

## What is a Foreign-Trade Zone?

A Foreign-Trade Zone (FTZ) is an approved area within the United States, in or near a U.S. Customs port of entry, which is considered outside 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. Customs duties and excise taxes are only due at the time of transfer from the FTZ for U.S. consumption. If the merchandise is re-exported, then no duties or taxes are paid on those items.

## Why do Foreign-Trade Zones exist?

The Foreign-Trade Zone program was created by the federal government in the 1930s to increase the global competitiveness of U.S. businesses. The government has highlighted the FTZ program as an integral part of the country's National Export Initiative. It was designed to encourage capital investment in the United States, rather than abroad, in order to secure American Jobs. The benefits make it advantageous for companies that want to use American labor to manufacture products that require imported components.

## What may a company do in a Foreign-Trade Zone?

**Once a company imports merchandise into a Foreign-Trade Zone they are allowed to use it in the following operations:**

Assembly	Salvage
Testing	Processing*
Sampling	Repackaging
Relabeling	Sorting
Manufacturing*	Mixing
Storage	Manipulating

*(\*The user must receive special approval from the FTZ board for Manufacturing and some Processing)*

## What are the different types of zones?

**There are two basic types of zones a company may apply for:**

- A General Purpose Zone: This is typically for companies conducting any or all of the operations listed above. However, some manufacturing and processing may be done with special Foreign-Trade Zone Board approval.
- A Subzone: This is typically a large manufacturing or processing operation

# Benefits for Companies and their Communities

## What are the major potential benefits for my business?

**Duty Deferral:** Duties are not paid on imported merchandise held in the Foreign-Trade Zone until it is admitted into United States commerce for consumption. For some businesses, this could provide substantial cash flow savings.

**Duty Reduction:** If a company does manufacturing or processing with foreign components, it has the option to pay the duty on the finished product or the imported components (in their condition as imported), whichever is lower. The company is not required to pay the duties until the product is entered in United States commerce for consumption.

**Duty Elimination:** If imported merchandise is either destroyed in the Zone or re-exported back into the global market, a company is not required to pay any duties on that merchandise because it never entered United States commerce. This is an incredible benefit for companies using American labor to manufacture products with foreign components that are exported around the world.

**Direct Delivery:** With prior approval from Customs, a business can have their imports delivered directly to their facility without waiting for Customs clearance. This can provide a much more efficient supply chain.

**Weekly Entry:** In an FTZ, a business is only required to make one estimated weekly entry for customs, rather than making an entry for every arriving shipment. Therefore, a company only pays a custom broker's fee and merchandise processing fee once a week, resulting in significant savings for a company that brings in a large number of shipments per week.

**Duty Drawback Elimination:** An FTZ eliminates the need for duty drawback because duties are never paid at all on merchandise that is re-exported. This increases cash-flow and reduces tedious duty drawback paperwork

## What are the potential benefits to the local communities?

- The Foreign-Trade Zone program only benefits businesses with an established presence in the United States
- Companies employ more people from local communities surrounding the Zone because of increased activity due to the Zone
- Companies invest in facilities and infrastructure which adds to property tax rolls and encourages companies to stay local
- Provides financial benefits to existing or new businesses without any local funding
- Increased employment will require the need for additional support services

## **Additional Foreign trade zone benefits**

- Cash flow – inventory can be held in the zone duty-free until shipped to the customer.
- Defects/damage/waste – Customs duties are not paid on merchandise subject to these losses.
- Inverted customs duty savings – Unique to a FTZ, it is the importer’s option to pay the duty rate applicable to either the parts or the finished unit, depending on which is lower.
- International returns – No custom duties are paid upon return of exported merchandise.
- U.S. Quota – Most quote-restricted goods can be held in an FTZ and shipped when the quote opens.
- Spare parts – Spare parts may be held in the FTZ without customs duty payment.
- Temporary removal procedure – Merchandise may be removed from an FTZ into customs territory in-bond for certain activities, and returned to the FTZ without customs duty payment.
- Quality control – Only merchandise that meets specifications is imported and duty paid.
- Country-of-origin – Depending on the processes, goods may be eligible for Made in USA labeling.
- Security – Many firms find the required customs services supervisions and security to be quite beneficial.
- Relabeling or remarking – Goods may be altered to meet federal or local requirements and submitted to customs for proper classification.

## **Frequently Asked Questions**

### ***Does my company need to import through the Port of Green Bay in order to take advantage of the Foreign-Trade Zone?***

While the Port of Green Bay may be a convenient port of entry for businesses in northeastern Wisconsin, your company is not obligated to use the Port for any of your FTZ related shipping. The Port of Green Bay has been designated by the Foreign-Trade Zone Board (FTZB) as the Grantee for the Wisconsin Foreign Trade Zone No. 167, and that responsibility as Grantee functions separately from daily Port operations.

### ***How is United States Customs and Border Protection involved?***

U.S. Customs and Border Protection has the responsibility of supervising the Foreign-Trade Zone through periodic checks and visits from Customs officers. Customs oversees the transfer of merchandise into and out of the Zone and are responsible for collecting revenue from applicable duties, taxes, and fees.

The CBP Port Director is the local representative of the Foreign-Trade Zone Board and controls the admission and removal of merchandise in the Zone. Customs is also tasked with enforcing all laws relevant to the Foreign-Trade Zones, and providing legal interpretation of those statutes, regulations and procedures.

***What are the advantages of an FTZ over a bonded warehouse, temporary importation bond, and duty drawback?***

There are many advantages to a Foreign-Trade Zone over other U.S. Customs Programs. Depending on the program, some of the advantages are:

- No time constraints on storing merchandise
- Ability to get approval for manufacturing
- Taking advantage of benefits for scrap materials
- Not required to pay duties if product is re-exported

**FTZ vs. Other Customs Programs**

***FTZ vs. Bonded Warehouses***

- Merchandise in an FTZ is not considered entered into the U.S. until it leaves the zone.
- Merchandise can be left in the zone indefinitely whereas there is a 5 year limit in a BW.
- Merchandise can be combined in a zone but not in a BW.
- Merchandise can be received 24 hours/7 days a week\* because there is no need to wait for the merchandise to clear Customs as in a BW.
- It is less expensive to maintain a company's inventory in a FTZ

*\*CBP approval for Direct Delivery is a privilege based on a good compliance history.*

***FTZ vs. Temporary Importation Bond***

- Merchandise can be left in the zone indefinitely. In a TIB, merchandise can only remain in U.S. for 1 year from date of import, with up to 2 additional 1-year extensions, then must be re-exported.
- Zone benefits are limited to the FTZ site, whereas a TIB allows you to freely move the merchandise within the U.S.
- Scrap can be entered into the U.S. FTZ site, but no scrap can be entered under a TIB - 100% of it must be re-exported.
- Warehouse inventory is an ideal FTZ use, whereas TIB's generally are not good for warehouse merchandise.

***FTZ vs. Duty Drawback***

- FTZs eliminate 100% duty on exported goods, but duty drawback requires a claim for refund of duties paid on eligible goods, with 99% of duties paid back.
- FTZs provide for immediate savings on duty on imported goods for export whereas duty drawback requires a lengthy process to recoup eligible duty paid.
- Companies that currently are approved for duty drawback are ideal candidates for FTZ approval, plus receive added FTZ benefits.

## **Determining if a Foreign-Trade Zone is Right for your Business**

There are a number of factors and indicators that can determine whether or not a business should be considering how a Foreign-Trade Zone could be beneficial. Some of the benefits can provide an immediate cash flow savings, while others can streamline your supply chain and reduce paperwork.

- Large volumes of customs entries in the US
- Large customs duty payments
- History of shipment delays
- Company already has secure facilities and compliant operations
- Planning an expansion of facility or increase in manufacturing
- Currently utilizing a Bonded Warehouse or the Duty Drawback Program

## **What is a Feasibility Study?**

A feasibility study is the process of evaluating the savings provided by a Foreign-Trade Zone against the costs incurred through operating a Zone. Before completing an application, it is recommended that your company does a feasibility study to determine if a Foreign-Trade Zone makes sense financially and operationally. You can either use our Basic FTZ Calculator, or some companies find it beneficial to hire a Foreign-Trade Zone Consultants to provide a more comprehensive analysis.

## **How to Apply**

Once you have calculated that your company may benefit from being in a Foreign-Trade Zone, contact either your Grantee (Port of Green Bay), a Consultant, or the Foreign-Trade Zone Board to begin the appropriate application process. Under the Alternative Site Framework (ASF), once your final application has been submitted, FTZB approval may be in as little as 30 days. Once U.S. Customs has approved your operation manual and you pass their inspections, you will be ready to activate your FTZ site.

## **Customs Activation Instructions**

Once the application has been approved and before operations can begin, the user/operator must activate with the local Customs office. Activation takes place locally under the supervision of the Customs Port Director and involves a review of zone procedures, inventory control, record keeping systems and security. Once the FTZ is activated, users may begin admitting merchandise.