North America

United States

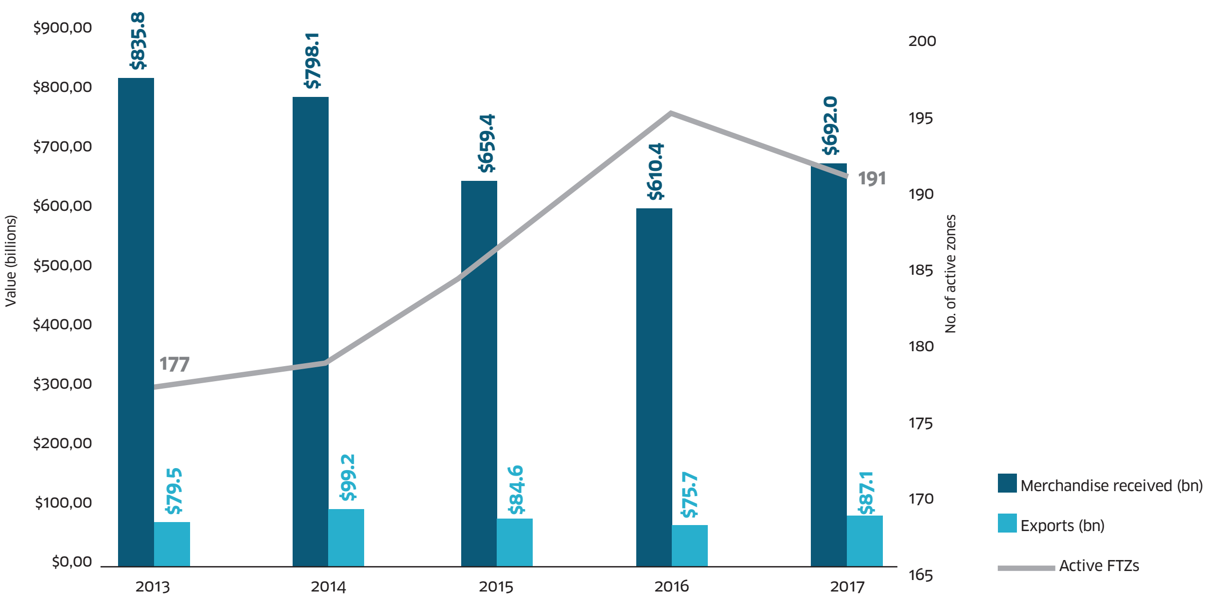
INCENTIVES AND REQUIREMENTS						
	ZONES	CORPORATE TAX	OTHER TAXES	CUSTOM DUTIES	IMPORTANT REQUIREMENTS	DOMESTICATION REQUIREMENTS
United States	296	21% (may vary according to sector)	State and local taxes may apply	None (unless importing into U.S. customs territory)	Public interest evaluation of applications	None

Overview

Foreign trade zones (FTZs) are secure areas under the control of the U.S. Customs and Border Protection [CBP] but considered outside of U.S. customs territory. Firms can bring foreign goods into these zones for operations without paying any duties for an unlimited period of time. Goods brought into U.S. customs territory from the zone for domestic consumption are liable for duties, either at the rate of the original foreign product or the finished good. Goods may also be exported to third countries free of duty and excises.

There are currently 296 registered zones across the U.S. There are two types of zone. “Magnet sites,” where multiple firms cluster together in a managed location, usually operated by a city, county or port authority. And usage-driven sites, which are approved for the use of a specific enterprise. In 2017 – the most recent data available – there were 191 active zones with 3,200 firms employing 425,000 people. These firms imported $692 billion worth of goods and exported $87 billion, an increase of more than 10 percent on overall activity in 2016.

American Foreign Trade Zones Sector Performance



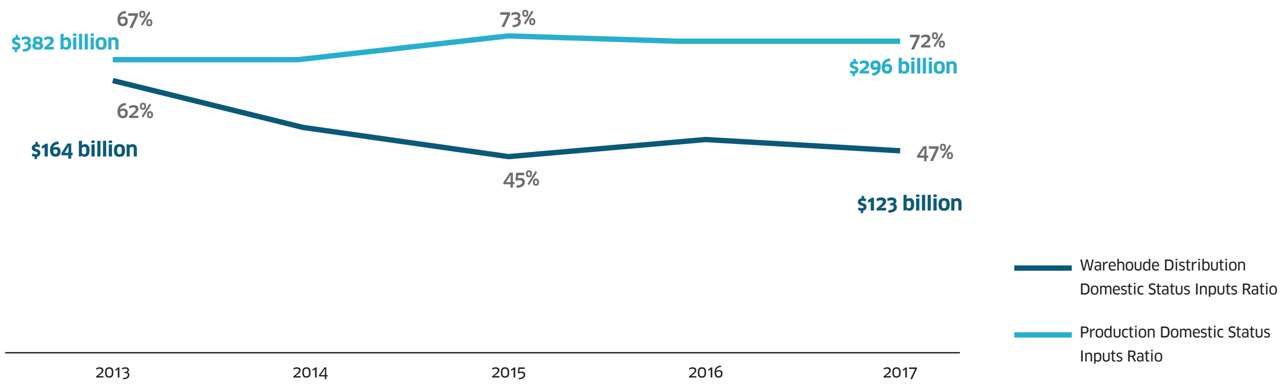
Combining U.S. and foreign inputs

Business operations within FTZs are classified as either warehouse/distribution activity or production. Production involves some form of assembly, processing or value-adding activity before goods are ready for final usage. Distributors are more likely to be utilising the zone to import and store goods for entry into the domestic market in a tax efficient way.

While foreign imports account for the majority of trading activity within zones, the role of domestic inputs is also very important, especially in the production sector. Firms rely on U.S. raw materials and semi-finished products as key components of their production processes. For firms exporting into the U.S. market, one of the key advantages of foreign trade zones is that they can choose to pay the applicable duty rates on either the foreign goods imported into the zone or the finished product transferred into U.S. customs territory. This incentivises firms to maximise the use of domestic inputs in order to minimise duties on foreign inputs. Furthermore, goods moved from the customs territory into the zone are considered exports, for the purposes of excise rebates and drawbacks.

The value of these inputs has fallen in recent years (as has their significance in the distribution sector). This could be a reflection of broader macroeconomic circumstances, including the growing strength of USD in recent years, challenges in the oil sector, and consumer demand in key markets.

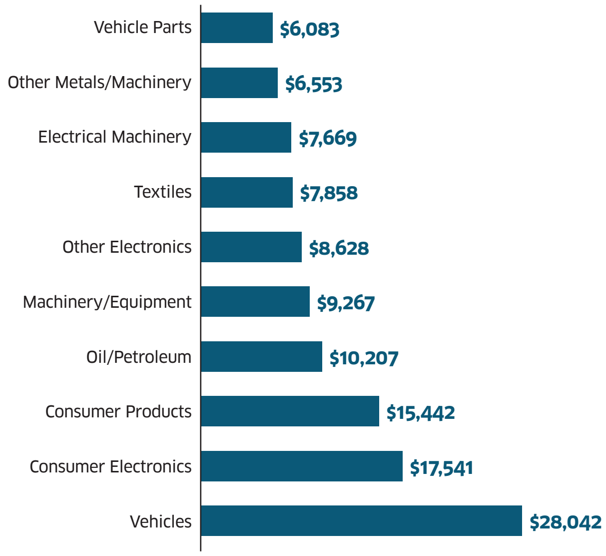
Domestic inputs as a proportion of total: Distribution and Production FTZ sectors (2013 - 2017)



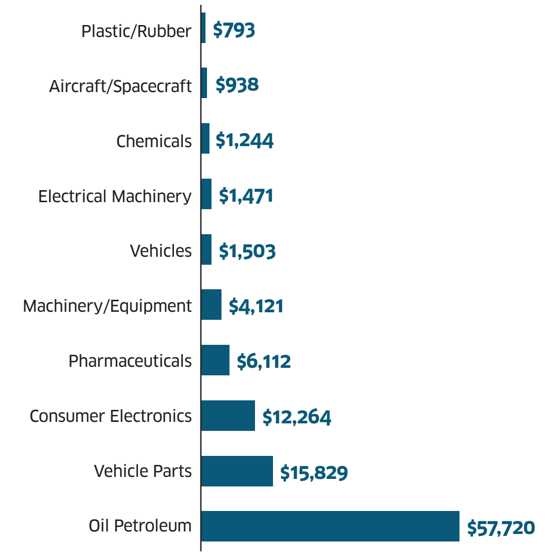
Key Sectors

Oil, automotive, consumer electronics and products are the key industries which dominate the FTZ sector overall, though the categories fluctuate according to business activity (i.e. production or distribution).

Top 10 Product Imports by Distritbution Operators 2017 (millions)



Top 10 Product Imports by Production Operators 2017 (millions)



Automotive Sector

Vehicles and vehicle parts account for 11.4 percent of all U.S. imports – worth nearly $250 billion annually. Canada (25%), Japan (23%) and Mexico (17%) are key markets. The re-negotiation of the North America Free Trade Agreement [NAFTA] – renamed the U.S.-Mexico-Canada Agreement [USMCA] – in November 2018 was critical for the sector, given concerns that the U.S. would withdraw from the deal. According to a survey of American car manufacturer executives conducted by LevaData, as reported by Forbes, industry leaders believe the deal will be good for their businesses in the long-term. The agreement will raise production costs in the short-to-medium term but it also removes the prospect of tariffs in the future, providing much-needed certainty for the sector. Nearly 90 percent of respondents believe that the agreement will increase production activity in North America, which will likely lead to increased import volume of vehicles and vehicle parts into foreign trade zones.

Consumer Products & Electronics

According to the Deloitte Consumer Products Outlook 2019, one of the key challenges facing the consumer products sector is the rising cost of transportation, specifically trucking. The average age of drivers is rising, there is an underrepresentation of women in the sector and a lack of interest among young people. According to the American Trucking Association, the shortage of drivers is expected to reach 174,000 by 2026. As a result, trucking firms are having to raise wages in order to attract new drivers. The costs are being passed onto businesses, which is affecting profitability. Considering this trend, firms should optimise the location of their foreign trade location with respect to initial port of entry and final destination.

Key Issues

Trade War with China

The on-going trade dispute with China represents a significant challenge to U.S. firms, especially those involved in the consumer products and electricals industries. In 2017, the U.S. imported $46 billion worth of computers from China – 64 percent of total national computer imports.

However, operating out of a foreign trade zone provides important benefits in this climate. Most significantly, export-focused firms can continue to import semi-finished goods and export finished goods without incurring tariffs on Chinese goods. And for firms importing goods into the domestic market, the flexibility to choose to pay duties on either the foreign import or the finished goods provide further scope to circumvent the most onerous impact of the tariffs. The number of foreign trade zone applications in 2018 and 2019 could see a significant rise.

Mexican Border Threat

The new Mexican administration has established a massive special economic zone in the state of Nuevo Leon, on the border with Texas. The zone runs for 3,180 kilometres at a width of 25 kilometres. Enterprises operating within the zone will benefit from a reduced income tax rate of 20 percent (instead of 30) and VAT levied at 8 percent (instead of 16). Workers will earn a minimum wage of $8.80 and fuel prices will be pegged to those in the United States. With a tariff-free trade agreement between the U.S, and Mexico, firms (especially in the automotive sector) could be tempted across the border.

Top 10 States for Merchandise Received		Top 10 States for Exports	
State	**Key Sectors**	**State**	**Key Sectors**
1. Texas	Oil, consumer electronics, vehicle parts	**1. Texas**	Oil, consumer electronics, vehicle parts
2. Louisiana	Oil, metals and minerals	**2. South Carolina**	Vehicles, vehicle parts
3. California	Oil, consumer electronics, vehicles, consumer products	**3. Louisiana**	Oil, metals and minerals
4. South Carolina	Vehicles, vehicle parts	**4. Alabama**	Vehicle Parts
5. Tennessee	Consumer electronics, machinery equipment, electrical machinery, vehicle parts	**5. California**	Oil, consumer electronics, vehicles, consumer products
6.Illinois	Consumer electronics, other electronics, pharmaceuticals	**6. Puerto Rico**	Pharmaceuticals, oil, vehicles
7. Kentucky	Machinery/ equipment, textiles/ footwear, oil	**7.Indiana**	Vehicle parts, pharmaceuticals
8. Maryland	Vehicles, metals/ minerals	**8. Florida**	Oil, vehicles, machinery/equipment
9. Pennsylvania	Oil, machinery/ equipment, electrical machinery	**9. Mississippi**	Oil, vehicle parts, textiles/footwear
10. Ohio	Textiles/footwear, pharmaceuticals, machinery/equipment	**10. Tennessee**	Consumer electronics, machinery equipment, electrical machinery, vehicle parts

> “According to the American Trucking Association, the shortage of drivers is expected to reach 174,000 by 2026... trucking firms are having to raise wages in order to attract new drivers.”