Building the business case

for foreign-trade zones

THOMSON REUTERS®

According to a recent study, 82% of companies are considering nearshoring or reshoring solutions, such as foreign-trade zones, to reduce duties and speed delivery.[1]

00.

Contents

01.
Introduction

Understanding FTZs

What are foreign-trade zones?

Foreign-trade zones (FTZs) are secure areas within the US that are considered outside of US Customs territory for tariff purposes.[7] In other words, you aren't formally importing merchandise into the US. Therefore, you're only responsible for duty payment if the merchandise is transferred out of the FTZ and into US commerce.

How do companies benefit from FTZs?

More than 3,000 firms in the US are using FTZs to eliminate, defer, or reduce duties.[6] The duty savings alone can add up to millions in the span of a year. FTZ users also experience several supply chain benefits as they are able to expedite the movement of their goods. These advantages help US-based companies become more competitive in the global marketplace.

Key players

There are two key players in the FTZ program. The Foreign-Trade Zone Board reviews applications to establish and maintain FTZs. Their website is an excellent resource for anyone considering an FTZ.

Secondly, US Customs and Border Protection (CBP) is responsible for the formal activation of the FTZ. Once the FTZ is activated, CBP oversees the enforcement of FTZ regulations.

FTZ facts and figures

Every year the FTZ Board releases a report to Congress on the status of the FTZ program.[6]
We have seen a consistent increase in the use and expansion of the FTZ program.

3,200
firms utilizing FTZs

191
active FTZs

450,000
US workers employed in FTZs

$87 billion
exported from FTZs

FTZs impact the local economy too. They help create jobs, attract and retain business, and level the playing field for US communities and businesses.

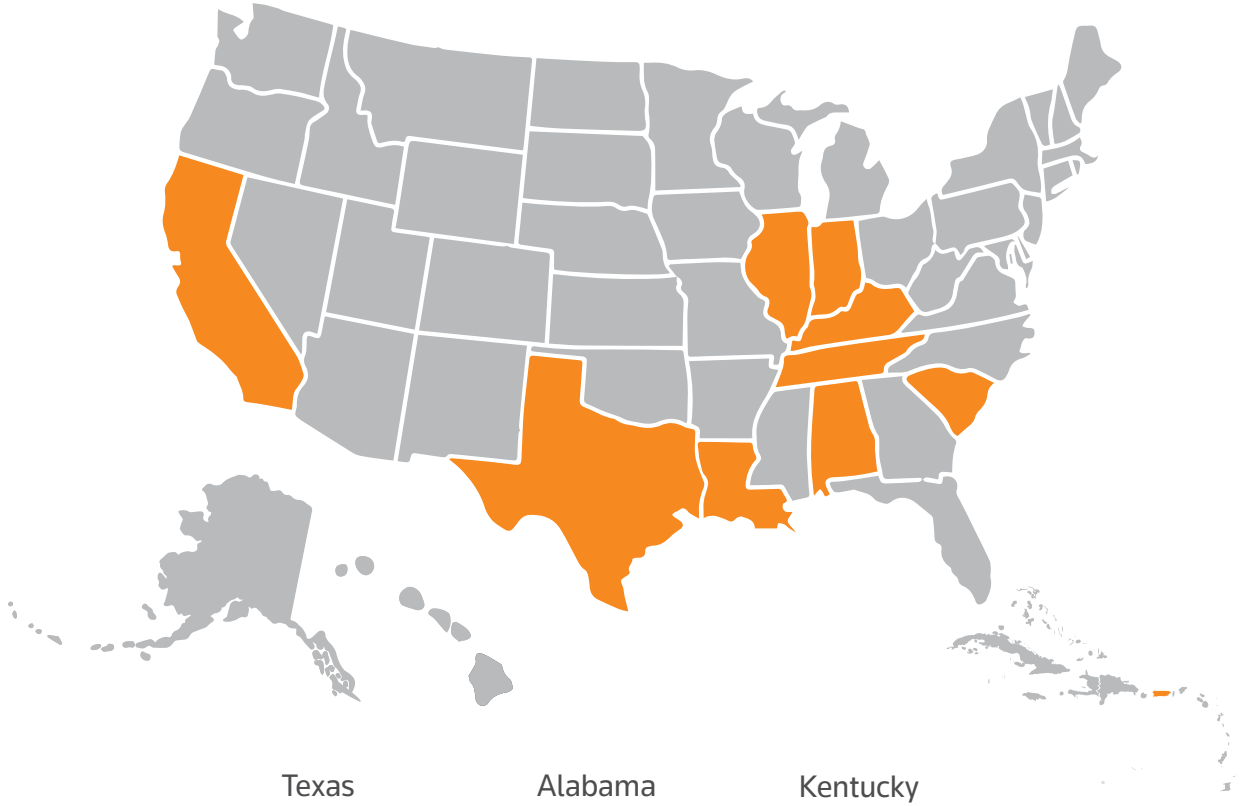
$669 billion
in merchandise received

Top foreign-status products received in FTZs

- Oil/Petroleum
- Vehicles
- Consumer Electronics
- Vehicle Parts
- Consumer Products
- Machinery/Equipment
- Pharmaceuticals
- Other Electronics
- Textiles/Footwear
- Electrical Machinery

Top states for FTZ activity*

*Merchandise received and exports



Texas
Louisiana
South Carolina
California

Alabama
Tennessee
Illinois
Puerto Rico

Kentucky
Indiana

02.
Operational benefits

Strategic benefits of an FTZ

Relief from inverted tariffs

You can choose to pay the lower duty rate for a finished good.

Weekly entry savings

Your merchandise processing fee (MPF) will be capped at $497.99 per week.

Duty exemption

Re-exports, scrap, loss, destruction, and zone-to-zone transfers are duty-free.

Duty deferral

Improve cash flow with deferred duty payments.

Inventory controls

You can better manage your inventory in a controlled FTZ warehouse.

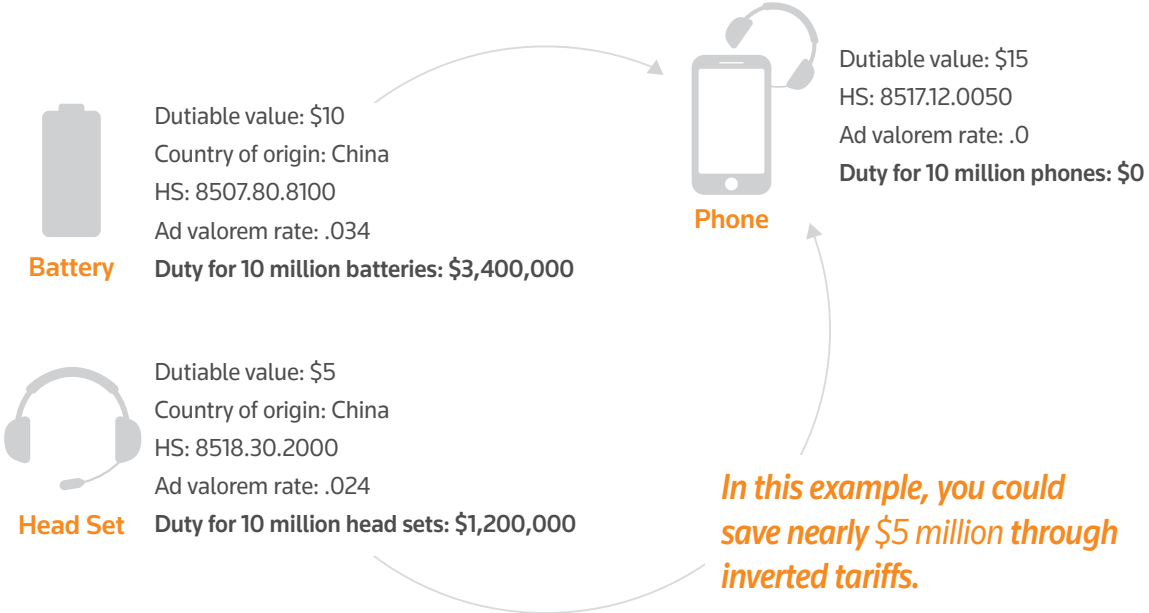
Supply chain responsiveness

Achieve shorter cycle times, increased inventory turn, and better traceability.

Relief from inverted tariffs

In some cases, tariffs on US component items or raw materials have a higher duty rate than the finished product. As a result, US manufacturers operate at a cost disadvantage to importers of finished goods.

A major benefit of operating in an FTZ is that you can choose to pay whichever duty is lower. The duty rate for many finished products is zero, which eliminates any costs associated with importing the raw materials and goods. When you choose to pay the lower duty rate on a finished product, you are taking advantage of **"inverted tariff"** savings. FTZs are the only way to claim these benefits.



Planning ahead with duties

You can also use FTZs to plan for duty rate changes. For example, if the duty rate is decreasing for a high-duty item like footwear, you could import a high volume of shoes into your FTZ, wait for the duty rate to change, and then save millions when you export to the US with the new, lower duty rate.

This strategy works for increases too. If the duty rate is increasing, you can claim "privileged foreign" status, which allows you to lock in the duty rate at the time of admission into the FTZ. That way, when you're ready to export, you can pay the historically lower duty rate instead of the newly increased rate.

Weekly entry savings

Another benefit unique to FTZs is the weekly entry. In an FTZ, you can file one customs entry per week rather than per shipment. That means CBP no longer has to process an entry for each shipment, and FTZs no longer have to pay their brokers and US Customs for the processing of each shipment.

Merchandise processing fees (MPF) are applied to imports into the US at a rate of 0.3464% of imported value. For every entry, there is a minimum fee of $25.67 and a maximum fee of $497.99 when the imported value is over $143,761.55. Many importers hit the maximum MPF on every entry.

Non-zones submitting entries per shipment

10 shipments per week, each with a value of over $143,761.55

Weekly MPF of **$4,979.90**
Yearly MPF of **$258,954.80**

Zones submitting one weekly entry

10 shipments per week, each with a value of over $143,761.55

Weekly MPF of **$497.99**
Yearly MPF of **$25,895.48**

With an FTZ, you could save more than $230,000 in MPF per year.

Reducing other fees

FTZs go beyond just MPF savings. Fewer entry filings can reduce your brokerage fees. And if you're authorized for Direct Delivery — which allows for immediate movement off the pier upon arrival, since goods are moved in-bond to the FTZ — you can also eliminate demurrage fees. In fact, 55% of companies report an overall decrease in import fees since using FTZs.

Duty deferral

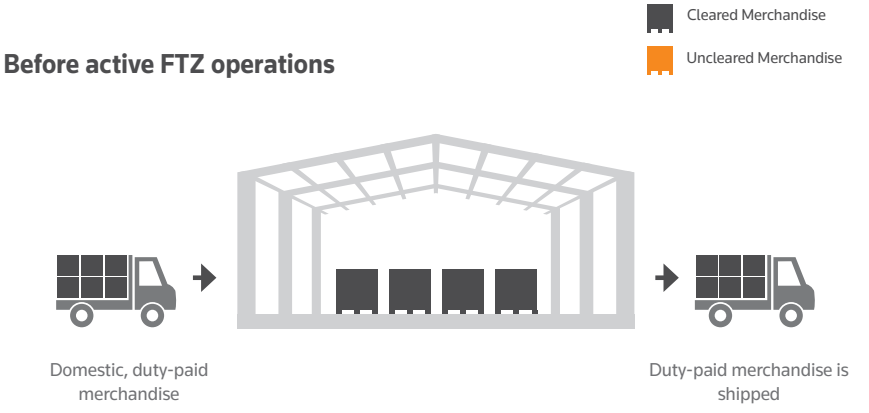
FTZs allow the most duty deferral of any customs program in the US. Because FTZs are not considered part of US Customs territory, no duty payment is required on merchandise at the time of entry. The payment is deferred until the goods are removed from the FTZ and entered into US commerce.

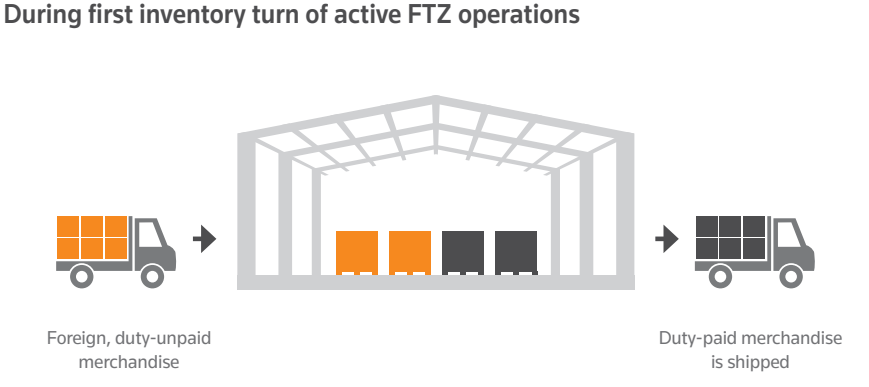
Cash flow in the first inventory turnover

During your first year of active FTZ operations, you will see substantial initial savings from duty deferral. At activation, all of your available merchandise will be cleared merchandise, or duty-paid merchandise, from before you activated your FTZ. At this point, all of your merchandise is considered domestic.

Using First In, First Out (FIFO) inventory recordkeeping, it may be several months before the first turn of inventory. **The result is several months of no duty payments whatsoever, which could easily amount to millions in duty savings depending on your volume.** You will only resume duty payments once you hit the first layer of duty-unpaid, foreign merchandise.

In the meantime, these funds may be used as working capital to earn interest or to invest in R&D, additional merchandise, etc. Companies with high volumes, slow inventory turns, or merchandise with high duty rates will see a significant return.





Duty exemption

In addition to deferring duties, FTZs can completely eliminate duties in the following areas:

Re-exports

As we discussed earlier, you are only required to pay customs duties when the goods are transferred into US commerce. However, if the goods never enter US commerce, no customs duty is ever due. Re-exporting into a foreign country is completely duty-free.

Waste, scrap, and yield loss

No duty is owed on goods destroyed or scrapped in the FTZ. For example, if 6% of the original imported product is destroyed or lost during the manufacturing process within the FTZ, you will only pay duties on the 94% that leaves the FTZ. For a company importing $50 million in foreign parts with an average 7.5% duty rate, that equals $225,000 in duty savings.

Zone-to-zone transfers

Although most companies focus on exports with FTZs, you can also transfer goods from one FTZ to another with no customs duties. By extending FTZ benefits throughout your company's US supply chain, you will lower your overall cost structure and achieve a competitive advantage in the marketplace.

Client spotlight

"After running a savings report for the first 6 months of this year, we have saved more than $1 million in duties and fees."

Darcy Emehiser

Inventory controls

By bringing goods into an FTZ warehouse that you manage, you can track and control your inventory more closely.

Lower insurance premiums

You can also reduce your insurance costs with FTZs. Typically for insurance purposes, the amount of duty paid on imported merchandise is included in the insurable value of your inventory. But because you have deferred duty payment in an FTZ, your insured value and insurance premiums can be lowered. You can also see insurance savings from the added security measures we just covered.

Enhanced security

As an FTZ, you're required to meet certain security standards. The good news is that most companies (and all CTPAT members) are already meeting these requirements by incorporating fences, ID cards, cameras, and more.

Indefinite storage

Unlike the five-year limit on bonded warehouses, FTZs offer indefinite storage. Here are two examples where this can be especially helpful. If your goods require a lengthy, intricate manufacturing process, they can stay in the FTZ without duty payment until the finished goods are completed and shipped out of the FTZ. And if the product admitted into the FTZ is subject to quota restrictions, you can hold your quota-restricted merchandise in the FTZ until it can be entered into US commerce without falling under quota restrictions.

What can you do in an FTZ?

Once merchandise is admitted into the FTZ, you may:

- repackage
- store
- destroy
- test
- salvage
- mix
- sample
- process grade
- sort
- relabel
- distribute

With special permission, you can:

- manufacture
- exhibit
- assemble
- manipulate

At no time are you permitted to perform retail trade.

Supply chain reponsiveness

FTZs offer a wide variety of supply chain benefits. By increasing the speed of your supply chain while simultaneously managing costs, FTZs can help you improve your market competitiveness and help your business grow.

Faster speed-to-market and reduced lead times

As an FTZ, you can request Direct Delivery, which allows you to move merchandise directly from the port of arrival to the FTZ. Direct Delivery greatly reduces clearance delays, including lengthy customs exams. But that's not all. FTZs can use a Weekly Estimated Entry, which means that your merchandise is approved in advance for release into US commerce from the warehouse.[3] By combining Direct Delivery and the Weekly Estimated Entry process, you can reduce lead time by as much as two days compared to a normal customs handling timeline. Thinking big picture, this means faster access to inventory, increased inventory turn, quicker invoicing, and better cash flow.

By combining Direct Delivery and the Weekly Estimated Entry process, you can reduce lead time by as much as two days compared to a normal customs handling timeline.

Better traceability

FTZ reporting requirements offer a unique perspective of your company's supply chain. By leveraging an inventory control and recordkeeping system (ICRS), you can gain full visibility into your supply chain. You can see where the goods came from, who brought them into the US and to the warehouse, receipt information, inventory processing, manufacturing events, and shipment to the end consumer.

Visibility to product information, classification, and total landed cost are also part of the ICRS tracking and reporting capability. Best-in-class ICRS should offer full traceability from receipt to shipment and shipment to receipt, all in the click of a button.

Supply chain reponsiveness (cont.)

Integration of your entire supply chain

By being smart about your overall distribution network strategy, you can save millions, and your entire supply chain will benefit. FTZs can transfer merchandise "in-bond" from one FTZ to another, eliminating the need to pay duties when goods are moved from one location to the next. If you have suppliers who also operate FTZs, you can extend your duty deferral benefits throughout the supply chain.

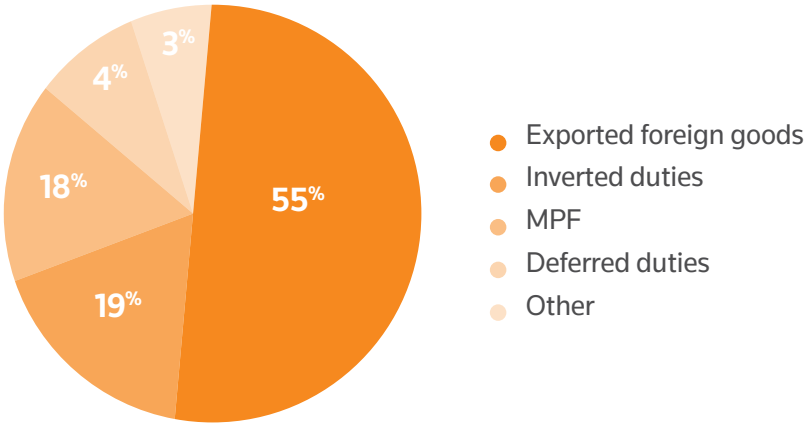
For example, one strategy is to focus on integrating suppliers of products with the highest duty rate items into your FTZ strategy first. If you're an automotive manufacturer, that might be tires, which have a 4% duty rate. But if the tire manufacturer is operating in an FTZ, those goods can be transported to your FTZ in-bond, with no duty paid on the foreign components of the tires or the 4% duty rate of the tire being used in US manufacturing. Once the tire is assembled onto the car, the duty rate is now 2.5% because it leaves the FTZ as a component of the finished product. These are the inverted tariff savings we discussed on page 10. These savings give the supplying tire manufacturer a competitive cost advantage when selling to you over other tire distributors who are paying the higher 4% duty rate. And in the end, you would benefit because you're paying less for the components that you're assembling into the finished product.

03.
Case studies

Reaching $1 billion in FTZ savings

Every year we see our hard work pay off when clients succeed in the FTZ program. **The proof?** Last year our FTZ clients saved more than $1 billion in duties.

How are our clients saving?



Top 10 industries with the highest return on investment

The real question is — how much will you save?

Columbia Sportswear Company saves more than $2 million each year as an FTZ

"We first implemented Thomson Reuters **ONESOURCE Foreign-Trade Zone Management** back in 2008. Efficiency is a huge advantage with the software. It would be difficult to scale our operations as we grow without automation. And because the software is web-based, it's simple and quick to request small changes, new queries, and reports.

With Thomson Reuters, we have been able to improve our business processes and data quality, and as a result, we have increased our compliance.

For any companies looking into zone automation, I have a few words of wisdom. Make sure you understand your purchasing, distribution, and sales processes and goals. Your goals should support, and ideally benefit, the overall enterprise objectives. Once you accomplish that, it will be much easier to communicate with your cross-functional teams the upstream and downstream impacts of a future FTZ."

Katie Tangman
Operations Manager, Global Customs and Trade
Columbia Sportswear Company

Columbia Sportswear Company™

- Apparel and footwear
- 6,000 employees
- Headquartered in Portland, Oregon
- Subsidiaries in Europe, Korea, Japan, and Joint Venture in China

Additional Thomson Reuters solutions

Columbia Sportswear Company is also leveraging Entry Verification in the US and Canada, Denied Party Screening, and both Global Classification and Global Trade Content for all but two of their importing regions.

Aerospace industry is all in for FTZs

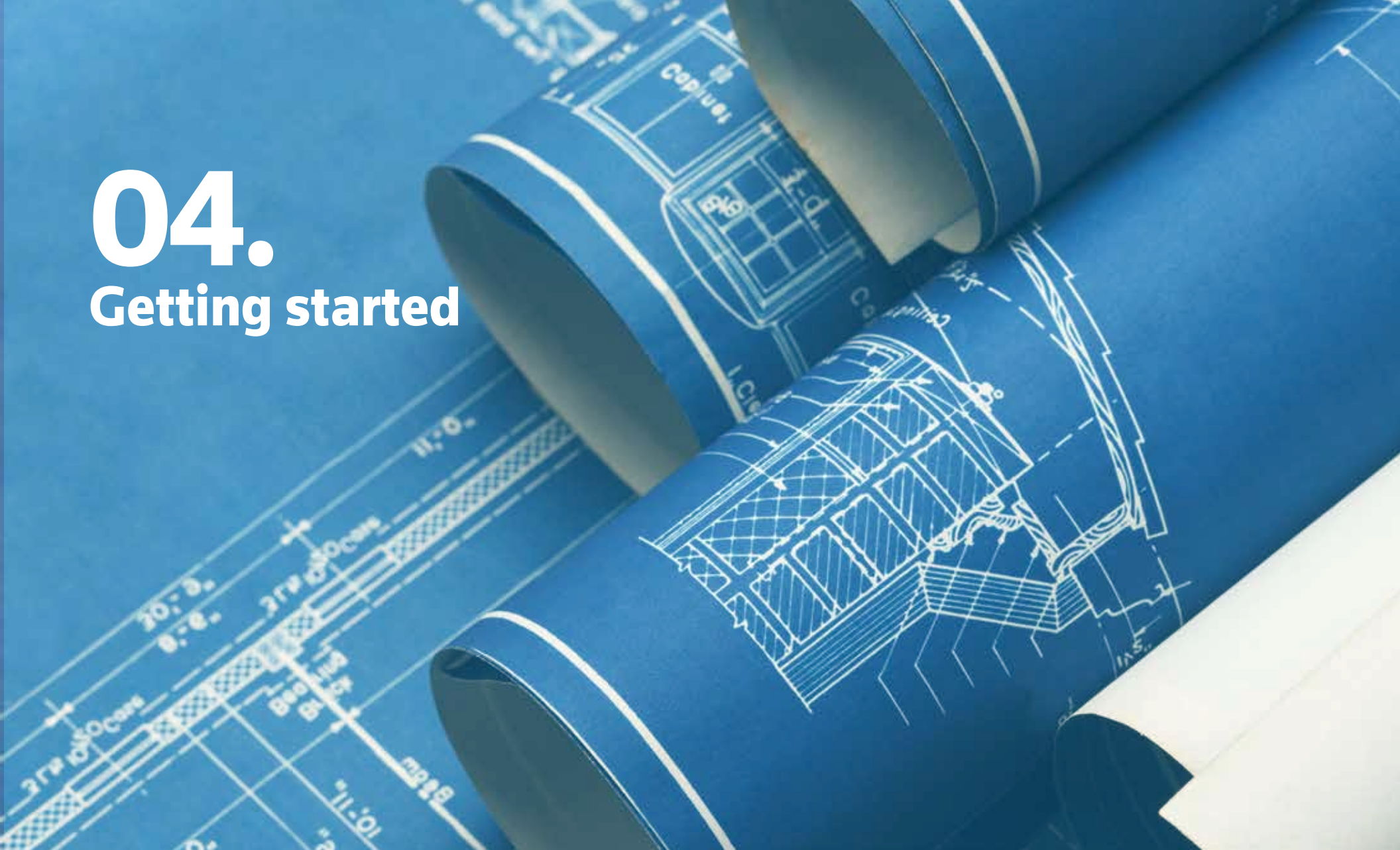
The aerospace industry is made up of companies that design, build, test, and sell aircraft, spacecraft, and the parts that go into both.

What is interesting about this industry is that both the aerospace companies and their suppliers heavily utilize FTZs to save money. **According to a recent FTZ Board report, Honeywell Aerospace, Inc. and GE Engine Services Distribution LLC were two of the top ten companies receiving merchandise into an FTZ.**[6] Suppliers of engines, components, auxiliary power units, air conditioners, hydraulic equipment, machine tools, and generators all leverage the FTZ program.

These suppliers receive a competitive advantage over other companies in their industries because they do not have to pay duties, taxes, and fees on merchandise that they sell to their customers and move in-bond to their customers' FTZs. The result is that they can sell their products at a discounted rate. The end customers that produce airplanes, helicopters, or spacecraft can then manufacture these components into a finished good that they can export without ever paying duty on the finished good or any of the component parts, thus **saving millions**.

Fun Fact

Even the petroleum companies that fuel the planes and spacecraft of the aerospace industry utilize the FTZ program to save money.



04.
Getting started

Questions to ask yourself

When considering an FTZ, ask yourself these questions. If you can answer yes to more than one, an FTZ is a valuable option for you.

- ☑ Do you manufacture or assemble imported goods?
- ☑ Do you regularly pay more than $497.99 per week in merchandise processing fees across all entries?
- ☑ Do you scrap, reject, destroy, waste, or return some of your imports?
- ☑ Do you export previously imported materials?
- ☑ Do you wait long periods of time for your orders to get through US Customs during importation?
- ☑ Do you sell your imported products to companies that reside in FTZs?
  Note: If you're unsure if your customers leverage FTZs, you can find out on the FTZ Board website.[2]
- ☑ Do you have a high volume of entries into the US?
- ☑ Do you pay a lot in customs duties each year?
- ☑ Do you intend to build a new distribution center or manufacturing plant in the next year or so?

Building an FTZ warehouse

If you designate an area as an FTZ, you can actually import all the building materials you need, such as conveyor belts, lights, and more, with no duty payments while you are building the new facility. The duty is deferred until the assembly line begins producing merchandise for sale. Given the timeframe of building a new warehouse, this could amount to a year's worth of deferred duties or more.

What to present to management

Naturally, your presentation to management will focus on savings. Although there are other supply chain, compliance, and risk-related benefits[4], your executive team will want to see the bottom line savings first and foremost. Most companies emphasize the following three areas:

Inverted tariffs

For every manufacturing zone, inverted tariffs offer substantial, ongoing savings.

MPF

Due to the nature of the weekly entry process in FTZs, entry processing fees are reduced thanks to a lower volume of filings made.

Re-exports

All zones, whether manufacturing or distribution, can benefit from duty-free re-exports.

Conducting a feasibility study

If you really want to crunch the numbers, you can also conduct a feasibility study with an FTZ consultant and/or FTZ software provider. In a joint feasibility study with Thomson Reuters, a large retail client found that they would save nearly $4 million in the first year by locating an FTZ in the US.

Those $4 million savings come from broker fees, MPF savings, and duty deferral. In 10 years, this company will see net savings of more than $13 million.

FTZ Feasibility Analysis

Summary of Savings with estimated costs included		1st Year	On-Going
Estimated FTZ Savings		$1,309,965.39	$1,309,965.39
Estimated Duty Deferral		$2,618,394.40	$0.00
Estimated Cost of Capital Savings		$0.00	$65,459.86
Total Estimated Costs/Expenses		$271,500.00	$192,500.00
Estimated Net FTZ Benefit vs. non FTZ Environment		**$3,656,859.79**	**$1,182,925.25**
Estimated Broker Fee Savings		**1st Year**	**On-going**
Estimated Annual Broker Fee	$300,000.00	$300,000.00	$300,000.00
Estimated Annual Broker Fee w/FTZ Weekly Entry (based on current fee + 10%)	$5,917.24	$5,917.24	$5,917.24
	Broker Fee Savings	$294,082.76	$294,082.76
Estimated MPF Savings		**1st Year**	**On-going**
Estimated Annual MPF	$694,908.00	$694,908.00	$694,908.00
Estimated Annual MPF w/FTZ Weekly Entry	$25,220.00	$25,220.00	$25,220.00
	MPF Savings	$669,688.00	$669,688.00
Estimated Duty Deferral		**1st Year**	**On-going**
Average Inventory x Average Duty Rate	$2,618,394.40	$2,618,394.40	
Cost of Capital	2.5%		$65,459.86
	Duty Deferral Savings	$2,618,394.40	$65,459.86
Estimated Duty Reduction (Inverted Tariff Opportunities)*		**1st Year**	**On-going**
Difference in Duty Rates x Import Value	$0.00	$0.00	$0.00
	Potential Duty Reduction	$ -	$ -
** FTZ Board must approve inverted tariff in the FTZ scope of authority*			
Estimated Duty Savings on Re-exports		**1st Year**	**On-going**
Re-export Value x Average Duty Rate	$278,116.38	$278,116.38	$278,116.38
	Duty Savings on Re-exports	$278,116.38	$278,116.38
Estimated Duty Savings on Scrap		**1st Year**	**On-going**
Import Value x Scrap Percentage x Avg Duty Rate	$68,078.25	$68,078.25	$68,078.25
	Duty Savings on Scrap	$68,078.25	$68,078.25

Applying for an FTZ

There are four steps to obtaining FTZ status. Estimated timelines are provided for each step. However, it is important to note that timelines may vary based on the customs port of entry, government response times, and changes to project scope.

Your grantee submits an application

First you need to find a grantee to submit your FTZ application. Public corporations such as port authorities, cities, and counties can submit applications to the FTZ Board. Here are some materials you will need for the application — letter from the grantee, company information and description of the request, and an explanation of economic benefits for the company and the local community.

FTZ Designation

FTZ Board

30 days (Alternative Site Framework)

90-150 days (Traditional Site Framework)

Determine the type of zone you want to operate

To learn about general purpose zones, subzones, and production authority, refer to the FAQ section of the FTZ Board website.[2] Once you decide what type of zone to operate, your grantee will assist you with the request.

FTZ Production Authority

FTZ Board

Production Notification: 120 days

Production Application if required: 6-12 months

Activate your zone with CBP

Once your zone or subzone is approved by the FTZ Board, CBP must approve the activation before any merchandise can be admitted under zone procedures. Here are some items that must be completed before activation — blueprint of the FTZ location, ICRS procedures manual, security review, FTZ Operators bond, background investigations, and letter from the grantee.

FTZ Activation

US CBP

90-120 days

Implement with your chosen software provider

Typically in parallel with the FTZ Board approval and CBP activation, you would implement an inventory control and recordkeeping system (ICRS), or an FTZ management solution. That way once all approvals are given, you can immediately begin reaping the benefits of your new FTZ.

FTZ ICRS Systems

Setup and Testing

4-6 months

References

1. Aberdeen Group. (2015). Omni-channel global trade: The ROI of foreign-trade zones and trade agreements.
   Retrieved from http://www.aberdeen.com/research/10825/10825-rr-trade-ftz-fta-optimization/content.aspx
2. Foreign-Trade Zone Board. (n.d.). Frequently asked questions.
   Retrieved from http://ia.ita.doc.gov/ftzpage/info/ftzstart.html
3. Michigan Economic Development Corporation. (2017). Foreign-trade zones.
   Retrieved from http://www.michiganbusiness.org/cm/Files/Fact-Sheets/FTZs.pdf
4. National Association of Foreign-Trade Zones. (n.d.). FTZ basics and benefits.
   Retrieved from https://www.naftz.org/ftz-resources/ftz-basics-benefits/
5. Port of Seattle. (2013). Making the case for foreign-trade zones: Helly Hansen's decision to establish a foreign-trade zone and the benefits to its business.
   Retrieved from https://www.portseattle.org/Cargo/Foreign-Trade-Zone/Documents/HH_FTZ.pdf
6. Ross, W., & Mnuchin, S. (2018). 79th annual report of the Foreign-Trade Zone Board to the Congress of the United States.
   Retrieved from https://enforcement.trade.gov/ftzpage/annualreport/ar-2017.pdf
7. US Customs and Border Protection. (2017). About foreign-trade zones.
   Retrieved from https://www.cbp.gov/border-security/ports-entry/cargo-security/cargo-control/foreign-trade-zones/about

Thomson Reuters

Thomson Reuters is the world's leading source of news and information for professional markets. Our customers rely on us to deliver the intelligence, technology, and expertise they need to find trusted answers.

The business has operated in more than 100 countries for more than 100 years. Thomson Reuters shares are listed on the Toronto and New York Stock Exchanges (symbol: TRI).

For more information, **visit tr.com**.

TR751518_10/2022_DGM

THOMSON REUTERS®