

# Foreign Trade Zone #280 Overview and Advantages



On May 12, 2012, the U.S. Department of Commerce granted the Caldwell Economic Development Council (now Southwest Idaho Manufacturers' Alliance or SWIMA) the authority to establish and administer the Foreign Trade Zone #280 under the Alternative Site Framework. The new FTZ provides exciting and significant benefits to both businesses and the community at large, and will prove to make a major impact on the commerce and development of southwest Idaho.

## **BENEFITS TO USERS**

Businesses lower costs by deferring or reducing customs duties on imported goods, by realizing distribution savings, by streamlining processing of goods and eliminating quota restrictions. As a result, Idaho companies are better able to compete with foreign manufacturers.

- **Duty Exemption.** No duties on or quota charges on re-exports.
- **Duty Deferral.** Customs duties and federal excise tax deferred on imports.
- **Reduced Merchandise Processing Fees.** Maximum payment of \$485 filed weekly versus 0.21% of the total value of each shipment filed individually.
- **Inverted Tariff.** In situations where zone manufacturing results in a finished product that has a lower duty rate than the rates on foreign inputs (inverted tariff), the finished products may be entered at the duty rate that applies to its condition as it leaves the zone.
- **Logistical Benefits.** Companies using FTZ procedures may have access to streamlined customs procedures (e.g. "weekly entry" or "direct delivery").
- **Other Benefits.** Foreign goods and domestic goods held for export are exempt from state/local inventory taxes. FTZ status may also make a site eligible for state/ local benefits which are unrelated to the FTZ Act.

## **BENEFITS TO THE COMMUNITY**

The FTZ stimulates economic growth and development through job retention and creation. The program provides incentives for companies to establish or expand operations.

- Help facilitate and expedite international trade.
- Provide special customs procedures as a public service to help firms conduct international trade related operations in competition with foreign plants.
- Encourage and facilitate exports.
- Help attract offshore activity and encourage retention of domestic activity.
- Assist state/local economic development efforts.
- Help create employment opportunities

# FTZ 101 — PROGRAM OVERVIEW

## WHAT

The SWIMA Foreign-Trade Zone enables companies to save money on imported merchandise by diminishing import duties, as well as streamline formal customs entry procedures.

## HOW

FTZ provides incentives to companies and facilitates the application process and program involvement.

## WHY

FTZ's facilitate trade and increase the global competitiveness of companies doing business in the Treasure Valley by reducing operating costs associated with international trade.

## WHAT IS A FOREIGN-TRADE ZONE?

A foreign-trade zone is a designated site licensed by the Foreign-Trade Zones (FTZ) Board at which special customs procedures may be used.

These procedures allow domestic activity involving foreign items to take place prior to formal customs entry.

Duty free treatment is accorded items that are re-exported and duty payment is deferred on items sold in the U.S. market, thus offsetting customs advantages available to overseas producers who compete with producers located in the United States.

FTZ sites and facilities remain within the jurisdiction of local, state or federal governments or agencies.

## BOUNDARIES

### 1 MAGNET SITE

"Magnet" sites are those selected based on the ability to attract multiple potential FTZ operators and users. It is designated only by FTZ board action and is similar to a traditional FTZ site. The FTZ #280 Magnet site is divided into two sites. Site 1 is located at and around the Caldwell Industrial Airport. Site 2 is an area designated at and around the Sky Ranch Business Center. The areas within Site 2 that are marked in blue are excluded from the FTZ.

### 2 SERVICE AREA

The "Service Area" is the geographic area where a grantee intends to propose general purpose FTZ sites. Defining the Service Area eliminates the need for full FTZ Board processes when new potential zone users appear and need FTZ designation quickly. The FTZ #280 Service Area is designated as Canyon, Ada and Elmore Counties.



# FOREIGN-TRADE ZONE DIRECT-COST ADVANTAGES

## 1. 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 and/or processed in the FTZ without duty payment.

## 2. 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. In an FTZ, the duties are simply never paid. Exports to NAFTA Countries of unused merchandise are rarely recovered because of the complexity of NAFTA drawback. 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.

## 3. Waste/Scrap/Defects/Damage/Obsolescence

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

## 4. 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.

## 5. 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. The reduced Customs duties per unit for U.S. produced articles can be the basis for choosing U.S. productions.

## 6. 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 one entry per week.

## 7. 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.

## 8. 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. Several states and Puerto Rico have special tax incentive laws based upon zone status.

## 9. 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.

## 10. 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.

## 11. 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.

## 12. 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.

# **FOREIGN-TRADE ZONE DIRECT-COST ADVANTAGES** CONT'D

## **13. Entireties Provision**

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

## **14. 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.

## **15. 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.

## **16. 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.



# TIME-VALUE AND OPERATIONS ADVANTAGES

## TIME-VALUE OF MONEY ADVANTAGES

### 1. Staged Duty Reductions

Certain 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.

### 2. 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.

### 3. 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.

### 4. 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.

### 5. No Time Limit

Merchandise can remain in an FTZ for an unlimited time period.

## OPERATIONS ADVANTAGES

### 1. Country-of-Origin Marking/Labeling

Country-of-origin labels are not 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.

### 2. Security

The FTZ is subject to U.S. Customs 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 ten (10) years in a federal penitentiary, fines not more than \$250,000, or both per offense.

### 3. 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.

### 4. 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.

### 5. 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.

### 6. Transfer of Title

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

### 7. Record Identity Accounting

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

### 8. 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.

# HYPOTHETICAL FOREIGN-TRADE ZONE SAVINGS ANALYSIS FOR MANUFACTURING/WAREHOUSING/DISTRIBUTION

## DESCRIPTION OF CALCULATION

Annual Imports of Foreign Parts/Materials	\$100,000,000
Average On-Hand Imported Merchandise Inventory	\$25,000,000

## DIRECT COST SAVINGS

### CASH FLOW SAVINGS

Average On-Hand Imported Merchandise Inventory	\$25,000,000
x Average (or Individual) Foreign Parts/Material Customs Duty Rate	6.00%
x Interest Rate	5.00%

<b>FTZ INTEREST SAVINGS</b>	<b>\$75,000</b>
<b>FTZ BORROWINGS REDUCTION SAVINGS</b>	<b>\$1,500,000</b>

### INVERTED DUTY

Value of Foreign Parts/Materials Used in Production	\$100,000,000
x Average Foreign Parts/Material Customs Duty Rate	6.00%
<b>= DUTY EXPENSE</b>	<b>\$6,000,000</b>

LESS	
Value of Foreign Parts/Materials Used in Production	\$100,000,000
x Finished Product Customs Duty Rate	0.00%
<b>= DUTY EXPENSE</b>	<b>\$0</b>
<b>= FTZ INVERTED DUTY SAVINGS</b>	<b>\$6,000,000</b>

### MERCHANDISE PROCESSING FEE

= Value of Imported Merchandise	(Daily Entry)	(Weekly Entry)
(Per CF 7501 Customs Entry)		
x .21% Ad Valorem (Assumes the \$485.00 Maximum)	\$485	\$485
x Number of Customs Entries Filed Annually	1,040	52
<b>= EXPENSE</b>	<b>\$504,400</b>	<b>\$25,220</b>
<b>= FTZ Weekly Savings</b>		<b>\$479,180</b>
Customs Broker Entry Fee	\$125	\$125
x Number of Customs Entries Filed Annually	1,040	52
<b>= EXPENSE</b>	<b>\$130,000</b>	<b>\$6,500</b>
<b>= FTZ Weekly Savings</b>		<b>\$123,500</b>

## OPTIONAL SAVINGS

### SCRAP/WASTE/OBSOLETE/SURPLUS

= 3% of Annual Merchandise Imports of Foreign Parts/Materials	\$3,000,000
x Average Foreign Imported Parts/Materials Customs Duty Rate	6.00%
<b>= FTZ SAVINGS</b>	<b>\$180,000</b>

### ZONE-TO-ZONE TRANSFERS

= 10% of Annual Merchandise Imports of Foreign Parts/Material	\$10,000,000
x Average Foreign Parts/Material Customs Duty Rate	6.00%
<b>= FTZ SAVINGS</b>	<b>\$600,000</b>

### EXPORTS

= 20% of Annual Merchandise Imports of Foreign Parts/Materials	\$20,000,000
x Finished Product Customs Duty Rate	0.00%
<b>= FTZ SAVINGS</b>	<b>\$0</b>

## FTZ SAVINGS RECAP

FTZ Interest Savings	\$75,000
FTZ Inverted Duty Savings	\$6,000,000
Merchandise Processing Fee (Weekly Entry)	\$479,180
Customs Broker Entry Fee (Weekly Entry)	\$123,500
<b>DIRECT COST SAVINGS SUBTOTAL</b>	<b>\$6,677,680</b>

OR

FTZ Borrowings Reduction Savings	\$1,500,000
FTZ Inverted Duty Savings	\$6,000,000
Merchandise Processing Fee (Weekly Entry)	\$479,180
Customs Broker Entry Fee (Weekly Entry)	\$123,500
<b>DIRECT COST SAVINGS SUBTOTAL</b>	<b>\$8,102,680</b>

Scrap/Waste/Obsolete/Surplus	\$180,000
Zone-to-Zone Transfers	\$600,000
Exports	\$0
<b>OPTIONAL SAVINGS SUBTOTAL</b>	<b>\$780,000</b>

<b>TOTAL ANNUAL FTZ BORROWINGS REDUCTION SAVINGS</b>	<b>\$8,882,680</b>
<b>TOTAL ANNUAL FTZ INTEREST SAVINGS</b>	<b>\$7,457,680</b>



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