

FTZs ARE VALUED AS VEHICLE PROCESSING CENTERS

David Ostheimer, Lamb & Lerch

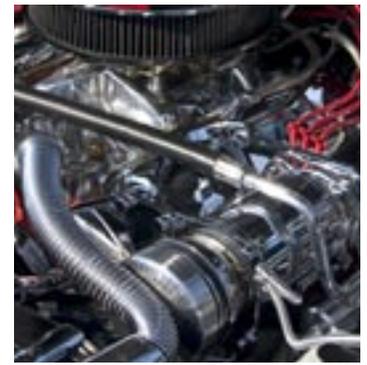
A number of motor vehicle importers have their Vehicle Processing Centers (VPC) located within General Purpose FTZ sites. The FTZ designation for the VPC provides the motor vehicle importer with two major benefits. The primary benefit is duty deferral -- the postponement of the payment of customs duties until the motor vehicle has been processed and been shipped from the VPC to the dealer. This can generate substantial savings particularly when inventory levels rise. For example, an imported motor vehicle with a dutiable value of \$20,000 is subject to a payment of \$500 in customs duties (2.5% X \$20,000). Utilizing a 7.5% rate of return on the company's money, each day the motor vehicle remains within the FTZ results in a savings \$.10 per vehicle ($\$500 \times 7.5\% \div 365$). The greater the number of vehicles that are processed through the VPC and the longer the vehicles remain in inventory, the greater the FTZ savings.

A second major benefit is the potential reduction in the dutiable value of the imported vehicle. At the VPC the imported motor vehicle is oft times accessorized with either domestic status or foreign status components. For example, an AM/FM radio may be installed at the VPC located within a FTZ. If the AM/FM radio is a U.S. produced radio, the cost of the radio is not added to the value of the imported vehicle when entered into the customs territory, thereby resulting in a lower dutiable value for the motor vehicle. If the radio is a foreign produced radio, the motor vehicle importer has the potential ability, through the inverted tariff principle, to reduce the duty on the cost of the AM/FM radio by 1.9% (the duty rate applicable to an AM/FM radio is 4.4% whereas the duty rate applicable to a motor vehicle is 2.5%).

At the present time there are a number of VPCs located within General Purpose FTZs including FTZ No. 49 (Newark, NJ), FTZ No. 64 (Jacksonville, FL), FTZ No. 86 (Tacoma WA), FTZ No. 113 (Midlothian, TX), FTZ No 144 (Brunswick, GA), FTZ No. 196 (Fort Worth, TX) and FTZ No. 205 (Port Hueneme, CA).

PARTS DISTRIBUTION CENTERS

A number of motor vehicle parts importers have been studying and some have established their Parts Distribution Centers (PDC) within General Purpose FTZ sites. Due to extended warranties, motor vehicle companies must maintain a large inventory of parts within the United States for a lengthy period of time, which makes the FTZ program extremely attractive from a duty deferral perspective. In addition, a large number of



the imported parts become obsolete and have to be destroyed. By obtaining FTZ designation on their PDCs, the motor vehicle companies are able to avoid the payment of customs duties on those parts that become obsolete and are destroyed.

From a logistics perspective, FTZ utilization provides the benefits of direct delivery and the consolidation of import paperwork. Through direct delivery, the parts are moved directly to the PDC from the port of unloading with much of the in-bond paperwork now being handled electronically. This results in an expedited movement of the parts to the PDC. Utilization of a cumulative C.F. 214 enables a company to file a single admission document for all parts received on a given day rather than filing multiple customs entries covering each shipment. This results in substantially less paperwork for both Customs and the company and reduces the company's costs with regard to brokerage fees and merchandise processing fee.

There may be additional benefits that a PDC can realize through FTZ designation. If the PDC serves as a North American distribution center and services Canadian or Mexican dealerships, no customs duties will ever be paid on those components that are shipped from the PDC to Mexico or Canada. Furthermore, if the PDC is located in a state in which state or local ad valorem taxes are imposed on inventory, the FTZ will provide additional tax savings.



1001 CONNECTICUT AVE., NW, SUITE 350
WASHINGTON, DC 20036
202.331.1950 WWW.NAFTZ.ORG