

National Association of Foreign-Trade Zones

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The Honorable Penny Pritzker
Secretary of Commerce
1401 Constitution Ave., NW
Washington, D.C. 20230

The Honorable Jacob J. Lew
Secretary of the Treasury
1500 Pennsylvania Ave., NW
Washington, D.C. 20220

Dear Secretary Pritzker and Secretary Lew:

United States Foreign-Trade Zones continue to play a key role in returning overseas production activities to U.S. shores. The National Association of Foreign-Trade Zones (NAFTZ) believes, however, that continued growth in this domestic job-creating activity may be jeopardized by inconsistencies in the Foreign-Trade Zones Board's approval process of certain production authority applications in a handful of industries where opposition to applications has emerged. We urge you in your capacity as the members of the Foreign-Trade Zones Board to reconsider this process to ensure that every application receives both a complete analysis of its net benefits to the U.S. economy, and a decision based firmly on that analysis.

Manufacturing was added to Foreign-Trade Zones in 1950 to encourage U.S. and international investment in U.S. factories, and to preserve and increase manufacturing jobs. The recent *Foreign-Trade Zones Board Annual Report to Congress* confirms that in the face of intense competition from all over the world, exports from U.S. Foreign-Trade Zones have quintupled over the last ten years, to more than \$99 billion in 2014, far outpacing the growth of total U.S. exports. That *Report* also documents that 2014 employment in Foreign-Trade Zones increased 7.7% over the previous year, to 420,000 across the country. Clearly this U.S. program is as true to its roots in driving economic growth as it was at its inception during the Great Depression.

In some industries, however, it can be a serious disincentive to production in the United States when imported materials and components bear higher U.S. tariffs than the resulting finished products that enter at a much lower or zero duty rate. Duty suspensions, which used to be an option, do not support long-term investments in the United States because they are temporary and unpredictable.

An obvious alternative for manufacturers needing to avoid high duty rates on imported merchandise used to make a finished product with a low or zero duty rate is to locate the plant in another country. The Foreign-Trade Zones program is the only practical way for a factory to compete effectively against imported finished products and retain or increase manufacturing jobs in the United States. This has led to an increasing number of producers and their domestic suppliers seeking production authority from the Foreign-Trade Zones Board. However, there is a growing perception in some industries that inconsistencies in the approval process in the face of opposition by competing interests is making pursuit of Foreign-Trade Zones Board approval too risky. This perception may result in corporate decisions to offshore production and jobs, undermining the very purpose of the Foreign-Trade Zones program.

To encourage reshoring and protect and increase U.S. manufacturing jobs impacted by high tariffs on imported merchandise and low or zero tariffs on finished products, it is of course essential that every application for Foreign-Trade Zones Board production authority receive full and complete consideration. The regulations governing approval of production authority applications at 15 CFR §400.27 require that "The Board's evaluation [of whether to approve an application for production authority] shall take into account such factors as . . . (the) net effect on U.S. employment and the U.S. economy."

This is a proper standard. If a production authority application has negative as well as positive impacts on the domestic economy, those impacts should be examined. We support a rigorous and thorough analysis of the potential benefits *and* harms to determine the *net* economic benefit of the proposal. However, the simple existence of a negative economic impact alone should not be sufficient to deny or restrict production activity. If the balance of U.S. economic impacts is in favor of FTZ production, the activity should be authorized. If it is negative, it should not. The balance must first be determined, and that balance should be the determinant factor when an application is approved or denied.

Denying production authority and forcing manufacturers into an uncompetitive domestic supply base for their inputs will not have a net positive impact on U.S. employment, wage growth, investment, and output. Soon enough, the production operation will move overseas and the manufacturing jobs of the finished goods producer and any other domestic suppliers will also be lost. If we are to promote manufacturing in the United States through new investment and reshoring, we must recognize that it will take time before the complete supply chain for those industries is able to find its way back. Accepting the main production facility with open arms is an important and necessary first step in adding jobs as the maturing operation spawns additional activity within the supply base. There are numerous examples of this effect, notably in the international automobile industry, which has largely embraced the use of production authority in FTZs.

The NAFTAZ firmly supports the new regulations adopted by the Foreign-Trade Zones Board in 2012 that streamlined the process for obtaining production authority. This is a positive step, because many requests are not opposed at all and can now be approved in less than half the time of the previous process. If there are objections to an application, however, they must be examined objectively and critically, and the net economic benefit of the application determined.

These calculations are not difficult. Where reshoring will create new U.S. jobs in manufacturing and in domestic suppliers, all employment is due to the reshoring. If any oppose the application, they must be prepared to show how many of their jobs will be lost by approval of the production request. Analyzing the two figures to determine the overall net employment benefit is, in our view, compelled by the regulations.

Production authority applications are sure to arise where the net economic benefit is in dispute, but the Foreign-Trade Zones Board knows how to deal with such sensitive issues. In 2009, the Board approved inverted tariff applications involving upholstery fabric despite objections from domestic yarn and fabric makers (*see* Board Orders 1598, 1599, & 1600 dated December 22, 2008). The approval was originally limited to five years to gauge the true impact on domestic industry, and that authority has recently been renewed without a time limit. The Foreign-Trade Zones Board therefore has a mechanism for approving production authority, even in cases where the net economic benefit may be initially difficult to ascertain. Time limits on approvals are an appropriate way to allow for necessary confirmation, while allowing for the immediate expansion of domestic investment, production, and employment.

Manufacturers face a range of daunting challenges when reshoring their operations, including higher labor rates, the strength of the dollar, and a lack of a reliable supply base in industries that in many cases left our shores years ago. High tariffs will not bring those jobs back, and where the downstream product is subject to lower duties, the jobs will simply move or stay offshore. We urge the Foreign-Trade Zones Board to exercise its authority fairly and vigorously to support U.S. employment and capital investment and help manufacturers make the journey home to the United States.

Best wishes,



Daniel Griswold
President