SCAR·U
Scarbrough University

SCARBROUGH

Question/Answer Forum: Foreign Trade Zones (FTZ)

June 8, 2016

About The Speakers

Adam Hill – LCB, CCS, CES
Vice President, Operations
Scarbrough International, Ltd.
ahill@Scarbrough-intl.com
T: 816-584-2409

Kevin Ekstrand – LCB, CCS
Vice President, Sales & Marketing
Scarbrough International, Ltd.
kekstrand@Scarbrough-intl.com
T: 816-584-2414

SCAR·U
Scarbrough University

The Scarbrough Group

SCARBROUGH INTERNATIONAL, LTD.

Est. 1984 International Freight / U.S. Customs

Est. 1988 Own Trucking Fleet

SCARBROUGH LOGISTICS, LTD.

SCARBROUGH SIX LINES, LTD.

Est. 2003 NVOCC Operations

Est. 2014 NAFTA Truck Brokerage

SCARBROUGH TRANSPORTATION, LLC

SCARBROUGH DE MÉXICO S. DE R.L. DE C.V.

Est. 2015 Freight Forwarder / Mexican Customs

What is a FTZ?

A foreign-trade zone is a designated location in the United States where companies can use special procedures that help encourage U.S. activity and value added - in competition with foreign alternatives - by allowing delayed or reduced duty payments on foreign merchandise, as well as other savings.

A site which has been granted zone status may not be used for zone activity until the site has been separately approved for FTZ activation by local U.S. Customs and Border Protection (CBP) officials, and the zone activity remains under the supervision of CBP. FTZ sites and facilities remain within the jurisdiction of local, state or federal governments or agencies.

http://enforcement.trade.gov/ftzpage/info/zone.html

How do I Activate a FTZ?

19 CFR §146.6 Procedures for Activation

- written application including, but not limited to:
  - description of all the zone sites
  - any operation to be conducted therein
  - statement of the general character of the merchandise to be admitted
  - blueprint of the area approved by the Board to be activated showing area measurements, including all openings and buildings
  - procedures manual describing the inventory control and recordkeeping system
  - written concurrence of the grantee, when the operator applies for activation, in the requested zone activation

How Long does it take to Activate?

Prior to Alternative Site Framework (ASF)

- 4 – 6 months for a General Purpose Zone
- 8 – 14 months for more complex approvals

With new ASF Framework

- 45 – 60 days
- Reduction in Costs as well

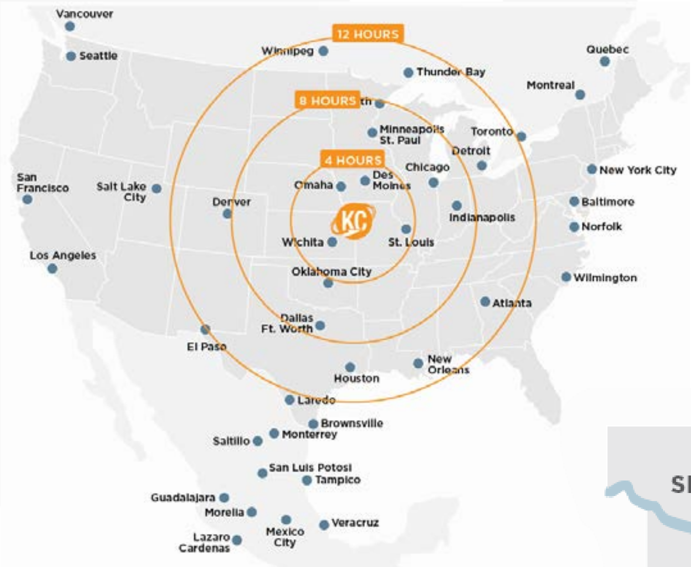
What is the Difference?

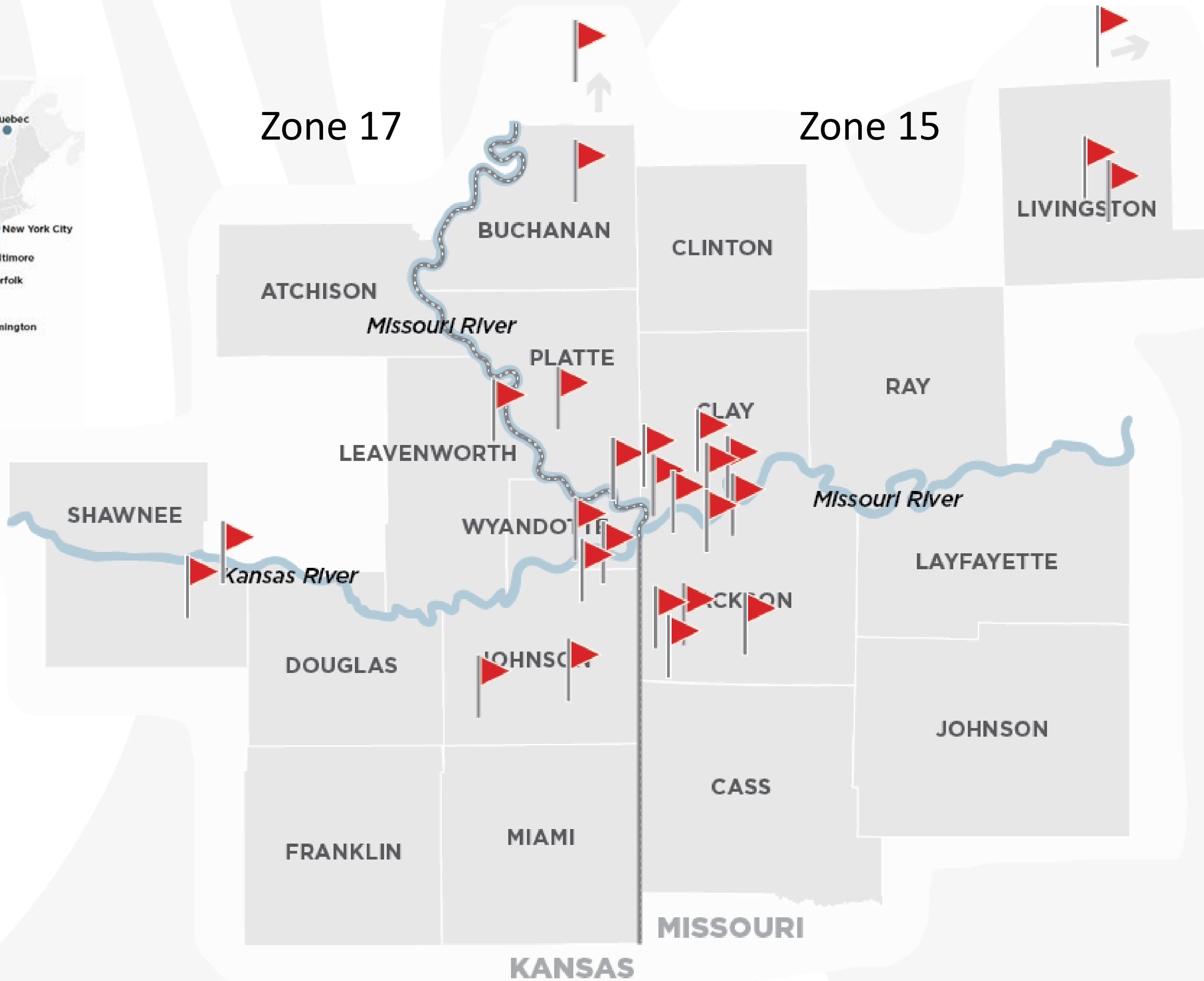
	Bonded Warehouse	FTZ
Entry	An entry must be filed in order to admit goods into the warehouse	No Customs entry is required to enter goods into a FTZ
Permissible Cargo	Only foreign goods	Both foreign and domestic goods
Duties	Owed prior to release of goods from the bonded warehouse	Only upon entry into the U.S. for consumption
Inventory Tax	All goods are taxed	Goods are considered foreign, so not taxed
Storage Period	Not to exceed 5 years	Unlimited
Control of Goods	CBP has full control and requests must be made to CBP to do anything with the goods	FTZ has full control of goods

What is the Difference? Cont.

	Bonded Warehouse	FTZ
Domestic Goods	May not be admitted	May be admitted
Permitted Activity	Cleaned, repacked, and sorted under CBP supervision	Cleaned, repacked, sorted, destroyed, graded, labeled, assembled, manufactured, exhibited, and co-mingled with other freight (foreign and domestic)
Manufacturing	Not permitted	Permitted
Waste	Must pay duties on all waste and damaged merchandise	Only pay duties on what is coming out of the FTZ for consumption

FTZ's in Kansas City Region





View useful interactive map:

kcsmartport.thinkkc.com/site-location/trade-corridor-maps

Status of FTZ Merchandise

- Nonprivileged Foreign (19 CFR §146.42)
  - Duty is assessed as cargo leaves the zone
- Privileged Foreign (19 CFR §146.41)
  - Duty is assessed as cargo enters the zone and retains that status throughout
- Zone Restricted (19 CFR §146.44)
  - Cargo cannot enter the commerce of the U.S.
  - Must be either exported or destroyed
- Domestic (19 CFR §146.43)
  - The growth, product, or manufacture of the U.S. on which all IRS taxes, if applicable, have been paid
  - Previously imported and on which duty and tax has been paid
  - Previously entered free of duty and tax

FTZ Process (Kansas City)

Standard Paper Process

- Cargo moves in-bond from first port (i.e., LA, NY, Detroit) to Port of Kansas City
- CF 214 is signed by zone operator to accept cargo into the zone
- CBPO signs 214 to allow cargo to be moved from the Port Limits into the FTZ (Permit to Transfer [PTT])
- 214 is signed by bonded carrier moving the cargo on the PTT
- 214 is signed by zone operator stating cargo has been received into the FTZ as applied

New Electronic Process and Potential Benefits

- Direct Delivery is applied for and authorized by CBP
- e214 are utilized

FTZ Opportunity?

Scenario: Vacuum manufacturer imports motors for final assembly in the United States

- Motors are dutiable at 4%

Problem: I want to manufacture my vacuums in the USA

Solution: Create an FTZ

- Vacuums are dutiable at 0%

FTZ Words of Caution

- Know your business!
- Be wary of the classic FTZ consultant pitch
  - Scenario
    - Importer files 1,000 entries annually = $485,000 in MPF
    - FTZ is 52 entries annually = $25,220
    - FTZ Savings = $459,780

- Is your receiving process robust enough?
- Do you need new software?
- How is your inventory accuracy?

Foreign Trade Zones (FTZ)

About The Speaker

Adam Hill – LCB, CCS, CES
Vice President, Operations
Scarbrough International, Ltd.
ahill@Scarbrough-intl.com
T: 816-584-2409

Kevin Ekstrand – LCB, CCS
Vice President, Sales & Marketing
Scarbrough International, Ltd.
kekstrand@Scarbrough-intl.com
T: 816-584-2414