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FOREIGN TRADE ZONE BENEFITS BACKGROUND

Foreign Trade Zone status is a sophisticated business tool that enables internationally oriented companies to source, manufacture, and distribute their products cost-effectively. The US Zone program was created by an act of Congress in 1934, and today is a multi-billion-dollar industry providing privileged environments to over three thousand individual companies in the US engaged in the global marketplace.

There are two ways that Zone status can be accessed:

-Utilizing an existing general purpose Foreign Trade Zone- There are some two hundred and seventy general purpose FTZs located at ports and airports of arrival throughout the USA. IITC provides consulting and management services to enable you to evaluate and operate effectively in any of those Zone environments. Within those Foreign Trade Zones, IITC can provide sophisticated, turn-key services necessary to get your product cost effectively from manufacturing point to market place worldwide. Services available include:

Consolidation
International Freight Forwarding
Customs House Brokerage
Pier and Airport Trucking
Public Warehousing and Fulfillment Services
Order Processing
Contract Labor and Manufacturing
Logistics Management
Bonded Warehousing
Duty Refund & Compliance Programs
FTZ Cost/Benefit Analysis
FTZ Sub-zone Applications

Individual companies can work independently within their chosen Zone environment (take their own space, locate and use their own vendors, etc.). They can purchase turnkey services on an as used/as needed basis from the Zone operator or they can combine any of the above to develop a menu of services specifically tailored to their needs.

-Applying for Sub-zone status for their own facilities- Sub-zone status is available to any company whose operations cannot be readily or economically accommodated in a proximate general-purpose zone. Applicants must be able to demonstrate to the US Department of Commerce that it is in the public interest to allow zone status for their proposed activities. There are about three hundred and forty Foreign Trade Sub-zones operating in the United States.

The benefits of operating in Zone status are the same whether you access the program through a general-purpose zone or a sub-zone operation. Those benefits need to be understood in two ways - reactively and proactively. Reactively a company asks the following question - If we were to conduct part or all of our operation(s) in Foreign Trade Zone status without any changes in the way we do business, what are the costs and benefits? Proactively a company asks the following question - If we were operating in Foreign Trade Zone status, how could we change the way we do business to maximize the benefits and reduce our costs. It is easier to answer the former, and more important to answer the latter. IITC is at your disposal to do both.

There are five general benefits derived from operating in Zone status:

1. **Deferral of duty and taxes until closer to the point of sale.**
2. **Reduction/elimination of duty and taxes through product manipulation and manufacture.**
3. **Reduction/elimination of duty and taxes through re-exportation.**
4. **Enhanced control and risk management of international business issues and regulatory environments.**
5. **New business opportunities.**

1. Deferral of duty and taxes on foreign sourced raw materials, components, and finished goods is easy to understand and measure. Because Foreign Trade Zones are administratively outside of the United States, product in the Zone is not subject to duty payments, excise tax, or local advalorem taxes (inventory tax, use tax, etc.) until and unless it is brought into the domestic commerce of the United States. The value of this deferral (time value of money) is a function of the volume of imports, the duty rate, the length of time product remains in the zone status (inventory turns) and the prevailing cost of money. By taking the dollar value of imports, multiplying that by the average duty rate on imported product, dividing that number by the average inventory turns per year and multiplying that sum by your cost of money (prevailing interest rate) you will determine the continuous annual savings from duty deferral derived from operating in zone status. In the first year of operation in zone status, there is also a substantial one-time benefit. During that first year, the entire standing balance of inventory is converted from duty paid to duty deferred, resulting in a one-time savings to the company equivalent to the average value of foreign inventory on hand multiplied by the average duty rate.

2. Reduction or elimination of duties and taxes through manufacturing, assembly or manipulation is the largest savings opportunity for most manufacturers operating in zone status. Importers, at their option, pay duty at whichever rate is lower - the raw material rate, the part or sub-assembly rate, or the finished goods rate. Further, that lower duty rate is only applied to the landed value of the imported raw materials or parts - not the value of the sub-assembly or finished good. None of the value added to the product in the zone is dutiable. Further, such manipulation in zone status may add sufficient value or create a tariff shift to qualify the product as "manufactured in the US" in terms of shelf position, labeling requirements and in terms of treatment under NAFTA rules of origin. Lastly, there are opportunities to eliminate duties altogether on materials that are incidental to the imported finished goods, such as packaging materials and containers (blister packing, etc.). Not only does this "inverted tariff" opportunity lower the cost of the product to market (or conversely increase your margin), it also creates new sourcing options. If you know that the finished product coming out of the zone manipulation/ manufacturing process has a low duty rate, you become indifferent to the high duty import rates imposed on parts and components from certain non-privileged countries of origin where the best or least expensive product may be found (and remember, for as long as the product remains in zone status, even the lower duties achieved through manufacturing and/or manipulation remain deferred).

3. The value of elimination of duty payments through re-exportation is again easy to measure and, like duty deferral, can be calculated based on the dollar value of those exports and the US duty rate that would have applied to that product if it had entered US commerce. Since product stored and manipulated in zone status does not enter the domestic commerce of the United States, no duty is ever paid on the exports. This money can also be recovered through a duty drawback program. The advantage of zone status over drawback is that drawback can only recover 99% of the duties paid, the paperwork involved is complex and has an administrative cost, and you have to wait (often up to nine months) to recover your money. By contrast, zone status recovers 100% of your outlay instantaneously (you never pay it) with no additional administrative cost. In addition to exported products, operating in zone status eliminates the payment of duties on rejected, lost, damaged, or otherwise unstable product (including returns). Together these might easily total 5% of your imported product.

4. Operating in zone status provides **enhanced control over product movement** and a better capacity to manage the existing and changing international regulatory and trade policy environment - the risks inherent in sourcing and shipping internationally. These risk management benefits are diverse and difficult to measure, but nonetheless important:

- Lower insurance premiums for inventory stored in a zone status (as much as a 30% savings) because of the heightened awareness and security in those environments.

- Lower per diem and demurrage bills because product moves more quickly and in-bond from ports and airports of arrival to the zone.

- Effective management of quota restrictions, deferral of anti-dumping duties and the avoidance of marking notices.

Operating in zone status does not eliminate these regulatory issues, but it does enable you to more cost effectively manage them.

5. The zone benefit most difficult to measure is the **ability to exploit new business opportunities.** These can range from enhanced access to specific markets (duty free stores, military contracts, other companies operating in zone status, export markets), to enhanced relationships with foreign suppliers who may be willing to own their own inventory in your FTZ distribution facility. This lowers the cost of that inventory to you and creates a profit center in its own right. Not only does operating in zone status invite new business, it invites new ways of doing old business that can substantially lower all costs along the way - from Customs House Brokerage to repackaging.

IITC is willing to meet with any client to discuss these opportunities in greater detail and to undertake a free preliminary cost/benefit analysis that will establish the order of magnitude of the benefits a user will achieve in Zone status and the likely costs to secure Zone status and operate in compliance with Customs and Commerce regulations. To that end a confidential Foreign Trade Zone Savings Questionnaire is attached for your review and consideration. If you can supply the answers to the included questions, we can give you a good estimate of the value of access to the Zone program for your company.