



ABS Consulting

*Supply Chain Harmony – Logistics and Trade
Compliance Synchronized for Optimal Performance*

Albert Saphir

www.abs-consulting.net

What is a U.S. Foreign-Trade Zone?

A U.S. Foreign-Trade Zone (FTZ or Zone) is a designated area, which for Customs purposes, is considered outside the U.S. Nearly any imported merchandise can be brought into a Zone for almost any kind of manipulation, duty-free.

Foreign-Trade Zone Benefits

Through utilization of an FTZ, imported material avoids any Customs duties under the following scenarios:

- Any previously-imported material **Re-exported**.
- **Rejected**, scrapped, destroyed, waste or returned-to-vendor material.
- Sales to **companies operating in other U.S. FTZs**. (There are nearly 3,200 companies utilizing Zones and over 400 manufacturing Subzones.)

Manufacturing in an FTZ: Inverted Tariffs

A manufacturer can sometimes take special advantage of an FTZ to **reduce tariff exposure**. If the manufacturer is producing a final product which, if imported, would be subject to a lower duty rate than the rate(s) currently being paid on the imported components, then the imported-component rates can be reduced to the final product rate upon making entry of the final product from the Zone into the U.S. If other components are assessed rates lower than that of the final product, the importer has the option of fixing those rates at their lower levels. Consider the following example:

Import Component A--duty rate = 10%
Component B--duty rate = 6%

Component C--duty rate = Free
Final Product duty rate = 3.5%

Through utilization of a Zone, the manufacturer will be able to **reduce** the rate on Components A and B from 10% and 6% respectively to the final product rate of 3.5% while “fixing” the rate of Component C at “Free.”

Duty Deferral for High Volume Importers

If a distribution facility is importing in large quantities, holding inventory for long periods of time, or is facing high duty rates, by using a Zone that facility can improve its cash-flow and money management by

IMS Worldwide, Inc. Houston Headquarters

309 Henrietta Street • Webster, Texas 77598 • Phone: (281) 554-9099 • Fax: (281) 554-9506
Affiliates in Washington, D.C., Chicago, Miami, Columbus, Buffalo, Ottawa and The Netherlands
*Foreign-Trade Zone and Industrial Park Consulting and Marketing
Supply Chain and Security-Threat Assessment*



ABS Consulting

Supply Chain Harmony – Logistics and Trade
Compliance Synchronized for Optimal Performance

Albert Saphir

www.abs-consulting.net

deferring payment of duties until the time they are removed from the Zone--much closer to the time of actual sale.

Is a Zone Right For Your Operations?

- If you are concerned about Zone operational issues or regulations, or you think Zones are only suited to a particular industry, consider this:

Car manufacturing plants, oil refineries, computer manufacturers, and textile distributors are all utilizing Zones. So are companies with as few as 15 employees.

- **If you are already using another Customs tariff-reduction program**, such as Duty Drawback, Temporary Importation Bond, or a Bonded Warehouse, you need to consider U.S. FTZ's as a way to streamline your operations, cut down on paperwork, increase your flexibility, and save additional money, all at the same time. Many companies are discovering that Zones more efficiently meet their needs than other Customs programs.

Would a Zone Really Save Your Operations Any Money?

In order to assess your current operations and determine your level of savings, we have included a Data Input Form in this package for you to fill out and fax to us. It is designed to illuminate all the different types of benefits previously mentioned while taking into account any Customs programs you are currently utilizing. If you are uncertain about any of the questions, simply provide your "best guess." IMS Worldwide, Inc. will provide you with a **free** cost-benefit analysis based on your responses and a little follow-up on our part to determine the relative complexity of the FTZ Application and Activation. With a cost-benefit analysis in hand, it will become much clearer whether or not a Foreign-Trade Zone is right for your firm.

Foreign-Trade Zone Background and Terminology

U.S. FTZs are made possible by the FTZ Act of 1934 as amended. The Act establishes the U.S. Foreign-Trade Zones Board (FTZ Board) as the agency responsible for the establishment and administration of Zones through the Board's regulations. The Board does not handle day-to-day administration of any Zones, but provides grants to Grantees to establish, operate, and maintain Zones. Grantees are almost always public corporations or governmental agencies. A Grantee will usually enter into an agreement

IMS Worldwide, Inc. Houston Headquarters

309 Henrietta Street • Webster, Texas 77598 • Phone: (281) 554-9099 • Fax: (281) 554-9506
Affiliates in Washington, D.C., Chicago, Miami, Columbus, Buffalo, Ottawa and The Netherlands

*Foreign-Trade Zone and Industrial Park Consulting and Marketing
Supply Chain and Security-Threat Assessments*



ABS Consulting

*Supply Chain Harmony – Logistics and Trade
Compliance Synchronized for Optimal Performance*

Albert Saphir

www.abs-consulting.net

with an Operator or several Operators, as well as Subzone for actual Zone operations. Customs holds the Operator responsible for compliance with the Customs regulations relating to Zones. A Zone User uses a Zone for its benefits and pays the Grantee or Operator for their services such as rent on facilities, storage, handling, etc.

There are two types of Zone sites: General Purpose sites and Subzones. A General Purpose site is usually run by an Operator with multiple Users. A Subzone is a special purpose site for operations such as manufacturing which cannot be accommodated within an existing Zone. In a Subzone, the Operator and User are usually the same entity.

Admission, Removal, Activities, and Required Documents

There are only two Customs Forms (CF) specifically related to Zone operations: CF 214 and CF 216. The CF 214 is used for admission of foreign merchandise into a Zone. Under most circumstances, no 214 is necessary for domestic status merchandise. The form is usually handled by a Customs Broker for the Zone User or Operator, but the Operator may take responsibility for execution of 214s. Information included on a 214 is the same as the information on a Customs entry form, except that it may also be used as a delivery ticket.

One additional information item required on the 214 is a declaration of the material's FTZ status. There are four types of Zone status: domestic, privileged foreign (PF), non-privileged foreign (NPF), and Zone restricted (ZR). Status on material is maintained through its entire stay in the Zone and is critical in determining the amount of duties owed upon entry into the U.S. from the Zone. The 214 and the Operator's internal Receiving Report together make up the initiation of the inventory control and record keeping system which must meet Customs requirements.

For any action to be performed on or with the merchandise, a CF 216 is required. The CF 216 is an application for activity; however a blanket 216 may be filed for a period of up to one year covering all types of activity anticipated. The Operator must maintain records, documenting approved activities so as to provide an accounting and audit trail of the merchandise through the approved operation.

To remove material from a Zone, the appropriate Customs document must be filed: either a CF 3461 for Entry into the U.S. or a CF 7512 for Export or transfer to another U.S. Zone. These documents are usually handled by a Customs Broker, unless the Operator also is a licensed Broker and chooses to conduct these operations in-house.

IMS Worldwide, Inc. Houston Headquarters

309 Henrietta Street • Webster, Texas 77598 • Phone: (281) 554-9099 • Fax: (281) 554-9506
Affiliates in Washington, D.C., Chicago, Miami, Columbus, Buffalo, Ottawa and The Netherlands
*Foreign-Trade Zone and Industrial Park Consulting and Marketing
Supply Chain and Security-Threat Assessments*



ABS Consulting

**Supply Chain Harmony – Logistics and Trade
Compliance Synchronized for Optimal Performance**

Albert Saphir

www.abs-consulting.net

Inventory Control and Record keeping

An Operator's or User's inventory tracking system (ITS) must be able to account for all merchandise in a Zone and provide enough information to make entry for merchandise being removed from the Zone. Our experience shows that 99 times out of 100, the corporation's existing MRP, bill of materials or internal inventory tracking system(s) are 80-90% complete and sufficient for Customs purposes. The inventory records must indicate: 1) location of merchandise, 2) Zone status, 3) beginning balance, receipts, removals and current balance, 4) any destruction, scrap, waste, and by-products, and 5) cost or value unless the Operator's financial records maintain cost or value and are made available for Customs review. Customs requires a physical inventory at least once per year or a cycle count procedure, and an annual reconciliation report. The annual reconciliation report must be available for Customs review and a letter stating that the report has been prepared must be sent to the local Customs District Director.

Customs, by regulation, accepts First-In-First-Out, Foreign-In-First-Out, lot specific, part number, bill of materials, liquid bulk FIFO, serial number specific, and almost any other inventory tracking system that "protects the Revenue of the U.S." For the 300 operating Zones and Subzones of the U.S., there are approximately 300 different ITS and operating systems. Customs also accepts the concept of "Work in Progress" as a "Black Box" that they are not allowed to penetrate. This means that if an Operator can demonstrate raw material balance, inputs to production, finished product balance and some form or correlation between the three, this is satisfactory for Customs.

Confidentiality of Proprietary Information

U.S. Customs is currently under specific legal restrictions against divulging company cost, quantity, and specification data on imported products. Becoming an FTZ makes your firm no more and no less subject to currently gathered and publicly reported trade statistics through the Department of Census, the PIERS network, and other statistical summations. Any applications filed with the FTZ Board become public information; however, procedures exist in the regulations to protect sensitive and proprietary information. The protection supersedes the Freedom of Information Act and allows a level of confidentiality which has been acceptable to a large percentage of Fortune 500 companies who currently enjoy FTZ status.

Sources: U.S. Department of Commerce, Foreign-Trade Zones Board
U.S. Customs Service, Part 146 Regulations and FTZ Manual
National Association of Foreign-Trade Zones

8 1999 IMS Worldwide, Inc. All rights reserved.

I:\PROMO\4-PGMKTG.99.doc

IMS Worldwide, Inc. Houston Headquarters

309 Henrietta Street • Webster, Texas 77598 • Phone: (281) 554-9099 • Fax: (281) 554-9506
Affiliates in Washington, D.C., Chicago, Miami, Columbus, Buffalo, Ottawa and The Netherlands
*Foreign-Trade Zone and Industrial Park Consulting and Marketing
Supply Chain and Security-Threat Assessments*