

## **FOREIGN-TRADE ZONE ADVANTAGES**

### **CASH FLOW**

U.S. Customs duties are paid only if and when imported merchandise is shipped into the U.S. Customs territory and is subject to duty. Merchandise transferred to another zone, exported, or destroyed may avoid U.S. Customs duties. Inventory is held in the FTZ without duty payment.

### **EXPORTS**

No U.S. Customs duties are paid on merchandise exported from an FTZ. Normally while the drawback law allows the recovery of U.S. Customs duties previously paid after the merchandise is exported, rarely are all exports subject to drawback. Exports to NAFTA countries of unused merchandise are rarely recovered. In an FTZ, the duties are simply never paid.

### **WASTE/SCRAP/DEFECTS/DAMAGE/ OBSOLESCENCE**

U.S. Customs duties are significantly reduced or eliminated on merchandise subject to these accountable losses.

### **INVERTED U.S. CUSTOMS DUTY SAVINGS**

In an FTZ, uniquely, the FTZ user may elect to pay the duty rate applicable to either component materials or the finished product manufactured from the component material, depending upon which is lower. In some cases, the rate may be zero or "duty free." The reduction or elimination of U.S. Customs duties is significant.

### **NONDUTIABILITY OF LABOR, OVERHEAD, AND PROFIT**

U.S. Customs duties are not owed on labor, overhead and profit attributed to production operations in an FTZ. If the same production operation were done overseas, the value of the labor, overhead and profit would be subject to U.S. Customs duty.

### **STAGED DUTY REDUCTIONS**

Under the Uruguay Round of GATT, many articles have U.S. Customs duties reduced yearly. Nonprivileged foreign status merchandise utilizes the rate of duty in effect as of the shipment date from the zone.

### **REDUCED CYCLE TIME**

Delays relating to U.S. Customs clearances are eliminated. Special direct delivery procedures expedite the receipt of merchandise in company facilities, reducing inventory cycle time.

### **WEEKLY ENTRIES**

Weekly entry procedures significantly reduce paperwork and expense. Duties are owed only when and if merchandise is transferred from the zone to the U.S. Customs territory. No duties are owed on exports, zone to zone transfer, certain scrap/waste, etc. Merchandise processing fees are paid only with the entries.

### **HARBOR MAINTENANCE FEE**

Fees are paid quarterly on merchandise admitted in the FTZ, not on the U.S. Customs entry, creating a cash flow advantage.

### **TAXATION**

By Federal statute, tangible personal property imported from outside the U.S. and held in a zone, and tangible personal property produced in the U.S. and held in a zone for exportation, are not subject to State and local ad valorem taxes. Many states have tax incentive laws based upon zone status.

### **PRODUCTION MACHINERY**

Machinery for use in a zone may be assembled and installed before duties are owed on either the parts or finished product rate.

### **INTERNATIONAL RETURNS**

A number of firms that export have a percentage of the exports returned to the United States. U.S. Customs duties are owed each time merchandise of foreign origin that has not been registered with U.S. Customs is returned. American Goods Returned merchandise can be verified. By being returned and admitted to an FTZ, no U.S. Customs duties are paid upon return.

### **COUNTRY-OF-ORIGIN MARKING/LABELING**

No country-of-origin labels are required on merchandise admitted to the FTZ. Merchandise shipped into U.S. Customs territory must have appropriate origin labeling which will vary depending on the circumstances.

### **SECURITY**

The FTZ is subject to U.S. Customs Service supervision and security requirements. Unauthorized withdrawal of merchandise, such as employee pilferage or stealing, is a violation of 18 U.S.C. 549, 3571, carrying a penalty up to two (2) years in a federal penitentiary, fines not more than \$250,000, or both per offense.

## **ANTIDUMPING/COUNTERVAILING DUTIES**

Use of an FTZ defers the payment of these duties until merchandise enters the U.S. Customs territory. Exported merchandise is never subject to these duties. Note that recovery of these duties is not available under the drawback law.

## **SPARE PARTS**

To service many products, spare parts must be on hand in the United States for prompt shipment. However, it is impossible for most firms to know the requirements for spare parts, especially with new products. Spare parts may be held in the FTZ without U.S. Customs duty payment, generating cash flow savings. Obsolete parts may be destroyed without duty payment.

## **U.S. QUOTA**

Most merchandise may be held in an FTZ, even if it is subject to U.S. quota restriction. When the quota opens, the merchandise may be immediately shipped into U.S. Customs territory. Voluntary restraint and orderly marketing agreements are not impacted by FTZ use.

## **QUOTA AVOIDANCE**

Quota merchandise may be substantially transformed in an FTZ into a non-quota article that may be entered into the U.S. Customs territory free of quota restrictions.

## **QUALITY CONTROL**

The FTZ may be used for quality control inspections to ensure that only merchandise that meets specifications is imported and duty paid. All other materials may be repaired, returned to the foreign vendor, or destroyed.

## **INVENTORY CONTROL**

Operations in an FTZ require careful accounting of receipt, processing, manufacturing, and shipment of merchandise. Firms have found that the increased accountability reduces inventory error, receiving and shipping concerns, and waste and scrap.

## **ENTIRETIES PROVISION**

An importer can choose whether or not the entireties provision (all necessary parts classified as the finished product) is utilized at entry.

## **EXHIBITION**

Merchandise may be held for exhibition in the zone without U.S. Customs duty payment. At a later date the merchandise may be imported or exported.

## **INSURANCE COSTS**

The insurable value of merchandise held in an FTZ need not include the U.S. Customs duty payable on the merchandise. Cargo insurance rates should be reduced because imported merchandise is shipped directly to an FTZ.

## **ZONE-TO-ZONE TRANSFER**

Significant benefits accrue to the in-bond transfer of merchandise from one zone or subzone to another for distribution or manufacture without U.S. Customs duty payment. A network of zone projects provides opportunities to reduce or eliminate duties.

## **TEMPORARY REMOVAL PROCEDURE**

Merchandise may be removed from an FTZ into the U.S. Customs territory for certain activities and returned to the FTZ without U.S. Customs duty payment.

## **COMPLIANCE WITH FEDERAL LAWS**

Merchandise may be admitted into an FTZ without being subject to a wide array of Federal laws that would otherwise prohibit the importation. Upon shipment into the U.S. Customs territory, the merchandise must meet all applicable requirements.

## **ENTERPRISE ZONE COORDINATION**

Foreign-trade zone advantages may be combined with those of enterprise zones for enhanced financial gain.

## **TRANSFER OF TITLE**

Title to merchandise may be transferred in an FTZ as long as there is not a "retail" sale.

## **RECORD IDENTITY ACCOUNTING**

Specific physical identification of merchandise is unnecessary in an FTZ. The UIN systems allows FIFO record identity inventory accounting.

## **CHANGING CIRCUMSTANCES**

As U.S. laws and especially U.S. Customs laws change, location in an FTZ allows a firm greater flexibility in addressing these changing circumstances.