

The National Association of Foreign-Trade Zones

Presents:

**American Competitiveness
Jobs and Exports –
How FTZs Can Help**



Agenda



- NEI
- Background on FTZs
- Financial Benefits and Savings Analysis
- Success Stories
- Public Policy Objectives

National Export Initiative



- March 11, 2010 President Obama signed Executive Order creating NEI
- To enhance and coordinate federal efforts to facilitate job creation through export promotion
- A critical component of stimulating economic growth is ensuring US businesses can actively participate in international markets by increasing their exports
- Improved export performance will create good high-paying jobs
- **Double exports over 5 years from 2009-14**

Trade and Economic Development



FTZ Users are good examples and tell the comprehensive story:

What policy makers know:

- Companies export to expand their markets
- Companies that export tend to be multinationals and pay on average **7%** higher wages than companies that do not export
- Exports support American jobs and accounted for **12.7% of GDP in 2008**

Trade and Economic Development



FTZ Users are good examples and tell the comprehensive story:

What policy makers may not know:

- Companies that export must also import to be price competitive in the global market
- Importing can also provide a source of inputs that may not be available in the U.S. or is only available in limited supply
- Thus, import restrictions diminish export competitiveness and make the NEI goal harder

Historical Relevance of FTZs



Foreign-Trade Zones were created through federal legislation in 1934 to expedite and encourage U.S. participation in international trade

In 1950, Congress amended the Act to allow manufacturing in FTZs, to:

- Allow foreign and domestic inputs to be combined for cost-competitive manufacturing in the US
- Increase manufacturing competitiveness for exports as well as domestic distribution

Thus, FTZ's are well-positioned to foster US economic recovery through trade expansion

Role of Foreign-Trade Zones



- A Secure Area Located in or near a Customs Port of Entry
- Legally outside the U.S. Customs Territory
- In a FTZ merchandise may be: assembled, exhibited, cleaned, manipulated, manufactured, mixed, processed, relabeled, repackaged, repaired, salvaged, sampled, stored, tested, displayed, destroyed

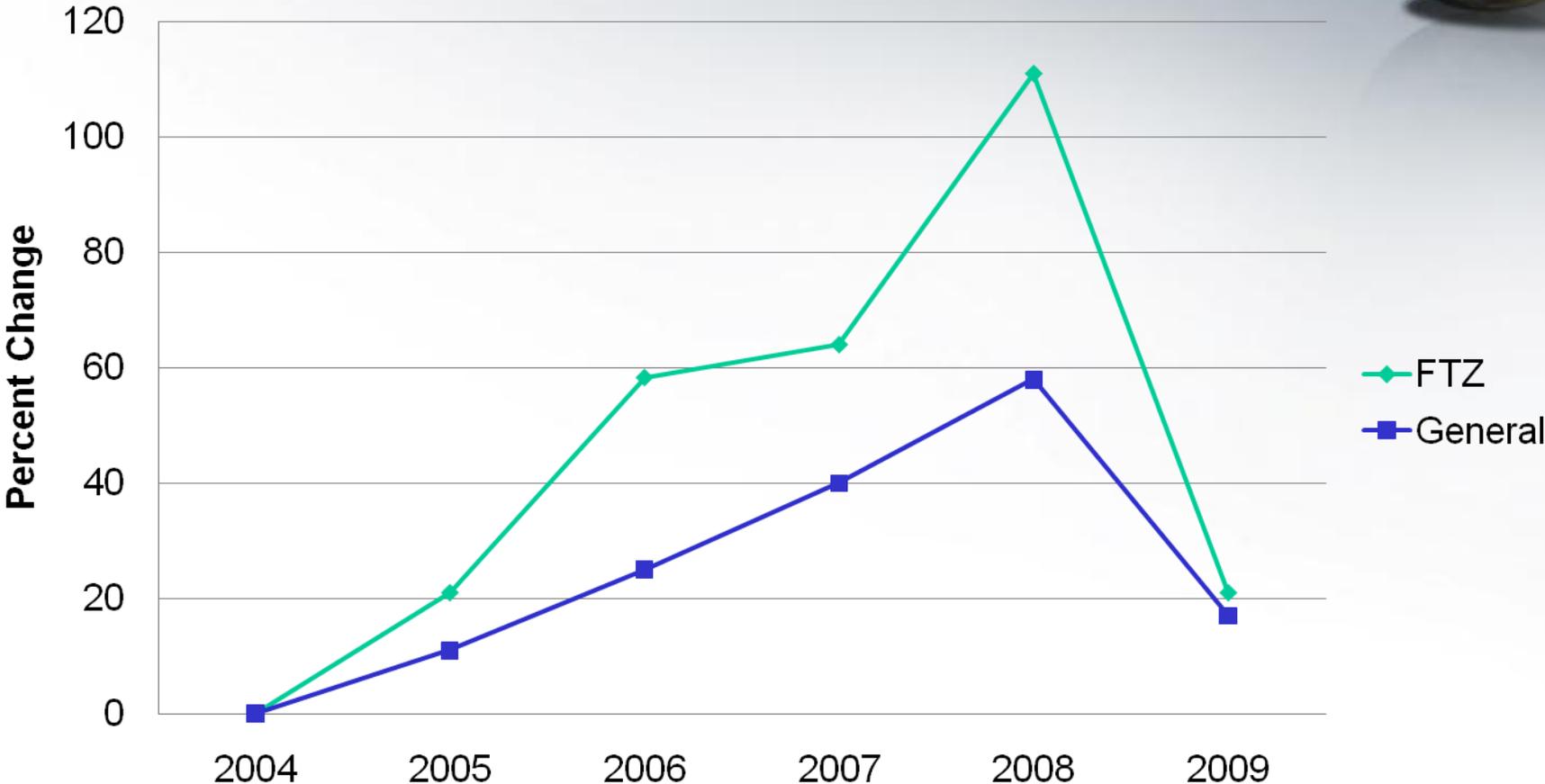
FTZ Board may approve activity based on public interest review

Key Statistics (2009)



- Approx. **\$430.6** billion in merchandise is received at US FTZs annually (foreign and domestic)
- Approx. **58%** value received is domestic (US product or imported/duty paid)
- Approx. **\$28.2** billion exported
- Approx. **330,000** persons employed by firms operating under FTZ procedures
- There are over **250** approved general purpose zones and over **450** approved subzones in 50 states

Percentage Growth Trend in Exports (2004 – 2009)



During the period from 2004 - 2009:
FTZ exports grew from 19.2 billion to 28.2 billion dollars.
General exports grew from 814.9 billion to 1056.0 billion dollars.

FTZs Doubling Exports is Not the Full Story



FTZ's doubled exports 2004-2008 but the export numbers are understated

- FTZ export values are reported based on merchandise value only
- General exports are reported based on export (FAS) sale price including value-added (labor, profit, overhead) and inland transportation and insurance

FTZ export values are significantly understated

The true contribution of FTZs to the economy is not fully appreciated

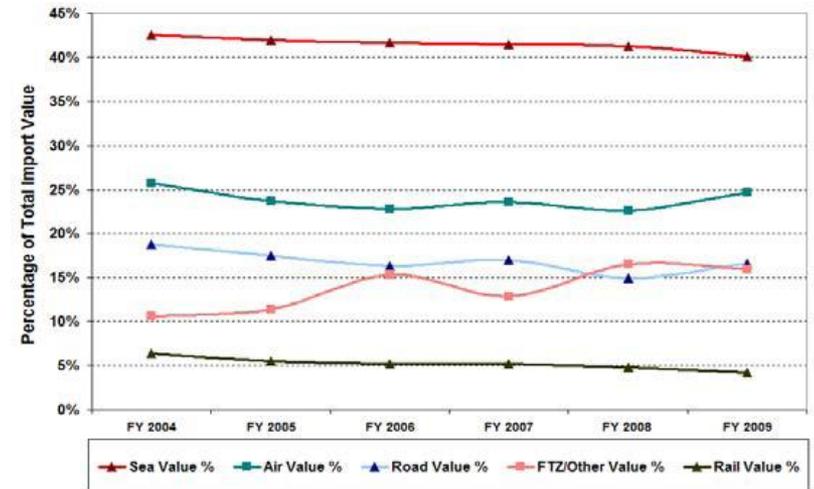
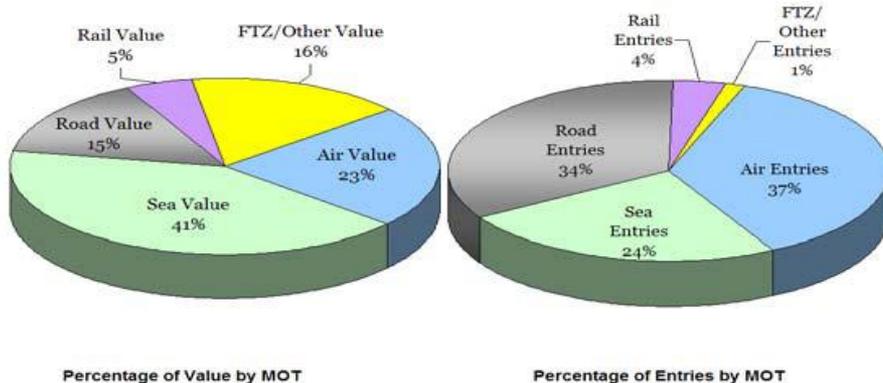
U.S.-Based Companies Get In the Zone: Savings=Competitiveness



CBP Report, "Import Trade Trends"

Fiscal Year 2009 Year End Report published March 2010

"The value of shipments leaving FTZs have increased in value over the last few years, competing [in value] with imports via truck."



Foreign-Trade Zone - Oversight Management Structure



- Every FTZ has a “**Grantee,**” - a public/governmental agency
- FTZ Board reviews economic impact of applications on local, regional, national basis
- Zones operate on Public Utility principles. Equal access – equal treatment

The Public/Private Partnership: Operator



- May be a private corporation or the grantee
- Operators provide day-to-day oversight of zone activities that may include record keeping, marketing, and providing technical expertise
- FTZ Operator's Bond supplied to Customs to secure compliance with regulations

Types of FTZs



- General Purpose Zone
- Special Purpose SubZone
- Alternative Site Framework

Key Industries



- Top industries that utilize zones:
 - Consumer goods distribution: footwear, leather, cosmetics, house wares, appliances, electronics, office supplies, watches, bicycles, textiles and apparel
 - Manufacturing: petroleum, electronics, machinery, chemicals, pharmaceuticals, appliances, automotive
 - Parts distribution: automotive, electronics, machinery, etc.

FTZ Program Key Organizations



- Foreign-Trade Zones Board (FTZB)
- Secretary of Commerce
- Secretary of Treasury

Executive Secretary – FTZ Board



- **Chief operating official of the Board**
- **Represents the Board** in all administrative, regulatory, and operational matters within its purview
- **Initiates recommendations** to the Board for overall administration of the Foreign-Trade Zones Act
- Conduct direct **monitoring** of zone activity
- **Maintains custody of records**, files, correspondence, and official seal of the Board
- **Approves boundary modifications** with concurrence of the appropriate Port Director
- **Accepts rate schedules** and determines their sufficiency under the regulations

Role of Customs



- Insures total oversight of U.S. Foreign-Trade Zones
- Principal Interests and Concerns
- Port Director's Role

U.S. Competition – Global Trade



Other Countries

- **Canada:** Customs Free Zones (CFZ)
- **Japan:** Foreign Access Zones (FAZ)
- **Germany, Hong Kong, Italy, Israel:**
Free Port (FP)
- **China, India, Philippines:**
Special Economic Zones (SEZ)

U.S. Competition – Global Trade (using similar programs)



Country	Employment
Asia	55,741,147
Central America/Mexico	5,252,216
Africa	1,503,626
Middle East	1,043,597
South America	459,825
Caribbean	546,513
United States	330,000

(U.S, employs .5% of total global employment in similar programs)

Financial Benefits of FTZs



FTZs: Reduce Costs/Move Trade



- **Duty Deferral**
- **Duty Elimination** on Exports & Scrap
- **Duty Reduction** (inverted tariff relief) for manufacturing zones only
- **State and Local Ad Valorem Tax** Exemption on inventory tax (federal law)
- **State and Local Real Property Tax** (Arizona)
- **Administrative savings and expedited flow** due to flexible Customs procedures, consolidated entry reporting, reduced brokerage and government fees

Duty Deferral



- Customs duty and federal excise tax paid only when merchandise is transferred from an FTZ to U.S. Customs territory for consumption
- Deferral savings can be significant particularly in First-In, First-Out inventory tracking environments and when implemented up and down the supply chain

Duty Deferral—Example 1

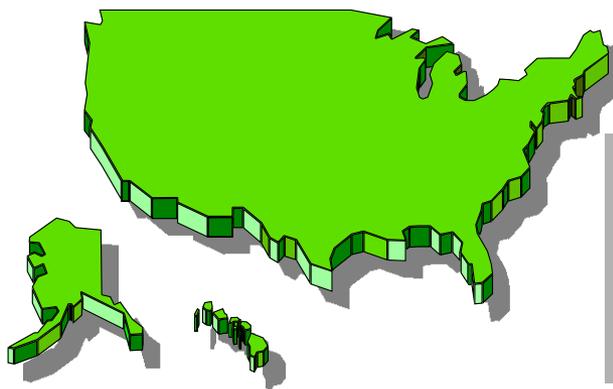
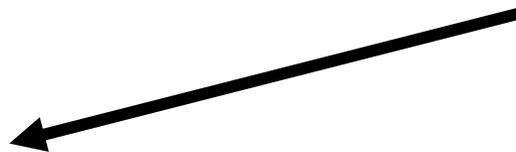
Zone to U.S. Commerce



Auto Parts
Dutiable at 2.5%
Admitted to FTZ



Stored in
Warehouse for
Unlimited Time



Withdrawn from FTZ for
Entry into U.S. Commerce
2.5% Duty Paid
Duty Deferral

Duty Deferral—Example 2

Zone-to-Zone Transfer



Auto Parts
Dutiable at 2.5%
Admitted to Zone 1



Stored in
Warehouse 1 for
Unlimited Time



Transferred to Zone 2
In-Bond and Stored in Warehouse
**Duty Paid Upon Removal from
Zone 2 - Entry into U.S. Commerce**



Duty Elimination



- Goods may be exported from a zone free of duty and federal excise tax, without consumption entry
- Goods may be destroyed in a zone without payment of duty and federal excise tax

Duty Elimination/ Zone to Export Market



Auto Parts
Dutiable at 2.5%
Admitted to FTZ



Stored in
Warehouse for
Unlimited Time



Withdrawn from FTZ for
Export
No Duty Payment



Duty Elimination/Destruction



Pens
Dutiable at **0.8¢ each + 5.4%**
Admitted to FTZ



Received at
warehouse and
determined to have
no commercial
value



Destroyed in the FTZ; no
entry into commerce/ **No
Duty Paid**



Duty Reduction (Inverted Tariff)

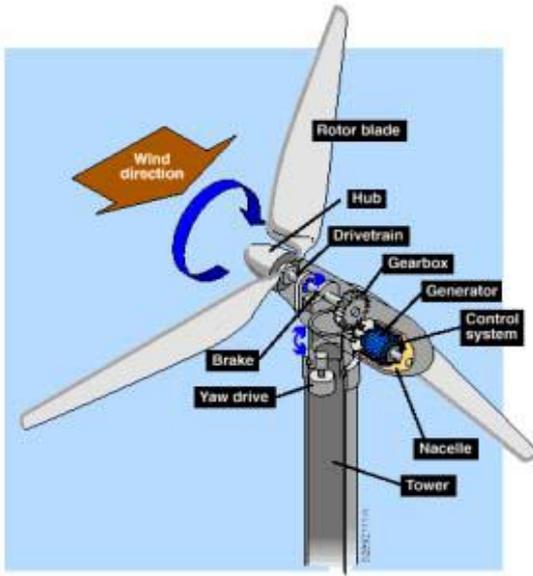


- When merchandise is admitted to a zone, the operator/user may elect status of merchandise:
 - Duty rate applicable to either the materials as admitted (privileged foreign),

OR

- Duty rate applicable to the finished product as removed from the zone, depending upon which is lower

Duty Reduction/Inverted Tariff



Wind Turbine Parts valued at \$10,000
Average Duty at 5%
Without FTZ
 $\$10,000 * 5\% = \500 duty owed

Inverted Tariff: Value of parts are multiplied by duty rate of finished product to determine duty
 $\$10,000 * 2.5\% = \250 duty owed

Manufactured into Finished Wind Turbine
Dutiable at 2.5%



B2B SEAMLESS TRANSACTIONS: Reducing Supply Chain Cycle Times



Direct Delivery

- Expedites arrival of goods
- Eliminates exams/delays

Weekly Entry

- Expedites departure of goods
- Reduces paperwork/recordkeeping
- Reduces MPF
- Reduces broker fees

Weekly Export

- Expedites departure of goods
- Reduces paperwork/recordkeeping
- Reduces broker fees

= Lower Inventory Levels

FTZ Activated Area:



In Gate A:
Out Gate B:



State and Local Ad Valorem Tax Exemption



- Generally, tangible personal property (inventory) in FTZs is exempt from state and local ad valorem taxes
- Specifics of the exemption vary from state to state
- FTZ Act (19 USC 81a, as amended)

Sec. 81o(e) Exemption from state and local ad valorem taxation of tangible personal property. Tangible personal property imported from outside the United States and held in a zone for the purpose of storage, sale, exhibition, repackaging, assembly, distribution, sorting, grading, cleaning, mixing, display, manufacturing, or processing, and tangible personal property produced in the United States and held in a zone for exportation, either in its original form or as altered by any of the above processes, shall be exempt from State and local ad valorem taxation.

- Principle Use of FTZ for Bona Fide Customs Reasons
- Overlay of Public Interest Principles

Other Benefits



- Production equipment may be admitted, assembled, stored, and tested without duty payment until use in production begins
- Commingling of foreign and domestic merchandise
- Lower Administrative Costs
- Lower Security and Insurance Costs
- No Time Constraints on Storage
- Improved Inventory Control through use of FIFO – Record Keeping Identity vs. Specific Identity (Fungibility)
- Improved Security
- Improved Compliance
- Improved Business Processes

Benefits Summary



Duty Deferral

Duty Reduction

Cost Savings

Duty Elimination

Consolidated Reporting

(Broker Fee & MPF Savings)

Production Equipment Savings

Direct Delivery/Weekly Entry & Export

Time Savings

Flexible Inventory Tracking

Abbott FTZ Success Story



- Abbott Foreign-Trade Subzones
 - I387: Sturgis, MI
 - K768: Abbott Park
 - L788: Barceloneta PR
 - P076: Harahan, LA
 - V362: Casa Grande, AZ
 - Pending Subzone Application: Temecula, CA

Abbott FTZ Success Story



- Product Categories Admitted to the FTZ
 - Active Pharmaceutical Ingredients (API)
 - Bulk Drug Products
 - Diagnostic Equipment
 - Medical Devices
 - Nutritionals
 - Raw/Intermediate Materials

Abbott FTZ Success Story



- Activities Completed Within the FTZ
 - Clinical/Commercial Packaging
 - Clinical/Commercial Manufacturing
 - Product Formulation
 - Research & Development
 - Supply Chain Logistics
 - Warehousing

Abbott FTZ Success Story

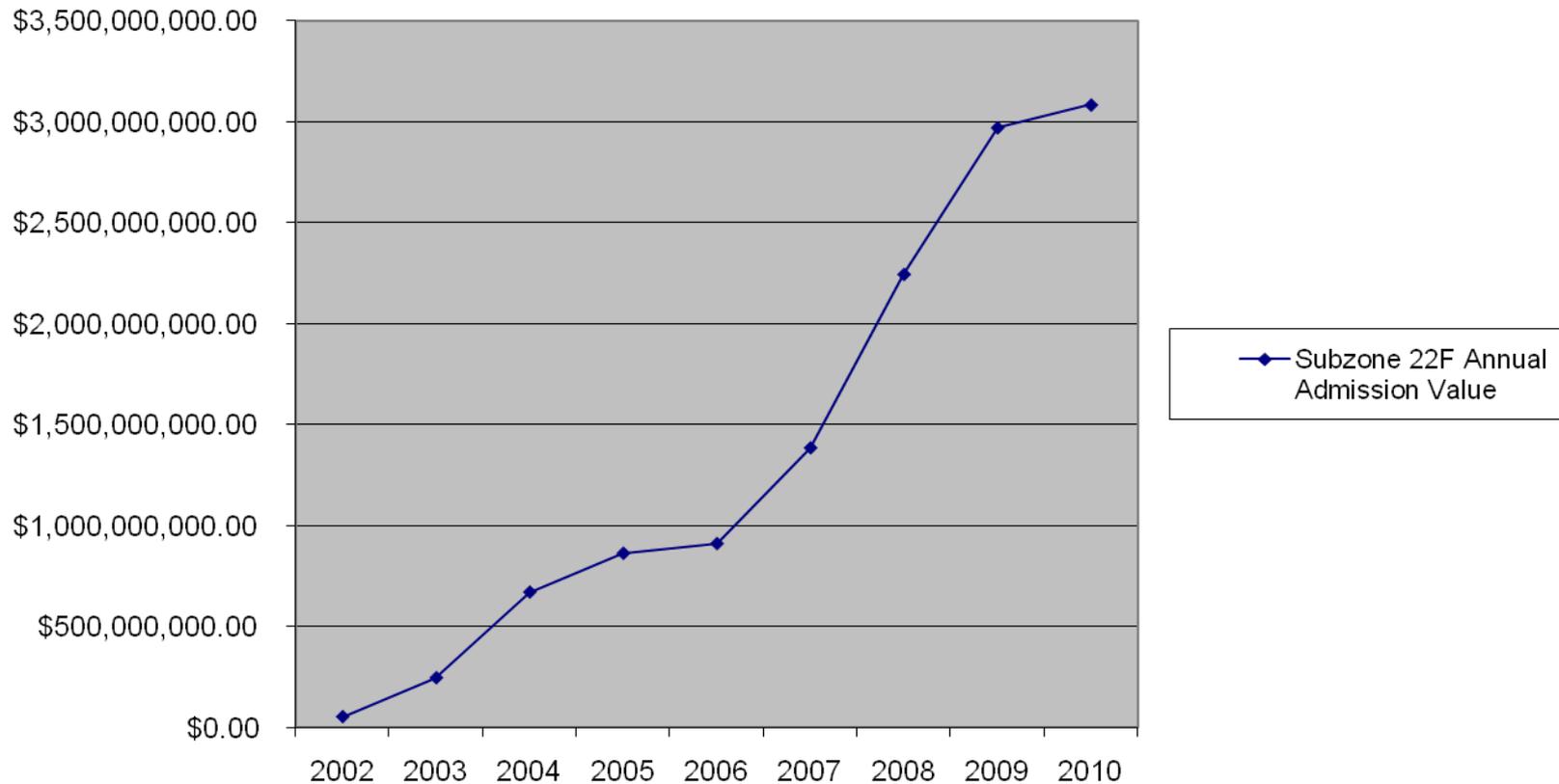


- Realized Benefits from FTZ Use
 - Business Contingency Strategy
 - Cash Flow Savings
 - DoH Savings
 - Centralized Distribution Strategy
 - Cold Chain Strategy
 - Duty Deferral/Elimination
 - Product Launch Strategy
 - Supply Chain Velocity
 - e214 Admission
 - Weekly Entry Filing
 - QP/WP

Abbott FTZ Success Story



FTZ Growth Chart





FTZ

Foreign-Trade Zone 181



NORTHEAST OHIO

Trade & Economic Consortium

Northeast Ohio Foreign-Trade Zone 181 has been a main factor in attracting over \$300 million in capital investment and the creation and retention of over 3,000 jobs in Northeast Ohio since 2001.



FTZ

Foreign-Trade Zone 181

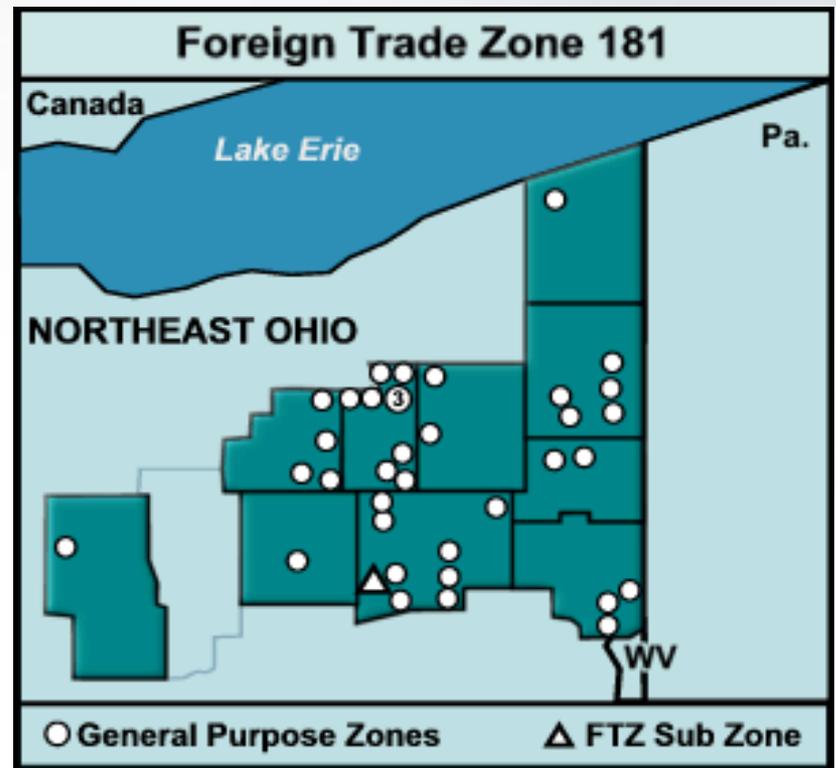
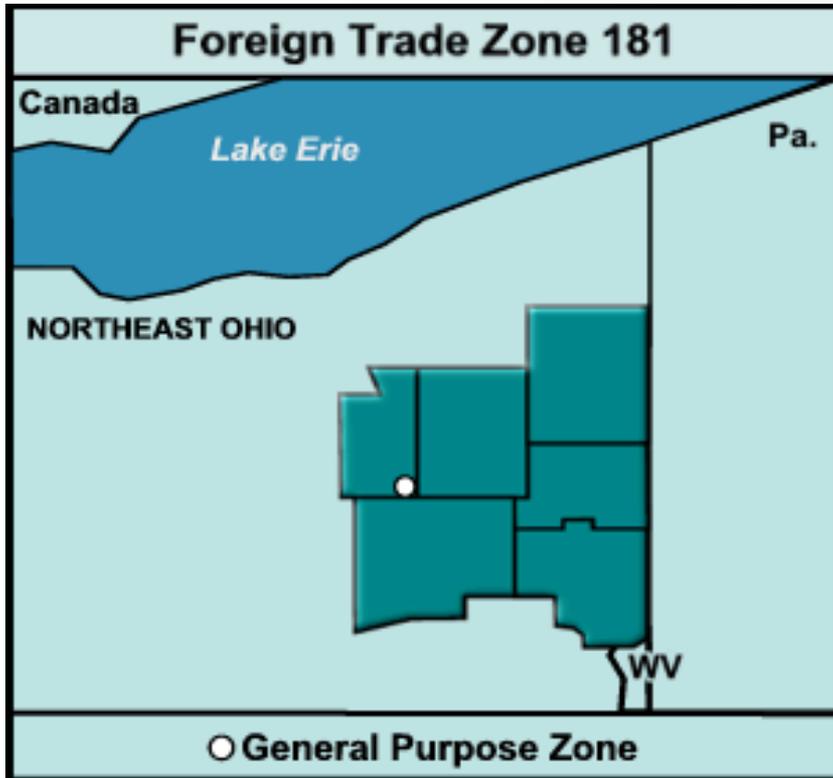


NORTHEAST OHIO

Trade & Economic Consortium

1991

2010





FTZ

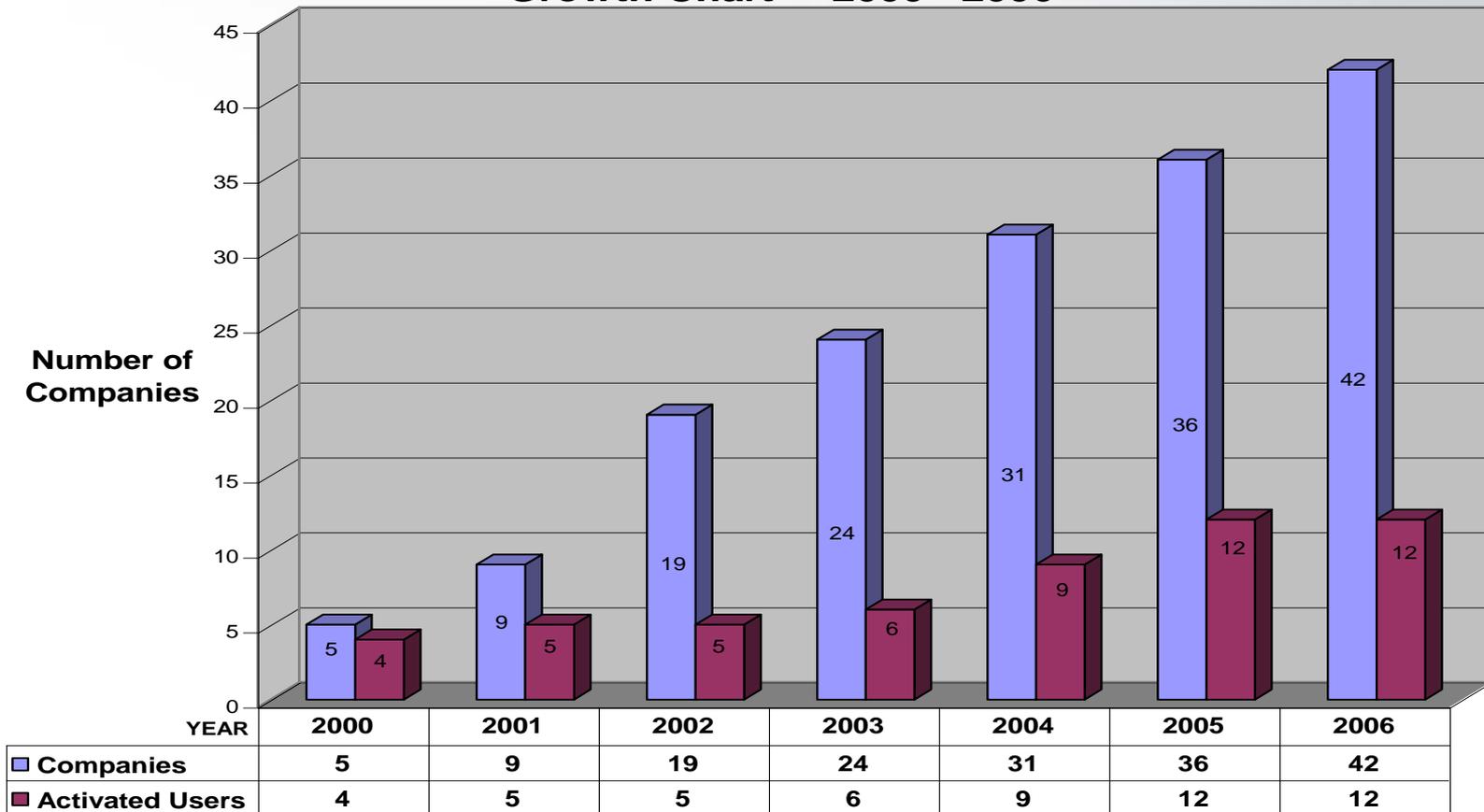
Foreign-Trade Zone 181



NORTHEAST OHIO

Trade & Economic Consortium

**Foreign-Trade Zone 181
Growth Chart 2000 - 2006**





FTZ

Foreign-Trade Zone 181



NORTHEAST OHIO

Trade & Economic Consortium

“Being part of FTZ 181 has been a contributing factor to the growth of our company”

ASC Industries, Inc - Green, Ohio





FTZ

Foreign-Trade Zone 181



NORTHEAST OHIO

Trade & Economic Consortium

“Local challenges are inherent in any market but being a member of NEOTEC and FTZ 181 has provided Pinney Dock a definite synergistic advantage”

Pinney Dock & Transport – Ashtabula, Ohio



Exporters Using FTZs

Kodak **PETSMART**



STMicroelectronics



ExxonMobil



Panasonic



DNP

Rockwell Automation

Firmenich



VOLVO CONSTRUCTION EQUIPMENT.



Public Policy Objectives



- Creation and maintenance of employment through the encouragement of operations in the United States, which for Customs reasons, might otherwise have been carried on abroad
- The objective is furthered particularly when zones assist exporters and reexporters, and usually when goods arrive from abroad in an unfinished condition for processing here rather than overseas

Source: Preamble to FTZB Regulations, 1991

New FTZ Board Regulations Proposed (12/2010)



- Current FTZB Regulations adopted in 1991
- NAFTAZ Comments Highlight:
 - Manufacturing/Production
 - Expedited FTZ Approval
 - FTZ Program Improvements

COMMUNITY BENEFITS



- Retain existing jobs and attract new jobs
- Company investment in the local community
- Local improvements to infrastructure
- Increased local purchases of goods and services

NATIONAL BENEFITS



- Improved balance of trade resulting from increased exports
- Stronger economy through lower unemployment rates, higher use of U.S. products, and reinvestment in the United States
- Enhanced development and retention of technology due to production in the United States



The FTZ Program Represents A Public/Private Partnership to Maintain & Attract U.S.-based International Trade Activity



Questions & Answers

