

IT in FTZ

*Foreign trade zone operators
obtain efficiencies through automation.*

BY GEOFF WHITING

The availability of easy-to-deploy information technologies are driving more American shippers to take advantage of the trade benefits associated with foreign trade zones, despite upcoming Customs and Border Protection rule changes and increased requirements.

The FTZ program was authorized by Congress in 1934 and provides customs benefits to U.S.-based manufacturers and companies engaged in international trade to offset customs advantages created by other countries.

Raw materials, components and merchandise may enter these zones without being subject to payment of customs duties. Products may be stored or reworked before being either reexported or entered into U.S. commerce.

"FTZs handle more than 10 percent of U.S. imports each year in terms of dollar value, but they account for less than 1 percent of the actual number of transactions. That is a huge benefit for administering customs," said Daniel Griswold, president of the National Association of Foreign-Trade Zones (NAFTZ).

The U.S. Foreign-Trade Zones Board, a government-backed entity that comes under the Commerce Department's International Trade Administration, has issued a series of revised regulations, its first major update since 1991 and most of which went into effect at the end of April. Many of the new rules come from technological advancements that Customs wishes to adopt, Andrew McGilvray, executive secretary of the FTZ Board, said. For example, new in-bond regulations require electronic filing and many expect FTZ regulations to follow later this year.

"In the 20 years since prior regulations were adopted, the pace of business and corporate decision-making has accelerated dramatically, and the FTZ program must adapt," McGilvray said.

While some arguments behind these changes were made prior to the Internet's prominence, they are heavily influenced by this technology and the ability to file documents electronically.

One such rule change is around the time

it takes to apply for and activate a trade zone. Companies applying for FTZ production capabilities now submit less company information and use digital documents for submission, comments and objections, allowing the FTZ Board to reduce the process from 12 months to 120 days.

McGilvray said "the FTZ Board will make information about new and existing approved production activity available on its Website to enhance transparency. The information comes direct from electronic notifications and applications."

"We think the decreased amount of time to activate a zone is going to significantly increase the number of people interested in the zone program," said Elizabeth Connell, director of product management at Integration Point, which provides global trade management and compliance solutions such as those for FTZs. "We've seen year after year a general increase in interest in zones, both in activations and applications."

Connell pointed to electronic documentation as the big advantage for FTZs under the new regulations because it saves money in the short term and pushes companies toward automating other associated processes.

Even before they were mandatory, electronic filings were already commonplace. "We've seen figures that show more than 90 percent of filings are electronic and we're about to be moving to 100 percent," Griswold said. "Digitizing recordkeeping is in everyone's interest. It's easier for users to file the information, easier for Customs to process the information, and easier on the environment. It's just a win-win all around."

Time And Money. Strong FTZ software ensures reduced duty payments, manufacturing incentives, and removes the risk of fines, which are important in this economic atmosphere, said Wayne Slossberg, senior vice president at QuestaWeb, a company that provides global trade management software and FTZ support. The more integration and automation, the more the system removes errors even as zones get more complex, he said.

For companies already gathering data,

integrating it with a system to automatically produce and submit Customs documentation is key. Slossberg said companies should find a vendor with systems that are modularly developed because it eases future expansion.

Steve Boecking, vice president of Hillwood Properties, said "there is a rapidly growing interest in the (FTZ) program across the country. Importers are looking for every way to squeeze an extra dollar out of the supply chain and FTZs are a good way to do that." Hillwood Properties is a real estate developer known for its FTZ development and management work around the Alliance Foreign-Trade Zone in Fort Worth, Texas.

Boecking pointed to CBP's merchandise processing fee that is enforced every time a company files a Customs entry, saying it was the equivalent of a clerical fee, but an FTZ allows for some filings like this to be done on a weekly basis.

"They just increased this by 65 percent. Frequent importers can spend a couple million dollars a year on merchandise processing fees, but the FTZ is a tool that helps reduce that fee to as low as roughly \$25,000 a year," he said.

One major reason for the existence of FTZs is to bring manufacturing jobs to the United States, so they have a production requirement often satisfied by the final assembly or packaging. The FTZ Board, however, must approve the manufacturing and processing activities in the zones.

Boecking said he had one customer that saved so much money with an FTZ that the company was able to hire between 1,000 and 2,500 Americans at \$10 to \$20 per hour and still come out ahead of cheaper labor and manufacturing outside of the United States.

Consider items like cell phones which have packaging much larger than the item itself. Importing parts individually takes up less space than, allowing more shipped per pallet. The importer can do the final assembly in the United States, saving on the cost of transporting and higher duties on a finished product.

"We're seeing a huge trend toward companies getting into the program and a lot of them are consolidating their warehouse operations in North America and doing the exports using an electronic export process so they can fully automate," Connell said.

Integration Point sees companies now automating beyond electronic filing by adding document retention to store paperwork used to enter any zone where they operate. This saves money and time by removing the need to print, mail, or deliver documents.

"Now when someone starts up a new FTZ, most companies can just purchase FTZ software to manage the inventory in

the back of the house and the paperwork that goes back and forth between Customs,” Boecking said. “A lot of companies think FTZs are a tedious accounting process, and while they are very detailed it’s becoming much easier with the software.”

“If you have that FTZ fully integrated into your platform, you can do your denied party screening, licensing concerns and verifying controls, reporting to Census if exporting out of the U.S.; all of these can be automated in one place,” said Melissa Irmen, Integration Point’s senior vice president of products and strategy. “One push of a button can do all of those steps all at the same time. That’s particularly appealing to customers looking to increase their export volumes.”

This integration will have more benefits as other countries and their agencies support an electronic environment. The FTZ Board has found other countries are increasingly interested in sharing electronic data.

Automation and electronic documents go hand-in-hand, and both will drive each other going forward. “The biggest IT concern around the zones is for people to realize that it’s not a major concern,” Slossberg said. “At the end of the day, most people that go in to foreign trade zones see tremendous savings and get a tremendous benefit for doing it. It’s a curvy path but once you get to the end of it, generally you find that pot of gold.”

FTZ Planning. The benefits of FTZs depend on the ability to manage inventory for accurate Customs reporting. Doing this easily should be at the forefront of any plan to apply for FTZ status.

Slossberg said finding an expert or FTZ consultant and getting an ROI (return on investment) study is the most important first step. Consultants should work with you through the entire process. “They are very good at helping to guide you through the process, and sit between your vendors and your company to facilitate the processes, regulations, and changes for your company,” he said.

Boecking said there are two key questions to ask to determine if a FTZ is right for you: How much money will the zone save me? And, how will it affect my internal operations and my supply chain?

FTZ benefits are often based on shipment volume, so size matters. “I like see an ROI of at least 100 percent, if not closer to 200 percent,” Boecking said. “That’s when it seems worth it. Savings to the bottom line are often only 1 percent to 5 percent, and for some companies that’s not enough to make it worth their while.”

For internal operations, it depends on

how much manpower a company wants to devote to the FTZ. Software and even third-party managers can relieve much of the burden. “Not everyone should be using a third party FTZ operator, but it is a new concept,” Boecking said.

Most prefer a Software-as-a-Service (SaaS) model because it reduces the burden on IT departments. Third parties can develop and automatically update documents to ensure they meet new Customs requirements and tariff schedules as soon as they are enacted.

Slossberg recommended asking an IT partner if you can purchase software or if it is only hosted. “If a company can’t say that I could do it either way, then that’s a red flag and something is not up-to-date with their technology,” he said.”

Companies should also study individual zones as services and requirements vary, though all follow some general rules. Information on all zones is available on the FTZ Board’s Website (<http://ia.ita.doc.gov/ftzpage/>). Zones typically provide assistance to help prospective clients determine how to best use FTZs.

“The biggest thing is that you have to take ownership of the process and realize that this is a change,” Slossberg said. “Companies that pride themselves on change are the ones that succeed in these environments

and in using technology. People that don’t embrace change, sooner or later everything passes them.”

As companies consolidate and centralize, it becomes easier for them to automate their processes both internationally and domestically.

With expanded automation, more countries may begin requiring digital documents. “On a global scale we see government agencies, both customs and other agencies, wanting and requiring electronic data more and more,” Irmen said. This provides incentive to do Customs filings on a global trade management platform that collects all available data and distributes it correctly for each country, she explained.

“We’re seeing lots of changes on the horizon, not just regulation driven but also from automation. Customs and others are driving automation through their regular systems and that’s having an impact on FTZs in general,” she said.

NAFTZ’s Griswold sees technology and FTZs supporting each other. “While technology has helped FTZs operate more efficiently, the FTZs have offered U.S. companies a way of taking advantage of overall changes in technology,” he said. “Overall changes in technology has made the zones more relevant and appealing for a larger slice of U.S. industry.” ■

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