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# Foreign-Trade Zones

## BENEFITS

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### *What is a Foreign-Trade Zone?*

A foreign-trade zone (FTZ) is a defined physical area within the United States that, for customs purposes, is treated as if it is outside U.S. borders. FTZs are often at ports, airports, or industrial parks. Companies may use FTZs for both storage/distribution activities such as assembly, exhibition, cleaning, manipulation, production, mixing, processing, relabeling, repackaging, repairing, salvaging, sampling, storing, testing, displaying and destroying merchandise. Manufacturing, processing and any activity that results in a change of the tariff classification must be specifically approved by the FTZB. Retail trade is prohibited in zones.

### *What are the benefits to a zone user?*

- Unlimited Storage Term:** Customs Bonded warehouses continue to serve importers as a means of staging or storing imported merchandise prior to making entry into U.S. Commerce. The FTZ offers advantages over a customs bonded facility, which is limited to 5 years of storage.
- Direct Delivery:** With customs approval, cargo can move directly to the zone site for customs inspection, rather than inspection at the port facility. This helps importers focused on just-in-time delivery.
- Consolidated Entries:** Through the weekly entry program and importer can bring good to the FTZ site and stage for export prior to customs entry. Once the entry has been approved, the cargo is ready for delivery, saving valuable time in supply chain network.
- Reducing Merchandise Processing Fees:** Through consolidation of U.S. customs entries, importers can reduce taxes such as merchandise process fee, by capping amount of tax per entry. This applies to high value or high volume entries.
- Reducing Customs Broker Fees:** Through consolidation of U.S. customs entries, there is a cost savings in terms of administrative costs of preparation and processing documents. In the event a customs broker providing this service, there may be an economic savings to the importer through consolidation of entries.
- Security:** FTZ's meet high standards for security and indirectly "expand" U.S. Customs presence on national security issues as a partner with U.S. Customs service. All employees have federal background checks for security clearance and enforce security procedures during operations.
- Cargo Manipulation.** With permits, importers can manipulate cargo in a FTZ where a bonded warehouse is strictly for storage. Additional benefits from manipulation/processing are outlined below.
- Avoid Re-export.** Damaged or rejected cargo can be destroyed in the zone as opposed to re-exported to country of origin.
- Compliance.** Manipulation may be required to meeting Federal Agency compliance issues such as product labeling, product sampling or processing to meet requirements. This can be achieved at a lower cost in the FTZ as opposed to shipping back to country of origin.
- Reduction in Tariffs.** Through processing, importers can take advantage of inverted duty tariffs to lower customs duty rates on imported merchandise. This can include duty elimination on some products.
- Duty Elimination - Exports.** Products entering the zone and re-exported can avoid customs duties and quota charges. In many FTZ, US components exceed foreign components and provide competitive advantage to manufactures in zones by eliminating customs duties on the foreign source components shipping to foreign markets.

- 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.

### *What are the public benefits?*

When companies increase their cash flow, save taxes and improve their bottom line by locating their operations in FTZs, communities benefit in several important ways.

- Economic growth and development are stimulated because jobs are retained and created in the community.
- Opportunities are created for suppliers and service providers to locate in the community.
- An FTZ project can be a valuable asset when a community is trying to attract new business investment to its area.
- Finally, a community with a FTZ may experience an improved infrastructure and expanded tax-base as a result of higher employment and the influx of new businesses.

For all of these reasons, more than 250 communities throughout the United States support and rely on the benefits that the FTZ program offers public as well as private entities.

### *What are the international trade benefits?*

FTZs benefit the trade community in several important ways.

- 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.

### *Why would one want to consider manufacturing in a FTZ?*

When one manufactures in a FTZ, its company is treated (for purposes of customs duties) like it's located outside the United States. That can mean that U.S. import duties don't have to be paid on imported components coming to the factory. If finished product is ultimately shipped to the U.S. market, users have the option of paying the finished product duty rate rather than the component duty rate. (Many finished products have lower duty rates – or are duty-free – than their components.) And if the finished product is re-exported, there are no duties on the component materials. There are other potential savings, too, like avoiding duties on imported materials that become scrap, and possible administrative savings and efficiencies.

### *How do I get more information on a local FTZ?*

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