

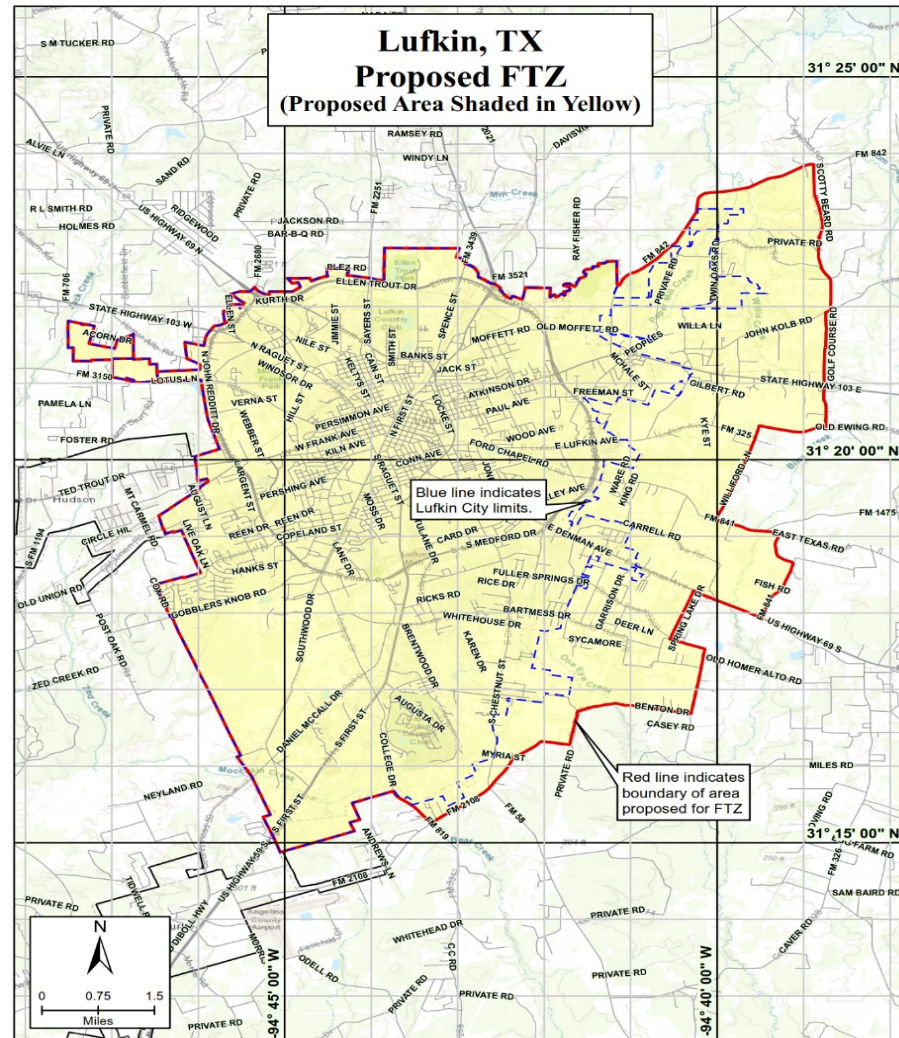
The FTZ Opportunity:

A Tool for Economic Development

LUFKIN  **TEXAS**
ECONOMIC DEVELOPMENT

Lufkin's Future FTZ Service Area

- City of Lufkin and a portion of its Extra Territorial Jurisdiction (“ETJ”)



► **Strategic Location**

- Geographic proximity to major cities like Houston, Beaumont, Shreveport and Dallas
- The retail and medical hub of a 12-county region in East Texas with an estimated labor force of more than 145,000
- Texas has 32 FTZs, but none presently serving the East Texas region where Lufkin is located

► **Established Multi-Modal Transportation Infrastructure**

- Highway, rail, and air – future inland port potential

► **Existing, Abundant Resources**

- Large undeveloped areas of land
 - 39.29 available acres in business park
 - 96.82 available acres of industrial and commercial property

What is an FTZ?

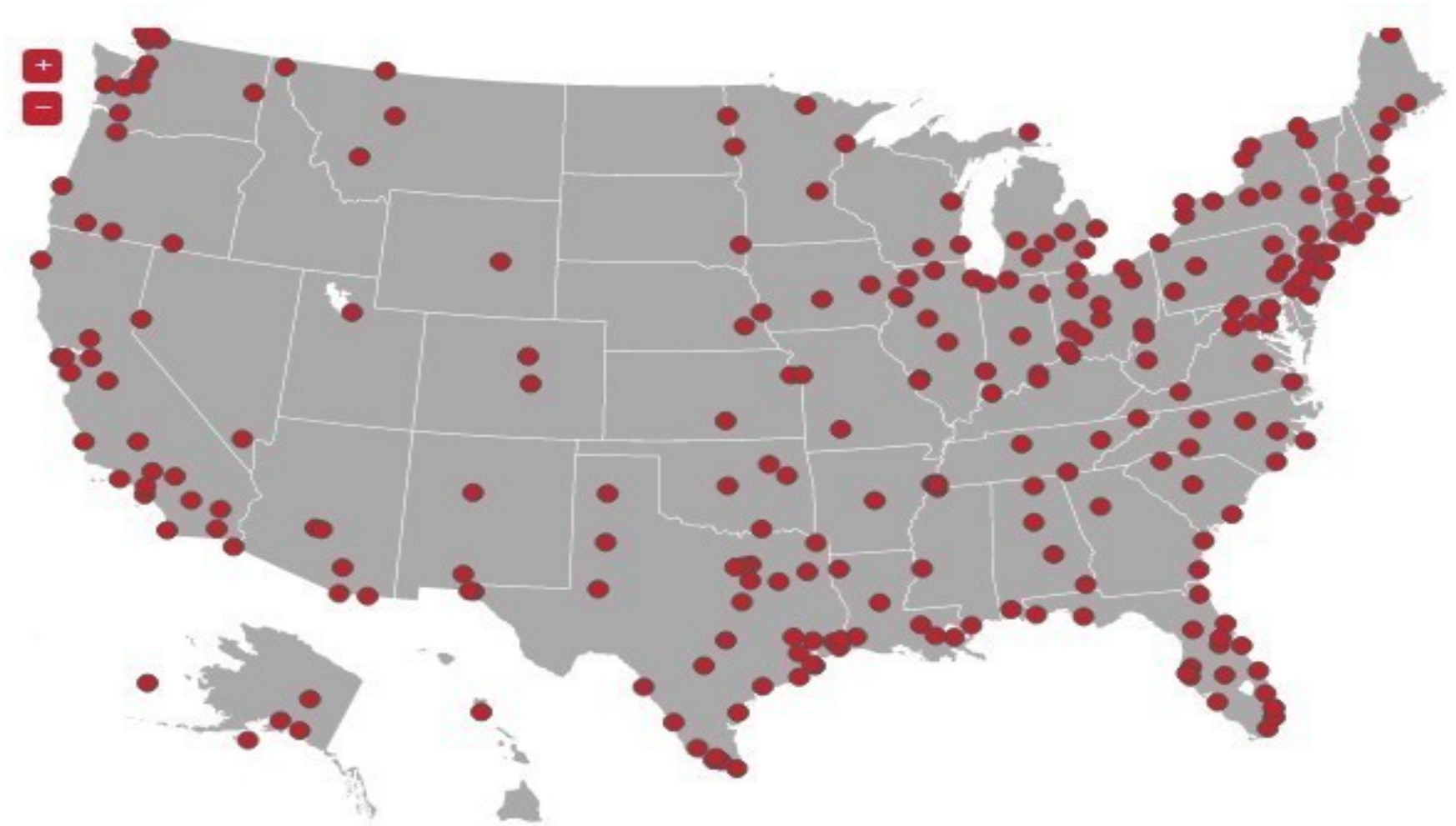
- ▶ A Foreign Trade Zone (FTZ) is an area of land physically located within the US but considered outside of the US for customs purposes.
- ▶ The grantee, often a public entity or quasi-public entity, holds the grant from the FTZ Board (Dept. of Commerce) for the geographic area
 - ▶ E.g., Port of Houston Authority, City of Lufkin
- ▶ The operator contracts with the grantee to run the zone on a day-to-day basis, is generally responsible for recordkeeping and dealing with Customs, and benefits from using zone procedures
 - ▶ E.g., ABC Company, XYZ Business Park, etc.

- ▶ General Purpose FTZs in the US
 - ▶ Almost 300 designated, 32 in Texas

- ▶ Subzones
 - ▶ Over 500 subzones have been approved

- ▶ Total Value
 - ▶ \$798 billion received into active FTZs
 - ▶ Includes domestic status merchandise
 - ▶ \$99 billion exported from active FTZs
 - ▶ Does not include indirect exports

Current US Grantees

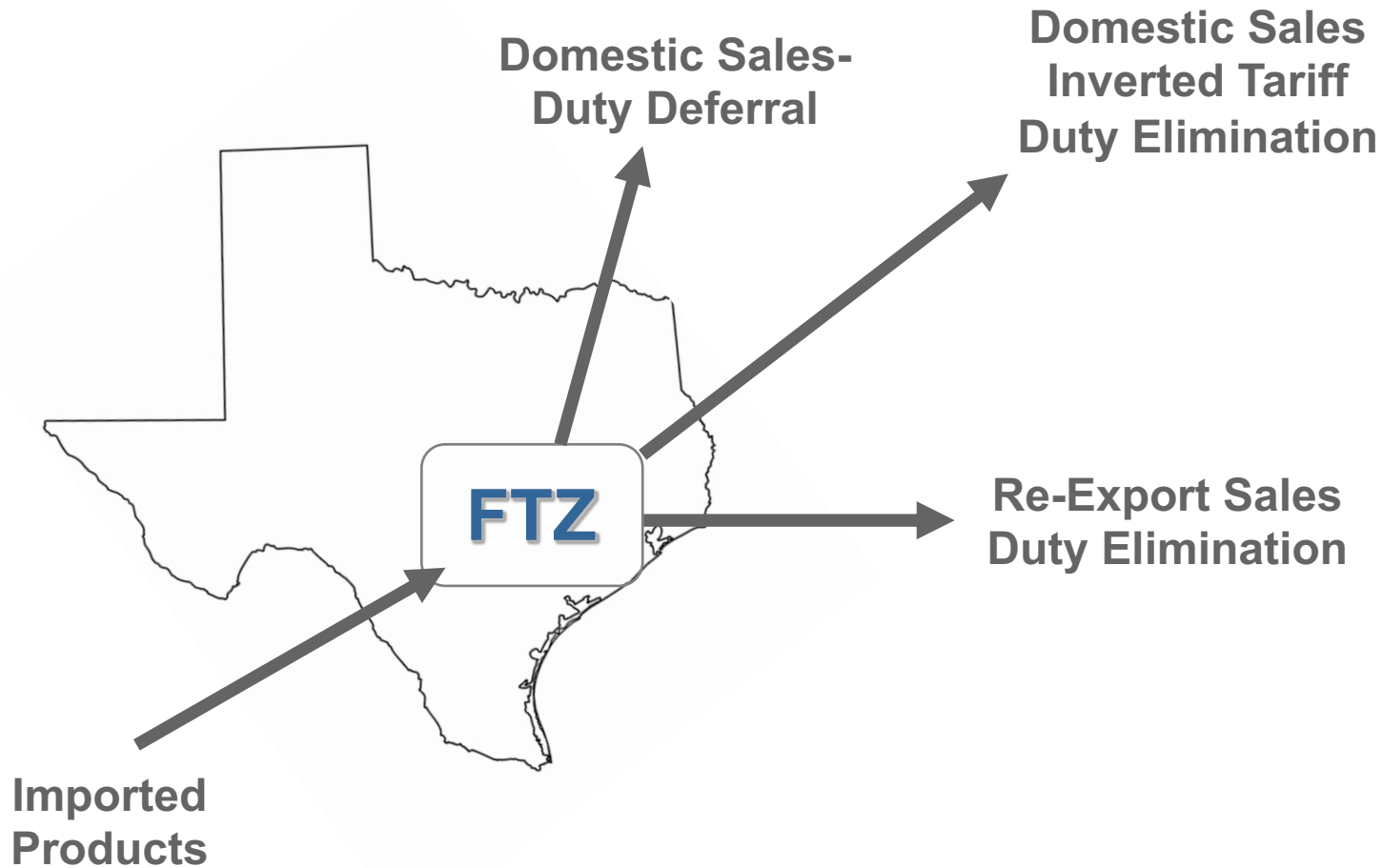


- ▶ Over 3,000 companies currently operate FTZs in the US
- ▶ Virtually every industry takes advantage of the FTZ program:
 - ▶ Automotive (vehicles and vehicle parts)
 - ▶ Oil/Petroleum and Petrochemicals
 - ▶ Machinery / Equipment
 - ▶ Beverages / Spirits
 - ▶ Food / Tobacco products
 - ▶ Consumer electronics
 - ▶ Textiles / footwear
 - ▶ Pharmaceuticals
 - ▶ Plastic / rubber
 - ▶ Aircraft / aerospace
 - ▶ Ships / boats
 - ▶ Other metals / minerals

How will the FTZ benefit Lufkin?

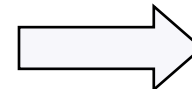
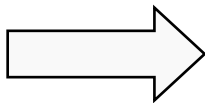
- ▶ Assist economic development / recovery efforts
- ▶ Help attract offshore activity and encourage retention of domestic activity
- ▶ Facilitate, encourage and expedite international trade
- ▶ Provide special customs procedures as a public service to help firms conduct international trade-related operations in competition with foreign plants
- ▶ Encourage US exports
- ▶ Generate employment opportunities in the area
- ▶ Generate revenue for the City of Lufkin

Visual Illustration of Duty Benefits



Avoiding Inverted Tariffs

- ▶ Inverted tariff occurs when the duty rate of the component is higher than the duty rate of the finished product
- ▶ FTZ user may elect duty rate of component or finished product
- ▶ No duty on U.S. value added to finished product



3.4% duty rate on cell
phone battery

Duty free cell phone

Additional Inverted Tariff Examples



**10.5 cents/bbl duty on
imported crude oil**

Duty free propane

Additional Inverted Tariff Examples



**3.1% duty on certain
imported tubes, pipes
and hoses**

Duty free forklifts

- ▶ File annual report with FTZ Board in OFIS (by March 31st)
- ▶ Assist new FTZ users with application preparation and filing with the FTZ Board; operator agreements
- ▶ Facilitate / participate in activation meetings with CBP
- ▶ Monitor any changes to grantee structure and underlying documents
 - ▶ Grantee charter, fee schedule, points of contact
 - ▶ Operator/User Agreements
 - ▶ Designated service area
- ▶ Respond to periodic inquiries from the FTZ Board
- ▶ Update/manage marketing materials for future economic development

Thank you

LUFKIN  **TEXAS**
ECONOMIC DEVELOPMENT