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# Foreign Trade Zones and Inland Ports: A Question of Size

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Although all domestic ports of entry are "entitled" to establish foreign trade zones under federal law upon meeting certain technical and economic requirements, the volume of international trade at inland ports is often marginal in terms of the need for zone services. Since many of these communities wish to use zones as a means of helping to attract new international-trade-related operations, their zone projects are often conceived for a small amount of activity at the outset and with an uncertain medium- and long-term outlook. The requirements of federal law and how they have been interpreted with regard to smaller zone projects are discussed. Recent interpretations and practices of the Foreign-Trade Zones Board and the U.S. Customs Service are discussed in terms of how they affect the feasibility of zones in inland areas that have an inherently smaller "zone-use base". A general analysis is presented of the first few inland zones. Some methods of structuring smaller zones to reduce and spread capital and operating costs are suggested. It is concluded that, whereas current federal procedures and practices make it possible even for smaller inland ports of entry to use zones in their economic development efforts, such communities should be mindful of the financial risks involved.

Although foreign trade zones have constituted a chapter in U.S. customs laws for some 45 years, it has not been until the past decade that they have become widely available in the United States. Congress coined the term "foreign trade zone" when the law that authorized these facilities--the Foreign Trade Zones Act--was enacted in 1934. In this paper, the term is used interchangeably with the general terms "free trade zone" and "customs-free zone". All are limited versions of the historic "free port".

Before 1970, fewer than 10 U.S. cities had foreign trade zones, all of them ocean or Great Lakes ports. By the end of the decade the number had increased to 50, and several of the new projects were bringing this international trade service to U.S. inland ports of entry for the first time.

Although the inland ports have always been eligible as sites for foreign trade zones, only recently have the agencies concerned with economic development in these areas taken an interest in making zones a part of their public services. The traditional association of customs-free zones with seaports, and major seaports at that, has undoubtedly been a psychological factor. Were it not for the provision in the U.S. Constitution that prohibits legislation favoring the ports of one state over those of another, the Foreign Trade Zones Act might well have perpetuated this stereotype. The fact that Congress did not find this narrower view appropriate and made all U.S. ports of entry eligible for zones gave the concept wider currency in the United States (there are more than 300 customs ports of entry in the United States, about 25 percent of which are involved with commercial shipments). This

provided the legal foundation for the present growth in the U.S. zone program.

The spread of zones to inland U.S. ports has not been just a matter of overcoming a mental block. The very definition of a port has broadened in a dramatically changing world economy. International trade, direct investment, and transportation technology are weaving a new trade network. Most of the world's larger seaports retain their prominence but, throughout the network, inland centers of trade are growing and new ones are emerging. These communities, although smaller in size, are taking on the trappings of true port cities.

The products of modern technology are also affecting the role of inland ports. Multinational firms that produce and market these products have an unparalleled range of choices in the siting of plants and distribution centers. Industries are no longer as tied to certain locations as they once were. Mobility and flexibility are the rule. This places new and complex demands on port communities, including inland ports, which have become increasingly sensitive to the need for improved public services and facilities  $(\underline{1}, \underline{2})$ .

U.S. ZONES FROM 1934 TO 1970

The first U.S. foreign trade zones were, as expected, established as seaports. Through the late 1940s, New York, Mobile, New Orleans, San Francisco, Los Angeles, and Seattle were the only U.S. cities that were authorized zones. New York's zone was sponsored by the city government, which contracted the operation of its facility to a private firm. The other zones were from the outset owned and operated by seaport authorities, some of whom eventually took on private firms as zone operators. Both Los Angeles and Mobile closed their zones after a short time, apparently finding that customs-bonded facilities served their needs.

Even after the 1934 act was amended in 1950 to permit manufacturing, another decade passed before there were further zone efforts. During the 1960s, new zones were approved for Toledo, Ohio; Bay County, Michigan; Mayaguez, Puerto Rico; and Honolulu, Hawaii. All of these facilities were tied to ocean or Great Lakes ports.

## EXPANSION WAVE OF THE 1970s

Interest in foreign trade zones intensified with the international economic developments of the

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1970s. It was not until this, the program's fourth decade, that zones first spread inland. Of the 43 new ports of entry granted zones in the 1970s, inland cities accounted for 19.

As a category, "inland" in this paper excludes coastal, Great Lakes-St. Lawrence, and other border cities, all of which have direct transportation services with foreign countries either by ocean carrier or land border-crossing points. At gateway locations, the ports within this rim receive and disperse the majority of U.S. foreign trade, which gives them a naturally greater "zone-use base". [Based on U.S. Customs Service duty collections, the top 10 customs ports of entry in 1978 were New York City, Los Angeles-Long Beach, John F. Kennedy (JFK) International Airport (New York City), New Orleans, Philadelphia, San Francisco-Oakland, Detroit, Boston, Chicago, and Houston, in that order. Except for JFK, whose third-place ranking reflects the high-duty character of air cargo, all were ocean or Great Lakes ports. The number of entries at inland ports is increasing, however, as a result of growth in containerized cargo and the presence of foreign trade zones.] There are currently 31 such cities with approved zones.

It is reasonable to assume that the 19 zone cities that are not within the outer fringe of U.S. land and sea borders have a smaller potential market for their zone services. An exception to this should probably be made for operations of an industrial nature because of the current mobility in that sector; however, because warehousing and distribution facilities remain the prevalent zone service, it remains a valid general hypothesis. It should be noted that a growing number of zone users are industrial firms whose main manufacturing activities are usually outside the zone itself.

To the extent that inland zones have a smaller market, or zone-use base, for their services, size has become a point of departure in distinguishing and analyzing zones. Because smallness tends to be synonymous with failure for some zone watchers, it has become necessary to examine the implications of smaller-scale zone operations. This paper does not attempt to arrive at a precise definition of the small zone because the term is relative. Seaports generally have facilities with at least 200 000 ft<sup>2</sup> of covered warehouse or processing space. One exception is Seattle, which has operated a zone with only 50 000  $ft^2$  of space for many years. in spite of its smaller size, however, the Seattle zone has helped to project the image of a full-service port. Inland zones tend to set aside zone areas as large as those at seaports, but the normal space for active warehousing activity is more likely to range from 50 000 to 100 000 ft<sup>2</sup>. Of course, as industrial-park facilities are activated, the amount of active space increases sharply.

The emergence of the inland zone is in a sense an acceptance of at least short-term smallness. But there must be a minimal level of activity and economic benefit to justify the costs of any public service, particularly a special one with a limited market of users. What is the point at which a zone becomes feasible? What level of activity is needed for financial solvency? What kind and amount of economic contribution to a community are needed to justify a zone?

Answering these questions is not easy. Some services have an impact by virtue of their very availability. Spin-offs and secondary effects must also be considered. Crystal-ball gazing is also involved. Until a community has reached a saturation point in its economic growth (if such a situation can exist), the zone, as a development tool, is part of the future, and projections as to growth and new investment become part of the needed analysis.

Although precise answers are elusive, case studies can be helpful. Because the inland zones are new and still evolving, it is possible to discuss only their early experiences.

Inland zones can be subdivided into two categories: those at river ports and those with no direct water access. There are 10 river-port zones, and all are on the Mississippi navigational system. Once considered land-locked, the nine inland cities are today spared this label because of their nearby international airports and modern methods of moving surface cargo. For this reason, the distinction between the two types of inland zones is not dramatic.

There are other grounds for deemphasizing the distinction. Inland waterways have seldom been used for zone shipments because they transport mainly bulk commodities that are normally not subject to high customs duties. Zones are mainly concerned with manufactured and semimanufactured goods, and this class of merchandise finds its way to inland ports by rail, highway, and air transportation. Of the five river-port zones in operation, all report a modal pattern that shows containers as the prevalent type of cargo and rail as the primary mode used to bring the shipments from the coastal to the inland port.

This does not mean that the availability of inland water transportation is totally irrelevant to zone potential. Most U.S. inland port cities owe their early growth mainly to their doorstep water transportation services. These tend to be the larger inland cities today. The greater overall volume of trade generated by the inland waterway system tends to perpetuate the kind of business and commercial environment that will result in increased demand for international services. In addition, the very presence of low-cost water transportation as an alternative would tend to influence the rates of the competing modes.

This paper focuses on the Mississippi inland waterway system, since that is where the first inland zones were established, but the discussion that follows has application to smaller U.S. foreign trade zones generally, whether they are located at river ports, other inland ports, or smaller port-ofentry communities on the fringes of the outer land and coastal borders. For that matter, many of the comments made here would apply even to the larger zones.

#### ESTABLISHING THE NEED FOR A ZONE

Although inland ports may be willing to accept a smaller potential volume of zone business, they must arrive at some minimal standard of feasibility and need in justifying their zones. A few words on the requirements for obtaining federal authority for establishing and operating a zone are in order at this point.

In 1934, Congress created the Foreign-Trade Zones Board as an interagency body with the power to license (grant of authority) and regulate zones. The Secretary of Commerce is designated chairman, and the other members are the Secretary of the Treasury and the Secretary of the Army. The program is administered through U.S. Department of Commerce staff, whose director serves as the board's executive secretary.

Applications for zone licenses may be submitted by corporations that are qualified to apply for and establish zones under the laws of the state in which the zone is to be located. Public corporations are given preference. Applicants for zone status must show a need for the zone as a public service in the community in question and present a plan that demonstrates the ability to finance the project and operate suitable facilities. Once a zone is approved for a port of entry, other zones can be requested only if existing facilities cannot adequately meet the needs of commerce.

Although it is easier to show need in major port areas, the board has interpreted this requirement so that smaller ports are not denied the opportunity to provide this service simply because of size.

In demonstrating "need", an applicant must show both a general basis for the proposed zone and specific user interest. As prospective users cannot be expected to make legal commitments for a service prior to its availability, the evaluation of need is usually made by the applicant and reviewed by the board on the basis of criteria that include expectations and projections and on supporting evidence such as letters of intent. Especially where the focus is on new investment, there is a basis for the contention that, until approval is given, it is not possible to fully measure interest.

At a time when international trade and foreign direct investment are having considerable impact on communities throughout the United States, the Foreign-Trade Zones Board has been willing to acknowledge this sequential difficulty and give applicants the benefit of the doubt on the question of need. This is done, however, only when a zone project is well conceived in terms of the area's overall trade and investment potential and when support from community agencies, as well as state agencies, is evident.

### FINANCING

The question of need is inextricably linked with that of financing. The fact that the Foreign-Trade Zones Board, which is not involved in financing zone projects, can be flexible in looking at potential activity does not eliminate the necessity for an adequate evaluation. Whether a public agency or a private firm is to operate the zone, it is usually the party that is assuming the financial burden that bears the onus of making the more critical judgments.

In making these evaluations, it is important to view foreign trade zones in their true perspective. This might mean overcoming some common misconceptions that work against the possibility of a smaller operation. The definition that suggests an isolated facility has sometimes created a false impression of what zones really are. It could be said that there is no such thing as a zone. Under examination we find that zones represent a procedure rather than a physical facility. The term foreign trade zone by itself tells us little about the physical attributes of a project.

Zones are alike in that their customs entry and control procedures are the same. But their physical plants range from warehousing facilities to manufacturing sites, or, as is usually the case, a combination of the two.

At the outset of the program, zones were operated as seaport terminals with emphasis on public warehousing. In time, their activities expanded to include the leasing of floor space to firms that wished to handle their own merchandise. Some years after the manufacturing amendment, the industrial-park zone evolved. Today, most zones include industrial-park space. Public warehousing and floor-space rental are still in greater demand than entire buildings or building sites, but there is growing interest among industrial users, and it is recognized that having space available for even the occasional industrial prospect is a must for most projects. Although most port projects involve a single consolidated facility, some have separate sites for different service needs.

In considering zone financing, it is also appropriate to view zones in terms of their organizational structure, for which there are a number of options. About 50 percent of approved U.S. zones are sponsored and operated by public agencies or by nonprofit economic development corporations on their own property. These projects are normally financed according to the agency's methods of raising capital and under its operating budget.

The remaining 25 projects involve public-type sponsors who contract with private firms for some or all zone services. Here, financing practices are more varied. In about 15 cases, the sponsor leases the zone facility to the operator, who is concerned mainly with the operating costs. The structure of the other 10 projects is more oriented toward the private sector. In those situations, the public sponsor, after determining the need for a zone in the community, typically seeks a qualified private operator who is also to provide the physical facility, or at least the public warehousing portion of it. This type of arrangement is the most recent to evolve, but all of the forms mentioned above are still used throughout the zone program.

These organizational options, combined with the new developments in zone methods, have spun off a more flexible type of foreign trade zone that is part of a composite rather than an isolated operation. This has helped the smaller ports with their projects.

## INTEGRATED ZONE OPERATIONS

New methods now make it possible to operate zones as a special service within larger facilities that provide space and services for related general operations. The "integrated" concept fits both public and private types of operations, and it provides the opportunity to reduce zone capital costs and operating overhead.

Integrated operation makes it possible to practically eliminate capital expenditures as a zone cost. The most obvious way to do this is to make a zone part of an existing facility that is already in operation. The only capital improvements in such a case would usually be for the physical security required by the U.S. Customs Service. These expenditures are at least partly recoverable in lower insurance rates. Even for new facilities, capital costs can be considered more as project than as zone costs because the facilities will always have an alternative nonzone use.

#### REDUCING OPERATING COSTS

Operating expenses are thus the most significant cost concern for the integrated zone. In recent years, the Foreign-Trade Zones Board and the U.S. Customs Service have allowed flexible zone administrative procedures that help to minimize even these costs.

Today, zones are usually planned and authorized on the basis of an "approved" zone area that can be "activated" in increments. In this way, a sufficiently large standby area can be maintained to permit effective marketing. Until the approved area is actually activated, it can be used for compatible nonzone operations as long as it is physically segregated and poses no control or security problems for customs. As the need for zone space grows, approved space can be activated for use as soon as customs requirements are met. During slowdowns in activity, space can be deactivated. This contrasts with older, more rigid operating practices in which facilities were set aside exclusively for zone activity and there was no distinction between approved and activated space. These procedures are especially useful during a zone's breaking-in period but can also become a necessary standing practice for a smaller zone.

In order to permit this flexibility, the Foreign-Trade Zones Board has since 1972 included a clause in its grants of authority that requires the zone grantee or operator to notify the board's executive secretary before any new manufacturing operations are undertaken. The basis for this is the board's authority to prohibit or restrict operations that are contrary to the public interest. This provision is normally invoked when there is an industry complaint concerning existing operations, but the advance-notice requirement is intended to identify problem cases in advance.

To ensure financial solvency, it is also necessary to plan ahead for expansions and to continually reassess projects so that the changing needs of business and industry are addressed. Procedures for board approval in these cases are relatively simple.

Certain customs procedures available today also help to make this flexibility possible. The U.S. Customs Service is now able to supervise zones under regulatory audit principles without sacrificing control. It sets physical security standards, supervises zone operations on a day-to-day basis, and conducts special periodic audits. The result is an effective, streamlined control system without excessive red tape.

The ascendancy of the integrated zone and the new administrative practices have improved the prospects for zone services on a broader scale but do not relieve a zone of its own financial obligations simply because it can survive as part of a larger activity. There are "zone costs" that the zone should be able to bear. One cost attributable exclusively to a zone is that of customs supervision, a charge for which the U.S. Customs Service is reimbursed by the grantee. Once a zone is in full operation, it can expect a customs overhead cost of from \$20 000 to \$75 000, depending on the size of the zone, the nature of the activity, and the control system. Other zone costs would be administrative costs attributable to the management expertise required. Since zone managers can be given wider responsibility, however, this can become a shared expense.

The extent to which some zone expenses can be absorbed as part of a total operation will depend on whether the intended secondary effects of the zone as a business stimulant are being realized. Thus, it is important that the total contribution of a zone both to the operation it is part of and to the community be identified in each project.

Even though this broader impact becomes the rationale for operations that may seem marginal, it is a fragile justification because it is not reflected in a zone's financial statement. Whether or not it is a good gauge for this kind of service activity, the summary financial statement filed with the Foreign-Trade Zones Board each year becomes an indicator to the public as to whether a zone is successful. A deficit can result in negative publicity and perhaps the unwarranted implication that a community's business climate is unfavorable. A zone should therefore at least be able to meet its "zone costs" within a reasonable time of starting operations. If it is not, a question arises as to whether its services are in sufficient demand.

## PUBLIC-UTILITY ASPECTS OF ZONES

The statutory requirement that zones be operated under public-utility principles has a legal effect

on operating income. Rates and charges for zones must be reasonable and uniform. Zone users must be served on a like basis. A schedule of rates and charges is filed with the Foreign-Trade Zones Board and is subject to complaints from users if these requirements are not met.

Since the mandate of reasonableness has not yet been the subject of controversy, the board has not had to define the term. Because zones must compete with other facilities in their communities, the going rates in a particular area for the underlying type of facility that the zone is associated with have a direct relation to the rates charged in the zone. Zone users can be expected to pay higher rates for the special services they receive but, if the rates are too high, users' customs savings are eroded. Although this is a natural deterrent to overcharging and helps to create a self-enforcing situation, the public-utility provision nevertheless remains a cap on profits. This means that, under scrutiny, zone charges must be within a range considered appropriate for this limited type of public-service monopoly.

A zone grantee or operator is more likely to be affected by the public-utility requirement of uniformity. Zone users must be charged the same rates based on the space and services they use. The user who saves more cannot be asked to pay more. This provision reinforces the point that zones exist for the benefit not of the grantee or operator but of the zone user. It is the public economic benefits generated by users that are the objective of the zone program.

Its public-utility feature is an underpinning of a zone's public-service image. When a public or nonprofit sponsor of a zone chooses to contract out the operation of a zone to a private firm, whether on the grantee's or the operator's premises, the public-service obligations are not altered.

#### SPECIAL-PURPOSE SUBZONES

The subzone is a type of zone facility that does not provide "public" services; the legal justification for this special type of zone is part of an effort to make zone services more widely available to achieve the objectives of the Foreign-Trade Zones Act. When the public zone serving a community cannot accommodate a prospective user because of the type and scope of the user's proposed operation, it is possible under some circumstances for the grantee of the zone to apply to the Foreign-Trade Zones Board for special subzone status for a firm at its own facility. These "private" zones, which are usually industrial plants, are approved only when a clear public benefit can be demonstrated, a requirement that is strictly interpreted. Once a grantee has adopted a policy of applying for this type of facility, it is expected to do so on a like basis for all interested firms.

There are currently five approved foreign trade subzones, and they are involved in the manufacture of oil products, automobiles, motorbikes, typewriters, and women's garments. Three are at inland ports, an indication that inland zones compete equally with other areas in this category. The importance of these self-supporting projects is obvious. The fact that they can be authorized only as adjuncts to public zones is considered one of the important contributions of a public-zone project (where there is a basis for a special-purpose subzone in a port of entry but no need for a public zone, it is possible to become associated with another public zone in the same state).

#### PUBLIC-INTEREST REQUIREMENT

Another public aspect of zones is expressed in the requirement that their activities should be consistent with the public interest. Any operation that poses a hazard to the public or is harmful to a domestic industry, even though otherwise legal, can be made the subject of a complaint to the board, which has authority to restrict or prohibit such activity. The board's policy understandably calls for a careful review of such complaints.

Although these situations are rare, there has been a dampening effect during the past decade on some zone manufacturing as a result of complaints from the oil, steel, and cattle industries. In the few cases that have arisen, the board has not been required to issue any formal orders because either (a) the activity in question was terminated or the proposal withdrawn or (b) action was taken by some other government agency.

This provision has been of concern to zones because of the element of uncertainty it poses for manufacturing and processing operations. The few cases that have arisen would suggest that, although the public-interest requirement is a limitation on zone activity that must be taken into account, it poses no cause for alarm. Even if this caveat had not been expressly stated in the act, the board would probably have interpreted its powers to include this authority.

## INLAND ZONES ON THE MISSISSIPPI SYSTEM

The first four inland zones, authorized between 1972 and 1975, were all established at sites on the Mississippi River and its tributaries: Little Rock, Arkansas; Kansas City, Missouri; Kansas City, Kansas; and Omaha, Nebraska. In October 1976, Wilkes-Barre/Scranton, Pennsylvania, became the first inland zone not at a river-port city. The remaining inland river-port zones approved after January 1975 are at the following ports of entry: Louisville, St. Louis (Granite City, Illinois), Pittsburgh, Cincinnati (sites in both Ohio and Kentucky), and Tulsa, all on the Mississippi system. The other inland cities with zones are Atlanta; Newburgh, New York (New York City port of entry); Spartanburg, South Carolina; Dallas-Fort Worth; Orlando, Florida; Battle Creek, Michigan; and Salt Lake City.

Because of the preponderance of the inland zones on the Mississippi system, this group provides the basis of our case study. The study focuses on the three sites that have been in operation for more than two years: the two Kansas City zones and the one in Little Rock.

## Kansas City, Missouri, and Kansas City, Kansas

The first inland zone became operational in 1974 in Kansas City, Missouri. Zone 15 consists of three separate sites, sponsored by the Greater Kansas City Foreign-Trade Zone, Inc. (GKCFTZ), a Missouri non-profit corporation spawned by the Greater Kansas City Chamber of Commerce in 1972.

The largest of the three sites (site 2) is located in an expansive underground distribution complex known as the International Trade Center. The facility is situated near the intersection of the city's beltway (I-435) and MO-210, within 10 min of downtown. The site is also directly serviced by rail and has switching services to 12 main-line railroads. Barge landings on the Missouri River are within a 10-min drive. Underground Development Corporation, a subsidiary of Great Midwest Corporation, is the operator and owner of the facility, which is an integral part of the 344-acre International Trade Center complex.

Site 2, which is now in its sixth year of operation, last year received more than \$33 million in goods for 55 tenants involved in light processing, storage, and distribution activities. The shipments included electronics equipment, housewares, machinery, electrical items, wines and spirits, and chemicals. Although the facility has direct access to the inland waterway system, except for some occasional shipments of bulk chemicals by LASH barge, incoming shipments are almost exclusively containerized shipments that are transported to U.S. seaports by ocean carrier and that arrive in the area by rail. They are then trucked to the zone from local rail terminals. There are occasional air-freight shipments. Shipments from the zone are primarily for the domestic market; 7 percent (by value) is destined for overseas markets.

Operations at the site have grown over the years. Fifty-five firms currently use the zone compared with 18 in 1975. Merchandise shipments have increased from \$15.8 million in 1975 to the \$33 million received in 1979. Tonnage has increased from 5000 in 1975 to 13 200 in 1979. More than 270 000 ft<sup>2</sup> of zone space is active, twice that in 1975. Another 100 000 ft<sup>2</sup> is slated for activation in early 1980 for a television processing operation.

Site 1 of zone 15 is a conventional warehouse whose zone space has never been activated. This facility was requested so that a site with normal ceiling height would be available (the underground facilities have a ceiling height of only 16 ft).

Site 3 of zone 15 is a privately owned and operated warehouse and processing facility near the Kansas City International Airport. It was activated during 1977 for limited activity that mainly involved a shipment of citizens band radios valued at \$8 million and weighing 340 tons. Since then, the facility has been used only for nonzone activity. The facility was requested to provide service for air-freight shipments near the airport. Thus far, it has been used mainly for standby service.

Shortly after approval of its Missouri zone, the grantee of zone 15 was authorized by the Kansas legislature to apply for zones in that state. To provide each of the two Kansas Cities with its own zone, GKCFTZ applied for and received a second grant of authority for a site in Kansas City, Kansas. This site, like site 2 of zone 15, is part of an underground warehouse and processing facility. The approved zone area covers 405 000 ft<sup>2</sup> within the 4 million-ft<sup>2</sup> facility owned and operated by Inland Storage Distribution Center, a division of Beatrice Foods, which also has customs-bonded space at the site.

Since the zone began operating in 1975, some  $\$1\ 000\ ft^2$  of the zone area has been activated. Shipments into the zone have risen from  $\$1.5\ million$  in 1975 to  $\$4.5\ million$  in 1979, although the  $\$8.4\ million$  in goods received in 1977 indicates cyclical demand. Only seven companies have used the zone, all for public warehousing. The commodities received have included machinery and components, electronics items, optical equipment, bearings, footwear, sports equipment, film, jet engines, and foodstuffs.

The prevalent modes of transportation to the zone are rail and highway, and shipments are moved to the site in containers. More than 40 percent of the zone's outward shipments (by value) were for export.

Measuring the full impact of the Kansas City area zones is not easy. It appears that public and business officials give the zones high grades as part of the area's recent success in its international trade and investment efforts. Although the city has been a port of entry for almost a century, the zone's duty-free port image has helped to draw attention to the area's port-related capabilities. This is reflected in significant increases in customs entries during recent years.

Because demand for actual zone services has not been unusually heavy, the problem of financing has been of concern to both the grantee and the site operators. At this point, site 2 of the Missouri zone is considered the bellwether.

Because the site is operated as an integral part of the Great Midwest Corporation facility, there are no significant capital costs. Improvements are made after tenants are committed. It is operating costs that are the main financial concern. Annual zone expenses last year amounted to approximately \$60 000, of which 40 percent represented the site's allocated share of the customs reimbursement. The remainder was for administrative costs paid to the grantee, GKCFTZ.

The grantee considers a minimum of 250 000-300 000 ft<sup>2</sup> of activated zone space to be the break-even point for this site. According to Studley of GKCFTZ, zone rates and charges range from \$1 to  $\frac{5}{ft^2}$ , depending on the type of facility required and the services needed.

Promotional expenses are considered an additional zone cost at this site. The extent to which promotional efforts contribute to the benefit of the overall operation is apparently not measured. Without a system for identifying such spin-offs, overhead costs that have a broader impact tend to fall on the zone alone, adding to its financial burden.

#### Little Rock

The next port on the Mississippi system to inaugurate zone services was Little Rock, Arkansas, which opened for business in December 1975. Zone 14 started as a public warehouse at the Little Rock Port Authority's dockside transit storage building on the Arkansas River but was recently moved to a nearby industrial park. Sponsored by the Arkansas Industrial Development Commission, the zone is considered one of the state's important marketing tools for international business development in the Little Rock area, which became a customs port of entry in conjunction with the opening of the Arkansas-Verdigris Inland Waterway System in 1970.

During the zone's first full year of operation, it received only small shipments valued at \$125 000. Over the past two years, there has been a gradual but significant increase in shipments. During the past year, the zone has received goods valued at \$1.5 million, including machinery, watch parts, brass tubing, antiques, electronics items, and roofing material. Thus far, it has been used for public warehousing.

The zone, which is now located on a 25-acre site within the port's industrial park, has a new 104 000-ft<sup>2</sup> warehouse and processing building. This will make a wider range of services available to zone tenants, including firms that want their own building.

The port authority runs the zone as an integral part of its port terminal and industrial park complex. About 17 000  $ft^2$  in the new building has been activated as zone space; the additional space is being used for related nonzone activity.

Thus far, the Little Rock experience reinforces the premise that zone tenants are not likely to be users of the inland waterway system. Here, as at the Kansas City facilities, there has been only negligible use of the waterway system by zone tenants even though it is at their doorstep. Shipments arrive mainly in containers from New Orleans by rail. A small amount of cargo arrives at the area's airport, within a mile of the zone.

Despite its present smallness, the Little Rock zone is considered economically feasible by its sponsor and operator. The ability to operate the zone as an integrated activity has been a major factor. The recent move and expansion have greatly improved its potential by eliminating the severe marketing restrictions experienced at the original site.

All three zones have been in operation over too short a time to permit a meaningful evaluation of what their long-term public contribution will be. It appears that a financial equilibrium has been achieved by all three projects through full use of the integrated concept.

The Little Rock zone's more public structure seems to have resulted in a greater acknowledgment of the zone's ripple effect, largely because of the state of Arkansas' direct role in encouraging new economic development at the new river port. The recognition of the facility's secondary effects has been the basis for at least a temporary acceptance of a small zone operation.

The fact that both Kansas City area zones represent the more private of the operational options explains their contrasting attitude toward secondary factors. Both are located at facilities owned by This entails the benefits of private operators. private entrepreneurship, but it means that there is more pressure for short-term results. Although the operators need not leave "approved" zone space idle while awaiting new business, they are not as apt to assign value to indirect impact on their overall operations so as to allow the sharing of costs. Thus, these projects tend to have to achieve a higher level of zone use within a shorter time if they are to be considered profitable. The Kansas City area zones carry a burden that most others do not in that they bear a proportionate share of the nonprofit grantee corporation's administrative expenses. For this, of course, they obtain the benefits of some new business referrals. The financial burden is less demanding where the grantee is an agency that administers the zone as one of the many activities under a general operating budget and other sources of income.

Thus, the Little Rock structure is more supportive of the smaller zone, easing its growing pains. Kansas City's solution is more aggressive marketing by the operator, which has moved both sites beyond the minimum 50 000 ft<sup>2</sup> of income-generating zone space that would seem a lower limit in these situations. The fact that the Kansas site has chosen to continue providing bonded ware-housing along with zone services has been a factor in its activating considerably less zone space than the Missouri site, which will soon exceed 350 000 ft<sup>2</sup>. The greater emphasis on processing and assembly activity at the Missouri site has affected its development.

#### Other Mississippi System Zones in Operation

Of the remaining zones on the Mississippi inland waterway system, two others have started operations during the past year. Zone 19 at Omaha opened at the grantee Omaha Dock Board's municipal dock terminal facilities on the Missouri River. The zone, currently a 20 000-ft<sup>2</sup> building, is contracted to the Omaha Dock Board's terminal operator, which runs the zone as an integral part of its activities. Only two shipments, valued at \$43 000, were received during the past year. Plans call for eventual expansion to the Riverfront Industrial Park, which is under development nearby, adjacent to Eppley Airfield. Zone 47 (Campbell County, Kentucky), approved in January 1979, is located off I-275 within 7 miles of downtown Cincinnati and 12 miles of the Greater Cincinnati Airport. A nonprofit affiliate of the Greater Cincinnati Chamber of Commerce is the zone grantee, and the Northern Kentucky Port Authority acts as administrator.

Zone 47 has two sites only 1 mile apart. One is at the port authority's 17-acre E.J. Kneffle Industrial park, the other at the 21-acre warehouse and distribution complex of Hosea International. The Hosea International site started its zone activity in a 45 000-ft<sup>2</sup> warehouse in September 1979. During that month, shipments of automobile glass and jewelry weighing 25 tons and valued at \$192 000 were received from Germany and Finland. The fact that this zone was able to start operations within 8 months, indicates a sound project as well as the advantage of making zones part of ongoing operations.

#### CONCLUSIONS

Economic developments in recent years and changes in transportation technology have transformed the roles of inland U.S. ports. Demands for new services have arisen in these communities as the patterns of cargo movement have changed and a new generation of industrial plants has begun to emerge. Their port and economic development agencies must now extend their efforts, from improvements in physical facilities and handling services to the growing need for supplemental services, including those related to international trade and investment. The fact that inland ports generally have a smaller use base for international trade services makes planning for these public services more demanding. It is into this changing environment that the new, smaller inland foreign trade zones have settled.

Some would say that, in the creation of these zones, necessity has once again been the mother of invention--i.e., if smaller zones are to be successful, new methods are necessary and, in fact, have evolved. Others would suggest that the more things change, the more they remain the same--i.e., the small zone is not really new but is simply becoming more commonplace. In any case, what one sees evolving is a growing acceptance of the smaller zone, which is being developed and used in a way that can extend its reach and give it a dimension that exceeds its physical size.

The integration of zones into larger related projects has been one factor in making the small zone workable. Another has been the ability to maintain larger zone areas for marketing purposes, even in a zone's early stages before its full potential is realized. Streamlined U.S. Customs Service procedures are also part of the equation.

New procedures and methods make it possible to view zones in their true perspective--i.e., so that the emphasis is on their procedural services rather than their physical attributes. This more comprehensive view makes it possible to parlay the presence of a zone and the availability of its special customs procedures into a condition that, in effect, bestows on a port a "duty-free" status. Size limitations, in other words, are temporary, for zones can adapt to meet the changes in demand for their services.

The small zone's justification thus becomes a recognition of its total impact and medium- or long-range value. Just as patience is necessary in longer-term economic development planning, so is a certain modesty needed to accept some of the smaller steps taken in achieving planning objectives. We must overcome the notion that a free trade zone is without value unless it is prodigious in size. A zone's full value is not determined by its size but by how and to what extent its availability is harmonized with the broader efforts of the community in creating and projecting a favorable climate for international business.

The option of small, yet feasible, foreign trade zones has made it possible for a larger number of port communities to include zone services in their overall efforts, and this has improved their opportunities for sharing in international trade and related investment.

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