

Economic Development Trade Strategies Under Trump

by Sean M. Maguire, AICP, AZS, Director of Economic Development, Capital District Regional Planning Commission (NY)

International trade is a specialty in economic development. As professionals, we must be generally familiar with topics like Foreign Direct Investment and the importance of exports, but may not be aware of tools like the Foreign-Trade Zone (FTZ). Using the FTZ program can help businesses in your area improve their financial performance and provide a foundation for business expansion and retention. Businesses located and activated in an FTZ can reduce or eliminate the cost of duties. Freeing up capital may result in new jobs and investments, having a positive impact on a local or regional economy. In this article I will discuss what duties are,

who's responsible for them, and common strategies that businesses can use to reduce the cost of trade.

What are duties and tariffs — and who's in charge of them?

For all intents and purposes, the words duty and tariff are used interchangeably. While duty is the tax paid and tariff is the schedule of duties imposed, most will use the terms synonymously to refer to a tax on imports.

The U.S. Constitution in Article I, Section 7 reserves the “power of the purse” to Congress. The House is invested with the ability to levy taxes and spend public funds at the Federal level — including tariffs and

duties. Article II, Section 2 authorizes the President to negotiate treaties, which include trade agreements, between nations. Alone, the President does not have the ability to set tariffs and duties. However, Congress has provided the President with some limited abilities to take certain actions in trade, including punitive ones.

Tariffs as a response to national security

In March 2018, President Trump exercised his authority under Section 232 of the Trade Expansion Act of 1962 to impose new tariffs on steel and aluminum imported into the United States. Citing recommendations from the U.S. Secretary of Commerce Wilbur Ross, President Trump imposed new, higher tariffs on aluminum and steel imported into the U.S. to protect national security. This has resulted in across-the-board tariffs of 25 percent on steel and 10 percent on aluminum, with few exceptions.

Finding an economic development solution: Foreign-Trade Zones

Foreign-Trade Zones are unique in their ability to offer users valuable incentives that relate to duties and other costs associated with trade. Since they were first established in 1934 to provide a level of relief

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to protectionist tariffs enacted in 1930, Foreign-Trade Zones have provided businesses in the United States an opportunity to lower the trade barrier and create new opportunity.

In the current political and economic environment, we are seeing similar tariff strategies being used to re-balance a \$500 billion trade deficit¹. Three of the duty-related benefits, which can be helpful in addressing recent tariff increases, include duty deferral, duty elimination, and duty reduction.

■ Duty Deferral

Duty deferral provides U.S.-based companies with the benefit of delaying the payment of duties on goods admitted to an FTZ until such time that those goods are removed from the FTZ and into U.S. Customs territory (i.e., sale, purchase, or use in the United States). The Foreign-Trade Zone offers some relief from these new tariffs that have been imposed, with some key considerations.

Duty deferral will not reduce or eliminate the tariffs on steel or aluminum for products that enter U.S. Customs territory. However, it will allow businesses to defer the payment of those duties until the goods are brought out of an FTZ and enter U.S. Customs territory. Duty deferral may improve the cash flow of the FTZ user, especially considering the overall costs of the duties owed and the length of time that the items are held in the FTZ. Section 232 requires that goods subject to the increased tariff be given “Privileged Foreign” status and that action will establish the tariff due on the component once it enters U.S. Customs territory. According to the Foreign-Trade Zones Board, material that is admitted to an FTZ in “Privileged Foreign” status “maintains its status based on

The Foreign-Trade Zone program can help businesses in your area improve their financial performance and provide a foundation for business expansion and retention.

its condition when it was admitted to the zone” and the duty owed.²

■ Duty Elimination

Duty elimination is an FTZ benefit that does not require duties to be paid on goods that are exported from an FTZ to a foreign country, or on goods that are destroyed in the FTZ. U.S. businesses using imported components in manufacturing, and exporting those finished goods, have a significant opportunity by using an FTZ.

While Section 232 has raised the cost of goods vis-a-vis a higher tariff rate on certain goods, it does not prevent U.S. businesses from the benefits of the FTZ. Manufacturers, for example, can continue to import goods into an FTZ that are subject to these higher tariff

rates in “Privileged Foreign” status, but if the final goods are not destined for the U.S., no duty is owed upon export. In addition, no duty is owed on imported product that becomes scrap or waste and has no commercial value in that condition.

■ Duty Reduction

When a manufacturer produces a product in an FTZ with foreign materials, it can use the FTZ to reduce the final duty owed on the finished product. This benefit allows the manufacturer to import materials that carry a higher duty individually, use it in production to create a new product with a lower duty rate, and import that material as if it was the new product and pay the duty at the rate of the finished product. All imported components can enter U.S. Customs territory at the duty rate that applies to the product’s final condition. The FTZ user does not owe duty on labor, overhead, or

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Economic Development Division**

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TRADE STRATEGIES UNDER TRUMP, CONT. FROM P. 2

profit due to zone production operations.

The effect of the Section 232 tariff generally eliminates the ability to reduce or “invert” a tariff based on the final condition of the manufactured product. The additional duty requires that materials subject to the tariff and admitted to a Foreign-Trade Zone must be admitted in “privileged foreign status.” As a result, the material is subject to the Section 232 tariff and ad valorem duty rate when it is admitted to the FTZ and is required to pay that duty if it enters U.S. Customs territory.

Conclusion

With these new tariffs in place, economic developers must be aware of ways to help U.S. businesses overcome these potential barriers to trade. While none of these trade tools provide 100% relief from these new measures, strategies like Foreign-Trade Zones provide some of the best options to overcome the challenge associated with increased costs of trade. Exporting manufacturers have the best opportunity by integrating a Foreign-Trade Zone into their supply chain and business strategy. Doing so will allow them to defer duty owed, and exporting their final product will provide for full duty exemption. In addition, manufacturers with a large amount of waste or scrap may also benefit from the



use of an FTZ since goods destroyed in an FTZ are not subject to duty.

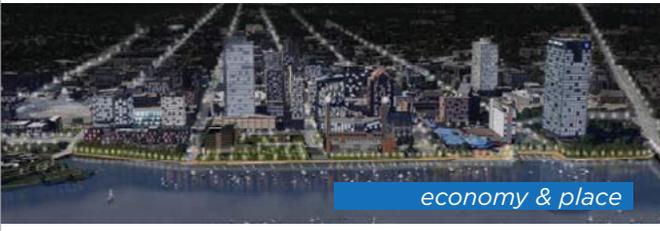
— Sean Maguire can be reached at sean@cdrpc.org

Notes:

¹ According to the Council on Foreign Relations, the United States imported \$2.7 trillion in goods and services while exporting \$2.2 trillion in 2016. www.cfr.org/backgrounder/us-trade-deficit-how-much-does-it-matter

² <https://enforcement.trade.gov/ftzpage/grantee/glossary.html>

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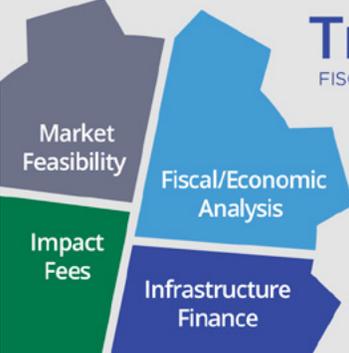


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Treasure Island, Florida: You Can Lead a Horse to Water... (An interview with the City Manager)

by Suzi Dieringer, Lecturer in Economics, University of Tampa

Recently I had the pleasure of interviewing Reid Silverboard, the former City Manager of the [City of Treasure Island](#). He agreed to share his experiences with a redevelopment proposal he initiated to solve the growth challenges of the city. I thought the proposal was creative and simple, an ideal solution. I was disappointed when it was defeated and curious what happened, from his perspective.

Treasure Island is a quaint little town of 7,000 people on the Gulf coast of Florida. Driving along the main street feels like stepping back in time. The hotels lining the beach were built in the 1950s during the post-war modern style.

Today these buildings look old, tired, and uninviting. The city's prime location on the beach and proximity to other popular Florida destinations continues to attract tourists, mainly budget-conscious Americans and Europeans, making tourism the city's largest industry.

Reid became City Manager in 2007, at the height of an economic boom when things were relatively easier. That quickly changed during the recession of 2008-09, which led to a decline in tourists, property values, and tax revenues.

He knew the city needed revitalization. Maturing infrastructure required rehabilitation or replacement. Commercial buildings begged for upscale amenities. Reid wanted to stop the city from becoming obsolete, driving away tourists, and contributing to the downward spiral.

Treasure Island's finances, like most municipality's, were precarious and subject to many forces beyond its control. Obsolete building codes thwarted efforts to upgrade private homes, which further dampened property values and tax revenues. The city had collected a toll on

vehicles coming into the area via a causeway, but a deal with a local U.S. Congressman for an earmark removed the toll, which meant another source of revenue lost.

Reid understood these fiscal woes placed the burden of government services squarely on the shoulders of its aging residential owners — particularly those with waterfront homes who pay the highest property tax — rather than proportionately shared with the commercial and tourist segments.

He lamented the idea of having to raise property taxes, so he looked for ways to encourage redevelopment.

He found the biggest challenge to city growth was its strict land use policies that discouraged development in the hotel and commercial industry and limited tax revenues available for infrastructure and other improvements.

For many years, owners of the city's hotels and motels, developers, and others knowledgeable about the evolving marketplace told city staff, commissioners, planning board members, and Chamber of Commerce members that the city's inflexible land development regulations — particularly height/density restrictions — eliminated the economic incentive for reinvesting to modernize and update. Nor was there an economic incentive to tear down existing buildings, assimilate land, and rebuild upscale

tourist accommodations. Further, changes in FEMA requirements regarding flood insurance constrained even minor upgrades to tourist facilities. In short, it was not profitable to renovate the city's waterfront hotel/motel areas to meet changing tourist needs and expectations.

This also had a negative impact on tourism-related businesses, such as restaurants and retail shops, which

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TREASURE ISLAND, FLORIDA, CONT. FROM P. 4

Driving along the main street in Treasure Island feels like stepping back in time. The hotels lining the beach were built in the 1950s during the post-war modern style.



benefit from less cost-conscious tourists rather than those staying in the city's timeworn, budget friendly hotels/motels. In turn, property owners were not able to charge sufficient rents needed to keep the buildings and ancillary improvements in "like new" condition.

Amending the land use policies and regulations looked like the most obvious and effective solution to the city's problems. Reid told me the city had gone through a period of turmoil in the early 2000s, before his time. Citizens were so worried about building heights and densities, they passed a referendum to prohibit any increases without approval by a majority of voters. He said the citizens weren't entirely opposed to changes, but they wanted more control in the process.

With this history in mind, he proceeded cautiously. Reid arranged a community visioning effort in 2009 which resulted in broad support for modest increases in height and density. His first proposal was simple, a planned development zoning district in a few small commercial areas on the beachfront, allowing greater height and density for transient lodging.

This humble proposal stirred a handful of citizens who interpreted the past referendum as a loud and clear message from the voters: no increase in height or density, for any reason! This small group was a savvy adversary. Lawsuits were filed attempting to intimidate staff and commissioners. Social media campaigns were used to spin information in favor of their cause. When Reid attempted to correct misinformation, he was blocked and branded the enemy.

Elected officials supported him knowing redevelopment was the solution, but their agreement was silent in front of the public. City commissioners have two-year

terms, forcing them to be short-sighted and in continual campaign mode, while Reid was planning long term.

He held many neighborhood meetings to inform and educate the public at large, hoping they would see the bigger picture, while being careful not to cross the legal threshold of advocating as a public servant. There were many attendees that seemed to understand the issues. He thought he was making headway but within weeks his message was forgotten. He had only a few champions, but they were ineffective and largely ignored.

Reid tried to appease every opponent, knowing accomplishing something was better than nothing. There were so many iterations that when asked, he couldn't remember what number draft ended up as the final proposal.

Despite all this, Reid managed to get a referendum on the November 2016 ballot. It was a presidential election so turnout was expected to be high. The final proposal would allow density increases from 50 to 75 units per acre for smaller properties and from 50 to 100 units per acre for larger tracts, while heights could increase from five floors to eight floors. The proposal was strictly limited to three small sections of the city. These modest increases were consistent with the County's comprehensive plan and economic development incentives.

In the end, the referendum failed with over 70 percent voting no. Reid retired the following spring. I asked him what he could have done differently. He struggled with an answer and finally said, "I don't know." He couldn't pinpoint anything he could have changed. Most residents were simply satisfied with the status quo. I was dumbfounded. How could that be? I asked him what will ever get Treasure Island to change its mindset. He hesitated a moment, looked me square in the eyes, smiled, and simply said, "a hurricane."

— Suzi Dieringer can be reached at sdieringer@ut.edu.

Financial Report

**APA Economic Development Division
2018 National Planning Conference
New Orleans, Louisiana
April 23, 2018**

In Fiscal Year (FY) 2017 total expenditures exceeded revenues by approximately \$5,500 due to higher than projected expenditures largely a result from carry over costs of the 2016 Annual Division Meeting that was not captured in FY2016, but rather hit the budget this last fiscal year. In other expenditures, the division spent nearly \$2,400 on producing *News & Views* and sending communications to our members through professional email-based communications and approximately \$3,800 for last years' annual conference, and \$3,000 on annual awards. The chart below provides an overview of how EDD spent its funds in FY 2017. We ended the fiscal year with a "cash on hand" balance of approximately \$12,600.

In FY 2018, EDD will continue to look at ways to use its resources to promote economic development in planning while striving to maintain a budget balance roughly equivalent to the last two years of

membership dues. We continue to try to improve the EDD's *News & Views* format to provide more regular content to division members. We are also rebooting our "webinar" series that has not been active for some time now.

We are projecting member revenues will stay at previous years' levels and continue to represent

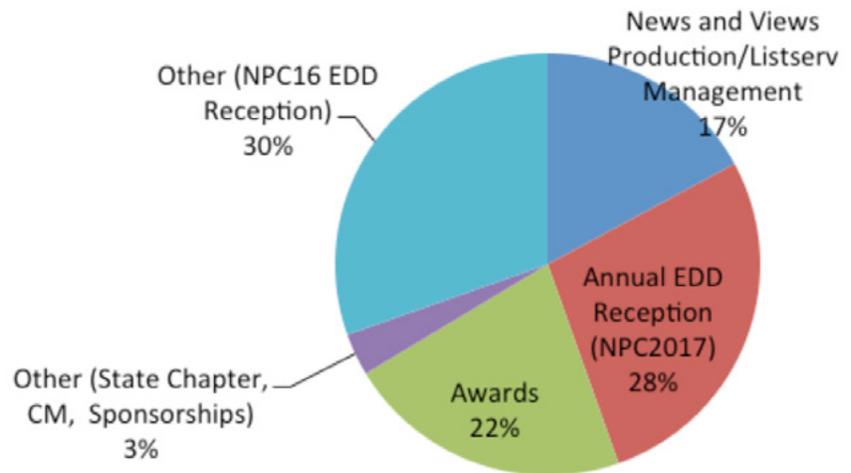
the main source of the division's revenues (approximately 90%) for FY2018. We continue to have success through the hard work of our many volunteers, which have made a significant difference in our ongoing activities.

Respectfully submitted,



— Lance Harris, Chair
APA Economic Development Division

EDD Expenditures (FY 2017)



Join the conversation!



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APA-EDD Annual Business Meeting / April 23, 2018 / New Orleans, Louisiana

- 1) Introductions & Welcome
- 2) Treasurer's Report
- 3) The Holzheimer Student Scholarship Award was presented to Katie Cettie Steinberg for her submission, "Developing New Economy Industrial Corridors in LA County." The paper presents an overview of elements of a Bioscience cluster and then provides research from 15 Los Angeles firms to identify key factors that help explain the firm's locational decision.
- 4) Recognitions: Jason Ray (Social Media) is stepping down after many years of service; Marissa Garnet, an economic development research specialist from Town of Queen Creek Arizona, will be trying to live up to the high standard set by Jason. Sean Maguire, Director of Economic Development for the Capital District Regional Planning Commission in Albany, New York, will be restarting our webinar series. Brian Wilkerson and Jeff Mills will continue collaboration on *News & Views*. We thank the members of the Holzheimer Award Committee — Greg Schrock, Margaret Cowell, Dr. Haifeng Qian, Shana Johnson, Brittany Bagent, and of course Corey Proctor. We also thank Adriana Trujillo-Villa for her ongoing work as Treasurer-Secretary; and, of course, Jennie Geisner at APA.
- 5) Other Business:
 - a. Elections: Rebecca Leonard, who is the chair-elect, will be taking the reins at the end of the year. We will have two open positions this election cycle:

Chair-Elect: Assist the Chair as directed, including, but not limited to manage committee activities, assist with special projects, assist with the creation of the Annual Performance Plan and Work Plan and planning efforts associated with the annual business meeting or the APA Annual Conference; and in the absence or resignation of the Chair, Chair-Elect shall assume the duties of the Chair, and other duties as assigned by the chair. The Chair-Elect shall assume the duties of Chair until the term of the vacated Chair is complete, whereupon the Chair-Elect will complete his or her elected leadership term.

Treasurer-Secretary: Prepare minutes of the Division's annual business meeting and all Executive Committee meetings; submit proposed Bylaw amendments to the membership; fulfill all recordkeeping and reporting requirements as stipulated by APA National; be responsible for ongoing communication to members; manage Division funds in accordance with the Division budget; assist the Chair in preparing the Budget to be approved by the Executive Committee and submitted with the Annual Performance Plan and Work Plan; and prepare an annual financial report to be presented to the Executive Committee as well as the Division's members at the annual meeting.
 - b. According to the bylaws our Nominating Committee must consist of at least three Division members to issue a call for nominations from the Division membership and conduct an election. Nominating committee members may not include members running for office. The Nominating Committee will present an election schedule, which includes a call for nominations, submission of candidate material, and balloting window for the Executive Committee's approval. Note that APA is now handling the call for nominations/schedule via its consolidated elections process for most of the divisions.
 - c. Webinars: Sean has requested help with some topic ideas. He is interested in knowing if the Division has done outreach to members to identify topics in demand or volunteers to deliver presentations. He would like to make use of any existing ideas before digging for new ones.
 - d. Membership Survey — call for help: maybe there are other ways to solicit input and ideas.
 - e. Students/New Members
 - i. We currently have 1,990 members, of which 66 percent are student members, 32 percent are traditional paid members, and 1 percent are "other members."
 - ii. Our division represents about 5 percent of all APA members.
 - iii. What can we do to provide value? Attract and sustain membership?
 - f. Open discussion