IMS WORLDWIDE INC.

Foreign-Trade Zone and Industrial Park Consulting and Marketing
Supply Chain and Security-Threat Assessments

Foreign-Trade Zones: How they work and why they are essential in 2025 +

The U.S. Foreign-Trade Zones (FTZ or Zone) program was created by the FTZ Act of 1934, in order to "expedite and encourage foreign commerce" in the United States. For a number of years, the program was largely ignored, and by 1970, there were only seven FTZs in the country. With the dramatic increase in import volumes and a better understanding of the advantages of the FTZ program, Zones have become much more popular.

By definition, an FTZ is a government-designated site where foreign and domestic materials remain in a kind of international commerce limbo. While the goods remain in the Zone, the materials may be stored, manipulated, mixed with domestic and/or foreign materials, used in assembly or manufacturing processes, or exhibited for sale without triggering the payment of U.S. Customs and Border Protection (CBP) duties and excise taxes.

Imports may flow directly into the Zone and be held there indefinitely -- duty free. Duty is assessed only when those goods are shipped out of the Zone and into the United States marketplace. However, the most important **new benefits** are mitigating these HUGE tariff increases placed on ALL imports into the USA. **This unprecedented level of new taxes on goods raises the FTZ Benefit stream 10X minimum!** That is in addition to the 2010 FTZ rules that resulted in supply chain efficiencies and velocity improvement, while cutting costs from the Supply Chain. Those Supply Chain benefits are known as Weekly Entry and Direct Delivery. But the BIG NEWS is in tariff mitigation. See below:

- ***Eliminating duty on Exports.*** Goods that are imported and stored in an FTZ may be re-exported without ever incurring duties. This eliminates the need to file for duty drawback refunds, a lengthy procedure that ties up funds. This includes ALL of the new punitive tariffs imposed April of 2025.

- ***Exempting duty on waste or scrap.*** If for some reason goods in the Zone must be destroyed or returned, no duties will be charged. These savings include RTV, waste, scrap, obsolete goods, etc.

- ***Pay the Duty when you Sell the Merchandise***. With these new Punitive Tariffs averaging 54% on China, and 25% on Mexico and Canada, paying the duty up front is disastrous! Paying Duty after you clear Customs (from the Zone DC or manufacturing center), and only when you sell and only pay on the value of what you sell, saves huge dollars. Major cash-flow advantage for importers.

- ***Providing Tariff relief using inverted tariffs.*** There are instances where companies are actually penalized for manufacturing at home (here in the USA). When the duty on raw materials is higher than that on the finished product, an importer of finished goods has an advantage over the U.S. producer. If the manufacturing takes place in an FTZ, however, the owner pays duty on his end products as they are shipped, thus leveling the playing field. Examples are appliances, solar equipment, pharmaceuticals, chemicals, autos, machinery, pumps and many other industry groups that use the FTZ program to lower parts-tariffs by making the finished product in the Zone. Under the NEW tariff regimes (2025+), any punitive tariffs are not allowed to be "inverted," however, with the high level of tariffs imposed now, just the ability to delay payments until goods are sold is a huge benefit!

- ***Big savings in processing fees***. The 2000 Trade and Development Act contained a provision that provided for weekly entry procedures in all FTZs. This weekly entry benefit allows the importer to file a consolidated entry to CBP instead of the regular "entry per Bill of Lading" that normally occurs in shipping. By reducing the number of CBP entries, huge economies of scale can lower an importer's internal paperwork processing costs and reduce the fees paid to CBP for each entry. This may not seem like a big deal, but companies located outside the Zones pay 0.3464% (value of merchandise) fee for every shipment processed by CBP. The minimum (MPF) fee is $32, and maximum (which applies to any shipment valued at $140,000 or above) is $635, regardless of the amount of duty paid. The cost savings are so significant that the FTZ program is now being used by 45 of the top 100 importers in the U.S.

  Example: Suppose a company located in an FTZ receives 10 shipments, each with a value of only $150,000, every week. At $635 each MPF, the processing fees outside the zone would be $6,350 weekly or $330,200 annually. Within the Zone, however, these same 10 receipts would be processed as a single shipment for a total fee of $635 per week. Savings ($330,200 – $33,020 ($635 x 52)] = $297,180 per year!

- ***Direct Delivery*** is a CBP procedure, only allowed in an FTZ. This benefit gives the users/tenant the ability to "sign for" CBP upon receipt of goods that normally have to go to another location for signature, BEFORE the goods can be delivered to the DC. With Direct Delivery, the importers can cut out 1 – 2 days of inbound time on their receipt of goods. This is being proved out every day by Huffy Bikes, Black and Decker, Skechers, and other importers who have announced publicly that they are receiving improved supply chain velocity within their FTZ facility.