



FTZ #176

***FTZ as an Economic
Development Tool***

***4th Annual
Economic Development Summit***

May, 11 2010 – LaSalle, IL

Thanks for opportunity to speak:

- Involvement of airport in FTZ program is simple: matches our mission to create jobs & wealth and improve the quality of life in the region. The FTZ is one of the best ways to protect existing jobs and create new ones.

- The FTZ program is designed to serve companies that import. Currently, 7% of all US imports move through Zone approved sites. But FTZs also supports US exports. Exporting has doubled in last 5 years and increased 33% last year alone, from \$30-40 billion. Another surprise? 60% of products handled in FTZ are DOMESTIC!

- Why so complex? Bottom line, FTZ is federal tax program. Just as no business would neglect their depreciation schedule or deductions on tax return, if they import they should also explore FTZ benefits to avoid leaving \$\$\$ on the table.

- GOAL of FTZ PROGRAM: retain and create AMERICAN jobs

HANDOUTS: 1) Flyer; 2) Cheat Sheet; 3) Survey; 4) Map; 5) Fees

Now a little background information on the FTZ program



What is a Foreign-Trade Zone?

- Authorized by Congress: FTZ Act of 1934
- Zones -inside jurisdiction of CBP Port of Entry
 - Secure, defined site inside U.S. but outside customs territory
 - Goods admitted to FTZ remain duty free until formal customs entry when shipped off site
 - Domestic activity with foreign items occurs before customs entry, offering preferential duty treatment.

FTZ PROGRAM

- Depression-era law aimed at economic incentive/growing foreign bus.
- In part, response to Smoot-Hawley Act of 1930:
 - Protectionist trade policy that many credit with deepening depression...

UNIQUE PARTNERSHIP OF PUBLIC & PRIVATE SECTOR

- One of the few times govt. refuses revenue – this time, to assist in creating/retaining jobs!

SECURE, DEFINED SITE within US but outside customs territory...

Produces preferential duty treatment for foreign mdse & activities inside zone

Now let's peel back the layer of this onion... Who are the players?



How to Tell the Players...

- **FTZ BOARD**
- **LOCAL US CUSTOMS & BORDER PROTECTIONS (CBP)**
- **GRANTEE**
- **SITE/SUBZONE OPERATOR**
- **END USERS**

FTZ BOARD – approves applications & oversees zones and grantee fees

LOCAL CBP: FTZ Board representative

- Transfer of mdse in/out of zone & revenue collection
- ✓ Review port policy, comments on applications, approves activations
- ✓ Requires FTZ Operator's Bond
- ✓ Assesses penalties & initiates suspension


GRANTEE – 1) publicly-owned; 2) foreign mdse moving; 3) land to dev

- ✓ Public representative of FTZ project that Grant of Authority
- ✓ Submits apps for modifications & subzones to FTZ Board
- ✓ Executes Oper. Agr., maintains Zone Sch. (incl. fees) & tracks activity/status of each partner site/subzone in Annual Report to FTZB

ZONE SITE or SUBZONE OPERATOR

- ✓ Contract with Grantee & with concurrence of CBP Port Director
- ✓ Responsible for zone operation in compliance with CBP regulations
- ✓ May contract to act as Zone Operator

Let me differentiate the two types of Zones as they apply to Operators and End Users...



FTZ Approved Activity

Merchandise within a zone may be...

- Assembled
- Displayed
- Stored
- Tested
- Repaired
- Manufactured
- Sampled
- Exhibited
- Manipulated
- Salvaged
- Relabeled
- Mixed
- Destroyed
- Repackaged
- Cleaned
- Processed

SUBZONE - special-purpose used by 1 co. (often mfg) for specific activity.

- FTZB responsible to look at public interest (make sure not disadvantaging other US co.)

GPZ SITE (General Purpose Zone) - usually at ports/ind. parks

- Serves multiple FTZ end users
- Operators of GPZ sites may benefit directly or provide 3rd party services to end user

Now let's turn to activities & benefits of the FTZ program...

MFG/PROCESSING or activity resulting in change of tariff classification must be approved by the FTZB.

RETAIL TRADE *prohibited* in Zones by 1934 FTZ Act

Consultant says there are some 388 ways to save in the FTZ:

- 30-40 on the flyer in your handouts
- Many duty related: defer, reduce or eliminate tariffs
- Others not for some FTZ operators big benefits from Wkly Entry



Benefits to End Users

- **Duty Deferral:** Windfall savings (inventory x average duty = big savings Year #1; zone-to-zone transfer)
- **Duty Reduction:** Inverted tariff (mfg); no duty drawback
- **Duty Elimination:** Re-export; scrap/waste; value added in zone not dutiable. Finish good duty rate zero (manufacturing)
- **Inventory:** Improved inventory control; fungible methods (FIFO and Foreign First)
- **Weekly Entry:** Reduces Customs Brokers & MPF fees
- **Reporting:** Paperless, electronic reporting
- **Direct Delivery:** Reduces CBP inspections/delays with 24/7 cross-dock operations. Also applies to Wkly Export to foreign markets

- **DUTY DEFERRAL** –
 - No time limit in FTZ as with Bonded warehouse
 - Windfall savings: 1st year ave. inventory then only cash flow (cost of \$ over time)
- **INVENTORY** – Methods include FIFO or FOFI
- **WEEKLY ENTRY** – can save up to \$500/container
- **DIRECT DELIVERY** – may shave 1-3 days off supply chain in Midwest.
Recent Purdue Univ study states each day lost represents ½% of value of product...

Now let's look specifically at FTZ #176 in Rockford



FTZ #176 History/Growth

- **Grant of Authority: 1 May 1991**
- **Expansions**
 - ❖ **2005** (sites in Rochelle & Woodstock)
 - ❖ **2006 POE Expansion** (I-88 in DeKalb)
 - ❖ **Jan 2009 Reorganization** (add 9 partners)
 - ❖ **Nov 2009** (ASF application filed)

- We received our grant of authority in 1991. But outside of a few years of activity at Chrysler in Belvidere in the mid-1990's, the Zone was quiet for the next decade
- Expansions on slide detail the added sites & territory, 1st step in helping businesses access Zone benefits.
- But the real measure of success is activated sites or subzones who are using the program to benefit their bottom line and create jobs
- Over past few years...
 - 2004: 6 partners; 1 activated moving just under \$4 million
 - 2009: 19 partners; 3 activated, \$190 million
- All this growth doesn't happen w/out effort:
 - 1st step is internal to FTZ #176: groundwork by predecessor, Franz Olson
 - About 4 years ago I assumed responsibility for FTZ
 - Job grew: Go Global, outreach to 10-co service area & NAFTAZ presenter/committees.
 - Potential for econ dev & close alignment to our mission, my job F-T as of 2 mo ago.
 - But I still need local partners...

And that's where you come in!



FTZ Partnership Easy as 1-2-3!

- #1 – Business contacts local Economic Development office
- #2 – E.D. official to FTZ #176
- #3 – FTZ #176 to PointTrade Services

In your handouts, you will find two evaluation tools:

1. **PTSI Questionnaire** – used by consultant to create feasibility study.
2. **Cheat Sheet** – used by you to evaluate

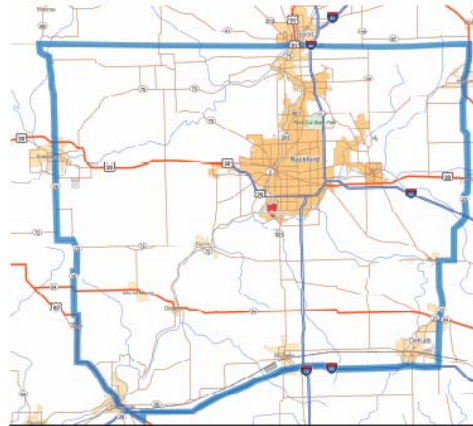
NOTE: many ?s on survey parallel 1st column of Cheat Sheet – may choose own consultant but PTSI will do feasibility for free...

- Must be Importer; looking for min \$1-5 million to produce savings
(May not justify stand-alone site at that volume)
- Whse size required to store sufficient inventory to support duty deferral
- Customs entries/containers – Wkly. Entry savings may save \$500/container
- Logistics – Cross-dock capacity with 20% in foreign mdse: savings from Wkly Entry & direct delivery
- Inventory – 20%+ foreign mdse = duty deferral
- Scrap rate & Re-Export % – Eliminates duty on that matl.
- Inverted Tariff – if change tariff code # will reduce/eliminate
- Net to Bottom Line - \$100K for site/subzone

So your next question: how to determine which Zone for referral? Let's begin w. look at the historic & new mgt. structure

Rockford Port of Entry

- All firms inside POE apply under that Grantee
- Grantee's territory includes POE & adjacent area 60 miles/90 min. from POE boundaries



The map you're looking at is the Rockford Customs Port of Entry
This is the foundation for our service area under both old & new structure

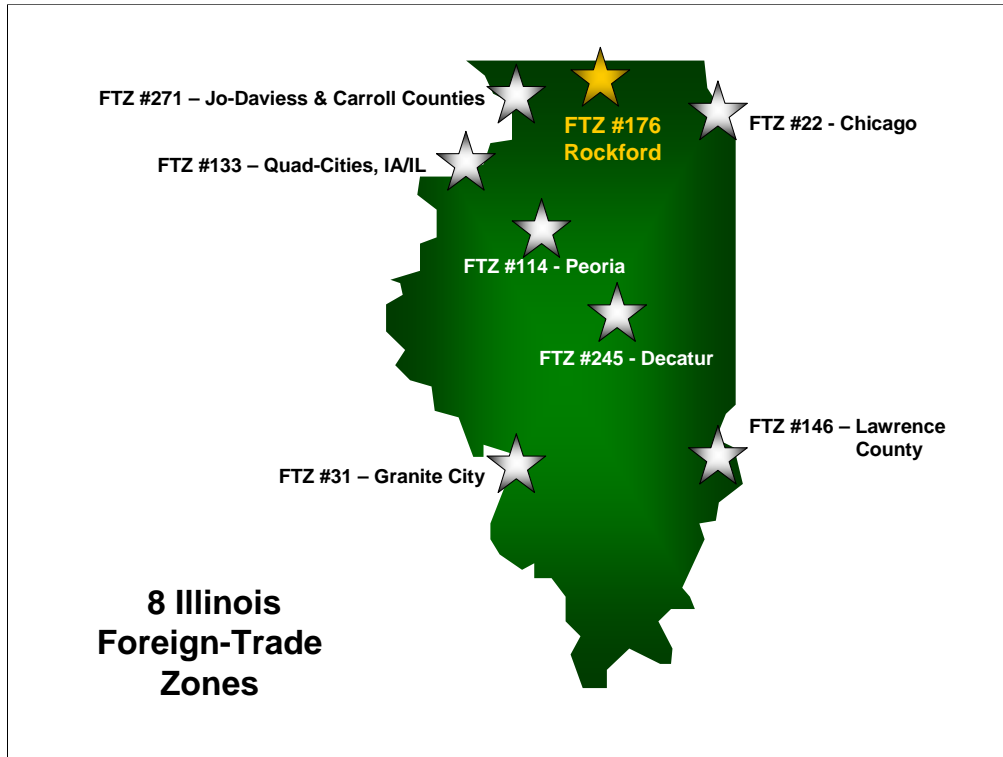
POE Boundaries:

- N – Wisconsin stateline
- S – Interstate 88
- E – IL Hwy 23 (through Marengo)
- W – State Hwy 26 (through Polo and Freeport)

ADJACENCIES

- We can serve 60-mi or 90-min outside this POE
- This would take FTZ #176 into Lake Mich on East & IA on West
- We can't serve N of Stateline into Wisc – nor in Iowa

The next slide will show you the challenges of this service area as the FTZ Board has granted authority to other Zones who are close neighbors



- Lots of overlap in northern IL!
- In some parts of country --> spats between Zones (never IL)
- But the FTZ Board was wrestling with a bigger issue:
 - Concerns from Zone admin & end users/operators
 - The concerns:
 - Start-up time was too long
 - Associated costs too high!

Now back to referrals:

- BUREAU (and hopefully LaSALLE) – assume OK for multi-zone service, refer to Peoria or Rfd
- LaSALLE/prior to ASF inclusion – Peoria
- MARSHALL & PUTNAM – currently inside Peoria FTZ 35-mile radius as defined in SEL. Absent that legislation, either Zone could serve.

The result was the creation of a new management structure called the ASF that will make the program easier to access:

- Cheaper (\$2,500 application fee v. \$15-50,000)
- Faster (4 mo rather than 6-9 mo or double that with dispute)



ASF Reorganization

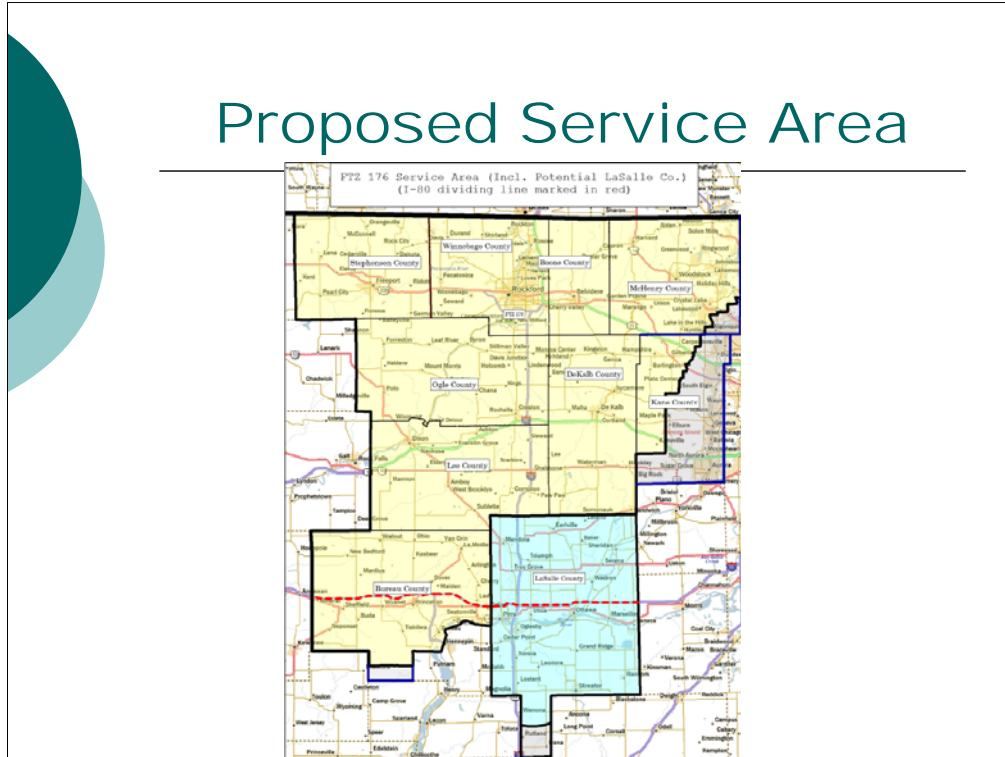
- Nov 09 application (9 counties): **POE still applies**
- State Enabling Legislation (limits service in areas of overlap with neighbor zones): **35 miles from Peoria**
- Unresolved issues (N/S boundaries): **I-80**
- Response from FTZB (summer/fall 2010)
- Expect to add LaSalle County (2010/11)

FTZ #176 decided to apply under the new structure:

- 9 counties included in Nov 2009 ASF application:
Boone, Bureau, DeKalb, Kane, Lee, McHenry, Ogle, Stephenson, Winn.
- In addition, we will be applying later this year to serve LaSalle Co.
- SEL – limits service in areas that overlap service territory of neighboring zones
- CBP/FTZB –
 - In addition, fed'l officials have concern re multi-zone service w/in counties.
 - Locals officials (on behalf of biz) & 3 U.S. Congr have sent letters of support for service by all eligible zones
 - If we win full-county service from multiple Zones in overlapping territories, businesses will have choices between Zones based on THEIR needs & expectations.
 - Will see FTZB Exec. Sect. in Chicago next week: will report back on progress**

If ASF makes access for business cheaper and faster, are there regional advantages?

Proposed Service Area



REGIONAL ADVANTAGES

- While inside our adjacency, ASF required us to get formal approval for service.
- That created for us a greater obligation for outreach, education and collaboration.
- Full-time FTZ staff translates into regular visits which increase communication &
- Stimulate regional collaboration and joint partnership ...

GO GLOBAL - Chance to network at events like GGIII w. other officials thruout region

- 9 of 10 counties attended here at GG
- We held a private Leadership Forum breakout for 10-county:
 - Speakers on real estate dev, global trade & econ dev prospect tools!
 - Prospect Target Analysis/PTA (Matt Gersper of GDM)
 - This cutting edge analytic answer to ? from Mark Podemski of RAEDC
 - After an advance peek at PTA, the airport invested in a 3-mo trial of the product
 - Offered to partners at Leadership Forum from across the 10-counties region

When 1 of our partners succeeds, it strengthens the entire region!



Questions?

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