
FTZs Help U.S. Companies Save Millions During Tough Economic Times

By Matt Gersper

While no one likes difficult and tough economic down cycles, periods like the one we're now in serve the useful purpose of helping companies increase their focus on business process improvement—for example, by exposing inadequate global trade processes in order to improve them. Global trade, despite the current downturn, is in a long-term growth cycle. Combined U.S. imports and exports increased from under 100 billion dollars in 1968 to nearly 3,500 billion dollars in 2008—with almost half that total growth occurring in the last decade.

Given this reality, it's critical that business executives and global trade directors leverage current economic challenges to create fast and significant international trade process improvements, carefully investing limited capital in those areas where it can get the biggest bang for the buck. One excellent way to do this is by taking advantage of the U.S. Foreign-Trade Zone (FTZ) program.



Analyze Your Trade Data

“Foreign-Trade Zones can save U.S. importers millions of dollars and will often improve the speed of the supply chain,” explains Tommy Berry, President and CEO of PointTrade Services (tberry@pointtradeservices.com). Berry has been involved in more than 150 FTZ sites in 29 states, helping his clients save hundreds of millions of dollars over the past 20 years.



Is your company a candidate for such savings? The first step in finding out is to get hold of your own trade data. Many companies don't realize they can order a data file with a complete five-year history of all their U.S. import transactions for \$500 or less. The necessary forms can be downloaded for free at the Global Data Mining (GDM) website: www.gdmlc.com. GDM can then analyze your data to calculate the potential savings you would have realized had your company operated in

an FTZ over the past year.

Our trade data experts have analyzed over \$159 billion in import value and more three million U.S. entries—and have identified billions of dollars in potential savings for our clients. Our repository of trade data analytics is not limited to FTZs. We have developed nearly 60 unique reports designed by leading global trade professionals. GDM can analyze your trade data, quantify opportunities, identify required resources (both internal and external), quantify costs and calculate the return on investment (ROI).

Making the FTZ Business Case

What kind of savings are we talking about? Figure 1 illustrates the projected savings realized from utilizing an FTZ for a company with \$100 million in annual imports. Estimated savings in the first year alone in this example exceed \$1,500,000. This total comes from the following: broker fee savings: \$129,800; merchandise processing fee (MPF) savings: \$274,780; duty deferral savings: \$900,000; and re-export savings: \$250,000.

Fact Pattern	Assumptions	1st Year	On-going
Regular 1529 Entries	1500 entries		
64 Canadian			
15 Mexico			
133 NAFTA Entries			
Estimated average broker fee per entry: \$90	1500 x \$90	\$ 135,000.00	\$ 135,000.00
	52 x \$100 (with weekly entry)	\$ (5,200.00)	\$ (5,200.00)
	Broker Fee Savings	\$ 129,800.00	\$ 129,800.00
Estimated average MPF per entry: \$200	1500 x \$200	\$ 300,000.00	\$ 300,000.00
	52 x \$485 (with weekly entry)	\$ (25,220.00)	\$ (25,220.00)
	MPF Savings	\$ 274,780.00	\$ 274,780.00
Imports: Estimated \$100 Million			
Average Inventory: Estimated \$36 million			Cost of Capital 4%
Average Duty Rate: 2.5%	\$36 Million x Avg Duty Rate 2.5%	\$ 900,000.00	\$ 36,000.00
Re-export: Estimated \$10 Million			
Re-exports average 10% of total imports	\$10 Million x Avg Duty Rate 2.5%	\$ 250,000.00	\$ 250,000.00
Estimated 1st Year Savings in an FTZ		\$ 1,554,580.00	
Recurring Annual Savings Estimate (assuming same volumes)			\$ 690,580.00

On top of that, ongoing annual savings are estimated at nearly \$700,000 without even counting potential savings from inverted tariffs; duty elimination on waste, scrap, and yield loss; security and insurance savings, and inventory tax savings.

Figure 2 illustrates the estimated costs and ROI. “In the first year,” says Berry, “this company would need to invest \$336,500 and \$162,000 a year after that.” “However,” he adds, “the ROI on this investment would amount to \$1,218,080 in the first

year and \$528,580 annually after that.” That’s a return of \$3.62 for every \$1 invested in setting up an FTZ. “Your CFO is not seeing deals like this every day!” notes Berry.

Trade Compliance Benefit

As if savings on that scale weren’t enough, setting up and operating an FTZ provides an extra benefit in the form of enhanced trade compliance. That’s a major plus at a time when U.S. Customs and Border Protection (CBP) has set enforcing U.S. trade laws and collecting accurate revenue as its number-two strategic goal—*ahead even* of advancing national and economic security.

Fact Pattern	Assumptions	1st Year	On-going
Estimated Set Up Costs			
FTZ Application - PII Consulting Fee	Application/activation	\$ 100,000.00	
Continued FTZ/Customs Consulting			\$ 20,000.00
FTZ Board Filing Fee		\$ 6,500.00	
FTZ Software License/Installation		\$ 100,000.00	
Maintenance Fee Yearly			\$ 10,000.00
Ongoing automation FTZ/Customs system			\$ 15,000.00
FTZ Administrative Staffing:			
In-house	2 people		
FTZ Administrative Management Services (PTI)		\$ 25,000.00	\$ 100,000.00
FTZ Grantee Fees (One time costs + annual fee)		tbd	tbd
Miscellaneous Travel Expenses..etc			
Mass Class™ Trade Data Service		\$ 100,000.00	\$ 15,000.00
CI Alerts		\$ 2,500.00	\$ 1,000.00
TI Alerts		\$ 2,500.00	\$ 1,000.00
Costs/Expenses		\$ 336,500.00	\$ 162,000.00
Estimated Net FTZ Savings vs. non FTZ Environment		\$ 1,218,080.00	\$ 528,580.00

Export violation penalties increased from \$11,000 in 2002 to \$50,000 in 2006 to \$250,000 in 2007—nearly a 25-fold increase in just five years. New regulations such as “10+2” (Importer Security Filing) are adding process complexity for importers. In addition, the U.S. government is using improved technology to target violators. The conclusion is obvious: make certain you have systems and processes to know at least as much about your international trade data as the U.S.

government does.

“The good news,” says Berry “is that CBP, among its C-TPAT guidelines, states: ‘termination of the supply chain into a CBP-secure and activated FTZ site constitutes a Best Practice.’” “In making the FTZ business case,” Berry notes, “trade professionals should emphasize to upper management that participation in the FTZ program results in automated 214 processing, an automated parts master database to create consistent classification, and centralized control and visibility of import operations.” “This can result,” he adds, “in shaving a full day or more off your supply chain—not to mention providing 24/7 compliance control and visibility.”

‘Intangible’ FTZ Benefits

Even that, however, doesn’t exhaust the benefits to be obtained from operating a Foreign-Trade Zone. Brandi Hanback, Managing Director of Rockefeller Group Foreign-Trade Zone Services (bhanback@rockgrp.com) and Chairman of the Board of the National Association of Foreign-Trade Zones, has 20 years of experience in the FTZ program. Regarding the more “intangible” benefits of FTZs, Hanback explains that “the U.S. Foreign-Trade Zones Program:

- “helps global companies compete from a U.S.-base of manufacturing and/or distribution;
- “integrates trade functions into overall inventory control management—reducing over-reliance on customs brokers and external parties;
- “promotes buy-in from management for compliance resources and the audit trail that otherwise remain under-funded until compliance assessments, fines and penalties are introduced;
- “positions companies to adapt to changing global conditions including reductions in demand (inventory holding costs), expanding export markets, new suppliers, and ever increasing regulations;
- “promotes verification (quantity, classification, valuation, origin), inspection, testing, marking, data corrections, repair, destruction, and vendor returns prior to Customs entry.”

The FTZ Program, it’s important to note, has been around since 1934 and currently manages over \$500 billion annually (approximately 7 percent of all U.S. imports by value).

Setting Up the Zone

To realize the savings of an FTZ, companies have to complete *designation* and *activation*:

1) An FTZ is *designated* through federal application by a qualifying organization (Grantee) to the U.S. Department of Commerce. “Exploring already existing FTZs,” says Hanback, “can save companies the time and investment of establishing new ones.” “Every state,” she notes, “has at least one zone and usually multiple FTZs.” A company must evaluate the pros and cons of a General-Purpose Zone vs. a Subzone. General-Purpose Zones can be modified or expanded.

Tommy Berry explains that “designation via submission of an application for FTZ Board action is generally a 10-month process.” On the other hand, “submission of a request for administrative ‘minor boundary modification’ for FTZ Board action is generally a 30-day process.”

2) An FTZ is *activated* locally through application by a qualifying organization (Operator) to

CBP. Activation requirements and procedures include written application, development of inventory control and reporting system(s), Grantee/Operator Agreement & Fees, background investigations, security inspection, an FTZ Operator's Bond and other steps (see 19 CFR 146.6 of CBP Regulations).

Building the Database

One key to gaining the full benefits of an FTZ—or any other international trade process improvement—is making certain that you have effective parts master database management. That means answering questions like: What data is required? What data currently exists? Who “owns” the different data elements? Where does the data reside today? In what format? Where should the data reside for the future solution? How will it be validated? How will it be integrated? How will it be updated?



GDM specializes in helping companies build best-in-class parts master databases that are not only necessary for FTZ applications but also to meet new regulatory challenges like ‘10 + 2,’ the Lacey Act, mandatory AES, and other government trade compliance mandates. We accomplish this by acquiring and integrating data from disparate company systems into one single web-based repository.

We also provide classification research support. Our research team has helped importers classify and manage more than 1.1 million items with more than 30 million fully qualified HTS classification codes from over 30 different countries.

Executive Leadership

To survive in this challenging economic environment, business executives and global trade directors need to upgrade and optimize inefficient international trade processes. Doing so will reduce duty spend, accelerate supply chain speed, improve compliance, mitigate risk and improve executive visibility. Global trade remains the last frontier of corporate process improvement. A one dollar investment in this area can return \$5, \$10 or even \$20. Imagine the impact returns of this magnitude could have on your 2010 business plans and beyond.

Matt Gersper (mattgersper@gdmlc.com), founder and president of Global Data Mining and co-owner of CUSTOMS Info, has over 20 years of experience optimizing processes and helping customers turn unorganized data into information that managers and executives can leverage to improve performance.

FTZs Help U.S. Companies Save Millions During Tough Economic Times

CUSTOMS Info and Global Data Mining (CI/GDM) provide enterprise solutions to help businesses optimize Global Trade Management (GTM) systems and streamline global trade automation.

CUSTOMS Info provides the World's most comprehensive trade data repository delivered via web-based subscription or as data to populate any GTM or Landed Cost application. Global Data Mining builds state-of-the-art parts master classification databases to support automation projects and reporting requirements utilizing the proprietary Global Trade Desktop™—a secure, collaborative web-enabled HTS classification system for all trading partners across the globe.

No other company focuses more on trade data, HTS classification support and landed cost services than CI/GDM—serving nearly 1000 companies worldwide with our fastest growing segment specializing in international ecommerce automation.