

Update on the Foreign-Trade Zone & Trade Agreement Parity (TAP):
“Global Trade is a Two-Way Street!”

October 20, 2009

An important measure of economic health and development is the balance of trade. While conceptually we as Americans prefer to see the scales tipped heavily in favor of U.S. exports, the fact is that trade is a two-way street. Many American firms, including manufacturers here in the greater Rockford area, depend on imports to be competitive in the U.S. production of products for consumption here in America – and to re-export around the world.

The Foreign-Trade Zone (FTZ) program has served as a lynchpin of global trade since its inception in 1934. Companies in the United States that import products from abroad are eligible for a variety of benefits that allow for deferral, reduction or elimination of import duties. In addition FTZs support efficient supply chains, reducing delivery times inbound and outbound, promoting lean inventory control procedures and reducing Customs transaction costs.

A primary benefit of the FTZ program for U.S.-based manufacturers involves the ability to obtain the same duty treatment as foreign producers on products made in the U.S. For example, finished cars imported from abroad are dutiable at 2.5%. A U.S.-based manufacturer must pay applicable duties on any imported components, often dutiable at higher rates. For example, tires are dutiable at 4%. The so-called “inverted tariff” FTZ benefit allows manufacturers to elect the lowest duty rate between imported components and the finished product. *This benefit helps protect or create jobs here at home* as well as encouraging value-added activity in the United States that positively impacts research and development as well as the overall tax base. This benefit directly promotes the use of domestic goods and services that would not be incorporated if the finished product were manufactured abroad.

As a general rule, many components in the U.S. tariff schedule tend to have higher duty rates than finished products. Over time, some of these inequities have been addressed through overall duty reductions and liberalized trade in component industries. However, a new version of “inverted tariffs” has begun to emerge. This tariff inequity has resulted as the U.S. expanded participation in Free Trade Agreements (FTA) – including NAFTA (Canada & Mexico) – with the intent of opening markets abroad to U.S. companies. FTAs generally allow companies manufacturing in FTZ partner countries to import finished products into the U.S. duty free. Today, a car assembled in Canada or Mexico comes into the U.S. duty-free under NAFTA as long as it meets certain qualifying rules of origin. Meanwhile, companies assembling cars in the U.S. must continue to pay duties on imported components, causing a significant cost competitive disadvantage.

The Trade Agreement Parity (TAP) initiative was developed by the National Association of Foreign-Trade Zones (NAFTZ) to address this inequity. This initiative builds on the success of traditional inverted tariff benefits to promote economic development in the U.S. through tariff equalization for decades. In view of the complex global trade environment and competing interests, TAP seems a common-sense approach to level the playing field for U.S. manufacturers facing competitive pressures from abroad. TAP also has the benefit of certain safeguards that require federal review and approval of each company’s use of TAP to ensure the public interest is served. By using the FTZ program as the mechanism to solve this problem for U.S.-based manufacturers, legislators can also be assured that only manufacturers benefit. So called aftermarket parts or components imported and sold into the U.S. that are not further manufactured do not receive this benefit.

This legislation was introduced to Congress as HR 6415 in 2008. During a tumultuous election year and growing economic crisis, gaining the necessary traction – or even attention – from Congress has been difficult. In addition, the TAP initiative faces growing opposition from organized labor and a select few manufacturers that have invested heavily in shifting manufacturing from the U.S. to Canada and Mexico. Organized labor's objections appear to be centered on the fact that many of the U.S.-based manufacturing plants that would stand to benefit from TAP are not unionized; unionized plants that oppose TAP have shifted significant manufacturing activities abroad.

The combination of the economic recession and a lack of understanding about the importance of trade as a two-way street, has recently spurred challenges not only to the TAP initiative but imports in general. The Buy American provision in the stimulus plan and the recently announced Section 421 case against Chinese tire imports are two recent examples.

It is important to remember the lessons of Smoot-Hawley tariff policies widely credited with spurring the Great Depression. The FTZ program of 1934 was designed to reverse and combat such damaging economic policies.

Those bent on protectionist measures to raise trade barriers in the hopes of staving off competition must not be allowed to undermine the longstanding economic success of traditional FTZ benefits or TAP. Several recent FTZ applications for U.S.-based manufacturers have come under attack by organized labor and competitors for allowing traditional "inverted tariff" benefits (substantially tied to re-exports) which have been a bedrock of the program since the 1950's when global trade began to take off in the United States.

Rockford is not immune to these disputes: a recent local subzone application was opposed and "inverted tariff" benefits restricted as a direct result of negative comments filed with the FTZ Board in Washington, D.C.

While the NAFTAZ formulates a national response to this frontal assault, there are things we can do here at home:

- ✓ Get familiar with the benefits of the FTZ program and the TAP initiative (see attached literature).
- ✓ Contact your U.S. Senators and Representatives:
 - Ask them to urge colleagues on the Senate Finance and House Ways and Means Committees to include TAP in the Customs Reauthorization bill.
 - Oppose any legislative efforts by protectionists to limit the available benefits of the FTZ program.

If you have questions, call Marge Bevers, FTZ #176 Administrator at the Greater Rockford Airport Authority (815-969-4427; mbevers@flyrfd.com).

ATTACHMENTS:

- ✓ FTZ Fact Sheet
- ✓ "The Truth About TAP"
- ✓ Will Berry article in *Journal of Commerce*, Aug 2008