



# ZONE Outlook

GREATER DETROIT FOREIGN TRADE ZONE, INC.

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## Oil Refineries Reap the Benefits of FTZ Status

FTZs continue to grow in number and are used widely throughout the U.S. and the world, in part because they can offer substantial savings to business and industry seeking to minimize payment of Customs duties and taxes. It is that benefit, among others, that has prompted many domestic oil refineries to establish operations within FTZs. During 1998, \$31 billion worth of crude passed through FTZs around the nation. That figure represents roughly 28 percent of the total merchandise funneled through zones. Today about 76 FTZs are involved in some aspect of the petroleum industry, including refineries, pipelines and storage facilities.

Locally, Marathon Ashland Petroleum, LLC, has operated its FTZ since the spring of 1997. Marathon utilizes its zone status to store foreign crude oil, which it imports primarily from east African countries, to produce gasoline. The company's main motivation for seeking zone status was to reduce the amount of duty it pays on imported crude.

Marathon is not unique. FTZs offer a number of perks that attract refineries, but chief among them is the inverted tariff benefit which, according to J. Michael

Heldebrand of the International Trade and Customs Services at Arthur Andersen in Houston, Texas, allows for a duty preferential program for refineries. Benefits can include:

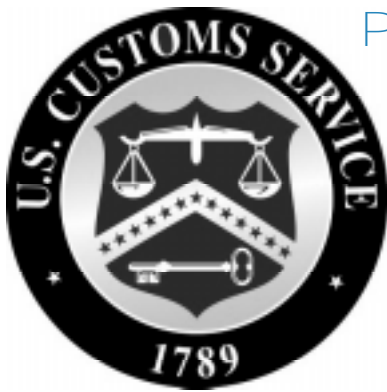
- **Time Valued Money/Duty Free Products** – Under the inverted tariff, a company can import products or components that have a higher duty rate than that of the finished product. If the company's manufacturing

facility is within a FTZ, it may be possible to pay duty on the finished products that have a lower dutiable rate than the original components. According to Michael, in the case of oil refineries, those that import foreign crude from non-NAFTA countries pay a 10.5 percent duty on each barrel. But if the refinery manufactures or refines the crude into a finished product, there are some finished products – such as sulfur, coke, benzene, butane and others – that

are duty free. "In the accounting environment, if the refinery can match the finished products back to the dutiable crude, then what it has imported into U.S. commerce is essentially duty free products. The refinery can completely alleviate the duty associated with the dutiable crude and pay nothing at all," says Michael.

*Conclusion on back cover*





## People In The Know

*A column to help familiarize you with people involved in the day-to-day operations of the Greater Detroit Foreign Trade Zone.*

**A**s Assistant Chief Inspector of Cargo Operations for the U.S. Customs

Service and a FTZ Supervisor, Jim Blaine doesn't spend many idle hours on the job. According to Jim, Detroit is easily one of the most complex and busiest commercial ports nationwide. "It is one of the few universal ports in the country in which every operation performed by U.S. Customs takes place," says Jim. "There are many ports that have air or sea operations and some that have rail and land, but Detroit has them all – air, sea, rail, land, land passenger, air passenger, container freight stations, and bonded warehouses, among others."

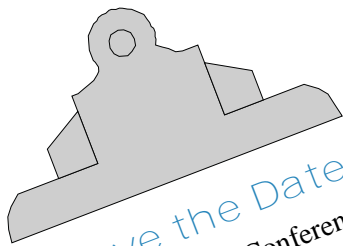
### James Blaine

**Occupation:**

*Assistant Chief Inspector Cargo Operations, FTZ Supervisor*

**Residence:**

*Plymouth, MI*



### Save the Date

28<sup>th</sup> Annual Seminar/Conference & Exposition • October 15-19, 2000 (Roundtables 10/14) • Wyndham El Conquistador, Las Croabas, Puerto Rico • (787) 863-0100 • \$155.00 per night; single/double occupancy

This year's Annual Conference promises to be an information-packed, five day event which offers "something for everyone," according to Randy Campbell, Executive Director of the NAFTAZ. About 500 people are expected to participate.

Since 1996, the latter – bonded warehouses and container freight – have come under Jim's jurisdiction. Prior to that time, during his 26-year career with U.S. Customs, he has been involved in work at the Canadian/U.S. Border Service; inspecting truck cargo; airport cargo and air passengers at Detroit Metropolitan Airport; rail supervision; and work with the U.S.

Custom's Marine Division as a supervisor and inspector of international vessels.

## Zone Involvement

Jim's present job involves overseeing the bonded warehouses and container freight stations in the GDFTZs. Jim describes his role as that of a neutral party whose job it is to observe what each zone operator is doing. "We take the position that as long as the activities of the zone operator do not violate the laws and regulations set forth by U.S. Customs or the Commerce Department, we should maintain a neutral stance," says Jim. "After all, the whole idea behind a FTZ is to *encourage* commerce and business. It would not be to our benefit to discourage business practices that are in compliance with the law."

Recently, Jim attended an informative conference in New Orleans dealing with various aspects of cargo control. While there he learned about new regulations that will affect FTZ operators nationwide. The new regulations call for a greater role by the Commerce Department in the activation of a zone and would expand the powers of local FTZ boards in governing and overseeing their local zones. These new regulations also call for modifications to the current weekly entry system. The new system allows for a running account of merchandise rather than a weekly entry. A zone operator then could make adjustments to its entry to reflect day-to-day changes in its business. "The new system eliminates any shortages and overages. It's a much more flexible system that will make life easier for zone operators in balancing their books," says Jim.

## Personal Interests

While the demands of Jim's on-the-job duties keep him busy, his off duty pursuits tend to be more tranquil activities. He and his wife, Vickie, enjoy gardening. The couple also has an unusual affinity for the many squirrels that frequent their backyard.

# Improving The Grantee Role

*From the desk of Steven Olinek, Director*

Like any responsive party in a professional relationship, Greater Detroit Foreign Trade Zone, Inc. (GDFTZ) is always looking for ways to improve the quality of the services it provides. For this reason, I became a member of the National Association of Foreign-Trade Zones' (NAFTZ) Grantee Committee. I wasn't looking for more things to do. I just wanted to ensure that, after ten years with the organization, I was still looking at every opportunity to strengthen our program and not just "mailing it in." I'm happy to report that committee membership is already proving beneficial. The committee has just completed its first project, a comprehensive survey of FTZ grantees.

The questionnaire has already been circulated to the 243 FTZ grantees across the country. Responses to the survey will be compiled and used by the panelists in the upcoming NAFTZ Annual Conference session "Grantee Issues Forum – What Grantees Need To Know And Do!" The content of the presentation will be entirely determined by the survey results the committee receives. In this way, the issues and concerns of grantees from around the country and those of their operators, representing companies in a variety of industries, will be considered. Efforts such as this are vital to the NAFTZ because they address the concerns of the membership. The Grantee Survey is seen as the initial step in an ongoing process.

Major areas highlighted in the Grantee Survey are *Marketing/Market Trends; Grantee Services; Zone Operator/Tenant Oversight & Customs Compliance;* and *Communication with Governing Entities.*

Items included in the marketing portion of the survey include: the importance placed on the existence of a FTZ in attracting businesses to an area; the awareness of FTZ benefits by targeted

firms; the most common uses of zones (storage, distribution, assembly, manufacturing); and commonly used marketing tools. The section on grantee services seeks to relate the level of services provided, to the fee structure imposed. Zone operator oversight and U.S. Customs compliance attempts to elicit information on the typical operator's profile and the operator's relationship with the Customs Service. Reporting requirements between the grantee and the FTZ Board, Customs and local oversight entities are explored in the survey's final section.

Of course, surveys are only as good as the responses they generate. The hope of the committee is that the information they receive will help us all do a better job of being FTZ grantees. The benefits of that outcome will impact everyone we deal with, from our operators and their client firms, to the Customs Service that enforces the applicable compliance measures. *Your* reaction to the things *we* do (or fail to do) is the most important part of that process. We trust we'll hear from you.

## Upcoming FTZ Conference Boasts Something for Everyone

- ✓ A seminar for newcomers that provides the basics of FTZs.
- ✓ FTZ 101 – an indepth two-and-a-half day class that will provide the history of the FTZ program and discuss how FTZs are created, operated and administrated.
- ✓ A seminar for grantees that will focus on various aspects of FTZ operations including Customs and Customs forms, operating an oil refinery in a zone, the weekly entry system, and other related subjects.
- ✓ A session covering the recent changes in the weekly entry procedures.
- ✓ A seminar focusing on the recently rewritten *Compliance Review Manual*, focusing on what Customs is going to be looking for when they visit.
- ✓ A two-hour session dealing with recent updates to the FTZ manual, the proverbial *Bible* on FTZs.



## For more info

*GDFTZ's Zone Outlook* is published quarterly. For additional information or assistance with your trade needs, please contact:

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## Oil Refineries - Conclusion

- ***Duty Deferral*** – A second benefit that refineries can realize from operating in a FTZ is duty deferral. Refineries do not pay duty on imported crude oil until the crude actually leaves the refinery as a manufactured or refined product. “In essence, you get the time-valued money from the time the crude comes off the ship through the refining process up until it leaves the refinery,” explains Michael.
- ***Deferred Harbor Maintenance Fees*** – Additionally, each time a vessel docks, a harbor maintenance fee, which is levied as a percentage of the value of the incoming shipment, is assessed. Companies that do not operate within a zone must pay the fee as the vessel is discharged. Companies within a zone, however, are permitted to submit harbor maintenance fees on a quarterly basis, again allowing them the benefit of time-valued money.
- ***Tariff Avoidance on Exported Goods*** – Another benefit of zone status for oil refineries is the ability to avoid tariffs on exported goods. If, for example, Mara-

thon admitted crude oil into its zone and, in turn, shipped bonded jet fuel to Detroit Metropolitan Airport for loading onto a flight bound for international destinations, the jet fuel, which originated from foreign crude, technically never entered U.S. commerce. Therefore, the crude would be tariff free.

- ***Environmental Compliance Cost Offsets*** – Finally, operating within a zone can also help domestic refineries by partially offsetting the cost of compliance with the Clean Air Act and other U.S. environmental laws, which often have the effect of placing domestic operators at an unfair advantage with foreign competitors. While the U.S. government can impose penalties and fines on domestic refineries to ensure their compliance with strict environmental standards, it has no such authority over foreign refineries. The savings that zone refineries realize from lower import and export duties, and other zone benefits, can help offset the costs involved in complying with environmental standards, thereby helping to level the playing field with international refineries.

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