Foreign Trade Zones

Foreign trade zones (FTZs) are sites in or near a U.S. Customs port of entry where foreign and domestic merchandise is generally considered to be in international trade. Goods can be brought into a zone without formal Customs entry or without incurring Customs duties or excise taxes unless and until they are imported into the United States.

FTZs are intended to promote U.S. participation in trade and commerce by eliminating or reducing the unintended costs or obstacles associated with U.S. trade laws. Employment that might normally be shifted to a foreign country is thereby encouraged to remain in the United States.

Zone projects may be at one or multiple sites, a single building, all or a portion of an industrial park, at a deepwater port, or within an international airport. When a firm intends to utilize its own plant or cannot be accommodated within an existing zone, "subzone" status may be granted to the site.

As of January 1999 there were 234 Foreign Trade Zones in the United States. This represents a dramatic increase from 1980 figures, when there were only 59 general - purpose zones. California is currently home to 17 general purpose FTZs.

Definition of a Foreign Trade Zone and Subzone

Foreign Trade Zone:
An isolated, enclosed, and policed area, operated as a public utility, adjacent, in, or near a port of entry, furnished with facilities for lading, unlading, handling, storing, manipulating, manufacturing, and exhibiting goods, and for reshipping them by land, water, or air.

Subzone:
A subzone is a special type of zone facility approved for the use of a single company. These private zones, usually industrial plants, are approved only when a public benefit can be clearly demonstrated. The firm in a subzone is required to show what positive economic results its operation under zone procedures will generate.

Purpose of Foreign Trade Zones:
To stimulate desired economic activity in the community consistent with national policy. Zones are designated to create employment, not simply divert it from one region of the country to another.

Operations:
FTZ operations involve three parties--grantee, operator, and user--which may be held by one, two, or three entities. The grantee, often a public, quasi-public, or nonprofit entity, holds the grant from the FTZ Board of the U.S. Department of Commerce. The operator runs the zone on a day-to-day basis and is responsible for record keeping and dealing with Customs. The user is the company or companies that actually use the zone.

Activation and operation of the zone is under the legal authority of the U.S. Department of Commerce Foreign Trade Zones Board and the U.S. Customs Service. Local issues are handled by the district Director of Customs as the designated representative of the Board.

Benefits
Benefits derived by businesses using FTZs include:

• Delayed tariff payments on imported products;

• Choice of finished product tariff rate for goods further processed inside the FTZ, subject to public interest consideration;

• Complete tariff avoidance if products are exported directly from the FTZ or if products are assembled, packaged, and then exported;

• Payment of duties only on the value of the foreign components, not on labor, overhead, or profit;

• Exemption from state/local inventory taxes on foreign merchandise;

• Potentially lower insurance premiums due to customs security requirements, which provide protection against theft and defalcation; and

• Temporary or complete avoidance of quota restrictions.

Merchandise Stored at Foreign Trade Zones
Any foreign and domestic merchandise may be brought into a zone without being subject to the custom laws of the U.S. governing the entry of goods or the payment of duty.

Excluded are those goods which are prohibited by law or which the Foreign Trade Zone Board orders to be excluded as detrimental to the public interest, health or safety.
Allowable Activities

Goods entering a foreign trade zone may be stored, sold, auctioned, tested, cleaned, calibrated, consolidated, sampled, relabeled, repackaged, inspected, displayed, repaired, comingled, manipulated, mixed, processed, assembled, manufactured, salvaged, or destroyed.

Any domestic or foreign merchandise, except that which is prohibited by law, may be taken into a FTZ. If the final product is exported from the United States, no U.S. Customs duty or excise tax is levied. If, however, the final product is imported into the U.S., Customs duty and excise taxes are due only at the time of transfer from the FTZ and formal entry in the United States. The Foreign Trade Zone Board may prohibit or restrict activity based on public interest consideration.

Foreign Trade Zone Incentives

• Exports and transhipments emerge from the zones with full tariff forgiveness and usually free from quota requirements.

• Imports from zones are entered under a procedure giving the importer the choice of paying duties either on the product entered or on its foreign content.

• Admissible goods, not prohibited by law, can be moved into zones for re-export or to await special permits or clearance needed for formal entry.

• Merchandise in zones is not subject to federal excise taxes, and export status is accorded goods placed in zones for export.

• State and local excise taxes on personal property, such as inventory taxes, do not apply to certain goods that are in a zone for bona fide customs reasons (e.g. foreign merchandise and merchandise held for export).

• Other indirect benefits include reduced insurance costs because of tighter security inherent in zones.

• Quota restrictions do not generally apply to goods upon their arrival in a zone.

• Multinational firms manufacturing and marketing items of modern technology have a wider range of choices in the siting of plants and distribution centers.

Source: U.S. Department of Commerce