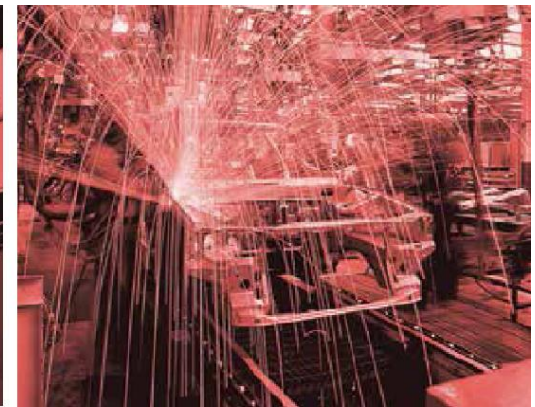


Unintended Negative Impact of Trade Remedies on U.S. FTZ Manufacturers

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UNINTENDED NEGATIVE IMPACT ON U.S. FOREIGN-TRADE ZONE (FTZ) MANUFACTURERS

- A U.S. company investing hundreds of millions of dollars to build a production facility in the U.S. employing thousands of U.S. workers to produce U.S. finished goods should not be treated as if producing in and importing from a foreign country when imposing trade remedies duties (e.g., Sec. 201, Sec. 301, AD/CVD, etc.)
- This results in punishing a U.S. manufacturer that is a member of the very domestic industry the trade remedy was designed to protect.



UNINTENDED NEGATIVE IMPACT ON U.S. FTZ MANUFACTURERS

Four Scenarios Highlight the Problem

1. Submersible Water Pump imported from China.
2. Submersible Water Pump imported from a country other than China
3. Submersible Water Pump manufactured in the United States outside an FTZ from domestic and imported parts
4. Submersible Water Pump manufactured in the United States inside an FTZ from domestic and imported parts



EXAMPLE 1

WATER PUMP IMPORTED FROM CHINA



Submersible Water Pump (HTS 8413.70) imported from China with \$87 value

- 25% tariff imposed under Sec. 301

DUTY = \$21.75



EXAMPLE 2

WATER PUMP IMPORTED FROM COUNTRY OTHER THAN CHINA



**Submersible Water Pump (HTS
8413.70) imported from country other
than China with \$87 value**

DUTY FREE



EXAMPLE 3

WATER PUMP MANUFACTURED IN U.S. OUTSIDE AN FTZ

Parts and Components

- Polyphase Motors (China): HTS 8501.51; 2.5% MFN + 25% 301
 - \$20 value
- Mechanical Seals (Hong Kong): HTS 8484.20; 3.4% MFN
 - \$3 value
- Pump Parts (various non-China): HTS 8413.91; Duty Free
 - \$15 value
- Shaft Couplings (China): HTS 8483.60; 2.8% MFN + 10% 301
 - \$8 value
- Flanges (China – not on the 301 list): HTS 7307.21; 5.6% MFN
 - \$21 value
- Domestically-Sourced Parts
 - \$20 value



Sec. 301 Duty Liability

- Motors @ \$20 x 25% = \$5
- Shaft Couplings @ \$8 x 10% = \$0.80

Other Duty Liability

- Motors @ \$20 x 2.5% = \$.50
- Seals @ \$3 x 3.4% = \$.10
- Shaft Couplings @ \$8 x 2.8% = \$0.22
- Flanges @ \$21 x 5.6% = \$1.18

DUTY = \$7.80



EXAMPLE 4

WATER PUMPS MANUFACTURED IN U.S.

INSIDE AN FTZ

Parts and Components

- Polyphase Motors (China): HTS 8501.51; 2.5% MFN + 25% 301
 - \$20 value
 - PF Status required
- Mechanical Seals (Hong Kong): HTS 8484.20, 3.4% MFN
 - \$3 value
 - NPF Status
- Pump Parts (various non-China): HTS 8413.91; Duty Free
 - \$15 value
 - NPF Status
- Shaft Couplings (China): HTS 8483.60; 2.8% MFN + 10% 301
 - \$8 value
 - PF Status required
- Flanges (China – not on the 301 list): HTS 7307.21; 5.6% MFN
 - \$21 value
 - NPF Status
- Domestically-Sourced Parts
 - \$20 value



Sec. 301 & MFN Duty Liability (PF Status Parts)

- Motors @ \$20 x 25% = \$5
- Shaft Couplings @ \$8 x 10% = \$0.80
- MFN duties on PF Status Parts @ \$20 x 2.5% + \$8 x 2.8% = \$0.72

Sec. 301 Duty Liability (Finished Water Pump Substantially-Transformed in FTZ and Entered into US)

- CBP treats U.S. FTZ-made pump as Chinese because for statistical purposes U.S. Census asks FTZ manufacturers to list country of origin of highest-valued inputs (here China) on entry documents for FTZ-finished goods
- Non-301 subject foreign inputs @ \$3 + \$15 + \$21 = \$39 x 25% = \$9.75

DUTY = \$16.27



RESULTING MANUFACTURING DECISION

	Import Pump from China	Import Pump from non-China	Manufacture in US in zone	Manufacture in US not in zone
Duties Paid per Unit	\$21.75	\$0	\$16.27	\$7.80



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SUMMARY OF KEY POINTS

- U.S. manufacturers in an FTZ make goods in the United States, employing U.S. workers, and adding domestic value in the same manner as U.S. manufacturers outside an FTZ
- Therefore, goods manufactured and substantially-transformed into a different product in U.S. FTZs should be treated the same as such goods produced in the U.S. outside an FTZ
- Goods manufactured and substantially-transformed into a different product in U.S. FTZs should not be treated as if produced in and imported from a foreign country in applying trade remedies
- Discriminatory treatment against FTZ-made products is a clear, unintended penalty on U.S. manufacturers
- This damage to U.S. manufacturers will increase exponentially the longer this discriminatory treatment is not addressed and corrected



SOLUTION

To correct the discriminatory treatment of U.S. FTZs in trade remedies actions, including current measures under Sections 201 and 301, all White House and agency proclamations, directives, and guidance on enforcement and collection of duties must include the following language from the Section 232 Presidential Proclamations on steel and aluminum:

Articles shall not be subject upon entry for consumption to duties established under this [proclamation or order], merely by reason of manufacture in a U.S. foreign trade zone. However, articles admitted to a U.S. foreign trade zone in “privileged foreign status,” shall retain that status consistent with 19 CFR 146.41(e)

