# FAQs About FTZs

***Here are answers to several frequently-asked questions about FTZs.***

***Source: NAFTZ (National Association of Foreign-Trade Zones)***

**Q. Why do companies use foreign-trade zones?**

A. Companies use zones to maintain the cost competitiveness of their U.S.-based operations vis-à-vis their foreign-based competitors. Zone status provides an opportunity to reduce certain operating costs associated with a U.S. location that are avoided when operating from a foreign site.

**Q. How does the zones program fit within the economic development efforts of the various States?**

A. The zones program is a federal program. The underlying authority to approve the creation of a foreign-trade zone resides with the federal government. However, every State has enabling legislation providing statutory authority for the establishment of FTZs. The creation and development of individual zone projects typically result from a combination of interests generated by both the private and public sectors.

The Foreign-Trade Zones Board Staff advises zone organizers to integrate the zone project into the state or local area's overall economic development strategy rather than segmenting the zone as an individual development effort. In this way, FTZs complement other state and local incentives that are incorporated into the overall efforts of a community to maintain its attractiveness as a business location.

**Q. Is zone status more beneficial to foreign-owned companies than it is to American-owned companies?**

A. The benefit of zone use is determined by the location of the company's operations in the United States, not by its ownership. If an American-owned company and a foreign-owned company have identical trade operations, the potential benefit of the U.S. Foreign-Trade Zones program for each of them will be identical. The U.S. FTZ program encourages investment and production in the United States that might otherwise take place in another country.

**Q. Does the cost reduction feature of zone status translate into an import subsidy or a cause of imports?**

A. No. Zones do not cause imports. The reverse is true. The increasing importance of international trade in the U.S. economy has caused a corresponding increase in the use of zones. Periodically, oversight agencies such as the International Trade Commission and the General Accounting Office examine the impact of the U.S. Foreign-Trade Zones program. Congress has also held hearings on the subject. These periodic studies and reviews have not produced any information leading to the conclusion that zones cause imports. The decision to import precedes the decision to use zones.

Decisions about where to source various products and inputs is motivated by a combination of factors, including price, quality and product availability. The "cost reduction feature" of zones relates to the cost of conducting business operations in the United States (distribution, manufacturing, and other non-manufacturing activities) that otherwise would be avoided by conducting these operations at a foreign site.

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**Q. How do zones "expedite and encourage" direct foreign investment in the United States?**

A. The United States welcomes foreign investment but does nothing to overtly attract or discourage it. Through the policy of "National Treatment," foreign investors are offered the same conditions, rights and benefits associated with investing in the United States as an American investor can expect to receive. In keeping with this policy, zones encourage foreign and domestic investment by removing a tariff bias that unintentionally discourages investment in the U.S. and encourages supplying the U.S. market from offshore.

**Q. Are there any practical or economic limits to the number and uses of zones?**

A. For the foreseeable future, there are no economic limits to the use of zones. As the U.S. economy becomes even more internationalized, and as markets become globally homogenous, the operational flexibility and other benefits for which zones are used will motivate a commensurate increase in zone use. As a practical matter the limits on the number of zones are a function of the number of U.S. Customs ports of entry and the individual communities adjacent to them.

**Q. Is the maintenance of the FTZ program costly to the U.S.?**

A. The establishment and maintenance of FTZs require a minimal expenditure of federal tax dollars. The cost of processing applications by the Foreign-Trade Zones Board is offset by application fees and the cost of processing FTZ merchandise by the U.S. Customs Service is offset by merchandise processing fees. Therefore, foreign-trade zones are a self-sustaining tool of international commerce offering significant benefits to U.S. industry and aiding the U.S. balance of trade.

**Q. How have various trade agreements affected the need for the foreign-trade zone program?**

A. Trade agreements, including the Uruguay Round and NAFTA, have resulted in the reduction of many U.S. tariffs. As a result, certain companies that have benefited from the foreign-trade zones program in the past may find that they no longer need FTZs to place them on an even playing field with their competitors abroad. This occurs by design and is a positive reflection on the FTZ program as a temporary solution to irrational tariff relationships. It is for this reason that companies must continually evaluate the impact of the evolving trade environment on their business.

While some companies find that FTZ use is no longer required to rationalize irrational tariff relationships, others discover that the program offers needed relief from the unintended effects of trade agreements and changing tariff schedules that place U.S.-based manufacturers at a disadvantage. For example, when industries that were previously subject to quotas make the transition to tariffs, they may benefit from the use of a FTZ.

On balance, an analysis of the growth of the U.S. Foreign-Trade Zones program over the past 20 years illustrates that overall the volume of trade moving through zones has increased steadily over time despite trade liberalization efforts and shifts in industry participation.

FTZ Foreign-Trade Zone 181

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