



Foreign Trade Zones

FARROW CAN GET THE JOB DONE

Farrow, a trusted partner in the development and execution of international trade solutions, can assist importers in both the United States and Canada realize the benefits offered through Foreign Trade Zones (FTZs). Although the benefits and regulations differ in each country, clients can realize unprecedented cost savings on duties and taxes, improve inventory control, optimize their North American distribution network and much more. Customs brokerage, warehousing and client data are easily integrated through Farrow technology. In addition, our team of experts are able to lay out all applicable FTZ and bonded area solutions, recommend the best option, and easily navigate you through the complexities of Foreign Trade Zones.



PURPOSE OF FTZS

Foreign Trade Zones are specific locations within a country designated as being eligible for tariff and tax exemptions with respect to the purchase or importation of raw materials, components or finished goods. These imported goods can be stored, processed or assembled in the FTZ, and are


eventually either re-exported or distributed within the domestic market. If re-exported, the duties and taxes on these goods can become exempted. If these goods are to be distributed, sold and consumed domestically, duties and taxes will apply, but will generally be deferred until the time of entry into the domestic market.

FTZ programs encourage U.S. and Canadian-based operations to use FTZs by removing certain disincentives associated with manufacturing domestically. ***The duty on a product manufactured abroad and imported into the U.S. or Canada is assessed on the finished product rather than on its individual parts, materials, or components.*** The domestic manufacturer finds itself at a disadvantage compared with its foreign competitor when it must pay a higher rate on parts, materials, or components imported for use in a manufacturing process. FTZ programs correct this imbalance by treating products made in the zone, for the purpose of tariff assessment, as if it were manufactured abroad. ***At the same time, the domestic country benefits because the zone manufacturer uses their own labor, services and inputs.***

U.S. vs. CDN FTZS

 U.S.-Based FTZs	 Canadian-Based FTZs
<p>U.S.-based FTZs are secured, site specific areas under the supervision of U.S. Customs and Border Protection (CBP), although technically outside of their territory.</p>	<p>Canadian-based FTZs are geographically flexible and offer businesses the freedom to choose any location for an FTZ that best fits their needs.</p>
<p>There are two types of FTZs in the United States: General-Purpose and Special-Purpose Subzones.</p> <p>General-Purpose Zones Operate as public utilities providing a variety of services to many users. They are usually located in industrial parks or in seaport and airport complexes with facilities available for the general public.</p> <hr/> <p>Special-Purpose Subzones Sites ancillary to the general-purpose zone, and typically a part of a single company's operation used for their exclusive use. Sub-zones are single-use facilities, which cannot be accommodated within the general-purpose zone (i.e. manufacturing or distribution).</p> <p>Note: U.S. FTZs also offer drawback, duty deferral and bonded warehouse programs</p>	<p>Canada's main FTZ program is the Duty Deferral program (DDP), which consists of three components that can be used individually or in combination: Duties Relief Program, Drawback Program and the Customs Bonded Warehouse Program.</p> <p>Duties Relief Program Allows qualified companies to import goods without paying duties, provided the goods are intended for export in the same condition or under-go a process to manufacture another product for export.</p> <hr/> <p>Drawback Program Duty drawback is a refund of duties paid on imported goods that are subsequently exported in the same condition or under-go a process to manufacture another product that is subsequently exported.</p> <hr/> <p>Customs Bonded Warehouse Program Allows for the deferral of all import levies until goods enter the Canadian economy or are exported.</p>

ADVANTAGES FOR IMPORTERS

 United States	 Canada
<ul style="list-style-type: none">• CBP duty and federal excise tax, if applicable, are paid when the merchandise is transferred from the zone for consumption, not upon the initial importation of the goods.• While in the zone, merchandise is not subject to U.S. duty or excise tax. Certain tangible personal property is generally exempt from state and local ad valorem taxes.• Goods may be exported from the zone free of duty and excise tax.• CBP security requirements provide protection against theft.• Merchandise may remain in a zone indefinitely, whether or not subject to duty.• The rate of duty and tax on the merchandise admitted to a zone may change as a result of operations conducted within the zone. Therefore, the zone user who plans to enter the merchandise for consumption to CBP territory may normally elect to pay either the duty rate applicable on the foreign material placed in the zone or the duty rate applicable on the finished article transferred from the zone whichever is to their advantage.• Merchandise imported under bond may be admitted to a FTZ for the purpose of satisfying a legal requirement of exporting the merchandise. For instance, merchandise may be admitted into a zone to satisfy any exportation requirement of the Tariff Act of 1930, or an exportation requirement of any other Federal law (and many state laws) insofar as the agency charged with its enforcement deems it so.	<ul style="list-style-type: none">• Upfront deferral or relief of duties and GST/HST on certain imports and domestic purchases• Refunds duties for exported goods• Complements Canada's business tax advantage and stable financial sector• Makes productivity-enhancing advanced machinery and equipment purchases more affordable• Takes away the need of applying for duties relief and drawback (refund) by manufacturers• Provides duty-free manufacturing and maintains preferential market access under the North American Free Trade Agreement (NAFTA/USMCA)• No geographic restriction, and accessible regardless of location• Improves cash flow and reduces operating expenses by lowering the costs of production, reducing overall tariff compliance cost and administrative burdens• Increases international competitiveness

THE FARROW ADVANTAGE

Farrow is the only North American customs broker and Distribution service provider offering FTZ solutions in both the United States and Canada. This provides Farrow clients unique opportunities to optimize their North American and Global Supply Chains while avoiding unnecessary duties and taxes.

Two of the many examples of success that clients have realized by establishing FTZ / bonded warehouse solutions with Farrow are as follows:

1) Avoidance of Duties – Individual components vs. a finished product

A U.S. importer of crankshafts pays a premium in high-cost duties, which has led their customers to look for cost reduction opportunities. After consulting with Farrow, the customers found that their best option for reducing the duties they currently pay is to initiate a Foreign Trade Zone. They are able to do this by having the crankshafts transported in-bond by truck via zone-to-zone transfers. The customer then assembles the crankshafts with their other imported components, ultimately producing a power tool as their final product. By producing a finished product within the FTZ instead of dealing with many different imported components, the customers of this crankshaft importer now pay less duties on their imported goods.

2) DDP: Customs Bonded Warehouse Program

A consumer brands company was seeking to import a number of products from Asian markets for sale in the North America and wanted to find the most cost-effective method in doing so. After reviewing options with Farrow, the company decided move their inventory into a Farrow Canada located FTZ. A de-minimus shipment, commonly referred to as a Section 321, now allows this client to fulfill orders valued at \$800 USD or less, to enter duty free to the US.

Creating this space and designating it a Customs Bonded Warehouse space allows this company to store inventory within that section and defer paying any import taxes until they are removed, sold or exported. By centralizing their distribution in a central location safety stock inventory was reduced and inventory control was improved. The company and Farrow are now evaluating the business case to support an East coast as well as a West coast FTZ distribution network.

To discuss your specific international trade, customs and logistics needs with a Farrow representative, please call (519) 252-4415 or visit www.farrow.com/FTZs.

