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## **Anticipated Remarks as Prepared for Delivery**

### **USTR Section 301 Investigations of Acts, Policies, and Practices of Certain Economies Relating to Structural Excess Capacity and Production in Manufacturing Sectors Hearing**

**Melissa Irmen, Director of Advocacy, NAFTAZ**

Good morning and thank you for the opportunity to appear before this Committee regarding the investigation into structural excess capacity and production in manufacturing sectors. My name is Melissa Irmen, and I serve as Director of Advocacy and Strategic Relations for the National Association of Foreign-Trade Zones, or NAFTAZ.

NAFTZ represents the companies and communities across the United States that rely on the U.S. Foreign-Trade Zone program to support domestic manufacturing, distribution, and exports. Like our written comments, my testimony is not focused on analyzing the conduct of any one economy individually. Instead, I want to address a broader issue that applies across this investigation if USTR determines that tariffs or other trade remedies are warranted. That issue is this: U.S. FTZs should not be required to admit goods in Privileged Foreign, or PF, status as part of a remedy resulting from this investigation.

The reason is straightforward. U.S. FTZs are one of the tools Congress created to strengthen American manufacturing competitiveness. They are intended to help offset situations where tariff structures place U.S.-based producers at a disadvantage compared with foreign competitors. That makes the FTZ program a natural complement to any effort to address foreign excess capacity and state-supported overproduction.

The U.S. FTZ program supports substantial economic activity in the United States. According to the FTZ Board's 2024 annual report, FTZs supported 543,000 American jobs, 381 active production operations, and \$134 billion in exports. These operations span sectors directly implicated by this proceeding, including automotive, electronics, machinery, pharmaceuticals, and energy-related manufacturing.

That is why PF-status requirements matter so much.

PF status eliminates the tariff inversion benefit that has long made U.S. FTZ manufacturing viable for many companies. Before these recent requirements, a manufacturer could pay duty on necessary imported components at the rate of the finished good rather than the MFN rate of each component when the finished good rate was lower. PF status instead locks in the component duty rate at the time of admission to the zone, preventing use of the lower finished product rate. In practical terms, that can significantly increase the cost of manufacturing in the United States.

That burden is especially problematic in the sectors covered by this investigation, because those industries are already competing against foreign producers benefiting from excess capacity, state support, or other structural distortions. If U.S. FTZ manufacturers are denied one of the core tools Congress created to offset cost disadvantages, then the business case for domestic production becomes weaker. That outcome would run directly against the purpose of this proceeding.

NAFTZ's point is not that USTR should avoid action. Quite the opposite. Our point is that remedy design matters. USTR can respond to the harms caused by structural excess capacity and production abroad without creating unnecessary collateral damage for domestic manufacturers operating in U.S. FTZs. Excluding PF-status requirements would preserve the tariff inversion benefit that often helps make U.S.-based production decisions possible in the first place. It

would also reinforce a more stable and predictable policy environment for domestic manufacturing and investment.

And this is not a peripheral issue. The FTZ Board's 2024 annual report shows that production operations in FTZs involved 79 percent domestic-status merchandise. That is strong evidence that these are genuinely domestic operations supporting U.S. production, not simply import platforms. When those operations are weakened, it is U.S.-based manufacturing activity that is weakened.

So NAFTAZ's recommendation is straightforward: if USTR adopts tariffs or other trade measures as a result of this investigation, U.S. FTZs should not be required to admit goods in PF-status because of those actions.

U.S. FTZs are one of the tools the United States already has to support competitive domestic manufacturing. In the context of this investigation, they should be treated as part of the solution, not burdened in a way that makes it harder for American producers to compete.

Thank you again for the opportunity to testify. NAFTAZ would be pleased to serve as a technical resource as USTR continues its work on this matter, and I welcome your questions.