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Hearing on Proposed Sec. 301 Action Against Imports from China

Testimony of Erik Autor, President, National Association of Foreign-Trade Zones (NAFTZ)

My name is Erik Autor, President of the National Association of Foreign-Trade Zones (NAFTZ). On behalf of the association and its members, my testimony focuses on the impact companies operating in U.S. foreign-trade zones expect from proposed 25 percent tariffs on \$50 billion worth of targeted imports from China under Section 301 of the 1974 Trade Act.

NAFTZ is the voice of the U.S. Foreign-Trade Zones program, created by Congress in 1934 to help U.S.-based companies be more globally competitive; maintain U.S.-based activity and jobs; attract investment to American communities; and boost exports through special duty benefits and customs procedures.

FTZs account for a significant portion of total U.S. trade - 5.2 percent (\$76 billion) of U.S. goods exports and 10.2 percent (\$225.3 billion) of U.S. goods imports in 2016. Over 420,000 American workers are employed at FTZs in all fifty states and Puerto Rico.

NAFTZ agrees that China's intellectual property rights violations, forced technology transfers, and state interventions warrant appropriate action. However, NAFTZ represents many internationally-competitive companies and industries – including energy, automotive, aerospace, pharmaceuticals, and consumer electronics – that rely on China and other countries to supply inputs necessary for their U.S. production and also include China as a key export market.

Accordingly, we share the serious concerns of many U.S. business organizations about the adverse consequences Sec. 301 tariffs pose for U.S. manufacturing, exporting, and consuming industries, including creating strong incentives to manufacture abroad as U.S. production costs increase and imported goods become more competitive in the U.S. market.

This scenario also threatens to undercut important FTZ program goals – (1) to sustain U.S.-based manufacturing and jobs by equalizing duties on U.S.-made and foreign-made products; and (2) eliminate situations where U.S. manufacturers pay significantly more than foreign exporters in U.S. duties because duties on inputs are higher than on the final product.

To mitigate these problems, NAFTZ believes it is essential for the Sec. 301 process and other trade remedies actions to establish an effective on-going product-exclusion-request procedure, enabling companies to secure exclusions from duties for certain imported materials, including finished products manufactured in U.S. zones.

Another critical issue for FTZ manufacturers in trade remedies proceedings is that finished goods approved by the U.S. Foreign-Trade Zones Board for zone production must not be incorrectly considered foreign origin for U.S. Customs entry purposes, and, must be explicitly exempted from additional tariffs in Presidential Proclamations. Our May 11 written comments provide an example illustrating the potential problem and include recommended Proclamation language to ensure goods finished in a U.S. zone are not inadvertently subject to additional duties.

The Sec. 301 action would also require FTZ manufacturers to admit any subject articles into a U.S. zone under “privileged foreign status” and pay the additional duty when the finished product incorporating those articles is entered into U.S. commerce. In laying out the PF process for FTZs, it is essential that Proclamation language avoid including language used in the March 22 Presidential Proclamations on steel and aluminum – “[a]ny steel [or aluminum] article that was admitted into a U.S. foreign trade zone under ‘privileged foreign status’ prior to [the effective date of the duties] . . . will likewise be subject upon entry for consumption to any *ad valorem* rates of duty . . . imposed by . . . [this] proclamation.”

NAFTZ is unaware of any past Proclamations containing such language imposing additional duties upon filing a customs entry on merchandise in an FTZ that was under PF status prior to the effective date of such duties. This condition penalizes FTZ users for manufacturing in the United States and contravenes language in the Foreign-Trade Zones Act and Customs regulations regarding the election of PF status on merchandise in zones.

NAFTZ also has several other technical issues regarding treatment of foreign-trade zone merchandise in this and other trade remedies actions. As time is limited, I refer the committee to our May 11 comments for a more detailed discussion, including additional recommendations for Presidential Proclamation language to provide better and clearer guidance to FTZ manufacturers.

Thank you for your attention.