



10/27/89

The Honorable Sam M. Gibbons, Chairman
Subcommittee on Trade
Committee on Ways and Means, Room 1102
Longworth House Office Building
Washington, DC 20515

Dear Mr. Chairman,

This letter is submitted in response to your request for written comments on the operation of the US foreign trade zone (FTZ) program. We respectfully request that this letter be included in the printed record of the hearing. Smith Corona Corporation strongly supports the continuation of the Foreign-Trade Zone Program as it exists today. It considers its designation as Foreign Trade Subzone 90A a significant factor in the extraordinary turnaround it has achieved since July, 1985. Since that time Smith Corona has increased production sixfold, more than doubled employment and has initiated a highly successful export program. Smith Corona believes that the continuation of the Foreign-Trade Zone Program is instrumental to its efforts to maintain its position as the leading manufacturer of portable electronic typewriters and personal word processors in the global market.

Smith Corona Corporation is the world's largest manufacturer of portable electronic typewriters and one of the largest manufacturers of personal word processors. The company also markets electronic reference products and office supplies.

History

During the early 1980's, due to an influx of low priced foreign typewriters, Smith Corona, a leader in the field for decades, saw a substantial decline in marketshare. As a result of this loss of sales, Smith Corona incurred two successive years of multi-million dollar losses. Its workforce was reduced from 4000 employees to 850. The manufacturing and distribution facilities were consolidated from seven buildings into one. Typewriter production was cut in half to only 1500 units a day. The effect of this massive workforce reduction was devastating to a local economy already weakened by the departure of several sizable industries in the late 1970s. By March 1984, local unemployment stood at 12.5%.

Smith Corona, at that time a division of SCM Corporation, had to consider all its options. One option was to move its entire remaining typewriter production offshore. A second option was to cease typewriter production entirely. Instead, Smith Corona made a commitment to remain in Cortland, New York.

First in Smith Corona's recovery plan was the redesign and manufacture of a high quality, cost competitive typewriter. In order to obtain the high quality components required to achieve this goal, some of the components had to be foreign sourced since they were not available in the domestic market. Once the necessity to foreign source was identified, Smith Corona discovered that, while it, an American company trying to retain U.S. jobs had to pay 4 - 10 % duty on imported components, its foreign competitors imported their fully assembled typewriters, containing many of the same components (but no US labor content) duty free. To rectify this situation and to enable Smith Corona to purchase key components on a cost competitive basis, Smith Corona applied for and was granted (in a record four months) the privilege of operating as a Foreign Trade Subzone. If Smith Corona's application had not been handled so expeditiously, it is conceivable that the grant might have been issued too late for it to help Smith Corona maintain its operations in the United States. On July 1, 1985, Smith Corona Corporation was activated as Foreign-Trade Subzone 90A.

Foreign-Trade Zone Impact

The introduction of an innovative product line, with consistently high quality, produced at a cost competitive price led to the achievement of one of the most remarkable turnarounds in the history of American business. Since July 1, 1985, employment levels have climbed steadily to over 2000, the local payroll has doubled, and production of typewriters and word processors has increased sixfold to over 2.1 million units annually. Today, Smith Corona manufactures all of its most advanced typewriters and word processors in the Foreign Trade Zone. Fabrication and assembly of all supplies and many accessory items, as well as factory servicing, is carried out at this location. The Cortland facilities engage in a wide range of manufacturing processes, including plastic injection molding, electronic printed circuit

board assembly and testing, sheet metal forming, automatic screw machining, chrome and nickel plating, riveting and brazing, solenoid winding and terminating and assembly for electronic products. Smith Corona has enlarged the activated zone area to accommodate additional assembly lines in a section formerly utilized as the warehouse. The warehouse has now been moved to a second building which was closed in the original consolidation. A second warehouse has been established on the West Coast. A third building was reopened for the National Service Stores organization. Smith Corona has recently moved into a fourth building to allow for additional parts warehousing, production and office space.

Domestic Impact

This return to profitability by one of the largest employers in Cortland County has resulted in a drop in unemployment to 3.7%. It has had a dramatic positive ripple effect not only on the local economy but throughout the US. Since only a small percentage of the typewriters' components are foreign sourced, the phenomenal increase in annual sales and production has resulted in significantly higher orders for our domestic suppliers. The benefits of the Foreign Trade Zone Program were clearly evident in a series of letters received from several of our domestic suppliers in November, 1987.

BORG WARNER CHEMICALS:

"Smith Corona's Foreign Trade Zone Subzone status has contributed to their successful turn-around which, in turn, has allowed Borg-Warner Chemicals to increase our business in the US. This increase helps support our reinvestment in plants and equipment, and provides additional jobs for Americans."

CABLE MANUFACTURING & ASSEMBLY CO. INC.:

"Because Smith Corona has chosen us, ... we have managed to keep equipment running that would otherwise have remained idle, add employees to our assembly area and help to offset partially, some of our lost business."

GIBRALTAR STEEL CORPORATION:

"Smith Corona is a very important part of our total sales effort, and your valued business provides dozens of jobs at our steel plant in Buffalo."

GRAPHICS PLUS PRINTING, INC.:

"... we've achieved an 80% increase in sales in 1986 over 1985 and an 82% increase in 1987 over 1986 ... expanded the full time staff from 7 to 18 people, purchased almost \$250,000.00 worth of equipment and relocated the business. ... In addition to increased direct sales with Smith Corona, we've seen an impressive growth in sales from many other businesses that directly or indirectly benefit from Smith Corona's revitalized condition."

Taptite Products, Camcar Division of TEXTRON:

"In 1984, we sold approximately \$50,000.00 of fasteners to your Cortland, NY manufacturing facility ... will be supplying over \$490,000.00 in 1987. ... sales growth has allowed us to add 5 - 6 employees ... Our recent addition of 29,000 sq. ft. ... was in part a result of Smith Corona's ability to increase sales."

It is ironic that some of the very industries and companies that are publicly opposed to the Foreign-Trade Zone Program have in fact, been the direct beneficiaries of the program in terms of increased sales, increased employment, and improved facilities. Using just 10 of the letters of support received from domestic suppliers at the time of the ITC report, 202 domestic jobs were identified as added due to Smith Corona's return to competitiveness. Over \$2,000,000.00 in capital improvements were tied to Smith Corona's increased orders. In the two years since these letters were received, Smith Corona has again doubled its annual production. There can be no doubt that all of Smith Corona's domestic suppliers have benefited substantially from Smith Corona's ability to compete, which is due in part to its designation as a Foreign Trade Zone. Surely, this is in the "public interest"!

Exports

With the solidification of its position in the domestic market, Smith Corona is now aggressively pursuing international markets. Smith Corona currently claims 55% of all portable electronic typewriter sales in Canada. It has re-established a company owned distribution warehouse in the United Kingdom. It has a contract to supply typewriters to

Robert J. Leonard
Robert J. Leonard
Customs Administrator

Mr. Robert J. Leonard

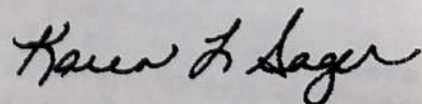
the largest retailer and cataloger in West Germany and has made inroads into the Australian market. Smith Corona has recently concluded negotiations for a multi-year contract with a major European distributor of electronic consumer goods. In addition, Smith Corona has negotiated a contract to manufacture the first electronic typewriters and word processors with a Cyrillic keyboard for export to the Soviet Union. It is anticipated that our exports worldwide for Fiscal 1990 will exceed 12% of our total sales.

Conclusion

In summary, Smith Corona Corporation was an American company on the brink of extinction due to a large influx of low-priced foreign competition. Using the Foreign-Trade Zone Program as a tool to reduce material costs on high quality imported components unavailable in the United States, Smith Corona began producing an innovative, competitive product. First, Smith Corona regained its leadership position in the United States and Canadian markets. With its return to profitability and ever increasing sales, production demands increased, employment increased, and orders for domestic material increased thus further spreading the benefits of the Foreign Trade Zone Program. With its position in the domestic market firmly re-established, Smith Corona has now turned to the international marketplace and is actively seeking opportunities to export. Smith Corona's new goal, made attainable in part through the Foreign Trade Zone program, is to be the leader in the manufacture and sales of typewriters and word processors in the world.

And that is the spirit and purpose of the Foreign Trade Zone Program. Products built in America rather than overseas, using American labor rather than foreign labor, with as much American content as possible, rather than none, with the end product being competitive not only in the United States but throughout the world. Foreign Trade Zones are truly America's gateways to the global market. Smith Corona believes that the United States Congress must continue to support this valuable and important program.

Respectfully Submitted,



Karen L. Sager
Customs Administrator

cc: Robert J. Leonard