

# Creating supply chain value with FTZs

The Foreign Trade Zones programme can offer a host of operational benefits and financial savings to businesses – US or non-US – importing into the United States, write Amie Ahanchian, Elisha Herrmann and Sarah Messeih.

**T**oday, and maybe more than ever, companies that have import and export operations in the United States aim to utilise the many special programmes available to importers, to reduce their landed costs, realise cost savings, and stay competitive in the global market. Among the programmes available to US importers are free trade agreements, such as the North American Free Trade Agreement ('NAFTA'), First Sale for Export ('FSFE'), Duty Drawback, and Foreign-Trade Zones ('FTZ').

This article spotlights the FTZ programme, established in 1934 by the Foreign-Trade Zones Act to 'expedite and encourage foreign commerce' within the United States. Over the years, the programme has undergone major reform, continually expanding as it is steadily utilised.

In 2015, there were 186<sup>1</sup> active FTZs throughout the United States. FTZs are secure areas located near a US Customs and Border Protection ('CBP') port that are considered legally outside of the United States for customs duty purposes. By establishing an FTZ, companies with US-based distribution or manufacturing operations, can potentially realise many benefits from both financial and operational perspectives.

### Why establish an FTZ? The benefits

Financially, there can be many reasons why an importer chooses to establish an FTZ, including the ability to reduce US customs fees and duties. In a traditional import structure, the merchandise processing fee ('MPF') is a US customs fee, which is paid on each shipment that arrives into a US port. The amount of MPF is based on the shipment's value and can vary from a minimum of \$25.67 to a maximum of \$497.99 per shipment. With an FTZ, an importer can be granted 'weekly entry' privileges, allowing a company to file one weekly consumption entry per week when merchandise leaves their FTZ and enters US commerce (rather than each time a shipment arrives at a US port), thus reducing MPF payments to one weekly payment rather than sometimes multiple



daily payments. Further, importers may realise savings in their customs-broker fees since the overall number of entries that are filed may decrease as well. A growing trend is for FTZ operators to become self-filers for entry purposes, as part of their FTZ administration procedures.

Other possible financial savings include the potential to eliminate duties on bonded exports, duty elimination on scrap and waste, and duty deferral on inventory stored within your warehouse. The duty deferral benefit allows companies to keep funds accessible and can also improve a company's balance sheet. These financial benefits alone are just a couple of the reasons why many retailers pursue and establish FTZs at their US distribution facilities.

Companies with US manufacturing operations may also choose to take advantage of the 'inverted tariff' benefit by applying for production authority within their FTZ. Production authority allows companies to elect the duty rate of the finished good rather than the foreign components imported, if the duty rate of the finished good is lower. This can lead to considerable savings for manufacturers that have finished goods classified with a lower duty rate than the component parts used in manufacturing,

such as many parts within a vehicle in the automotive industry or the manufacturing chemicals into medication in the pharmaceutical industry. Globally, the supply chain can be strategically structured to utilise these benefits to minimise the total landed costs including duty payment reduction, transportation costs and filing costs.

Companies can also gain inventory control efficiencies from implementing an FTZ. Typically, companies will select

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an inventory control and recordkeeping system ('ICRS') to manage the inventory control and reporting requirements associated with an FTZ, which integrates with the company's own inventory and warehouse management systems. Many times, inefficiencies can be uncovered during the implementation and an FTZ project can be great leverage for a

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company to fix longstanding issues and enhance internal controls and processes.

The FTZ programme also offers many logistical benefits to companies, such as direct delivery, which, if granted, allows companies to move merchandise directly from the port of unloading to their FTZ facility, without any prior approval or inspection by customs. Carriers elected for movements from the port to the FTZ facility must be bonded, therefore companies often limit their inbound logistics to certain bonded firms which can streamline logistics processes in the long term as well. Globally, this is an opportunity to review the processes and resources to align with strategic goals.

Companies can also benefit from tighter security-control enhancements to their warehouses. In 2016, customs released new security guidelines for bonded facilities (including FTZs)<sup>2</sup> which replaced T.D. 72-56 (Standards for Cargo Security). These guidelines can enable companies to update older physical security within and around a warehouse, create awareness amongst employees and even reduce pilferage and theft that may occur within a warehouse. FTZs are also recognised as a Customs Trade Partnership Against Terrorism ('CTPAT') 'best practice when the supply chain ends with the in-bond shipment arriving at a zone due to the safeguards that are in place for checking seals and other security measures'.<sup>3</sup>

## Utilising FTZs for competitive edge

In the last few years, there have been certain FTZ designs that companies with global sourcing patterns have followed in an effort to support North American operations and gain a competitive edge. Although the FTZ programme is specific

to the United States of America, there are global programmes that could be deployed utilising the FTZ as the base structure. Similar programmes that can be deployed globally include Bonded Warehouses and Inward Processing, and Special Trade Processing.

### Retailers

Many retailers with large, high-volume imports and large US operations have established FTZs at their distribution centres, where imported merchandise arrives for storage, inspection, repackaging, and order processing. As outlined above, retailers are drawn to take advantage of the weekly entry benefit and not pay duties on the imported merchandise until outbound orders are processed and merchandise enters US commerce. The growing trend of e-commerce in retail in the last decade also suits an FTZ structure, allowing companies to process orders within the US with fast delivery times to customers.

### Manufacturers

Many companies are leveraging the cost savings from establishing FTZs to keep manufacturing operations from going overseas – in turn, this is also good for the US economy, creating local jobs. FTZ production authority is used by manufacturers in diverse industries, including: petroleum, chemicals, automotive, heavy equipment, high-tech, machinery, electronics, consumer goods and pharmaceutical, which all may benefit from the inverted tariff.<sup>4</sup>

### Export operations

According to the 2015 Annual FTZ Board Report to US Congress, exports from FTZs have grown exponentially since 2009 – they reached a record high in 2014, with \$100 billion dollars of exports from FTZs. Companies can manage their supply chain to leverage duty-free exports out of an FTZ, and can also eliminate the need for a duty drawback programme. Exports to global operations centres could be utilised to structure the supply chain to reduce supply chain costs.

### Industry disruptors

With all the potential benefits that FTZs can offer a company, naturally there are many disruptors that affect FTZ operators every day. Back in 2012, labour port strikes, namely in one of the nation's busiest ports, Los Angeles/Long Beach, affected many US importers including FTZ operators nationwide. When an FTZ

operator is accustomed to fast and streamlined delivery of merchandise through direct delivery,<sup>5</sup> a delay in merchandise can hurt the ability to fulfil customers' orders on a timely basis and even damage a brand.

Other industry disruptors with logistic partners can cause problems; for

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example, the bankruptcy of a large company could cause hundreds or maybe thousands of delayed shipments worldwide.

Regulatory changes also have proven to be disruptors to the FTZ community in recent years. With notable differences between a traditional import structure versus an FTZ import structure, regulatory changes can have a seemingly larger effect on FTZ operators, and may not always conform well to FTZs as a general matter. For example, with CBP's implementation and transition to the Automated Commercial Environment ('ACE'), many participating government agencies ('PGAs') implemented new reporting requirements. Based on feedback from the trade community, there have been clarifications and modifications granted for importers and specifically FTZ operators as well.<sup>6</sup> FTZ operators have needed to work closely with trade organisations and within their industries to address certain agencies and find resolutions for certain complexities.

## Moving forward

Although there can be disruptors, there are numerous resources available to FTZ operators and prospective FTZ operators to help them stay aware of changes. These same resources can also provide tips to stay up to date with the ever-changing regulatory environment.

### Build a strong internal FTZ team

An FTZ project implementation touches many functions within a company, not just trade compliance. The IT, legal,

## Links and notes

<sup>1</sup> According to the 77th Annual Report to the Foreign-Trade Zones Board to the Congress of the United States

<sup>2</sup> Physical Security Guidelines For CBP Bonded Facilities' dated 20 January 2016

<sup>3</sup> Foreign-Trade Zones Manual, Publication #: 0000-0559A, 2011

<sup>4</sup> Annual Report to the Foreign-Trade Zones Board - 2015

<sup>5</sup> Direct delivery is a privilege that can be granted to FTZ operators by US Customs and Border Protection (CBP) which allows for direct delivery of merchandise without prior inspection at the port.

<sup>6</sup> [https://apps.cbp.gov/csms/viewmssg.asp?Recid=217938&page=&srch\\_argv=16#att](https://apps.cbp.gov/csms/viewmssg.asp?Recid=217938&page=&srch_argv=16#att)

<sup>7</sup> A Zone Grantee is a corporation or organization whom is given the responsibility (by the FTZ Board) of oversight for establishing, operating and maintaining a Foreign Trade Zone within a specified region (usually at a port level). [https://apps.cbp.gov/csms/viewmssg.asp?Recid=217938&page=&srch\\_argv=16#att](https://apps.cbp.gov/csms/viewmssg.asp?Recid=217938&page=&srch_argv=16#att)

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finance and supply chain and logistics departments are all stakeholders in the project and will likely be impacted by an FTZ implementation. Key individuals from these areas should be involved during the project and on an ongoing support basis. One regulatory change can touch many areas, causing companies to react quickly, so having a diverse team involved can alleviate stress during these times.

**Develop strong external relationships**  
FTZ operators should aim to build strong working relationships with their zone grantees<sup>7</sup> and local CBP officers who have oversight of their FTZ. Zone grantees are valuable resources, and often can help FTZ operators within their jurisdiction connect and benchmark with each other. Further, a company may choose to engage a compliance consultant to help them navigate operational and technical challenges throughout the FTZ implementation. Keeping an ongoing relationship with your consultant allows FTZ operators to have an on-demand resource with specialised knowledge available to rely on when operational challenges and complexities arise.



### Get Involved

The National Association of Foreign Trade Zones ('NAFTZ') is an organisation of FTZ operators, zone grantees and service providers that holds conferences and webinars and has user groups available to its members throughout the year, to help FTZ operators network and keep up to date

with developments. Recently, the NAFTAZ was involved in assembling user groups within its membership to address the operational complexities that FTZs faced with ACE, and have been able to successfully clarify requirements with various agencies on behalf of the FTZ community.

Overall, FTZs can be a strategic initiative to help develop the future footprint of your company, both locally and globally, while investing in the local US economy at the same time. The strong network of FTZ resources available can help alleviate the complexities a company will face, and can also help build a sense of teamwork and accomplishment within your company and within your local economy. ■



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