

FOREIGN TRADE ZONES vs CUSTOMS BONDED WAREHOUSES

	Foreign Trade Zone (FTZ)	Bonded Warehouse
GENERAL ISSUES		
Description	...is an area within the United States that the government considers outside of the U.S. Customs territory. Certain types of merchandise can be imported into an FTZ without going through formal Customs entry procedures or paying import duties.	... is a secure building or area in which dutiable goods can be stored, manipulated, or undertake manufacturing operations without a payment or duty.
Purpose	...facilitates trade and increase the global competitiveness of U.S.-based companies.	...provides official supervision and security for goods before the payment of duty; the duty becomes payable upon movement of goods from warehouse for use and consumption.
Activities	... can include assembly, testing, sampling, re-labeling, repackaging, destruction, mixing, manipulation, cleaning, storing, salvaging and processing. With special permission from the FTZ board, manufacturing may also be permitted.	... can include assembly, sampling, re-labeling, remarking, manipulation, storing, regaining, salvaging, processing. By special approval, sorting, cleaning, and repacking may also be permitted.
History	... is a program created by the Federal Government and has been around since the 1930's.	...is usually established by the state or a private enterprise. These have been around since the early 1800's. The authority for establishing a bonded warehouse is set forth by the Title 19, United States Code, and section 1555.
Jurisdiction of Other Federal Agencies	Application of Federal regulations depend on products and agency involved.	Applies to all foreign merchandise.
State & Local Inventory Tax	Foreign merchandise is not taxed. Domestic merchandise to be exported is not taxed.	Tax is levied on January 1st of each year on all merchandise.
Storage Period	Unlimited.	Not to exceed 5 years.
Goods with Documentation Labeling Defects	...may be admitted and problems corrected.	...may not be admitted.

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Permissible Cargo	... may hold all merchandise, whether domestic or foreign. Domestic goods may be admitted without Customs Permit and co-mingled with foreign merchandise.	... may hold only foreign merchandise.
Formal Customs Entry	... is not considered within U.S. Customs territory. Customs entry is filed just prior to removal of goods from the FTZ and only for amount of goods to be removed.	... is within U.S. Customs territory. Thus, Customs entry must be filed before goods enter a warehouse.
Customs Entry Regulations	... are only applicable on goods actually removed from an FTZ for U.S. Consumption.	... apply fully to all goods.
Customs Bond	... requires no additional bond for merchandise. All admissions are covered under FTZ operators Customs Bond.	... requires that each entry must be covered by either a single entry term bond or a general term bond.
Appraisal and Classification	Tariff rate and value may be determined either at the time of admission into a FTZ or when goods leave a FTZ, at user discretion.	Tariff rate and value must be determined immediately.
Payment of Duty	Payment of duties are due only upon entry into U.S. territory. The rate can be that which is in effect at time of admission or withdrawal.	Duties are due prior to release. Merchandise is dutiable at the rate in effect at time of withdrawal.
Waste & Damaged Goods	No duty paid on waste, damaged or otherwise non-usable merchandise that is destroyed in the FTZ.	Duty owed on entire shipment entering a bonded warehouse.
Operations on Merchandise Destined for Domestic Consumption	... may include sorting, destroying, cleaning, grading, mixing with foreign or domestic goods, labeling, assembling, manufacturing, exhibiting, selling, and repacking.	Only cleaning, repacking and sorting may take place and only under Customs supervision.
Drawback of Customs Duties or Federal Excise Tax	... may apply to goods admitted to if approved by Customs.	Does not apply.

Sources: www.ftzconsultants.com/comparison.htm and www.shipping-worldwide.com/free-trade-zone.htm

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Advantages of an FTZ over a Customs Bonded Warehouse

An FTZ is considered outside of U.S. Customs territory; whereas, a bonded warehouse is not. Customs entry is made at the time goods enter the bonded warehouse, but not the FTZ. Therefore, duty payment is not delayed, reduced or eliminated in a bonded warehouse, and there is limited liability to evaluate and reclassify merchandise.

In addition, the range of permitted activities in a bonded warehouse is restricted. Manipulation of product is permitted only in a class 8 bonded warehouse, and manufacturing may occur only in a class 6 bonded warehouse...and only for export. The bonded warehouse option also involves the cost of a bond when merchandise is admitted to the warehouse. As a rule, only dutiable merchandise may be placed in a bonded warehouse, while all non-prohibited merchandise, foreign or domestic, may be admitted to a zone. Finally, merchandise may remain in the FTZ for an unlimited period, while its stay in a bonded warehouse is limited to five years.

Source: <http://www.logistics.com/OtherProcedures.html>

Advantages of a Customs Bonded Warehouse

There are many reasons that a business might want to establish or use a Customs Bonded Warehouse beyond the advantage of delayed payment of duties. Also, goods may move under bond between Customs Bonded Warehouses. Merchandise from a Customs Bonded Warehouse may also move into a FTZ, however the transfer may only be made for the purpose of eventual exportation, destruction or permanent storage.

No duty is collected until merchandise is withdrawn for consumption. An importer, therefore, has control over use of his money until the duty is paid upon withdrawal of merchandise from the bonded warehouse. If no domestic buyer is found for the imported articles, the importer can sell merchandise for exportation, eliminating the obligation to pay duty.

Many items subject to quota or other restrictions may be stored in a bonded warehouse. Check with the nearest Customs office before assuming that such merchandise may be placed in a bonded warehouse. Duties owed on articles that have been manipulated are determined at the time of withdrawal from the Customs bonded warehouse.

As shown in the chart, the Customs Bonded Warehouse offers a number of duty-related benefits, although not so many as a Foreign Trade Zone. The most significant advantages of a bonded warehouse over an FTZ lie in the greater geographic flexibility in locating the bonded warehouses and the somewhat less rigorous application process. For businesses not located either within a designated Foreign Trade Zone, or within 60 miles or a 90 minute drive time from an existing Foreign Trade Zone, a bonded warehouse can be a good option.

A bonded warehouse can be established independently by a building owner or lessee by written application to the port director of the local customs authority. Some bonded warehouses offer public warehousing, so that a business can take advantage of the delayed duties, without taking on the full bureaucratic weight of managing an independent bonded warehouse.