

Business

City wants piece of \$5 billion trade zone business

By Chriss Swaney
Times Business Writer

With the glory days of the Alaska oil boom a memory, a group of Alaska businessmen is forging ahead with a plan to diversify the state's struggling economy.

The plan they have in mind is to establish a foreign trade zone — possibly at Anchorage International Airport and the city's port. The zone, which would be an area outside the reaches of United States customs, would be a place where local and foreign goods are assembled, processed and shipped to foreign markets, possibly even back to the U.S., where the goods are then hit with duties. Such a zone could one day include an international banking center, similar to the one that is being considered in Vancouver, British Columbia.

While it's unlikely that a foreign trade zone in Anchorage would lure the electronics industry of Korea that survives on cheap labor, or threaten the international banking sector of Hong Kong, some argue that the plan could create new industries in Alaska.

"We could display, inspect and reassemble just about anything," says Anchorage businessman Larry Dineen. "We know it won't be a panacea but it's a start."

The trade zone will be debated Monday at a public hearing of the Anchorage Port Commission.

Dineen, a veteran trade zone advocate, says the zone could be an important tool in Alaska's efforts to become an international trade and transshipment center.

In most Anchorage businessmen's visions, a foreign trade zone will help showcase the city and perhaps even mold it into a cosmopolitan economic power.

"We'll have plenty of use for a foreign trade zone once it's established," said Richard Hotes of Alaska Industrial Resources. His Anchorage company, an exporter of portable tent-style buildings, is a worldwide trader with gross revenues exceeding \$40 million a year.

Anchorage has some successful foreign trade zones to follow. At the Port of Tacoma, American workers install cruise controls, air conditioning and radios on Japanese-built Mazda vehicles.

"The current battle over the Japanese yen has slowed things down a little, but we feel our trade zone will be beneficial in the long run," said Mike Gagner, manager of the auto warehouse terminal.

In the past five years, the value of goods processed through the 200 U.S. zones mushroomed from \$213 million to more than \$5.5 billion, according to the National Association of Trade Zones in Washington, D.C.

The zones may sound good, but there is a hitch. Some Alaskans are having difficulty agreeing on how to create that wonderful future. Several business officials question what parts of the city will be included in the trade zone, said Ann A. Addington, chairman of the Anchorage Foreign Trade Zone Group.

The zone proposal that will be unveiled at Monday's public hearing includes three sites at the Port of Anchorage and four sites at Anchorage International Airport.

But members of the trade zone group want private properties to be included in the application.

"I don't think we can afford to be restrictive," said group vice president Jerry Wickstrom.

But Anchorage port director Tyler Jones, who has made several treks to Washington, D.C., says inclusion of private property in the zone proposal could slow the entire process.

"I've been told by officials that you must have a specified user for any private land in a zone," he says.

His argument was strongly supported by Vernon Chase, marketing director for the city and Port of Valdez — the site of Alaska's first foreign trade zone.

"If you clutter your application up, it will just take a lot longer to wind through the bureaucratic maze," Chase said.

Once the 80-page application is ferried to Washington, it still faces a minimum of two years of close scrutiny by the Foreign Trade Zone Board. The board consists of three members: the U.S. Secretary of Commerce, the Secretary of the Treasury and the Secretary of the Army.

Of all the trade zones in the country, the shortest recorded approval took one year and a day, according to the National



Anchorage Port Director Tyler Jones surveys a portion of the proposed Foreign Trade Zone.

Times photo by Alice Puster

Foreign trade zones in action

Here are some examples of the variety of operations taking place today in foreign trade zones in the United States and Europe:

- U.S. skate company using shoes from Taiwan and Korea with domestic skate parts and labor.
- German manufacturers assembling autos and trucks combining U.S. and foreign components while employing 5,000 U.S. workers.
- Canadian company assembling electronic products using cabinets from Italy, electronics from Taiwan, Korea and Japan and labor from the United States for export to Columbia and Peru.
- European-based medical supply company manufacturing kidney dialysis machines and sterile tubing using materials from West Germany, U.S. labor and exporting 90 percent of the goods to Scandinavia.
- Dutch-based textile firm assembling imported textile yarn stands with U.S. labor.

Companies find zones attractive

A foreign trade zone is attractive to a company because:

- Imported merchandise can be stored indefinitely without being subject to customs duty until it officially enters the country.
- The goods can be inspected, repaired, repackaged or relabeled before entering U.S. markets. In order to maintain a quality reputation, many firms find it necessary to inspect merchandise as close to the ultimate consumer as possible. If an article needs to be repaired, action can be taken in a foreign trade zone prior to payment of customs duty. In many instances repackaging from heavy ocean crates to smaller boxes specially designed for U.S. markets can create substantial transportation savings.
- U.S. quota restrictions are not usually applied to goods entering foreign trade zones.

Association of Trade Zones.

While this issue may be difficult to resolve, the idea of establishing trade zones in Anchorage and possibly other communities in the state is drawing wide sup-

port.

"There used to be a communication gap between the Bush and urban Alaska, but now we're actually talking, and the elixir has been the trade zone movement,"

said Mayor Paul Fuhs of Unalak.

Mayor Dorothy Jones of the Matanuska-Susitna Borough is also sanguine about foreign trade zones.

"Before we all began working on the trade zone project, the prevailing sentiment between most Alaska communities was greed," she added.

While the port and airport are the only areas presently incorporated into the proposed FTZ, there may be opportunities for other private properties to be included, either in the initial application or subsequently. Barry Gray, a member of Anchorage Foreign Trade Zone Group, is trying to foster private participation in the application process. Gray is looking for "a win-win situation for all parties."

With so much vacant property there may well be ideal candidates for inclusion in the application as opposed to strictly new construction. However, Lenahan emphasizes that no "laundry list" of properties can be submitted. What is most important for Anchorage at this point is to get the basic license. Later on it can be amended to include private properties.

Lenahan also recommends those who wish to include a property contact Tyler Jones with a specific plan of action. It would not be enough to just include a vacant warehouse. But the warehouse with a plan to import duty-free parts from Japan, combine them with duty-free parts from Korea, and package them in American boxes for export could merit consideration.

Also, after the license has been awarded it would be possible to have a request-for-proposal type procedure wherein private properties compete for an FTZ amendment. Numerous procedural options exist. Gray wants to stimulate creativity and keep doors open for private participation ideas. "For starters maybe we can narrow down to one or two that have the best chance" suggests Gray.

John DaPonte came at an excellent time to help preserve flexibility in the application. DaPonte said he usually doesn't get involved this early in formation of an FTZ. He found questions and concerns he encountered to be eye-opening. Perhaps good private input combined with public flexibility and responsiveness will generate a "win-win" approach to this highly desirable concept.



Inside real estate

Duane Davis Heyman

Proposed FTZ could include private land

The Municipality of Anchorage is applying for a license from the federal government to create a Foreign Trade Zone (FTZ) in Anchorage. Since the application has not yet been finalized, there is still time for private real estate owners to contribute to the process by making their desires known.

Conceivably, a few private parcels could be included in the application. More likely, private properties will be incorporated after the license is issued. In any event, real estate owners may want to bring their properties to the attention of Tyler Jones, director of the Port of Anchorage, who is drafting the application.

The current application includes the port and airport areas only. According to John J. DaPonte Jr., Executive Secretary of the Foreign Trade Zones Board, the public sector usually initiates FTZ's. Once established, there is a spillover into the private sector as bankers, accountants and other service type businesses serve FTZ activities. "A zone improves the environment for business retention and growth" says DaPonte.

In addition, DaPonte notes that most actual activity occurs in sub zones of a larger FTZ. Because of the nature of FTZ's, the biggest opportunities lie in business that export or re-export from the U.S. An FTZ is technically designated as not being U.S. soil for customs purposes.

Foreign items can be brought in to a FTZ without payment of duty. Once inside, they can be handled or manufactured in combination with other duty free materials, or in conjunction with U.S. materials. If the resulting item is exported, no duty is paid. If imported to the U.S., appropriate duty for the combined or repackaged item is paid upon leaving the FTZ.

Opinions

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Foreign Trade Zone grant offers opportunity to attract firms to city

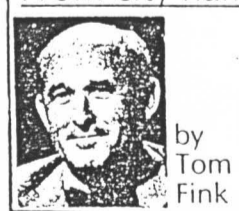
Over the past two weeks I have set in motion a program to activate the Foreign Trade Zone grant which the municipality received in July.

"The activation of the FTZ will set the stage for what we see as a good potential for future business use of this service. It is one of the steps in economic diversification for Anchorage.

At present, the Foreign Trade Zone grant is best characterized as an opportunity. It is one of a number of tools that can be used by local importers, some exporters and the economic ambassadors of the city in the presentations that they make to firms all over the world in an attempt to attract them to Anchorage.

In cooperation with our FTZ partners, we have already begun an aggressive program to reach those firms. The Anchorage In-

From city hall



by Tom Fink

ternational Airport presently dedicates well over \$1 million a year toward its international marketing effort. Their program is targeted at the international air freight business and the concept that Anchorage is the international air freight crossroads of the world. Since freight is, by definition, goods, why not use Anchorage's location and labor to

add value to the goods as they move? The International Airport's efforts along these lines deserve a great deal of credit and a commitment from the state that these efforts will continue or even be increased from their present levels.

Likewise, the Port of Anchorage has been conducting a low-key, one-on-one marketing effort aimed at promoting additional use of its own facilities. The Port has highlighted the advantages that Anchorage has to offer firms whose goods ordinarily move by water or some combination of air and water. Although the port's Foreign Trade Zone participation is limited, due to the lack of space available there for new tenants, the port's efforts are designed to benefit the entire community by helping to direct new opportunities to the

private sector.

The Foreign Trade Zone grant can help in this program since Anchorage was far-sighted enough to include a half-dozen private parcels in its FTZ-eligible property. Those sites, presently warehouses or planned industrial park-type complexes, provide a great deal of support for the public sector promotional efforts. We will be working closely with the private parcel participants in the FTZ program to make sure that the city is responsive to firms inquiring about FTZ operations. The city should also be supportive of a well-planned and coordinated effort that capitalizes on the strong points that each partner in the FTZ program brings to the table.

The most immediate opportunity we see for this approach is in the small business community al-

ready present in Anchorage that deals in imports and exports. Some examples include local firms that are distributors for foreign-made products or who import foreign-made goods on a direct basis. By warehousing their inventory in FTZ status locally, they can realize some significant economic advantages.

While it may be said that this advantage encourages importation of foreign-made goods, in reality it helps existing local firms stay in business and continue to provide local employment.

Neither the Port or the Anchorage International Airport is equipped to offer a service such as warehousing to local importers. The FTZ program will rely on the private sector to provide this service. In future months,

we hope to have in place a comprehensive agreement with all of the participants in the program on how this unusual three-way system will work so that all parties benefit on a direct basis and the community benefits on a larger scale.

The FTZ program is not a total panacea for our collective economic woes. It is a service that the city is committed to provide to the local and international business community. As with most things in life, it doesn't come free, either. What we will do, however, is commit ourselves to making sure that the tool for positive economic effect is well-oiled and ready to use, instead of left forgotten and rusty in the back of the barn.

Tom Fink is the mayor of Anchorage.