

New Foreign Trade Zone Advantages

By Marshall V. Miller, Esq.

Many of the most well-known US-based and multinational firms utilize the zone program as an import/export financial management tool. Foreign-trade zones encourage US investment and jobs as opposed to similar activity in foreign countries. As Customs duty rates decline generally on finished products, financial pressure is placed on US production to remain competitive. Many new zone operations are being established for this very reason. Financial savings are generated only when activities are undertaken in the United States; increased financial savings occur by combining domestic and foreign parts or materials in a zone environment.

Foreign-Trade Zones

Foreign-trade zones (FTZs) are restricted-access sites authorized by the Foreign-Trade Zones Board. The Board is chaired by the Secretary of Commerce with the other member being the Secretary of the Treasury. Authority for establishing foreign-trade zone facilities is based upon Applications submitted to the Board, and Grants or Board Orders issued based upon specific statutory and regulatory criteria. While merchandise held in a foreign-trade zone is considered outside the Customs territory of the United States, operations within zones are supervised by the US Customs Service.

Foreign and domestic merchandise may be admitted into zones for storage, exhibition, assembly, manufacture or other processing. The usual formal Customs entry procedure and payment of Customs duties is required on the foreign merchandise only if it enters Customs territory for domestic consumption. No Customs duties are ever paid on exported material. Uniquely under US Customs laws, the zone firm is afforded the choice of paying Customs duties either on the rate of the original foreign material

admitted to the zone or on the finished product shipped from the zone, whichever is lower.

The Customs dutiable value of merchandise produced in a zone is the sum of the value of the foreign materials only; dutiable value does not include labor, overhead' profit and domestic materials utilized in the production of a final product in the foreign-trade zone. Customs duties may be significantly reduced or eliminated on defective, obsolete, damaged or waste/scrap merchandise. While quota restrictions do not normally apply to merchandise in a zone, the Board may restrict activities on public interest grounds. Exemption from ad valorem state and local personal property taxes is provided for under certain circumstances in the Act. Some states offer additional tax advantages for zone activity.

General-purpose zones are ordinarily a single building, industrial park, or other similar area that is open to more than one interested firm. Foreign-trade subzones are all, or a part of, an existing or new single company's operations that cannot be accommodated in a general-purpose zone. Subzones are authorized only in those instances where a demonstrated public benefit occurs and the operation is viewed as being in the public interest.

Primary FTZ Advantages

Cash Flow. Customs duties are paid only when imported merchandise is shipped into the US Customs territory. The cost of Customs duties as a holding cost is eliminated.

Exports. No Customs duties are paid on merchandise exported from a zone. This creates cash flow and significant paperwork savings over the current drawback program.

Defect/Damage/Waste/Scrap/Obsolescence. Customs duties are significantly reduced or eliminated on merchandise subject to these losses while in the zone.

FTZ Savings Analysis

Cash Flow	\$
Exports	\$
Defect/Damage/Waste/Scrap/Obsolescence	\$
Customs Inverted Duty Savings	\$
Staged Duty Reductions	\$
Nondutiability of Labor, Overhead, Profit and US Materials	\$
Property Taxes	\$
Zone-to-Zone Transfers	\$
Harbor Maintenance Fee	\$
Total FTZ Savings	\$

Customs Inverted Duty Savings. Uniquely, the foreign-trade zone firm may elect to pay the duty rate applicable to either the foreign component material or part, or the finished product produced in the zone, whichever is lower.

Staged Duty Reductions. As a result of the Uruguay Round and the Informational Technology Agreement, rates of duty decline periodically. Merchandise held in nonprivileged foreign status automatically utilize the rate of duty in effect at shipment.

Nondutiability of Labor, Overhead, Profit and US Materials. In comparing US production to foreign production, the value for Customs duty purposes of a zone-produced article is only the value of the foreign materials.

Property Tax. Tangible personal property imported from outside the US and held in the zone, and tangible personal

property produced in the US and held in the zone for export, are not subject to state and local ad valorem taxes. Certain states have additional tax advantages for zone operations.

Zone-to-Zone Transfer. With an increasing number of firms in zone status, suppliers of materials, parts and sub-assemblies can produce their product in a zone and transfer it in-bond without payment of Customs duties to their customers—reducing overall expense.

Harbor Maintenance Fee. Fees are paid quarterly on merchandise received in the zone.

Additional Zone Savings

There are a variety of other significant financial savings that are not as easy to quantify:

- Direct Delivery allows the immediate in-bond movement of merchandise at arrival to the zone—reducing cycle time.
- The use of zone restricted status on merchandise admitted to the zone

provides immediate export authorization for drawback and excise tax rebates.

- Networks of zones that allow zone-to-zone transfers without Customs duty payment can create additional savings for suppliers and end-users.
- Daily/Weekly Customs entries reduce paperwork complexity and brokerage expense.
- Most US importers find it impossible to qualify for NAFTA drawback for imported finished goods, duty paid, and subsequently shipped to Canada. Zone use avoids the complexity, as Customs duties are never paid.
- Production in a zone is production in the US for NAFTA, qualifying final products to be shipped to Canada or Mexico.
- A recent statutory change allows admission of machinery parts to zones, assembly, and Customs duty payment on the basis of the parts or finished machinery product duty rate.

■ Unauthorized removal of merchandise from a zone is a violation of federal law, resulting in both prison and penalty action.

With a wide variety of financial advantages, zone status should be seriously examined.

Marshall V. Miller, Esq., is the Principal of Miller & Company P.C. and is internationally recognized for his involvement in the



development of US foreign-trade zones. He is also a co-founder of the National Association of Foreign-Trade Zones. He can be reached at (816) 561-4999.