

## HOW THE FTZ PROGRAM CAN IMPROVE LOGISTICS

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Congress passed the Trade and Development Act of 2000, which included a provision authorizing the foreign-trade zone industry to utilize weekly entry processing for entries of goods coming out of a foreign-trade zone warehouse or distribution centers in addition to previously authorized manufacturing operations. The growth in General Purpose Foreign-Trade Zones (those that are not specifically established for a single company, usually involved in manufacturing) has risen dramatically since then, driven in large part by the growth in trans-Pacific imports from Asia. Dozens of new, import gateway-driven sites have been added to the foreign-trade zone program nationwide, including industrial parks owned and developed by the nation's largest real estate developers.

Developers of big-box industrial parks, including ProLogis, IDI, Centerpoint Properties, AMB Properties, Duke, Keystone, Opus and DP Partners, whose properties house the nation's largest import distribution centers, are establishing FTZ sites at gateway locations where they can be fed by the trans-Pacific logistics system.

The demand by retail and consumer goods importers for FTZ space is at an all-time high. In the greater Los Angeles area, where five different General Purpose Zones have been established, the growth rate in new general purpose FTZ sites and active operations has been in double digits. Other areas that are seeing significant growth in GPFTZ operations include Houston, Atlanta, central Pennsylvania, Chicago (near the major intermodal ramps), Dallas and New York-New Jersey. The growth is not just in niche-specific FTZ subzones as was the case in the 1980s and 1990s. Instead, it's in new, large-sized distribution centers for the import distribution of finished goods.

Leading retail and consumer goods importers are realizing that use of an FTZ for trans-Pacific and other imports is a functional and viable strategy to cut logistics and import-processing costs from the supply chain. The addition of the weekly entry process means that the importers are allowed to consolidate entries into a single Customs entry filing of one per week, 52 per year. For a large importer that has multiple entries per day, going to a one-a-week process provides a direct financial benefit. A recent *Journal of Commerce* Trans-Pacific Maritime Conference illustrated the case of Huffy Bicycles. The firm's import manager, Pat Volkman, said recently, "We have continued to see a marked improvement in our supply chain velocity while saving substantially with the weekly entry program. Make no mistake,



it does require constant vigilance, but what is there about the program after 9-11 that doesn't anymore?"

Importers of electronics, footwear, high-end consumer goods and apparel, are becoming increasingly interested in the opportunities afforded by FTZs.

"If we can keep earning our clients the additional profits that this cost-cutting allows, our customers are going to be thrilled with the development of our revitalized FTZ program," said Ted Henderson, vice president of customs compliance for EGL Global Logistics. "We have found quite an audience willing to listen as we have begun to roll out our 'new-generation' FTZ program. Once they understand that their cost-cutting affects their brokerage and supply chain logistics expenses and does not delay the process, they are eager to become involved." EGL, Exel, NYK Line, Nippon Express and other international 3PLs have added the FTZ program to their menu of services.

How does the FTZ program fit into the new 24-Hour Rule and the Customs-Trade Partnership Against Terrorism? Ever since the 1930s, when the foreign-trade zone program was first created in the U.S., operators of FTZs have been required to provide more security than other importers. Since an FTZ is a "secure Custom's controlled facility" by definition, enhanced physical, procedural and personnel security has been the norm, indeed a requirement to become activated. U.S. Customs and Border

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Protection has made it clear to the FTZ industry that security is imperative. In fact CBP C-TPAT Program executives note that receiving and admitting imported merchandise into a FTZ is considered a C-TPAT “Best Practice”.

In addition, the recent automation of the FTZ admission process brings FTZ’s into a fully automated import supply chain environment.

Because an FTZ operates “in-between” the normal flow of importing, from the first point of contact with the U.S. to distribution points in between, FTZ operations have historically been advised in advance of incoming shipments so that paperwork (now almost fully electronic) could be managed properly. The extension of advanced manifest rules modeled on the original 24-hour rule for ocean imports to all modes have dovetailed with FTZ operations. Most FTZ inventory management systems are geared to accept web-based and EDI information in advance of shipments so that proper notifications can be made to bring the freight into the zones.

The 24-hour rule, for the most part, will not impact a FTZ distribution center any more than it does a sophisticated and fully integrated supply-chain importer today. When it comes to exporting from an FTZ (which will be impacted by the 24-hour rule for exporting, coming into play sometime in the near future), advanced notification is required anyway, as the zone operator must prepare all export documents in advance. No delay should occur to a zone operator in implementing the export 24-hour rule at all.

The opportunity for lowering costs of importer processing through utilization of the automated admission process and weekly entry, is only available within a FTZ environment. Third-party logistics providers are adding it to their service



mix because it is being demanded by more importers. Real estate developers are making sure their industrial parks at import gateway locations are included into foreign-trade zone programs. As the use of FTZs for import distribution becomes more common, Customs should start to reap some of the processing benefits associated with automated admission and weekly entries while experiencing a sense of confidence that such supply chains have the layered security of both C-TPAT and FTZ fully employed. Lastly, by bringing additional value to the international supply chain here in the U.S., we all benefit by keeping logistic jobs in our own country rather than having them migrate to our neighbors.

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