

Overview of the Key Benefits of the Foreign-Trade Zone Program

U.S. Foreign-Trade Zones are considered outside of U.S. commerce for Customs purposes. This enables companies to defer duty payments on merchandise until it is entered into U.S. commerce. If the merchandise is subsequently re-exported from the FTZ, no Customs entry is filed, and no duty paid on the merchandise.

The U.S. Foreign-Trade Zones program offers substantial advantages to U.S.-based manufacturers and distributors, many of which are not available under free trade zone regimes abroad. In general, merchandise in a zone may be: assembled, exhibited, cleaned, manipulated, manufactured, mixed, processed, relabeled, repackaged, repaired, salvaged, sampled, stored, tested, displayed, and destroyed.

Some of the benefits that are most attractive to companies are relief from inverted tariffs, duty exemption on re-exports, duty elimination on waste, scrap and yield loss, savings on damaged or nonconforming items, weekly entry savings, cash flow (duty deferral) savings, zone-to-zone transfers, government and military sales, and ad valorem tax relief.

Companies often find that the integration of a variety of FTZ benefits and procedures enables them to maximize their savings and minimize their operational costs at each point in their FTZ distribution or manufacturing processes.

Relief From Inverted Tariff When Manufacturing in a Foreign-Trade Zone or SubZone

Inverted Tariff Relief

Inverted tariff (duty rate) relationships penalize companies for making their product in the United States. The U.S. FTZ program enables companies to apply to the FTZ Board for the authority to obtain relief from inverted tariffs when a component item or raw material is subject to a higher duty rate than the finished product. Hence, the importer of the finished product pays a lower duty rate than a manufacturer of the same product in the United States. This gives the importer an unfair and unintended advantage over the domestic manufacturer. The Foreign-Trade Zones Program levels the playing field in these circumstances.

The Foreign-Trade Zone Corporation's experience and expertise in understanding both the application process and the trade policy issues associated with applications for Subzone or General-Purpose Zone Temporary Interim and Permanent Manufacturing Authority make it the right choice when a company wants to obtain relief from inverted tariff savings.

FOR EXAMPLE: A Foreign-Trade Zone User imports a motor (which carries a 4% duty rate) and uses it in the manufacture of a vacuum cleaner (which is duty-free). When the vacuum cleaner leaves the FTZ and enters the commerce of the U.S., the duty rate on the motor drops from 4% to the "FREE" vacuum cleaner rate. By participating in the Zones Program, the vacuum cleaner manufacturer has eliminated duty on this component, thereby reducing the component cost by 4%.

The FTZ Corporation has done more than 1,000 FTZ projects and helped its clients to obtain relief from inverted tariffs in numerous industries. A few of these industries are pharmaceuticals, automobiles and automotive parts and components, electronics, textiles and upholstered furniture, aerospace products, petroleum exploration, production, refining, petrochemicals, dietary supplements, shipbuilding and repair, bulk chemicals, electronics, and forklifts.

The U.S. FTZ program differs substantially from other countries' free trade zones, which do not provide a mechanism for obtaining relief from inverted tariffs. Also, the integration of foreign and domestic parts, components, and raw materials in goods manufactured in U.S. FTZ's gives companies better flexibility at each point in the supply chains of their U.S.-based manufacturing operations.

The Foreign-Trade Zone Program Offers Duty Exemption on Re-exports

Duty Exemption on Re-Exports

When not utilizing a Zone, an importer is required to pay Custom duties at the time the imported merchandise enters U.S. commerce. Merchandise in a Foreign-Trade Zone is considered to be outside the commerce of the United States, so no Customs duty is owed when foreign merchandise is brought into a Foreign-Trade Zone, for as long as it remains in the Zone. If the foreign merchandise is exported from the U.S., no Customs duty is ever due. This benefit is available to companies in General-Purpose Zones and to companies that have received Subzone approval from the FTZ Board.

The FTZ Corporation has many clients whose ability to compete in international markets depends on their ability to avoid duty payments on imported merchandise that is subsequently re-exported. By staging their merchandise for international distribution from U.S. locations, these companies can keep their U.S.-based distribution operations open and pursue international sales at the same time.

We have the expertise necessary to obtain FTZ status through request or application to the FTZ Board, activate with U.S. Customs and Border Protection, and implement the FTZ inventory control procedures and software that companies need to manage their FTZ operations. This turnkey solution provides the benefit of integration of all of these FTZ-related services with one point of contact.

The duty exemption on re-exports benefit available to U.S. companies under the U.S. Foreign-Trade Zones program is often available in free trade zones abroad. This makes it especially important for U.S.-based distributors to take advantage of the FTZ program in the U.S. in order to gain a level playing field against their foreign competitors and sister companies.

Duty Elimination on Waste, Scrap, and Yield Loss in a FTZ Distribution or Manufacturing Environment

Elimination of Duty on Waste Scrape and Yield loss

One of the FTZ benefits which is often overlooked is duty elimination on waste, scrap, and yield loss. Without a Zone, an importer pays the Customs duty owed as material is brought into the United States. In a Zone, only merchandise that leaves a General-Purpose Zone or Subzone and enters the U.S. commerce is dutiable. No duty is paid on irrecoverable yield loss or merchandise that is scrapped or destroyed in the Zone. There are also Zone advantages for recoverable scrap that can be sold or recycled.

Waste, scrap, and yield loss savings are available to many companies across industries, such as automobile assembly, pharmaceutical manufacturing, and electronics distribution, but the FTZ Corporation's consultants are operational experts and specialize in identifying savings that many consultants may miss. They also know how to implement innovative, compliant procedures to capture those savings and work with CBP to obtain approval for procedures that it is not always familiar with.

The FTZ Corporation's turnkey FTZ services ensure that we can identify potential waste, scrap, and yield loss savings early in the process, which permits integration of those procedures into the application, activation, software implementation, and training stages of a project. This is a unique benefit that may not be available under foreign free trade zone programs.

Duty Elimination on Non-conforming Merchandise and Returns to Vendor from a Foreign-Trade Zone

Damaged or non-conforming items

The FTZ Corporation provides the best solution for companies to obtain Foreign-Trade Zone savings related to damaged or nonconforming items. No duty payment is required if merchandise is not entered into the United States. If merchandise is defective or damaged, no duty payment is owed while it is being tested, repaired, or stored in the FTZ. (The actual importation does not occur until the merchandise leaves the Zone and enters the commerce of the United States).

Merchandise may be altered, repackaged, and/or relabeled, in both General-Purpose Zones and Subzones, to meet various U.S. requirements. Zones are often used for the purpose of properly marking the Country of Origin on goods prior to their entry into the United States.

The Foreign-Trade Zone Corporation specializes in identifying exceptions in a company's inventory control procedures, such as damaged or nonconforming items. We then point out solutions and develop compliant procedures, providing integration of those procedures into the FTZ inventory control software system.

It is always the goal of the Foreign-Trade Zone Corporation to develop and implement procedures that are as transparent as possible to company employees and train employees that handle FTZ transactions in those procedures.

Weekly Entry in a Foreign-Trade Zone Offers Reduction in Merchandise Processing Fees (MPF) and Brokerage Fees

Under Weekly Entry procedures, the Zone User files only one Customs Entry per week, rather than filing one per shipment. Thus, U.S. Customs and Border Protection (CBP) does not process an Entry for each and every import shipment and the Zone User pays for only one entry per week. Until 2000, this benefit was available only to manufacturers in Subzones or with FTZ Board General-Purpose manufacturing authority approval. Greg Jones of the FTZ Corporation was instrumental in securing passage of legislation to permit distributors in the FTZ program to utilize Weekly Entry procedures.

Companies located outside of Foreign-Trade Zones pay a .21% Merchandise Processing Fee (MPF) for each and every formal Customs Entry (shipment). There is a minimum \$25 and a maximum \$485 MPF per Entry, regardless of the duty rate on the imported merchandise. The maximum MPF applies to Entries (shipments) with a value exceeding \$230,952. Companies often receive many shipments exceeding this value.

FOR EXAMPLE: An importer who receives 10 shipments per week, each with a value exceeding \$230,952, pays an MPF of \$4,850 ($\485×10) per week. If this number is annualized, the MPF the importer pays is \$252,200 ($52 \times \$4,850$) per year. The same importer using the FTZ Weekly Entry procedure would pay \$485 per week as shipments leave its FTZ facility, resulting in weekly saving of \$4,365 and annual saving of \$226,980.

The FTZ Corporation understands that the implementation of compliant Weekly Entry procedures requires an in-depth knowledge of the FTZ Board's regulations, CBP's regulations and any other government agencies' requirements that may apply to a company's merchandise and operations. It also requires integration of procedures to track the Weekly Entry activity at key points through an FTZ inventory control system, produce the necessary reports, Customs forms (e-214, 3461, 7501, etc.), and transfer electronic data to CBP and the Census Bureau.

Weekly Entry procedures in U.S. Foreign-Trade Zones further enable companies to remain competitive from U.S. locations, where they can utilize benefits not available to companies in free trade zone environments abroad.

The Foreign-Trade Zone Program Defers Duty Payment Until Merchandise is Shipped From the Zone

In U.S. Foreign-Trade Zones, no duty payment is required on merchandise brought into a General-Purpose Foreign-Trade Zone or Subzone unless and until the goods are entered into the United States. These funds may be used as working capital to earn interest or be invested. This benefit is similar in concept to free trade zones in other countries. It can be especially important to companies with high volume imports or merchandise with high duty rates, such as textile products.

The FTZ Corporation helps its clients to obtain FTZ cash flow savings from duty deferral and reduce their Customs-related merchandise carrying costs. The process of obtaining Cash Flow savings involves obtaining FTZ status, activation with U.S. Customs and Border Protection, and implementation of an FTZ inventory control system.

The FTZ Corporation's exceptional success rate for applications to the FTZ Board ensures that we get General-Purpose Zone establishment, expansion, and reorganization applications, minor boundary modifications, and Temporary Interim and Permanent FTZ manufacturing authority and Subzone applications approved quickly.

The FTZ Corporation's unmatched level of operational expertise ensures that our clients maximize their FTZ cash flow savings and enjoy efficiency of FTZ procedures in all parts of their operations. In addition, our experience in implementing FTZ inventory control software with existing company systems gives our clients the knowledge that their data mapping accurately and compliantly tracks dutiable merchandise. The net result is increased cash flow savings and reduced risk of fines, penalties, and liquidated damages resulting from non-compliant operations.

Accurate calculation Cash flow savings and their integration into a company's FTZ savings estimates can be a key point in determining whether a company should move forward with a Zone project.

Foreign-Trade Zone to Foreign-Trade Zone Transfers

A vendor located in one Foreign-Trade Zone may sell goods to a company in another Zone or Subzone anywhere in the U.S. and transfer those goods to the purchasing company's FTZ with no duty paid on the goods. The FTZ Corporation has assisted companies in a wide variety of industries, from automobiles to pharmaceuticals to food products, to implement Zone-to-Zone transfer procedures with U.S. Customs and Border Protection. By helping to extend FTZ benefits through a company's U.S. supply chain, the FTZ Corporation can help the company to lower its overall cost structure and optimize just-in-time supply chain elements.

The integration of Zone-to-Zone transfers at certain points in their supply chains helps more than the final manufacturer of a product. Manufacturers whose end products have a lower duty rate than the raw materials or components can receive raw materials and components duty unpaid and elect the duty rate of their finished goods. This can result in a reduction – or elimination – of the raw material and component duty rates, which makes those U.S. suppliers more attractive relative to their foreign competitors. In certain cases, companies will utilize free trade zone facilities overseas in conjunction with their U.S. FTZ operations to minimize their duty costs.

The Foreign-Trade Zone Corporation has implemented innovative Zone-to-Zone transfer procedures that have significantly reduced the administrative burden for its clients and created less work for CBP. This involves minor boundary requests or applications to the U.S. Foreign-Trade Zones Board for General-Purpose Zone or Subzone status, activation and implementation of Zone-to-Zone procedures with U.S. Customs and Border Protection, and development of compliant internal inventory control system and audit trail procedures.

Sales to the Military From a Foreign-Trade Zone

Foreign merchandise may be entered into the United States duty free if the vendor has a qualifying government contract in place. Because no entry is filed with U.S. Customs and Border Protection (CBP) until the product leaves a Subzone or General-Purpose Zone, FTZ status affords these companies the opportunity to defer the importation of the merchandise until the qualifying government contract is in place. This benefit is particularly important to U.S.-based manufacturers who manufacture products for both commercial and government sales. Often, the companies must bring in foreign parts before they know which parts will be incorporated into products for sale to the government, and which parts will be incorporated into products sold in commercial markets.

The Foreign-Trade Zone Corporation's clients include a large number of companies who have both military and commercial supply contracts in industries such as aerospace, automotive, shipbuilding, electronics, and high tech materials. We have obtained FTZ status for these companies through Subzone and General-Purpose Manufacturing Applications, minor boundary modifications, and FTZ expansions and reorganizations, activated their facilities with U.S. Customs and Border Protection, and implemented FTZ inventory control software.

The ability of U.S.-based military suppliers to remain competitive often depends on their integration of cost-reduction measures like FTZ procedures for both military and commercial operations. With its expertise in all aspects of the FTZ program, the FTZ Corporation is the best choice when a company is pursuing FTZ savings related to government and military sales.

The Foreign-Trade Zones Act Allows for Relief From Ad Valorem (Inventory) Tax in a FTZ

The Foreign-Trade Zone Corporation has a wealth of experience and an exceptional success rate at facilitating equitable ad valorem tax arrangements with businesses, grantees, and local communities. The federal law that established the U.S. Foreign-Trade Zones Program allows companies to obtain exemptions from inventory taxes. Certain tangible personal property is generally exempt from state and local ad valorem taxes. A small number of states assess local taxes on business inventories. The Foreign-Trade Zones Act exempts most merchandise from such taxes in Foreign-Trade Zones.

Note: Information taken from **The Foreign-Trade Zone Corporation**