Tenants of Foreign Trade Zones

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Foreign trade zones have become increasingly popular in the United States and are often the responsibility of inland port managers. The key to a successful operation is finding and obtaining the tenants who are the individuals and corporations that lease space and perform activities within the zones. Examples of the use of foreign trade zones, including the names of corporations and the types of activities they conduct, are presented. Suggestions for identifying and attracting tenants, as well as useful data bases for analyzing foreign-trade-zone potentials, are provided. Finally, comments are made on the future and impact of foreign trade zones.

A foreign trade zone is defined in the Code of Federal Regulations as

> an isolated, enclosed, and policed area, operated as a public utility, in or adjacent to a port of entry, furnished with facilities for lading, unlading, handling, storing, manipulating, manufacturing, and exhibiting goods, and for reshipping them by land, water, or air. Any foreign and domestic merchandise, except such as is prohibited by law or such as the Board may order to be excluded as deterimental to the public interest, health, or safety may be brought into a zone without being subject to the customs laws of the United States governing the entry of goods or the payment of duty thereon; and such merchandise permitted in a zone may be stored, exhibited, manufactured, mixed or manipulated in any manner, except as provided in the act and other applicable laws or regulations. The merchandise may be exported, destroyed, or sent into customs territory from the zone, in the original package or otherwise. It is subject to customs duties if sent into customs territory, but not if reshipped to foreign points.

The foreign trade zone concept had its origins in Europe during the Middle Ages. As trade restrictions developed during the growth of mercantilism, a system of free ports evolved. Under this system, cities such as Hamburg and Venice were exempted from the normal tariffs and customs regulations of their respective countries. Later, as an alternative to exempting entire cities, free zones were established within city boundaries. Now, the terms free zone and free port are often used interchangeably. In the United States, the term foreign trade zone has become the standard term for a free zone.

Free zones have been a source of public policy debate in the United States since the 1890s, when the U.S. Senate rejected the first in a long series of proposed free-zone legislation. Finally, in 1934, the Foreign Trade Zone Act was signed into law, and foreign trade zones became a part of the U.S. international trade system. Only seven zones were approved between 1934 and 1952, and three of these later surrendered their operating grants. The original remaining four are New York, New Orleans, San Francisco, and Seattle.

Of the 45 authorized U.S. foreign trade zones that exist today, only 7 were approved prior to 1970. Clearly, the rush in foreign trade zones has occurred in the decade of the 1970s. Foreign trade zones are appearing with increasing frequency in inland river and Great Lakes locations, and port authorities are typical foreign-trade-zone grantees. Table 1 lists the 45 approved sites, and Figure 1 shows the site locations as of July 1979.

The object of establishing a foreign trade zone is to attract economic activity consistent with national policy. Ideally, this activity should not replace existing domestic employment but rather repatriate overseas operations of U.S.-based multinationals, attract foreign direct investment to the United States, or encourage domestic firms to expand their international trade activity. Tenants of foreign trade zones are usually commercial enterprises that conduct manufacturing, exhibition, storage, or distribution functions within zones. Tenants can range from small import-export companies to large multinational manufacturing organizations.

Attracting and retaining tenants or users are perhaps the most critical and least understood of the various elements involved in establishing and managing a foreign trade zone. Most professionals in foreign-trade-zone management would agree that tenants are the key to a successful operation. Without at least one high-quality, long-term tenant, a foreign trade zone will struggle through a fitful existence, if in fact it survives at all.

The purpose of this paper is to explain the relationship between tenants and foreign trade zones, to identify typical tenant industries, and to suggest the ways and means for attracting and retaining quality tenants.

WHY THE FOREIGN TRADE ZONE

Tenants or users are attracted to foreign trade zones because of specific advantages that can be gained in reducing costs or otherwise facilitating a manufacturing or distribution process. During the 1970s, international trade and commerce changed rather dramatically through the growth of multinational firms. Today, international multiplant manufacturing processes, together with international licensing agreements, have led to the development of truly international products, many of which use components from a variety of nations. As a result, many companies have been attracted to foreign trade zones as a means of reducing the costs of manufacturing and distribution.

Specifically, foreign trade zones are used for six types of commercial activity:

1. Storage--Foreign goods may be stored in the zone as long as necessary without paying customs duties;
2. Exhibition--Goods may be displayed, inspected, and sampled in the zone without payment of customs duties;
3. Quotas--Import quotas do not apply to the zone, so goods can be stored without customs duty until a subsequent quota period, or they can be processed into another commodity not subject to quota;
4. Manipulation and processing--Since duty is levied only on goods entering the United States, products can be sampled, tested, cleaned, cut, and repacked in the zone and, finally, brought into the country in a form subject to a lower duty;
5. Manufacturing and assembly--Foreign parts and subassemblies can be combined with U.S. parts and raw materials by using U.S. labor to produce goods that can be entered into the United States (or shipped overseas) at a lower cost because of the reduced customs duties that result when the product

Table 1. Approved U.S. foreign trade zones and reserved sites as of July 1979.

Location	Year Established	Zone Number
New York, NY	1937	1
New Orleans, LA	1947	2
San Francisco, CA	1948	3 and 3-A
Seattle, WA	1949	5
Mayaguez, PR	1961	7
Toledo, OH	1960	8
Honolulu, HI	1965	9 and 9-A
Bay County, MI	1972	10
McAllen, TX	1973	12
Little Rock, AK	1973	14
Kansas City, MO	1973	15
Sault Saint Marie, MI	1973	16
Kansas City, KA	1973	17
San Jose, CA	1974	18
Omaha, NB	1975	19
Portsmouth, VA	1975	20
Dorchester County, SC	1975	21
Chicago, IL	1975	22
Buffalo, NY	1976	23
Wilkes-Barre/Scranton, PA	1976	24 and 24-A
Port Everglades, FL	1976	25
Shenandoah, GA	1977	26
Boston, MA	1977	27
New Bedford, MA	1977	28
Louisville, KY	1977	29
Salt Lake City, UT	1977	30
Granite City, IL	1977	31
Miami, FL	1977	32
Pittsburgh, PA	1977	33 and 33-A
Niagara City, NY	1977	34
Philadelphia, PA	1978	35
Galveston, TX	1978	36
New Windsor, NY	1978	37
Greenville-Spartanburg, SC	1978	38
Dallas-Fort Worth, TX	1978	39
Cleveland-Cuyahoga City, OH	1978	40
Milwaukee, WI	1978	41
Orlando, FL	1978	42
Battle Creek, MI	1978	43
Lakeland-Morris County, NJ	1978	44 and 44-A
Portland, OR	1978	45
Cincinnati, OH	1979	46, 46A, and 46B
Campbell City, KY	1979	47
Papago-Tucson, AZ	1979	48
Newark-Port Elizabeth, NJ	1979	49
Phoenix, AZ	Reserved	
Long Beach, CA	Reserved	
Oakland, CA	Reserved	
Islip, NY	Reserved	
Boonville, MO	Reserved	

changes form (in many instances, the combined duties on parts are more than the duty on the finished product); and

6. Accelerated export--Goods moved into the zone from the United States are considered exported when they enter the zone, which can accelerate duty rebates under customs drawback procedures.

Given these typical uses, when does a potential tenant decide that the use of a foreign trade zone is in its best interests? The number of potential situations, products, and companies is almost unlimited. However, the following are some of the more typical situations:

1. High volumes of imports are held as inventory and then distributed in the United States. By storing and distributing goods from a zone, the customs duties can be delayed and the interest charges on borrowed working capital can be eliminated. For instance, merchandise ordered for Christmas sale can be stored in and distributed from a zone.

2. Higher customs duties are levied on parts than on the finished products. If a product is already being assembled in the United States from a variety of internationally produced components, the cost of production can often be lowered by the difference in customs duties. For instance, there are no duties on imported agricultural tractors, but there are duties on tractor parts. Assembly in the United States from foreign components is therefore more advantageous in a zone.

3. Supplies are being provided to foreign-bound ships and airplanes. If products imported into the United States are then sold to foreign-bound ships and airplanes, the customs duties can be eliminated altogether by distributing them from a zone. For instance, liquor for cruise ships is often distributed from a zone.

4. Indefinite storage of high-value imported products is required. If an importer needs extraordinary security, the zone can provide protected space at a reasonable cost and often at reduced insurance costs. For instance, a sophisticated machine may have been ordered for a construction project long before it was needed because of the favorable price. Until it is needed,

Figure 1. Locations of U.S. foreign trade zones as of July 1979.

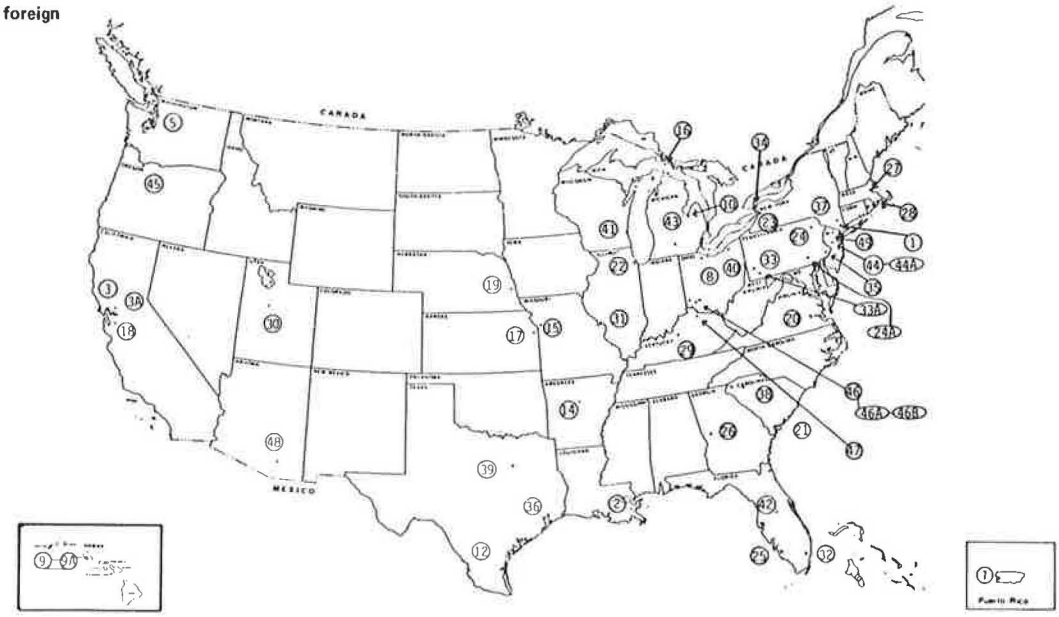

Table 2. Typical foreign-trade-zone tenant industries.

Tenant Industry	Zone	Country of Origin	Activity
Drugs and food additives	Battle Creek	Various	Store
Powdered milk	Battle Creek	Various	Store
Surgical instruments	Battle Creek	Japan	Reexport
Steel fabricator	Buffalo	Japan	Reexport
Leather goods	Buffalo	Italy	Reexport
Plastics	Buffalo	Canada	Reexport
Copying equipment	Buffalo	Various	Inspect and reexport
Whisky distiller	Chicago	Various	Store
Motorcycle manufacturer	Chicago	Japan	Assemble
Chemicals	Kansas City	West Germany	Reexport
Furniture	Kansas City	Hong Kong	Store and assemble
Luggage	Kansas City	Korea	Store and assemble
Film	Kansas City	Japan	Store and assemble
Wine	Kansas City	Portugal	Store and assemble
Aircraft engines	Kansas City	Canada	Store and assemble
Vacuum-cleaner distributor	Portland	Japan	Store
Oriental artifacts	San Francisco	China	Store and assemble
Liquor distributor	Seattle	Various	Store and distribute
Fishing tackle	Seattle	Japan	Store and distribute
Diesel manufacturer	Toledo	Various	Manufacture
Zinc smelting	Toledo	Various	Manufacture
Electronics manufacturer	Wilkes-Barre/Scranton	Various	Store and reexport
Typewriter manufacturer	Wilkes-Barre/Scranton	Italy	Subzone
Outboard-motor manufacturer	New York	Various	Store and distribute
Electronics manufacturer	New York	Japan	Store and distribute
Automobile manufacturer	Pittsburgh	West Germany	Manufacture

it can be stored in the zone without concern about pilferage.

5. Goods that require inspection and quality control and resultant shipment command a lower duty. For instance, an importer may bring in large quantities of untested electronic components. By testing them in a zone, the importer then accepts only the usable components and does not pay duties on the entire batch.

WHO THE TENANTS ARE

The tenants or users of foreign trade zones represent a cross section of the American free enterprise system. They range from major multinational firms such as Volkswagen to an individual citizen who may want to store a product purchased overseas. Table 2 gives examples of typical tenant industries that are using foreign trade zones throughout the United States and the products and goods that are being handled.

Tenants of U.S. foreign trade zones currently include many of the largest U.S. and international manufacturing and distributing corporations. Among these are Lear Jet; Control Data Corporation; Rockwell International; Hughes Aircraft; International Business Machines; Samsonite; Motorola; General Foods Corporation; Bristol Laboratories; Sears, Roebuck, and Company; Heublein, Inc.; Almaden Vineyards; McCormick Distillers, Inc.; Clorox Company; Ford Motor Company; General Mills; H. J. Heinz Company; Pillsbury; Mobil Oil; Evinrude Motors; Sony of Japan; RCA; and Uniroyal International.

However, in addition to well-known multinational corporations, there are hundreds of small companies and individuals who use foreign trade zones, some on a continuing basis and others only for single transactions.

Tenants for foreign trade zones have not always been plentiful. For instance, the New York foreign trade zone (zone 1) experienced many years of marginal operation from its inception in 1937 to the early 1970s. Now more than 100 business firms are tenants or users of zone 1, and it is 90 percent occupied as compared with 65 percent in 1975. New York has benefited from its location and natural role as an international trading center.

The subzone concept has increased potential tenant interest in using a foreign trade zone. A subzone is an enclosed and protected area located away from the main foreign trade zone. It is usually part of an existing manufacuturing plant in which normal production operations are under way. The obvious benefit is that a manufacturer is able to conduct normal operations without relocating and still take advantage of the foreign trade zone. Each subzone is under the management of a parent foreign trade zone that is responsible for its operation. Recent examples of commercial operations using subzones are Volkswagen under the Pittsburgh zone (zone 33) and Olivetti under the Wilkes-Barre/Scranton zone (zone 24).

RELATIONSHIP BETWEEN THE GRANTEE OR OPERATOR AND THE TENANT

The grantee is the organization that applies for and receives a grant to operate a foreign trade zone. An operator conducts the actual operation of the zone. The grantee and the operator can be, and often are, the same organization.

The initiative to establish a foreign trade zone frequently comes from state and local officials who are eager to undertake high-visibility programs for economic development. For example, a recent New Jersey newspaper article observed that the state was now concentrating on developing three foreign trade zones as a stimulus for creating manufacturing jobs.

Unfortunately, some of these local and state officials do not look beyond the award of the foreign-trade-zone grant. Federal assistance is often available to hire consultants and staff to prepare a foreign-trade-zone application, and it is not uncommon for the application to be granted to a grantee that has no firm tenants and little concept of how to attract them. Although it is true that there must be letters of intent from potential tenants in the application to the Foreign-Trade Zones Board, there is no way to enforce the letter of intent once the zone is in operation. In many cases, firms that have expressed interest fail to follow through.

The grantee-operator and the tenant often make strange bedfellows. The Foreign-Trade Zones Board requires that zones be planned and operated as public utilities, and it states that zones are not intended to be profit ventures for sponsors. On the other hand, the tenant is usually a commercial enterprise and can be attracted into a foreign trade zone only through the potential for improved profit, usually through reduced production and distribution costs.

The difficulty arises when the grantee--usually a quasi-governmental corporation or agency--fails to realize that it is in a highly competitive market in which the buyers (potential tenants) are sophisticated, profit-oriented businessmen. The grantee-operator has to provide a service and environment that are competitive with other foreign trade zones, both in the United States and abroad, and must have the tenants' current and long-term profitability firmly in mind. Obviously, great care must be exercised in selecting the zone operator.

Table 3. Census data by market and commodity for 1979 Wisconsin imports.

Country of Origin	Commodity	Pounds (000s)	Value: Dollars (000s)	Value: Dollars per Pound	Shipping Category (%): Container	Bulk	Cargo	Other
Great Britain	678 Iron or steel tubes, fittings	5 282.5	751.5	0.12	0	0	100	0
	685 Lead and lead alloys	662.0	340.2	0.51	79	0	0	20
	698 Manufactures of metal	465.1	396.0	0.85	100	0	0	0
	711 Power generating machinery	178.9	477.7	2.67	99	0	0	0
	712 Agricultural machinery, etc.	595.4	798.4	1.34	100	0	0	0
	715 Metalworking machinery and parts	656.5	239.0	0.36	100	0	0	0
	718 Machinery for special industry	735.8	477.8	0.65	100	0	0	0
	719 Machinery and appliances[a]	779.9	437.8	0.63	100	0	0	0
	729 Electrical machinery[b]	12.9	23.9	1.85	0	0	93	0
	732 Road motor vehicles and parts	6 904.8	2 432.9	0.35	100	0	0	0
	821 Furniture	24.3	239.1	9.84	99	0	0	0
	841 Clothing, etc., not fur	0.3	10.3	34.33	0	0	0	0
	Total	56 857.7	11 928.4	0.21	22	0	77	0
Haiti	061 Sugar, syrups, molasses, honey	1 720.8	25.0	0.01	0	0	0	100
	Total	1 720.8	25.0	0.01	0	0	0	100
Honduras	051 Fruits, fresh	1 173.0	41.4	0.04	100	0	0	0
	Total	1 173.0	41.4	0.04	100	0	0	0
Indonesia	231 Rubber, crude	9 099.5	2 981.5	0.33	0	0	100	0
	Total	9 099.5	2 981.5	0.33	0	0	100	0
Ireland	851 Footwear	148.2	579.2	3.91	99	0	0	0
	Total	148.2	579.2	3.91	99	0	0	0
Italy	712 Agricultural machinery, etc.	0	477.8	0	0	0	0	0
	Total	0	477.8	0	0	0	0	0
Ivory Coast	072 Cocoa	512.3	325.1	0.63	0	0	100	0
	Total	512.3	325.1	0.63	0	0	100	0
Japan	032 Fish, airtight container[a]	884.4	312.8	0.35	100	0	0	0
	053 Nuts and fruits[b]	1 070.9	225.9	0.21	100	0	0	0
	581 Plastic materials, synthetic resins	5 164.7	3 378.6	0.65	100	0	0	0
	532 Wood manufactures[a]	10 939.4	7 070.6	0.65	43	0	0	57
	655 Special textile fabrics, inclusive	738.8	152.5	0.21	0	0	0	100
	672 Iron or steel primary forms	6 282.6	707.5	0.11	0	0	100	0
	674 Iron or steel plates and sheets	9 716.0	3 767.3	0.39	0	24	76	0
	678 Iron or steel tubes, fittings	14 473.4	5 792.7	0.40	0	0	100	0
	711 Power generating machinery	4 654.9	11 717.6	2.52	100	0	0	0
	717 Textile and leather machinery	6 281.9	7 044.4	1.12	0	0	100	0
	718 Machine for special industry	5 164.7	2 623.9	0.51	100	0	0	0
	719 Machinery and appliances[a]	7 026.6	8 186.5	1.17	100	0	0	0
	Total	72 398.3	50 970.4	0.70	40	3	48	10
Malaysia	075 Spices	2 073.0	1 492.9	0.72	0	0	0	100
	231 Rubber, crude	1 070.6	195.9	0.18	0	100	0	0
	687 Tin and tin alloys	465.4	1 300.7	2.79	0	0	100	0
	Total	3 609.0	2 989.5	0.83	0	30	13	57
Morocco	075 Spices	774.7	176.4	0.23	0	0	100	0
	Total	774.7	176.4	0.23	0	0	100	0
Netherlands	013 Meats in containers[b]	4 655.0	6 408.3	1.38	100	0	0	0
	719 Machinery and appliances[a]	53.9	238.9	4.43	98	0	0	0
	Total	4 708.9	6 647.2	1.41	100	0	0	0
Nigeria	072 Cocoa	228.0	117.1	0.51	0	100	0	0
	Total	228.0	117.1	0.51	0	100	0	0

[a]Not elsewhere classified. [b]Not elsewhere specified.

HOW TO ATTRACT TENANTS

Some foreign trade zones such as the New York zone attract tenants naturally. With its large international trading community and major air and marine terminals, the New York zone has only to provide reasonably efficient management to ensure a high rate of use. For other zones, the task can be more difficult; major educational and incentive programs must often be initiated to attract tenants.

In some cases, foreign trade zones tend to have specialties. Unique characteristics and locational factors often make a zone attractive to certain industries or specific types of activity. For instance, Battle Creek, Michigan (zone 43), serves the surrounding pharmaceutical industry; Buffalo, New York (zone 23), takes advantage of its close proximity to Canada; and the South Carolina zones serve the textile industry.

There are various types of tenants or users that may have requirements for a foreign trade zone. Some will require only limited storage space in the zone and may have only a few transactions a year. Others may invest in equipment and fixtures in the zone and employ a large production and support staff. Still other tenants will seek subzones so that the advantages of a foreign trade zone can be transferred to their existing plant.

In seeking tenants, two factors should be considered: (a) the contribution of a tenant to the zone's overall goal of creating economic activity that would otherwise not have existed and (b) the contribution the tenant will make to the zone's fixed operating expense. For example, an international manufacturer may be seeking a new plant location and may consider the close proximity of a foreign trade zone to be an important factor. This manufacturer could be a valuable tenant because of the economic impact it could have on the community even though its initial contribution to

the zone's operating expenses may be minimal. On the other hand, it is obvious that a zone cannot survive on tenants that have only occasional storage and distribution requirements. At least one high-quality tenant is needed if the zone is to succeed financially. A high-quality tenant represents a permanent fixed enterprise that can make a substantial contribution to the zone's fixed operating expenses.

There is a chicken-and-egg relationship between the quality of the tenants that are attracted and the financial success of the zone. Although the grantee is discouraged by the board from showing a profit from the zone's operations, there must be adequate income to support capital improvements, utilities, staff, and promotional activities. The greater the number of high-quality tenants, the higher is the income available to improve facilities and conduct promotional activities. These expenditures, in turn, attract even more tenants.

A variety of steps can be taken to market a foreign trade zone and make it attractive to potential tenants. First, it is essential that the zone be well managed and free of political interference. Nothing is more discouraging to a businessman contemplating a long-term investment than the prospect that a change in the political winds will alter the conditions on which the investment decision has been based. This contributed to the failure and revocation of the grant for the Mobile, Alabama, zone.

In addition, the facilities should be clean and functional. Since a high-quality tenant may locate equipment and staff within the zone, the facilities should be equal to those the tenant would have chosen at a location outside the zone.

The grantee-operator should have a professional staff and, where appropriate, directors or governors with recent successful business experience. The staff should be oriented to providing service and should understand and be sympathetic to the profit motive of the tenants.

If a new zone grant has just been granted and the grantee is seeking its initial tenants, concentration should be placed on the firms providing the letters of intent as well as on any leads from the feasibility survey, both of which were a part of the application process. Individual visits to potential tenants by the zone staff are essential. If necessary, incentives, including state and/or city tax breaks, should be used to influence high-quality tenants.

The grantee-operator may find that it is necessary to conduct an extensive educational program. Many potential tenants are not aware of the possible uses of a foreign trade zone. One way to correct this problem is to sponsor seminars on the many advantages of foreign-trade-zone use. Another is to prepare an illustrated presentation that can be given to local business groups.

Perhaps the most effective means of locating and attracting tenants is through concentrated research and door-knocking by the zone representatives. For instance, meetings with banks, customs brokers, and cargo carriers will often result in ideas for trade zone applications and industry contacts. Research information on imports and exports to and from the economic hinterland of the foreign trade zone can be obtained from the New York Journal of Commerce and the U.S. Bureau of the Census. A sample of a recent census data run is given in Table 3. This information will prove useful in identifying potential zone users.

When grantee-operators do not have an adequate staff to conduct complete and ongoing tenant solicitation, there are a number of specialized consultants who can undertake the necessary work on behalf of the grantee.

HOW TO RETAIN TENANTS

Finally, it is important to retain tenants once they have occupied the zone, either with products in storage or with manipulation or manufacturing processes. Tenants, like customers everywhere, will stay where the service is good and the prices are reasonable. Some zones have complained that their tenants have been pirated or stolen by other competing zones, and as a result the zones have become very secretive about their tenants and their operation. This type of defensive activity only detracts from a zone's main concern, that of providing superior service. It is virtually impossible to pirate or steal tenants who are happy with the service they are receiving.

CONCLUSIONS

Foreign trade zones have a bright future in the coming decade and can serve as a real asset to river ports and their hinterlands. However, success in foreign-trade-zone operations is not automatic and is in fact a direct function of the number and quality of the tenants. Zones that achieve their goals of attracting new economic activity will be those that have understood the concept of service in attracting and sustaining their customers, the tenants.

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Financing Inland Port Development

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The financing of future port facilities will require agressive marketing efforts as a basis for developing creative financing strategies. The various types of funding for inland port development—federal, state, regional, and local—are outlined. It is concluded that, because of the wide range of requirements for public funds and future prospects for a reduction in available resources at all levels, future inland port development will be largely in the hands of private entrepreneurs and that a sound, integrated public-private financial plan will be a necessity in the 1980s.

Many studies, including the recently completed Mid-America Ports Study (1), point to the significant benefits that accrue to local communities and private firms from port development as well as the future need for additional facilities on the inland waterways system (as referred to in the study, Mid-America consists of Alabama, Arkansas, Illinois, Iowa, Kansas, Kentucky,