About Foreign Trade Zones (FTZs)

The Foreign Trade Zone (FTZ) program was created by the Federal Government in the 1930's, and continues to thrive today. The purpose of the FTZ program is to facilitate trade and increase the global competitiveness of U.S.-based companies.

Legally, a Foreign Trade Zone (FTZ) is an area within the United States that the Government considers outside the country, or at least, outside of the U.S. Customs territory. Certain types of merchandise can be imported into a Zone without going through formal Customs entry procedures or paying import duties.

Some of the benefits of operating within an FTZ are obvious. At the very least an FTZ can help a business defer paying duties. More often, the company pays lower costs, not only to U.S. Customs, but to its bank, insurance company, and other vendors.

Permitted Activities in a Foreign-Trade Zone

Assembling	Repackaging	Cleaning
Testing	Destroying	Storing
Sampling	Mixing	Salvaging
Re-labeling	Manipulating	Processing
*Manufacturing**		

*The user must receive special approval from the FTZ Board for manufacturing

Introduction to the U.S. Foreign Trade Zones (FTZ) Program

It is the intent of the U.S. Foreign Trade Zones program to stimulate economic growth and development in the United States, promoting American competitiveness by encouraging companies to maintain and expand their operations in the United States.

The FTZ program encourages U.S.-based operations by removing certain disincentives associated with manufacturing in the United States. The duty on a product manufactured abroad and imported into the U.S. is paid at the rate of the finished product rather than that of the individual parts, materials or components of the product. A U.S.-based company finds itself at a disadvantage compared to its foreign competitor when it must pay the higher rate on parts, materials or components imported for use in the manufacturing process. The FTZ program corrects this imbalance by treating a product made in a U.S. foreign-trade zone, for purposes of tariff assessment, as if it were produced abroad.

Advantages of Using an FTZ

1. Imports may be admitted and held without paying U.S. Customs duties.
2. Users can pay the duty rate on component material or merchandise produced from component material, whichever is lower.
3. Customs duties are never paid on merchandise exported.
4. Duties are reduced or eliminated on materials subject to defect, damage, obsolescence, waste or scrap.
5. Merchandise may be exported or returned to an FTZ without duty payment.
6. Spare parts may be stored, returned, or destroyed without duty payment.
7. Delays in Customs clearances and duty drawback are eliminated.
8. Duties are not owed on labor, overhead, or profit attributed to FTZ production operations.
9. Quality control inspections can identify sub-standard goods to be destroyed or returned without duty payment.
10. No duty is owed on in-bond, zone-to-zone transfer of FTZ merchandise.

Business Benefits of the U.S. Foreign Trade Zone Program

For U.S.-based companies involved in international trade, the FTZP provides a means of improving their competitive position compared to their counterparts abroad. The fundamental benefit offered by the FTZP to U.S.-based companies is the ability to defer, reduce or even eliminate U.S. Customs duties on products admitted to the zone.

Deferral of Duties: Customs duties are paid only when and if merchandise is transferred into U.S. Customs territory. This benefit equates to a cash flow savings that allows companies to keep critical funds accessible for their operating needs while the merchandise remains in the zone. There is no time limit on the length of time that merchandise can remain in a zone.

Reduction of Duties: In an FTZ, with the permission of the Foreign Trade Zones Board, users are allowed to elect a zone status on merchandise admitted to the zone. This zone status determines the duty rate that will be applied to foreign merchandise if it is eventually entered into the domestic market from the FTZ. This process allows users to elect the lower duty rate of that applicable to either the foreign inputs or the finished product manufactured in the zone. If the rate on the foreign inputs admitted to the zone is higher that the rate applied to the finished product, the FTZ user may choose the finished product rate, thereby reducing the amount of Customs duty owed.

Elimination of Duties: No Customs duties are paid on merchandise exported from a FTZ. Therefore, duty is eliminated on foreign merchandise which is admitted to the zone and eventually exported from it. Generally, Customs duties are also eliminated for merchandise that is scrapped, wasted, destroyed or consumed in a zone.

Community Benefits of the U.S. Foreign Trade Zone Program

When companies are persuaded that they can increase their cash flow, save taxes and improve their bottom line by locating their operations in U.S. foreign-trade zones, communities benefit in several important ways. Economic growth and development are stimulated because jobs are retained and created in the community. The FTZ program impacts indirect employment as well, because a business location not only creates jobs specific to itself, but also creates opportunities for suppliers and service providers 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 an 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 200 communities throughout the United States support and rely on the benefits that the FTZ program offers public as well as private entities.

Miscellaneous Benefits of the U.S. Foreign Trade Zone Program

Elimination of Drawback: In some instances, Customs duties previously paid on exported merchandise may be refunded through a process called drawback. The drawback law has become increasingly complex and expensive to administer. Through the use of an FTZ, the need for drawback may be eliminated allowing these funds to remain in the operating capital of the company.

Labor, Overhead and Profit: In calculating the dutiable value on foreign merchandise removed from an FTZ, zone users are authorized to exclude zone costs of processing or fabrication, general expenses and profit. Therefore, Customs duties are not owed on labor, overhead and profit attributed to production in a FTZ.

Taxes: By federal statute, tangible personal property imported from outside the U.S. and held in a zone, as well as merchandise produced in the U.S. and held in a zone for exportation, are not subject to State and local ad valorem taxes.

Quotas: U.S. quota restrictions do not apply to merchandise admitted to FTZs, although quotas will apply if and when the merchandise is subsequently entered into U.S. commerce. Merchandise subject to quota, with the permission of the Foreign-Trade Zones Board, may be substantially transformed in an FTZ to a non-quota article that may then be entered into U.S. Customs territory, free of quota restrictions. Quota merchandise may be stored in a FTZ so that when the quota opens, the merchandise may be immediately shipped into U.S. Customs territory.

Zone-to-Zone Transfer: An increasing number of firms are making use of the ability to transfer merchandise from one zone to another. Because the merchandise is transported in-bond, Customs duty may be deferred until the product is removed from the final zone for entry into the U.S. Customs territory.

Other: Additional benefits, sometimes referred to as intangible benefits, have begun to play a greater role in a company's evaluation of the FTZ program. Many companies in FTZs find that their inventory control systems run more efficiently, increasing their competitiveness. FTZ users also find that in meeting their FTZ reporting responsibilities to the U.S. government, they are eligible to take advantage of special Customs procedures such as direct delivery and weekly entry. These procedures expedite the movement of cargo, thereby supporting just-in-time inventory methodologies.

Source: National Association of Foreign Trade Zones (NAFTZ)