to \* \* \*. As table 15 shows, imports generally trended upward, except for those under schedules 4 and 6, the major categories. Much of the decrease in imports entering the United States resulted from an increase in the proportion of merchandise \* \* \*.

For the period shown above, imports under schedule 6 (metals and metal products) accounted for \* \* \* of the total; imports under schedule 4 (chemicals and related products) provided \* \* \* of the total.

During 1980-82, imports from FTZ's as a share of total U.S. imports for consumption of all merchandise averaged about 0.4 percent annually. Imports of metals and metal products and chemicals and related products as a share of total imports of these products were similarly miniscule during the period.

#### Privileged Foreign Merchandise

Imports from FTZ's of privileged foreign merchandise increased irregularly from a value of \$138 million in 1980 to an estimated \* \* \* in 1982 (\* \* \* percent); in the first half of 1983, such imports were valued at an estimated \* \* \*, as shown in table 16.

During January 1980-June 1983, imports of privileged foreign merchandise accounted for about \* \* \* of total imports from FTZ's. Chemicals and related products entered under schedule 4 were the major component of privileged imports, accounting for an estimated \* \* \* of such imports during the<sup>39</sup> period. Imports of metals and metal products under schedule 6 were second in importance, accounting for \* \* \* of the total.

Table 15.--Privileged and nonprivileged foreign merchandise: U.S. imports for consumption from FTZ's, by tariff schedule numbers and items, 1980-82 and January-June 1983 <sup>1/</sup>

(In thousands of dollars)				
Tariff schedule No. and description	1980	1981	1982	January-June 1983
1: Animal and vegetable products--	13,163	16,515	***	***
2: Wood and paper; printed material-----	620	846	***	***
3: Textile fibers and textile products-----	11,716	9,756	***	***
4: Chemicals and related products-----	420,486	323,587	***	***
5: Nonmetallic minerals and products-----	5,275	5,372	***	***
6: Metals and metal products-----	554,740	464,234	***	***
7: Specified, miscellaneous, and nonenumerated products-----	17,555	27,295	***	***
8: Special classification provisions (duty-free products)----	2,828	4,780	***	***
Total-----	1,026,383	852,385	***	***

<sup>1/</sup> Data are on a calendar-year basis. Data for 1980, 1981, and January-June 1982 are understated in that they do not include imports under TSUS items 806.30 and 807.00 or imports entered under the Generalized System of Preferences. These data were not reported by the U.S. Bureau of Census.

Source: Compiled from official statistics of the U.S. Department of Commerce.

Note.--Because of rounding, figures may not add to the totals shown.

Table 16.--Privileged foreign merchandise: U.S. imports for consumption from FTZ's, by tariff schedule numbers and items, 1980-82 and January-June 1983 1/

(In thousands of dollars)				
Tariff schedule No. and description:	1980	1981	1982 <u>2/</u>	January-June 1983 <u>2/</u>
1: Animal and vegetable products--:	2,936	4,180	***	***
2: Wood and paper; printed material-----:	19	207	***	***
3: Textile fibers and textile products-----:	4,608	5,208	***	***
4: Chemicals and related products-----:	6,390	278,544	***	***
5: Nonmetallic minerals and products-----:	668	361	***	***
6: Metals and metal products-----:	120,065	130,224	***	***
7: Specified, miscellaneous, and nonenumerated products-----:	3,327	2,398	***	***
8: Special classification provisions (duty-free products)---:	346	24	***	***
Total-----:	138,358	421,145	***	***

1/ Data are on a calendar year basis. Data for 1980, 1981, and January-June 1982 are understated in that they do not include imports under TSUS items 806.30 and 807.00 or imports entered under the Generalized System of Preferences. These data were not reported by the U.S. Bureau of Census.

2/ Import data for the last half of 1982 and January-June 1983 were not separately reported in the Bureau of Census statistics in terms of customs status, i.e., privileged and nonprivileged; thus, such data were estimated by the staff of the U.S. International Trade Commission partially on the basis of questionnaire responses.

Source: Compiled from official statistics of the U.S. Department of Commerce, except as noted.

Note.--Because of rounding, figures may not add to the totals shown.

#### Chemical and related products

Of the estimated \* \* \* entered under schedule 4 during the 3.5-year period, by far the dominant share consisted of crude petroleum (shale oil), fuel oils, and jet fuel. Principal sources were Indonesia, Brunei, and Malaysia.

#### Metals and metal products

The estimated \* \* \* entered under schedule 6 during the period consisted of a multitude of products, most of which were parts or components for automobiles, trucks, and motorcycles. Japan and West Germany were the sources for the major share of the total value imported.

### Nonprivileged Foreign Merchandise

Imports of nonprivileged foreign merchandise from FTZ's dropped from a value of \$888 million in 1980 to \* \* \* in 1982; in January-June 1983, such imports were valued at \* \* \*, as shown in table, 17.

Table 17.--Nonprivileged foreign merchandise: U.S. imports for consumption from FTZ's, by tariff schedule numbers and items, 1980-82 and January-June 1983 1/

(In thousands of dollars)				
Tariff schedule No. and description:	1980	1981	1982 <u>2/</u>	January-June 1983 <u>2/</u>
1: Animal and vegetable products---	10,227	12,335	***	***
2: Wood and paper; printed material-----	601	639	***	***
3: Textile fibers and textile products-----	7,109	4,548	***	***
4: Chemicals and related products-----	414,096	45,043	***	***
5: Nonmetallic minerals and products-----	4,607	5,011	***	***
6: Metals and metal products-----	434,675	334,010	***	***
7: Specified, miscellaneous and nonenumerated products-----	14,228	24,897	***	***
8: Special classification provisions (duty-free products)---	2,482	4,756	***	***
Total-----	888,025	431,239	***	***

1/ Data are on a calendar year basis. Data for 1980, 1981, and January-June 1982 are understated in that they do not include imports under TSUS items 806.30 and 807.00 or imports entered under the Generalized System of Preferences. These data were not reported by the U.S. Bureau of Census.

2/ Import data for the last half of 1982 and January-June 1983 were not separately reported in the Bureau of Census statistics in terms of customs status, i.e., privileged and nonprivileged; thus, such data were estimated by the staff of the U.S. International Trade Commission partially on the basis of questionnaire responses.

Source: Compiled from official statistics of the U.S. Department of Commerce, except as noted.

Note.--Because of rounding, figures may not add to the totals shown.

During January 1980-June 1983, imports of nonprivileged foreign merchandise accounted for about \* \* \* of total imports from FTZ's. Metals and metal products entered under schedule 6 comprised most of the nonprivileged imports, accounting for an estimated \* \* \* of such imports during the period. Imports of chemicals and related products entered under schedule 4 accounted for an estimated \* \* \* of nonprivileged imports.

### Metals and metal products

Of the \* \* \* entered under schedule 6 during the period covered, the great bulk was supplied by West Germany and consisted largely of parts for automobiles. Imports from Japan, an important source, consisted largely of parts for motorcycles, televisions, and computers.

### Chemicals and related products

Of the \* \* \* entered under schedule 4 during the period, by far the greatest portion was supplied by Indonesia, Malaysia, and Brunei. These imports consisted largely of gasoline, fuel oils, naptha, and natural gas.

### EXPORTS FROM FTZ'S

The following tabulation, compiled from data from the Board, shows exports from FTZ's, by type of zone, for 1978-82 (in millions of dollars):

<u>Year</u>	<u>Total</u>	<u>From general- purpose zones</u>	<u>From subzones</u>
1978-----	\$236	\$119	\$117
1979-----	347	196	151
1980-----	694	392	302
1981-----	926	484	442
1982-----	1,539	811	728

### General-Purpose Zones

Although exports were shipped from 38 general-purpose zones in 1982, when they amounted to \$811 million, four zones (McAllen with 60 percent; Miami, 19 percent; New York, 5 percent; and Port Everglades, 3 percent) together accounted for nearly 90 percent of the value shipped to foreign countries from such zones. These zones together accounted for 79 percent of the total in 1978, although Miami was not operating at that time.

### Subzones

Exports from eight subzones amounted to \$728 million in 1982, up from \$117 million in 1978, when only HIRI reported such shipments.

Although the data shown above reportedly show the value of exports from FTZ's, only a small portion are "U.S. exports of domestic merchandise." For example, a significant, but undeterminable, share of exports from general-purpose zones consisted of foreign merchandise that had been admitted into such zones and was subsequently reexported (transshipped). Similarly, a part of exports consisted of domestic and foreign merchandise that had been commingled but was exported as totally domestic.

Data on subzone activity derived from responses to Commission questionnaires show that the domestic content of merchandise exported from

subzones was a small part of reported exports. By relating such questionnaire data to the value of zone merchandise in terms of its customs status (privileged domestic, privileged foreign, and nonprivileged foreign), actual exports from subzones of domestic-content merchandise were estimated as follows: \* \* \* in 1978-80; \$27 million in 1981; \$155 million in 1982; and \$190 million in October 1982-March 1983 1/.

In summary, although the value of exports of domestically produced products from FTZ's cannot precisely be determined, such exports were far less than those reported by the Board as exports. By any measure, however, exports from FTZ's were miniscule compared with total exports of domestic merchandise, which, in calendar year 1982, amounted to \$207.2 billion.

#### FIRMS AND EMPLOYMENT IN FTZ'S

Table 18, compiled from annual reports of the Board and from responses to Commission questionnaires, shows available data on total direct employment resulting from operations in FTZ's. Total employment increased from \* \* \* workers in 1978, when there were 956 firms (646 part-time) operating in FTZ's, to 23,789 workers in 1982, when there were 1,565 firms (1,057 part-time). 2/ The importance of the contribution to total FTZ employment by subzones is highlighted by the fact that, prior to the commencement of operations under zone procedures by VW in 1979, general-purpose zones accounted for \* \* \* of all employment in zones in 1978. However, from 1979 to 1982, the share of total employment provided by subzones increased from \* \* \* to 81 percent. This percentage will undoubtedly increase, since employment will increase in subzones with the startup of operations under zone procedures of more automobile manufacturing/assembling facilities and of other producers. It should be kept in mind that for the most part no new jobs are being created and the employment data will reflect a change of existing facilities from non-zone to subzone status.

Employment in subzones (and also Berg Steel Pipe Corp.) increased from \* \* \* employees in 1978 to \* \* \* employees in 1979 and continued to increase steadily to \* \* \* employees in 1981 because of \* \* \*. Total employment in subzones increased dramatically to 19,203 employees in 1982, \* \* \* in 1981 and \* \* \* subzone employment. Employment in October 1982-March 1983 also increased sharply over October 1982-March 1982--21,648 compared with 6,207, respectively.

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1/ Privileged domestic merchandise includes not only articles produced domestically, but also merchandise which is foreign in origin, including products that enter FTZ's under the Automotive Products Trade Agreement; those under the Generalized System of Preferences; merchandise which previously had entered the U.S. customs territory duty free; and merchandise previously entered the U.S. customs territory on which duty was paid. To determine the proportion of exports which was domestic merchandise, the following were subtracted from the total value of exports reported by each firm: (1) that proportion of privileged domestic merchandise which was foreign; (2) privileged foreign merchandise; and (3) nonprivileged foreign merchandise. (No firms reported use of the nonprivileged domestic merchandise category).

2/ The last year for which employment data from the Board are available is 1982.

Table 18.--Employment: FTZ employment, by types of zones, 1978-82, October 1981-March 1982, and October 1982-March 1983

Item	1978	1979	1980	1981	1982	October 1981- March 1982	October 1982- March 1983
	Number						
General-purpose zones:							
Full-time and part-time workers-----	1,554	1,954	2,451	3,514	4,586	1/	1/
Full-time workers--	1,073	1,404	1,946	2,997	3,337	1/	1/
Subzones 2/-----	***	***	***	***	19,203	6,207	21,648
Total-----	***	***	***	***	23,789	1/	1/
	Percent of total						
General-purpose zones:							
Full-time and part-time workers-----	***	***	***	***	19	1/	1/
Full-time workers--	***	***	***	***	14	1/	1/
Subzones 2/-----	***	***	***	***	81	1/	1/
Total-----	100	100	100	100	100	1/	1/

1/ Not available because Board data not published.

2/ Includes Berg Steel Pipe Corp., located in a general-purpose zone, and Lilli Ann, Olivetti, and Ronson.

Source: Annual reports of the Foreign-Trade Zones Board and data submitted in response to questionnaires of the U.S. International Trade Commission.

In spite of the substantial increase in employment experienced in zones in recent years, the magnitude is quite small when 1982 total zone employment of 23,789 is compared with 1982 total civilian labor force employment of about 100 million in the overall United States economy. Direct zone employment amounts to much less than 0.1 percent of such total employment.

Employment in general-purpose zones of both full-time and part-time workers increased from 1,554 in 1978 to 4,586 in 1982. Full-time workers accounted for 69 to 85 percent of total employment in such zones. Between 1978 and 1980, five zones (New Orleans, Mayaguez, Honolulu, McAllen, and Kansas City, Mo.) together accounted for 70 to 78 percent of total employment in general-purpose zones. However, total employment at the Miami general-purpose zone increased sharply in 1981 to 1,193 employees, compared with 70 in 1980. Consequently, Miami's share of total general-purpose zone employment in 1981 was 34 percent, and the combined share of the other five large zones decreased to 52 percent. It should also be noted that McAllen alone accounted for 20 percent of such total employment in 1981, and Mayaguez, for 14 percent.

In 1982, total employment at Miami increased further to 1,800, and its share of total employment in general-purpose zones increased to 39 percent. McAllen and Mayaguez each accounted for about 15 percent of such employment in 1982.

In its questionnaire sent to certain firms manufacturing in subzones and to Berg Steel Pipe Corp., the Commission collected the data relating to employment shown in table 19.

Table 19.--Employment by Berg Steel Pipe Corp. and certain firms manufacturing in subzones, 1978-82, October 1981-March 1982, and October 1982-March 1983

Item	1978	1979	1980	1981	1982	October 1981- March 1982	October 1982- March 1983
Employment of pro- duction and re- lated workers----	***	***	***	***	16,622	5,643	19,105
Hours worked by production workers 1,000 hours--	***	***	***	***	22,051	4,914	13,092
Average number of hours worked annually by pro- duction worker---	***	***	***	***	1,327	871	685

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission.

Data on employment of production and related workers parallels the trend of total employment for these firms, increasing from \* \* \* workers in 1978 to \* \* \* in 1979, followed by steady increases to \* \* \* in 1981. Similarly, such employment jumped sharply to 16,622 in 1982. Data show that production and related workers increased from 5,643 in October 1981-March 1982 to 19,105 in October 1982-March 1983.

Hours worked by production workers increased from \* \* \* in 1978 to 22.1 million in 1982. They also increased from 4.9 million in October 1981-March 1982 to 13.1 million in October 1982-March 1983. However, data on the average number of hours worked annually by production workers engaged in zone activities reveal that a significant change occurred in 1982. After ranging between \* \* \* hours between 1978 and 1981, the average number of hours worked by such workers dipped to 1,327 in 1982. This average decreased further from 871 in October 1981-March 1982 to 685 in October 1982-March 1983. This undoubtedly reflects the startup phase of zone operations of several firms in late 1982 and early 1983, as well as \* \* \*.



The industries with the highest level of zone activity are those producing automobiles, some light trucks, and motorcycles. <sup>1/</sup> Because it was only during October 1982-March 1983 that all the automobile and light-truck firms <sup>2/</sup> were operating in subzones, that period will be used for comparison purposes. Although employment of production and related workers in the assembly of automobiles and light trucks accounted for 83 percent of the total of such employment in subzones (including Berg Steel) in that period, the same subzone automobile and light-truck employees accounted for much less than 0.1 percent of all production and related workers' employment in the total industry producing these vehicles.

In the motorcycle industry, the two firms operating in subzones are \* \* \*.

In reviewing FTZ employment statistics, it should be kept in mind that not all employment results from or relies solely on the employers' use of zone status. Many general-purpose zone operators, as well as the firms using general-purpose zones, had ongoing operations prior to zone activation or have subsequently integrated their non-zone and zone activities to such an extent that loss of zone status would not cause the firms to discontinue operations. In cases where functioning assembly plants have been designated as subzones, a substantial portion of employment represents jobs existing prior to the granting of zone status and not newly created employment opportunities.

Of the nine subzones (and also Berg Steel) conducting manufacturing activity in 1983 to which the Commission sent questionnaires, five had been operating at the sites prior to beginning operations under zone procedures in a facility not specifically built for operating in a zone; one facility had been producing cars since 1902. In 1982, Sanyo, American Motors, Ford Tractor, and Chrysler each began use of pre-existing facilities for subzone operations. In addition, Kawasaki had been manufacturing products in Lincoln from April 1974 until October 1980, when it began operations under zone procedures. Of these nine zones, new facilities were built in connection with anticipated zone usage by HIRI and Enerco in Hawaii, VW, Honda (two factories), and Berg Steel. Total combined employment at these four subzones was about \* \* \* (\* \* \*) in October 1982-March 1983, the only period in which all were in operation, out of total subzone employment of about 21,648, or \* \* \* of such employment. However, critics of the zone program point out that these jobs may not all be new jobs which were created because of zone activities. For example, VW and Honda may have shifted jobs in the automobile industry from another part of the United States to New Stanton, Pa., and Marysville, Ohio, respectively.

## EFFECTS OF ZONE OPERATIONS ON U.S. CUSTOMS REVENUES

### Duty Savings to Zones Users

Because of inverted, or upside down, tariff rates, firms in certain industries may reduce their tariff burden by operating in an FTZ when the duty

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<sup>1/</sup> Includes an unknown, but small percentage of three-wheeler KLT vehicles.

<sup>2/</sup> Only VW produced light trucks. Trucks accounted for an estimated  
\* \* \*. 47

rate on a manufactured article is lower than that on the raw materials, parts, and/or components making up the article. Table 20 shows data on the duty savings or losses 1/ to certain manufacturers operating in subzones and of Berg Steel Pipe Corp. These firms together accounted for virtually all FTZ manufacturing in 1982. These savings also represent probable government revenue losses.

\*            \*            \*            \*            \*            \*            \*

\* \* \*. With the significant pickup in activity because of new firms entering subzones, savings amounted to \$4.0 million in October 1982-March 1983.

A way to measure the revenue effect is to view the difference in revenue collected from that which would have been collected as a share of the value of total nonprivileged foreign (NPF) merchandise. This is a measure of the percentage point change in the ad valorem rate of duty charged on the NPF merchandise. \* \* \*.

#### Duty Payment Deferral

In its questionnaire to certain manufacturers operating in subzones and to Berg Steel Pipe, the Commission gathered data to make an assessment of the amount of this duty payment deferral to these firms. Using the average annual prime rate as an estimate of the cost of money to these firms, this cost was applied to the amount of the duty due on each firm's average value of potentially dutiable inventory for the weighted-average time lag between admission of such foreign merchandise into the zone and its entry into the customs territory of the United States. The following tabulation shows the estimated value of the interest cost of money saved during 1978-82, October 1981-March 1982, and October 1982-March 1983 by these firms by deferring duty payment:

Item	: 1978	: 1979	: 1980	: 1981	: 1982	: October 1981- March 1982	: October 1982- March 1983
Interest	:	:	:	:	:	:	:
cost	:	:	:	:	:	:	:
saved-----	***	***	***	***	\$25,000	\$10,300	\$31,500
	:	:	:	:	:	:	:

1/ These represent economic losses to the firm involved because it could not take full advantage of potential zone benefits.

Table 20.--Changes in revenue for selected firms operating in certain foreign-trade subzones, 1/ 1978-82, October 1981-March 1982, and October 1982-March 1983

Item	1978 2/	1979 3/	1980 3/	1981 4/	1982 5/	October 1981-October 1982- March 1982	March 1983
Duty collected	:	:	:	:	:	:	:
1,000 dollars--	***	***	***	***	8,347	3,832	6,101
Duty which would have been collected	:	:	:	:	:	:	:
1,000 dollars--	***	***	***	***	11,676	5,245	10,127
Total savings or (losses)-----do-----	:	:	:	:	:	:	:
Duty savings or (losses) as a share of duty which would have been collected	***	***	***	***	3,329	1,413	4,026
percent--	:	:	:	:	:	:	:
Nonprivileged foreign merchandise (NPF)	***	***	***	***	29	27	40
percent--	:	:	:	:	:	:	:
Duty savings or (losses) as a share of NPF-----percent--	***	***	***	***	261,017	116,605	277,980
:	:	:	:	:	:	:	:
:	***	***	***	***	1.3	1.2	1.4
:	:	:	:	:	:	:	:
1/ Data include Berg Steel Pipe Corp., which operates in a general-purpose zone.	:	:	:	:	:	:	:
2/ All Hawaiian Independent Refinery, Inc. (HIRI) and Enerco.	:	:	:	:	:	:	:
3/ Data are for HIRI, Enerco, and Volkswagen (VW).	:	:	:	:	:	:	:
4/ Data are for HIRI, Enerco, VW, and Kawasaki.	:	:	:	:	:	:	:
5/ Data are for VW, American Motors Corp. (AMC), Honda, Kawasaki, Ford, Chrysler, and Berg.	:	:	:	:	:	:	:
6/ Data are for VW, Honda, and Kawasaki.	:	:	:	:	:	:	:
7/ Data are for Sanyo, VW, AMC, Honda, Kawasaki, Ford, Chrysler, and Berg.	:	:	:	:	:	:	:

Source: Compiled from data submitted in response to questionnaires of the U.S. International Trade Commission, and partially estimated by the staff of the U.S. International Trade Commission.

## U.S. Customs Duties Collected on Merchandise Imported from Foreign-Trade Zones

Another measure of the impact of zones on U.S. customs revenues is to compare the total duties collected on all merchandise imported from zones with duties collected on all dutiable merchandise. During 1982, the last year the Board provided data on duties collected on merchandise imported from zones, the estimated duties collected in both general-purpose zones and subzones amounted to \$35 million, compared with total customs duties collected of \$8.7 billion, or about 0.4 percent of all duties collected.

### INDUSTRY CONCERNS AND RECOMMENDATIONS FOR MODIFICATION

Over the years a number of concerns have been raised about applications for manufacturing or processing under zone procedures (almost entirely for applications to manufacture in subzones). Virtually all opposition has centered around applications where inverted tariffs and the resultant reductions in customs duties created concern about potential injury to other firms in the affected industry, to industry suppliers, and to employees. By far, the largest number of opposed applications were those involving steel-related products, followed by textiles and apparel. Other industries with more than one opposed application were beef processing, petroleum products, and color televisions. An application by a firm in the bicycle industry has raised widespread opposition by other firms in the bicycle industry and by bicycle component parts suppliers. The table in appendix F summarizes information about applications known to have caused industry and labor concern.

More recently, at the Commission's hearings, in oral presentations and in statements submitted to the Commission, representatives of industry and labor expressed their concerns about the foreign-trade zones program and provided recommendations for changes to it. These concerns focused on reduced duty liability connected with inverted tariffs; increased manufacturing in zones, particularly in subzones; decreased Customs presence and control in zones; and the issue of the distance of subzones from a port of entry (adjacency). Those raising these concerns contend that the FTZ program has resulted in a net decrease in U.S. employment and has stimulated imports rather than exports, causing injury to domestic industries suppliers, and their employees. Witnesses also expressed concern about the public interest investigations conducted by the Board when questions are raised about the net positive benefit of any application for zone status, and the related economic impact analysis. Labor and industry have criticized the Board's investigations on the following grounds.

#### Net Employment Benefits

National labor unions argue that manufacturing in FTZ's results in a net loss of jobs in the United States. Local labor unions have generally supported zone projects in their respective areas because they would result in a potential net gain in or maintenance of jobs for that geographic area. Both proponents and opponents of zones generally concede this point. However, national unions contend that zone benefits give the manufacturer in a zone a

competitive advantage over firms outside the zone, thereby enabling the users to gain market share at the expense of domestic firms. These unions believe the gain is rarely at the expense of imports, especially in "import-sensitive" industries. Because they are import sensitive, increased competitiveness generally does not greatly stimulate exports. In addition, the inverted tariff benefits make non-zone supplier industries less competitive, reducing production and employment and creating an economic incentive for zone users to increase the proportion of components and raw materials obtained abroad. Thus, in the industry itself and supplying industries, jobs may be shifted from one geographic area of the United States to another. Finally, the workers being displaced may be more highly skilled than those gaining jobs and may be located in areas where few employment alternatives exist. In summary, these critics charge that at worst zone manufacturing causes a net loss of jobs rather than creating new jobs in the United States, and at best existing jobs are shifted to other areas, often to areas where few other jobs exist.

Because of this position, the national AFL-CIO made the following recommendations at the Commission's hearing:

"The AFL-CIO hereby reiterates its opposition to creation of foreign trade zones, because they result in job losses to the United States and have been used to undercut U.S. trade and tax laws.... The Foreign Trade Zones Act of 1934 should be repealed. Any exemptions from this nation's trade laws must be proven on a case-by-case basis."

Rather than complete abolition of zones, the United Auto Workers (UAW) acknowledged that zones could result in net job gains, especially when exports are increased. However, it did urge consideration of a series of alternatives to the current zone program:

- (a) "eliminate manufacturing as an activity permitted within the zones,
- (b) decide simultaneously on the FTZ status of all competing plants, after a full hearing by the ITC of the pros and cons by the applying industry, its suppliers, and affected workers,
- (c) on a case by case basis, require that net imports not increase from the original baseline for the company's manufacturing operation within the zone."

#### Potential Injury

Those concerned about zones argue that the economic impact analysis done by the Board is not rigorous enough to assess potential injury. They believe that the Board focuses on the individual firm applying for subzone status and does not give sufficient weight to the potential impact on the industry as a whole and its supplying industries, as well as workers in each. Thus, they feel that the Board fails to consider adequately a variety of issues, including: the market share of the petitioning firm compared with those of other domestic firms and with imports; the competitive advantage the applicant could have over other domestic firms and the likelihood that an application from one firm in an industry would require other firms to request zone status

in order to remain competitive; the fact that most subzone applicants are large firms and that small firms may not have sufficient resources to adopt zones procedures to remain competitive.

In addition, concern has been raised about the lack of clearly defined, workable criteria for assessing potential injury. It is believed that petitions are frequently accepted from firms in "import-sensitive" industries which would clearly be rejected under more rigorous criteria; and, at a minimum, that any analysis should include the entire domestic industry, its suppliers, and the workers in each. Consideration should be given to making a decision about granting zone status to the entire industry rather than on a site-by-site basis. The economic impact analysis should be conducted either by another Government agency besides the Board or by an independent, private-sector professional organization.

Commentators also argued that the burden of proof of net benefit should be placed entirely on the applicant and not on competing firms and affected workers, that the applicant should prove that it would not cause injury to them, and that the applicant should assume the full costs of the required outside analysis performed by the Government or by the private sector. The latter point was based on the assertion that many small firms and associations do not have the economic resources to oppose applications on a one-firm-at-a-time basis, which, explains their call for a decision on zone status for the industry rather than making decisions on a case-by-case basis.

Finally, some interests suggested that the same public notification, comment period, and approval process should be required for new manufacturing operations within previously approved zones and subzones as occurred with initial applications. This would permit the public and affected firms and workers to have sufficient notice to exercise their administrative rights in the proceeding.

#### Duty Liability Rates

Integrally related to the public interest investigation is the benefit derived by zone users in those instances where inverted tariffs exist and tariff rates may be reduced. Some zone critics charge that the act does not provide for tariff reductions in these situations (i.e., the privileged-nonprivileged distinction). They assert that regulations promulgated by Customs do not reflect the law and usurp the authority of Congress to reduce tariffs. In effect, these parties argue, this occurs as a result of the establishment by Customs of the privileged and nonprivileged statuses for foreign merchandise. These critics assert that Congress never intended that the category nonprivileged foreign merchandise should exist, or that zone users would have the choice of paying the duty on the product input or on the finished good. To buttress this contention, they point to the high level of unemployment during the depression of the 1930's, the prohibition of manufacturing in zones, the concern that tariffs would have to be paid on all imports, and the stress on exports in the congressional reports, all at the time of passage of the act in 1934. These critics further assert that these tariff reductions cause injury to domestic firms and workers. In their view, zones are not the appropriate method of correcting tariff problems and, in the words of the UAW representative at the Commission's hearing, "U.S. trade policy should be set for industries, not for companies and locations."

Another related concern also alleges that Customs went against Congressional intent when it modified its regulations in 1980 concerning Customs valuation of merchandise. Customs, at the urging of zone users, stopped including such zone-added value as labor and overhead in the dutiable value of the foreign merchandise. This, the critics charge, had the effect of reducing tariff rates without congressional action and of increasing imports by creating a greater economic incentive to reduce tariff costs. Finally, these critics express concern that such "tariff avoidance" causes substantial loss of revenue.

### Subzones

At least one critic of the FTZ program charged that there is no basis in the act for the Board's action in 1952--namely its promulgation of regulations providing for zones for special purposes, usually called subzones. Even if the legality of subzones is assumed, it is charged that the Board has strayed far from its original policy of granting subzones only in limited situations because of "their extraordinary nature," a position taken by the Executive Director of the Board as late as 1977. In this connection, they cite the sharp increase in the number of subzones since 1977. They note that now the Board takes the position that, by definition, a preexistent facility cannot be accommodated within a general-purpose zone; instead, the subzone need only be near a port of entry. The Board has proposed a further relaxation of its adjacency requirements in its regulations. This would allow virtually any firm in the United States willing to comply with certain requirements to have its plant declared a subzone. Originally, the Board interpreted the word "adjacent" to mean "contiguous with," but it gradually relaxed this standard. Another problem seen with the adjacency requirement is that the Board applies it only to the location of a zone or subzone in relation to a port of entry or Customs station. Critics believe that an adjacency requirement should also apply to the distance between a subzone and its sponsoring zone. One critic saw nothing prohibiting a zone in Buffalo from sponsoring a subzone in Miami and characterized the Board's use of the term adjacent as "regulatory double speak."

Another concern with subzones dealt with the lack of specific criteria in the act or in the Board's regulations concerning the legal responsibility of zones to subzones and vice versa.

Some noted that grants of subzone status frequently are awarded to large ongoing operations, whose continued operation could not be critically affected by such a grant. This places small competitors at a competitive disadvantage. This suggests that job creation is not a major benefit and that tariff avoidance is said to be the major reason for seeking the grant.

### Customs Presence and Control

Critics worry that, at a time when the FTZ program is rapidly expanding, the Customs Service is reducing its on-site presence in zones and the number of Customs stations because of budgetary constraints. They express concern that the proposed audit-inspection program in which Customs would seek to completely remove its physical presence from zones will result in lack of<sup>53</sup>

adequate Customs inspection, problems with proper classification and valuation (particularly in difficult parts of the tariff schedules), and possible circumvention of dumping, countervailing duty orders, and of quotas. They suggest very stiff penalties, including eventual loss of the subzone grant for repeated offenders, to discourage infractions. In connection with proper classification, one critic suggested that appeals of the decisions of the local district director should follow the standard procedure of first going to the regional director rather than going directly to the Board, which has less expertise in such matters.

### The FTZ Board

Given the rapidly expanding number of zones and subzones and the large increases in volume of merchandise handled, many believe that the Board lacks sufficient manpower to carry out its administrative and oversight functions. With regard to particularly difficult problems with the analysis of the net public benefits, some critics charge that both this lack of manpower and lack of expertise prevent the Board from making a sufficiently indepth analysis to make proper conclusions about such questions as potential injury to other firms in the industry and to supplying firms and the net employment effect. As noted before, they suggest independent private-sector or other U.S. Government analysis to remedy this situation.

Some critics of the Board believe that it acts with too much informality. It is noted that in its proposed regulations, the Board wants to formalize a process it already follows of providing for draft petitions. The Executive Director currently provides aid and advice to those filing petitions. Critics charge this may compromise his objectivity as he becomes, in effect, a consultant to the petitioner. Another aspect of this informality is a proposed regulation which would eliminate any requirement that the Board or its Committee of Alternates meet to make decisions. Critics believe that such meetings should be required, at a minimum when substantive or controversial issues (including assessing the public interest criteria) are considered; that they should be announced before the meeting; and that a verbatim record should be kept and made available to the public--in short, that the process should be conducted under procedures for Government in the sunshine.

With regard to Federal Register notices notifying the public of applications for manufacturing in zones and subzones, it is argued that the Board should provide better indexing, including identification of the company seeking to manufacture and the product involved. Because of the high and increasing cost of the Federal Register and because of the burden on small firms to be aware of Federal Register announcements, applicants should be required to send copies of the Federal Register notice to principal trade associations of the industry producing the product(s) and of supplying industries as well as to principal competitors and suppliers and their employees.

### Compliance With Other Federal Laws and Executive Directives

When the Board issued proposed new regulations and requested comments, concern was expressed that it failed to comply with Executive Order 12291, 54



which requires a substantial regulatory impact analysis whenever "major rules" changes occur. The Board argued that the impact of its changes would not be great enough to require such an analysis.

In addition, the Regulatory Flexibility Act (Public Law 96-354) requires a regulatory flexibility analysis of the impact of a Government program upon small business. The Board stated that it did not perform such an analysis because few small business are involved in the foreign-trade zones program. Critics charge that this misses the point. Few small entities participate because they are not in a position to benefit from it; thus, larger firms derive a competitive advantage, further entrenching their market power.

#### Restrictions Upon Zone and Subzone Grants

Concern on this issue epitomized the wide divergence of views about the nature of the FTZ program. Grantees and operators of firms manufacturing under zone procedures with Board restrictions on their activities argued that their activities would result in net positive public benefits and that there should be no restrictions on their grants. Others believe that the primary purpose of the FTZ program should be to stimulate exports and employment and would restrict manufacturing in zones and subzones to goods for export only.

#### SECONDARY OR INDIRECT IMPACT OF FTZ'S ON THE U.S. ECONOMY

In the Commission's questionnaire, manufacturers operating in FTZ's commented on the secondary or indirect impact on the U.S. economy they believed their FTZ operations had contributed or sustained. In their responses, zone users described a "ripple" or dynamic effect on the local and the U.S. economy because of their zone operations and the availability of the zone program.

On the most basic level, officials of HIRI, the oil refinery in Hawaii, indicated that without the zone program, the refinery would have been built abroad. They asserted that the ability to establish a zone provided the flexibility needed to overcome technical barriers in the oil import program in effect during the early 1970's, provided Hawaii with much needed refinery capacity during the oil embargo in 1973, and fulfilled national security needs by serving as a supplier to the U.S. military. HIRI also believes that the highly trained technical and management team assembled there increases the competitiveness of the United States in world markets.

In connection with plant location and economic development, many zone grantees pointed out that the availability of a zone broadens the overall economic package which it can offer. While it may not be the crucial factor in such decisions, it is often an important one.

Many firms noted that they invested substantial amounts of money in new plants and equipment in connection with location in an FTZ. In such investments, local construction contractors were used, and substantial amounts of U.S. machinery and equipment were purchased. This point is most applicable to those firms establishing new plants directly tied to location in a zone such as VW, Honda, Berg Steel Pipe, Nissan, and HIRI. VW's total investment

in plant and equipment was \* \* \*. Honda spent \* \* \*, of which over \* \* \* went for construction and over \* \* \* for U.S.-supplied machinery and equipment. Berg invested about \* \* \*. Nissan estimated a total investment of over \* \* \*, \* \* \* in the physical plant. The firm stated that construction, installation of equipment, and startup operations added \* \* \* to the local payroll. HIRI gave investment figures of \* \* \* during 1972-83, and investment in its sister plant, ENERCO, amounted to \* \* \*.

In addition these firms indicated that the new plants have encouraged supplying firms to locate in the area, often also making investments in new plant and equipment, and further stimulating the same types of multiplier effects associated with the main plants. For example, Nissan reported that two suppliers located plants nearby and made investments totaling \* \* \* and plan to employ a total of \* \* \* workers by 1985. Because Kawasaki accounts for a major part of their business, \* \* \*.

With regard to purchases from U.S. vendors, perhaps the clearest creation of secondary or indirect benefits can be seen for new plants, especially plants of producers which formerly produced abroad and imported products from completely foreign inputs. Such U.S. vendor purchases include components for production of products and other materials to operate the plant. In this connection, VW used over \* \* \* supplying over \* \* \* automobile components located in 34 States, Canada, Mexico, Brazil, and West Germany. In addition, it purchased over \* \* \* different products needed to operate the plant. Honda estimated that it bought \* \* \* worth of U.S. components for its Marysville, Ohio, plant during October 1982-March 1983 and will purchase \* \* \* worth during 1983. Kawasaki purchased from over \* \* \* U.S. suppliers, of which \* \* \* supplied components or raw materials for manufacturing. These U.S. purchases for FTZ manufacturing operations averaged about \* \* \* annually during 1980-83. Ford stated that the FTZ allowed it to keep its Romeo tractor plant open and sustain purchases from about \* \* \* U.S. suppliers, as well as stabilizing the local economy.

In order to supply these materials to the factory and to ship finished products and other materials from the zone, employment and equipment utilization is stimulated in the U.S. trucking, railroad, and airfreight industries. Nissan estimated expenditures of \* \* \* paid to trucking firms to transport parts and vehicles in its startup operations in 1982 and 1983.

The most commonly used estimate by zone users of the secondary impact on employment from manufacturing activity in zones was two jobs created outside the zone for each job in the zone. 1/ AMC provided detailed estimates made by the Bureau of Labor Statistics (BLS) of the indirect employment stimulated by the production of motor vehicles and equipment. For each 1 billion dollars' worth of 2/ final demand for motor-vehicles in 1981, BLS estimated total employment of 47,451 workers. Of this amount, 15,837 were directly employed

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1/ For October 1982-March 1983, this would have meant an additional 42,600 jobs stimulated by those firms responding to the Commission's questionnaire. However, it should be noted that a number of these firms, especially in the automobile industry, have operated plants at the subzone location for a number of years prior to zone activation.

2/ In 1972 dollars measured at producers price, F.O.B. production site.

in motor-vehicle manufacturing and 31,614 in indirect employment. See appendix G for a detailed breakdown of where the employment occurred.

In its discussion, Kawasaki noted that another aspect of the secondary employment impact of a subzone on the local community can be seen in its response to decreased demand for its products during the recession. Consistent with employment practices in Japan, Kawasaki preferred to spread the hardship among all its employees and to retain them as long as possible rather than laying them off. Thus, it gradually reduced the average number of hours worked by each employee to 36 and then to 27 when the recession worsened. However, it paid each for 32 hours. In addition, the firm loaned 10 production workers and a part-time supervisor to the city of Lincoln to perform jobs the city couldn't afford to hire people to do, and Kawasaki continued to pay them. In addition to reducing its costs for retraining when the economy improved, Kawasaki, as one of the largest manufacturing employers in the Lincoln area, sought to mitigate the ripple effects its layoffs would have had on the local economy.

Chrysler suggested another way of viewing employment. It pointed out that zone procedures help it to become more competitive and maintain jobs which might have been lost because of import competition. This job maintenance kept workers off welfare; unemployment compensation benefits are reduced, avoiding higher unemployment compensation taxes for other employers; the negative ripple effect on surrounding businesses is avoided; and the Gross National Product is not depressed.

Firms responding to the Commission questionnaire paid a variety of Federal, State, and local taxes: personal property; State franchise; State sales; Federal, State, and local income; Federal and State unemployment compensation; and FICA. VW stated that it paid \* \* \* annually in property taxes. Between 1980 and 1982, Kawasaki averaged \* \* \* annually in real estate and personal property taxes. In payment of each of the taxes listed above, Honda paid an estimated \* \* \* in 1983. The responding foreign firms, indicated that these tax payments represent new sources of Government revenue.

Another secondary impact identified in the responses involves the effect on the U.S. balance of payments of firms operating in zones. Such operations influence both imports and exports. Any exports coming from new plants are newly created exports. For example, \* \* \*.

It should be noted that similar types of secondary or indirect benefits to the U.S. economy were described by general-purpose zone grantees, operators, and users at the Commission's hearing. 1/ Testimony was presented on these points on behalf of Kansas City Kans. and Mo.; Battle Creek, Mich.; Panama City, Fla.; Miami, Fla.; Mount Olive, N.J.; Southeast Texas; Research Triangle Park, N.C.; and the Port Authority of New York and New Jersey. 2/

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1/ Transcript of the hearing, pp. 260-405.

2/ In these cases, however, the secondary impact cannot be so clearly stated or quantified, as in the case of a newly established plant in a subzone, because use of a general-purpose zone by a firm is often on a part-time basis incidental to its overall operations. The employment effects, investment decisions, taxes paid, and other types of secondary effects noted earlier would be influenced by the ability to benefit from zone procedures, but<sup>57</sup> generally, such influence would be a small part of such secondary effects.

In an effort to provide data on zone activity for the Commission's investigation, the National Association of Foreign-Trade Zones conducted an independent survey of FTZ's. The Association represents 69 grantees of zones and received 57 responses to its questionnaire. Of these, 44 respondents provided full or partial data, and 13 reported that they were not in operation. These data (which have not been independently verified) include information on the secondary impact on the U.S. economy and are provided in appendix H along with the questionnaire.

**APPENDIX A**

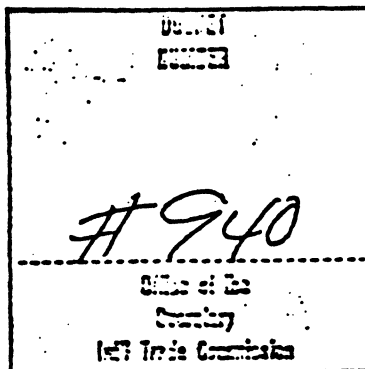
**REQUEST FROM COMMITTEE ON WAYS AND MEANS, UNITED STATES HOUSE  
OF REPRESENTATIVES**

# COMMITTEE ON WAYS AND MEANS

U.S. HOUSE OF REPRESENTATIVES

WASHINGTON, D.C. 20515 MAY 27 11:57

May 20, 1983

COMMISSIONER ECKES  
USITC

Honorable Alfred E. Eckes  
Chairman  
International Trade Commission  
701 E Street, N.W.  
Washington, D.C. 20436

Dear Mr. Chairman:

As you may know, the creation and operation of foreign trade zones and their implications for U.S. trade policy has been a concern of the Congress since the enactment of the Foreign Trade Zones Act in 1934. Recently, increasing public concern over the proper role of foreign trade zones (FTZ) in the U.S. economy has been expressed to the Committee on Ways and Means by such diverse interests as the importing community, municipal governments and domestic manufacturing industries. The Committee would appreciate the Commission's assistance in analyzing these operations and assessing their implications for the American economy.

Use of FTZ's has grown dramatically in the past decade. In fact, the Department of Commerce reports that the number of ports of entry with zone projects has grown from 10 to 75 during the past decade, and the value of goods entering zones and subzones has increased from just over \$100 million to over \$3 billion, about 50% of which involves manufacturing activity. Further, about 33% of the goods currently entering zones is of domestic origin and 30% of the goods shipped from zones are exported. Many proposals for manufacturing in zones for the domestic market have been opposed by competing domestic industries.

These statistics demonstrate not only the rapid growth in trade zones; but also their impact on international trade and investment. In view of these data, the Committee is concerned about whether the Congressional intent of the 1934 Act is being carried out: namely, to promote economic development, stimulate exports, increase employment, and improve the competitive posture of U.S. located firms in world markets.

Honorable Alfred E. Eckes  
 May 20, 1983  
 Page 2

Accordingly, the Committee requests that the Commission conduct a fact-finding investigation, under section 332 of the Tariff Act of 1930, into the implications of foreign trade zones for U.S. industries and for competitive conditions between U.S. and foreign firms. We would also appreciate a review of the effects on revenue collection, employment, and the economy in general, caused by the establishment of zones. It would be helpful to the Committee if the following issues could be examined:

- Current administration and operation (FTZ Board, U.S. Customs Service);
- Trends in FTZ usage (growth, volume, and types of storage);
- Benefits associated with FTZ's (tariff exemptions, employment generated, etc.);
- Major manufacturing industries utilizing FTZ's and the nature of operations used (with emphasis on special purpose subzones);
- U.S. industry concerns regarding FTZ's (increased imports, foreign content of "domestic" products, quota and tariff evasion, etc.) and their recommendations for modification;
- Safeguards in FTZ system.

It is recommended that you consult with the Foreign Trade Zone Board and the U.S. Customs Service in the conduct of this study; their cooperation will be encouraged by this Committee. We would appreciate receiving your report not later than February 15, 1984.

Thank you for your early consideration of this request.

Sincerely yours,

  
 Dan Rostenkowski  
 Chairman

R/FCPn





**APPENDIX B**  
**NOTICE OF INVESTIGATION**

UNITED STATES INTERNATIONAL TRADE COMMISSION  
Washington, D.C.

(332-165)

The Implications of Foreign-Trade Zones (FTZ's) for U.S. Industries  
and for Competitive Conditions between U.S. and  
Foreign Firms

AGENCY: United States International Trade Commission

ACTION: Following receipt on May 31, 1983, of a request from the Committee on Ways and Means of the U.S. House of Representatives, the Commission instituted investigation No. 332-165 under section 332(g) of the Tariff Act of 1930 (19 U.S.C. 1332(g)), for the purpose of gathering and presenting information on the implications of foreign-trade zones (including subzones) (FTZ's) for U.S. industries and for competitive conditions between U.S. and foreign firms. The Commission's investigation will include a review of the effects on revenue collection, employment, and the economy in general caused by the establishment of such zones. Among the issues examined in this review will be the current administration and operation of FTZ's; trends in FTZ usage; benefits associated with FTZ's; major manufacturing industries utilizing FTZ's and the nature of the operations performed; U.S. industry concerns regarding FTZ's and their recommendations for modifications; and safeguards in the FTZ system. The Committee requested that the Commission forward its report by February 15, 1984.

EFFECTIVE DATE: June 28, 1983

FOR FURTHER INFORMATION CONTACT: Mr. William Hanlon or Mr. Carl F. Seastrum, General Manufactures Division, Office of Industries, U.S. International Trade Commission, Washington, D.C. 20436, telephone 202-724-1745 or 202-724-1733, respectively.

Public hearing.—A public hearing in connection with the investigation will be held in the Commission Hearing Room, 701 E Street NW., Washington, D.C. 20436, beginning at 10:00 a.m., on November 16, 1983. All persons shall have the right to appear by counsel or in person, to present information, and to be heard. Requests to appear at the public hearing should be filed with the Secretary, United States International Trade Commission, 701 E Street NW., Washington, D.C. 20436, not later than noon, November 9, 1983.

Written submissions.—In lieu of or in addition to appearances at the public hearing, interested persons are invited to submit written statements concerning the investigation. Written statements should be received by the close of business on November 9, 1983. Commercial or financial information which a submitter desires the Commission to treat as confidential must be submitted on separate sheets of paper, each clearly marked "Confidential Business Information" at the top. All submissions requesting confidential treatment must conform with the requirements of section 201.6 of the Commission's Rules of Practice and Procedure (19 CFR 201.6). All written

submissions, except for confidential business information, will be made available for inspection by interested persons. All submissions should be addressed to the Secretary at the Commission's office in Washington, D.C.

By order of the Commission.



Kenneth R. Mason  
Secretary

Issued: July 1, 1983



**APPENDIX C**

**WITNESSES AT THE HEARING AND PERSONS SUBMITTING WRITTEN STATEMENTS**

## TENTATIVE CALENDAR OF PUBLIC HEARING

Those listed below appeared as witnesses at the United States International Trade Commission's hearing:

Subject : The Implications of Foreign-Trade  
Zones (FTZ's) for U.S. Industries  
and for Competitive Conditions between  
U.S. and Foreign Firms

Inv. No. : 332-165

Date and time: November 16, 1983 - 10:00 a.m.

Sessions were held in connection with the investigation in the Hearing Room of the United States International Trade Commission, 701 E Street, N.W., in Washington.

Congressional appearance:

Honorable Howard E. Wolpe, United States Congressman, State of Michigan

Government witnesses:

United States Department of Commerce, The Foreign-Trade Zones Board,  
Washington, D.C.

John L. Evans, Deputy Assistant Secretary of Commerce for  
Import Administration

John J. Da Ponte, Jr., Director, Commerce Foreign-Trade  
Zones Staff and Executive Secretary, FTZ Board

WITNESS AND ORGANIZATION

American Iron and Steel Institute, Washington, D.C.

David H. Phelps, Director, International Trade & Economics

Laird Patterson, General Attorney, Bethlehem Steel Corp.

American Federation of Labor and Congress of Industrial Organizations,  
Washington, D.C.

Mark A. Anderson, Department of Economic Research

- more -

International Union United Automobile Aerospace and Agricultural  
Implement Workers of America, UAW, Washington, D.C.

Lee Price, International Economist

Taft, Stettinius & Hollister--Counsel  
Washington, D.C.  
on behalf of

Wald Manufacturing Company of Maysville, Kentucky  
(Bicycle parts manufacturer)

Randolph J. Stayin, Esq.

Virginia E. Hopkins--OF COUNSEL

Stewart-Warner Corporation, Washington, D.C.

Joseph G. Crowley, Instrument Marketing Manager

Toshiba America Incorporated, Lebanon, Tennessee

Robert H. Traeger, Vice President, Manufacturing Division

Berg Steel Pipe Corporation, Panama City, Florida

Carl G. Seigler, Manager of Foreign-Trade Zone Affairs

Horace C. Bass, Mayor's Office of Economic Development Metropolitan  
Government of Nashville and Davidson County, Tennessee,  
Nashville, Tennessee

Arent, Fox, Kintner, Plotkin & Kahn--Counsel  
Washington, D.C.  
on behalf of

UNR Industries, Inc.

Lewis E. Leibowitz--OF COUNSEL

Motor Vehicle Manufacturers Association, Washington, D.C.

Anne Edlund, Vice President, Public Affairs of MVMA

Dennis J. Curren, Customs Administrator, American Motors  
Corporation and Chairman of the MVMA Customs Subcommittee

James Trask, Economist, General Motors Corporation

Allen A. Moody, Supervisor, Customs Section, Ford Motor Co.

Peter Zubrin, Manager, Transaction Taxes, General Motors Corp.

Dale R. Ellery, Director of Taxes and Customs, Volkswagen  
of America, Inc.

Robert E. Watkins, Director of International Affairs, MVMA

Harris, Berg & Creskoff--Counsel  
Washington, D.C.  
on behalf of

The National Association of Foreign-Trade Zones

Joseph F. O'Connor, President

Robert Chancellor, Executive Director, National  
Association of Foreign-Trade Zones

Marshall D. Bartlett, Inc., Cambridge, Massachusetts

Matthew Breitenberg, Economic Consultant

Stephen M. Creskoff--OF COUNSEL

Freeland, Freeland & Enriquez--Counsel  
McAllen, Texas  
on behalf of

McAllen Foreign-Trade Zone

Frank Birkhead, Jr., Executive Vice President

Kelly Freeland--OF COUNSEL



- 4 -

WITNESS AND ORGANIZATION

November 17, 1983

10:30 a.m.

Panama City Port Authority, Panama City, Florida

Tommy L. Berry, Assistant Port Director and Foreign Trade  
Zone Manager

Miami Free Zone Corporation, Miami, Florida

Thomas Schwartz, Secretary - Corporate Counsel

Foreign Trade Zone of Southeast Texas, Inc., Nederland, Texas

Mitzi Vorachek, Institute Associate, John Gray Institute,  
Beautomont, Texas

George A. Tuttle--Counsel  
Washington, D.C.  
on behalf of

United Technologies Mostek, Carrollton, Texas

Ray E. Shaw, Corporate Customs Manager

Richard S. Hoffman--OF COUNSEL

Greater Kansas City Foreign-Trade Zone, Inc., Kansas City, Missouri

(Foreign-trade zones 15 in Missouri and 17 in Kansas)

Dr. R. Chris Wyatt, President

New Jersey Foreign Trade Zone, Mount Olive, New Jersey

(Foreign Trade Zone 44)

Joseph F. O'Connor, Director of Operations for  
the New Jersey Foreign Trade Zone Venture

- more -

- 5 -

Emperial International Ventures, Ltd., Raleigh, North Carolina

G. Eric Tannery

Triangle J. Council of Governments, Research Triangle Park,  
North Carolina

Lee Hood Capps

Foreign Trade Zone 43, Battle Creek, Michigan

Marilyn E. Parks, Director

Foreign Trade Zone 49, Port Authority of New York and New Jersey,  
New York, N.Y.

Roy H. Jaeger, Assistant Manager, Properties Division,  
Port Department

## WRITTEN SUBMISSIONS

1. Daniel K. Inouye, U.S. Senator  
Spark Matsunaga, U.S. Senator  
Daniel K. Akaka, U.S. Representative  
Cecil L. Heftel, U.S. Representative  
Statement on behalf of the State of Hawaii
2. John L. Evans  
Deputy Assistant Secretary for Import Administration  
Walter C. Lenaham  
Deputy Assistant Secretary for Textiles and Apparel  
John J. DaPonte, Jr.  
Director, Commerce Foreign-Trade Zones Staff and Executive Secretary  
U.S. Department of Commerce
3. Robert G. Brave, President  
National Association of Foreign-Trade Zones
4. Herbert J. Rowe, CAE  
Senior Vice President  
Electronic Industries Association
5. Frank Birkhead, Jr., Executive Vice President  
McAllen Foreign-Trade Zone
6. Mitzi Vorachek, Institute Associate  
John Gray Institute  
On behalf of Foreign-Trade Zone of Southeast Texas, Inc.
7. Mark A. Anderson  
Department of Economic Research  
American Federation of Labor and Congress of Industrial Organizations
8. Thomas Schwartz, Secretary-Corporate Counsel  
Miami Free Zone Corporation
9. Virginia E. Hopkins, of Counsel  
Wald Manufacturing Company
10. Ray E. Shaw, Corporate Customs Manager  
United Technologies Mostek
11. Dr. R. Chris Wyatt, President  
Great Kansas City Foreign-Trade Zone, Inc.
12. Harold E. Cash, President  
Delaware Valley Foreign-Trade Zone, Inc.

13. Lewis E. Leibowitz, of Counsel  
UNR Industries, Inc.  
Berg Steel Pipe Corporation  
Toshiba America Incorporated
14. Robert H. Traeger  
Vice President, Manufacturing  
Toshiba America Incorporated
15. Horace C. Bass  
Mayor's Office of Economic Development  
Metropolitan Government of Nashville and Davidson County
16. Carl G. Seigler  
Manager of Foreign-Trade Zone Affairs  
Berg Steel Pipe Corporation
17. Joseph F. O'Connor  
Director of Operations  
New Jersey Foreign-Trade Zone Venture
18. Anne Edlund  
Vice President, Public Affairs  
Motor Vehicle Manufacturers Association
19. R. W. Strauss  
Manager-Washington Operations  
Joseph G. Crowley  
Instrument Marketing Manager  
Stewart-Warner Corporation
20. Richard P. Woods  
Director, Federal Affairs  
Pacific Resources, Inc.
21. Joseph F. O'Connor, President  
Stephen M. Creskoff, of Counsel  
Matthew Breitenberg, Economic Consultant  
National Association of Foreign-Trade Zones
22. Lee Price, International Economist  
International Union  
United Automobile, Aerospace, & Agricultural Implement Workers of  
America
23. Howard J. Grossman, Executive Director  
Economic Development Council of Northeastern Pennsylvania
24. Robert Auerbach, General Counsel  
Cycle Parts & Accessories Association, Inc.
25. Timothy P. O'Reilly, General Counsel  
Carlisle Tire & Rubber Company

26. Marilyn E. Parks, Director  
Battle Creek Foreign-Trade Zone
27. Lee Hood Capps  
Director, Foreign-Trade Zone Project  
Triangle J Council of Governments
28. G. Eric Tannery, Vice President  
Imperial International Ventures, Ltd.
29. Tommy L. Berry  
Assistant Port Director & Foreign-Trade Zone Manager  
Panama City Port Authority
30. R. A. Warne  
Vice President & Controller  
Elli Lilly & Company
31. Robert O. Zinnen  
Executive Vice-President  
Roadmaster Corporation
32. David H. Phelps  
Director, International Trade & Economics  
American Iron and Steel Institute
33. Robert Stautberg, President  
Greater Cincinnati Foreign Trade Zone, Inc.
34. Roy H. Jaeger  
Assistant Manager, Properties Division, Port Dept.  
Port Authority of New York and New Jersey
35. R. Wayne Walvoord, President  
Global Trade Corporation



**APPENDIX D**

**THE FOREIGN-TRADE ZONES ACT OF 1934 AND THE 1950 (BOGGS) AMENDMENT**

## Part II. REGULATIONS GOVERNING CUSTOMS PROCEDURE IN FOREIGN-TRADE ZONES IN THE UNITED STATES

TREASURY DEPARTMENT,  
OFFICE OF THE SECRETARY,  
Washington, D. C.

Public No. 397, of the Seventy-third Congress, approved June 18, 1934, relating to foreign-trade zones, is as follows:

[PUBLIC—No. 397—73d Cong.]

[H. R. 9322]

### AN ACT

To provide for the establishment, operation, and maintenance of foreign-trade zones in ports of entry of the United States, to expedite and encourage foreign commerce, and for other purposes

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That when used in this act—*

(a) The term "Secretary" means the Secretary of Commerce;

(b) The term "Board" means the Board which is hereby established to carry out the provisions of this act. The Board shall consist of the Secretary of Commerce, who shall be chairman and executive officer of the Board, the Secretary of the Treasury, and the Secretary of War;

(c) The term "State" includes any State, the District of Columbia, Alaska, Hawaii, and Puerto Rico;

(d) The term "corporation" means a public corporation and a private corporation, as defined in this act;

(e) The term "public corporation" means a State, political subdivision thereof, a municipality, a public agency of a State, political subdivision thereof, or municipality, or a corporate municipal instrumentality of one or more States;

(f) The term "private corporation" means any corporation (other than a public corporation) which is organized for the purpose of establishing, operating, and maintaining a foreign-trade zone and which is chartered under special act enacted after the date of enactment of this act of the State or States within which it is to operate such zone;

(g) The term "applicant" means a corporation applying for the right to establish, operate, and maintain a foreign-trade zone;

(h) The term "grantee" means a corporation to which the privilege of establishing, operating, and maintaining a foreign-trade zone has been granted;

(i) The term "zone" means a "foreign-trade zone" as provided in this act.

Sec. 2. (a) The Board is hereby authorized, subject to the conditions and restrictions of this act and of the rules and regulations made thereunder, upon application as hereinafter provided, to grant to corporations the privilege of establishing, operating, and maintaining foreign-trade zones in or adjacent to ports of entry under the jurisdiction of the United States.

(b) Each port of entry shall be entitled to at least one zone, but when a port of entry is located within the confines of more than one State such port of entry shall be entitled to a zone in each of such States, and when two cities separated by water are embraced in one port of entry, a zone may be authorized in each of said cities or in territory adjacent thereto. Zones in addition to those to which a port of entry is entitled shall be authorized only if the Board finds that existing or authorized zones will not adequately serve the convenience of commerce.



(c) In granting applications preference shall be given to public corporations.

(d) In case of any State in which harbor facilities of any port of entry are owned and controlled by the State and in which State harbor facilities of any other port of entry are owned and controlled by a municipality the Board shall not grant an application by any public corporation for the establishment of any zone in such State, unless such application has been authorized by an act of the legislature of such State (enacted after the date of enactment of this act).

SEC. 3. Foreign and domestic merchandise of every description, except such as is prohibited by law, may, without being subject to the customs laws of the United States, except as otherwise provided in this act, be brought into a zone and may not be manufactured or exhibited in such zone but may be stored, broken up, repacked, assembled, distributed, sorted, graded, cleaned, mixed with foreign or domestic merchandise, or otherwise manipulated, and be exported, and foreign merchandise may be sent into customs territory of the United States therefrom, in the original package or otherwise; but when foreign merchandise is so sent from a zone into customs territory of the United States it shall be subject to the laws and regulations of the United States affecting imported merchandise: *Provided*, That when the privilege shall be requested the collector of customs shall supervise the unloading of foreign merchandise in the zone, cause such merchandise or any portion thereof to be appraised and the duties liquidated thereon. Thereafter it may be stored or manipulated under the supervision and regulations prescribed by the Secretary of the Treasury, and within two years after such unloading such merchandise, whether mixed with domestic merchandise or not, may be sent into customs territory upon the payment of such liquidated duties thereon; and if not so sent into customs territory within such period of two years such merchandise shall be disposed of under rules and regulations prescribed by the Secretary of the Treasury and out of the proceeds the duties shall be paid and the remainder, if any, shall be delivered to the owners of the property: *Provided further*, That subject to such regulations respecting identity and the safeguarding of the revenue as the Secretary of the Treasury may deem necessary, articles, the growth, product, or manufacture of the United States, and articles previously imported on which duty has been paid, or which have been admitted free of duty, may be taken into a zone from the customs territory of the United States, and may be brought back thereto free of duty, whether or not they have been combined with or made part while in such zone, of other articles: *Provided*, That if in the opinion of the Secretary of the Treasury their identity has not been lost such articles not entitled to free entry by reason of noncompliance with the requirements made hereunder by the Secretary of the Treasury shall be treated when they reenter the customs territory of the United States as foreign merchandise under the provisions of the tariff laws in force at that time.

SEC. 4. The Secretary of the Treasury shall assign to the zone the necessary customs officers and guards to protect the revenue and to provide for the admission of foreign merchandise into customs territory.

SEC. 5. Vessels entering or leaving a zone shall be subject to the operation of all the laws of the United States, except as otherwise provided in this act, and vessels leaving a zone and arriving in customs territory of the United States shall be subject to such regulations to protect the revenue as may be prescribed by the Secretary of the Treasury. Nothing in this act shall be construed in any manner so as to permit vessels under foreign flags to carry goods or merchandise shipped from one foreign trade zone to another zone or port in the protected coastwise trade of the United States.

SEC. 6. (a) Each application shall state in detail—

(1) The location and qualifications of the area in which it is proposed to establish a zone, showing (A) the land and water or land or water area or land area alone if the application is for its establishment in or adjacent to an interior port; (B) the means of segregation from customs territory; (C) the fitness of the area for a zone; and (D) the possibilities of expansion of the zone area;

(2) The facilities and appurtenances which it is proposed to provide and the preliminary plans and estimate of the cost thereof, and the existing facilities and appurtenances which it is proposed to utilize;

(3) The time within which the applicant proposes to commence and complete the construction of the zone and facilities and appurtenances;

- (4) The methods proposed to finance the undertaking;
  - (5) Such other information as the Board may require.
  - (b) The Board may upon its own initiative or upon request permit the amendment of the application. Any expansion of the area of an established zone shall be made and approved in the same manner as an original application.
- Sec. 7. If the Board finds that the proposed plans and location are suitable for the accomplishment of the purpose of a foreign-trade zone under this act, and that the facilities and appurtenances which it is proposed to provide are sufficient it shall make the grant.

Sec. 8. The Board shall prescribe such rules and regulations not inconsistent with the provisions of this act, or the rules and regulations of the Secretary of the Treasury made hereunder and as may be necessary to carry out this act.

Sec. 9. The Board shall cooperate with the State, subdivision, and municipality in which the zone is located in the exercise of their police, sanitary, and other powers in and in connection with the free zone. It shall also cooperate with the United States Customs Service, the Post Office Department, the Public Health Service, the Bureau of Immigration, and such other Federal agencies as have jurisdiction in ports of entry described in section 2.

Sec. 10. For the purpose of facilitating the investigations of the Board and its work in the granting of the privilege, in the establishment, operation, and maintenance of a zone, the President may direct the executive departments and other establishments of the Government to cooperate with the Board, and for such purpose each of the several departments and establishments is authorized, upon direction of the President, to furnish to the Board such records, papers, and information in their possession as may be required by him, and temporarily to detail to the service of the Board such officers, experts, or engineers as may be necessary.

Sec. 11. If the title to or right of user of any of the property to be included in a zone is in the United States, an agreement to use such property for zone purposes may be entered into between the grantee and the department or officer of the United States having control of the same, under such conditions, approved by the Board and such department or officer, as may be agreed upon.

Sec. 12. Each grantee shall provide and maintain in connection with the zone—

- (a) Adequate slips, docks, wharves, warehouses, loading and unloading and mooring facilities where the zone is adjacent to water; or, in the case of an inland zone, adequate loading, unloading, and warehouse facilities;
- (b) Adequate transportation connections with the surrounding territory and with all parts of the United States, so arranged as to permit of proper guarding and inspection for the protection of the revenue;
- (c) Adequate facilities for coal or other fuel and for light and power;
- (d) Adequate water and sewer mains;
- (e) Adequate quarters and facilities for the officers and employees of the United States, State, and municipality whose duties may require their presence within the zone;
- (f) Adequate enclosures to segregate the zone from customs territory for protection of the revenue, together with suitable provisions for ingress and egress of persons, conveyances, vessels, and merchandise;
- (g) Such other facilities as may be required by the Board.

Sec. 13. The grantee may, with the approval of the Board, and under reasonable and uniform regulations for like conditions and circumstances to be prescribed by it, permit other persons, firms, corporations, or associations to erect such buildings and other structures within the zone as will meet their particular requirements: *Provided*, That such permission shall not constitute a vested right as against the United States, nor interfere with the regulation of the grantee or the permittee by the United States, nor interfere with or complicate the revocation of the grant by the United States; *And provided further*, That in the event of the United States or the grantee desiring to acquire the property of the permittee no good will shall be considered as accruing from the privilege granted to the zone: *And provided further*, That such permits shall not be granted on terms that conflict with the public use of the zone as set forth in this act.

Sec. 14. Each zone shall be operated as a public utility, and all rates and charges for all services or privileges within the zone shall be fair and reason-

able, and the grantee shall afford to all who may apply for the use of the zone and its facilities and appurtenances uniform treatment under like conditions, subject to such treaties or commercial conventions as are now in force or may hereafter be made from time to time by the United States with foreign governments and the cost of maintaining the additional Customs Service required under this act shall be paid by the operator of the zone.

Sec. 15. (a) No person shall be allowed to reside within the zone except Federal, State, or municipal officers or agents whose resident presence is deemed necessary by the Board.

(b) The Board shall prescribe rules and regulations regarding employees and other persons entering and leaving the zone. All rules and regulations concerning the protection of the revenue shall be approved by the Secretary of the Treasury.

(c) The Board may at any time order the exclusion from the zone of any goods or process of treatment that in its judgment is detrimental to the public interest, health, or safety.

(d) No retail trade shall be conducted within the zone except under permits issued by the grantee and approved by the Board. Such permittees shall sell no goods except such domestic or duty-paid or duty-free goods as are brought into the zone from customs territory.

Sec. 16. (a) The form and manner of keeping the accounts of each zone shall be prescribed by the Board.

(b) Each grantee shall make to the Board annually, and at such other times as it may prescribe, reports containing a full statement of all the operations, receipts, and expenditures, and such other information as the Board may require.

(c) The Board shall make a report to Congress on the first day of each regular session, containing a summary of the operation and fiscal condition of each zone and transmit therewith copies of the annual report of each grantee.

Sec. 17. The grant shall not be sold, conveyed, transferred, set over, or assigned.

Sec. 18. (a) In the event of repeated willful violations of any of the provisions of this act by the grantee, the Board may revoke the grant after four months' notice to the grantee and affording it an opportunity to be heard. The testimony taken before the Board shall be reduced to writing and filed in the records of the Board, together with the decision reached thereon.

(b) In the conduct of any proceeding under this section for the revocation of a grant the Board may compel the attendance of witnesses and the giving of testimony and the production of documentary evidence, and for such purpose may invoke the aid of the district courts of the United States.

(c) An order under the provisions of this section revoking the grant issued by the Board shall be final and conclusive, unless within ninety days after its service the grantee appeals to the circuit court of appeals for the circuit in which the zone is located by filing with the clerk of said court a written petition praying that the order of the Board be set aside. Such order shall be stayed pending the disposition of appellate proceedings by the court. The clerk of the court in which such a petition is filed shall immediately cause a copy thereof to be delivered to the Board, and it shall forthwith prepare, certify, and file in the court a full and accurate transcript of the record in the proceedings held before it under this section, the charges, the evidence, and the order revoking the grant. The testimony and evidence taken or submitted before the Board, duly certified and filed as a part of the record, shall be considered by the court as the evidence in the case.

Sec. 19. In case of a violation of this act, or any regulation under this act, by the grantee, any officer, agent, or employee thereof responsible for or permitting any such violation shall be subject to a fine of not more than \$1,000. Each day during which a violation continues shall constitute a separate offense.

Sec. 20. If any provision of this act or the application of such provision to certain circumstances be held invalid, the remainder of the act and the application of such provisions to circumstances other than those as to which it is held invalid shall not be affected thereby.

Sec. 21. The right to alter, amend, or repeal this act is hereby reserved.

Approved, June 18, 1934.

## THE 1950 (BOGGS) AMENDMENT

## [CHAPTER 296]

## AN ACT

June 17, 1934  
[H. R. 5332]  
[Public Law 566]

To amend section 3 of the Act of June 18, 1934, relating to the establishment of foreign-trade zones.

Foreign trade zones.

19 U. S. C. § 81c.

Admission of foreign  
merchandise.

Supervision.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That section 3 of the Act of June 18, 1934 (Public Law Numbered 397, Seventy-third Congress; 48 Stat. 998), relating to the establishment of foreign-trade zones, is amended to read as follows:

"SEC. 3. Foreign and domestic merchandise of every description, except such as is prohibited by law, may, without being subject to the customs laws of the United States, except as otherwise provided in this Act, be brought into a zone and may be stored, sold, exhibited, broken up, repacked, assembled, distributed, sorted, graded, cleaned, mixed with foreign or domestic merchandise, or otherwise manipulated, or be manufactured except as otherwise provided in this Act, and be exported, destroyed, or sent into customs territory of the United States therefrom, in the original package or otherwise; but when foreign merchandise is so sent from a zone into customs territory of the United States it shall be subject to the laws and regulations of the United States affecting imported merchandise: *Provided*, That whenever the privilege shall be requested and there has been no manipulation or manufacture effecting a change in tariff classification, the collector of customs shall take under supervision any lot or part of a lot of foreign merchandise in a zone, cause it to be appraised and taxes determined and duties liquidated thereon. Merchandise so taken under supervision may be stored, manipulated, or manufactured under the supervision and regulations prescribed by the Secretary of the Treasury, and whether mixed or manufactured with domestic merchandise or not may, under regulations prescribed by the Secretary of the Treasury, be exported or destroyed, or may be sent into customs territory upon the payment of such liquidated duties and determined taxes thereon. If merchandise so taken under supervision has been manipulated or manufactured, such duties and taxes shall be payable on the quantity of such foreign merchandise used in the manipulation or manufacture of the entered article. Allowance shall be made for recoverable and irrecoverable waste; and if recoverable waste is sent into customs territory, it shall be dutiable and taxable in its condition and quantity and at its weight at the time of entry. Where two or more products result from the manipulation or manufacture of merchandise in a zone the liquidated duties and determined taxes shall be distributed to the several products in accordance with their relative value at the time of separation with due allowance for waste as provided for above: *Provided further*, That subject to such regulations respecting identity and the safeguarding of the revenue as the Secretary of the Treasury may deem necessary, articles, the

growth, product, or manufacture of the United States, on which all internal-revenue taxes have been paid, if subject thereto, and articles previously imported on which duty and/or tax has been paid, or which have been admitted free of duty and tax, may be taken into a zone from the customs territory of the United States, placed under the supervision of the collector, and whether or not they have been combined with or made part, while in such zone, of other articles, may be brought back thereto free of quotas, duty, or tax: *Provided further*, That if in the opinion of the Secretary of the Treasury their identity has been lost, such articles not entitled to free entry by reason of noncompliance with the requirements made hereunder by the Secretary of the Treasury shall be treated when they reenter customs territory of the United States as foreign merchandise under the provisions of the tariff and internal-revenue laws in force at that time: *Provided further*, That under the rules and regulations of the controlling Federal agencies, articles which have been taken into a zone from customs territory for the sole purpose of exportation, destruction (except destruction of distilled spirits, wines, and fermented malt liquors), or storage shall be considered to be exported for the purpose of—

“(a) the draw-back, warehousing, and bonding, or any other provisions of the Tariff Act of 1930, as amended, and the regulations thereunder; and

“(b) the statutes and bonds exacted for the payment of draw-back, refund, or exemption from liability for internal-revenue taxes and for the purposes of the internal-revenue laws generally and the regulations thereunder.

Such a transfer may also be considered an exportation for the purposes of other Federal laws insofar as Federal agencies charged with the enforcement of those laws deem it advisable. Such articles may not be returned to customs territory for domestic consumption except where the Foreign-Trade Zones Board deems such return to be in the public interest, in which event the articles shall be subject to the provisions of paragraph 1615 (f) of the Tariff Act of 1930, as amended: *Provided further*, That no operation involving any foreign or domestic merchandise brought into a zone which operation would be subject to any provision or provisions of section 1807, chapter 15, chapter 16, chapter 17, chapter 21, chapter 23, chapter 24, chapter 25, chapter 26, or chapter 32 of the Internal Revenue Code if performed in customs territory, or involving the manufacture of any article provided for in paragraph 367 or paragraph 368 of the Tariff Act of 1930, shall be permitted in a zone except those operations (other than rectification of distilled spirits and wines, or the manufacture or production of alcoholic products unfit for beverage purposes) which were permissible under this Act prior to July 1, 1949: *Provided further*, That articles produced or manufactured in a zone and exported therefrom shall on subsequent importation into the customs territory of the United States be subject to the import laws applicable to like articles manufactured in a foreign country, except that articles produced or manufactured in a zone exclusively with the use of domestic merchandise, the identity of which has been maintained in accordance with the second proviso of this section, may, on such importation, be entered as American goods returned.”

## SEC. 2 IMPORT DUTY REMOVED FROM EVERGREEN CHRISTMAS TREES.

(a) Paragraph 1803 of the Tariff Act of 1930 is amended by adding at the end thereof the following new subparagraph:

“(3) Evergreen Christmas trees.”

(b) This section shall be effective as to articles entered for consumption or withdrawn from warehouses for consumption on or after

Loss of identity.

Transfers.

46 Stat. 590.  
19 U. S. C. § 1001-1654.

*Ante*, p. 4; *post*, pp. 406, 785, 798, 1078, 1098; *infra*.

52 Stat. 1902.  
19 U. S. C. § 1201, par. 1615 (f).

53 Stat. 198, 217-228.  
26 U. S. C., analysis foll. § 10; Supp. III, §§ 2470, 2900-3182, 3807, 3808.

*Ante*, pp. 6-9, 20; *post*, p. 906.  
46 Stat. 621, 623.  
19 U. S. C. § 1001, para. 367, 368.

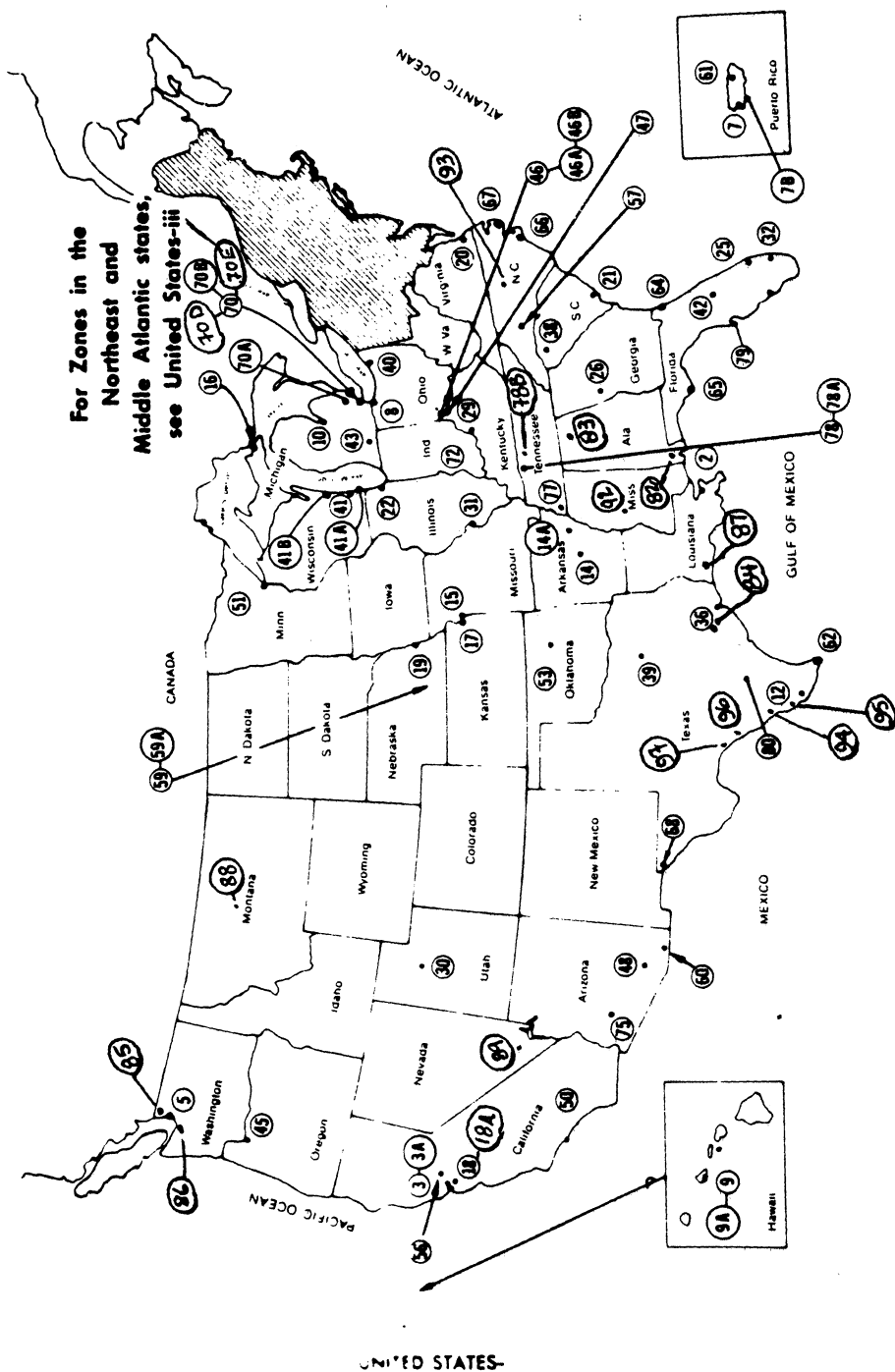
Articles produced in and exported from a zone.

46 Stat. 662.  
19 U. S. C. § 1201, par. 1803; Supp. III, § 1201, par. 1803.

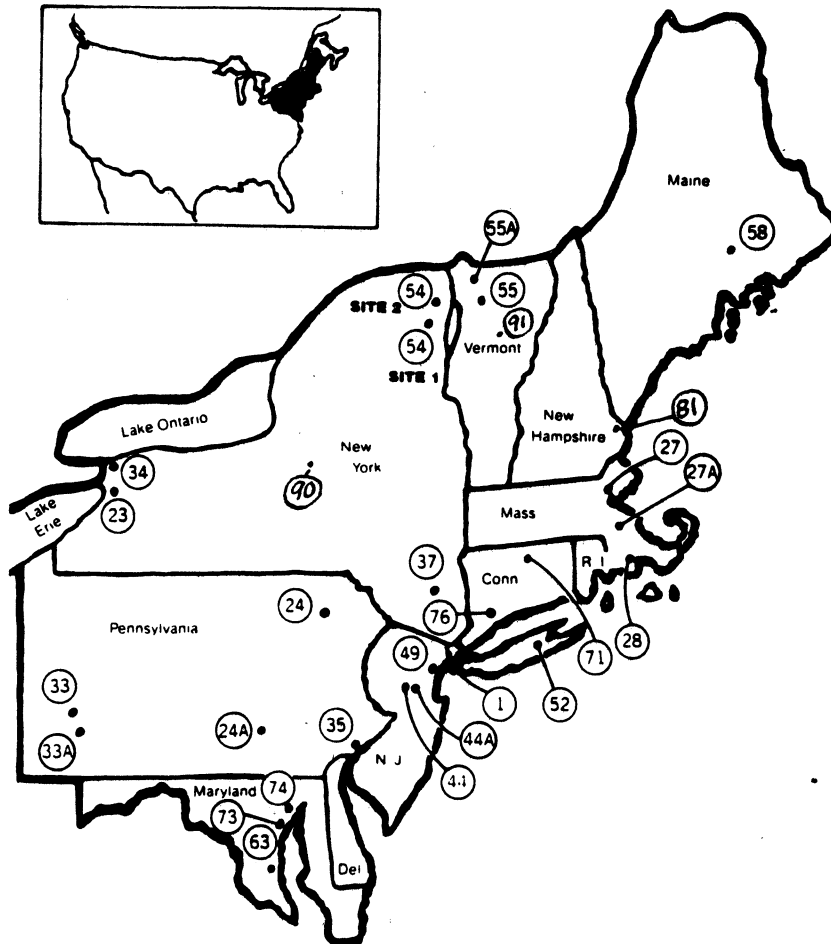


**APPENDIX E**  
**LOCATION OF U.S. FTZ'S**

MAP 1





**MAP 2:**

UNITED STATES

**LEGEND**

- |  |  |
|--|--|
| <b>1 New York</b><br><b>(New York)</b>         | <b>15 Kansas City</b><br><b>(Missouri)</b>               |
| <b>2 New Orleans</b><br><b>(Louisiana)</b>     | <b>16 Sault Ste. Marie</b><br><b>(Michigan)</b>          |
| <b>3 San Francisco</b><br><b>(California)</b>  | <b>17 Kansas City</b><br><b>(Kansas)</b>                 |
| <b>3A San Francisco</b><br><b>(California)</b> | <b>18 San Jose</b><br><b>(California)</b>                |
| <b>5 Seattle</b><br><b>(Washington)</b>        | <b>18A San Jose</b><br><b>(California)</b>               |
| <b>7 Mayaguez</b><br><b>(Puerto Rico)</b>      | <b>19 Omaha</b><br><b>(Nebraska)</b>                     |
| <b>7B Penuelas</b><br><b>(Puerto Rico)</b>     | <b>20 Portsmouth</b><br><b>(Virginia)</b>                |
| <b>8 Toledo</b><br><b>(Ohio)</b>               | <b>21 Dorchester County</b><br><b>(South Carolina)</b>   |
| <b>9 Honolulu</b><br><b>(Hawaii)</b>           | <b>22 Chicago</b><br><b>(Illinois)</b>                   |
| <b>9A Ewa</b><br><b>(Hawaii)</b>               | <b>23 Buffalo</b><br><b>(New York)</b>                   |
| <b>10 Bay County</b><br><b>(Michigan)</b>      | <b>24 Wilkes-Barre/Scranton</b><br><b>(Pennsylvania)</b> |
| <b>12 McAllen</b><br><b>(Texas)</b>            | <b>24A Harrisburg</b><br><b>(Pennsylvania)</b>           |
| <b>14 Little Rock</b><br><b>(Arkansas)</b>     | <b>25 Port Everglades</b><br><b>(Florida)</b>            |
|  | <b>26 Shenandoah/Coweta</b><br><b>County (Georgia)</b>   |

## UNITED STATES

<b>27 Boston</b> (Massachusetts)	<b>40 Cleveland/Cuyahoga</b> County (Ohio)
<b>27A Fall River</b> (Massachusetts)	<b>41 Milwaukee</b> (Wisconsin)
<b>28 New Bedford</b> (Massachusetts)	<b>41A Kenosha</b> (Wisconsin)
<b>29 Louisville and Jefferson</b> County (Kentucky)	<b>41B Manitowac</b> (Wisconsin)
<b>30 Salt Lake City</b> (Utah)	<b>42 Orlando</b> (Florida)
<b>31 Granite City</b> (Illinois)	<b>43 Battle Creek</b> (Michigan)
<b>32 Miami</b> (Florida)	<b>44 Mt. Olive, Morris County</b> (New Jersey)
<b>33 Pittsburgh</b> (Pennsylvania)	<b>44A Woodbridge</b> (New Jersey)
<b>33A New Stanton</b> (Pennsylvania)	<b>45 Portland</b> (Oregon)
<b>34 Niagara County</b> (New York)	<b>45A Portland</b> (Oregon)
<b>35 Philadelphia</b> (Pennsylvania)	<b>46 Cincinnati</b> (Ohio)
<b>36 Galveston</b> (Texas)	<b>46B Union County</b> (Ohio)
<b>37 New Windsor</b> (New York)	<b>47 Campbell County</b> (Kentucky)
<b>38 Greenville/Spartanburg</b> (South Carolina)	<b>48 Papago-Tucson</b> (Arizona)
<b>39 Dallas/Fort Worth</b> (Texas)	<b>49 Newark/Port Elizabeth</b> (New Jersey)

UNITED STATES-

# **TAX-FREE TRADE ZONES OF THE WORLD**

- |  |  |
|--|--|
| <b>50 Long Beach</b><br>(California)   | <b>65 Panama City</b><br>(Florida)                             |
| <b>51 Duluth</b><br>(Minnesota)  | <b>66 Wilmington</b><br>(North Carolina)                       |
| <b>52 Suffolk County, Islip,<br/>Long Island</b><br>(New York)                               | <b>67 Morehead City</b><br>(North Carolina)                    |
| <b>53 Tulsa Port of Catoosa</b><br>(Oklahoma)  | <b>68 El Paso (Texas)</b>                                      |
| <b>54 Clinton County</b><br>(New York)<br>Site No. 1 - Plattsburgh<br>Site No. 2 - Champlain | <b>70 Detroit</b><br>(Michigan)                                |
| <b>55 Burlington</b><br>(Vermont)  | <b>70A Romeo</b><br>(Michigan)                                 |
| <b>55A St. Albans</b><br>(Vermont)   | <b>70B Detroit</b><br>(Michigan)                               |
| <b>56 Oakland</b><br>(California)  | <b>70C Wayne</b><br>(Michigan)                                 |
| <b>57 Mecklenburg County</b><br>(North Carolina)   | <b>70D Wixom</b><br>(Michigan)                                 |
| <b>58 Bangor</b><br>(Maine)  | <b>70E Dearborn</b><br>(Michigan)                              |
| <b>59 and 59A Lincoln</b><br>(Nebraska)  | <b>71 Windsor Locks</b><br>(Greater Hartford)<br>(Connecticut) |
| <b>60 Nogales</b><br>(Arizona)   | <b>72 Indianapolis</b><br>(Indiana)                            |
| <b>61 San Juan (Guaynabo)</b><br>(Puerto Rico)   | <b>73 Baltimore/Washington<br/>International Airport</b>       |
| <b>62 Brownsville</b><br>(Texas)   | <b>74 Baltimore</b><br>(Maryland)                              |
| <b>63 Prince George's County</b><br>(Maryland)   | <b>75 Phoenix</b><br>(Arizona)                                 |
| <b>64 Jacksonville</b><br>(Florida)  | <b>76 Bridgeport</b><br>(Connecticut)                          |
|  | <b>77 Memphis</b><br>(Tennessee)                               |

## UNITED STATES

<b>78 Nashville</b> (Tennessee)	88 Great Falls (Montana)
<b>78A Smyrna</b> (Tennessee)	89 Clark County (Nevada)
79 Tampa (Florida)	90 Onondaga (New York)
80 San Antonio (Texas)	91 Newport (Vermont)
81 Portsmouth (New Hampshire)	92 Harrison County (Mississippi)
82 Mobile (Alabama)	93 Raleigh/Durham (North Carolina)
83 Huntsville (Alabama)	94 Laredo (Texas)
84 Harris County (Texas)	95 Starr County (Texas)
85 Everett (Washington)	96 Eagle Pass (Texas)
86 Tacoma (Washington)	97 Del Rio (Texas)
87 Lake Charles (Louisiana)	

Source: Tax-Free Trade Zones of the World,  
Walter H. Diamond, Dorothy B. Diamond; and Foreign-Trade  
Zones Board.



**APPENDIX F**  
**INDUSTRY CONCERNS OVER FTZ GRANTS**

Industry concerns over FTZ grants

Date of application	Sponsoring zone, firm sponsored and its location (if known)	Product causing concern	Approval date or disposition of application	Name of group(s) or firm(s) expressing concern about or opposition to application	Major concern(s) expressed
April 1968	New Orleans (No. 2) (Equitable-Higgins Shipyards, Inc. New Orleans, La.)	Foreign steel to be processed into lighter-board ship (LASH) barges.	Approved: Nov. 19, 1968	Armco Steel Co.	Inverted tariff would allow foreign steel to enter duty free under the TSUS item applicable to barges. Armco alleged that the FTZ law did not permit reduction of duties in cases of inverted tariffs and that the Board did not have authority under the law to create subzones.
September 1968	Maine Port Authority for general-purpose zone in Portland and subzone in Machiasport (Occidental Petroleum Corp.)	Processing foreign crude petroleum.	In early 1969, the President of the United States reassumed full responsibility for oil import policy and a grant was never approved for Machiasport.	Domestic oil refining industry.	The domestic oil-refining industry argued that the granting of subzone status would undermine the Mandatory Oil Import Program designed to maintain domestic capacity for refining and drilling which was considered important for reasons of national security.
November 1968	Georgia Port Authority for general-purpose zone and for subzone at Savannah, Ga.	Processing hydrocarbons and hydrocarbon derivatives of foreign origin.	In early 1969, the President of the United States reassumed full responsibility for oil import policy and a grant was never approved for Savannah.	Domestic oil refining industry.	Same as Machiasport application.
May 1970	McAllen, Tex. (No. 12) (E. I. DuPont de Nemours, LaPorte, Tex., (near Houston))	Imported fluorspar to be processed into hydrofluoric acid.	Denied: Nov. 27, 1973	Domestic producers of fluorspar.	Inverted tariff would allow fluorspar to enter duty free under the TSUS item applicable to hydrofluoric acid.
June 1976	New Orleans (No. 2) (New Orleans Cold Storage and Warehouse Company, Ltd., New Orleans and Metairie, La.)	Processing of foreign beef.	Application withdrawn in late 1976 following change in Department of Agriculture regulations with regard to Meat Import Law making use of a zone unattractive.	Department of Agriculture and domestic cattle industry.	The use of zone procedures would allow entry of foreign beef undermining the quota program.



Industry concerns over FTZ grants—Continued

Date of application	Sponsoring zone, firm sponsored and its location (if known)	Product causing concern	Approval date or disposition of application	Name of group(s) or firm(s) expressing concern about or opposition to application	Major concern(s) expressed
July 1976	Mayaguez, P.R. (No. 7) (Commonwealth Processing Corp., Mayaguez, P.R.; Bunker Hill Packing Corp.; and El Ganadero, Inc.)	Processing of foreign beef.	July 13, 1976, Secretary of Agriculture requested investigation by FTZ Board of certain existing meat-processing operations to determine if such were contrary to the public interest. Following request to Board for withdrawal of its request on Sept. 22, 1976, the Department changed its regulations as noted for New Orleans application above. This led to the termination of meat processing at Mayaguez.	Department of Agriculture and domestic cattle industry.	The use of zone procedures would allow entry of foreign beef undermining the quota program.
October 1977	Toledo, Ohio (No. 8)	Fabrication of foreign steel into steel products.	Withdrawn because of opposition.	Domestic steel industry.	Inverted tariff would allow reduction in duties on foreign steel.
May 1978	Chicago (No. 22)	Certain steel-processing operations.	Withdrawn because of opposition.	Domestic steel industry.	Inverted tariff would allow foreign steel to enter with tariff reduction.
June 1979	Portland (No. 45) (Beall Pipe & Tank Corp., Portland, Oreg.)	Processing of steel into welded steel pipe.	Because of opposition, the application was amended in Feb. 1980 limiting manufacturing for export only.	American Iron & Steel Institute.	Inverted tariff would allow reduction in duty on foreign steel.
February 1980	Boston (No. 27) (Sterlingware Corp., Fall River, Mass.)	Manufacturing of corduroy.	Approved: July 31, 1980 Approved: June 20, 1980 Because the product was determined to be in the "import-sensitive" category, the applicant voluntarily limited the zone port of manufacturing activity to export operations only.	Commerce's Office of Textiles and Apparel.	Use of zone procedures for manufacturing could undermine the quota program for textiles and apparel products.
January 1980	Panama City, Fla. (No. 65) (Berg Steel Pipe Corp., Panama City, Fla.)	Processing of foreign steel plate into large-diameter pipe.	Approved: Jan. 16, 1981 With restricted zone procedures to prevent avoidance of dumping and countervailing duty procedures.	Domestic steel industry.	Inverted tariff would allow foreign steel to enter with tariff reduction, and use of zone procedures might circumvent Government programs to control entry of foreign steel.

Industry concerns over FTZ grants—Continued

Date of application	Sponsoring zone, firm sponsored and its location (if known)	Product causing concern	Approval date or disposition of application	Name of group(s) or firm(s) expressing concern about or opposition to application	Major concern(s) expressed
May 1981	Chicago (No. 22) (UMR-Leavitt Division of UMR Industries, Inc., Chicago)	Processing foreign steel into welded structural and mechanical steel tubing.	Approved: July 5, 1983. For export only.	Domestic steel industry, United Steel Workers of America, and certain producers of steel tubing.	Inverted tariff would allow foreign steel and plate to enter with a tariff reduction applicable to electric-welded steel tubing. Use of FTZ procedures would allow circumvention of Trigger Price Mechanism. Tubing produced at UNR would replace other domestic, not imported tubing, causing net loss of U.S. jobs and production. This would force other producers of tube to seek sub-zone status.
September 1981	Little Rock, Ark. (No. 14) (Sanyo Manufacturing Corp., Forrest City, Ark.)	Assembling color television sets from color TV tubes and certain other foreign and domestic components.	Approved: Sept. 30, 1982. With restriction that full duty must be paid on imported color TV tubes.	Committee to Preserve American Color Television (COMPACT), the Electronics Industries Association (EIA), RCA, GE, and North American Philips (NAP).	Inverted tariff would allow reduction in duty on parts, particularly color picture tubes, causing injury to the domestic picture tube and television industries with a net loss of jobs in the U.S. Industry is "import-sensitive" because color TV tubes were exempted from duty reductions during recent GATT negotiations and because of a number of TV cases involving unfair international trade practices.
June 1981	Burlington, Vt. (No. 55) (Pedigree USA, Inc., St. Albans, Vt.)	Garment manufacturing.	Approved: Oct. 20, 1982. With following restrictions: "(1) transformation of foreign merchandise resulting in a change of the country of origin is prohibited; (2) the operations shall be conducted in a manner compatible with the administration of textile and apparel quotas and visas."	Commerce's Office of Textiles and Apparel.	The Federal Register notice stated that the "U.S. Department of Commerce's Office of Textiles and Apparel expressed concern over the possible circumvention of provisions of the U.S. bilateral textile and apparel agreement with Korea . . ." Customs indicated it would carefully watch the operation to prevent such circumvention.

## Industry concerns over FTZ grants--Continued

Date of application	Sponsoring zones, firm sponsored and its location (if known)	Product causing concern	Approval date or disposition of application	Name of group(s) or firm(s) expressing concern about or opposition to application	Major concern(s) expressed
August 1981-----	Detroit (No. 70) (Chrysler, Detroit)	Assembly of automobiles.	Approved: June 22, 1982.	Republic Steel Corp.	Believed stamping of foreign steel and assembly of foreign-produced parts would circumvent Trigger Price Mechanism. Inverted tariff duty reductions would encourage purchase of foreign components.
June 1982-----	Harris County, Tex., (Houston) (No. 84)	Certain steel-related manufacturing operations.	Approved: July 15, 1983. With certain conditions for this experimental multisite zone program: "(1) The Category B through D Sites are approved for 5 years subject to Board renewal after a review by Customs and the Board. (2) Should the Houston Model Seaport Program be terminated, Customs shall have an opportunity to comment on the continuation of the Category B through D Sites. (3) Manufacturing operations involving steel or steel products are restricted to items produced for export, otherwise foreign entries shall be made on any foreign steel items prior to their use in a manufacturing process. (4) The Board's Executive Secretary shall be notified for approval prior to the commencement of any non-export manufacturing operations covered in the application, as well as any new proposed manufacturing.	American Iron & Steel Institute, domestic steel producers, and the Welded Steel & Tube Institute.	Opponents stated that the steel industry is "import-sensitive" and that duty reductions from use of the zone in inverted tariff situations would encourage increases in imports of steel further harming the industry.

## Industry concerns over FTZ grants—Continued

Date of application	Sponsored zones, firm sponsored and its location (if known)	Product causing concern	Approval date or disposition of application	Name of group(s) or firm(s) expressing concern about or opposition to application	Major concern(s) expressed
September 1982—	Long Beach, Calif. (No. 50): (Toyota Motor Manufacturing U.S.A., Inc., Long Beach)	Assembly of pickup truck cargo bodies utilizing certain foreign components and steel.	(5) The District Director of Customs shall be notified for approval prior to the activation of any zone site. (6) Because of the nature of the project, PHA, as grantee, should play an active and continuous role as overseer to insure that the zone project is operated in the public interest and consistent with FTZ public utility principles. (7) Any promotional or user development efforts should focus on the PHA sites, except for export-intensive situations that cannot be accommodated at these sites. Approved: July 14, 1983. 5-year conditional approval with review of operations after four years.	American Iron & Steel Institute (AISI), J&L Steel, the AFL-CIO, and the UAW.	Principal concern was reduction of duty on imported steel because of inverted tariff. Because the plant already existed, the AFL-CIO argued no jobs would be created. In addition, there was no assurance of saving jobs, and there was a potential for job loss in other U.S. industries. The UAW stated that the inverted tariff encouraged use of foreign components and that domestic-content legislation was a better way to encourage foreign investment in the United States than the foreign-trade zone program. The AISI also stated that inverted tariffs encouraged use of foreign components and along with the AFL-CIO

Industry concerns over FTZ grants—Continued

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July 1982----	Cincinnati, Oh. (No. 46) (Huffy Corporation, Celina, Ohio)	Assembling bicycles from foreign and domestic bicycle component parts.	Pending.	Cycle Parts & Accessories Association and certain manufacturers of bicycle component parts and bicycles.	<p>contended that Toyota would not close the plant if subzone status were not granted. Zone benefits would be a minor part of such a decision.</p> <p>Certain bicycle producers oppose because they believe that benefits from duty reductions in instances of inverted tariffs would give Huffy, the largest U.S. producer/assembler of bicycles, a significant competitive advantage and force them to apply for subzone status for their plants.</p> <p>Component part producers object principally to the duty reductions in an "import-sensitive" industry. They note that rates of duty were not reduced fully in the recent GATT negotiations and the import penetration is about two-thirds. In addition, a significant part of imports enter duty free under temporary legislation. The part producers also question whether Congress intended duty reductions in inverted tariff situations and whether granting subzones on the basis of a regulation exceeds the Board's authority. They also question whether adjacency regulations are consistent with the Zone Act.</p>
October 1982----	Nashville (No. 78) (Toshiba America, Inc. Lebanon, Tenn.)	Assembling color television sets from color TV tubes and certain other foreign and domestic components.	Approved: Sept. 15, 1983. With restriction that full duty must be paid on imported color TV tubes.	Committee to Preserve American Color Television (COMPACT) and North American Philips (NAP).	<p>Inverted tariff would allow reduction in duty on parts, particularly color picture tubes. See 13 above. COMPACT and NAP indicated would not oppose as long as the full duty was paid on imported color TV tubes.</p>

Industry concerns over FTZ grants—Continued

Date of application	Sponsoring zone, firm sponsored and its location (if known)	Product causing concern	Approval date or disposition of application	Name of group(s) or firm(s) expressing concern about or opposition to application	Major concern(s) expressed
February 1983	Boston (No. 27) (Lawrence Textile Shrinking Co., Lawrence, Mass.)	A variety of services for foreign and domestic textile mills and textile product users, primarily for wool and wool blend materials.	Pending.	U.S. Department of Commerce's Office of Textiles and Apparel.	After preliminary discussions with Customs and Commerce's Office of Textiles and Apparel the applicant agreed that "its activities under zone procedures would be limited to the following inspection and processing operations: examination, repair, sponging, "London" shrinking, folding, measuring, tenting, drying, back coating, color evaluation, packaging and labeling. The processes would involve no changes in Customs classification."
May 1983	Portsmouth, N.H. (No. 81) (Manchester Manufacturing, Inc. Colebrook, N.H.)	Imported apparel: storage, repair, and ornamentation.	Pending.	U.S. Department of Commerce's Office of Textiles and Apparel.	Concern over possible circumvention of international textile and apparel agreements protecting U.S. industry.
May 1983	Battle Creek, Mich. (No. 43) and Louisville, Ky. (No. 29), at facilities of: (Clark Equipment Co., Springfield and Oshkosh, Mich. and Georgetown, Ky.)	Forklift truck manufacturing.	Pending.	American Iron & Steel Institute.	Concern that inverted tariff duty reductions may encourage imports of steel injuring the steel industry.
May 1983	Boston, Mass. (No. 27) (General Dynamics (GD) Corp., Quincy, Mass.)	5 new Maritime Propositioning supply vessels (TAKX) chartered by the United States Navy.	Pending. In response to opposition, Examiners Committee report recommended approval subject to the following conditions: "(1) any steel plate, angles, shapes, channels, rolled sheet stock, bars, pipes and tubes, classified under Schedule 6, Part 2, Subp. B, TSUS, and not incorporated into merchandise otherwise classified, and which is used in the manufacture of vessels, shall be subject to Customs duties in accordance with applicable law, if the same	American Iron & Steel Institute and Local #5 of the Shipbuilders Union.	The AISI objected to duty reductions because of inverted tariffs which would affect the "import-sensitive" steel industry. Local #5 of the Shipbuilders Union believed that shipyard employees had the skills to produce items that GD subcontracted to foreign sources and that granting subzone status would encourage further use of foreign sources.

## Industry concerns over FTZ grants—Continued

Date of application:	Sponsoring zone, firm sponsored and its location (if known)	Product causing concern	Approval date or disposition of application	Name of group(s) or firm(s) expressing concern about or opposition to application	Major concern(s) expressed
			if item is then being produced by a domestic steel mill; and (2) in addition to the annual report, GD-Quincy shall advise the Board's Executive Secretary as to significant new contracts, other than for the TAKX project, with appropriate information concerning foreign purchases otherwise dutiable, so that the Board may consider whether any foreign dutiable items are being imported for manufacturing in the subzone primarily because of subzone status and whether the Board should consider requiring Customs duties to be paid on such items."		
July 1983—	Wilmington, Del., (J. Schoeneman Co. Wilmington, Del.)	Apparel and textiles.	Pending. Cutting and sewing would be for piece goods for export only. Tariff deferral only on merchandise destined for domestic market as entry must be made before any cutting or sewing occurs.	U.S. Department of Commerce's Office of Textiles and Apparel.	Concern over possible circumvention of international textile and apparel agreements protecting U.S. industry.
July 1983—	Louisville, Ky., (Southeastern Sweeteners Distribution Company, Inc., Louisville, Ky.)	Liquefy and blend imported dry sugar with domestic corn syrup.	Pending. Request for export only.	U.S. Cane Sugar Refiner's Assoc., Corn Refiner's Assoc., and U.S. Beet Sugar Assoc.	Concern over possible circumvention of sugar quota.





**APPENDIX G**

**DIRECT AND INDIRECT EMPLOYMENT FOR MOTOR VEHICLES, 1981**

**Direct and Indirect Employment Per \$1 Billion\* of  
Final Demand for Motor Vehicles, 1981**

	<u>1981</u>
Total Direct and Indirect Employment.....	47,451
Manufacturing Total.....	32,896
Motor vehicles.....	15,837
Fabric, yarn, and thread mills.....	525
Fabricated textile products, nec.....	734
Newspaper printing and publishing.....	268
Printing and publishing, nec.....	275
Industrial inorganic and organic chemicals..	280
Tires and inner tubes.....	363
Plastic products.....	425
Blast furnace and basic steel products.....	1,852
Iron and steel foundries and forgings.....	1,501
Primary copper and copper products.....	265
Primary aluminum and aluminum products.....	432
Screw machine products.....	451
Metal stampings.....	1,861
Cutlery, handtools and general hardware.....	591
Fabricated metal products, nec.....	641
Engines, turbines and generators.....	296
Metalworking machinery.....	360
General industrial machinery.....	366
Nonelectrical machinery, nec.....	612
Electric lighting and wiring.....	257
Electric machinery and equipment, nec.....	579
Other manufacturing.....	4,125
Agriculture, Forestry and Fisheries.....	268
Communications.....	375
Construction, Maintenance and Repair.....	410
Electric, Gas and Sanitary Service.....	420
Finance.....	518
Insurance.....	235
Mining.....	617
Real Estate.....	278
Retail Trade.....	1,028
Wholesale Trade.....	3,978
Transportation Total.....	2,120
Railroad transportation.....	608
Truck transportation.....	1,018
Other transportation.....	494
Other Services Total.....	4,308
Hotels and lodging.....	524
Business services nec.....	1,418
Professional services, nec.....	645
Automobile repair.....	417
Other .....	1,304

\*1972 dollars measured at producers price, FOB production site.  
SOURCE: Unpublished data, U.S. Bureau of Labor Statistics.

APPENDIX H

NATIONAL ASSOCIATION OF FOREIGN-TRADE ZONES FTZ ACTIVITY SURVEY

NATIONAL ASSOCIATION OF FOREIGN-TRADE ZONESFTZ ACTIVITY SURVEYOctober 1, 1982 - September 30, 1983

Total Respondents . . . . . 57

Respondents Who Provided Full or Partial Data . . . . . 44

Respondents Who Were Not Operational . . . . . 13

( ) Indicates Number of Respondents  
In Particular Category

## I. Dollar Volume of Merchandise

## A. Moving Into Zones

(i) U.S. Origin (29)	\$2,872,590,816
(ii) Foreign Origin (38)	2,382,346,968
Total	<u>\$5,254,937,784</u>

## B. Forwarded From Zones

(i) To U.S. (36)	\$5,022,875,110
(ii) To Foreign Countries (35)	1,708,323,015
Total	<u>\$6,731,198,125</u>

Comment: Data from three major sub-zone operations is not included.Direct Employment (37) 34,086A. Total Payroll (30) \$750,719,485Comment: A number of respondents could not secure this data or  
provided only limited information.Capital Investment (30) \$1,050,939,600Total Taxes Paid by Zone Operators and Users (24) \$60,602,922Comment: Data in this area was reported among a number of different  
tax categories. There was no concentration in any particular category  
to warrant its separate reporting.Value of Goods and Services Purchased (26) \$743,001,738

6. Value of Payments to U.S. Customs

A. Reimbursable Expenses (29)	<u>\$1,019,591</u>
B. Customs Duties (30)	<u>\$35,263,510</u>

7. Number of Zone Users (35)

1,260

A. Of These, Estimate of those Classified as  
Small Business

990

78.6%

8. Jobs or Investment Created As a Result of the Zone

- The management of the refinery has expanded into an oil trading company throughout the Pacific.
- The FTZ is the community's major industrial development tool and the primary source of all new jobs.
- Responsible for additional tonnage over the docks and for trucking - brought three new companies to the area.
- Estimate 4,100 additional jobs (external to the FTZ) will be created as a result of expansion.
- Introduction of Air Freight service to our local airport.
- Domestic procurements responsible for 1,000 full-time jobs.
- Warehouse has expanded into Container Operations.
- Numerous comments on job expansion in service industries (brokers, transportation, insurance, etc.)

NATIONAL ASSOCIATION OF FOREIGN-TRADE ZONES  
INTERNATIONAL TRADE COMMISSION HEARING  
BACKGROUND DATA

Zone: \_\_\_\_\_

Subzone: \_\_\_\_\_

Location: \_\_\_\_\_

REPORTING PERIOD 10/1/82 - 9/30/83

(Estimate if Precise Data is Not Available)

1. Dollar Volume of Merchandise

A. Moving Into the Zone

(i) U.S. Origin \$ \_\_\_\_\_

(ii) Foreign Origin \$ \_\_\_\_\_

Total \$ \_\_\_\_\_

B. Forwarded From Zone

(i) To U.S. \$ \_\_\_\_\_

(ii) To Foreign Countries \$ \_\_\_\_\_

Total \$ \_\_\_\_\_

2. What is the Direct Employment (Full- and Part-Time) in Your Zone, Including All Users? \_\_\_\_\_

A. Total Payroll \$ \_\_\_\_\_

3. Total Value of Capital Investment \$ \_\_\_\_\_

4. Total Amount of Taxes Paid by Zone Operators and Users:

Sales \$ \_\_\_\_\_ Income and FICA \$ \_\_\_\_\_

Employment \$ \_\_\_\_\_ Other: \_\_\_\_\_

Personal Property \$ \_\_\_\_\_ \$ \_\_\_\_\_

Inventory \$ \_\_\_\_\_ \$ \_\_\_\_\_

(over)

5. Value of Goods and Services Purchased by Zone Operators and Users  
(E.G. Freight, Brokers Fees, Insurance, Accounting, Consumables,  
Supplies, etc.)

\$ \_\_\_\_\_

6. Value of Payments to U.S. Customs

A. Reimbursable Expense \$ \_\_\_\_\_

B. Customs Duties \$ \_\_\_\_\_

7. Number of Zone Users \_\_\_\_\_

A. Of this number, how many would you estimate are classified as  
Small Business? \_\_\_\_\_

8. What Jobs, Investment or Other Benefits (External to your Zone) were  
created as a result of the Existence of the Zone? (Please Explain)

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

9. Are you Planning to testify at the ITC Hearing on November 16, 1983?

\_\_\_ Yes \_\_\_ No

Please return this form by November 9, 1983, to:

National Association of Foreign-Trade Zones  
1101 Connecticut Avenue, NW Suite 700  
Washington, DC 20036

Phone Number: 202-857-1132

This information is provided on a CONFIDENTIAL basis and will be used only  
in aggregate form so as to protect the identity of any individual submission.  
Likewise, it will be reviewed for compilation only by the Executive Director  
of the NAFTAZ.







UNITED STATES  
INTERNATIONAL TRADE COMMISSION  
WASHINGTON, D.C. 20436

OFFICIAL BUSINESS

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Mr. Kenneth R. Mason  
6907 96th Avenue  
Seabrook, Maryland 20706  
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