

Foreign Trade Zone

What is a Foreign-Trade Zone?

A foreign-trade zone is a designated location in the United States where companies can use special procedures that help encourage U.S. activity and value added – in competition with foreign alternatives – by allowing delayed or reduced duty payments on foreign merchandise, as well as other savings.

A site which has been granted zone status may not be used for zone activity until the site has been separately approved for FTZ activation by local U.S. Customs and Border Protection (CBP) officials, and the zone activity remains under the supervision of CBP. FTZ sites and facilities remain within the jurisdiction of local, state or federal governments or agencies.

What are the types of zones?

- General-purpose zones are usually located at ports or industrial parks. They must be opened to multiple zone users. Although manufacturing is permitted within general-purpose zones, the most common activity use is for warehouse and distribution activity.
- Subzones are special-purpose zones, usually at manufacturing plants. A subzone of a general-purpose zone can be approved if the company is unable to relocate existing facilities into a general-purpose zone site. Subzones are approved for use by one company for a specific activity. Applications for subzone status must demonstrate a significant public benefit for approval.

Who is on the Foreign-Trade Zones Board?

- The Foreign-Trade Zones Board is comprised of the Secretary of Commerce and the Secretary of the Treasury. The Board is chaired by the Secretary of Commerce. The Commissioner of U.S. Customs and Border Protection also plays a key role, as it did prior to its recent move from Treasury to the Department of Homeland Security, providing a position during the FTZ Board voting process with respect to customs security, control, and resource matters. The Board has delegated action authority on most matters to a Committee of Alternates, which is composed of the Assistant Secretary of Commerce for Import Administration and the Deputy Assistant Secretary of the Treasury for Tax, Trade, and Tariff Policy.

What are the benefits to a zone user?

- Duty Exemption. No duties on or quota charges on re-exports.
- Duty Deferral. Customs duties and federal excise tax deferred on imports.
- Inverted Tariff. In situations where zone manufacturing results in a finished product that has a lower duty rate than the rates on foreign inputs (inverted tariff), the finished products may be entered at the duty rate that applies to its condition as it leaves the zone – subject to public interest considerations.
- Logistical Benefits. Companies using FTZ procedures may have access to streamlined customs procedures (e.g. “weekly entry” or “direct delivery”).
- Other Benefits. Foreign goods and domestic goods held for export are exempt from state/local inventory taxes. FTZ status may also make a site eligible for state/local benefits which are unrelated to the FTZ Act.

Foreign Trade Zone

What are the public benefits?

- Help facilitate and expedite international trade.
- Provide special customs procedures as a public service to help firms conduct international trade related operations in competition with foreign plants.
- Encourage and facilitate exports.
- Help attract offshore activity and encourage retention of domestic activity.
- Assist state/local economic development efforts.
- Help create employment opportunities.

How is CBP Involved?

CBP (U.S. Customs and Border Protection) handles the day-to-day monitoring of zone activity. Merchandise is brought into a zone (admitted) on CBP form 214 and is removed from the zone through CBP entry or transportation under bond procedures. CBP is consulted on every application for a zone or zone activity. Merchandise in a zone is under customs control and merchandise and zone records are subject to spot check and other verifications at any time.

After a zone or subzone has been approved by the FTZ Board, the zone operator must activate with CBP.

What Kind of Merchandise Can be Placed in a Zone?

- Any merchandise that is not prohibited from entry into the territory of the U.S. may be admitted to a zone.
- If applicable, import licenses or permits from other government agencies may still be required to bring the merchandise into the zone.

Where can a Zone be Located?

Zone sites must be within or adjacent to a U.S. Customs and Border Protection (CBP) port of entry.

The adjacency requirement can be satisfied if one of the following factors is met:

- The general-purpose zone or subzone site is within the limits of a Customs port of entry.
- The general-purpose zone or subzone site is within 60 statute miles of the outer limits of a CBP port of entry.
- The general-purpose zone or subzone site is within 90 minutes' driving time from the outer limits of a CBP port of entry as verified by the CBP Service Port Director.
- For subzones only: subzone sites that are outside the 60 miles/90 minutes driving time from the outer limits of the CBP port of entry may alternatively qualify to be considered adjacent if they work with the CBP Port Director to ensure that proper oversight measures are in place.

How do I know if a zone is right for my community/company?

- General-Purpose Zone: The first thing that should be done is to assess the level of international trade in the area and if there is a need for zone services for local companies. The application

Foreign Trade Zone

process is lengthy (app. 10-12 months) and if the zone is approved there are security and operating requirements that may be cost prohibitive if there is not a strong need for zone services.

If there is a local company that needs access to zone procedures for their facility, they can still access the program through a subzone.

- Subzone: A company interested in a subzone should also perform a cost-benefit analysis. The application process for a subzone can also be lengthy (10-12 months) and there are costs associated with operating a subzone. Although it will vary by company and industry, existing subzones have indicated that the estimated duty savings must be at least \$100,000 per year for the subzone to be worth the company's efforts.

What can I apply for – what type of authority is available?

- General-Purpose Zone: Generally for warehouse and distribution activities, usually located at industrial parks, seaports or airports. General-purpose zone sites must be open to multiple users.
- Subzones: For one company, approved for a specific activity, usually manufacturing.
- Manufacturing: Application can also be made for manufacturing within a general-purpose zone if your company is located within an existing zone or is able to re-locate.
- Expansions: Application can either be made to expand the boundaries of a zone or subzone or to expand the scope of approved manufacturing authority.
- Temporary/Interim Manufacturing Authority (T/IM): If you are located within an existing zone and meet the eligibility criteria, you can apply for T/IM authority for a period of up to two years. A decision on T/IM cases is usually made within 75 days, and application for permanent authority can be made during the two-year period.

Who can apply?

- Applications for new general-purpose zones are made by a public or public-type corporation (this could include port authorities, cities, counties, economic development organizations or others). If the zone is approved, this organization is referred to as the "grantee".
- The grantee then may apply for expansions to the zone, manufacturing or subzone authority on behalf of interested companies.

What is the application process?

1. Draft. We recommend that you submit a draft of an application first. The FTZ staff will review the draft and let you know if any information is missing. This can speed up the filing and processing of the application later.
2. Filing. When an application is filed by the FTZ staff, it is assigned a "docket number" and notice is published in the Federal Register for public comment on the proposal. The public comment period usually lasts 60 days (30 days for temporary/interim manufacturing cases).
3. Review. During this period the application is being reviewed by an analyst on the FTZ staff, the CBP Port Director and by industry experts (for subzone and manufacturing applications).

Foreign Trade Zone

4. Interagency Clearance. Once the analyst completes their review and recommendation, the application is sent to CBP headquarters and the Department of the Treasury for review. If there is concurrence with the recommendation, the application will be returned to the Department of Commerce for final review by the Board member or designee who has the authority to sign the Board Order. The Board Order is then published in the Federal Register.

Is there a fee to apply?

Certain applications do have fees. Applications combining requests for more than one type of approval are subject to the fee for each category:

- Additional general-purpose zones within a port of entry: \$3,200
- Special-purpose subzones:
 - Non-manufacturing/processing or less than 3 products: \$4,000
 - Manufacturing/processing 3 or more products: \$6,500
- Expansions: \$1,600

What happens after a zone is approved?

- Once a zone or subzone is approved by the FTZ Board, the operator must apply for activation with U.S. Customs and Border Protection (CBP) before merchandise can be admitted under zone procedures.
- Each zone is required to report annually to the FTZ Board on the activity that has occurred within the zone and its subzones for the fiscal year. The FTZ Board uses these reports to monitor zone activity and to report on zone activity with an Annual Report to Congress.

What happens if a zone is approved but never activated?

Each zone and subzone is subject to a lapse provision. If the zone has not activated with CBP in five years it is considered to have lapsed. There is an 18-month re-instatement period following the lapse during which time the zone or subzone can complete the activation requirements and notify the Board's Executive Secretary.

What are the primary products/industries using zones?

The largest industry currently using zone procedures is the petroleum refining industry. Significant zone manufacturing also occurs in the automotive, electronic, and pharmaceutical product areas.