

# Foreign-Trade Zones

## FACT SHEET

November 4, 2019

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

Foreign-trade zones are designated sites licensed by the Foreign-Trade Zones (FTZ) Board (Commerce Secretary is Chairperson) at which special customs procedures may be used. These procedures allow domestic activity involving foreign items to take place prior to formal customs entry. Duty-free treatment is accorded items that are re-exported and duty payment is deferred on items sold in the U.S. market, thus offsetting customs advantages available to overseas producers who compete with producers located in the United States. Usage-driven sites are approved for a specific company/use. A site which has been granted zone status may not be used for zone activity until the site or a section thereof has been separately approved for FTZ activation by local U.S. Customs and Border Protection (CBP) officials, and the zone activity remains under the supervision of CBP. FTZ sites and facilities remain within the jurisdiction of local, state or federal governments or agencies.

### *Legal Authority and Requirements*

- FTZ Act of 1934 ([19 U.S.C. 81a-81u](#)) est. FTZ Board (Commerce, Treasury) to license and regulate FTZ's
- FTZ Board regulations ([15 CFR Part 400](#)).
- Customs regulations ([19 CFR Part 146](#)).

### *Foreign Trade Zones Board Review Criteria*

- Each U.S. port of entry is entitled to a zone project -- more only if need is shown
- Applicants (usually public entities) must have a suitable plan including provisions for facilities and financing.
- Need for the proposed zone must be shown in terms of the local economy and overall economic development objectives.
- Production applications are reviewed under "public interest" criteria -- approval is limited to activity that is consistent with trade policy and yields net positive economic effects, considering potential impact on other domestic plants.

### *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 an 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 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.

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## Foreign-Trade Zones

### BENEFITS

November 4, 2019

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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 an 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.

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- 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 an FTZ?*

When one manufactures in an 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.

# Frequently Asked Questions

## FOREIGN-TRADE ZONES

November 4, 2019

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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 and, after specific approval by the U.S. FTZ Board (FTZB), for manufacturing.

A site which has been granted zone status may not be used for zone activity until the site has been separately approved for FTZ activation by local U.S. Customs and Border Protection (CBP) officials, and the zone activity remains under the supervision of CBP. FTZ sites and facilities remain within the jurisdiction of local, state or federal governments or agencies. The Port of Moses Lake administers a multi-county FTZ in Grant County to provide a competitive advantage to area businesses through this economic development tool.

### *What are the public benefits?*

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

- **Duty Exemption.** No duties on or quota charges on re-exports.
- **Duty Deferral.** Customs duties and federal excise tax deferred on imports.
- **Inverted Tariff.** In situations where zone production results in a finished product that has a lower duty rate than the rates on foreign inputs (inverted tariff), the finished products may be entered at the duty rate that applies to its condition as it leaves the zone.

- **Logistical Benefits.** Companies using FTZ procedures may have access to streamlined customs procedures (e.g. "weekly entry" or "direct delivery").
- **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 types of zone sites?*

- **Magnet Sites** are usually located at ports or industrial parks. They are open to multiple zone users.
- **Usage-driven sites** are approved for a specific company/use.

### *What Type of Activity is permitted in Zones?*

- Merchandise in a zone may be assembled, exhibited, cleaned, manipulated, manufactured, mixed, processed, relabeled, repackaged, repaired, salvaged, sampled, stored, tested, displayed and destroyed.
- 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.

### *Where can a Zone be Located?*

Zone sites must be within or adjacent to a U.S. Customs and Border Protection (CBP) port of entry – specifically, within 60 statute miles of, or within 90 minutes’ driving time from, the outer limits of the Port of Moses Lake, the CBP port of entry. Subzone sites that are outside the 60 miles/90 minutes driving time from the outer limits of the CBP port of entry may alternatively qualify to be considered adjacent if they work with the CBP Port Director to ensure that proper oversight measures are in place.

### *What is the application process for new sites?*

1. **Pre-Docketing.** A pre-docketing copy of a complete application must be submitted to the FTZB. The original and paper copy of the application is submitted when the FTZB staff analyst has reviewed the electronic draft and notified the applicant that the draft is enough.
2. **Docketing.** When an application is docketed by the FTZB staff, a notice is published in the Federal Register for public comment on the proposal. The public comment period usually lasts 60 day.
3. **Review.** During this period the application is being reviewed by an analyst on the FTZB staff.
4. **Interagency Clearance.** Once the analyst completes their review and recommendation, the application is sent to CBP headquarters and the Department of the Treasury for review. If there is concurrence with the recommendation, the application will be returned to the Department of Commerce for final review by the Board member or designee who has the authority to sign the Board Order. The Board Order is then published in the Federal Register.

### *How many zones exist now?*

There are about 250 general-purpose zones and over 500 subzones approved in the U.S. & Puerto Rico. In the state of Washington, 11 Grantees have active zones.

### *Current Statistics*

- ▶ U.S. communities with zones: over 200
- ▶ States with zone projects: 50
- ▶ Pending cases for new zones, expansions, subzones and manufacturing: 60
- ▶ Value of merchandise handled by zones: over \$640 billion
- ▶ Employment at active zone facilities: approximately 340,000
- ▶ Exports: \$54.3 billion
- ▶ Of incoming zone shipments, 57% is of domestic status (most of this figure represents domestic origin goods, but a small percentage would be duty paid/duty free foreign items).

### *Who is the Foreign-Trade Zones Board?*

The FTZ Act of 1934 ([19 U.S.C. 81a-81u](#)) established the FTZ Board (Commerce / Treasury) to license and regulate FTZ's. The Foreign-Trade Zones Board is comprised of the Secretary of Commerce and the Secretary of the Treasury. The Board is chaired by the Secretary of Commerce. The Commissioner of U.S. Customs and Border Protection also plays a key role, as it did prior to its recent move from Treasury to the Department of Homeland Security, providing a position during the FTZ Board voting process with respect to customs security, control, and resource matters. The Board has delegated action authority on most matters to a Committee of Alternates, which is composed of the Assistant Secretary of Commerce for Import Administration and the Deputy Assistant Secretary of the Treasury for Tax, Trade, and Tariff Policy. The FTZ Board regulations are published ([15 CFR Part 400](#)).

### *How is Customs & Border Protection Involved?*

U.S./ Customs & Border Protection (CBP) publish regulations ([19 CFR Part 146](#)) and handle the day-to-day monitoring of zone activity. Merchandise is brought into a zone (admitted) on CBP form 214 and is removed from the zone through CBP entry or transportation under bond procedures. CBP is consulted on every application for a zone or zone activity. Merchandise in a zone is under customs control and merchandise and zone records are subject to spot check and other verifications at any time. After a zone or subzone has been approved by the FTZ Board, the zone operator must activate with CBP.

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

When one manufactures in an 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.

### *What is involved in getting authority to manufacture in an FTZ?*

To manufacture in an FTZ, one works with its local foreign trade zone to put together an application. The U.S. FTZB has created simplified procedures to make the benefits of the FTZ program accessible to a broad range of companies. The FTZB can then use the information from those forms to make decisions on whether to approve individual applications.

***What does the FTZ Board base its decisions about applications on?***

The FTSB reviews applications to make sure they are not inconsistent with U.S. trade policy and that the proposed activity would have a positive impact on the U.S. economy.

***Is there a fee for a zone?***

Certain applications to the FTZ Board do have fees. Applications combining requests for more than one type of approval are subject to the fee for each category:

1. Additional general-purpose zones within a port of entry: \$3,200
2. Special-purpose subzones:
  - a. Non-manufacturing/processing or less than 3 products: \$4,000
  - b. Manufacturing/processing 3 or more products: \$6,500
3. Expansions: \$1,600

The Port of Moses Lake FTZ publishes a tariff with its service fees. Application and annual fees range from \$9,900 to \$19,800 per application, depending on the type of zone activity.

There are also indirect costs associated with zone projects.

***Where is the Port of Moses Lake Zone Located?***

The Port's FTZ #203 Alternative Site Framework allows business in the following Washington counties to benefit from FTZ status:

Benton County  
Chelan County  
Columbia County  
Douglas County

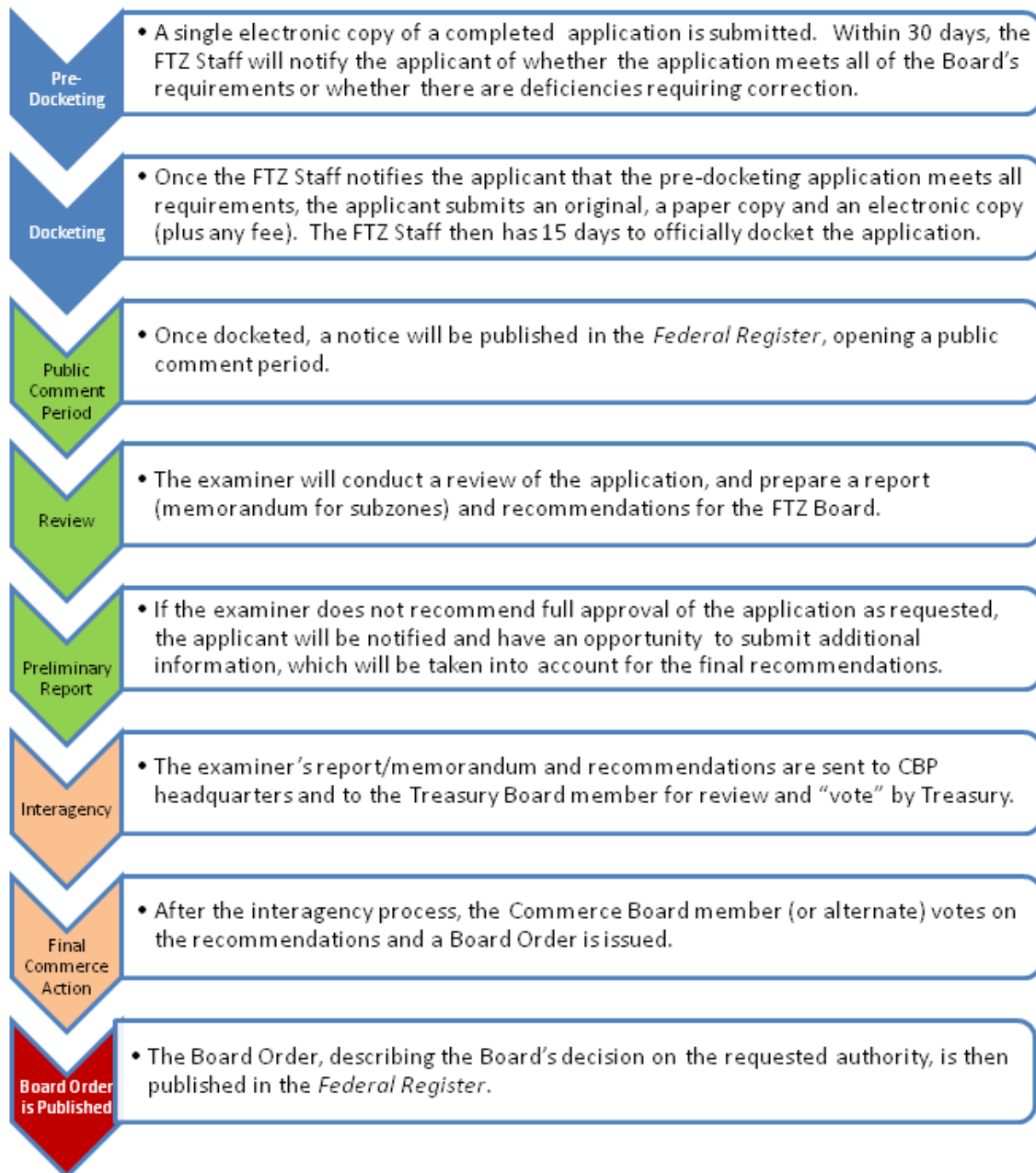
Franklin County  
Grant County  
Kittitas County  
Lincoln County

Okanagan County  
Walla Walla County  
Yakima County



# FTZ Application Process

(For FTZ Board Review: New Zones, Expansions, Reorganizations, Certain Subzone Applications, and Production Applications)





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# Foreign-Trade Zones

## PRELIMINARY FEASIBILITY ANALYSIS QUESTIONS

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The Foreign-Trade Zone (FTZ) program helps American companies improve their competitive position versus their counterparts abroad. Using an FTZ, U.S. - based companies to defer, reduce or even eliminate customs duties on products admitted to the Zone. For example:

- Domestic goods involving foreign items can be processed in a zone to eliminate or reduce customer duties.
- Duty-free treatment is accorded items that are re-exported and duty payment is deferred on items sold in the U.S. market.

### *Building local prosperity through global business*

In an expanding global economy, there is increased competition among nations for jobs, industry and capital. The FTZ program promotes American competitiveness by encouraging companies to maintain and expand their operations in the United States. 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.

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For all 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. The Port of Moses Lake administers a Foreign-Trade Zone in Grant County that creates, maintains and diversifies economic development in the region.

Contact us to see whether our Zone (FTZ #203) can meet your global trade needs.

The following questions will assist in determining whether your company can benefit from using a Foreign-Trade Zone.

1. What is the annual value of imported merchandise?
2. What is the average U.S. duty rate assessed on foreign goods imported?
3. What is the % and value of goods eventually exported?

4. What is the average duty on finished goods sent from the warehouse?
5. What is the average % of waste, scrap and/or defective merchandise?
6. Average total value of inventory on hand at any given moment?
7. How often does the inventory turn per year?
8. What is the Merchandise Processing Fee for each Customs entry?
9. How many annual Customs entries are filed each year?
10. Are shipments delayed at the Port and/or compliance matters that need to be addressed? If so, explain.