FOREIGN TRADE ZONE #92

HANCOCK COUNTY, MISSISSIPPI

SUMMARY

Foreign-trade zones, or FTZs, are physical areas within the United States that are treated by customs as though they were outside of the U.S. border. The creation of an FTZ must be federally approved by the Foreign-Trade Zones Board. This designation offers many potential benefits for warehousing/distribution and manufacturing operations. If your company:

- Imports or Exports Products
- Purchases Imported Products from Domestic Vendors
- Re-exports Imported Products
- or Claims Drawback on Products Handled for Export

...then you can likely benefit from a foreign-trade zone.

FTZs help U.S. companies overcome competitive disadvantages stemming from U.S. trade laws and procedures. Within a Foreign-trade zone, companies are permitted to perform a number of procedures before the merchandise is charged duty. These procedures include sampling or inspecting merchandise (and destroying faulty merchandise without ever paying duty on it), storing and warehousing, re-labeling, repairing, displaying, assembling, manufacturing, and processing. Through membership in an FTZ, companies are allowed to overcome bureaucratic inefficiencies and streamline the import/export process.

These steps allow companies to benefit from interest on capital by delaying duty payment and permitting goods in the zone to be used as capital against loans. FTZs also drastically reduce the number and aggregate costs of entry fees. Companies may perform manufacturing before passing through customs, thereby reclassifying the materials in an effort to avoid inverted tariffs, or they can avoid duty altogether on merchandise which is re-exported. FTZs also allow a quicker turnaround on drawback, reduced insurance costs, and give the company the ability to hold goods for an extended period of time to work most effectively within quota limits.

As a member of the Foreign Trade Zone #92, Hancock County couples these FTZ benefits with a long-standing history of community support for manufacturers. With over 5,000 acres of land, 2,780 developable acres, 15 million square feet of manufacturing space, and 6.1 million square feet of warehouse/distribution space, Hancock County provides not only the most beneficial import/export status, but also the leadership and cooperative spirit that have made us a prime manufacturing location for over a half century. We encourage you to look over the benefits that we have to offer, utilize the FTZ worksheet to see how Foreign-trade zone status can specifically help your company, and take a look at some of the FTZ sites and buildings we have to offer. If you have any questions please contact Janel Carothers at the same number, or via email at jcarothers@hcphc.ms.

FOREIGN-TRADE ZONE BENEFITS

- Relief from inverted federal tariffs – Users pay the lower duty rate of either the imported material or the finished product manufactured in the zone.
- Dutiable inventory deferral – no duty is paid until the merchandise enters the commerce of the United States
- No federal duty on re-exports – U.S. duty is not paid on merchandise exported from the zone (except to Canada or Mexico).
- Federal duty rate reduction or elimination on scrap – U.S. duty is not paid on merchandise destroyed in the zone.
- Direct delivery – A procedure where the in-bound merchandise is delivered directly to the receiving dock. The driver need not report to Customs. The zone operator informs Customs of the receipts on the next business day.
- Weekly entry – Multiple shipments from the zone are reported on a single Customs entry each week.
- Reduction in federal merchandise processing fees – Each Customs entry is charged a merchandise processing fee of 0.21% on the value of goods within the entry with a fee cap of $485 or $230,952 worth of goods. The weekly entry limits your entries to a maximum of 52 per year.
- Reduction in personal property taxes – Since imported goods, as well as finished goods manufactured and held in a zone for exportation, are considered to be in international commerce, they are not subject to state and local ad valorem taxes
- No federal duties on labor, overhead and profit – In calculating the dutiable value on foreign merchandise removed from a zone, users are authorized to exclude zone costs of processing or fabrication, general expenses and profit. Therefore, duties are not owed on labor, overhead and profit attributed to production in an FTZ.
- Zone to zone transfers – A vendor located in one FTZ may sell goods to a buyer in another zone anywhere in the U.S. and transfer those goods with no duty paid on the goods.
- International returns – No duty is paid on obsolete, discontinued, surplus, damaged or any other goods in an FTZ that are returned to their international source.

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FTZ COST SAVINGS WORKSHEET PACKET

WORKSHEET INSTRUCTIONS

The estimated foreign-trade zone savings worksheet is a tool to provide companies with a general idea of the possible savings from FTZ membership, and communicate as clearly as possible the ways that FTZs can cut costs. However, the FTZ worksheet is a simplification of a complicated process, and actual savings will have to be ascertained through a more extensive meeting between your company and a representative of Foreign Trade Zone #92. If you have any questions concerning this worksheet or FTZ membership, please contact Beau Gex at bgex@hcphc.ms or Janel Carothers at jcarothers@hcphc.ms. They can also be reached by phone at (228) 467-9231.

Annual inventory importations is the amount per year in U.S. dollars that your company pays for goods that originate from a source outside the United States. For our example business we chose an annual inventory importation value of 125 million dollars.

Inventory turnovers reflect the amount of time that it takes inventory to enter a warehouse until it enters the market. One year divided by this quantity of time gives the number of inventory turnovers. For our example, we chose 6 inventory turnovers a year, meaning that on average, it takes two months for our inventory to go from the time that we first purchase and import it until it enters the market.

Average duty rate for parts is the average rate (if unsure of duty rate please see http://dataweb.usitc.gov/scripts/tariff2004.asp) that U.S. customs taxes the materials that your company imports. For our example, we have chosen an average duty rate of 10%.

Average duty rate for finished products is the average rate (if unsure of duty rate please see http://dataweb.usitc.gov/scripts/tariff2004.asp) at which U.S. customs would tax your final product, if it were imported rather than produced in the U.S. For our example we chose an average duty rate of 2.5%. A finished product duty rate that is lower than your part duty rate means that an FTZ may allow your company to avoid inverted tariffs.

Interest rate or cost of money is the price that your company pays for borrowing money, or keeping money tied up that could otherwise be earning interest. For our example we chose an interest rate of 10%.

Section A. Dutiable Inventory cost of money refers to the interest that could be earned on money paid for duty fees. Because an FTZ will allow the duty to be deferred from the time that the item enters the company inventory until the time that it enters the market, that money can remain within the company during this time, and can be used to earn interest or to prevent the company from having to borrow money.

Section B. Waste and Scrap Savings result from avoiding ever paying duty on materials that are used up or discarded before ever entering the US market - this includes chemicals or other materials. The WS percentage is the percentage of materials that your company imports that are used or discarded and do not appear in your company's final product.

Section C. Re-Export savings occur when your company imports parts, assembles or adds value in the U.S., and then exports the final product overseas. Because the product never technically enters the U.S., duty is not ever paid on these imports. Re-export percentage is the percentage of your total import value that does not ever enter the U.S. market, and is instead shipped to and sold in a foreign market excluding Mexico and Canada.

Section D. International return savings result from never paying duty rates on items that are defective or surplus and are returned to the foreign manufacturer. The return percentage is the percentage of import value that is returned due to defect or surplus.

Section E. Zone-to-Zone transfer savings allow a manufacturer to send products to another FTZ without paying duty for entry into the U.S. Transfer percentage is the percentage value of imports that are sent from your company to another manufacturing or distribution facility that is in a foreign-trade zone including Mexico and Canada.

Section F. Weekly entry savings result from an FTZ's streamlined entry procedures. Because FTZs allow companies to group entries into weekly units instead of paying per entry, the annual entry fees for an FTZ member could be as low as $24,220.00, or $425.00 (the maximum entry fee allowable) times 52 weeks.

Section G. Inverted duty occurs when a company is paying a higher duty rate for a part that it imports than it would pay if it simply imported its finished product. The percentages which do not enter the U.S. (waste and scrap, re-exports, returns, and transfers) are not included in this value because the savings rendered from their exclusion from duty charges have already been calculated in the preceding sections of the worksheet.

ESTIMATED FOREIGN-TRADE ZONE SAVINGS WORKSHEET (SAMPLE)

Base Information:

Annual inventory importations:	$125,000,000
Inventory turnovers:	6 x per year
Average duty rate for parts:	0 %
Average duty rate for finished products:	2.5 %
Interest rate or cost of money:	0 %

Section A. *Dutiable Inventory Cost of Money*
((annual imports/inventory turnover) X avg. parts duty rate X interest rate)

$208,333

Section B. *Waste and Scrap Savings (WS)*
(annual imports X WS percentage X avg. parts duty rate)

WS 10 % $1,250,000

Section C. *Re-Export Savings*
(annual imports X re-export percentage X avg. parts duty rate)

RE 2% $250,000

Section D. *International Return Savings*
(annual imports X return percentage X avg. parts duty rate)

IR 1% $125,000

Section E. *Zone-to-Zone Transfer Savings*
(annual imports X transfer percentage X avg. parts duty rate)

ZT 0% $ 0.00

Section F. *Weekly Entry Savings*
((annual number of entrees X avg. value per entry X .002190) – 25220)
(If result is negative, estimated entry fee savings are zero)

$248,530

Section G. *Inverted Duty*
(annual imports X difference between avg. parts and avg. finished products duty rates X
[100 percent - WS percentage - Export percentage
- International Returns percentage - Zone Transfer percentage])

$8,156,250

GROSS SAVINGS (sum A through G) $\boxed{\text{\$ 10,258,113}}$

ESTIMATED FOREIGN-TRADE ZONE SAVINGS WORKSHEET

Base Information:

Annual inventory importations: $____________

Inventory turnovers: ____x per year

Average duty rate for parts: ____%

Average duty rate for finished products: ____%

Interest rate or cost of money: ____%

Section A. *Dutiable Inventory Cost of Money*
((annual imports/inventory turnover) X avg. parts duty rate X interest rate)

$____________

Section B. *Waste and Scrap Savings (WS)*
(annual imports X WS percentage X avg. parts duty rate)

WS ____% $____________

Section C. *Re-Export Savings*
(annual imports X re-export percentage X avg. parts duty rate)

RE ____% $____________

Section D. *International Return Savings*
(annual imports X return percentage X avg. parts duty rate)

IR ____% $____________

Section E. *Zone-to-Zone Transfer Savings*
(annual imports X transfer percentage X avg. parts duty rate)

ZT ____% $____________

Section F. *Weekly Entry Savings*
((annual number of entrees X avg. value per entry X .002190) – 25220)
(If result is negative, estimated entry fee savings are zero) $____________

Section G. *Inverted Duty*
(annual imports X difference between avg. parts and avg. finished products duty rates X
[100 percent - WS percentage - Export percentage
- International Returns percentage - Zone Transfer percentage])

$____________

GROSS SAVINGS (sum A through G) $____________