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FOREIGN TRADE ZONES HELP U.S. COMPANIES REDUCE COSTS OF MANUFACTURING AND DISTRIBUTION

Over 3,000 U.S. companies use the U.S. Foreign Trade Zones Program to reduce the costs of their import, export, and/or manufacturing operations.

What Is a Foreign Trade Zone (FTZ)? An area designated by a company that for Customs duty purposes is treated as being outside the commerce of the United States. The Foreign Trade Zone Program has been administered by the Department of Commerce since 1934 and is designed to enhance the competitiveness of U.S. companies engaged in foreign trade. Companies join through a two-step approval process, involving the Commerce Department and U.S. Customs. Once admitted to an FTZ, merchandise may be stored, assembled, manufactured, processed, exported, or entered into the commerce of the United States.

Who Should Be Interested? Manufacturers who import raw materials and components, and distribution companies that import over $50 million per year (can be through multiple facilities).

How Can the Foreign Trade Zone Program Save My Company Money? Generally speaking, the savings a company can realize depend upon whether it is a distributor, manufacturer, or both.

Savings for Distributors

- ***Reduction of Merchandise Processing Fee, Weekly Customs Entry.*** MPF is a user fee that is imposed on the value of imports to defray the costs Customs incurs in clearing and inspecting imported merchandise. The MPF currently stands at 0.3464% of the value, and the minimum and maximum fees assessed for any shipment are $25 and $485, respectively. MPF normally is assessed on a per entry basis. Once a facility or group of facilities has been designated as an FTZ, the facility is permitted to make one Customs entry per week, which translates into a maximum yearly MPF payment of $25,220 (52 x $485). For example, a company that imports $100 million worth of merchandise per year would normally pay an MPF of $346,400, and would realize MPF savings of $321,180 per year by using an FTZ. It should be noted that any number of facilities within a particular Customs port of entry can participate in the weekly entry process. This is typically the largest category of FTZ savings for Distributors. Additional savings in Customs brokerage fees also are realized from the reduced number of entries filed. Please see the enclosed FTZ benefits estimator for the savings in MPF your company could realize.

- ***Duty Deferral.*** Customs duties and taxes on merchandise admitted into an FTZ are not due and payable unless and until the goods are transferred from the zone into the commerce of the United States, yielding cash flow benefits. Also, Harbor Maintenance Fee, which is assessed against the value of U.S. ocean imports at the rate of 0.125%, is paid only once per quarter instead of with each and every importation.

- ***Duty Elimination on Exports and Scrap/Waste.*** Goods that are exported from an FTZ never enter the commerce of the United States. Therefore, no duty or taxes are assessed against them. The same is true for scrap and waste, which may consist of obsolete materials, components, or finished products. Special NAFTA rules apply to merchandise exported from a zone to Canada or Mexico, but as long as the goods are not manipulated while in the FTZ, no duty is assessed.

- ***Local Ad Valorem Tax Exemption.*** A few states impose *ad valorem* taxes on inventory. Depending upon the state and local governments involved, merchandise stored in FTZs may be exempt from inventory taxes.

Savings for Manufacturers

- ***All of the Above-Listed Savings for Distributors.***

- ***Inverted Tariff Savings.*** When a company admits merchandise into an FTZ, it may elect to pay duty on the imported article based upon its condition at time of admission to the zone (privileged status) or its condition at time of transfer from the zone (non-privileged status). For example, roller bearings are classifiable in heading 8482 and are dutiable at 5.8%. Automobiles are classified in heading

8703 and are dutiable at 2.5%. Thus, roller bearings assembled into an automobile in an FTZ would be dutiable at 2.5% instead of 5.8% as long as non-privileged status was requested at the time of their admission into the zone. It is not surprising, therefore, that almost all U.S. auto assembly is done in Foreign Trade Zones. Industries with inverted tariffs, and thus major users of the FTZ program, include but are not limited to:

- Automobile manufacturing and assembly
- Petroleum storage, refining, and blending
- Pharmaceutical manufacturing
- Aerospace manufacturing and assembly
- Electronics assembly

Please see the enclosed FTZ benefits estimator for the savings in duties your company could realize from the inverted tariff.

If you have any questions or would like to explore using the Foreign Trade Zones Program, please let us know.