
Community Development & Housing Committee

SSB 5157

Brief Description: Concerning the operation of foreign trade zones on property adjacent to but outside a port district.

Sponsors: Senate Committee on Economic Development, Trade & Innovation (originally sponsored by Senators Murray, Prentice, White, Swecker, Delvin, Kohl-Welles and Shin).

<p>Brief Summary of Substitute Bill</p> <ul style="list-style-type: none">• Allows a port district's boundary to include property adjacent to, but outside its district, for the purpose of applying for foreign-trade zone designation.

Hearing Date: 3/9/11

Staff: Jennifer Thornton (786-7147).

Background:

Foreign-Trade Zones.

The U.S. Foreign-Trade Zones program was created by the Foreign-Trade Zones Act of 1934, one of two key pieces of legislation passed in 1934 in an attempt to mitigate some of the destructive effects of the Smoot-Hawley Tariffs. The Foreign-Trade Zones Act was created to "expedite and encourage foreign commerce" in the United States.

Foreign-Trade zones (FTZs) are designated locations in the United States that offer tariff and tax relief designed to lower the costs of U.S.-based operations engaged in international trade and thereby create and retain the employment and capital investment opportunities that result from those operations. Located in or near customs ports of entry, FTZs are the U.S. version of what are known internationally as free trade zones.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

Zone status is granted by the Foreign-Trade Zones Board consisting of the Secretary of Commerce and the Secretary of the Treasury. Local U.S. Customs and Border Protection (CBP) officials then separately approve FTZ activation, and zone activity remains under the supervision of the CBP. FTZ sites and facilities remain within the jurisdiction of local, state or federal governments or agencies.

Foreign-Trade zones are divided into general-purpose zones and subzones. State or local governments, port authorities, nonprofit organizations, or economic development agencies typically sponsor general-purpose zones. General-purpose zones involve public facilities that can be used by more than one firm, and are most commonly ports or industrial parks used by small to medium sized businesses for warehousing/distribution and some processing/assembly. Subzones are sponsored by general-purpose zones, but typically involve a single firm's site which is used for more extensive manufacturing/processing or warehousing/distribution that cannot easily be accomplished in a general-purpose zone.

Since 1977, Washington law has allowed port districts to apply to the US Foreign-Trade Zones Board for permission to establish, operate, and maintain FTZs within their port district. There are currently 13 general-purpose FTZs and eight subzones located in Washington.

Benefits of Foreign-Trade Zones.

Benefits to zone users include:

- **Duty Exemption.** No duties on or quota charges on re-exports.
- **Duty Deferral.** Customs duties and federal excise tax are deferred on imports.
- **Inverted Tariff.** In situations where zone manufacturing results in a finished product that has a lower duty rate than the rates on foreign inputs (inverted tariff), the finished products may be entered at the duty rate that applies to its condition as it leaves the zone.
- **Ad Valorem Tax Exemption.** Merchandise imported from outside the United States and held in a zone for the purpose of storage, sale, exhibition, repackaging, assembly, distribution, sorting, grading, cleaning, mixing, display, manufacturing, or processing, and merchandise produced in the United States and held in a zone for exportation, either in its original form or altered by any of the above methods, is exempt from state and local ad valorem taxes.
- **Logistical Benefits.** Companies using FTZ procedures may have access to streamlined customs procedures (e.g. "weekly entry" or "direct delivery").

Benefits to the public include:

- helping facilitate and expedite international trade;
- providing special customs procedures as a public service to help firms conduct international trade related operations in competition with foreign plants;
- encouraging and facilitating exports;
- helping attract offshore activity and encouraging retention of domestic activity;
- assisting state and local economic development efforts; and
- helping create employment opportunities.

Summary of Bill:

The boundary under which a port district may apply for foreign-trade zone designation is expanded to include property adjacent to, but outside its district, as long as the property is neither located within the boundaries of an existing foreign-trade zone grantee nor currently designated as a foreign-trade zone.

Appropriation: None.

Fiscal Note: Not requested.

Effective Date: The bill takes effect 90 days after adjournment of the session in which the bill is passed.