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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

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SEP 22 1976



The Honorable Gillis W. Long
Chairman, Subcommittee on
Inter-American Economic Relationships
Joint Economic Committee
Congress of the United States

Dear Mr. Chairman:

Your letter of July 19, 1976, asked us to address the issues set forth below relating to current operations and potential benefits of expanding Foreign Trade Zone Number 2, New Orleans, Louisiana. (See enc. I for background information on this Trade Zone.) Your expressed need for an early response did not allow sufficient time for a detailed examination of these issues. Therefore, we gathered and analyzed the data below through consulting with the Executive Secretary of the Foreign Trade Zones Board and interviewing officials of the Board of Commissioners of the Port of New Orleans; the Chamber of Commerce of New Orleans; U.S. Customs Service Headquarters and its New Orleans District; and selected users of the New Orleans zone.

Before addressing the issues, it may be helpful to observe that foreign merchandise can enter a foreign trade zone without the usual formal customs entry procedures and duty payments unless and until it is shipped from the zone for domestic consumption. Then the importer has the choice of paying duties either on the original foreign materials or on the finished product. Domestic merchandise that is moved into the zone is considered exported for the purpose of customs and internal revenue laws and regulations. Additionally, merchandise entering the zone can be sold, exhibited, broken up, repacked, assembled, stored, sorted, graded, cleared, mixed with other foreign or domestic merchandise, and otherwise manipulated or manufactured.

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USE OF NEW ORLEANS ZONE
COMPARED WITH OTHER ZONES

We compared the use of the New Orleans zone with the other trade zones for fiscal years 1970-75 by number of businesses served, permanent users, full and part-time employees and by tonnage and value of merchandise received and shipped. The New Orleans zone generally ranked first or second in use as shown in the following table.

Relative Ranking of Operating Foreign Trade Zones
Fiscal Years 1970-75

<u>Foreign-Trade Zone</u>		<u>Relative ranking by fiscal year</u>					
<u>Number</u>	<u>Location</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
1	New York	1	2	2	6	5	7
2	New Orleans	1	1	1	2	2	2
3	San Francisco	5	5	4	5	4	5
5	Seattle	6	6	6	7	7	8
7	Mayaguez, Puerto Rico	2	3	5	4	6	6
8	Toledo, Ohio	3	3	3	3	3	3
9	Honolulu	4	4	1	1	1	1
10	Bay City, Michigan	-	-	^{a7}	9	11	10
12	McAllen, Texas	-	-	-	^{a8}	8	8
15	Kansas City, Missouri	-	-	-	-	^{a9}	4
17	Kansas City, Kansas	-	-	-	-	^{a10}	9

a/ 1st year of operation

See enclosure II for operating data of the New Orleans Zone and method of computation of relative rankings.

USE OF NEW ORLEANS ZONE
COMPARED WITH ITS POTENTIAL

The grantee for the New Orleans zone reports that, on an average, 87 percent of the space in the zone has been used to produce income. The grantee considers this acceptable because it provides both income to defray operational costs and ability to respond to short-term demand of users. The value of merchandise handled increased each year during fiscal years 1970-76, and the 1976 value was 210 percent higher than the 1970 value. In assessing this increase, two points must be borne in mind. In this time period, the U.S. wholesale price index increased 164 percent and the dollar was significantly realigned with leading foreign currencies. Thus a portion of the increase in value handled by the New Orleans zone was more apparent than real.

During the same 1970-76 period, merchandise, tonnage, number of firms served, types of commodities handled, and full-time employees decreased. These decreases, however, generally indicate changes in the type and mix of merchandise entering the zone rather than reduced zone use. For example, the value of imports entering the zone increased by about \$4 million from fiscal years 1975 to 1976 although total import tonnage decreased by about 3,500 tons. High-value, lightweight items like television sets and radios accounted for most of this increased value.

CONSIDERATIONS IN EXPANDING
NEW ORLEANS ZONE

Each expansion of the New Orleans zone since its creation has resulted from an application by a business that saw economic advantage in using the trade zone concept. Identification of such opportunities is probably the primary consideration in deciding whether to expand the use of the trade zone concept in New Orleans. However, our discussions with zone users and others familiar with the zone concept disclosed no apparent unexploited applications of the concept.

Although areas surrounding the primary zone are fully developed, new special-purpose zones could be created, additional noncontiguous general-purpose zones established, or the existing zone relocated should the need arise.

One special-purpose subzone was created at a shipyard and foreign steel was entered and used to produce barges. The steel was dutiable, but the completed barges were not. Therefore, the user of this special-purpose subzone avoided duty payments on the steel. The basis for the Foreign Trade Zone Board's approval of this special facility was that under zone procedures the firm was able to be competitive on such products which might otherwise have gone to an offshore facility.

A second subzone was created earlier at an existing petrochemical facility. However, because of a change in regulations for oil import quotas, the zone has never begun operation.

The grantee of the New Orleans zone has a pending application for two more special-purpose zones to permit the processing of imported beef outside the existing restraint or quota program. The application shows that an estimated 34 million pounds of beef would be processed annually. This approval is opposed by the cattle industry and the Agriculture Department, and as a result a favorable decision is in considerable doubt.

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In order to identify additional potential demand for the zone concept, in late 1974 promotional brochures explaining general economic advantages of zone use were mailed to approximately 5,000 domestic and 500 European prospective users. Some requests for additional information resulted, but no new zone business activity has been directly attributable to the campaign.

POTENTIAL ECONOMIC BENEFITS TO
NEW ORLEANS FROM AN EXPANDED
NEW ORLEANS ZONE

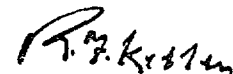
Beyond observing that any area will benefit from increased business activity in its midst, it is difficult to be specific on the potential benefits to New Orleans from expanded zone activity. Because our work identified no apparent unexploited uses of the zone concept, no specific determination of potential benefit was attempted. Such an analysis could be performed only on a case-by-case, product-by-product basis.

It is to be noted, however, that goods enter U.S. markets through foreign trade zones because of general economic advantages and not solely because of zone procedures. An expanded zone can encourage the processing of imported goods in the zone rather than in some other country prior to entry into the domestic market. Expansion of the zone can also permit export processing, which is especially beneficial if high-duty foreign components are needed to manufacture an article for export. If the processing is done in the zone, domestic labor, facilities, materials, and components can be used.

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We trust this information will be of value in conjunction with your hearings.

Sincerely yours,



ACTING Comptroller General
of the United States

Enclosures - 2

BACKGROUND ON
FOREIGN TRADE ZONE NUMBER 2
NEW ORLEANS, LOUISIANA

The Board of Commissioners of the Port of New Orleans, an agency of the State of Louisiana, has operated and maintained Foreign Trade Zone Number 2 since 1946. This zone is a general-purpose facility operated as a public utility under a grant of authority from the Foreign Trade Zones Board, the Federal agency charged with administering the provisions of the Foreign Trade Zones Act, as amended (19 U.S.C. 81a-81u).

The New Orleans zone is located on an 18.6-acre enclosed tract of land adjacent to the Napoleon Avenue Wharf on the east bank of the Mississippi River. It has over 655,000 square feet of space (approximately half of it covered) available for light manufacturing, manipulation, storage, and exhibitions. It contains paved and unpaved open areas and warehouse, fumigation, and lumber drying and stacking facilities. For the most part, the zone is suited for and employed as a warehouse and storage complex, with limited facilities for light manipulation or production.

The Board of Commissioners of the Port of New Orleans, as grantee, is responsible for paying zone operational costs, including reimbursement to the U.S. Customs Service for the salaries and related costs of five Customs officers assigned to provide customs security supervision over the zone. No Federal funds are appropriated for operating the New Orleans or other foreign trade zones.

Income to defray operating expenses comes from storage and handling fees and space and facilities rentals. During fiscal year 1976, the zone's gross operating income was \$257,910 and gross operating expense was \$328,593, including \$83,526 reimbursement to the U.S. Customs Service.

The zone's principal tenant is a major retail firm, which uses zone facilities for warehousing, inspecting, repairing, and assembling imported products prior to distribution to the domestic or Latin American market. Another firm imports casein which is cleaned, graded, mixed, ground, and bagged at the zone before being imported into the domestic market. Other firms use zone facilities for such tasks as cutting foreign galvanized chain into various lengths, manufacturing wire rope into bridles, and weighing, sampling and marking imported whiskey and wine.

ENCLOSURE I

The Foreign Trade Zones Act, as amended, also permits the creation of additional zone facilities at more advantageous locations than the existing zones. Such special-purpose zones require approval of the Foreign Trade Zones Board.

Operating Data of the New Orleans Trade Zone
Fiscal Years 1970-76

Fiscal year	Businesses served		Employment			Number of commodities handled		Countries of origin		Total commodities handled	
	Total	Continuous basis	Full-time	Part-time	Total	Number	Number	Value	Short tons		
1970	135	14	132	43	175	99	52	\$ 56,092,230	98,172		
1971	152	12	128	22	150	80	58	70,139,680	77,398		
1972	164	12	130	28	158	91	48	80,330,429	74,101		
1973	144	13	108	33	141	81	50	91,649,210	72,122		
1974	123	13	106	40	146	69	56	97,312,286	69,187		
1975	118	16	97	44	141	64	51	101,876,254	55,997		
1976	115	15	94	43	137	48	49	118,024,975	49,377		

Relative Ranking of the New Orleans Trade Zone in
Relation to All Trade Zones

	Relative ranking by fiscal year					
	1970	1971	1972	1973	1974	1975
Number of businesses served	2	2	2	1	3	3
Number of permanent users	4	5	5	4	5	4
Number of employees:						
Full time	2	2	2	3	2	3
Part time	1	1	1	1	2	3
Number of short tons:						
Received	2	3	2	3	3	3
Shipped	2	2	4	3	3	3
Value of merchandise:						
Received	2	1	1	1	2	2
Shipped	2	1	2	2	2	2

Note: Each zone was ranked numerically for each of the eight usage indicators. Rankings were then totaled for each zone and used as the basis for ranking the zones. Zone with lowest total was given first place (the highest rank) with the other zones aligned by their relative totals. This table presents the New Orleans ranking in relationship to all other zones.