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National Association of Foreign-Trade Zones Promotes Benefits of FTZs in Promoting U.S.-Based Manufacturing

Inverted Tariffs at Issue at Planned \$4.65 Billion ThyssenKrupp Complex near Mobile, AL

The National Association of Foreign-Trade Zones (NAFTZ) today gave strong support to the importance of inverted tariff authority in promoting U.S.-manufacturing at a hearing held at the U.S. Department of Commerce on an application by ThyssenKrupp Steel and Stainless USA, LLC for Foreign-Trade Zone Authority at the companies' planned \$4.65 billion complex in Calvert, Alabama.

“The NAFTAZ cannot remain silent on the issues at hand today regarding the global competitiveness of American manufacturers,” said Dr. Will Berry, NAFTAZ President. “We must do our part to make American manufacturing more competitive. Our testimony today confirms the important role of foreign-trade zones in contributing positively to American competitiveness.”

The overriding public policy objective of the FTZ Program is the encouragement of operations in the United States which, for Customs reasons, might otherwise have been carried on abroad. If the final product emerging from an FTZ is exported, no U.S. Customs duties or excise taxes are levied. If the product is imported into the United States, Customs duties and excise taxes are due only at the time of transfer from the FTZ. The ability to obtain the reduced duty rate associated with the finished product as compared to the raw material is known as the “inverted tariff” benefit. The inverted tariff benefit removes a disincentive to manufacturing in the United States because foreign producers using foreign inputs and labor get the reduced finished good rate upon importation into the United States. Inverted tariffs effectively level the playing field for U.S.-based manufacturers with foreign producers while encouraging use of domestic labor, services, and inputs.

The “inverted” structures in the U.S. tariff schedule encourage foreign production and discourage U.S. production for our own market. Because tariff rates frequently vary across categories of merchandise in unexpected ways, inverted tariffs can significantly disadvantage U.S. manufacturers. Domestic manufacturing firms lose sales because foreign competitors can buy the same inputs free of duty and sell their finished goods in the U.S. market – in the case of steel, duty-free. Without the U.S. Foreign-Trade Zone option, U.S. firms must choose between accepting the government-imposed disadvantage, or moving offshore. U.S. FTZs are designed to counter these inverted structures. .

The opponents of this application have asked the Board to deny a grant of FTZ authority because that grant would address the inverted tariff relationship between imported alloying elements (dutiable at varying rates) and steel, which is generally free of duty. “These inverted tariffs, if not addressed, will certainly encourage the production of steel products outside the United States,” said Dr. Berry. “Inverted tariff relief must not be curtailed now, in its hour of maximum need.”

Under the authority of the U.S. Foreign-Trade Zone Board, the FTZ program has grown steadily in response to business conditions. Today there are over 230 Foreign-Trade Zone projects (with nearly 400 Subzones) in the United States. “In 2007, the FTZ program directly supported 350,000 U.S. jobs,” said NAFTZ President Will Berry. “The FTZ program also was responsible for exports of over \$31 billion and total shipments of more than \$502 billion, of which about 60 percent was domestic status merchandise, suitable for export or being combined with imported products in the U.S.”

“The FTZB must continue to extend the ‘inverted tariff’ benefit to applicants when the public interest is served. This benefit is central to the future of the program. This is no time to sacrifice the economic potential of U.S. manufacturers,” said Dr. Berry.

The National Association of Foreign-Trade Zones is a not-for-profit trade association with a membership representing 361 public and private organizations. The NAFTZ has long been the primary voice of communities and industries that utilize the FTZ program, including grantees, operators and users.