

BROWN COUNTY FOREIGN TRADE NO. 167

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Brown County has many years of experience helping Wisconsin businesses more effectively compete using the economic advantages afforded by foreign trade zones. Currently, Brown County oversees three sub-zone tenants. Leichts Transfer & Storage operates the FTZ on behalf of Brown County.



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MARKETED BY:



INTERNATIONAL BUSINESS
DEVELOPMENT CONSORTIUM
GLOBAL TRADE ASSISTANCE

A PROGRAM OF
THE GREEN BAY AREA CHAMBER OF COMMERCE

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WHAT IS A FOREIGN TRADE ZONE?

Foreign trade zones are secure areas under U.S. Customs supervision that are considered outside the Customs territory of the United States.

Foreign and domestic merchandise may be moved into zones for operations not otherwise prohibited by law, involving storage, exhibition, assembly, manufacturing, and processing.

Under zone procedures, the usual formal Customs entry procedure and payment of duties are not required on the foreign merchandise unless and until it enters Custom territory for domestic consumption, in which case the importer normally has a choice of paying duties on either the original foreign materials or on the finished product. Domestic goods moved into a zone for export are considered exported upon entering the zone for purposes of excise tax, rebates and drawback.

Sub-zone status is commonly granted to existing manufacturing facilities ancillary to the general-purpose zone where it is not practical to accommodate them in the zone. Sub-zone locations are afforded all of the same economic benefits as the general-purpose zone.

ADVANTAGES OF FOREIGN TRADE ZONES OR SUB-ZONES

Duty Referral or Elimination

One of the primary benefits of foreign trade zones is duty referral, the ability to avoid paying duties on imported merchandise until the merchandise leaves the foreign trade zone and enters the commerce of the United States. Merchandise imported into and re-exported from a foreign trade zone is not subject to duty.

Lower Duty Rates

Lower duty rates are also achievable through foreign trade zones. A foreign trade zone user who assembles or manufactures in a zone may elect to pay duty on imported components either at the duty rate applicable to components or at the rate applicable to the finished product. U.S. added value is not subject to duty. In an inverted tariff situation, or a situation in which the duty rate on the finished product is lower than the rate on the imported components, the foreign trade zone results in a lower overall duty to the user.

Quota Restrictions Avoidance

Generally, users may avoid quota restrictions by admitting goods into a foreign trade zone. Over-quota merchandise may usually be held in a zone until the next quota period begins.





CAN YOUR COMPANY BENEFIT USING A FOREIGN TRADE ZONE

and may often be used as a component part of a product that is not over-quota. Similarly, some marking restrictions may also be avoided by bringing goods into a foreign trade zone. Merchandise may remain in a zone indefinitely.

Export Savings

Domestic goods moved into a zone for export are treated as exported when they enter the zone. Consequently, exporters may accelerate drawbacks by moving goods to be exported into a zone. Imported goods brought into a zone to be destroyed, such as defective products, are treated as exported and subject to drawback.

Tax and Licensing Savings

Some savings are also available through the avoidance of state or local laws that are inapplicable in a foreign trade zone because of federal preemption.

For example, state and local ad valorem tax on inventory is not applicable to foreign origin or foreign domestic goods in foreign trade zones. Some state licensing requirements are not applicable to companies operating in a foreign trade zone. For more information, see specific customs treatments of goods in a foreign trade zone or cost savings and benefits applicable to foreign trade zone users.

1. Does the company buy imported products directly?
2. Does the company buy imported products from U.S. vendors?
3. Does the company handle domestic products for export upon which manufacturers can claim drawback taxes?
4. Does the company export imported products either in same condition as imported or as part of an intermediate or end product manufactured in the U.S.?
5. Does the company import products temporarily for use in a manufacturing process or for some other purpose and subsequently either export the product from the U.S. or destroy it after use?
6. Does the company buy imported components or raw materials directly from U.S. vendors to produce goods in the United States?
7. Does the company buy imported products subject to quota restrictions?



CALCULATING BASIC FOREIGN TRADE ZONE SAVINGS

PRODUCT	DUTY RATE	ANNUAL VALUE <small>*FOB foreign port</small>	ANNUAL RATE <small>of inventory turnover</small>

What is the end product made from these imported components or raw materials?

What is the rate of duty that would apply to the U.S.-made end product if imported?

*FOB: The value of goods at the time they are placed Free On Board; the international carrier at the port or place of exportation.

BASIC FOREIGN TRADE ZONE SAVINGS FORMULAS

(Numbers in parentheses correspond to answers from preceding questions)

1. Duty Avoidance

$$\frac{\text{Annual value of imported product}}{\text{(3 and/or 4, and/or 5)}} \times \frac{\text{Tax or duty rate of imported products}}{\text{(3 and 4 and 5)}} = \$ \frac{\text{Annual duty liability}}{\text{Annual duty liability}}$$

Annual tax and duty savings on imported products exported from a foreign trade zone or imported for temporary use.

2. Tariff Rate Inversion

A. $\frac{\text{Annual value of foreign content in end product (exclude waste or scrap)}}{\text{Annual value of foreign content in end product (exclude waste or scrap) (6)}} \times \frac{\text{Duty rate of imported components or raw materials}}{\text{Duty rate of imported components or raw materials}} = \frac{\text{Annual duty liability without use of foreign trade zone}}{\text{Annual duty liability without use of foreign trade zone}}$

B. $\frac{\text{Annual value of foreign content in end product (exclude waste or scrap) (6)}}{\text{Annual value of foreign content in end product (exclude waste or scrap) (6)}} \times \frac{\text{Duty rate applicable to end product (6)}}{\text{Duty rate applicable to end product (6)}} = \frac{\text{Annual duty liability with use of foreign trade zone}}{\text{Annual duty liability with use of foreign trade zone}}$ (minus)

Subtract the totals of B from A = \$ _____

Annual duty savings from tariff rate inversion for goods processed in FTZ

3. Cash Flow

$$\frac{\text{Total annual duty liability (from above formula)}}{\text{Total annual duty liability (from above formula)}} \times \frac{\text{Costs of funds (e.g., 10 percent interest rate on funds borrowed to finance business expenses)}}{\text{Costs of funds (e.g., 10 percent interest rate on funds borrowed to finance business expenses)}} = \$ \frac{\text{Annual cash flow saving from deferred duty payment on imported product held in an FTZ for sale to the U.S.A.}}{\text{Annual cash flow saving from deferred duty payment on imported product held in an FTZ for sale to the U.S.A.}}$$

Annual cash flow saving from deferred duty payment on imported product held in an FTZ for sale to the U.S.A.

\$ _____
total savings