

AIR **LAND** **OCEAN**



The New Foreign Trade Zone

Reliable Worldwide Transportation everytime, anywhere!



BDG INTERNATIONAL, INC
ESTABLISHED 1983



BDG International, Inc

Serving your international needs since 1983.

Welcomes you!

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BDG International, Inc.

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Credentials:

- Bachelors of Science- Illinois State University
- (International Business, emphasis of Eastern Studies)
- Licensed Customs Broker
- Certified Customs Specialist
- Certified Export Specialist
- IATA (International Air Transportation Association) Certified
- DG (Dangerous Goods) Certified
- Committee co-chair for Export Compliance of the CCBFA
- Active member of the NCBFFA



FOREIGN TRADE ZONE

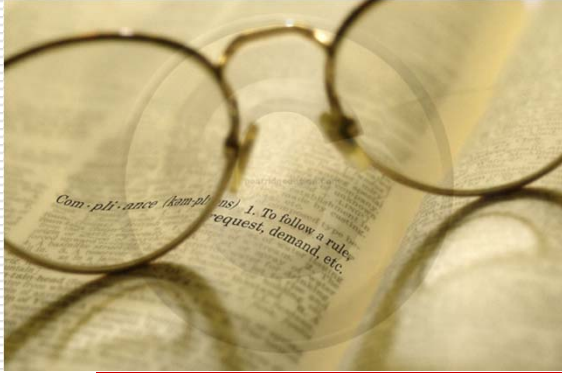
Foreign Trade Zone Act of 1934
87 years in the making





Reasons for FTZ in 1934

- **an attempt to mitigate some of the destructive effects of the Smoot-Hawley Tariffs, which had been imposed in 1930.**
 - Raised tariffs on over 20,000 imported commodities
 - Was suppose to help domestic farmers against import competition
 - Considered to be one of the negative factors of the lack of recovery after the stock market crash of 1929
 - The Foreign-Trade Zones Act was created to "expedite and encourage foreign commerce"
 - Merchandise of every description may be held in the Zone without being subject to Customs duties and other ad valorem taxes .
 - <http://foreign-trade-zone.com/history.htm>
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Definitions

□ **Foreign Trade Zone**

- A physical land that has been approved to be exempt from duties and taxes, until the product leaves the facility.

 - FTZ were restricted access sites in or near ports of entry which were licensed by the FTZ Board and operated by Customs
-

FTZ Government Structure

- FTZ Act of 1934 set up
 - 15 CFR 400
 - FTZ Act is defined under Dept of Commerce
 - The Foreign Trade Zone Board
 - 8 employees currently
 - Chairman of the Board
 - Secretary of the Dept of Commerce
 - Dept of Treasury- over seeing body
 - Customs & Border Patrol – enforcement & standard customs work under 19 CFR 146



FTZ local structure

- Each authorized Zone has a Grantee. The Grantee is the local governing body that will oversee the specific Zone region.
 - A Zone region is typically located new or in a Customs port area
 - Prior to 2010 the Grantee would authorize one of two zones: General Purpose (public warehouse) or a Sub Zone (special purpose)
-

Reform of 1991

- The FTZ Board conducted an analysis on the usability of Zones and modernized the FTZ Act of 1934
 - Confirmed Foreign and Domestic merchandise can move into the zone
 - Clarified Quota items were allowed
 - Normally there would be a tariff classification change during manufacturing in the Zone
 - Upheld AD / CVD only allowed in major manufacturing; must be with approval
 - Most of the time not allowed
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1991 defined

- ❑ Manufacturing as Substantial Transformation
 - ❑ Processing was defined which did not require ST
 - ❑ Distribution was defined as an acceptable alternative activity within a zone
 - ❑ Defined the distance for a Sub-zone from the center was defined as 60 miles from the Grantee (90 minutes)
-

Sub-Zones

- A Sub Zone was a designation for Special Purpose held by a private company
 - Burdensome of paperwork to become a Sub-Zone
 - Prove that it was in public interest
 - The FTZ Board had to evaluate using a two step process w/ threshold provisions
 - Too difficult for Zones to really become a solution
-

CF 214

- Document to provide the inventory data to Customs
 - Accounts for the cargo coming into the country and closes out the In Bond documents to move the cargo
 - About five years ago became Automated
 - E-214
 - The beginning of the true paperwork reduction
-

FTZ of 2009

Alternative Site Framework (ASF)

Milwaukee FTZ 44 = 2011

Chicago FTZ 22 = 2011

Rockford FTZ 176 = 2010

<http://ia.ita.doc.gov/ftzpage/letters/ftzlist-map.html>

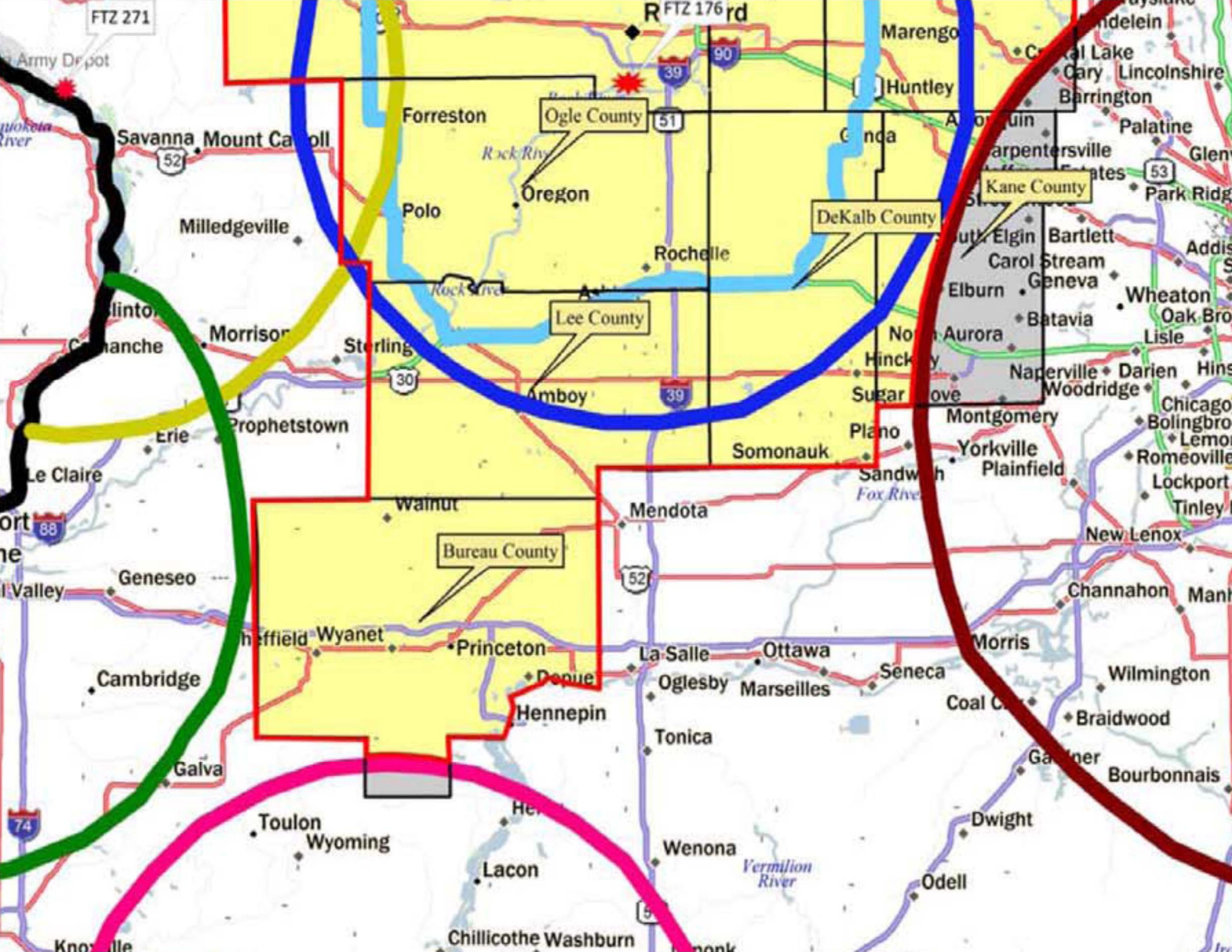
ASF – Alternative Site Framework

- The ASF provides Foreign-Trade Zone Grantees with greater flexibility to meet specific requests for zone status by utilizing
 - minor boundary modification process

 - The new sites (companies that want to become active in the Zone) should be selected and the application should be drafted in such a manner as to receive swift approval, while maximizing benefit to those that locate in the Zone.
 - Less paperwork and cost in becoming a facility in the ASF by using the Minor Boundary Modification process
-

What does this really mean?

- Any location within the new territory of the FTZ under the ASF can utilize the Zone status.
 - Application process simple and quick
 - Cost is reduced compared to the SubZone
 - Need to prove “in public interest” is still important however not overbearing.
 - Small and Large companies can take advantage of this program and benefit
-



Zones create Jobs



JOC – in August issue

Says Grand Rapids and S. Michigan have over 8000 jobs due to Zones // Zones have saved them through the current recession

FTZ - Benefits

Why become a zone?





Deferred Duties

- ❑ Inbound cargo into the Zone will not clear Customs it will “Enter in” into the Zone
 - ❑ The cargo will only clear customs on the “Entry Out”
 - Duties are deferred until inventory leaves the warehouse into the market place
 - ❑ Export cargo does not clear customs
 - No Duties are paid – no Drawback required
 - ❑ Destroyed Cargo does not clear customs
 - A destruction CF 216 certificate is provided, no Duties are paid – no Drawback required
 - ❑ Unsold Cargo does not clear customs
 - Unsold cargo may remain in the Zone – no expiry
-

TAXES

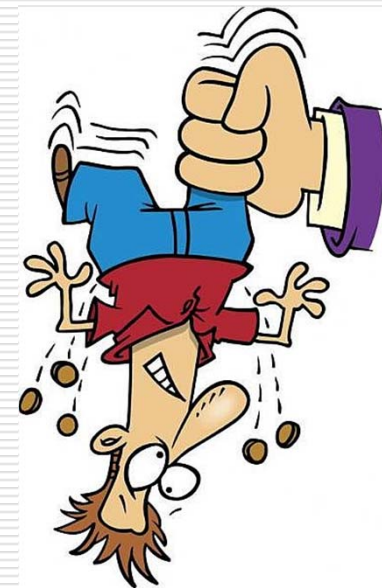
- ❑ Merchandise processing fee per week

- \$.21 / \$25 min / \$485 max

- ❑ 2000 entries x \$25 = \$50,000
 - ❑ 52 entries x \$485 = 25,500

- ❑ Harbor Maintenance Tax:

- Quarterly filings



WEEKLY ENTRY

- Under Weekly Entry/Export procedures, users file only one entry summary per week,
 - 1000 entries per year – standard large importer
 - As a Zone they will have 52 entries per year
-

Other savings and benefits

#1 MANUFACTURING BENEFIT:

- **INVERTED U.S. CUSTOMS DUTY SAVINGS –**
 - 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.

BENEFITS GOOD FOR ALL COMPANIES

- **FDA COMPLIANCE**
 - Delay FDA entries
 - Inspect your own cargo to ensure FDA compliance prior to entering into the Market Place
 - Obtain authorization from FDA in advance of adding the product to the FDA approved list
 - **CPSA COMPLIANCE**
 - Delay CPSA entries
 - Inspect your own cargo to ensure compliance
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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.
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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.
-

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.
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ANTIDUMPING/COUNTERVAILING DUTIES (upon approval)

- ☐ 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.
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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 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.
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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.
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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.
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INSURANCE COSTS -

- The insurable value of merchandise held in an FTZ need not include the U.S. Customs duty payment. At a later date the merchandise may be imported or exported.
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Control

- **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.
 - The next slide is from the Questa Web
<http://www.questaweb.com/>
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FTZ Comparison Matrix

	FTZ	Bonded Warehouse	TIB	Drawback
Duty	Duty is paid when merchandise exits the FTZ for US consumption. May elect to pay duty at this rate of the component or that of the finished product	Duty is collected only when merchandise is withdrawn for consumption	Entered duty free. Importer must export or destroy merchandise within one year of import (extensions can be requested)	Duty paid when merchandise enters the US. Must then file for a rebate, and can reclaim 99% of duty paid related to subsequent export or destruction. Refunds can take years to be received.
Time Limits	Unlimited storage time	Five year storage limit	One year time limit	Must apply for drawback within three years of Exportation or Destruction
Inverted Tariff	Inverted tariff benefit possible for manufacturers	No inverted tariff	No inverted tariff	No inverted tariff
Entry into US Commerce	Yes, all zone status goods can be entered from a zone into the US Commerce except Zone Restricted Merchandise	No, must export manufactured products	No, goods must be exported or destroyed	Can be entered, but, must be exported or destroyed within five years of importation to receive duty refund.
Foreign/Domestic Storage	Possible to store domestic & foreign goods in same facility	No domestic goods can be stored	Not applicable	May receive refunds for imported goods purchased from a domestic supplier.
Movement of Merchandise	Merchandise can move within the US Customs territory as well as be exported at potentially reduced duty rates	Certain transfers are permissible between bonded warehouses and FTZ's subject to restriction.	Merchandise can move within the US Customs territory	Not applicable
Arrival in US	Once goods reach a US port they can be shipped directly to the FTZ under transportation bond	Once goods reach a US port they can be shipped directly to the warehouse under transportation bond	Once goods reach a US port, they can move freely within the one year time limit	Not applicable
Bond Requirement	Yes, bond required on dutiable value of goods stored in facility	Yes, bond required for each entry in addition to the property bond.	Yes, bond is twice the entered value of most products or 110% for limited products	Yes, a bond is required to file Drawback
	19 USC 81o (e) preempts states and localities from collecting ad valorem taxes on imported tangible personal property held in			

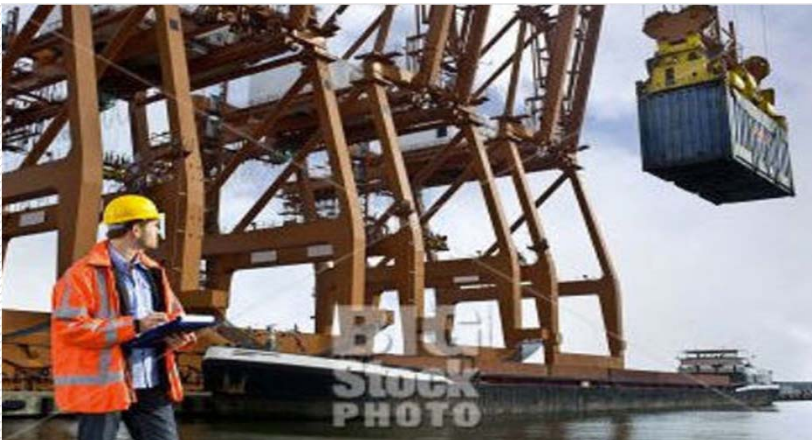
Why become a FTZ in USA?

- ☐ Save big \$\$\$
- ☐ Deferment of duties and taxes
- ☐ Elimination of duties and taxes
- ☐ Inverted tariff if manufacturing in USA
 - 4.5% to 0% (example)
- ☐ Flexibility on what to do with the product after it is imported
- ☐ Tight control over inventory
- ☐ Become more competitive



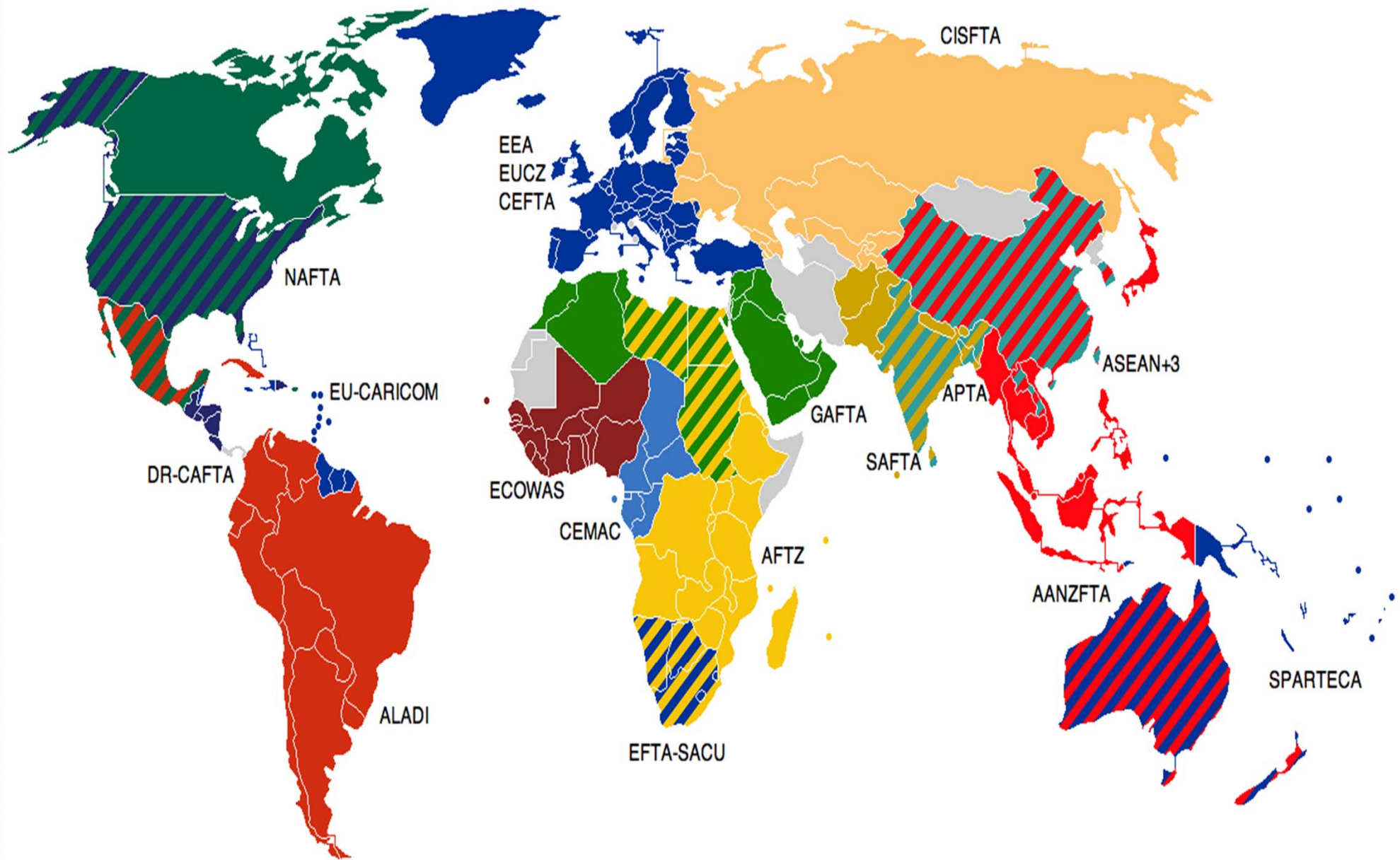
EXPORTING TO FOREIGN COUNTRIES

BILATERAL AGREEMENTS
ONE WAY AGREEMENTS



COUNTRY OF ORIGIN not USA?

- This can be a benefit.
 - If USA does not have a FTA with the country – your suppliers country may have a FTA.
 - So if the cargo is MADE in China and you are shipping to Brazil. Might be duty free.
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FTA / FTZ

- ☐ Utilize our Free Trade Agreements
 - ☐ Include Foreign Content as per the authorized regulations of the FTA
 - ☐ Utilize all of the benefits of the Zone and FTZ
 - ☐ Where are zones?
 - Many countries have sectors that are created to be a zone.
 - ☐ HONG KONG
 - ☐ PANAMA
 - ☐ URUGUAY
 - ☐ UAE
 - ☐ SHANGHAI, CHINA
 - ☐ MANAUS, BRAZIL
 - ☐ ALL OVER USA
-

How to push duties and taxes forward.

- ❑ **Bring in your products duty and tax free into YOUR Zone.**
 - ❑ **Assemble, package, manufacturer**
 - Floating the cash of the duties, taxes and eliminating many costs
 - Export the product along with your domestic goods to foreign dest (Panama) into a new zone.
 - Pay zero duties, and taxes in USA because you are exporting
 - Enter a FTZ in Panama to provide JIT to your customers (duty and tax free).
 - Ship to your clients – then they finally clear the goods through customs. Even if they have to pay duties at that time the savings along the way for the product is huge and your profitability is much larger.
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Get started now !!

- ❑ Obtain a Financial Analysis
 - ❑ Discuss your cost of Quality Control
 - ❑ Discuss the regulations you are – not completely following
 - ❑ Discuss your potential for new markets
-

Not yet ready –
we will look at it next year

- There is always another year
 - If numbers are good – there is no reason to wait. The costs will outweigh the benefits.
-

Consulting

Advise, Audit and Planning

☐ Develop your compliance program

- Classification of merchandise
 - Valuation of merchandise
 - Country of origin Markings
 - Export licensing issues
 - Export licensing exemption
 - Deemed Exports
 - Embargoed country issues
 - Compliance and Training
 - FTZ development
 - Inter company Best Practices for International Trade
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