

Free Zones in the United States Ports

Present methods found unsatisfactory—Free zones as a substitute or an aid—How the method has worked elsewhere

When the United States Senate in an act dated September 8th, 1916, created the United States Tariff Commission it provided under section 702 that it should be "the duty of said commission to investigate the administration * * * * of the customs laws of this country * * * * to investigate the operation of the customs laws * * * * and to submit reports of its investigations." This duty brought the commission to the consideration of the bonded warehouse, the bonded manufacturing warehouse, drawback systems, etc., as a means of assisting the reexport of foreign trade, and as an alternative the free zone device.

In addition to a request from the chairman of the Ways and Means Committee for a report on the latter subject, a letter was received from the chairman of the Committee on Commerce of the United States Senate inclosing bill S.4153 entitled "An act to provide for the establishment, operation and maintenance of free zones in the ports of the United States and for other purposes," and asking for suggestions on the merits thereof. As a result of the above Committee conducted an investigation and submitted their report under date of November 20th last.

"FREE ZONES" DEFINED.

In the first place "free zone" is defined as "a place, limited in extent that differs from adjacent territory in being exempt from the customs laws as affecting goods destined for reexport; it means simply that, as regards customs duties, there is freedom, unless and until imported goods enter the domestic market. A free zone may be defined as an isolated, inclosed and policed area, in or adjacent to a port of entry, without resident population, furnished with the necessary facilities for lading and unlading, for supplying fuel and ships stores, for storing goods and for re-shipping them by land and water; an area within which goods may be landed, stored, mixed, blended, repacked, manufactured and reshipped without payment of duties and without the intervention of customs officials. It is subject equally with adjacent regions to all the laws relating to public health, vessel inspection, postal service, labor conditions, immigration, and indeed everything except the customs." Its purpose is to "encourage and expedite that part of a nation's foreign trade which its government wishes to free from the restrictions necessitated by customs duties. In other words it aims to foster the dealing in foreign goods that are imported, not for domestic consumption, but for reexport to foreign markets, and for conditioning, or combining with domestic products previous to export."

U. S. POLICY RE REEXPORT.

The report points out that the policy of the United States has been to encourage the reexport trade and that it has devised the three following institutions to this end:

- (1) The bonded warehouse, where goods intended for reexport may be entered and held free of duty.
- (2) The bonded manufacturing warehouse, where without payment of duty imported goods may be handled, altered, or manufactured solely for export, either with or without the admixture of domestic materials and parts.
- (3) The drawback, which is a repayment of 99 per cent of the duties paid on imported goods when they are exported.

FAILURE OF PRESENT MEANS.

"But," says the report, "these devices * * * * were inadequate wholly to relieve foreign commerce from the regulations and restrictions placed upon the importation of foreign goods for domestic consumption."

The bonded warehouse is intended to relieve the importer from the payment of duty on foreign products that in unchanged form are destined for re-export, but the usefulness of this device is largely discounted by the restrictions imposed as safeguards. "It can not aid in expediting the entry and clear-

ance of shipping or the handling of merchandise, for vessels must submit to the same formalities and requirements, whether they bring dutiable goods or goods to be placed in bond, and the goods themselves, whatever their destination, must be valued, sampled, weighed, and tested before removal from the dock. Much of the delay necessarily incident to the proper assessment of duties on imports for domestic consumption is equally imposed on goods destined to be reshipped."

The usefulness of the bonded manufacturing warehouse is even more limited. The restrictions placed upon goods here are as follows:

(a) Production can be carried on in such a warehouse for export only. With a few special exceptions, the output can not be disposed of in the domestic market, even on payment of duty. The most important exceptions are metal from ore smelted in bond, and cigars "made in whole from tobacco imported from one country." Minor exceptions are found in a provision for the entry of Mexican peas, or Garbanzo, which have been cleaned at such warehouses, and in the permission to sell for domestic consumption by-products and waste arising in the manufacture of goods for export, provided duty is first paid on such articles as if imported from abroad.

(b) Before beginning operations the proprietor must file with the Treasury Department and with the collector of customs a statement of all the articles he intends to manufacture, giving the names of the articles, the exact kind and quantity of ingredients, and the formula of manufacture, and he must adhere rigidly to the formulae set forth.

(c) He must also give bond in double the value of the goods he intends to produce.

(d) From beginning to end materials and operations are under strict customs supervision. A multitude of restrictions make the procedure intricate and expensive, and the penalties for violation are very heavy. Only in the most highly standardized industries is it possible to avoid frequent disputes and misunderstandings.

The third device at present in force is the drawback which permits an importer, instead of placing his goods in bond, to pay duty on their entry and then to draw back from the Treasury on their re-exportation 99 per cent of the amount paid. This provision, of course, can not any more than the bonded warehouse relieve commerce from the delays and other burdens incident to customs enforcement. The intent of the law is to aid production for foreign markets by relieving from customs dues imported materials that are manufactured or finished in this country and then shipped abroad. But the relief thus afforded, except in the sugar and tin-plate industries, has been relatively small.

"Very often," says the report, "the amount of the drawback does not pay for the labor and cost of collecting it." The difficulties which cause this condition of affairs may be seen in the following restrictions:

(a) To prove the identity of goods on which drawback is claimed requires a minute checking of imported elements entering into the manufacture, with the right and oftentimes with the need of examining into factory management sometimes threatening the disclosure of trade secrets of importance. So complicated is the procedure in making claim and proving identity that many producers do not find it worth while to apply for drawback at all. Large-scale industries, like sugar refineries and those compelling the use of large quantities of tin plate, go to the expense of employing experts permanently to look after their drawback interests.

(b) Every step must be taken subject to customs inspection, and oaths are required from importers, superintendents, and exporters.

(c) Even after reshipment, before drawback can be recovered, evidence must be given of the actual landing of the goods in a foreign country.

(d) At best, under the smoothest operation of the law, that part of the owner's capital advanced in payment of duties is tied up in the Treasury from the time the goods are imported until 30 days after they are reshipped.

THE FREE ZONE AN ALTERNATIVE.

These three devices having proved inadequate some more liberal arrangements in handling and transshipping foreign products becomes necessary. The free zone seems to possess the necessary characteristics required. The most important prerequisite is that such a port shall provide properly coordinated, modern, and efficient physical facilities for the lading and unlading of cargoes, the entry and clearance of vessels, and the handling of merchandise. In the main, wharves, docks, piers, terminal facilities, and other necessary features of American ports have developed with few exceptions by a process of planless accretion. They are exposed to frequent fluctuations between slackness and congestion, and recent experience has proved them altogether unprepared for emergency. The uncertainties of business discouraged the installation of costly modern equipment, and this in turn increases the direct labor charge and adds to the expenses of trade. The privileges of a free zone, through the promotion of commerce in regions naturally adapted for it, would attract capital to the creation of the facilities that should in every case be made an indispensable prerequisite. The detailed specification of these facilities should be made by the Secretary of Commerce, and might well vary somewhat from port to port with a view to proper adjustment both to topographic conditions and to the volume and character of the commerce to be handled. In the judgment of the Tariff Commission it is highly important that the necessary capital should be provided, not by the Federal Government, but by the State or municipality within which the free zone is established. The necessity of meeting the cost of construction and equipment from local resources would go far to limit the application for free zone privileges to those ports where there is a prospect that the acquisition of them would be justified by the results; while, on the other hand, the hope of securing a Government appropriation would attract an application from every handling place on the coast.

The effect of these new facilities it is claimed would not be to throw the present system out of business with all the capital invested in it. "The experience of foreign countries has been that the growth of business in a free zone has been accompanied by a material although smaller increase in the use also of the previously existing facilities."

HOW IT HAS WORKED ELSEWHERE.

In borrowing from the experience of other countries the free port of Hamburg is cited as the most successful example. This city has always been dependent on its commerce, and as long as it was an independent republic it arranged its customs regulations with a view to the least possible interference with trade compatible with fiscal requirements. The formation of the German Empire in 1871, with a tariff system common to all the component States and administered by the Imperial Government, threatened to destroy Hamburg's prosperity and to divert much of her commerce to the rival ports of England and Holland. The city, therefore, long refused to enter the Imperial customs union. In 1882 a compromise was effected, by the terms of which Hamburg was permitted to maintain an area, accessible by both land and water, where goods from all parts of the world might be landed, handled and re-embarked without any interference whatsoever from customs officials. This area was to be a free port, and only when goods passed through its gates into the interior of the country were the duties levied under the German tariff to be collected on them. In addition to the privilege thus accorded, Hamburg received a cash payment of 40,000,000 marks, and the money was used by the municipal authorities to improve the site selected on the river bank, and to construct facilities for the most efficient handling of a great commerce. They planned largely, anticipating rapid growth, but development so far outstripped their expectations that several times with-

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