



# CASE STUDY: **RK Logistics Group – Silicon Valley Foreign Trade Zones**

**INDUSTRY:** Logistics and Supply Chain

**US MANUFACTURING LOCATION:** Fremont, CA

## **FAST & SLOW**

At times, supply chain professionals are expediting everything from the smallest parts to finished products in order to meet market demand. Other times, supply chains need to be slowed in response to the same market forces. The speed needed in global supply chains varies as business requirements and supply chain strategies shift and change in response to supply and demand.

The use of a Foreign Trade Zone (FTZ) is often tied to delaying or doing final assembly of goods until the market is ready for them or until a company has a new plan. At other times, inventory is built up in FTZs to prepare for events such as holidays or back-to-school, when demand will peak. In both cases, utilizing a Free Trade Zone allows a company to defer payments made to U.S. Customs. Payments are triggered based on when the material leaves the FTZ and enters U.S. commerce.

Touring the RK Logistics warehouses in Silicon Valley is a window into companies' supply chain strategies for importing into the U.S. or exporting to other markets. The RK network of warehouses store electronics, as expected in Silicon Valley, but we also find auto parts, vacuum cleaners, assembly areas, clean-room facilities, and repair shops all within the Zone.



# WHAT IS A U.S. CUSTOMS FOREIGN TRADE ZONE?

Foreign Trade Zones (FTZs) are secured, designated locations around the United States located in or near a U.S. port of entry and under the supervision and oversight of U.S. Customs. FTZs warehouse foreign and domestic merchandise for storage or further processing, before the goods actually clear U.S. Customs. In some cases, domestic goods enter the Zone for assembly or processing together with foreign parts, then enter the U.S. as a transformed product, thereby reducing their tariff rate (this is called inverted tariff).

According to a 2016 Annual FTZ Report to Congress, there were 195 active FTZs nationwide that received \$610 billion worth of merchandise shipments, employing over 420,000 workers at approximately 3,300 firms.<sup>1</sup> Industries accounting for the largest amount of zone production within an FTZ are: oil refining, automotive, electronics, pharmaceutical, and machinery / equipment.

## FOREIGN TRADE ZONES ACT AND SMOOT-HAWLEY

The Foreign Trade Zones Act was passed in 1934 to mitigate the effects of the Smoot-Hawley Tariff Act which increased import tariffs on nearly 900 products. Economists cite Smoot-Hawley for deepening the global Great Depression because of its protectionist intent. Foreign Trade Zones were expected to counteract Smoot-Hawley and encourage American companies to reignite economic development and employment in the U.S.

## ONE FAMOUS FTZ

One of the most famous FTZs was established on behalf of Volkswagen in central Pennsylvania in the 1960s. Volkswagen imported knock-down parts from Germany in tightly packed containers, into the Pennsylvania Zone. Domestic components were also brought into the Zone and together, assembled into Volkswagen automobiles, then imported into the commerce of the United States.

Volkswagen benefitted from transportation savings on densely packed shipping rates and from duty rates lower on finished cars than they would have been on importing individual auto parts. In addition, the U.S. benefitted from jobs created for assembly lines physically located in America, but inside the FTZ.

<sup>1</sup> <https://enforcement.trade.gov/ftzpage/annualreport/ar-2016.pdf>

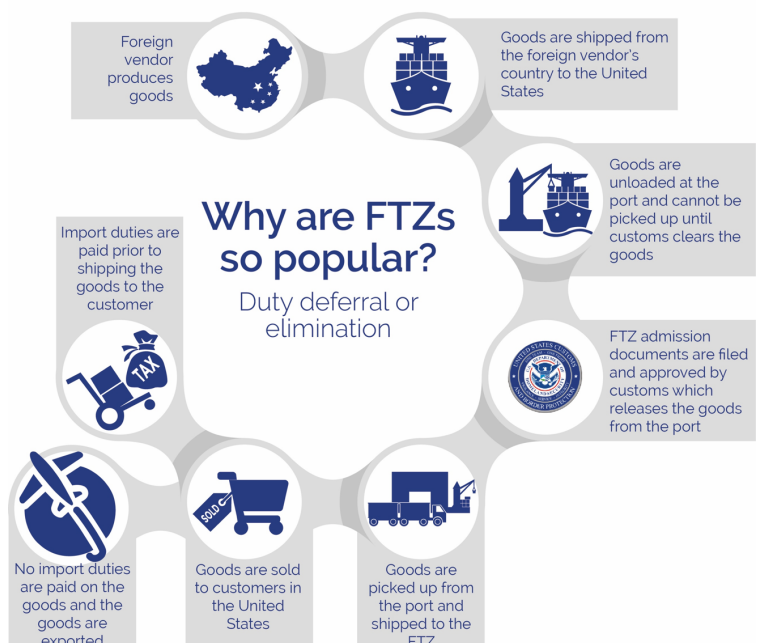


*1937 poster celebrating the United States' first foreign trade zone on Staten Island.*

## RK LOGISTICS' FOREIGN TRADE ZONE OPERATIONS

### **More of a partner than a vendor**

RK Logistics isn't an ordinary 3PL. RK offers services way beyond the usual, including the FTZ operations, global spares, testing, assembling and kitting, hazmat storage, and clean-room services for multiple customers. One such customer, a Silicon Valley maker of semiconductor equipment, uses the FTZs to receive and warehouse component parts from global suppliers. These parts are then transferred as needed to a manufacturing site, also an FTZ, to manufacture the finished product. Finished products are then staged for export. Import costs and duties are avoided completely because the products never enter the commerce of the United States. Weekly customs entries into the FTZ saves significant operating costs for the customer through reduced Commercial Entry filing fees.





RK Logistics also manages goods and services for other customers with different types of operations and supply chain strategies including simple pre-entry warehousing, kitting, and repairs. RK's fleet of trucks handles moving goods between various FTZ locations as is allowed by U.S. Customs regulations because RK is a Customs Bonded Carrier in addition to being an FTZ operator.

#### ***Use of Automation and Partnership***

The use of automation in the RK Foreign Trade Zone and warehouse is a key factor in constantly improving productivity and efficiency. RK's use of storage automation including Vertical Lift Management (VLM) for efficient storage and picking of small parts has reduced costs and improved picking accuracy for customers.

But most importantly, the spirit of partnership is key to the success of RK Logistics and their customers. Partnering allows for the development of effective solutions, fosters new and innovative ideas, and assures that goals for programs are met.

## Foreign Trade Zones Support Reshoring

FTZ operations are an important process in support of reshoring. Operations within the FTZ, whether manufacturing, kitting, warehousing or repairing goods, create jobs for Americans that might otherwise exist only overseas. FTZ manufacturing operations are particularly important as they contribute to the nation's overall manufacturing economy.

In addition to FTZ-specific jobs, there is also a magnifier effect on local economies and related jobs such as customs import processing and documentation, and trucking operations. Local economies benefit from wage earners who live and spend locally. Overall, FTZ operations have a very positive effect on the U.S. manufacturing economy.

RK Logistics has become an integral part of Silicon Valley FTZ operations and the tidal wave of reshoring.

“RK is more of a partner than a vendor. Hundreds of 3PLs can achieve service, cost and quality objectives. I rate RK better because they always challenge us, always identify areas for improvement above and beyond what's in the contract.”

— Leading Semiconductor Equipment Manufacturer

## BENEFITS OF USING A FOREIGN TRADE ZONE

- Fast market response to order fulfillment
- Deferral, reduction or elimination of certain customs duties
- Relief from inverted tariffs (lower duty rates on finished goods than on component parts)
- Duty exemption on re-exports
- Duty exemption on waste, scrap, and yield loss
- Weekly Customs Entry savings
- Improved compliance, inventory tracking, and quality control
- Indefinite storage
- Waived customs duties on zone-to-zone transfers
- Reshored jobs



# ABOUT THE AUTHOR

**Erin Horiuchi** is a Student Researcher at the Reshoring Institute. She is pursuing her MBA at Santa Clara University with a concentration in Leading Innovative Organizations and is expected to graduate in December 2018. Her BS in Marketing from Santa Clara University influenced her analytical approach to understand how to best serve employees as internal customers while developing and delivering engaging employee programs. Upon graduating, she plans to combine her five years of experience in human resources with her passion for developing engaging programs to aid an organization in strategic thinking supported by innovative teams.



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