Title: HOW FTZs DRIVE CARGO ACTIVITY
Presented By: Erik O. Autor
President
National Assn. of Foreign-Trade Zones
The National Association of Foreign-Trade Zones (NAFTZ) is a trade association of over 700 members headquartered in Washington, DC

- **REPRESENTATION**: NAFTZ is the collective voice of the U.S. Foreign-Trade Zones (FTZ) Program and the community of public and private stakeholders – grantees, operators/users, and service providers.

- **ADVOCACY**: NAFTZ advocates for the FTZ program and on customs, int’l trade, and other issues impacting the program and stakeholders.

- **EDUCATION**: NAFTZ is the lead educator on the FTZ program’s value as a tool for expanding economic development, competitiveness, employment, investment, and global supply and value chains.

- **BEST PRACTICES**: NAFTZ provides information on and helps drive establishment of industry best practices including compliance.
FTZ Program Overview

- FTZ Program created through the Foreign-Trade Zones Act of 1934 (19 USC § 81), the U.S. FTZ program comprises over 700 active zones and subzones in all 50 states and Puerto Rico.
- Administered by the U.S. Depts. of Commerce & Treasury through the FTZ Board; Customs & Border Protection (CBP) has advisory role; regulations governing the program are found in 19 CFR Part 146 and 15 CFR Part 400.
- Grantees – states, counties, municipalities, port authorities, and local chambers of commerce – apply to FTZ Board for authorization to establish FTZs in or near ports of entry.
- Operators/Users – include pharmaceuticals, vehicles/vehicle parts, electronics, oil/petroleum, petrochemicals, textiles/apparel.
- Over 440,000 employed at 3,300 FTZ facilities.
- Shipments into FTZs totaled nearly $793b in 2018.
- FTZs account for 11.6% of U.S. imports and 6.7% of U.S. exports.
A key policy goal of the FTZ Program is to encourage the location of manufacturing and distribution in the United States by reducing, deferring, and eliminating duties and through other benefits to make U.S.-based operations more globally cost-competitive in U.S. and foreign markets.
FTZ Program Benefits

➢ **Reduced Duties** – FTZs allow manufacturers to pay duties on imported inputs at the rate applicable to the final product manufactured in the FTZ or to the imported content, whichever is lower.

➢ **Deferred Duties** – FTZs allow importers to delay payment of duties, excise taxes and customs user fees until a product leaves the zone and enters U.S. customs territory for consumption.

➢ **Duty Elimination** – FTZs eliminate duty on goods exported from a zone (except to Canada or Mexico under NAFTA/USMCA); domestic content; scrap/waste/goods destroyed as defective, obsolete, or surplus.

➢ **Quota Avoidance** – In most cases, FTZs allow imports subject to quota to stay within a zone after quota limits are reached.

➢ **Direct Delivery** – Allows delivery of merchandise to an FTZ without prior application and approval by Customs.

➢ **Weekly Entry** – Allows manufacturers and distributors to file a consolidated entry each week instead of numerous individual entries.
FTZ Program – Policy Goals & Benefits

Impact on Cargo Movement

➢ FTZ program acts as a trade facilitation program, helping “grease the wheels” of commerce

➢ FTZs located at or near every port help support port operations – generate greater cargo flow through U.S. ports and transportation network

➢ FTZ benefits streamline supply chains, inventory management & customs processing

➢ Without the FTZ Program, much of the economic activity in zones could move to other countries decreasing U.S. cargo activity
FTZ Imports

FTZs Represent a Substantial and Growing Portion (11.6%) of Total U.S. Imports

A rapidly growing portion of FTZ-bound cargo is non-petroleum (e.g., container and break-bulk shipments)

Sources: FTZ Board Annual Reports and U.S. Census Bureau.
FTZ Exports

FTZ Share of U.S. Exports Has Grown Significantly Over the Past Decade

Sources: FTZ Board Annual Reports and U.S. Census Bureau.
Impact on Cargo Movement

Increasing FTZ share of U.S. imports and exports support increased cargo activity, particularly containers and break-bulk.
FTZ Example - Manufacturing

Scenario 1 – a finished automobile is imported into the United States for sale in the U.S. market

Scenario 2 – the same automobile is manufactured in a U.S. FTZ using a mix of imported and domestic components with duty benefits provided for domestic consumption & export
FTZ Example - Manufacturing

Impact on Cargo Movement

**Scenario 1** - Imported Automobile
One shipment through a U.S. port of entry and movement through the U.S. transportation system

**Scenario 2** – FTZ Manufactured Automobile
- Multiple shipments of imported inputs into U.S. ports of entry
- Multiple shipments of foreign and domestic status inputs and finished automobiles through the U.S. transportation system
- Outbound shipments of finished automobiles for export
Imported Automobile Supply Chain
FTZ Example - Distribution

Large retail chain realizes major cost savings by using its U.S. FTZ(s) to supply its U.S., Canadian & Mexican stores by:

- Consolidating distribution operations in the U.S. instead of opening separate centers in each country
- Avoiding payment of U.S. duties (MFN, Sec. 301, etc.) on its exports
- Consolidating and reducing fees (MPF, customs brokerage)
FTZ Example – Distribution

Asian Manufacturing Facility → Goods Transported to Asian Port

Goods Shipped to U.S. → Goods Loaded on Vessel at Asian Port

Goods Unloaded in U.S. at Port of LA → Goods Drayed to FTZ Int’l Logistics Hub in Orange Cty, CA

Goods Arrive at FTZ Int’l Logistics Hub → Goods Delivered to North American Customers

- Target
- Kohl’s
- Walmart
Impact on Cargo Movement

More cargo moving through U.S. ports and transport system, instead of diverting to Mexico and Canada
Some steel importers who suddenly found themselves subject to Sec. 232 tariffs and quotas were able to avoid those restrictions by working with the Port of Tampa Bay to store their merchandise in a zone site at the port and re-export it at an appropriate time to another country.
Impact on Cargo Movement

Because products admitted into and exported from a zone never enter U.S. commerce, FTZs generate additional cargo activity through storage and re-exportation of products that are restricted in some manner from entry into U.S. customs territory (e.g., quotas, non-conformity with certain rules and regulations, etc.), thereby achieving additional supply chain efficiencies.
Many U.S. ports face logistics challenges resulting from receiving substantially greater volumes of import than export cargo (*e.g.*, what to do with a large-number of empty containers).
Impact on Cargo Movement

Because FTZs create export activity that would not exist or be significantly lower without the program, zones help ports better balance the proportion of inbound and outbound cargo.
**Conclusion**

**Key Points**

- U.S. ports provide significant value to the U.S. economy and company supply chains by connecting both to global markets
- FTZ program is designed to promote global trade (imports and exports)
- Ports complement FTZ operations through the resources they provide – infrastructure, security, facilities, transportation, etc.

**Looking Forward**

Ports should explore additional opportunities to leverage the FTZ program and build closer partnerships with FTZ operators to:

- Create new value-added business opportunities and models focused on services and commodities most amenable for joint FTZ/port projects (e.g., logistics hubs, warehousing, temperature-controlled facilities, industrial parks for assembly operations, etc.)
- Grow and improve efficiencies in global supply chains
- Enhance both parties’ operations and global competitiveness
Thank You!

Erik Autor, Esq.
President
NAFTZ
529 14th Street, NW
Suite 1071
Washington, DC 20045
(202) 331-1950