FTZs a stable alternative to stalled tariff bill process

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By Daniel Griswold | Jan 29, 2015

President Obama's recent State of the Union address included calls to strengthen American business and increase exports by improving infrastructure and approving new trade agreements. Despite their opposition to much of the president's agenda, leaders of the new Republican majorities in both houses have pledged to work to spur economic growth and job creation. They can start to redeem that promise by acting quickly to revive the Miscellaneous Tariff Bill process and enhance the Foreign-Trade Zones program.

By reducing or eliminating duties on key imported materials and components needed to make final products for sale in the U.S. and for export abroad, the MTB process and FTZs both stimulate manufacturing output and employment by lowering the cost of production for U.S. companies.

Failure to enact MTB legislation is the direct result of the gridlock that has characterized Washington over the past four years. Historically, Congress would regularly pass an MTB bill to suspend duties on hundreds of items that are typically no longer made in the United States but still "protected" by high tariffs. These suspensions usually extend for three years. But the last time Congress sent an MTB to the president's desk was August 2010.

The problem lies with normally pro-trade Republicans who insist, mistakenly, that reducing damaging and targeted tariffs amounts to an "earmark." The National Association of Manufacturers estimates that failure to pass the MTB imposes a $748 million annual tax on the U.S. manufacturing sector.

Absent progress on MTB, a robust alternative does exist for U.S. manufacturing companies — the U.S. Foreign-Trade Zones program. Enacted in 1934, the FTZ program allows the establishment of designated areas at or adjacent to U.S. ports of entry that are considered outside U.S. Customs territory for purposes of duty payment. Producers do not pay duties on imported goods admitted to a zone until those goods leave the zone and enter U.S. commerce for domestic consumption.

For the more than 3,000 companies that currently use the FTZ program, that means the complete elimination of duties on imported components that are then re-exported as part of a final product made in the United States. And duties can be reduced significantly on imported components that go into final products sold in the United States.

Locating in a foreign-trade zone can be permanent, providing greater investment certainty for producers. And unlike the MTB approach, duty savings are not capped and apply to all imports to the zone, with a few limited exceptions.

The FTZ program has experienced significant growth in recent years, spurred by more user-friendly regulations and a more streamlined administration of zone applications known as the Alternative Site Framework. In 2013, merchandise received, employment, and exports from zones all reached record highs. Since 2009, FTZ exports have grown three times faster than overall exports of U.S. goods.

Major users of the FTZ program include such manufacturing sectors as motor vehicles, petroleum refining, pharmaceuticals and machinery and equipment. The program has attracted such well-known producers as GE Appliances, Whirlpool, Apple Inc., and the U.S. subsidiaries of BMW, Hyundai, Mercedes-Benz, Nissan, and Toyota.

Yes, Congress should pass a new Miscellaneous Tariff Bill in 2015. But lawmakers should also consider sensible enhancements to the FTZ program, including full funding of Customs automation, expanding direct delivery to speed shipments from ports to zones, and revising the FTZ Act to put companies and workers in U.S. zones on a more equal footing with their competitors in free trade agreement partner countries.

Together, these practical actions would deliver a boost to U.S. manufacturing while also advancing bipartisanship in Washington. Who knows — it might just catch on!

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