

## **TOP TEN FOREIGN-TRADE ZONE FINANCIAL SAVINGS ADVANTAGES**

There are a wide variety of financial savings opportunities by the utilization of the U.S. Foreign-Trade Zone Program:

1. Improve Efficiency in Operating with U.S. Customs. Uniquely in foreign-trade zones, a company may use the Customs Weekly Entry program. This allows shipments twenty-four hours a day, seven days a week out of a zone for import or export. The Weekly Entry for import procedure requires only one Customs entry to be filed per week and only one Customs Merchandise Processing Fee payment of a maximum of \$485. For many firms that are active importers, both ocean freight and air freight, they can have 10, 20, 50, or 100 Customs entries per day or week, all at the maximum \$485 Merchandise Processing Fee payment. By reducing these many entries to one per week and one fee, there are several major savings. First, the largest financial savings is in the payment of the Merchandise Processing Fee. A second savings is in the Customs brokerage fees to prepare the Customs entries. The third savings is having fewer Customs entries that means less records and simpler recordkeeping processes and expense.
2. Ability to Move Merchandise Quickly. The FTZ Direct Delivery procedures allows merchandise arriving in the United States to be transferred to a foreign-trade zone using the Direct Delivery procedure, which means that the material is moved inbond directly to the facility normally without Customs inspection or a Customs entry when it first arrives in the U.S. Most companies experience a one- to three-day time delay between the time merchandise is first unloaded from a ship or airplane until it arrives at an importers nearby warehouse because of the Customs entry process and the transfer of merchandise. By the use of the Direct Delivery procedure, merchandise should be able to be transferred the same day it is unloaded to the foreign-trade zone facility. This means a significant financial savings of one to three days less inventory on hand to support the same level of business. The Direct Delivery procedure shortens the pipeline and creates significant financial savings.
3. Increase Cash Flow Savings. 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 and/or processed in the FTZ without duty payment.
4. Avoid U.S. Duties for Imported Merchandise That is Exported. 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. In an FTZ, the duties are simply never paid.

Exports to NAFTA Countries of unused merchandise are rarely recovered. Merchandise exported to Canada or Mexico in the same condition as it was when admitted to the zone may be exported to Canada or Mexico without the payment of any U.S. duties. Foreign non-duty paid merchandise processed or manufactured in an FTZ and subsequently exported to Canada or Mexico may have the U.S. duties owed deferred, reduced, or waived as applicable.

5. Inverted Duty Savings. Imported parts may be subject to duty rates that are higher than the finished product. Generally, manufacturing is determined when the Harmonized Tariff Schedule of the United States (HTSUS) classification number on the imported parts/material changes to a different number during manufacturing or processing. As an example the average Customs duty rate of 6% would apply to certain imported parts/materials without a zone. The materials are admitted to the zone and manufactured/kitted into a finished product with a 0% Customs duty rate. Utilization of foreign-trade zone procedures will allow the Company to choose the Customs duty rate of the finished product (0% versus 6%) rather than the Customs duty rate that normally applies to imported parts/materials. This places the U.S. production facility in the same financial position with regard to U.S. Customs duties as foreign production facilities.
6. Avoid Payment of U.S. Customs Duties on Merchandise that Becomes Waste/Scrap/Defects/Damage/Obsolescence. U.S. Customs duties are significantly reduced or eliminated on merchandise subject to these accountable losses.
7. Facilitates Spare Parts Operations. 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.
8. Provides Ability for 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.

9. Reduce Harbor Maintenance Fee Cost. Currently, Harbor Maintenance Fees are paid at .125 percent on the value of ocean freight shipments at the time that Customs entry is filed. In a foreign-trade zone, those payments are made quarterly creating a cash-flow savings.
10. Verify Origin Marking Without Penalties. Merchandise held in a foreign-trade zone may not comply with all U.S. country of origin marking requirements. The requirements for proper country of origin marking are only at the time merchandise is shipped from a foreign-trade zone for Customs entry. This allows the warehousing/distribution pick/pack operation to confirm and validate origin marking. Improper origin marking can have additional Customs duties assessed of 10% of value.
11. Store Merchandise Without a Time Limit. Merchandise can remain in an FTZ for an unlimited time period, while bonded warehouses have a time limit that applies.

We trust this information is useful for your purposes. If you have further questions, please do not hesitate to contact us.