FTZ #219 - Business Case
Greater Yuma Region

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Business Case: Unleashing Binational Growth through Foreign Trade Zone #219, Yuma County

Prepared for: Investors and Stakeholders in the US-Mexico Border Region
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1. Executive Summary

The US-Mexico border region faces escalating challenges in manufacturing and logistics, including unpredictable tariffs, supply chain disruptions, and the constant pressure to reduce costs and accelerate delivery times. Foreign Trade Zone #219 (FTZ#219) in Yuma County offers a powerful, underutilized solution to these critical issues, poised to significantly boost binational trade and regional economic development. This business case demonstrates how strategic investment in and promotion of FTZ#219 can unlock substantial financial savings and operational efficiencies for both U.S. and Mexican manufacturers and logistics providers, creating a more competitive and integrated cross-border supply chain. As evidenced by a precision metal manufacturer, leveraging FTZ#219 can lead to millions in annual savings and expand market reach, solidifying Yuma County's role as a vital hub in the **"Four states. Two nations. One powerful Megaregion"**.

2. The Business Need: Navigating Complex Cross-Border Challenges

Manufacturers and logistics companies operating in the US-Mexico border region face a dynamic and often challenging environment. Key pain points include:

- **Volatile Tariff Landscape:** Companies importing raw materials or components, particularly from outside North America, are vulnerable to increasing and unpredictable tariff rates. For example, a Yuma-based metal manufacturer experienced 20-30% tariff increases on aluminum and stainless steel imports from Asia since 2018. This directly impacts input costs and profit margins.
- **Supply Chain Inefficiencies and Delays:** Lengthy customs clearance processes and bottlenecks at major ports, such as Los Angeles/Long Beach, lead to significant shipment delays, impacting production schedules and delivery times. For businesses re-exporting a high percentage of their goods (e.g., 60-70% in one case), quick turnaround of inbound and outbound shipments is crucial.
- **High Operational and Administrative Costs:** Beyond tariffs, businesses incur substantial costs related to customs brokerage fees, merchandising processing fees, and inventory taxes, which erode profitability. Furthermore, duties paid on scrap metal represent wasted capital.
- **Limited Market Expansion and Competitiveness:** Rising operational costs can hinder a company's ability to expand its customer base and compete effectively in new sectors or against lower-cost alternatives. For Mexican companies, these barriers can make entry into the U.S. market more daunting.

These challenges collectively underscore a critical need for solutions that offer cost reduction, streamlined logistics, and enhanced flexibility for cross-border operations.

3. The Solution: Leveraging Foreign Trade Zone #219

Foreign Trade Zone #219 in Yuma County provides a strategic and comprehensive solution to these challenges by offering significant customs and operational advantages for businesses engaged in international trade, particularly those with binational operations.

How FTZ#219 Addresses the Need:

- **Duty Deferral:** U.S. Customs duties are paid only when merchandise is shipped into U.S. customs territory. Inventory held within the FTZ is exempt from duty payments until it formally enters U.S. commerce, significantly improving cash flow.
- **Duty Exemption:** No customs duties are payable on merchandise that is exported from an FTZ, or on goods that are damaged, scrapped, or used within the zone. This eliminates duty payments on re-exported products and waste.
- **Duty Reduction (Inverted Tariffs):** If imported components have a higher duty rate than the finished product, an FTZ user can elect to pay the lower duty rate of the finished product when it enters U.S. commerce. This provides significant cost savings for manufacturers.
- **Elimination of Property Taxes:** Tangible personal property imported from outside the U.S. and held in an FTZ, as well as goods produced in a zone for export, are not subject to state and local ad valorem taxes.
- **Streamlined Import/Export Procedures:** Direct shipments to the FTZ reduce delays in Customs clearances and merchandise processing fees (MPF). Harbor Maintenance Fees are paid quarterly rather than at the port of entry, improving cash flow.
- **Flexible Manufacturing & Manipulation:** FTZs allow for repacking, relabeling, light assembly, and even full manufacturing operations within the zone, without immediate duty payment. This flexibility is crucial for adapting to market demands.
- **Country of Origin Marking and Labeling:** No country-of-origin labels are required on merchandise admitted to the FTZ, saving complex procedures and upfront expenses. Labels can be applied within the FTZ if needed.
- **Transfer of Title:** Title to merchandise can be transferred within the FTZ, allowing global suppliers to own inventory until it is shipped just-in-time to local manufacturers.
- **Quota Management:** U.S. quota restrictions generally do not apply until merchandise held in zones is entered into U.S. commerce.
- **Duty Drawback:** FTZ users can apply for duty drawback compensation for tariffed products purchased from non-FTZ users.

4. Case Study: A Yuma Manufacturer's Success with FTZ#219

A precision metal stamping and fabrication manufacturer in Yuma County faced significant challenges due to increasing tariffs (20-30% on aluminum and stainless steel imports from Asia) and logistics delays, threatening major client relationships. The company, which has a sister plant in Mexicali, B.C. for finishing assembly, sought customs and trade services to utilize FTZ#219.

FTZ#219 Support and Results:

Greater Yuma Economic Development Corp. (GYEDC) provided application assistance, CBP coordination, custom brokerage connections, and FTZ inventory accounting resources. As a result, the client achieved:

- **Over $2,000,000 in Annual Savings:** This included significant reductions in merchandising processing fees, broker fees, export duty savings, elimination of duty on scrap, and inventory tax elimination.
- **Enhanced Competitiveness:** FTZ activation enabled the client to retain national customers by reducing input, administrative, and logistics costs.
- **Market Expansion:** The client successfully expanded its customer base into the automotive and aerospace & defense industries, which was a key strategic objective.
- **Operational Improvements:** The company experienced increased production for residential construction products, reduced product delivery time from Los Angeles/Long Beach ports, and hired additional employees.

This case demonstrates the tangible, multi-faceted benefits of FTZ#219 in mitigating risks and fostering growth.

5. Binational Value Proposition for Mexican Companies

For Mexican companies, particularly those with manufacturing or logistics operations near the border or those looking to expand into the U.S. market, FTZ#219 offers a compelling strategic advantage:

- **Seamless U.S. Market Entry:** FTZ#219 acts as a gateway, allowing Mexican companies to import components or unfinished goods into the U.S. side without immediate duty payment. This significantly reduces the financial risk associated with holding inventory in the U.S. before final sale or re-export.
- **Optimized Cross-Border Supply Chains:** By leveraging FTZ#219, Mexican companies can streamline their supply chains, reducing customs delays and associated costs that typically arise at the border. This enhances efficiency for binational production processes, such as the Mexicali sister plant example.
- **Cost Savings Mirroring U.S. Counterparts:** The duty deferral, exemption, and reduction benefits directly translate into substantial cost savings for Mexican businesses. Elimination of duty on scrap and inventory tax benefits also applies, boosting profitability for cross-border operations.
- **Competitive Edge in Global Markets:** Mexican manufacturers can leverage the FTZ to reduce their overall cost of goods, making their products more competitive when re-exported from the U.S. to global markets.
- **Reduced Administrative Burden:** The simplification of import/export procedures and elimination of certain marking requirements can significantly reduce the administrative overhead for Mexican companies operating in the U.S..

GYEDC Greater Yuma Economic Development Corp.

4FRONTED Four states. Two nations. One powerful region.

6. Implementation Schedule and Collaborative Team

The activation process for FTZ#219 is designed to be efficient:

- **Warehouse Users:** Can achieve activation in as little as 30 days.
- **Manufacturers:** Typically expect the activation process to take 90-120 days.

THE PROCESS INVOLVES:

Cost-Benefit Analysis:

Determine if a company can save by conducting a thorough analysis.

Application Process:

The Grantee (GYEDC/Yuma County FTZ#219) submits an application to the Foreign-Trade Zones Board on behalf of the company, requiring an executed Operator's Agreement.

Approval:

Involves Foreign-Trade Zones Board application approval, CBP activation approval, and Production Authority for manufacturers.

Start Using FTZ:

Once all U.S. Customs security, procedures, and Inventory Control and Records Management (ICRS) requirements are met and approved.

GYEDC and **4FRONTED** are positioned as key partners, providing essential support and coordination with CBP and custom brokerage connections, significantly de-risking and streamlining the process for new users. This collaborative approach, involving local economic development, customs expertise, and businesses themselves, ensures successful implementation.

WAREHOUSE ACTIVATION

30 days

MANUFACTURER ACTIVATION

120 days

7. Financial Projections and Return on Investment (ROI)

The financial advantages of utilizing FTZ#219 are substantial, as demonstrated by the case study's

$2,000,000+ in annual savings. For a typical manufacturer or logistics operation within the FTZ, these savings can be broken down into:

Merchandise Processing Fee (MPF) Consolidation/Reduction:

Significant annual savings by consolidating weekly entries into a single entry.

Broker Fee Reduction:

Streamlined processes and fewer formal entries lead to lower brokerage costs.

Export Duty Savings:

Eliminating duties on goods re-exported from the FTZ to foreign markets.

Elimination of Duty on Scrap/Waste:

No duties paid on materials that become waste within the zone.

Inventory Tax Elimination:

Avoidance of state and local property taxes on inventory held within the FTZ.

Illustrative ROI (Example based on case study savings):

Assuming the $2,000,000+ annual savings are consistent for a company with an initial investment (e.g., in setting up FTZ-compliant operations), the payback period and NPV would be highly attractive.
For instance, if the initial investment for a company to optimize its operations for the FTZ is $25,000, a consistent annual saving of $2,000,000 would lead to a very rapid payback period and a strong Net Present Value (NPV) over a 5-10 year projection, demonstrating significant long-term value. While exact figures require a company-specific cost-benefit analysis, the proven track record indicates a compelling financial return.

8. Conclusion

FTZ#219 in Yuma County is more than just a logistical advantage; it is a strategic asset for fostering binational economic growth and competitiveness. By addressing critical challenges like tariffs, supply chain inefficiencies, and high operational costs, the FTZ empowers businesses on both sides of the US-Mexico border to thrive.

We invite investors and companies, particularly those in Mexico seeking to optimize their U.S. market entry and cross-border operations, to engage with **GYEDC** and **4FRONTED**.

CALL TO ACTION:

Conduct a Personalized Cost-Benefit Analysis:

Partner with GYEDC to assess how FTZ#219 can generate specific, quantifiable savings and efficiencies for your unique business operations.

Explore Partnership Opportunities:

Join us in promoting Yuma County as a premier binational logistics and manufacturing hub, leveraging the full potential of FTZ#219.

Invest in a Collaborative Future:

Be part of a regional initiative that promises enhanced profitability, streamlined supply chains, and sustained economic growth across the US-Mexico border.

By working together, we can fully realize the immense potential of FTZ#219 to create a more integrated, efficient, and prosperous binational economy.

Contact us to find out how the FTZ-219 program can help

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