

By Trey W. Boring

## The Resurgence of FTZ Manufacturing

**W**hen the Foreign-Trade Zone program rolled out in earnest during the 1970s and 1980s, it was due to foreign transplant manufacturing and assembly plants that recognized the huge advantage of assembling in the United States and using the program. Led by the inverted tariff benefit, pharmaceutical firms, foreign auto assembly, typewriters and appliance manufacturers all got into the FTZ industry. The inverted tariff concept can be best explained as: “The Foreign-Trade Zone Act (as amended) allows an importer to choose the duty rate that attaches to either imported parts, components or raw materials, or to the value of those imported parts as their portion of the finished product that has a lower duty rate.” That actually sounds complicated, but the following example will make the inverted tariff benefit clear.

A U.S. importer/manufacture brings in pump components that have a duty rate

ranging from 1 percent to 3.7 percent. The importer/manufacture combines those components with domestic labor and other parts to manufacture finished pumps. If they were to import fully finished pumps from overseas into the United States, they would pay a 0 percent duty rate on those finished pumps.

Therefore, because the parts are imported and assembled into a pump in a U.S. foreign-trade zone, the duty on the raw materials and components is “suspended” and not paid until the finished, assembled pump is ready for sale. At this point, the duty is calculated on the imported components and parts at the finished product rate of 0 percent. The importer, located in the United States, uses domestic labor and components to assemble a finished pump. The overhead, taxes and investment in the U.S. are being done domestically because the pump manufacturer is not being penalized against the foreign-assembled pump maker that gets a 0 percent duty rate. Pumps are

manufactured in the United States and can compete with the imported pumps.

Use of the program has leveled the playing field for American manufacturers and foreign manufacturers that come to the United States to invest and utilize American labor.

This trend has led to the resurgence of U.S. manufacturing within foreign-trade zones. During the past 15 years, the rate of growth in U.S. manufacturing had been slowing. FTZ growth during the same time period had been in warehouse/distribution centers holding finished imported goods, as well as e-commerce fulfillment centers. However, the foreign-trade zone and other factors in the U.S. have changed all of that.

The country has seen growth in basic, durable manufacturing in the last five years, with an influx of foreign direct investment and U.S. investment in new plants. More than \$150 billion of this new investment won't come online until 2020. Exports from the Gulf Coast and East Coast are expected to increase by more than 800,000 twenty-

### FTZ No. 149 Offers Vast, Diverse Benefits

**U**nder the leadership of Phyllis Saathoff, former chair of the National Association of Foreign-Trade Zones, Port Freeport offers vast benefits to prominent companies from throughout the world through its FTZ No. 149.

Indeed, the foreign-trade zone expertise at Port Freeport – on the Texas Gulf Coast south of Houston – is incomparable, as Saathoff, the port's executive director and CEO, is the only seaport official to ever serve as chairperson or president of NAFTAZ.

All told, FTZ No. 149 users saved more than \$1.6 million in U.S. customs duties in 2015 while employing 2,600 people in active zone sites.

Fortune 100 firms Phillips 66 Co. and The Dow Chemical Co. are among those benefiting from Port Freeport's FTZ, which has included all of Brazoria and Fort Bend counties in its service area since 2012 approval of its alternative site framework.

For nearly 30 years, American Rice Inc. has taken advantage of the FTZ with its on-port rice mill, while relative newcomers include Luxembourg-based Tenaris, bringing steel pipe into its 12-acre site, and Houston-based Geokinetics, the first general-purpose zone operator in Fort Bend County, moving oilfield and subsea exploration equipment.



Reactor Service International handles catalysts used in refining and petrochemical processes on a duty-deferred basis at its warehouse in FTZ No. 149, while The Netherlands-based DSM Nutritional Products uses Port Freeport's zone for an entirely different kind of chemicals – bring-

ing in compounds that are processed in the zone and shipped out as vitamin-related health products without having to pay customs duties.

A recent 40-acre expansion of the active port is allowing Mammoet USA South to further extend FTZ benefits to movers of project cargo, including oversized industrial units for \$25 billion in regional petrochemical plant expansions.

With weekly container service by Mediterranean Shipping Co., utilizing two post-Panamax, ship-to-shore cranes and highly skilled labor, as well as roll-on, roll-off services of Höegh Autoliners, also under long-term contract, plus advancement of efforts to deepen the port channel to as many as 55 feet from its present 45 feet, Port Freeport is positioned to provide FTZ users with productive global links for years to come. ■