RFD

Economic Development

Global Competiveness

Reduced Duties

What is a Foreign-Trade Zone?

A foreign-trade zone (FTZ) is a tool that companies can use to increase their global competitiveness. It is a secure, defined site inside the U.S. that is legally considered outside of Customs territory, so goods may be brought into the site duty-free and without formal customs entry.

Foreign-trade zones were authorized by the Foreign-Trade Zones Act of 1934 (the FTZ Act). Oversight is provided by the Foreign-Trade Zone Board, an independent agency within the Department of Commerce. The local U.S. Customs & Border Protection office provides supervision and control as the representative of the FTZ Board. The Greater Rockford Airport Authority is the Grantee or administrator - an entity with the grant of authority to operate FTZ #176. The Grantee submits applications (for territory modifications and new subzones), executes Operator Agreements with activated locations, maintains a Zone Tariff schedule (fees and regulations), and annually reports to the FTZ Board within the Zone.

There are two types of foreign-trade zones:

- General Purpose Zone (GPZ) - Established for multiple activities by multiple users.
- Subzone - Special purpose zones for use by one company for specific activity.

FTZ Activities:

Merchandise entering a zone may be:

- Assembled
- Displayed
- Stored
- Tested
- Repaired
- Manufactured
- Salvaged
- Relabeled
- Mixed
- Destroyed
- Repackaged
- Cleaned
- Processed

Benefits of a Foreign-Trade Zone:

By utilizing a FTZ, companies can defer, reduce and in some cases eliminate duties imposed by the Customs and Border Protection on foreign goods. If the goods are re-exported, no duties are paid on the "foreign" component(s).

Benefits for the Community

- Companies located in and around an FTZ may attract expanded business opportunities
- Economic development through international trade
- Job retention and creation
- Indirect employment
- New business investment
- Infrastructure and expanded tax base

Benefits for the Business

The FTZ program provides a means of improving the competitiveness and profitability of companies involved in importing or exporting activities. The basic benefit offered by the FTZ program is the ability to defer, reduce or even eliminate Customs duties on products admitted to the zone.

- Deferral of duties: cash flow savings by paying duties if and when merchandise enters U.S. customs territory.
- Reduction of duties (i.e. inverted tariff)
- Elimination of duties (i.e. most scrap, re-export)
- Other savings: labor, overhead (value added) are excluded from the dutiable value of foreign merchandise.
- Other savings: special Customs procedures (direct delivery, weekly entries); quotas and ad valorem taxes may produce bottom-line benefits.

FTZ BENEFITS

CASH FLOW, INVENTORY, TAX & SUPPLY CHAIN SAVINGS

Cash Flow: Customs duties are paid only when foreign merchandise is shipped into US Customs territory. Therefore, standing inventory is held in the FTZ subzone/site without duty, often resulting in large savings, particularly during the first year.

Estimated Weekly Entry - Customs broker fee & MPF (merchandise processing fee): The Customs broker collects fees for preparing and filing each entry with U.S. Customs & Border Protection; Customs collects the MPF, which is assessed (with a minimum of $25 and a maximum of $485) against each entry filed. The FTZ program allows consolidation from daily or per-container entries into weekly entries, often resulting in a substantial savings.

S**upply chain timeline:** There is no need to hold product for customs clearance. This often results in a one to three day reduction in the supply chain which benefits not only manufacturers and other end users, but 3PL (third party logistics) providers.

Direct Delivery: With prior approval by Customs, FTZ operators can facilitate the movement of foreign product: they do not need to wait for Customs officers to be present before breaking seals or even shipping products. This benefit is especially valuable to 3PL's and large distribution centers with cross dock operations.

Return on Investment: Normally, the ROI will begin 12-18 months from start of the project.

Duty deferral: There is significant deferral on the average inventory during the first year in the FTZ program with capital costs captured each subsequent year.

Inventory Control: The FTZ program requires accurate reporting to follow foreign merchandise from receipt, processing and shipment for export or entry in the Customs territory of the U.S, reducing inaccurate inventory, emergency shipments and tracking of all import receipts from the point of origin to the final destination. In this post-9/11 age, additional reporting requirements (10+2 filing/Safe Port Act of 2006) are now required. Increased accountability will reduce staff time needed to deal with government regulations.

Quality Assurance & Customs compliance: With the high quality of inventory control systems required, quality control is a side benefit. These benefits include location and tracing of all foreign merchandise, including those returned or destroyed under Customs supervision. This reporting will assure that only duty or associated fees will be paid. In addition, the system can help pinpoint problems in production.

Accounting system: Fungible inventory methods, such as FIFO and FOFI (Foreign First) inventory accounting methods, have been approved by Customs for zone operations.

Inventory insurance costs: The insurable value of foreign merchandise in a FTZ subzone/site will not include Customs duties already paid, reducing insurance premiums.

Cargo insurance: Some FTZ operators and end users have been successful in negotiating a reduction in cargo insurance rates by arguing that direct shipment avoids pilferage opportunities at the point of Customs entry.

IMPORT, EXPORT & ZONE-TO-ZONE TRANSFER

Exports: Foreign merchandise in the zone may be re-exported free of duty and federal excise tax.

Export returns: Returns of foreign merchandise to exporters using the FTZ program pay no duties on these products. Outside the zone, duties were paid upon export and again on return.

Duty Drawback: Outside of the FTZ, drawback on returns allows recovery of previously paid customs duty. This includes products that remain on site (such as manufacturing equipment), in the Customs territory, or exported outside the US. For items exported, the law is especially complex and the company often experiences a long wait for the funds. Inside the zone, no duties are paid so this cumbersome process is not necessary.

Bonded warehouses: These offer many of the same benefits as the FTZ but historically have placed two restrictions: 1) a time limit; and 2) goods entering a FTZ subzone/site from a bonded warehouse must be admitted in Zone Restricted (ZR) status. ZR status means this merchandise cannot benefit from the inverted tariff relief.

Zone-to-Zone transfer: Duty deferral benefits are available when transferring product "in bond" from one zone to another. This may be most beneficial to firms with multiple FTZ subzones/sites around the country or for 3PL's serving an end user who may hold their own FTZ status - also to box stores with regional warehouses each holding FTZ designation. It is aIso possible to pay duty on the original price of the component to the first FTZ user, not on the subsequent prices.

Temporary Importation Bond (TIB): The TlB allows merchandise to enter the U.S. in-bond. It can also be used to ship from the FTZ location to a destination inside the U.S. Customs territory for processing and return to that FTZ subzone/site for further processing and eventual sale in the U.S.

Temporary removal procedure/exhibition: Merchandise may be removed from an FTZ subzone/site in-bond and returned without Customs duty payment. Examples would include demonstration models for trade shows or special traveling displays.

Antidumping/Countervailing duties: Use of an FTZ defers the payment of these duties until merchandise enters the U.S. Customs territory. Exported merchandise is not subject to these duties.

Entireties Provision: Importers can decide whether to apply the entireties provision (all necessary parts classified as the finished product) to merchandise admitted to an FTZ

General System of Preferences (GSP): Products deleted from the GSP list that were admitted to an FTZ in Privileged Foreign (PF) status, may retain the GSP duty-free status even after the change date.

U.S. QUOTAS

Timing: Merchandise may be held in an FTZ subzone/site, even if it is subject to a U.S. quota restriction. When the quota is lifted, the merchandise may be entered immediately in the U.S. marketplace for distribution, providing a distinct marketing and sales advantage.

Avoidance: If foreign merchandise within an FTZ subzone/site is 'substantially transformed' into a non-quote item, it can enter Customs territory without the quota restrictions.

PRODUCTION

Scrap/waste/damaged goods: No duties are paid on most scrapped product. If the FTZ user has paid for the scrap, duty is assessed against the lower scrap value.

Consumed merchandise: Merchandise consumed in processing in the FTZ is generally not subject to Customs duties.

Inverted tariff: In situations where zone manufacturing results in a finished product that has a lower duty rate than the rates on foreign inputs (inverted tariff), the finished products may be entered at the duly rate that applies to its condition as it leaves the zone - subject to public interest considerations.

Value Added: Value added to merchandise in an FTZ subzone/site is not dutiable. Customs duties are not owed on labor, overhead and profit attributed to production operations in the FTZ.

Production equipment: Certain duty deferral and reduction benefits apply on production equipment admitted to the FTZ for assembly and testing prior to use in production. Duties are deferred until the equipment is placed in service. During the assembly and testing period (which can be substantial for a complex assembly or manufacturing process), no duties are paid. If the machine is defective, no drawback is necessary if part or all is returned to the manufacturer overseas. Since no duty is paid until it is a functional part of the production line, payment of duty moves much closer to the generation of revenue, resulting in a substantial cash flow savings. In addition, the duty rates on parts are often higher than the finished unit, producing direct duly savings.

Spare parts: While just-in-time supply chain logistics and lean manufacturing have transformed much of the industrial landscape in the past 25 years, many suppliers still hold spare parts in this country for immediate shipment. This foreign merchandise may be held in the FTZ or returned to the vendor free of duty or destroyed without payment of duty as the product never entered the U.S. commerce.

Security: Customs & Border Protection (CBP) is responsible for FTZ supervision and security requirements. Penalties are severe (2 years in prison and $250,000/offense) for unauthorized withdrawal, including employee theft. For many employers, this is a decided benefit.

Commingling: Domestic and foreign merchandise may be commingled in the FTZ.

TAX, COMPLIANCE ISSUES & OTHER BENEFITS

Inventory taxes: In several states, ad valorem taxes on inventory are assessed. By federal law, merchandise inside the FTZ is not inside the U.S. Customs territory, and therefore not subject to these taxes.

Transfer of title: Title to merchandise may be transferred in the FTZ, as long as there is no "retail" sale. The global supplier can own it until it is shipped just-in-time to local manufacturers.

Federal laws restricting import: Various federal laws govern the ability to import foreign merchandise, often restricting or prohibiting for a variety of reasons. Some FDA, DOT, EPA and USDA laws may not apply to goods while inside the FTZ.

Changing circumstances: U.S. laws relating to Customs, quotas, and international trade are constantly in flux. FTZ status provides great flexibility in responding to these external regulations. The 3 benefits below illustrate current savings available as a result of FTZ status.

The following State of Illinois benefits are available to businesses operating inside one or more State-designated areas such as Enterprise Zone, FTZ, or River's Edge Redevelopment Zone. Inclusion in several areas will not restrict access, but benefits are available under only one designation. Business must be designated as a "high impact business" (see 20 ILCS 655/5.5, 1997), with notification of determination within 90 days after application.

Illinois Job Creation Incentives: Available to FTZ operators/users adding 5 or more full-time (30 hours per week or more) employees during one tax year and employed 180 consecutive days: employers will be eligible for a tax credit in the amount of $500 per eligible employee (see 35 ILCS 5/201 from Ch. 120, par 2-201).

Illinois Investment Credit: Business taxpayers spending $12,000 in improvements designed to create 500 full-time equivalent jobs or $30,000 to create 1,500 full-time jobs will be eligible for one-half of one percent of basis of property that is placed in service. (see 20 ILCS 655/5.5 and 35ILCS 5/203 from Ch. 120 par 2-203)

Illinois Municipality tax on public utilities: May be exempt from taxes on utilities for a period not to exceed 20 years (see 65 ILCS 5/8-11-2, 1997).

HISTORY OF FTZ #176

Mid-1980's	Council of 100 (Rockford Chamber of Commerce) & GRAA see need for Foreign-Trade Zone (FTZ)
Oct 1985	Chrysler Corp. approved under Peoria as subzone #114B
July 1989	RFD designated User Fee Airport with customs inspector (Suzanne Papa) RFD paid all cost of customs operation, estimated at $100,000 annually
Mar 1990	RFD application to FTZ Board for Foreign-Trade Zone status
Mar 1, 1991	Approval of FTZ #176 for 1972 acres in Rockford; FTZ Board order #551
April 1992	Milk Specialties Co (Dundee) approved as first subzone #176A Clinton Electronics approved as subzone #176B
Aug 1992	Minor Boundary Modification approved for Murphy-Kullens as General Purpose Zone (GPZ) warehouse, site #2 Milk Specialties subzone #176A activated
June 1993	Murphy-Kullens GPZ warehouse site #2 activated
Nov/Dec 1993	Transfer & re-issue of Chrysler status from FTZ #114 to FTZ #176 as subzone #176C
Sept 1995	Port of Entry status granted (first User Fee Airport to be upgraded)
Jan 1997	Milk Specialties Co subzone #176A (Dundee) deactivated
April 1997	Clinton Electronics subzone #176B lapsed; no re-instatement within 18 months
Nov 1997	Nissan Industrial Engine Manufacturing USA (NIEM) approved as subzone #176D
Dec 1997	Chrysler subzone #176C deactivated
May 2001	Murphy-Leek GPZ warehouse site #2 deactivated
July 2000	Temporary Boundary Modification granted to Pierce Distribution Services Co (Belvidere), Site #3
Sept 2002	Temporary Boundary Modifications granted to Bob Ray & Assoc, Inc. (Belvidere), Site #4
Dec 2002	Anderson Packaging approved as Site #1A
June 2003	Anderson Packaging site #1A activated
July 2003	Temporary Boundary Modification expired: Pierce Distribution Service Co; site #3 number re-issued
May 2004	NIEM subzone #176D activated
July 2004	Temporary Boundary Modification expired for Bob Ray; site #4 number re-issued
Feb 2005	Expansion granted covering nearly 923 acres in Rochelle & 74 acres in Woodstock: Center Point Industrial Park (368 acres) – Site #3 Interstate Transportation Center Industrial Park/Black Earth LLC (200 acres) – Site #3 LogistiCenter/DP Partners (304 acres) – Site #4 South Rochelle Industrial Park/Black Earth LLC (53 acres) – Site #5 Rolling Hills Industrial Park/Cardinal Health PTS LLC – Site #6
May 2005	Cardinal Health activated as part of Site #6
June 2006	Temporary Minor Boundary Modification extended until Jun 2009 for Anderson Packaging – Site #1
Aug 2006	Expansion granted covering 133 acres in Rochelle: Crossroads Commerce Center/Rochelle Joint Venture LLC – Site #7
Aug 2006	Nissan Forklift NA subzone #176E approved
Fall 2006	Operating Agreements revised & signed by activated sites; Tariff Schedule #2 written & approved
July 2007	Tariff Schedule #3 written & approved
Fall 2007	Reorganization/expansion application submitted to FTZ Board