WELCOME FROM THE NAFTZ BOARD CHAIR & PRESIDENT

2019 NAFTZ ANNUAL REPORT LOOKS BACK ON EVENTFUL YEAR, AHEAD TO FULL AGENDA FOR 2020

This report will share with our members what has been accomplished in the past year on their behalf, and the association’s full agenda of advocacy, education, and events planned for the year ahead. The report also tells the success story of the FTZ program and its growing contributions to the U.S. economy.

Founded in 1973, NAFTZ is the collective voice of the FTZ community in the United States and Puerto Rico. The association represents more than 700 members, including FTZ grantees, operator/user companies, and service providers.

The mission of NAFTZ is to serve as the FTZ program’s principal educator and lead advocate in demonstrating the program’s value and role in the changing political and economic environment of international trade. NAFTZ supports local economic development and the global competitiveness of its members by disseminating vital information and promoting the expansion of international trade.

The 2019 NAFTZ Annual Report documents how we have been true to that mission. During the year, NAFTZ continued to provide exceptional educational and informative programs focused on FTZs and international trade topics. Hosted by NAFTZ, these events included the Fundamentals Conference in Long Beach, California in January, offering comprehensive educational content; the Legislative Summit, in Washington, DC in February, the industry’s premier lobby fly-in event; the Spring Seminar

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in Savannah, Georgia in May, with over 200 attendees; and the Annual Conference and Exposition in Chicago, Illinois in September, with over 500 attendees. NAFTZ events featured an Advanced Track offering multiple topics and coverage of the most challenging issues currently facing FTZ Operations.

The FTZ program itself continues to deliver measurable benefits in a time of major challenges and changes for the United States. According to the most recent U.S. FTZ Board Annual Report to Congress, FTZ exports and employment have continued to provide positive impacts to the U.S. economy, which are documented in the FTZ trends and analysis section (see pp. 12–14).

In Washington, DC, NAFTZ has been a resolute advocate for the interests of our members and an ever–more useful, dynamic, and viable FTZ program. We have actively lobbied Congress and the Administration on policy issues impacting the program and stakeholders, including the continuing trade–remedies actions, negotiation of the U.S.–Mexico–Canada Agreement (USMCA), and the effect of changes to the Sec. 321 de minimis statute on zone distributors. We have also collaborated with U.S. Customs and Border Protection (CBP) and the U.S. FTZ Board, as well as multiple partner government agencies, to improve the regulation of the program and transitional changes currently underway, particularly on revisions of regulations governing the FTZ program the programming requirements for the Automated Commercial Environment (ACE). A centerpiece of our advocacy efforts launched in 2017 — a study of economic benefits of the zones program — was unveiled February 2019. The FTZ program and stakeholders will continue to face new opportunities and challenges in the public policy arena in election year 2020. For NAFTZ’s ambitious 2020 policy agenda, see pp. 17–18.

With our latest annual report, we hope to convey our pride in what we have accomplished in the past year, and our hope and expectation for what lies ahead in the new year.

Best wishes for a successful and prosperous 2020,

Frankie Bryson, Board Chair  Erik Autor, President
In 2019, NAFTZ actively lobbied on key advocacy objectives.

- **Advocacy Campaign.** NAFTZ made significant strides in 2019 on our advocacy campaign launched in 2017 to raise the profile of the FTZ program, enhance NAFTZ’s ability to influence public policy and decision-makers in Washington, and gather better data on the economic and employment benefits of the FTZ program. A major part of this initiative, an economic study of the FTZ program commissioned by NAFTZ and conducted by a highly-regarded economic and trade-policy consulting firm was released in February 2019 with the financial support of member-company sponsors. To support NAFTZ advocacy, we also established a new Advocacy Committee and created the Homer A. Maxey Advocacy Award to recognize significant contributions to NAFTZ advocacy and lobbying in support of the FTZ program.

- **Capitol Hill Lobbying.** In addition to NAFTZ’s Legislative Summit in February, NAFTZ held 34 separate meetings throughout the year with Members of Congress and staff. Lobbying visits focused particularly on Members of the Senate Finance and House Ways and Means Committees, which have jurisdiction over the FTZ program, and Congressional Leadership to discuss policy and legislative issues of importance to program and stakeholders, including draft legislation to address the application of trade-action duties to FTZs, proposed changes to Sec. 321/de minimis, draft legislation to address FTZ-specific issues on the U.S.–Mexico–Canada Agreement (USMCA) implementing legislation, and issues related to stemming illicit trade. Highlights included meetings with Senate Finance Committee Chairman, Sen. Charles Grassley (R-IA); Senate Finance Committee Members, Sen. Tom Carper (D-DE) and Sen. Tim Scott (R-SC); and Sen. Roy Blunt (R-MO).

- **Application of trade-action duties on FTZ merchandise.** NAFTZ continued its campaign to correct the erroneous application of duties under Sec. 201 and 301 on the foreign content in products manufactured in U.S. FTZs and clarify the proper application of temporary duties on subject merchandise in zone inventory imposed through various trade actions under Chapter 99 of the Harmonized Tariff Schedule of the United States (HTSUS), including:
  - Finalizing legislative and regulatory draft language to provide definitive clarification on duty treatment of FTZ merchandise under these trade actions;
  - Holding meetings in April and July with senior officials in the U.S. Dept. of Commerce Office of Enforcement and Compliance and in August with CBP officials;
• Presenting testimony by Erik Autor in May before the Sec. 301 Committee, chaired by USTR, on the impact of Sec. 301 duties targeting the European Union aircraft industry;

• NAFTA/USMCA. In preparation for Congressional action on the USMCA, NAFTZ finalized draft language to address discriminatory restrictions on the ability of FTZs to use the NAFTA rules of origin for shipments for U.S. consumption and to export to Canada and Mexico free of U.S. duties under the normal rules of the program. While our lobbying effort to attach this language onto the USMCA implementing bill was unsuccessful, we expect opportunities to advance the legislation in 2020.

• 321/de minimis. NAFTZ continued to work through the 321 Coalition in support of amendments to the FTZ Act and Sec. 321 to allow duty-free shipments of “de minimis” merchandise (valued under $800) from warehouses in U.S. zones into the domestic market as is currently allowed for imports to other countries. Although lobbying by the Coalition and NAFTZ was unsuccessful in attaching the proposed legislation onto the USMCA implementing bill, there will be opportunities to advance the legislation in 2020.

• Revising FTZ Regulations (Parts 146 and 400). NAFTZ re-established a working group to complete draft revisions on CBP and FTZ Board regulations governing the FTZ program, including in-person meetings in Washington between members of the working group and CBP and FTZ Board officials. The CBP regulations have not undergone a substantive update since 1986 and FTZ Board regulations since 2012.

• Illicit trade. NAFTZ became increasingly engaged on the problem of illicit trade driven partly by the rapid growth of e-commerce and upsurge in small-package delivery. We continued our engagement in the international initiative led by the Organization for Economic Cooperation and Development (OECD) and the World Customs Organization (WCO) to address the illicit–trade problem in certain foreign free zones. We also worked with a group of Members of Congress in their drafting of legislation on illicit trade and submitted comments on the issue to the Commerce Department.

• Partner Government Agencies (PGAs) and the Automated Commercial Environment (ACE). NAFTZ continued discussions and communications with CBP and PGAs on outstanding issues arising from the transition of PGA compliance data into the single-window International Trade Data System (ITDS) and the necessary programming in ACE.

• In-bond regulations. NAFTZ also worked on revising the CBP in-bond system, including comments to CBP on in-bond guidelines submitted in June, which succeeded in removing language in CBP’s proposed facilities standard that would have imposed burdensome and unworkable requirements on zone operators.

NAFTZ’s 2019 conferences. The success of all four of NAFTZ’s conferences in 2019 was demonstrated by the record participation of our members and record support from our sponsors and exhibitors. For more information on these programs, including content and social events, please see pp. 8–11.

NAFTZ membership in 2019. NAFTZ membership in 2019 rose to an all-time record of 713. Our reformed procedures and policies on membership have helped improve data collection and better support member retention and recruitment. NAFTZ’s active role in protecting and promoting the FTZ program while facing a challenging environment on
trade policy and its impact on the zones program and stakeholders may also account for the membership increase and greater engagement with the association.

**FTZs continued to drive U.S. exports and employment per the U.S. Foreign-Trade Zones Board Annual Report to Congress released in December 2019 covering calendar year 2018.**

- In 2018, over 440,000 persons were employed in zones in all 50 States and Puerto Rico.
- The largest industries accounting for zone activities in 2018 included oil refining, automotive, electronics, pharmaceuticals, and machinery/equipment.
- In 2018, the total number of approved FTZs stood at 260 and active FTZs at 195, with the number of active zones’ production operations rising to 330.
- In 2018, both the value of merchandise received at FTZs and the value of merchandise exported from FTZs rose significantly from the previous year reflecting higher economic growth. Of note, 63.5 percent of all FTZ activities were associated with manufacturing/production operations and exports from FTZs totaled $112 billion dollars.

**In 2019, NAFTZ communicated important information about the program to its members and the public and raised the media profile of the association.**

- The monthly *Zones Report* e-newsletter reached every member with vital information about the association, the program, and stakeholders.
- Blast emails notified members about a wide-variety of issues impacting the FTZ program, including breaking developments on trade-policy and regulatory issues.
- NAFTZ continued to expand its reach on social media sites to provide regular updates and photos. NAFTZ has 1,436 followers on Twitter (@naftz), 276 on Facebook, and 617 on LinkedIn.
- The *Journal of Commerce* published a special section in September highlighting the FTZ program. It included articles written by NAFTZ President, Erik Autor; NAFTZ Chair, Eva Tomlinson; and NAFTZ Member, Scott Taylor.
- NAFTZ responded to numerous press inquiries about the FTZ program and the impact of trade-remedies actions in 2019 on FTZ operations, including:
  - An article published in April in the *Greenville Business Magazine* quoted Erik Autor on the importance of FTZs in South Carolina and the impact of trade actions on manufacturing;
  - An article published in July in the *Colorado Sun* on FTZ program growth in Colorado also quoted Erik Autor;
  - An article published in the *Casper Star-Tribune* quoted Erik Autor about the potential benefits of the FTZ program for Wyoming;
  - An article published in September in *Propublica* on the impact of the various trade-action tariffs on FTZs, quoted NAFTZ General Counsel, Marshall Miller; Chair of the NAFTZ Grantee Committee, David Panko; NAFTZ Member, Robert Stein; and NAFTZ President, Erik Autor;
  - Another article published by *Propublica* in October on the impact, including FTZs, from the change in the Sec. 321 duty–free *de minimis* level cited NAFTZ Member Columbia Sportswear and quoted former NAFTZ Director, Angie Atwood;
  - An article published in *Logistics Management and Supply Chain Management Review* quoted Erik Autor on various aspects of the FTZ program;
• A podcast interview by *Geoeconomics* included Erik Autor and NAFTZ Members, Julie Brown and Al Figuly discussing the benefits and details of the U.S. FTZ program;

• Several backgrounders for *Bloomberg Law, American Shipper/Freightwaves,* and *NBC News* reached out on various trade and customs issues impacting FTZs.

• Two interviews on the *BBC* about how the U.S. FTZ program might serve as a model for the United Kingdom as it prepares for the impact of its exit from the European Union on the British economy and companies.

• NAFTZ issued press releases and statements on our conferences, release of the FTZ Economic Impact Study, and issues, including Erik Autor’s testimony and written comments for trade-policy hearings.

**NAFTZ Leadership.**

• In September, Frankie Bryson of Nissan North America, Inc. succeeded Eva Tomlinson as NAFTZ Board Chair.

• In September, the NAFTZ membership approved a slate of directors to the NAFTZ Board, including three new directors — Robert Balli of Phillips 66 (operator), Renée Boyette of Triangle J Council of Governments (grantee), and Katie Tangman of Columbia Sportswear Company (operator).

• Members also endorsed a new NAFTZ Executive Committee, which, in addition to Chairman Frankie Bryson, comprises Melissa Irmen (Vice Chair), Shane Williams (Treasurer), and Shannon Fura (Secretary).

**NAFTZ continued to build its engagement with domestic and international partners.**

• **Domestic partnerships.** NAFTZ maintained mutual promotion agreements with its sister and allied trade associations — the American Association of Exporters and Importers (AAEI), the American Petroleum Institute (API), the International Compliance Professionals Association (ICPA), the National Customs Brokers & Forwarders Association of America (NCBFAA), and the Inland Rivers Ports and Terminals (IRPT).

• **Global partnerships.** This year, NAFTZ renewed the memorandum of understanding with the World Free Zones Organization (WFZO) and the Asociación de Zonas Francas de las Américas (AZFA), which provide the framework for our relationship and engagement with them. WFZO is the international body representing free-trade zones throughout the world. AZFA represents free-trade zones throughout Latin America and Spain.

• **WFZO Conference.** NAFTZ is a founding member of the WFZO and again participated in the WFZO’s 5th Annual Conference in Barcelona, Spain, where NAFTZ President, Erik Autor was a speaker and panelist. Among the other U.S. attendees were NAFTZ Director Shannon Fura, and NAFTZ members, Julie Brown of the Georgia FTZ and Al Figuly of the Greater Kansas City FTZs. Shannon is a current director on the WFZO board and Julie is a former WFZO board member and current WFZO regional “ambassador.” The conference highlighted WFZO’s work in developing a vision for the zone of the future focused on best practices, innovation, and sustainability.
PROGRAMS & EDUCATION

ANNUAL CONFERENCE & EXPOSITION

September 8–11, 2019, Chicago, Illinois

507 Attendees

The NAFTZ 47th Annual Conference in Chicago was a fabulous event for FTZ professionals to learn, strategize, network with colleagues, and celebrate this year’s accomplishments at the single largest event of the year dedicated specifically to FTZs. This year’s attendance numbers shattered the record for this conference and all other NAFTZ events. In all, there were 507 engaged attendees, 30 exhibit booths sold, with exhibitors representing the latest software, products, and service providers in the industry; and 100 speakers/moderators at 50 different sessions.

NAFTZ’s policy issues and lobbying activities featured prominently in the agenda, including trade remedy actions under Sections 201, 232, and 301; trade agreements (NAFTA/USMCA); new rules and regulations governing the FTZ program; and the impact of changes to the Sec. 321/de minimis statute on FTZs.

Monday’s program also featured an update from FTZ Board Executive Secretary, Andrew McGilvray. His presentation noted that the number of cases in 2019 continued at a high level and is on track to meet or exceed high cases loads over the previous two years. The FTZ Board staff continues to conduct monitoring site visits using representative sampling of FTZ production operations to validate consistency with approved scope of authority. He noted the requirement that all requests to the FTZ Board must be submitted electronically.

Monday’s second general session discussed the rewrite of FTZ regulations under Part 146 and implications to the trade industry as well as COAC developments with the Customs Operations Advisory Committee (COAC). Eva Tomlinson (UPS Zone Solutions) moderated the discussion with panelists Trey Boring (IMS Worldwide, Inc.), Lisa Gelsomino (Avalon Risk Management), and Rebecca Williams, (The Rockefeller Group). The FTZ Working Group on Part 146 recommended a number of policy changes including on direct delivery, production equipment, FTZ bonding, and the FTZ Manual. The addition of a section addressing administration of temporary duties imposed under HTS Chapter 99 as the result of on-going trade actions; simplified 5-day removal rule requirements; and clarified/enhanced penalties, suspension, and revocation sections were noted as examples of significant areas of changes resulting from the working group’s efforts. This was the first conference to include a new compliance track on the list of sessions.
At Tuesday evening’s social event, attendees and their guests experienced a connection to the Universe at the famous Adler Planetarium, thanks to generous sponsorship of Thomson Reuters, Port Houston, and UPS Zone Solutions. Everyone enjoyed the scenic view of the Chicago skyline, followed by food, tours of the planetarium, and an evening of entertainment.

The event app helped enhance the attendee experience by offering easily accessible information on the conference and a better way to connect to other conference attendees. To promote use of the app, attendees again had the chance to participate in our app challenges through photo scavenger hunts.

Thanks to the generosity of the 30 participants in our Charity 5K Run/Walk and conference attendees, NAFTZ was able to make a donation of $2,125 to the Greater Chicago Food Depository, a local non-profit charitable organization committed to combatting hunger and poverty.

In her first address as NAFTZ Chair, Frankie Bryson, stated that there are various ways members can be involved, especially in advocacy and she encouraged each member to share the benefits of joining NAFTZ with at least one person outside their company.

ZONECAST WEBINARS

16 webinars hosted in 2019

NAFTZ’s webinar series remained very popular in 2019 with noted industry leaders sharing their experience and expertise on the major topics of interest to the FTZ community. Sixteen Zonecast public webinars provided participants information on a wide array of issues such as “OFIS Interface”; “Bond Sufficiency”; “Scope of Production Authority”; “State Trade Agenda and Grantee Outreach”; “Trade Actions & Zone Implications”; “How Trade Reform is Impacting Your Zone”; “Scrap, Waste & Destruction – Beyond the Basics”; and a multi-part series on the Inventory Control Record Keeping System (ICRS).

Free to NAFTZ members to attend live or view in video archives, the webinars continued to draw sizable audiences – a total of 679 at the live events, one of which attracted over 100 participants, and 342 on-demand views. NAFTZ featured live polling at six webinars and continues to produce a response rate of over 50 percent to polling questions, demonstrating strong attendee engagement.

New this year, we also hosted four event-specific webinars in preparation for our conferences and open only to registrants. We plan to expand this offering in coming years based on high initial interest and participation, which drew a total audience of 88 for the live events and 180 on-demand views.
NAFTZ held its annual Fundamentals of FTZs Seminar aboard the historic RMS Queen Mary in Long Beach, welcoming 89 attendees (92 including guests) – the highest attendance since 2007. Panelists included David Panko, Foreign-Trade Zone FTZ at the City of El Paso/El Paso International Airport (FTZ #68); Connie Brown, FTZ Administrator Supervisor at Euromarket Designs (DBA Crate & Barrel); and Melissa Irmen, Senior Vice President for Thought Leadership at Thompson Reuters/Integration Point, who provided practical experience and grantee and operator/user perspectives on FTZ Operations. This “nuts and bolts” seminar covered FTZ operational details and regulations and best practices in using an FTZ as part of an effective supply-chain strategy. The program was topped off with a boat tour of the second-largest U.S. port, led by Ken Uriu of the Port of Long Beach.

The NAFTZ Legislative Summit is the industry’s premier lobby event in Washington. A strong turnout of 95 federal government officials, policy makers, and industry leaders from the FTZ community assembled in the nation’s capital to hear about and discuss issues impacting the FTZ program and stakeholders under the event theme of “FTZs and Trade Policy.”

Participants received detailed briefings on a wide-range of policy issues – a Congressional outlook on trade and customs issues from majority and minority trade counsels of the House Ways & Means and Senate Finance Committees; briefings on the state of play with NAFTA and trade policy from two prominent trade policy experts, including Amb. Rufus Yerxa, former Deputy U.S. Trade Representative and Deputy Director General of the World Trade Organization; updates from the FTZ Board Executive Secretary and senior CBP officials; and a panel of grantees and operator/users discussing the economic impact of the zones program on their communities and companies.

The Summit also marked the official release of the FTZ economic study, a central component of the NAFTZ advocacy initiative. Authors of the study, economists Laura Baughman and Christine McDaniel of the Trade Partnership, walked the audience through its key findings – the benefits to U.S. communities (investment, jobs, and value-added) and companies (efficiency, domestic production, and exports).

The conference portion of the Summit concluded with a reception on Capitol Hill where conference participants met informally with Members of Congress and staff over drinks and hors d’oeuvres. During the reception, four prominent Members of Congress – Member of the Senate Finance Committee, Sen. Ben Cardin (D–MD); Sen. Roy Blunt (R–MO); Co-Chair of the House Manufacturing Caucus, Rep. Tim Ryan (D–OH); and Rep. Sam Graves (R–MO) – were presented the NAFTZ
Congressional Appreciation Award for their support of and contributions to the FTZ program.

The following day, NAFTZ President, Erik Autor, and NAFTZ public affairs advisors, Jim Smith and Brian Hannigan, led a delegation of NAFTZ Board and association members in visits to key Congressional offices to discuss our policy priorities with Members of Congress and staff. Noteworthy meetings were held with the new Chairman of the Senate Finance Committee, Sen. Charles Grassley (R–IA), who pledged his support and help to advance NAFTZ’s legislative priorities in the committee; Sen. Roy Blunt (R–MO) who received his Congressional Appreciation Award in person from his constituent Al Figuly of the Greater Kansas City FTZ; and Sen. Tim Scott (R–SC), an important Member for NAFTZ on the Senate Finance Committee.

ANNUAL SPRING SEMINAR
May 5–7, 2019, Savannah, Georgia 206 Attendees

“FTZs: A Lifeline in Stormy Seas” was the official theme of the 2019 Spring Seminar held in scenic Savannah. The Seminar saw an increased attendance of 206 participants, the highest for this event in ten years, and strong sponsorship support. The program provided guidance and useful information to the U.S. FTZ community in this period of unprecedented uncertainty and upheaval in the international trade sector.

The president of Visit Savannah opened the event with a presentation on the city, its economic activities, and importance of the port, the third largest in North America. Participants then heard important updates from Customs and Border Protection (CBP) and the Foreign-Trade Zones Board and were provided useful, up-to-date information in the grantee, operator/user, fundamentals, advanced, and petroleum track sessions. A broad-range of topics included the impact of trade actions on FTZs, the US–Mexico–Canada Trade Agreement (USMCA), lessons from a recent GAO report on FTZs, in-bond regulations, legislative and regulatory developments, various aspects of zone operations, and an update on NAFTZ’s advocacy efforts. The executive director of the Georgia Ports Authority was the luncheon speaker on how the Port of Savannah serves as an economic engine for the State and the entire Southeast region.

After the first full day of sessions, attendees and guests had the opportunity to refresh, socialize, and converse at a local restaurant favorite in the historic center of the city. The program concluded with a tour of the Georgia Ports Authority and the Savannah Customs and Border Protection Laboratory.
ZONE TRENDS & ANALYSIS

FTZS CONTINUE TO PLAY IMPORTANT ROLE IN U.S. EMPLOYMENT AND TRADE

The Foreign-Trade Zones program remains a significant contributor to the U.S. economy in terms of employment and the size and value of trade (both exports and imports), according to the latest annual report of the U.S. Foreign Trade Zones Board to Congress for 2018.

There were over 440,000 Americans directly working in FTZ activities in 2018, a decrease of 2.2 percent from the 2017 employment total of approximately 450,000. While the reason behind this modest drop is unclear, zone employment in 2018 was still at its second-highest point in the past 20 years.

FTZs continue to play a key role in U.S. production and distribution operations that rely on global supply chains to remain competitive. There was a significant increase in the value of shipments into zones in 2018 to $793 billion (up 15.6 percent from $669 billion in 2017), of which $504 billion (63.5 percent) was for production operations and $290 billion (36.5 percent) for warehouse/distribution operations. About 63 percent of total shipments into the zones involved domestic-status merchandise. Thus, FTZ activities involve a combination of foreign inputs with significant domestic content.

Foreign-status merchandise received into FTZs in 2018 totaled $296.7 billion, accounting for 11.6 percent of all U.S. imports of foreign goods. This figure represents a continued increase that began in 2017 following a four-year decline due mainly to the sharp drop in oil prices and petroleum’s diminishing share of total FTZ imports as the United States has become more energy self-sufficient. This trend is apparent in the continuation of petroleum’s shrinking share of total FTZ foreign-status products since 2012, which stood at 27.2 percent in 2017, falling to 24.8 percent in 2018. Meanwhile, non-petroleum products saw an increase of one percentage point to 8.7 percent of total U.S. goods imports in 2018 and now account for just over three-quarters of all foreign-status merchandise received into FTZs. (See chart, next page)

Among non-petroleum products, the largest reported percentage increases by industry sector in foreign-status goods received into FTZs for production operations were ships/boats; vehicles; pharmaceuticals; advanced fiber materials; and machinery/equipment. Meanwhile, rail cars, parts & equipment; consumer products; stone/plaster/cement/ceramics; beverages/spirits; and dyes/pigments/paints reported the biggest percentage declines. Among warehouse/distribution operations, iron/
steel (possibly influenced by the Trump steel tariffs); ships/boats; food products; pharmaceuticals; and beverages/spirits reported the largest percentage increases for the year in foreign-status goods received into FTZs, while only five industry-sector categories reported declines, the biggest drops being chemicals and fragrances/cosmetics.

In 2018, the value of goods exported directly from U.S. foreign-trade zones to foreign countries totaled $112 billion (6.7 percent of total U.S. merchandise exports). This figure was a rise of nearly 22.3 percent from the previous year’s export total from FTZs of $87 billion. This total export figure is actually understated due to the exclusion of certain indirect exports involving FTZ merchandise that is warehoused or undergoes further processing at non-FTZ sites prior to export.

Petroleum refining remained the leading FTZ export sector in 2018. According to the FTZ Board’s annual report, refineries and petroleum-related operations accounted for 15 of the top 25 exporting subzones. As in previous years, motor vehicles and pharmaceuticals also represented major FTZ export sectors accounting respectively for seven and two of the top 25 exporting subzones.

During 2018, there were 260 approved FTZs; 195 active FTZs, with a total of 330 active production operations; over 500 subzones; and 3,300 firms actively using FTZs. During that year, the FTZ Board docketed 79 requests and issued 88 decisions, including reorganization or expansion of 19 zones under the alternative site framework (ASF), and 64 applications and notifications for new or expanded production authority. Under delegated authority, the FTZ Board staff processed 227 additional requests including minor boundary modifications and scope determinations.
“The U.S. FTZ program continues to demonstrate its value to the U.S. economy,” said Erik Autor, President of the National Association of Foreign-Trade Zones. “Companies in many key American industries, including oil refining, automotive, electronics, pharmaceuticals, and machinery/equipment, gain significant global competitive advantage by locating their production and distribution operations in U.S.-based FTZs, thereby boosting American exports, manufacturing, investment, jobs, and standard of living.”

“However,” Autor noted, “the FTZ program continues to be a work in progress as the global economy and technology continue to evolve, creating new opportunities and challenges. In response, NAFTZ’s goal is to ensure the continued strength, effectiveness, and future viability of the program through our public-policy agenda including: ensuring companies in U.S. FTZs can compete on equal terms with their foreign competitors, particularly in countries benefitting from free-trade agreements with the United States; confirming the proper application on FTZ merchandise of any additional duties imposed under a special trade action; completing the integration process enabling FTZ users full use of CBP’s Automated Commercial Environment (ACE) software-compliance platform; and updating regulations governing FTZs.”
LOOKING AHEAD

FTZ BOARD CALENDAR

• The FTZ Board is planning grantee training events concurrent with the NAFTZ Legislative Summit in Washington, DC in February, the Spring Seminar in Minneapolis, MN in May, and the Annual Conference in Denver, CO in October (see the Board website for updates and details www.trade.gov/ftz).

• March 31 is the deadline for all FTZ firms and grantees to report 2019 zone activity to the FTZ Board.

• The FTZ Board’s 81st Annual Report to Congress on FTZ Activity in 2019 will likely be released toward the end of 2020.

AGENCY & REGULATORY ACTION

• The U.S. Department of Commerce could issue a new report on imported autos and auto parts under Sec. 232 of the Trade Expansion Act. The President would then have 90 days to decide what, if any, action will be taken to restrict such imports on national-security grounds.

• The Administration, through the Commerce Department and the U.S. International Trade Commission, could self-initiate additional trade actions (antidumping, countervailing duties, Sec. 201 safeguards, sections 301 and 232, etc.) on imported goods, which would further disrupt the supply chains of FTZ operators and users.

• The Department of Commerce and Office of the U.S. Trade Representative (USTR) will continue to work on clearing the backlog of product-exclusion requests in the current trade remedies actions under sections 232 and 301 and consider new exclusion requests.

• The FTZ Board will work on new and pending applications, production notifications and scope of authority requests, and zone project approvals.

• CBP will continue work to finalize updates on FTZ regulations under 19 CFR Part 146.

• The FTZ Board may address changes to its regulations under 15 CFR Part 400 proposed by NAFTZ.

• CBP could provide clearer guidance on the tariff-treatment in trade actions under sections 201 and 301 on products manufactured in
a U.S. FTZ based on the NAFTZ proposed statutory and regulatory language.

- CBP will continue work on implementing the new in-bond regulations, including sections on truck manifests and other issues impacting FTZs.

**ADMINISTRATION & CONGRESSIONAL ACTION**

- Anticipated activity on international trade in 2020 includes:
  - Senate passage of the U.S.–Mexico–Canada Agreement (USMCA) implementing legislation and its implementation by the Administration;
  - further action on trade measures particularly targeting China and the European Union, including possible launch of negotiations on a “Phase Two” agreement with China and the EU on taxation of digital trade and aircraft subsidies; implementation and possible expansion of the U.S.–Japan Trade Agreement; launch of negotiations on a trade agreement with the United Kingdom; possible Congressional consideration of legislation to tighten up the use of Sec. 232; reform of the WTO dispute-settlement system; further work to update FTZ Part 146 regulations; Congressional consideration of a miscellaneous trade bill (MTB) and renewal of the Generalized System of Preferences (GSP);
  - and further sanctions-related action by the Administration targeting a number of countries.
  - With many trade issues currently in play that have a direct and negative impact on the FTZ program and stakeholders, NAFTZ members will have the opportunity to participate in Congressional visits February 12 after the Legislative Summit program to highlight the benefits of the FTZ program to the U.S. economy and jobs.

**EDUCATIONAL PROGRAMS**

In addition to our regularly-scheduled events, NAFTZ will continue to host its series of monthly educational webinars on a wide range of topics important to FTZ professionals. The webinars will continue to be free to NAFTZ members.

**NAFTZ SCHEDULED EVENTS**

**Fundamentals of FTZs**
January 5–6, 2020
Doubltree Suites
Lake Buena Vista, FL

**Legislative Summit**
February 11–12, 2020
The Madison Washington, DC, A Hilton Hotel
Washington, DC

**Annual Spring Seminar**
May 17–19, 2020
Hilton Minneapolis
Minneapolis, MN

**Annual Conference & Exposition**
October 25–28, 2020
Hyatt Regency Denver at Colorado Convention Center
Denver, CO
POLICY AGENDA FOR 2020

As part of its ongoing advocacy initiative, NAFTZ will monitor and work to advance the following policy issues with the Administration and Congress in 2020.

1. **United States-Mexico-Canada Agreement (USMCA).** The North American Free Trade Agreement (NAFTA) severely hindered the ability of U.S. FTZs to achieve their full potential to advance the program’s goals by imposing unfair and punitive restrictions on the ability of FTZ manufacturers to export products duty-free to Canada and Mexico and to use the rules of origin to make those products more cost-competitive with Canadian and Mexican products in NAFTA markets. NAFTZ developed two legislative proposals to address these problems. While we were ultimately unsuccessful in getting our proposed fixes attached to the USMCA implementing bill, NAFTZ will work to get those proposals introduced in Congress as quickly as possible and tee them up for inclusion on a miscellaneous trade bill (MTB) or another appropriate legislative vehicle sometime this year.

2. **End discriminatory trade-action tariffs on FTZ-manufactured products.** NAFTZ will continue to push for legislative and regulatory solutions to the inequitable tariff treatment between U.S.-based manufacturers located inside and outside an FTZ in the assessment of duties under various trade actions (Sections 201, 232, 301, etc.). The problem arose in the Sec. 201 and 301 trade actions where country-of-origin reporting requirements for entries from an FTZ resulted in certain instances in the improper assessment of these duties on the value of all foreign inputs incorporated into products manufactured in an FTZ, including inputs that are not products of a targeted nation or are not merchandise included on the published list of targeted foreign products subject to the trade action.

3. **321/de minimis.** Changes to U.S. informal-entry rules increasing the duty-free de minimis level for imported goods from $200 to $800 adversely impacted FTZ distribution operations by encouraging a shift of e-commerce fulfilment for the U.S. market to Canada, Mexico, and other foreign locations. NAFTZ is a participant in an industry coalition seeking legislative changes to address the adverse impact of this change. While efforts to get the proposal attached to the USMCA implementing bill were also unsuccessful, NAFTZ and the Coalition will work to get the proposal introduced in Congress within the first three months of 2020 for inclusion on the MTB or another appropriate legislative vehicle.

4. **Revise Customs Part 146 FTZ regulations.** Customs regulations on FTZs have changed little since 1986. In 2018, NAFTZ relaunched an effort with CBP through the Customs Operations Advisory Committee (COAC) to modernize these regulations to account fully for the revolution in CBP automation and sweeping changes in modern global supply-chain management. NAFTZ has worked with CBP and now has a completed working draft that would transform the regulations to meet the 21st century needs of CBP, the FTZ
community, and a more globally-integrated U.S. economy. NAFTZ also seeks to protect and expand direct delivery and eliminate the outdated five-day rule and the blanket 216 for manufacturing, manipulation, and exhibition.

5. **ACE programming for the FTZ e214 admission.** A milestone in the ITDS single-window initiative occurred in 2017 with integration of the e214 FTZ admission process from the legacy Automated Commercial System (ACS) software platform into ACE. The next step is to add Partner Government Agencies (PGAs) message sets into the e214 through ACE for those PGAs needing their compliance data for FTZ goods before entry from a zone into U.S. Customs territory while ensuring the future viability of the FTZ direct-delivery procedure for program stakeholders. NAFTZ continues to work with the PGAs and CBP to facilitate this process and adopt a viable compliance process that fulfills the PGAs’ enforcement mandate while minimizing unnecessary burdens on FTZ filers.

6. **Facilitate transition of FTZs to the Automated Commercial Environment (ACE).** As foreign-trade zones process over 10 percent of total U.S. merchandise imports, the International Trade Data System (ITDS) “single-window” initiative to ensure full and timely integration of all FTZ compliance data onto the ACE platform is vital for the efficiency of international commerce across America’s borders. NAFTZ continues to work with U.S. Customs and Border Protection (CBP) and Congress to secure sufficient funding, set trade-enhancing objectives with realistic deadlines, and provide adequate opportunity for software testing.

7. **Revise the FTZ Board’s “production scope of authority” regulations.** Current regulations do not allow FTZ operator/user companies sufficient flexibility to quickly modify their approved list of imported components and/or finished products in response to changing demands of global competition. NAFTZ continues to urge the FTZ Board to introduce changes to allow use of six-digit Harmonized Tariff Schedule (HTS) numbers to define the scope of production authority (versus written commercial description), and a retrospective notification process to allow companies to maintain full compliance and keep assembly lines in operation.

8. **Illicit Trade.** With increasing attention focused on the problem of illicit trade, partially due to the explosion in global small-package delivery, NAFTZ will continue to work with the Organization for Economic Cooperation and Development (OECD), the World Free Zones Organization (WFZO), and the U.S. Congress on efforts to develop global best practices and models, including the U.S. FTZ program’s enforcement and compliance system, to reduce the risk of illicit trade transiting free-trade zones in other countries and entering U.S. commerce.

9. **Trusted-Trader programs.** NAFTZ seeks recognition in CBP’s physical-security guidelines of FTZ supply-chain security requirements and enhanced benefits to FTZ operator/users with trusted-trader status under the Customs-Trade Partnership Against Terrorism (C-TPAT) and/or Importer Self-Assessment (ISA) programs.
COMMITTEE CHAIRS & HONORARY LIFE MEMBERS

COMMITTEE CHAIRS

CHAIR, ACCREDITATION COMMITTEE
Jose Quinonez
Director, Trade Services
Indigo Trade Solutions

CHAIR, ADVOCACY COMMITTEE
Torrey Chambliss
Director, FTZ & Cargo Business Development
Port Tampa Bay

CHAIR, AUTOMATION COMMITTEE
Elizabeth Connell
Vice President – Product Management
Integration Point

CHAIR, BYLAWS COMMITTEE
David Ostheimer
Consultant
Lamb & Lerch

CHAIR, GRANTEE COMMITTEE
David Panko
Foreign Trade Zone Manager
City of El Paso / El Paso International Airport

CHAIR, INTERNAL POLICY MANUAL COMMITTEE
Shannon Fura
Partner
Page Fura, P.C.

CHAIR, MEMBERSHIP COMMITTEE
Jessica Rosen
Director Enterprise Sales
UPS Zone Solutions

CHAIR, OPERATOR/USER COMMITTEE
Shana Head
Director FTZ Managed Services
Indigo Trade Solutions

CHAIR, PETROLEUM COMMITTEE
Beverly Cruz
Customs & FTZ Analyst
Shell Exploration & Production Company

CHAIR, PROGRAM COMMITTEE
James Grogan
Senior Manager
Ernst & Young LLP

HONORARY LIFE MEMBERS

1979 Homer A. Maxey, Jr., FTZ 9, Honolulu, HI
1986 Robert N. Dee, FTZ 2, New Orleans, LA
1988 Joseph O’Connor*, FTZ 44, Mount Olive, NJ
1993 Dennis J. Curran, Sandler & Travis Trade Advisory Services
1995 Tommy L. Berry, PointTrade Services, Inc.
2000 Greg Jones, Foreign-Trade Zone Corporation
2007 Domenick Gambardella, PricewaterhouseCoopers, LLP
2007 Karen Sager*, FTZ Consulting LLC
2008 Donnie Barnes*, BMW Manufacturing Co., LLC
2008 David Ostheimer, Lamb & Lerch
2019 Brandi Hanback, Rockefeller Group

*=deceased
PAST BOARD CHAIRS & LIFETIME ACHIEVEMENT AWARDS

PAST BOARD CHAIRS & PRESIDENTS

2018–2019   Eva Tomlinson, UPS Zone Solutions
2017–2018   Rebecca Williams, The Rockefeller Group
2015–2016   Jose Quinonez, Economic Development Department, County of El Paso
2013–2015   Jan Frantz, BC/CAL/KAL Inland Port Development Corp.
2012–2013   Scott Wienke, Abbvie, Inc.
2011–2012   Lewis Leibowitz, Hogan Lovells US LLP
2009–2011   Linda C. Hothen, Pacific American Group
2007–2009   Brandi B. Hanback, Rockefeller Group
2005–2007   Ray E. Shaw, Aligned Border Solutions LLC
2003–2005   Phyllis Saathoff, Port Freeport
1999–2001   Dom Gambardella, PricewaterhouseCoopers, LLP
1997–1999   Karen Sager*, FTZ Consulting LLC
1995–1997   Chris Koelfgen, Foreign-Trade Zone Services
1989–1991   Tommy L. Berry, PointTrade Services, Inc.
1987–1989   Dennis J. Curran, Sandler & Travis Trade Advisory Services
1985–1987   Roy Jaeger, FTZ 49, Newark, NJ
1977–1979   Craig J. Rovzar, FTZ 18, San Jose, CA
1973–1975   Homer A. Maxey, FTZ 9, Honolulu, HI

LIFETIME ACHIEVEMENT AWARDS

2014   Karen Sager*, FTZ Consulting LLC
2015   Donnie B. Barnes*, BMW Manufacturing Co., LLC
2017   Domenick Gambardella, PricewaterhouseCoopers LLC
2018   Tommy L. Berry, PointTrade Services Inc.

*=deceased

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## AUDITED FINANCIAL STATEMENTS
### NATIONAL ASSOCIATION OF FOREIGN-TRADE ZONES STATEMENT OF ACTIVITIES FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2018

<table>
<thead>
<tr>
<th>SUPPORT &amp; REVENUE</th>
<th>2017</th>
<th>2018</th>
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<tbody>
<tr>
<td>Dues</td>
<td>$ 586,221</td>
<td>$ 641,061</td>
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<td>Registrations</td>
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<td>Sponsorships</td>
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<td>209,650</td>
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<td>Investment income</td>
<td>8,859</td>
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<td>FTZ Economic Impact Study</td>
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<td>Exhibit booths</td>
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<td>Other income</td>
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<td><strong>Total Support &amp; Revenue</strong></td>
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<td><strong>$ 1,523,365</strong></td>
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<tr>
<th>EXPENSES (CONT.)</th>
<th>2017</th>
<th>2018</th>
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<tr>
<td>Conference &amp; seminars</td>
<td>$ 354,705</td>
<td>$ 383,083</td>
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<tr>
<td>Salaries</td>
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<td>Professional fees</td>
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<td>Employee benefits</td>
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<tr>
<td>Website</td>
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<tr>
<td>Recruitment</td>
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<td>Bank &amp; credit card fees</td>
<td>33,858</td>
<td>29,084</td>
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<td>Rent</td>
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<td>Communications</td>
<td>29,420</td>
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<td>Printing</td>
<td>34,820</td>
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<tr>
<td><strong>Total Expenses</strong></td>
<td><strong>$ 1,189,438</strong></td>
<td><strong>$ 1,308,830</strong></td>
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<tr>
<th>OPERATING INCOME</th>
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<th>2018</th>
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<tr>
<td>Realized &amp; unrealized investment gains (losses)</td>
<td>$ 20,316</td>
<td>$ -14,865</td>
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<tr>
<th>CHANGE IN NET ASSETS</th>
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<th>2018</th>
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<td><strong>$ 106,375</strong></td>
<td><strong>$ 199,670</strong></td>
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<tr>
<th>NET ASSETS, BEGINNING OF YEAR</th>
<th>2017</th>
<th>2018</th>
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<tbody>
<tr>
<td><strong>$ 635,736</strong></td>
<td><strong>$ 742,111</strong></td>
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<table>
<thead>
<tr>
<th>NET ASSETS, END OF YEAR</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>$ 742,111</strong></td>
<td><strong>$ 941,781</strong></td>
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</tbody>
</table>
GET INVOLVED

There are several ways you can show your support for the foreign-trade zone industry. Contributing your time, resources, and enthusiasm can help make a difference. Whatever choice you make, we are deeply grateful for your support. Learn more at www.naftz.org/get-involved.

ADVOCACY

We are on the frontlines every day promoting the FTZ program and ensuring the interests of the FTZ industry. Learn about our federal priorities and find out how your involvement can make our advocacy efforts even more effective.

Contact Erik Autor — eautor@naftz.org

MEMBERSHIP

Stay relevant in this fast-paced industry by joining the nation’s largest association of FTZ professionals. Members gain access to exclusive tools and resources.

Contact Jarmila Zapata — jzapata@naftz.org

SPONSORSHIP

We are always seeking partners to shape the future of the FTZ industry through our sponsorship programs. Learn how partnering with the NAFTZ is mutually beneficial.

Contact Victoria Cartwright — vcartwright@naftz.org

EXHIBITORS

Being an exhibitor at NAFTZ’s Annual Conference and Exposition is another great way to partner with the NAFTZ and promote your brand at the biggest gathering of FTZ stakeholders.

Contact Victoria Cartwright — vcartwright@naftz.org

CONNECT

Our social media sites let you join the conversation about important issues and share ideas and information within your network.

Facebook /naftzdc Twitter @NAFTZ LinkedIn bit.ly/NAFTZLinkedIn

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APPENDIX: FTZs DEFINED

Foreign-Trade Zones (FTZs) are designated areas within the United States, which, for the purposes of tariff laws and customs-entry procedures, are treated as though they are outside U.S. customs territory. Congress established the program in 1934 with passage of the Foreign-Trade Zones Act.

Foreign and domestic merchandise may be admitted into FTZs for storage, exhibition, assembly, manufacture, production, and processing, without formal customs entry procedures, payment of customs duties, or payment of federal excise taxes. These benefits help stimulate U.S. employment, attract foreign and domestic investment into U.S. communities, promote U.S. exports, and improve the global competitiveness of U.S.-based companies.

FTZs help the U.S. economy by allowing companies to source component products from around the world at competitive prices, while keeping important value-added activities, such as manufacturing, within the United States. For example, when a manufacturer wishes to remove a finished product from an FTZ for U.S. consumption, they may elect to pay customs duties at either the rate of the finished product or that of its foreign components. This option allows U.S.-based firms to elect the lower of the two duty rates, placing them on an equal footing with their foreign competitors.

FTZs also increase the export competitiveness of U.S.-based producers. When merchandise is removed from a zone, customs duties can be eliminated if the goods are then exported from the United States. By lowering the cost of exporting, this benefit helps U.S. firms compete more effectively in export markets.

If merchandise is removed from a zone and formally entered into U.S. commerce, customs duties and excise taxes are not due until the time of transfer from the FTZ. This delay allows firms to realize cash-flow savings while goods are being processed in the zone.

Designation as a foreign-trade zone is granted by the Foreign-Trade Zones Board, an independent agency housed within the U.S. Department of Commerce. The Board consists of the Secretary of Commerce and the Secretary of the Treasury. An Executive Secretary administers the day-to-day activities of the Board and supervises the FTZ Board staff. The FTZ Board gives “grants of authority” to state and local government agencies or non-profit corporations, collectively known as “grantees,” which are then empowered to establish and maintain zone projects within their communities as a public utility. Since 2009, a majority of active zones have reorganized under the so-called “Alternative Site Framework” (ASF), which allows for a simpler and expedited process for designating “subzones” and “usage-driven sites” at the facilities of specific companies operating in a zone.

The other important federal agency involved in the FTZ program is U.S. Customs and Border Protection (CBP), which is responsible for the control of merchandise moving into and out of FTZs, and ensures all revenues are properly collected. In addition, CBP is charged with ensuring all zone procedures are in compliance with the Foreign-Trade Zones Act, and all CBP and other federal agencies’ laws and regulations pertaining to zone use are followed. The CBP Port Director where the FTZ is located is the local representative of the Foreign-Trade Zones Board.
NATIONAL ASSOCIATION OF FOREIGN-TRADE ZONES

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Washington, D.C. 20045

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