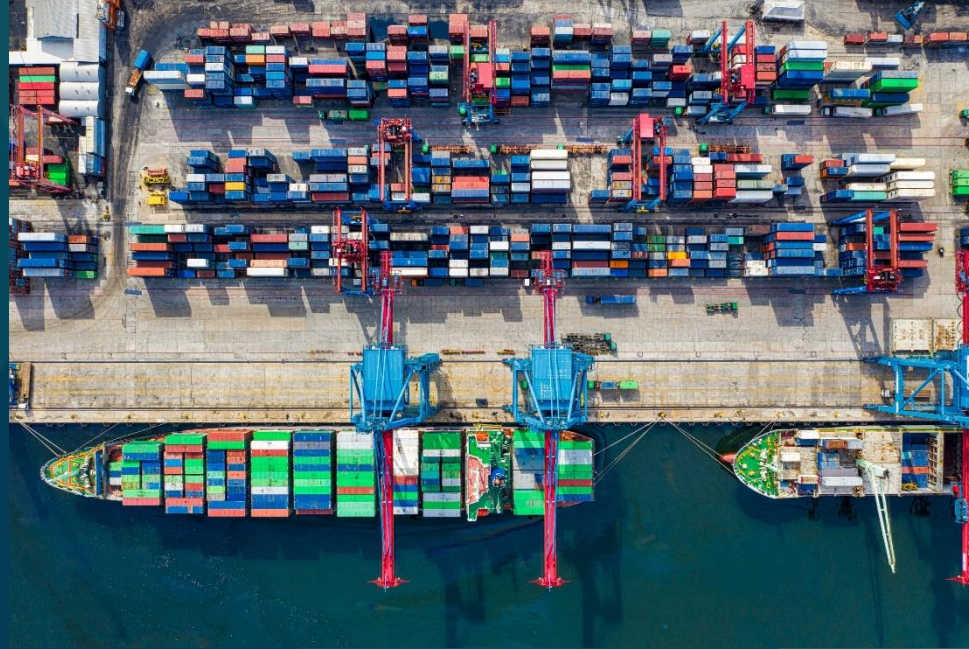




IEDC WEBINAR



INTERNATIONAL
ECONOMIC DEVELOPMENT
COUNCIL



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Not So Foreign Trade Zones

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NAFTZ OVERVIEW



The National Association of Foreign-Trade Zones (NAFTZ) is a trade association of over 700 members headquartered in Washington, DC

- **REPRESENTATION**: NAFTZ is the collective voice of the U.S. Foreign-Trade Zones (FTZ) Program and the community of public and private stakeholders – grantees, operators/users & service providers.
- **ADVOCACY**: NAFTZ advocates for the FTZ program and on customs, international trade, and other issues impacting the program and stakeholders.
- **EDUCATION**: NAFTZ is the lead educator on the FTZ program's value as a tool for expanding economic development, competitiveness, employment, investment, and global supply and value chains.
- **BEST PRACTICES**: NAFTZ provides information on and helps drive establishment of industry best practices including compliance.



FTZ PROGRAM OVERVIEW



- Created through the Foreign-Trade Zones Act of 1934 (19 USC §81), the U.S. FTZ program comprises over 700 active zones and subzones in all 50 states and Puerto Rico
- Administered by the U.S. Depts. of Commerce & Treasury through the FTZ Board; Customs & Border Protection (CBP) has advisory role; 19 CFR Part 146 and 15 CFR Part 400 are governing regulations
- Grantees – states, counties, municipalities, port authorities, and local chambers of commerce – apply to FTZ Board for authorization to establish FTZs in or near ports of entry
- Operators/Users – major industries manufacturing & distribution in FTZs include pharmaceuticals, vehicles/vehicle parts, electronics, oil/petroleum, chemicals, machinery/equipment, textiles/apparel
- Over 440,000 employed at 3,300 FTZ facilities
- Shipments into FTZs totaled nearly \$793b in 2018
- FTZs account for over 11% of U.S. imports and 6.7% of U.S. exports



FTZ PROGRAM BENEFITS

Direct Savings – Duties, Taxes, Fees

Reduced Duties – FTZs offer manufacturers relief from inverted tariffs (*i.e.*, when imported parts carry higher duties than the finished product into which they are incorporated)

- *Automotive Industry* – 5.0% average tariff on auto parts; 2.5% tariff on finished automobiles
- *Pharmaceuticals* – tariffs remain on many active pharmaceutical ingredients; finished pharmaceutical products duty free

FTZ rules allow manufacturers to avoid paying higher tariffs on imported inputs and claim the lower duty rate of the finished product on the imported content incorporated into the finished product



FTZ PROGRAM BENEFITS

Direct Savings – Duties, Taxes, Fees

Deferred Duties, Excise Taxes, Customs User Fees – FTZs allow importers to delay payment until a product leaves the zone and enters U.S. customs territory for consumption

- Imported merchandise may move in-bond port-to-zone and zone-to-zone without payment of duty, excise taxes, or customs user fees
- No time limit on goods remaining in a zone (unlike bonded warehouses or temporary importing under bond programs)
- Harbor Maintenance Fee paid quarterly, not on goods arrival



FTZ PROGRAM BENEFITS

Direct Savings – Duties, Taxes, Fees

Duty Elimination – FTZs eliminate duty (and quota charges) for:

- Merchandise exported from a zone to a third country (except exports to Canada or Mexico under NAFTA/USMCA)
- Domestic inputs in products manufactured in a zone
- Labor, Overhead, Profit attributable to zone production operations
- Scrap/Waste/Goods Destroyed as Defective, Obsolete, or Surplus



FTZ PROGRAM BENEFITS



Direct Savings – Quota

Quota Avoidance – In most cases, FTZs allow imports subject to quota to stay within a zone after quota limits are reached

- Gives zone users access to potentially discounted inputs and ability to admit merchandise when a new quota year starts
- Inputs subject to quota (except certain textiles) may be manipulated or manufactured while in the zone into a product not subject to a quota



FTZ PROGRAM BENEFITS

Indirect Savings – Supply Chain Management

Better Supply Chain Management – FTZs afford companies improved supply chain management and visibility

- More robust inventory and security controls
- Automated recordkeeping and document storage

Re-Export

- Fewer and simpler regulatory requirements

Zone-to-Zone Transfer

- Simplified with less paperwork



FTZ PROGRAM BENEFITS



Indirect Savings – Supply Chain Management

Direct Delivery: Delivery of merchandise to a zone without prior application and approval by Customs

- Streamlines supply chains
- Reduces cargo delays
- Lowers administrative costs



FTZ PROGRAM BENEFITS

Direct Savings – Supply Chain Management

Weekly Consolidated Entry – FTZs allow manufacturers and distributors to file a consolidated entry each week instead of numerous individual entries

- Streamlines supply-chain & inventory management (FIFO)
- Lowers cost for Merchandise Processing Fee (*ad valorem* customs user fee assessed at \$25-\$485 per entry)
- Fewer entry filings reduce broker fees



FTZ PROGRAM BENEFITS

Indirect Savings – Administrative

Alternative Site Framework (ASF) – Gives participating zones greater flexibility in designating new FTZ user locations

- Streamlines, simplifies, and shortens application process
- Makes program more accessible and affordable than Traditional Site Framework (TSF)
- Facilitates zone activities' modification and expansion (“usage driven sites”) within existing operations and service areas



FTZ PROGRAM BENEFITS

Indirect Savings – Compliance

FTZs afford companies improved compliance from better inventory and security controls

- More stringent rules for FTZ operations require closer relationship with Customs
- Customs views FTZ operators as lower commercial-compliance and security risks than other importers
- Customs views FTZ program as security best practice



FTZ PROGRAM BENEFITS

Indirect Savings – Financial Management

FTZs afford companies improved compliance from better inventory & security controls

- Improved financial management and cash flow
- Reduced borrowing and insurance costs from low security and commercial-compliance risk status
- Simplified accounting and operational procedures
- Eliminates time and expense of filing drawback claims
- Lower costs from more efficient customs processing



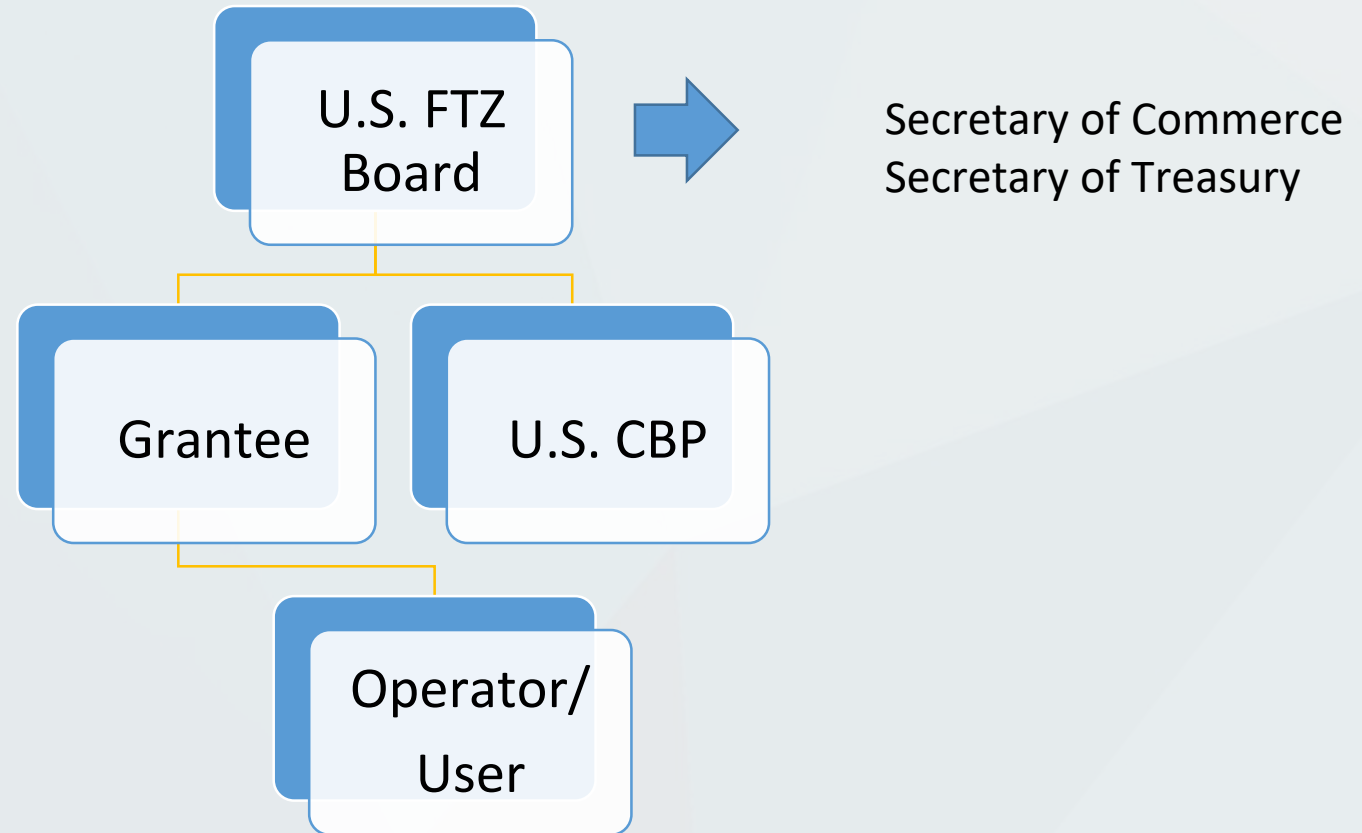
FTZ GRANTEE



- The Foreign-Trade Zone Board authorizes, through a Board order, a local organization to sponsor zone projects in its service area
- Public or private corporations may apply for grants of authority to establish FTZs
- Grantees are authorized to establish, operate, and maintain an FTZ
- Grantees submit applications for new FTZ designations on behalf of companies interested in setting up manufacturing and/or distribution operations in the zone



FTZ ROLES





GRANTEE SERVICES



- Sponsor new FTZ applications
- Assist with the application process
- Address technical questions
- Facilitate connections with U.S. Customs & Border Protection (CBP)
- Sponsor educational workshops/seminars
- Participate in business-location meetings between economic developers and prospective company clients
- Help identify and connect with appropriate grantees



FTZ CANDIDATE PROFILE



Importers Who Can Benefit From An FTZ

- Manufacturers
- Warehouse/Distribution Centers
- Third-Party Logistics Service Providers (3PLs)

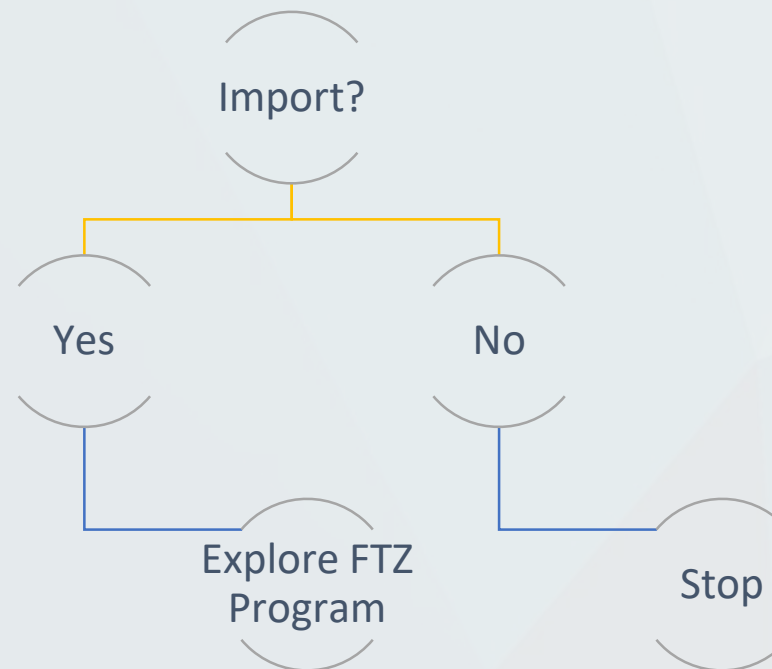




FTZ CANDIDATE PROFILE



Does the Company Import Dutiable Merchandise/Products/Raw Materials?





FTZ CANDIDATE PROFILE



Feasibility Analysis Is Critical





APPLICATION FEES*



- Grantee
- FTZ Board
- Consultants
 - legal/regulatory, software/IT, customs brokerage, logistics, sureties/insurance, security, real estate, etc.

*Not All Inclusive





OTHER/ONGOING EXPENSES*



- Annual Zone Fees (\$5,000 - \$40,000)
- Legal Fees
- Security
 - fences, cameras, etc.
- Administrative/Staff (½ - 2 FTEs plus backup)
- Software/IT
 - monitor audit trail for CBP; file customs documents
- FTZ Operator's Bond (\$1,000 - \$5,000)

*Not All Inclusive





APPLICATION PROCESS



- FTZ Designation Application with FTZ Board
- Production Authorization by FTZ Board
 - Production Notification – FTZ Board authorizes zone activity or requires further review
 - Production Application (if FTZ Board requires further review)
- Activation Application with CBP



FTZ OPERATOR REQUIREMENTS



- Enter Into FTZ Operations Agreement With Grantee
- File Annual FTZ Report To Grantee
 - Report submitted by grantee to FTZ Board
 - FTZ Board uses reports in preparation of annual consolidated report to U.S. Congress



WHERE CAN I FIND A GRANTEE?



U.S. Foreign Trade Zones Board

<https://enforcement.trade.gov/ftzpage/index.html>

(List of FTZs by State and Grantee Contacts)



FTZ SUCCESS STORIES

Increasing the Competitiveness of US-Based Companies

By optimizing efficiency and minimizing costs, FTZs boost companies' competitiveness, so they can offer more affordable and innovative products

EXAMPLE: Lam Research Corp., San Jose, CA (FTZ #18) & Portland, OR (FTZ #45)

FTZ savings support US-based R&D of this high-tech company, which has about 6,000 employees working in FTZ-based activities, manufacturing semiconductor equipment and distributing spare parts

EXAMPLE: Helly Hansen, Tacoma, WA (FTA #86)

Although Canada constitutes over 50% of its North American market, FTZ savings persuaded the company to distribute its water-resistant, cold-weather apparel from the US, directly supporting over 100 local jobs and indirectly many port and trucker jobs



FTZ SUCCESS STORIES

Creating American Jobs

3,300 FTZ companies employ more than 440,000 US workers

EXAMPLE: UniCarriers Americas, Rockford, IL (FTZ #176)

This forklift manufacturer spent part of its FTZ duty and MPF savings to retrain its workers and increase productivity while doubling its workforce to over 600 within five years

EXAMPLE: Airbus Americas, Mobile, AL (FTZ #82)

This aerospace-industry giant's aircraft manufacturing operations support more than 15,000 Alabama jobs



FTZ SUCCESS STORIES

Investing in American Communities

FTZ companies add billions of investment dollars into local economies

EXAMPLE: BMW Manufacturing, Spartanburg, SC (FTZ #38)

Through its FTZ production facility, BMW turned a struggling textile region of South Carolina into an automotive manufacturing and exporting powerhouse, employing over 10,000 South Carolinians producing more than 400,000 vehicles per year, investing \$9b locally over 25 years, and contributing \$6.3b annually to the state's economy

EXAMPLE: Exxon Mobil Corp., Baton Rouge, LA (FTZ #154)

This global petroleum company uses its FTZs for refining, petrochemical production, and distribution operations; directly employs 6,600 in and around Baton Rouge with a payroll of \$491m; indirectly supports one in eight local jobs; and annually accounts for \$160m in state and local tax revenue



FTZ SUCCESS STORIES

Promoting U.S. Exports

FTZs make U.S.-based companies more competitive in the global marketplace

EXAMPLE: Piramal Critical Care, Inc., Bethlehem, PA (FTZ #272)

This pharmaceutical company manufactures inhalation anesthetics, and exports to more than 100 countries. This U.S. economic activity would have been lost but for the FTZ savings that enabled Piramal to stay in the United States, increase employment, and remain cost competitive with low-priced anesthetics made in other countries.

EXAMPLE: Yamaha Motor Manufacturing Corp. of America, Newnan, GA (FTZ #26)

This sports/recreational vehicle and personal watercraft manufacturer exports about 30 percent of its US production thanks to supply chain efficiencies and benefits from the FTZ program that make it more cost competitive and able to respond more quickly to consumer demand in global markets



FTZ SUCCESS STORIES



Strengthening Compliance

- FTZ companies must adhere to strict security requirements, comply with stringent CBP rules, and demonstrate adherence to US laws and regulations
- FTZ operator/users typically have closer and more transparent relationships with CBP officials
- CBP considers FTZs a model of good compliance and a “C-TPAT security best practice



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Questions?



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