



FOREIGN TRADE ZONE: GENERAL INFORMATION

Foreign Trade Zone is a secured place authorized by the federal government, considered to be outside the Customs territory of the United States though under U.S. Customs supervision and control.

Normally, when foreign cargo lands on U.S. soil, it is subject to clearance through Customs and payment of U.S. Customs duty. Many firms use Foreign-Trade Zones to postpone and, in the case of re-export of cargo, avoid the application of U.S. Customs laws that impose duties, taxes, bonds, quotas and certain other requirements.

Domestic and foreign merchandise may be stored at the Zone. It may be manufactured, displayed, sold or altered in almost any way that isn't prohibited by U.S. law.

As long as the merchandise remains in the Zone, it is not subject to U.S. Customs laws governing the entry of goods into Customs territory or payment of duty on those goods. In addition, Zone users can legally minimize the payment of U.S. Customs duties by either paying duty based on the classification of the merchandise at time of admission to the Zone or by paying duty based on the classification of the merchandise when it subsequently enters U.S. Customs territory. Merchandise subject to quotas may be admitted to a Zone without regard to those quotas. And no duty is assessed on domestic merchandise that enters Customs territory from a Zone.

Even though FTZ #182 is considered to be outside the Customs territory of the United States, it is on U.S. soil. For that reason, goods and activities in the Zone are subject to federal, state and local laws and regulations. Articles prohibited by law are not allowed admission, nor are articles that violate copyright, trademark or patent laws. Animal quarantine restrictions apply as well.

There are two types of FTZ's: general purpose zones and special purpose subzones. General purpose zones operate as public utilities providing a variety of services to many users. Special purpose subzones are single-use facilities which cannot be accommodated within the general purpose zone.

All four FTZ sites in Fort Wayne are general purpose.

Storage and distribution. Merchandise that is admitted to an FTZ may be stored indefinitely. It may be unpacked, repacked, displayed, assembled, disassembled, sorted, graded, cleaned, relabeled or even destroyed. It may be distributed as is or combined with other foreign or domestic merchandise. Only when merchandise is taken from an FTZ into Customs territory is it subject to customs duties and quotas, not when it is re-shipped to foreign points. Goods may be transferred directly from one FTZ to another without being subject to Customs duties or quotas.

Manufacturing. Goods may be manufactured in an FTZ except when specifically limited by law. Products may then be exported or sent into U.S. Customs territory. When

products enter Customs territory, they are subject to Customs duties; if they are shipped to foreign countries, they are not. All new manufacturing operations are subject to the approval of the Foreign-Trade Zones Board and the District Director of Customs.

Machinery or supplies of foreign origin used in the manufacturing process are subject to duty when admitted to an FTZ. In the particular case of imported textiles subject to quota, manufacturing is permitted only if the finished products are exported.

Status designations of merchandise. At the time merchandise is admitted to a Foreign-Trade Zone, the owner applies for one of four status designations. Firms may use this status designation to legally minimize payment of U.S. Customs duties.

Domestic Status is granted to goods that are grown, produced or manufactured in the United States provided all applicable internal-revenue taxes have been paid, to goods that have been previously imported on which duties and taxes have been paid, and to goods that have been previously entered free of duties and taxes. Identifiable Domestic status merchandise may be returned to the Customs territory free of quotas, duties or taxes.

Non-privileged Foreign (NPF) Status applies to merchandise of foreign origin. It can also apply to certain domestic merchandise which-by reason of non-compliance with FTZ regulations-has lost its Domestic status. Recoverable waste generated in a manufacturing process may also be granted Non-privileged Foreign status. Non-privileged Foreign status allows Zone users to pay duty based on the character, condition and quantity of the merchandise at the time it enters Customs territory.

Privileged Foreign (PF) Status Merchandise applies to merchandise of foreign origin when classified and appraised with duties liquidated and taxes determined, as of the date the application for this status is approved. Privileged Foreign status allows the importer to alter or manufacture merchandise into new products without changing, for duty-assessment purposes, the original product classification. Privileged Foreign status cannot be abandoned even though the form of the merchandise has been changed. This status, however, cannot be granted to Non-privileged Foreign merchandise which has previously been manufactured in a Zone.

Zone-Restricted (ZR) Status is granted to either domestic or foreign merchandise that is admitted to a Zone for the purpose of eventual exportation or destruction. This status may not be abandoned once it has been granted. Zone-Restricted merchandise may not enter U.S. Customs territory for domestic consumption unless determined to be in the public interest by the Foreign-Trade Zones Board.

BENEFITS FOR THE COMPANIES USING FOREIGN TRADE ZONE

1. Duty Deferral and Avoidance. By using Foreign-Trade Zones, firms defer payment of duty until merchandise enters U.S. Customs territory. Foreign merchandise transiting U.S. ports for foreign designations avoids the payment of U.S. Customs duties and taxes through the use of Foreign-Trade Zones. Merchandise is inspected and sorted in Foreign-Trade Zones with only the saleable portion entering U.S. Customs Territory. Duty deferral or avoidance results in substantial cash savings.

2. Taking Advantage of the Tariff Schedule. The Tariff Schedule of the United States (Harmonized Code) adopted in 1989 provides many new opportunities for FTZ users. Products manufactured from foreign-sourced components within an FTZ may be subject to a lower rate of duty than the sum of the parts with which they are made. This also applies to the assembly of sets or kits. Pineapple canneries and can-making companies, animal-feed mixing operations, and auto and typewriter assembly plants are some operations which gain tariff advantages from being within FTZ's.

If, on the other hand, the finished product of a manufacturing operation is subject to a higher rate of duty, the importer may apply to have the imported components designated as Privileged Foreign status merchandise and thus subject to the lower rate of duty that applies to those components. Oil refineries in FTZs operate in this manner.

3. Import Quotas Quota restrictions apply at the time merchandise seeks entry into U.S. Customs territory. Merchandise which would be denied entry because of quotas may be stored, and in some cases, altered and manufactured in Foreign-Trade Zones. Merchandise may be stored awaiting the beginning of a new quota period. Merchandise, in some instances, may be altered or manufactured into a product not subject to quota limits. Quota merchandise is processed in Foreign-Trade Zones for export markets. This is particularly advantageous to food processors manufacturing for export markets.

4. "Made in U.S.A." Products that are manufactured in FTZ's may, if certain requirements are met, qualify for "Made in U.S.A." labels, even if the finished product incorporates foreign components.

5. Avoiding Drawback Costs and Delays Drawback procedures can be quite restrictive. They allow a manufacturer to receive a 99 percent refund of the duty paid on an imported component incorporated into subsequently-exported products. The manufacturer, however, must declare at the time of importation what will be subsequently exported in manufactured form to qualify for drawback. Zone users avoid these costs and delays.

6. Avoiding Bonded Warehouse Limitations Importers who store their goods in bonded warehouses must post a bond, and their goods may be stored for a maximum of five years. Importers who use FTZ's post no bonds and their merchandise may remain in the Zone indefinitely. Manufacturing, processing or altering goods in Customs bonded warehouses are limited. In Foreign-Trade Zones, similar restrictions do not apply.

7. Avoiding Certain State and Local Taxes Goods which are in a Zone for a bona fide Customs reason are exempt from State and local ad valorem taxes.

OVERALL BENEFITS TO THE PUBLIC

- **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.**

FTZ activity must not conflict with U.S. trade policy or harm domestic industry or other domestic plants outside of zones. The FTZ Board requires that zone manufacturing activity result in a significant public benefit and a net positive economic effect. In addition, the U.S. Customs Service supervises all zone activity and ensures that all customs and FTZ Board requirements are observed.

THE PLAYERS INVOLVED IN THE OPERATION OF THE ZONE

The Grantee is the entity, which has been given the privilege of establishing, operating and/or maintaining an FTZ by grant of authority from the U.S. Foreign Trade Zone Board. The grantee for FTZ 182 is the City of Fort Wayne.

An operator is a corporation, partnership or person that operates or manages a Zone. Sometimes this is the grantee, but often is it one acting under the terms of an agreement with the grantee. Customs holds the operator responsible for compliance with the customs regulations. There are four sites of the FTZ 182, each has it's own operator.

The zone user is a business or individual that uses the zone for storage, handling, processing or manufacturing merchandise in zone status, whether foreign or domestic. Usually the zone user is the party, which requires a customs permit to admit, process or remove zone status merchandise. Users pay the Operator a fee for services such as rent on facilities, storage, handling, promotion and similar services.