

Using the FTZ Program to Cut Costs in 2012 The Year of Cost Reductions!



**Curtis D. Spencer, President
IMS Worldwide, Inc.**



What is an FTZ?

- 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.

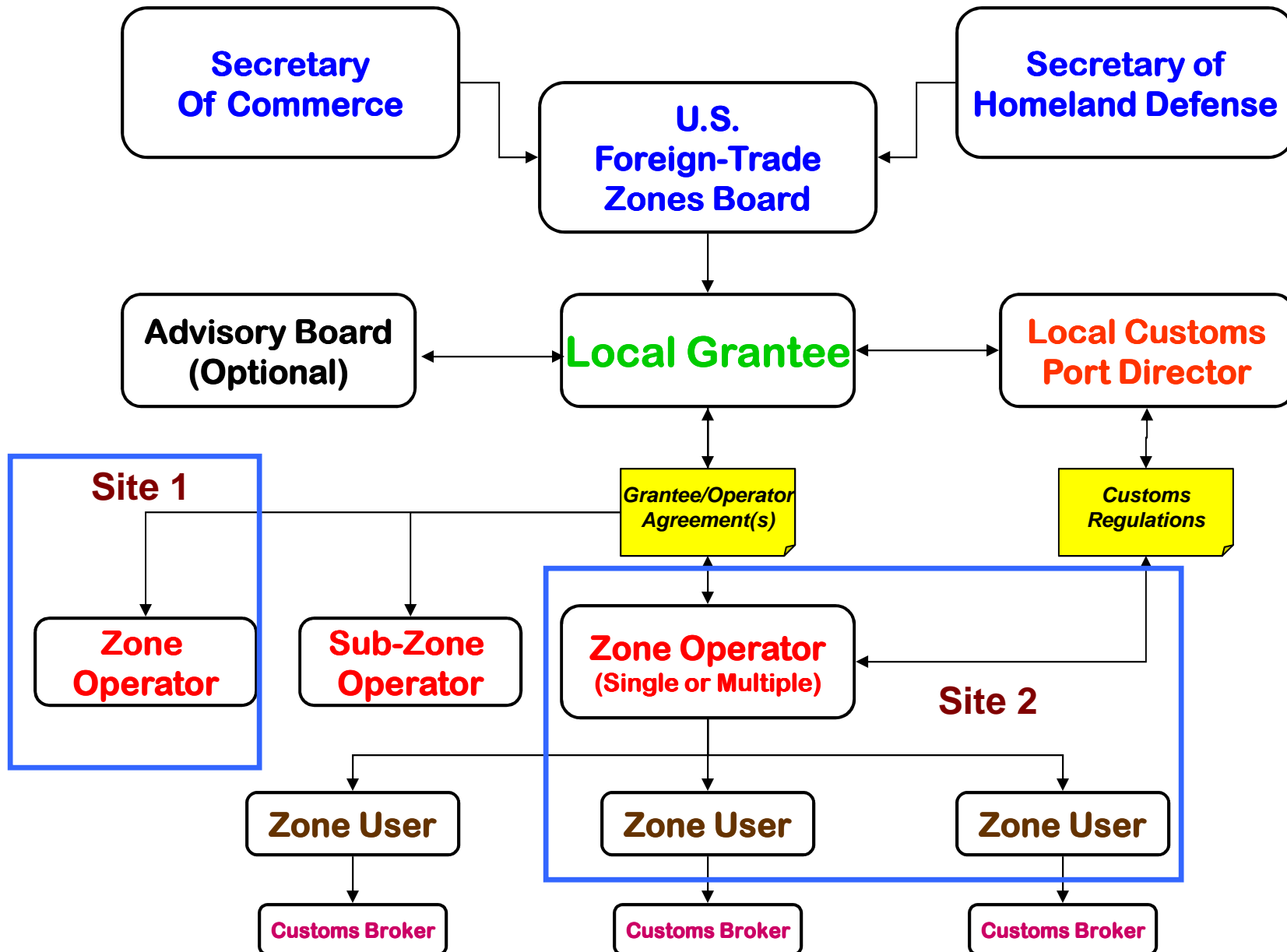
What is a Zone Site?

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

Who are the Players?

- 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?

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



Retail Importers Using FTZ's

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

Retail Importers Using FTZ's (primarily for MPF savings)

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

Retail Importers Using FTZ's

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

Which Developers/REITS are Applying for FTZ's Nationwide?

- 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 FTZ's? - Mfg.

- 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?

- 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

- 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 an FTZ to Cut Costs

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

How Does an FTZ Cut Costs?

- 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

- 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 = \$10,000's per week typically.
- FTZ - Weekly Entry reduces this to 500/WEEK!!



Shipments into Site

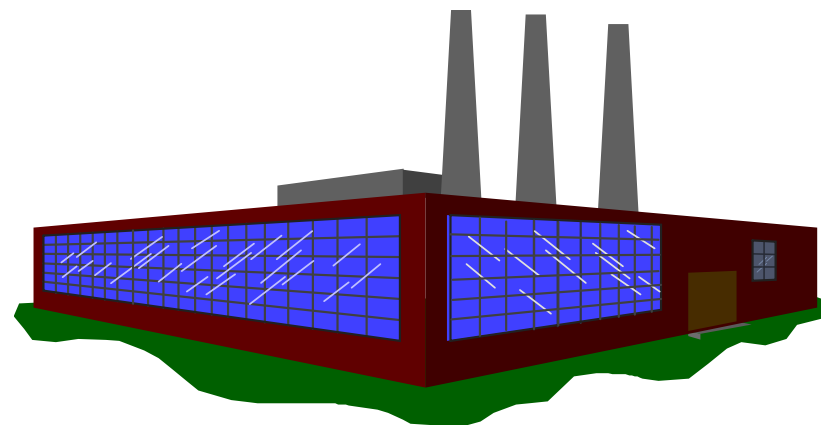
In a single week an FTZ importer can save \$9,200/week in MPF Fees, or

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

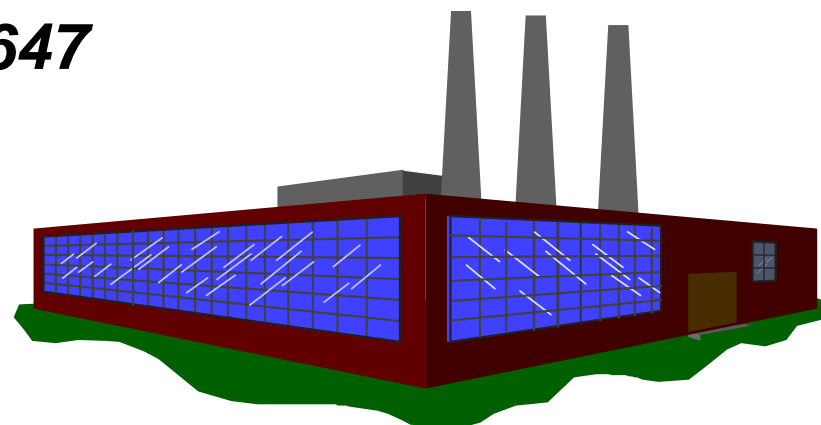
NOW MPF IS HIGHER! \$790,647



Shipments into commerce with weekly entry



Pre-Foreign-Trade Zone



Foreign-Trade Zone

Using the an FTZ to Cut Costs

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

An FTZ Allows Me to Alter Duty Rates!

- 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!

- This “rule” works for Pick-&-Pack too!
- Example: Speakers carry 4% duty. DVD players are 0%. Home Theater Systems (ie. 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 an FTZ to Cut Costs

- **MPF & Broker Savings**
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- **Returns, Product Safety, Customs Fines**

Returns w No Fines/Penalties

- 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

- 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.



**Special Tax Benefits
Available to Zones located in
Arizona and Texas**

Arizona-FTZ Typical Tax Policies

- Greenfield sites get 5% Re-Class, existing sites (with development) only get 5% on NEW construction or added value, Protects all current tax entity revenue
- Non-restrictive on type of company that can qualify for local FTZ benefits

AZ Tax and Economic Implications

- Assessed valuation of activated FTZ site reduces to 5% from 20%
- Generates additional tax revenues when compared to agricultural-use sites (\$300 per 10 acres)
- Catalyst for other development not requiring FTZ tax benefits which results in full tax rate on those businesses
- New development brings additional tax revenues sooner
- Many FTZ companies bring higher paying jobs

**Foreign-Trade Zone Cost-Benefits Projections:
AZ DC Case case 2**

FTZ Benefits & Expenses By Type	Year 1	Year 2	Year 3	Year 4	Year 5	5-YEAR TOTAL
FTZ Benefits						
Re-Exports ¹	\$0	\$0	\$0	\$0	\$0	\$0
Reject, scrap, & military sales	112,500	118,125	124,031	130,233	136,744	621,634
One-time benefit ²	---					
Ongoing duty deferral	335,813	352,603	370,233	388,745	408,182	1,855,576
Property Tax Benefits	733,950	755,969	778,648	802,007	826,067	3,896,640
Merchandise Processing Fee savings	289,780	304,269	319,482	335,457	352,229	1,601,217
Total FTZ Benefits	\$1,472,043	\$1,530,966	\$1,592,395	\$1,656,441	\$1,723,223	\$7,975,067
FTZ-RELATED EXPENSES						
Internal FTZ Operation Expenses	\$135,000	\$139,050	\$143,222	\$147,518	\$151,944	\$716,733
Grantee fees	15,000	15,450	15,914	16,391	16,883	79,637
TOTAL FTZ-RELATED EXPENSES	\$150,000	\$154,500	\$159,135	\$163,909	\$168,826	\$796,370
NET FOREIGN-TRADE ZONE BENEFITS	\$1,322,043	\$1,376,466	\$1,433,260	\$1,492,532	\$1,554,397	\$7,178,697

Totals may vary, due to rounding.

¹Export benefits to Canada and/or Mexico subject to applicable free trade agreements.

Application and activation expense	\$75,000
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² One-time benefit available after 13 weeks	\$5,596,875
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Example 2-Smaller Volume Importer 400,000 ft building

FTZ Benefits & Expenses By Type	Year 1	Year 2	Year 3	Year 4	Year 5
FTZ Benefits					
Re-Exports ¹	\$10,106	\$10,611	\$11,141	\$11,699	\$12,283
Reject, scrap, & military sales	5,053	5,305	5,571	5,849	6,142
One-time benefit ²	---				
Ongoing duty deferral	9,954	10,452	10,974	11,523	12,099
Property Tax Benefits	466,470	480,464	494,878	509,724	525,016
Merchandise Processing Fee savings	25,308	26,574	27,902	29,297	30,762
Total FTZ Benefits	\$516,891	\$533,406	\$550,467	\$568,092	\$586,303
FTZ-RELATED EXPENSES					
Internal FTZ Operation Expenses	\$90,000	\$92,700	\$95,481	\$98,345	\$101,296
Grantee fees	10,000	10,300	10,609	10,927	11,255
TOTAL FTZ-RELATED EXPENSES	\$100,000	\$103,000	\$106,090	\$109,273	\$112,551
NET FOREIGN-TRADE ZONE BENEFITS	\$416,891	\$430,406	\$444,377	\$458,820	\$473,752

Totals may vary, due to rou

¹Export benefits to Canada and/or Mexico subject to applicable free trade agreements.

Application and activation expense	\$75,000
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² One-time benefit available after	9 weeks	\$165,901
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Texas FTZ Tax Exemption

- In Texas, companies pay ad valorem tax on all inventory value as of January 1 or on the company's selected assessment day
- FTZ status exempts inventory tax on imported goods, and those held for export
- 70% better than even "Triple Freeport" on qualifying merchandise
- FTZ Tax Exemption is NOT community wide

Distribution Center TX- Electronics

Assumptions

<i>Annual Value of Goods</i>	<i>\$250,000,000.00</i>
<i>Average Duty Rate</i>	<i>3.00%</i>
<i>Containers per Year</i>	<i>5000</i>
<i>Containers per Entry</i>	<i>7</i>
<i>Entries per Year</i>	<i>714</i>

Distribution Center - Electronics

	Non-FTZ	FTZ
Duty	\$7,500,000.00	\$7,500,000.00
MPF	\$346,428.57	\$25,220.00
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	\$0.00	\$ 61,500.00
Total Costs	<u>\$8,192,857.14</u>	<u>\$7,635,420.00</u>
Client Net FTZ Savings	\$0.00	<u>\$557,437.14</u>

How do I Qualify for FTZ?

- 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!

- Call IMS Worldwide 1-800-741-9286
- 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-benefits analysis, for free!).
- **We do a detailed Operational and Cost/Benefits Feasibility to get exact numbers....**

What is the Process to Get an FTZ?

- 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?

- 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!

- FTZ's Cut Costs by lowering Parts/Component's Costs!
- FTZ's Cut Costs by MPF Savings – Add Velocity!
- FTZ's 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!