

FTZ#176

2019 ANNUAL REPORT

APRIL 10, 2020

Prepared for the Greater Rockford Airport Authority



By Zethmayr LLC



ZETHMAYR

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About the Greater Rockford Airport Authority

The Greater Rockford Airport Authority is one of the oldest airport authorities in the United States. Formed in 1946, the Authority has four jurisdictions that appoint a seven-member Board of Commissioners. 2006 marked the 60th anniversary of the Greater Rockford Airport Authority and 2007 marked the 20th anniversary of our Main Terminal. The Board of Commissioners is responsible for setting policies and ordinances governing the operations at RFD, which are carried out or enforced by a professional staff.

www.flyrfd.com

About Zethmayr LLC

Zethmayr is a location strategy firm that helps companies establish cost-optimized operations in the United States through providing site selection and incentive negotiation services. With 10 years of experience in state and regional economic development, the firm also helps regions apply for and administer programs to enhance cost-competitiveness. Zethmayr bridges market intelligence and location strategy, ensuring businesses establish operations in a location that optimizes their long-term operating costs, fits with their corporate strategy and values, and provides a mutually beneficial economic partnership with a community.

Zethmayr.com

About Foreign Trade Zone #176

The Greater Rockford Airport Authority (GRAA) received its Grant of Authority from the National Foreign Trade Zones Board to establish, operate and maintain a foreign-trade zone, establishing FTZ #176. In 2012, the GRAA received approval to re-organize its foreign-trade zone under the Alternative Site Framework (ASF), allowing companies in its 11-county service area to follow an expedited process to be approved as FTZ subzones and usage-driven sites. www.ftzrockford.com.

For more information

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The Foreign-Trade Zone has been a “lifeline” to Northern Illinois companies

EXECUTIVE SUMMARY

As the global trade environment becomes increasingly unpredictable due to tariff fluctuations and the COVID-19 pandemic, the FTZ becomes an increasingly important tool to stabilize business operations for companies that rely on international trade.

Companies in the FTZ# 176 Service Area use the foreign-trade zone to benefit from inverted tariffs, improve cash flow, and realize other common foreign-trade zone benefits. In addition, there are several operators in FTZ #176 that specialize in FDA regulated products. The foreign-trade zone allows these companies to conduct research and development operations and provide specialty packaging for imported products that are pre-FDA approval. New interest in the foreign-trade zone is coming from companies that are seeking cash-flow benefits because increased tariffs are having an immense impact on cash.

2019 metrics and input from operators indicate:

- While total employment numbers within FTZ #176 operators declined 15% in 2019 compared to 2018, the longer-term five-year trend (2014 – 2019) reflects a growth of 13% in total employment despite 2014 having one more activated FTZ operator than 2019;
- Companies are shipping more product in 2019 compared to 2018, however total exports were down significantly during the one-year period; over the five-year period, exports increased 15%; and
- Companies are restructuring around a significantly changed landscape that has been altered by increased tariffs on imports, retaliatory tariffs on exports and supply-chain disruptions caused by a pandemic.

Foreign-trade zone operators rely more on international trade than non-operators, therefore they have been disproportionately affected by recent tariff increases, as reflected in the 2019 employment and export metrics. Restructuring as a result of tariffs and pandemic disruption could include replacing foreign suppliers with domestic suppliers, importing from lower-tariff countries (e.g. Mexico) instead of higher-tariff countries of origin (e.g. China), or in some cases moving some assembly or production from high-tariff countries of production (e.g. U.S.) to lower-tariff countries of production (e.g. Mexico). For example, a global company with production operations in multiple countries may choose to increase production in non-U.S. countries.

We believe that the higher tariff rates will remain in place for an extended period and companies will increase domestic sourcing. The foreign-trade zone will continue to be an important tool for global companies that are unable to find domestic equivalents for their imported products, and companies with significant overseas production operations.

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ZONE ACTIVITY

As of December 31, 2019, FTZ #176 includes six activated general-purpose zone (GPZ) sites and subzones:

1. Site #1a Packaging Coordinators, Inc., Rockford, Winnebago County
2. Site #15, Chicago Importing Company, Huntley, McHenry County
3. Site #16, Energizer Holdings, Inc, Dixon, Lee County
4. Subzone #176 E, UniCarriers Americas Corporation, Marengo, McHenry County
5. Subzone #176 F, Cellusuede Products, Inc., Rockford, Winnebago County
6. Subzone #176 G, Brake Parts, Inc., McHenry, McHenry County

In addition to the six activated sites and subzones, FTZ#176 includes five approved (not activated) usage-driven sites and subzones. The below indicators summarize aggregate trends in shipments and employment that occurred within the six zone operators active in 2019:

Indicator	1-year comparison (2018 – 2019)	5-year comparison (2014 – 2019)
Total employment	-15%	+13%
Total value of shipments	+4%	+85%
Value of exports	-23%	+15%
Value of domestic shipments	+9%	+102%

During the time period of 2014-2019, the total number of activated foreign-trade zone sites decreased from seven to six, while the overall economic impact has increased. Overall, the economic impact of activated companies within the FTZ service area increased over the five-year period despite having one less activated site than 2014.

Over the past one-year, domestic shipments are relatively stable while exports and employment are down significantly in 2019. FTZ operators tend to have a higher reliance on international trade than non-FTZ operators and have therefore been disproportionately impacted by tariff increases. In addition to tariff increases negatively impacting competitiveness domestically, some companies also report decreased sales abroad due to retaliatory tariffs. Many companies that rely on international trade are looking for opportunities to restructure supply chains. In some cases, this may mean future consolidation of operations, moving certain production operations to other USMCA countries that are not impacted by recent tariff increases, and other solutions that may have a negative impact on local production. FTZ operators have more tools to control their supply-chain than non-FTZ competitors. For example, FTZ #176 operators can apply for additional production authorizations to realize new opportunities for inverted tariff benefit.

Despite reported hardships, zone operators have expressed strong appreciation for the foreign-trade zone in helping to mitigate the impact of tariff fluctuations. The FTZ provides flexibility, and the ability to have greater control over the tariff impacts. One operator described the FTZ program as “a lifeline” during tariff fluctuations.

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ZONE MARKETING

To increase awareness of the foreign-trade zone, we continue to update our website

(<https://ftzrockford.com/>) with new resources, success stories and information to enable companies in our 11-county service area to implement an FTZ strategy.

In September 2019 we hosted the First FTZ #176 Annual Meeting, with a public presentation introducing the foreign-trade zone and a private meeting exclusive to current FTZ operators and their representatives. The event was hosted at the Greater Rockford Airport Authority with over 40 attendees representing current operators, companies considering implementing an FTZ strategy, and economic development leaders from across our service area.

Current operators expressed a desire for increased collaboration and sharing of best practices. To accomplish this, we have shared contact information among operators and created a private group on LinkedIn for current operators in FTZ #176. We will also host a facility tour of one of our activated FTZ sites and have our second FTZ Annual Meeting in fall 2020 to continue the conversation.

ZONE EXPORT METRICS

International trade in the Rockford MSA has grown significantly compared to the national and Illinois averages. According to data available from the International Trade Administration, total exports from the Rockford MSA grew 94% between 2008 – 2018 (most recent available), while nationally exports grew 29% and Illinois exports grew 22%. In the same time period, the Rockford MSA advanced from being the MSA with the 108th highest value of exports to becoming the MSA with the 85th highest value of exports.

This is likely attributed to the Rockford area's strong participation in industrial supply-chains that support automotive, aerospace, heavy-equipment and other advanced manufacturing industries. As exports continue to be important for the Rockford area economy, the foreign-trade zone will continue to enable companies to maintain a competitive edge against foreign and domestic competition.

CONCLUSION

As global supply chains continue to be impacted by tariffs, the foreign-trade zone will continue to be an important "lifeline" to companies in Northern Illinois. An FTZ allows a company to plan cash flow, reduce and sometimes eliminate import tariffs.

Foreign-Trade Zone #176 is a resource to Northern Illinois and will continue to serve regional businesses to optimize their total cost of operations and increase competitiveness.