Foreign-Trade Zones
Managing the Import Process

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The Challenge of Imports.....

• Permeates virtually every department
• International transactions weave through international operations
• International view is important for an international company
• Mod Act of 1991 put responsibility company wide on importer of record
Import Process

• Every “shipment” has to have an “entry “ associated with it prior to the importer taking possession of the goods
• Every entry has a MPF of .3464 of entered value(which is capped at $485)
• Duty is levied on the merchandise before it reaches a clients hands, or the manufacturing line
Compliance & Duty Challenges

• Defining appropriate value for Customs valuation
• Country of origin consistency and marking
• Quantity confirmation
• HTSUS accuracy
• Scrap items
• Shelf life
• Re-exports and manufacturing
FTZ Benefits Overview

1. Reduce Costs
   - (Taxes, Fees, Administrative Costs, Fines, etc.)
2. Improve Supply Chain Efficiencies
3. Support Customs Compliance and Cargo Security Efforts

Companies across many industries utilize Foreign-Trade Zones
A Foreign-Trade Zone…

is a restricted-access site, in or adjacent to a Customs port of entry, operated pursuant to public utility principles under the sponsorship of a corporation granted authority by the Board and under supervision of U.S. Customs & Border Protection (19 CFR part 400 - regulations of the Foreign-Trade Zones Board)
In Layman’s terms ........

• An area considered to be outside of the commerce of the United States
• Goods can be brought into the zone and be stored, manipulated, cleaned, repaired, destroyed, mixed, processed, relabeled, stored and tested while remaining in the foreign-trade zone in duty free status
History of Foreign-Trade Zones

• FTZ Act of 1934 –
  – created Foreign-Trade Zones in order to expedite and encourage participation in international trade
  – as an economic development program
  – was amended in 1950 to authorize manufacturing in zones
CBP & FTZ Board Cooperation

• Foreign-Trade Zones are established under a grant of authority from the Foreign-Trade Zones Board
• Customs and Border Protection must provide concurrence
• Customs and Border Protection provides on-going oversight
Some Quick Statistics

- 2,400 firms used foreign-trade zones in the United States in FY 2010
- Over 320,000 jobs in the United States are directly related to foreign-trade zones (in FY 2010)

Source: Foreign-Trade Zones Board Annual Report of 2010
Some Quick Statistics

• As of 2010, there were 168 active general purpose zones, and 263 subzones in the U.S. (including Puerto Rico)
• As of 2010, receipts were valued at $534.3 billion dollars
• Exports from FTZ’s amounted to over $34.8 billion dollars

Source: Foreign-Trade Zones Board Annual Report 2010
Virginia Statistics

- As of 2011, there are 5 general purpose zones, and 5 subzones
- Total employment of 4,479 persons
- Exports from FTZ’s amounted to over $391 million dollars

Source: Foreign-Trade Zones Board Annual Report 2011
Foreign-Trade Zone Activities

Activities allowed in General-Purpose Zones and Subzones:

• Merchandise in a zone may be assembled, cleaned, displayed, destroyed, exhibited, manipulated, manufactured, mixed, processed, relabeled, repackaged, repaired, salvaged, sampled, stored, and tested.

• Manufacturing, processing and any activity that results in a change of the tariff classification must be specifically approved by the FTZ Board.

• Retail trade is prohibited in zones.
Duty Deferral: Zone to U.S. Commerce

Spark plugs
Dutiable at 2.5%
Admitted to FTZ

Withdrawn from FTZ for entry into U.S. commerce
2.5% Duty Paid

Stored in FTZ - Duty Deferral

Zone-to-Zone Transfers:
Duty deferral benefits may be further extended by transferring merchandise from zone to zone.
Zone-to-Zone Transfers

Dutiable Merchandise Admitted to FTZ

Merchandise sent to another FTZ via Bonded Carrier

Sending zone may pass duty obligation to receiving zone
Duty Elimination: Exports & Destroyed Goods

Spark plugs
Dutiable at 2.5%
Admitted to FTZ

Withdrawn from FTZ for export

Stored in FTZ - Duty Deferral

Received at FTZ and determined to be damaged beyond repair

No duty payment - eliminates drawback process

Destroyed in the FTZ under permit – no duty payment
Inverted Tariff Example

Windshield
Dutiable at 4.9%
Admitted to FTZ

Withdrawn from FTZ for entry into U.S. commerce – 2.5% Duty Paid

Used in production in FTZ

Finished Product (Automobile)
Dutiable at 2.5%

2.4% Savings

*Duty rates for example only

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Advantages of an FTZ

• No duty or Merchandise Processing Fee is paid on imported goods until the goods are actually entered for consumption into the U.S. commerce

• A lower duty rate is paid on the foreign content of a finished item - rather than the higher duty rate of the raw material

****inverted tariff****

• Duty on admitted machinery is deferred until it is put into actual production
Advantages of an FTZ

• No duty or MPF paid on exports or scrap
• Items may be manipulated, sorted, repackaged, relabeled, cleaned, inspected, repaired, exhibited, and temporarily removed - in a duty free environment
• Streamlined Customs programs are available
## Bonded Warehouse vs. FTZ

<table>
<thead>
<tr>
<th>Bonded Warehouse</th>
<th>Foreign-Trade Zone</th>
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</thead>
<tbody>
<tr>
<td>• Five year limit</td>
<td>• No time limit</td>
</tr>
<tr>
<td>• Formal entry required</td>
<td>• Ideal for repetitive processing</td>
</tr>
<tr>
<td>• No MPF savings</td>
<td>• MPF savings</td>
</tr>
<tr>
<td>• Continuous shipping is cumbersome</td>
<td>• No drawback needed</td>
</tr>
<tr>
<td></td>
<td>• Savings on waste items</td>
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<td></td>
<td>• Easy documentation</td>
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FTZ Specific Procedures

- **Direct Delivery** - cargo delivered directly to FTZ facility *(without filing documents with CBP until next business day after receipt)*

- **Weekly Entry for consumption** - file one customs entry per week for goods shipped

- **Weekly Entry for export** - file export documents daily, following export of items
Traditional Import vs. FTZ Admission

• Traditional Import
  – Entries are filed on multiple shipments every week

• FTZ Admission via CBPF 214
  – Merchandise is received DDU (Delivered, Duty Unpaid) and admitted to the FTZ using CBPF 214, no entry made on inbound shipments
At the end of the supply chain: 4,500 entries were made & duties/fees/etc were paid at each applicable step. Total estimated costs: $16,538,400

Estimated Broker Fees for all these transactions: $450,000 ($100 X 4500 entries)

2800 entries/year & $250M import value
Import Costs = $8,101,400

1500 entries/year & $150M import value
Import Costs = $4,860,000

200 entries/year & $100M import value
Import Costs = $3,127,000

Typical “Conventional” Supply Chain
Assume: (3% Duty Rate, 10 Inventory Turns/Year and 1% Scrap)

Supplier 1 $$$ Duty to Import MDSE

Supplier 2 $$$ Duty to Import Components – Duty priced into finished product

Contracted Manufacturer

Distribution Center
Finished Products
Make Their Way to Retail Locations

Retail

STOP
Direct Delivery of Zone MDSE

Direct Delivery of Zone MDSE

Direct Delivery of Zone MDSE

Direct Delivery of Zone MDSE

What if all of the entries could be combined?

Entry on all MDSE is Made Once per Week

Advantages Include:
Potential Savings on Penalties and Fines & Supply Chain Data Control Efficiency
FTZ Systems DO NOT replace a company’s current software system; no need to re-invent the internal I.C. system.

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Traditional Entry vs. Weekly Entry

• Traditional Shipping
  – Multiple shipments made during the week…

• FTZ Weekly Entry
  – Multiple shipments made during the week…
  – Only one entry filed on CBPF 7501 for all shipments made for the week
How can there be savings on documentation and scrap?

Entry on all MDSE is Made Once per Week

At the end of the supply chain: 52 entries were made & duties were paid once per week only on items entering US Commerce. Savings are $1,532,020

Supplier in FTZ
MDSE Arrived
DDU – DUTY UNPAID

Estimated Broker Fees for all these transactions: $5,720 - Savings of $444,280 ($450,000 - $5,720)

Contracted Manufacturer
In FTZ
Imports Components
DDU – DUTY UNPAID

FTZ Distribution Center
MDSE Arrives and is shipped to retail location.

Supplier in FTZ
MDSE Arrived
DDU – DUTY UNPAID

0 ENTRIES MADE
No Duty Paid
Associated Savings = $116,780

0 ENTRIES MADE
No Duty Paid
Associated Savings = $357,280

0 ENTRIES MADE
No Duty Paid
Associated Savings = $613,680
What does a potential user do?

• Manufacturing only
• Distribution only
• Manufacturing and distribution
Manufacturing in an FTZ

• Inverted tariff can be requested
• Merck Pharmaceutical, Canon Virginia, Stihl Corporation all manufacture in Virginia foreign-trade zones
• FTZ Board has just implemented a new process for manufacturing authority: Product Notification
• Non-controversial applications can be approved in 120 days or less
Distribution only savings:

- Save duty/MPF until actual consumption
- Save duty/MPF on scrap and waste
- Save duty/MPF on re-exports
- Paperwork efficiency
- Tighter inventory control
- Greater Customs compliance – and awareness
Foreign-Trade Zone Key Parties

- **Grantee** - holds grant from the Foreign-Trade Zones Board
- **Operator** - under contract with grantee to operate a subzone or a site in the general purpose zone
- **User** - actual user of the site
- **Subzone** - single user/special purpose area outside of general purpose zone
Grantees in Virginia

• **Virginia Port Authority** – *ASF pending*
  – Hampton Roads, FTZ #20

• **Capital Region Airport Commission** – *considering ASF*
  – Richmond, FTZ #207

• **Culpeper Chamber of Commerce** – *ASF pending*
  – Culpeper, FTZ #185

• **Washington Airports Task Force** – *ASF complete*
  – Northern Virginia, FTZ #137

• **Tri–Cities** - *ASF pending*
  – Southwestern Virginia and Tennessee, FTZ # 204

• **New River Valley Economic Development Alliance**
  – Western Virginia, FTZ # 238 – ASF
Traditional vs. Alternative Framework

Traditional FTZ Framework

• Designation via:
  – Submission of application for FTZ Board action
    • Generally 10 month process
    • Greater documentation requirements
  – Submission of request for administrative “minor boundary modification” for FTZ Board action
    • Generally 30 day process
    • Involves swapping like properties from existing sites

Alternative Site Designation & Management Framework

• Designation via:
  – Once approved for ASF, generally 30 day process
  – Simplified and rapid minor boundary modification actions
• Enhanced ability to respond quickly to evolving FTZ-related needs of community
• Magnet sites
• Usage-driven sites
• Eliminates need to “swap” like amounts of acreage from existing sites
General Purpose Zones – *Traditional Framework*

- Often non-manufacturing (manufacturing needs a separate permit)
- Ideal for distribution, repackaging, manipulation
- Multiple users and operators
- Examples: industrial sites, general purpose warehouse sites, and commerce parks
Foreign -Trade Subzones –

*Traditional Framework*

- Single user – site specific (although multiple sites may be included in application)
- Site owner and site user are usually the same
- Often includes manufacturing
- Subzone application needs to be filed in cooperation with the Grantee
- Examples: BMW, Kodak, Reebok, Merck Pharmaceutical, Stihl, Canon
Service Area

• Geographic area for which Grantee intends to be able to propose FTZ sites
• Must be consistent with state enabling legislation and grantee organization’s charter
• Must comply with the FTZ Board’s adjacency requirements (within 60 miles/90 minutes drive from CBP port of entry boundaries)
Magnet Sites

- Selected by Grantee for ability and readiness to attract multiple FTZ users
- Generally, six or fewer simultaneously existing magnet sites; more if justified
- One site designated as anchor/permanent site
- Designated through application for FTZ Board action (reorganization application)
- Subject to sunset time limits (five years), which would self-remove FTZ designation from a site not activated before the site’s sunset date
Usage-Driven Sites

- Serves companies not located in a magnet site
- For companies ready to pursue activity under FTZ procedures
- Limited to areas required by companies specifically identified as ready to pursue zone activity
- No specific limit on number of usage-driven sites
- Designated through minor boundary modification process
- Subject to sunset time limits (three years), which would self-remove FTZ designation from a site not used for FTZ purposes before the site’s sunset date
Obtaining a Foreign-Trade Zone

Two step process:

1) Applying for site designation with the FTZ Board
2) Activation with Customs

***or become involved with an existing, activated FTZ ***
Sites Become Part of an FTZ

- As part of the initial grant
- As part of an expansion application
- On a minor boundary modification
- As a subzone application
- As a usage-driven site under ASF
Activation

• Operator needs to review inventory control systems to ensure that a clear audit trail can be provided to U.S. Customs
• Operator’s key persons need to undergo background checks by U.S. Customs
• Operator needs to post an FTZ Operator’s Bond with U.S. Customs
• Estimated time is generally three months until completion
Existing activated FTZ sites:

- REO Distribution, in Waynesboro, VA
- Commonwealth Storage, in Suffolk, VA
- Norfolk Marine Terminal/Cargoways Logistics in Suffolk, VA
- Givens Inc., in Chesapeake, VA
Conclusion

Foreign-trade zones offer incentives for U.S. manufacturers. Many U.S. manufacturing plants face competitive situations which can quickly change or evolve. Foreign-trade zones are advantageous and offer a good return on investment as well as a level playing field on which to compete against foreign sources.
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