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FTZs, systems come of age

The U.S. Foreign Trade Zone program is an old concept that appears to have come of age, thanks in part to the systems developed to manage the processes. Today the FTZ program, initially conceived to promote U.S. exports and increase opportunities to employ American workers, enables shippers to save costs and create supply chain efficiencies.

In short, FTZs are physically located on U.S. soil (usually near a port of entry) but are considered outside the bound of U.S. commerce. Duties are not paid on goods that enter the FTZ until they leave the zone and officially enter the country. "FTZ programs were established in 1934 but people are definitely starting to take notice in recent years," said Wayne Slossberg, vice president of QuestaWeb Inc., a global trade management technology provider.

In the mid-1990s the Commerce Department made two important changes to the program that led to a leap in popularity. First, Customs moved field supervisors out of the FTZ facilities in favor of auditing the program from a distance. Second, the period in which entries can be filed was changed to allow weekly filings that enabled FTZ operators to capitalize on larger savings opportunities.

Shippers leveraging the FTZ program benefit from rules that allow them to avoid or delay tariffs assessed on imports brought into the zone. Benefits include:

- **Re-export**. Goods brought into an FTZ on U.S. soil, can be re-exported to a foreign destination with no U.S. duties owed.
- **Inverted tariff**. Tariff savings are created by importing goods into a zone that are "touched" by U.S.-based employees — assembly, packaging or other significant alterations usually done by manufacturers.
- **Destroyed**. No tariffs are owed on goods that are damaged and have no market value.
- **U.S. distribution**. Goods can be held in a zone and distributed into the United States over time allowing the cost of the duties to be deferred until they make entry.

Foreign trade zones fall into two categories:

- **General purpose zone**. A multi-tenant warehouse environment where the operator provides FTZ benefits to a group of clients.
- **Sub-zone operator**. Established importer "activates" its warehouse or manufacturing plant as an FTZ dedicated for its purposes only.

On the surface this sounds like a pretty straightforward inventory management task. But, as you would expect, regulatory requirements make this complicated.

"Traditional inventory management systems lack regulatory information," said Melissa Irmen, vice president of products and strategy for Integration Point Inc., a global trade management systems provider. "In an FTZ situation you report upon entry and again when those goods leave the zone.

"This level of inventory management complexity requires retention of entry data and first-in/first-out inventory accounting capabilities. In zones there are multiple statuses under which goods can be admitted, each having its own regulations and benefits," Irmen said.

Slossberg agrees. "It's not just about inventory control, it's about compliance."

Irmen said, "Zone software is utilized to manage this additional layer of complexity and data requirements for the inventory. Systems also provide automatic reporting to CBP." Technologies designed specifically for FTZ operation management provide functionality above and beyond that seen in more classic inventory management systems:

- Entry data retention.
- "First-in/first-out" accounting standard compliance.
- Reporting to CBP.

"A lot of people do not realize that there is technology out there that can make FTZ management automated and paperless," Slossberg said. "Some FTZ systems can control your total activity from cradle to grave."

In addition to the highly customized functionalities, FTZ systems deliver return on investment to users in a number of ways:

- Cost savings.
- Inventory control including decreased "shrink."
- Visibility in and around the zone.
- Efficiency through automating FTZ-related business processes.
- Accuracy of FTZ activity reporting.

Lesley Couch, FTZ product manager for Integration Point, estimates that an automotive manufacturer importing $800 million to $900 million worth of goods per year can save an average of $26 million in U.S. zone operations using a system like Integration Point's. This doesn't include expedited supply chain benefits of operating within direct delivery procedures.

This all sounds very compelling, but FTZ operations are not for everyone. Slossberg offers some guidance to shippers looking to set up an operation:

- Engage a consultant to gauge your FTZ plan's cost versus benefit.
- If the ROI is there, make a case to the C-level for support.
- Apply to the Commerce Department's Foreign Trade Zone Board for approval.
- Evaluate technologies that can support FTZ requirements and operations.

"The biggest challenge is getting that C-level support and understanding," Slossberg added.

"When we help companies implement an FTZ operation we first conduct an ROI analysis," said Todd Smith, managing director at KPMG LLP Trade and Customs Services. "We typically find the payback on start-up costs, including the technology, can be returned to the importer within the first three to six months of commencing FTZ operations. Sometimes this timeframe can be as short as one month."

Shippers with low volume, low product variety, and long lead time might not need technology to manage FTZs. Spreadsheets could suffice. More complex supply chains will demand an automated solution. In extreme cases the number of data elements required can exceed Microsoft Excel's capacity making it literally impossible to manage this function without a specialized system.

Most, if not all, companies looking to implement an FTZ system can choose from a handful of vendors who participate in this market. Potential buyers should weigh their options on these key attributes:

- **Flexibility**. Can the system be configured to meet your business' specific requirements?
- **Integration**. Can the system tie into your warehouse management system and enterprise resource planning systems?
- **Delivery model**. A hosted or "software as a service" option, or do you buy the software and maintain it?
- **Cost**. Is the price right for your purposes?