

# Using the FTZ Program to Cut Costs in 2021: The Year of Cost Reductions!



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# What is an FTZ?

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- A Foreign-Trade Zone (or Free Trade Zone) is a Federal Program, started in 1934 and in use in all 50 states today.
- The FTZ allows Federal Taxes and Fees to be lowered, eliminated, or exempt from payment.
- State taxes are lowered in TX and AZ.
- Anyone – any business who qualifies can get it.

# What is a Zone Site?

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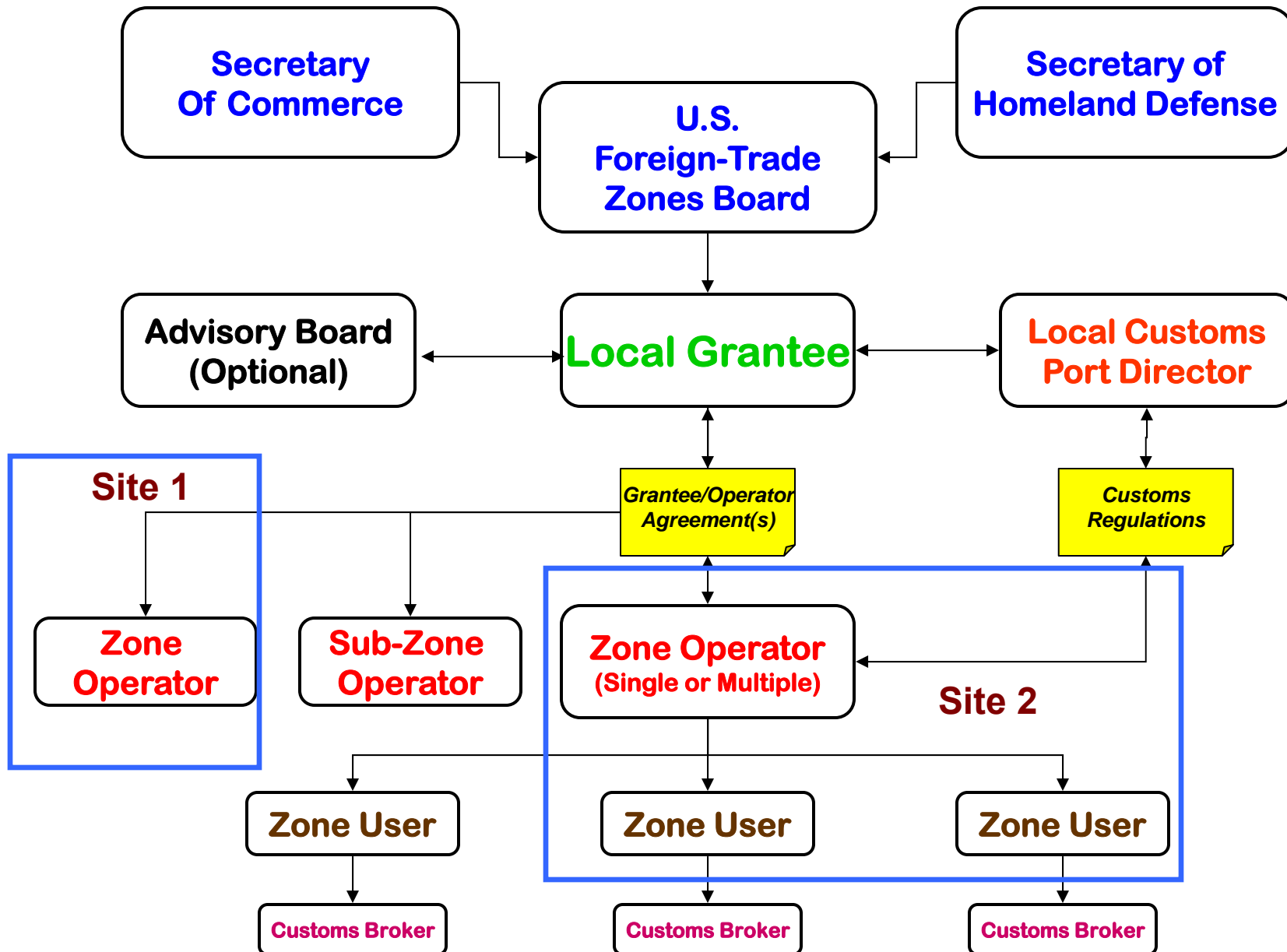
- An Industrial Park
- An Industrial Development inside a Port or Airport
- A Company's Facility (Subzone)

# Who are the Players?

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- A Zone Involves:
  - A Grantee = The local authority entrusted with the administration of the program in the local community – The City of Mesquite with a Zone Administrator professional
  - An Operator = A company that operates under Zone Status, within its own facilities for itself or for the account of others
  - Users = Companies using the FTZ, either as an Operator or within an Operator's facility
  - The FTZ Board and US Customs

# FTZ Authority Structure



# What Can I Do in an FTZ?

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- Distribution
- Storage
- Testing and Inspection
- Repackaging
- Assembly
- Repair
- Manufacturing



# Retail Importers Using FTZs

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- Dell
- HP
- Onkyo
- Winnebago
- Skechers
- Reebok
- Adidas
- IKEA (3)
- Black and Decker (4)
- Academy Sport Goods (2)
- Laufen Tile (3 DCs)
- Arizona Tile



# Retail Importers Using FTZs (primarily for MPF savings)

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- Gymboree
- Helen of Troy
- Sharp Electronics
- J C Penney's
- JVC Electronics
- Pioneer Electronics
- Thompson Consumer Electronics
- Conair
- JJ Baker
- Oneida



# Retail Importers Using FTZs

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- Nine West
- Coach Leather Goods
- Mercury Marine
- Sony (3) Adding 7 DCs in LA
- LA Gear
- Lexmark Printers
- Keds
- Clarion

# Which Developers/REITs are Applying for FTZs Nationwide?

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- ProLogis
- IDI
- AMB Properties
- Majestic Realty
- First Industrial
- CenterPoint Prop.
- ING Clarion
- Hillwood/Perot
- Carson Companies
- The Allen Group
- Kennedy Advisors
- Sares-Regis
- DP Partners
- Catellus
- OPUS
- Duke

# Who Uses FTZs? - Mfg.

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- GM, Ford, Toyota, Chrysler
- Exxon/Mobil, Chevron/Phillips
- Merck, Abbott Labs
- Intel, ST Microelectronics
- Dell, IBM, Sony, NEC
- Petsmart, Pier 1
- Whirlpool, Sears
- Yamaha Motors, Gymboree, Target

# Why Should I Use an FTZ?

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- Because, today, importers/manufacturers can't afford to leave \$1 Million, \$250,000 or even \$100,000, on the table anymore!!!!
- Of course, each firm has to qualify, has to be importing (even duty-free!) at a sufficient level to qualify
- Customs has "fixed" three key operational issues that now make the Zone operations livable in a just-in-time (JIT) world

# Customs “Fixes” to FTZ Operational Issues

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- CBP allows Weekly Entry: Much easier on Out-Bound process of sending goods out of the Zone. Weekly approval, then your shipping occurs 24/7!
- Direct Delivery (for those that qualify) makes In-Bound Receipt of goods occur 1-2 days FASTER using the FTZ!!
- FTZs are allowed Electronic Filing of Forms – (E-214) with no paperwork required other than OGA importing requirements, matching normal import procedures!

# Using the FTZ to Cut Costs

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- **MPF & Broker Savings**
- **Manufacturing, Pick and Pack, Retail Packaging of Sets**
- **Returns, Product Safety, Customs Fines**

# How Does an FTZ Cut Costs?

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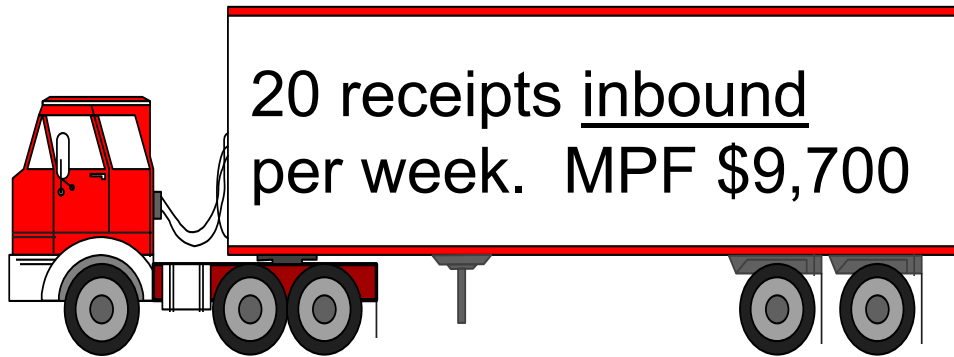
- The FTZ importing process **costs less:**
- **\$300,000 to \$1,000,000 on AVERAGE:**
  - Duty Deferral
  - Duty Elimination
  - Duty Reduction
- **State Tax Reduction (TX, AZ)**
- **Merchandise Processing Fee Elimination**  
**let me explain this last step....**

# Explaining Customs: The Importing Process

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- CBP charges Fees to process paperwork.
- Like the PFC you pay on all Flights, the MPF fee is charged per ENTRY.
- An entry is equal to 1 Bill of Lading (BL).
- A BL = 1 Container (sometimes 2-3).
- These MPF fees Customs charges are approx \$200 - \$500 per Entry = \$10,000s per week typically.
- FTZ - Weekly Entry reduces this to 500/WEEK!!





### Shipments into Site

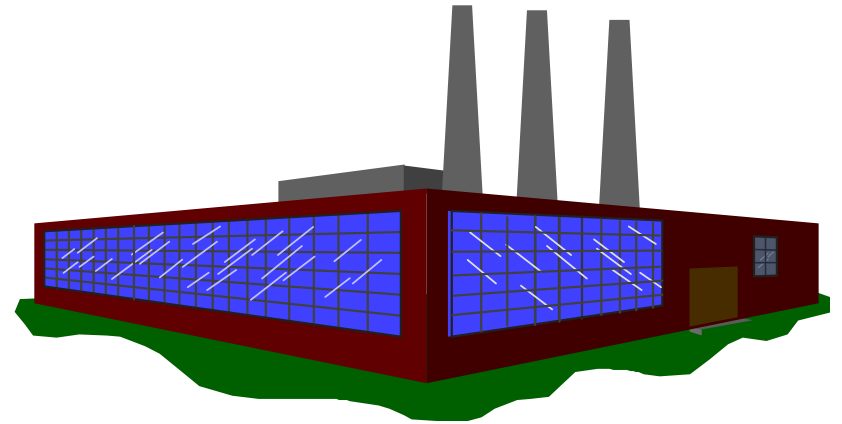
In a single week, an FTZ importer can save \$9,200/week in MPF Fees, or

~~\$479,180 per YEAR!~~

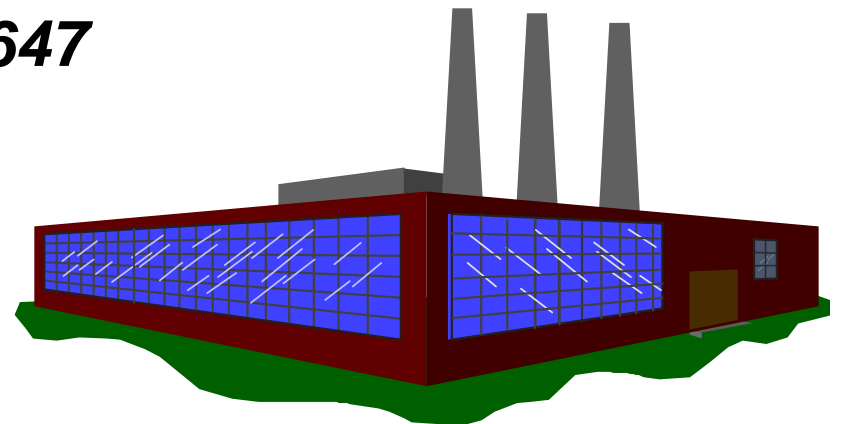
***NOW MPF IS HIGHER! \$790,647***



Shipments into commerce with weekly entry



### Pre-Foreign-Trade Zone



### Foreign-Trade Zone

# Using the FTZ to Cut Costs

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- **MPF & Broker Savings**
- **Manufacturing, Pick and Pack, Retail Packaging of Sets**
- **Returns, Product Safety, Customs Fines.**

# An FTZ Allows Me to Alter Duty Rates!

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- If my parts (imported) carry ANY duty at all:
  - AND– my finished product -- which I manufacture or assemble can be imported by a competitor directly---at 0% Duty--- **I CAN GET THE SAME BENEFIT!**
  - Whether it's crude oil, TVs, satellite dishes, solar panels, refrigerators, WHATEVER!!
  - **Some Restrictions Apply!!**

# An FTZ Allows Me to Alter Duty Rates!

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- This “rule” works for Pick-&-Pack too!
- Example: Speakers carry 4% duty. DVD players are 0%. Home Theater Systems (i.e., both boxes= speakers + DVD players) are dutiable at ZERO%
- Therefore, I claim 0%.
- **For every \$10 Million in Speakers, I save \$400,000!!**

# Using the FTZ to Cut Costs

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- **MPF & Broker Savings**
- **Manufacturing, Pick and Pack, Retail Packaging of Sets**
- **Returns, Product Safety, Customs Fines**

# Returns w No Fines/Penalties

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- US returns handled easily in an FTZ and keep their domestic duty-paid status.
- Foreign Returns/Repairs handled as “still outside the US” so no duty, no paperwork, no drawback, no TIB, etc.
- Able to sort-out country of origin, MID, all types of potential CBP nastiness, without FINES!!.

# FIX CPSC, FDA, LACEY ACT

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- Inside an FTZ, I have the time, place and ability to “fix” import issues without penalty!
- This is especially HUGE now, as sometimes, the Feds don’t really know how they are going to regulate such issues.
- Able to sort-out labeling, source, genus, family, and other eligibility issues within the FTZ environment, with no Penalty or admissibility issues.

# Distribution Center - Electronics

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	<b>Non-FTZ</b>	<b>FTZ</b>
Duty	\$7,500,000.00	\$7,500,000.00
MPF	<b>\$346,428.57</b>	<b>\$25,220.00</b>
Inventory Taxes	\$275,000.00	\$0.00
Broker Entry Fees	\$71,428.57	\$ 13,000.00
Broker Admission Fees	\$0.00	\$ 35,700.00
FTZ Admin Fees	<b>\$0.00</b>	<b>\$ 61,500.00</b>
<b>Total Costs</b>	<b><u>\$8,192,857.14</u></b>	<b><u>\$7,635,420.00</u></b>
<b>Client Net FTZ Savings</b>	\$0.00	<b><u>\$557,437.14</u></b>



# How do I Qualify for FTZ?

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- Understanding the FTZ process is Step 1.
- Determine if you meet ONE or more of.....
- **300,000 ft or more of DC space with imports, OR,**
- **\$100 Million in import value per year, OR,**
- **1,000 Customs Entries or more, OR,**
- **You import parts/components and manufacture, assemble or pick & pack!**

# BINGO-You Qualify!

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- Call IMS Worldwide at 281-554-9099
- Use the **www.imsww.com** website.
- IMSW will determine if there is a savings of more than 2:1 or more (we do the cost-benefit analysis, for free!).
- **We do a detailed Operational and Cost/Benefit Feasibility to get exact numbers....**

# What is the Process to Get an FTZ?

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- Local Sponsorship of the Grantee
- Make an application to the FTZ Board
- Activation of the user/importer/tenant
- Normal processing time for all this = 12 months but now, under ASF, fully approved and Activated in 4-6 months!
- Much faster ways, cheaper ways, but on a case-by-case basis.....

# Bottom Line?

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- FTZ process is now a site requirement 40-50%
- FTZ pays for itself at 250-300% ROI in the first year of implementation---if you Qualify.
- FTZ status is becoming a real factor in speeding up the supply chain, which for many of your customers is WAY more important than supply chain costs
- **Old Paradigm FTZ use, operations and marketing are the # 1 impediment to current FTZ use!!**

# CONCLUSIONS!

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- FTZs Cut Costs by lowering Parts/Components Costs!
- FTZs Cut Costs by MPF Savings – Add Velocity!
- FTZs Cut Costs by saving fines/penalties brought on by non-ordinary Customs Issues.

## **BOTTOM LINE:**

- This Recession is REQUIRING CUTS in Supply Chain Costs
- FTZs are much easier to administer now.
- You can't afford NOT to participate, IF you qualify!