

Foreign Trade Zones

U.S. Customs Procedures and Requirements

by Dennis Puccinelli

Foreign-Trade Zones Board, Import Administration

Foreign trade zones (FTZs) are designated sites where special customs procedures apply. Foreign trade zones in the United States are comparable to so-called free trade zones in many countries, though procedures vary widely from country to country.

FTZs allow domestic activity involving foreign items to take place as if it were outside the customs territory of the United States for duty payment purposes, thus offsetting customs advantages available to overseas producers who export in competition with products made in the United States.

WHAT IS AN FTZ?

A foreign trade zone is a restricted-access site authorized by the Foreign-Trade Zones Board, which consists of the treasury and commerce secretaries (the secretary of commerce chairs the board). FTZs, upon activation under regulations of the U.S. Customs Service, are secure areas under U.S. Customs supervision. These zones are at or near U.S. Customs ports of entry. Formal customs entry procedures do not apply in these zones, although FTZs are within the territory and jurisdiction of the United States.

WHY WERE SUCH ZONES ESTABLISHED?

Congress established the Foreign-Trade Zones Board in 1934 to license and regulate FTZs in the United States.

FTZs were established for a number of reasons, the primary being to encourage and expedite U.S. participation in international trade. Foreign goods may be admitted to an FTZ without being subject to customs duties and certain excise taxes.

FTZs allow deferred payment of duties until goods are entered into the commerce of the United States. Under zone procedures, the usual customs entry procedures and payment of duties are not required on foreign merchandise until it actually enters customs territory for domestic consumption. Foreign merchandise that is re-exported is not subject to U.S. customs duties. Domestic goods admitted into a zone, in zone-restricted status (for storage, destruction, or export), are considered exported when admitted to the zone for other government agency requirements, excise tax, and duty drawback.

The FTZ Board's criteria require that zone activity be consistent with U.S. trade policy and result in a net positive economic effect, taking into account potential impact on U.S. plants that are not located in zones.

WHAT ARE THE TYPES OF FTZs?

There are two types of foreign trade zones: general-purpose zones and subzones. General-purpose zones are usually located in industrial parks or in seaport and airport complexes with facilities available for use by the general public.

Subzones are sites sponsored by a general-purpose zone grantee on behalf of an individual firm or firms. Subzones are single-purpose sites for operations that cannot be feasibly moved to, or accommodated in, a general-purpose zone (for instance, oil refining and automobile manufacturing).

The Foreign-Trade Zones Board grants zones to qualified public and private entities (for instance, port authorities and city/county economic developers). In a general-purpose zone, the grantee usually has an operator to run the zone. Operators can sublet to tenants, called users. In a subzone environment, the user and operator are usually the same.

WHAT ARE SOME ADVANTAGES OF USING FTZs?

Duty Deferral

Customs duty and federal excise tax, if applicable, are paid only when merchandise is transferred from an FTZ to the customs territory of the United States, or transferred to Canada or Mexico.

Duty Elimination

Goods may be imported into, and then exported from, a zone without the payment of duties and excise taxes, except to certain countries subject to trade agreements, such as Canada and Mexico (in which case, any applicable duties and excise taxes are levied). Goods may also be imported into, and destroyed in, a zone without the payment of duty and excise taxes.

Inverted Tariff Relief

Inverted tariff relief occurs when imported parts are dutiable at higher rates than the finished product into which they are incorporated. For example, the duty rate on imported glass for automobiles is 5.5 percent if imported directly into the United States. However, if that auto glass is brought into a foreign trade zone and incorporated into an assembled automobile, the duty on the finished automobile, including the glass, is 2.5 percent.

Tax Exemption

Merchandise imported into the United States and held in a zone for the purpose of storage, sale, exhibition, repackaging, assembly, distribution, sorting, grading, cleaning, mixing, display, manufacturing, or processing, as well as merchandise produced in the United States and held in a zone for exportation, either in its original form or altered by any of the above methods, is exempt from state and local ad valorem taxes.

Storage

Merchandise may remain in a zone indefinitely, whether or not it is subject to duty. Other customs procedures, such as bonded warehouses and temporary import bonds, are subject to time limits.

Exportation

Merchandise brought into the United States on an entry for warehousing, temporary importation under bond, or for transportation and exportation may be transferred to a foreign trade zone from customs territory to satisfy a legal requirement to export the merchandise. For instance, merchandise may be taken into a zone in order to satisfy an exportation requirement of the Tariff Act of 1930, or an exportation requirement of any other federal law insofar as the agency charged with its enforcement deems it advisable. Exportation may also fulfill requirements of certain state laws. Items admitted to a zone to satisfy exportation

requirements must be admitted in zone-restricted status (meaning they are only for direct export, immediate export, or transportation and export).

Security and Insurance

Customs security requirements and federal criminal sanctions deter theft. Deterrence may result in lower insurance costs and fewer incidents of loss for cargo imported into an FTZ.

HOW IS MERCHANDISE ADMITTED INTO A ZONE?

In order to admit merchandise into a zone, the zone operator must submit a request with appropriate documentation to the Customs Service port director. Merchandise does not achieve zone status until a port director issues a permit for its admission (except in the case of domestic status merchandise for which no permit is required) and the zone operator signs for receipt of the merchandise into the zone.

HOW DO U.S. COMMUNITIES BENEFIT FROM FTZs?

U.S. communities often have to compete globally for investment in local manufacturing and commerce. In some instances, locations overseas may offer more favorable customs environments for businesses. Therefore, U.S. foreign trade zones help level the playing field in terms of the business costs associated with importation and customs clearance. FTZs also assist state and local officials to develop their economies by attracting foreign commerce. And by helping U.S. companies improve their international competitiveness, FTZs can help retain local business and encourage the development of additional jobs. FTZs also facilitate international trade, as noted in the advantages above.

DO OTHER COUNTRIES HAVE FTZs?

Many other countries operate special customs areas, such as free trade zones (also referred to as FTZs) and export processing zones. U.S. exporters and other interested parties should contact

the embassy or customs officials of individual countries for specific procedures, requirements, and arrangements. Although there may be several similarities, it should not be assumed that a free trade zone overseas operates under the same principles as a foreign trade zone in the United States.

Contact information for foreign embassies is available by calling the Trade Information Center at (800) USA-TRAD(E), or by visiting www.export.gov/tic. Many U.S. freight forwarders also have working relationships with trade zones overseas and can provide information on the documentation required to ship goods through them.

WHERE IS ADDITIONAL INFORMATION AVAILABLE?

For additional information about FTZs, including their benefits, contact the executive secretary of the Foreign-Trade Zones Board at the U.S. Department of Commerce: (202) 482-2862. The Web address is <http://ia.ita.doc.gov/ftzpage>.

For questions about a particular FTZ, contact the zone grantee using the list of zones on the FTZ Web page. For further information on customs procedures in zones, contact the U.S. Customs port director where the zone is located, or phone the Office of Field Operations, U.S. Customs Service: (202) 927-0300. ■

FTZ Statistics

U.S. communities with zones: 240

States with zone projects: 50

Pending cases for new zones and expansion: 60+

Value of merchandise handled by zones: \$225 billion (2001)

Employment at active zone facilities: 330,000

Exports: \$15 billion (2001)

Share of zone receipts in domestic status: 60%