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.