How foreign trade zones can help your company

By Marian Ladner

A foreign trade zone can help solve your company's supply-chain problems, or it can be a huge and costly mistake. Before deciding whether to apply for permission to create an FTZ, or whether you might wish to lease space in an existing zone, you must consider a large number of factors.

Foreign trade zones are located near U.S. points of entry but are treated differently for customs purposes. Rough translation: You still have some customs formalities, and Customs officials can come to your facility, but you do not pay duties and other fees because your product is not considered to be "entered" into the commerce of the U.S.

Moreover, merchandise travels directly from the port to the FTZ. This can reduce long hold times at crowded ports of entry.

Merchandise in an FTZ can be stored, sold, exhibited, destroyed, repackaged, assembled, distributed, sorted, graded, cleaned or mixed with other merchandise in some fashion.

Foreign trade zones were responsible for more than $317 billion in business in 2004 alone, providing jobs for 337,039 Americans, and actively involving 2,524 companies. Created at the height of the Great Depression in an effort to increase U.S. competitiveness and facilitate international trade, the zones have continued to thrive by making importing, exporting and manufacturing more cost-effective and profitable for some companies.

Typically, FTZs are sponsored by qualified public or private corporations, which lease space to users in warehouses and provide access to transportation. A manufacturer can file its own application but must first determine which type of FTZ it wants to open — a general-purpose zone or a subzone.

A general-purpose zone is usually open to the public and to tenants. Subzones are smaller and more narrowly focused. They are often used for anything that cannot be reasonably accommodated inside a general-purpose zone. An application for a subzone is larger and more complicated than one for a general-purpose zone, but a subzone will potentially meet the needs of specialized manufacturers to a much greater degree than a general-purpose zone.

Unlike bonded warehouses and other Customs-administered programs, merchandise can remain in an FTZ indefinitely, whether or not it is taxed, bartered or sold. Merchandise may be transported into these zones for storage, exhibition, assembly, manufacturing and processing — unless prohibited by a public interest review, U.S. law or state or local laws.

FTZ benefits

An FTZ has several very attractive features. Formal customs procedures and taxes are not required until the goods enter U.S. territory. An importer can then choose to pay duties on either the original foreign materials or the finished product, meaning any added value from manufacturing or processing can be ignored for the purpose of duty assessment. Duty at this time is a liability but not yet paid because FTZs are considered to be "outside" of U.S. territory.

Goods held in an FTZ and subsequently re-exported are not subject to duty at all, whether the goods are in their original form as imported, or as components of finished products. That contrasts with the drawback program, in which companies pay duties when the goods enter the country. Companies can apply for refunds of 99 percent of the duties when the goods are re-exported, but this process may take years.

FTZs literally can turn time into money. The Harbor Maintenance Tax is paid quarterly instead of monthly; duties are delayed, reduced or inverted. For example, raw material entered into the zone might carry a 10.5 percent duty, but after it's processed, the duty on the finished product may be reduced to 5 percent. In addition, merchandise processing fee payments are reduced to 52 per year with a maximum of $485 per entry; and there is the capability of electronic zone admission filing. That means you don't have to send paper or faxes to Customs and wait for them to respond before you can proceed.

Keep in mind, though, that you can't bring merchandise into an FTZ that is legally barred from entering the country. Additionally, an FTZ cannot be used to circumvent any quotas or embargoes. However, products under quota restrictions can be held inside an FTZ until the quota opens up or is

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