



US Drug Makers Maintain Competitive Edge Through FTZ Program

By Daniel Griswold

America's pharmaceutical industry leads the world in productivity and innovation, and the U.S. Foreign-Trade Zones program is helping this sector maintain its global competitiveness.

A number of well-known pharmaceutical companies make use of the FTZ program to lower costs, speed delivery times and better manage regulatory compliance. According to the latest numbers from the Foreign-Trade Zones Board, the pharmaceutical industry employed nearly 30,000 workers in FTZs in 2010, exporting more than \$2 billion in products to the rest of the world.

U.S. drug companies operate in a highly competitive global environment, but a quirk in the U.S. tariff schedule creates a disincentive to U.S.-based drug manufacturing. While finished pharmaceutical products may be imported into the U.S. duty free, duties are imposed on a range of raw materials and active pharmaceutical ingredients, or APIs. This is a huge cost issue for U.S. companies and creates a competitive disadvantage for U.S.-based pharmaceutical manufacturing operations.

The Foreign-Trade Zones program addresses this issue, allowing U.S.-based pharmaceutical manufacturing operations to compete on more equal footing with

their global competitors. By operating in an FTZ, drug makers can avoid duties on raw materials and APIs, and elect to pay the lower or zero duty when finished drug products leave the zone for sale in U.S. commerce.

Operating within an FTZ also allows pharmaceutical companies to reduce cycle time through direct delivery. The direct delivery process allows FTZ users to recover goods from the international freight carrier and deliver them directly to the FTZ, with the subsequent filing of the customs FTZ admission form after the goods have actually arrived in the zone. This process allows companies to reduce in-transit shipping times and recover critical shipments, such as cold-chain and high-value shipments, expeditiously. Additionally, when goods are admitted to an FTZ, the process to clear all required government agencies shifts to a later point in the supply chain, i.e., to when the products are ready to be shipped into the U.S. market or exported rather than when the goods first arrived and were admitted to the zone.

U.S.-based pharmaceutical manufacturers in FTZ status realize further savings through the weekly entry filing process available to FTZ users. Weekly entry filing increases supply chain velocity on the

back end of the supply chain by allowing for quicker releases by U.S. Customs and Border Protection and the Food and Drug Administration. It also reduces company administrative burdens and costs by consolidating all shipments out of the FTZ during a week to one customs entry. This increased supply chain velocity available through the FTZ direct delivery and weekly entry filing processes decreases days-on-hand inventory, translating into reduced inventory costs and a shortened order-to-cash flow.

Along with delivering cost savings for U.S.-based producers, the FTZ program generally enhances product security and facilitates the task of U.S. regulators. By law, foreign-trade zones are secure areas with controlled access to inventory. FTZ operator-user companies build trusted relationships with Customs, the FDA and other government agencies that regulate imports and have strong incentives to avoid violations. The FDA and other regulatory agencies retain full authority to inspect and audit goods admitted to an FTZ at any point in the process.

Through use of the FTZ program, America's pharmaceutical industry has been better able to maintain its competitive edge in global markets, delivering more affordable and innovative products to American consumers while removing the disincentive to U.S.-based pharmaceutical manufacturing in the U.S. tariff schedule. ■

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Connecting key FTZ players — Integration with all the key players in an importer's supply chain, from brokers and carriers to all government agencies, allows Integration Point to provide the most efficient software to hundreds of zone operators.

Working with U.S. Customs and Border Protection — Integration Point works closely with Customs to continually improve the integration between our systems. Together, we worked on transitioning QP/WP into ACE, which allowed for better visibility and expedited responses on in-bond movements.

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