

HOUSE BILL REPORT

SSB 5157

As Reported by House Committee On:
Community Development & Housing

Title: An act relating to the operation of foreign trade zones on property adjacent to but outside a port district.

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).

Brief History:

Committee Activity:

Community Development & Housing: 3/9/11, 3/17/11 [DP].

Brief Summary of Substitute Bill

- 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.

HOUSE COMMITTEE ON COMMUNITY DEVELOPMENT & HOUSING

Majority Report: Do pass. Signed by 9 members: Representatives Kenney, Chair; Finn, Vice Chair; Smith, Ranking Minority Member; Orcutt, Assistant Ranking Minority Member; Ahern, Maxwell, Ryu, Santos and Walsh.

Staff: Jennifer Thornton (786-7147).

Background:

Foreign-Trade Zones.

The United States 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.

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.

Foreign-Trade zones (FTZs) are designated locations in the United States that offer tariff and tax relief designed to lower the costs of United States-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 United States version of what are known internationally as free trade zones.

Zone status is granted by the Foreign-Trade Zones Board consisting of the Secretary of Commerce and the Secretary of the Treasury. Local United States Customs and Border Protection (CBP) officials then separately approve FTZ activation, and zone activity remains under the supervision of the CBP. Foreign-Trade zone 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 United States 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.
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Summary of Bill:

The boundary under which a port district may apply for FTZ 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 FTZ grantee nor currently designated as a FTZ.

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.

Staff Summary of Public Testimony:

(In support) This bill responds to a technical problem. We are trying to fix an anomalous situation for a company named Amer Sports. They wanted to have an FTZ designation for their facilities in Woodinville, but one of their buildings is across the street from King County and therefore was outside the jurisdiction of Seattle's FTZ. The warehouse is not in anyone's jurisdiction, and to include them requires us to extend our authority. We would like to include them to bring more containers through the port.

The stellar example of a FTZ in Washington is in Moses Lake, where BMW has an operation for producing carbon fiber parts for electric cars. They import the carbon fiber into the Moses Lake FTZ and create material that is then exported and assembled in Germany for electric cars. It brought many jobs, and is an impressive use of how FTZs can be utilized.

(Opposed) None.

Persons Testifying: Linda Hull and Tom Tanaka, Port of Seattle.

Persons Signed In To Testify But Not Testifying: None.