

## FOREIGN TRADE ZONES

### U.S. Customs Procedures and Requirements

#### **WHAT IS A FOREIGN-TRADE ZONE?**

Foreign-Trade Zones (FTZs) are restricted access sites authorized by [the Foreign-Trade Zones Board](#) consisting of the Secretary of Commerce and the Secretary of the Treasury. FTZs, upon activation under regulations of the U.S. Customs Service, are secured areas under U.S. Customs supervision and are located in or near a U.S. Customs [port of entry](#). Customs entry procedures do not apply although FTZs are within the territory and jurisdiction of the United States.

#### **WHY WERE FOREIGN-TRADE ZONES ESTABLISHED?**

- To encourage and expedite United States participation in international trade. Foreign goods may be admitted to an FTZ without being subject to Customs duties or certain excise taxes.
- To defer payment of duties until goods are entered into the commerce of the United States.

Under zone procedures, the usual Customs entry procedures and payment of duties are not required on foreign merchandise until it enters Customs territory for domestic consumption. Domestic goods admitted into a zone, in zone-restricted status, (for storage, destruction or export) are considered exported when admitted to the zone for other government agency requirements, excise tax and drawback purposes.

Zones are granted by the [Foreign-Trade Zones Board](#) to qualified public or private entities (port authorities, city/county economic developers). In a general-purpose zone, the grantee usually has an operator to operate the zone. Operators can sublet to tenants, called users. In a subzone environment, the user and operator are usually the same.

Authority for establishing these facilities is granted by the Foreign-Trade Zone Board under the Foreign-Trade Zone Act of 1934, as amended (19 USC 81a-81u). The regulations of the Foreign-Trade Zone Board are published in 15 CFR Part 400. The regulations of the U.S. Customs Service governing the transfer of merchandise to and from zones are published in 19 CFR Part 146. The Foreign-Trade Zones Manual is available from the U.S. Customs Service by contacting the Office of Trade Programs, Office of Field Operations, Washington, D.C. 20229, or may be viewed on the Customs website at <[www.customs.gov](http://www.customs.gov)>.

#### **ADVANTAGES OF USING FOREIGN-TRADE ZONES**

The financial benefits are:

### **Duty Deferral**

Customs duty and federal excise tax, if applicable, are paid only when merchandise is transferred from an FTZ to the Customs territory of the U.S. or transferred to a NAFTA country (Canada and Mexico).

### **Duty Elimination**

Goods may be imported into, and then exported from, a zone without the payment of duty and excise taxes except to certain countries, such as NAFTA countries, in which case, any applicable duty and excise tax will be levied. Goods may also be imported into, and destroyed in, a zone without the payment of duty and excise taxes.

### **Inverted Tariff Relief**

Inverted tariff relief occurs when imported parts are dutiable at higher rates than the finished product into which they are incorporated. For example, the duty rate on an imported muffler for an automobile is 4.5 percent if imported directly into United States commerce. However, if that muffler is brought into a Foreign-Trade Zone and incorporated into an assembled automobile, the duty rate on the finished automobile, including the muffler, is 2.5 percent.

### **Ad Valorem Tax Exemption**

Merchandise imported from outside the United States and held in a zone for the purpose of storage, sale, exhibition, repackaging, assembly, distribution, sorting, grading, cleaning, mixing, display, manufacturing, or processing, and merchandise produced in the United States and held in a zone for exportation, either in its original form or altered by any of the above methods, is exempt from State and local ad valorem taxes.

Other benefits:

### **No Time Constraints on Storage**

Merchandise may remain in a zone indefinitely, whether or not its subject to duty.

### **Satisfy Exportation Requirements**

Merchandise entered into the U.S. on an entry for warehousing, temporary importation under bond, or for transportation and exportation may be transferred to a foreign-trade zone from the Customs territory to satisfy a legal requirement to export the merchandise. For instance, merchandise may be taken into a zone in order to satisfy an exportation requirement of the Tariff Act of 1930, or an exportation requirement of any other Federal law insofar as the agency charged with its enforcement deems it advisable. Exportation may also fulfill requirements of certain state laws. Items admitted to a zone to satisfy exportation requirements must be admitted in zone restricted status – meaning they are only for direct export, immediate export, and transportation and export.

### **Security and Insurance Costs**

Customs security requirements and federal criminal sanctions are deterrents against theft. This may result in lower insurance costs and fewer incidents of loss for cargo imported into an FTZ.

## **ROLE OF THE FOREIGN-TRADE ZONE BOARD STAFF**

- Review applications to establish or alter the boundaries of foreign-trade zones.
- Recommend approval of any zone or subzone application, which is in the public interest.
- Regulate the administration of foreign-trade zones.
- Inspect and examine the premises, operations or accounts of the zone grantees and operators.
- Revoke the grant of any zone for willful and repeated violations of the Foreign-Trade Zone Act after due notice and a hearing.

The Executive Secretary is the chief operating official of the Board.

## **ROLE OF THE U.S. CUSTOMS SERVICE**

- Regulatory control over merchandise moving to or from a zone.
- Ensure that all revenue is properly collected.
- Ensure adherence to the laws and regulations governing the merchandise.
- Ensure that merchandise has not been overtly or clandestinely removed from the zone without proper Customs permits.
- The Office of Regulations and Rulings, at Customs Headquarters, provides legal interpretations of the applicable status, Customs regulations and procedures.

## **ROLE OF THE PORT DIRECTOR**

- Oversees the zone as the Board representative.
- Responsible for the supervision of the activities, including admission, operation and transfer of merchandise.
- Reviews port policy and comments on applications.
- Approves the activation of the zone before any merchandise is admitted.
- Approves discretionary requirements.

- Requires an adequate FTZ Operator's Bond.
- Assesses penalties and liquidated damages.
- Initiates suspension of a zone, zone site or zone activity, if necessary.
- Recommends to the FTZ Board that the privilege of establishing, operating and maintaining a zone or subzone be revoked, if necessary.

## **FREQUENTLY ASKED QUESTIONS**

### **What are the types of Foreign-Trade Zones?**

There are two types of foreign-trade zones: General Purpose Zones and Subzones. General purpose zones are usually located in an industrial park, on raw land or in port complexes whose facilities are available for use by the general public.

Subzones are sites sponsored by a general purpose zone grantee on behalf of an individual firm or firms. Subzones are single-purpose sites for operations that cannot be feasibly moved to, or accommodated in, a general purpose zone; e.g., oil refineries, automobile manufacturers.

### **What may be placed in an FTZ?**

Any foreign or domestic merchandise not prohibited by law, whether dutiable or not, may be admitted to a foreign trade zone.

Conditionally admissible merchandise is merchandise subject to permits or licenses, or that must be reconditioned to bring it into compliance with the laws administered by various Federal agencies before entering the United States. Because zones are considered outside the Customs territory, requirements that would otherwise apply to imported merchandise are suspended as long as the merchandise remains in the FTZ. An example of conditionally admissible merchandise is a substance subject to the Toxic Substances Control Act (15 USC 2601 et seq.) which has not received approval by the [Environmental Protection Agency](#) for use in the United States. However, merchandise that is illegal, i.e. Heroin, may not be imported under any circumstances.

Some Federal agencies regulate storage and handling in the United States of certain types of merchandise, such as explosives. Depending on the nature of the requirements and the particular characteristics of the zone facility, such merchandise may be excluded. Most agencies that license importers or issue importation permits may block admission of merchandise that is not licensed or permitted into a zone.

The [Foreign-Trade Zone Board](#) may exclude from a zone any merchandise that in its judgement is detrimental to the public interest, health, or safety. The Board ensures that foreign-trade zones are not used to violate other trade laws of the United States.

Merchandise subject to quota restrictions may be admitted into a zone until a quota on entry is removed or may be manufactured or manipulated in a zone into a product that is not subject to quota. The FTZ Board can restrict or prohibit activity on public interest grounds.

**What may be done in an FTZ?**

Foreign and domestic merchandise permitted in a zone may be stored, sold, exhibited, broken-up, repacked, assembled, distributed, sorted, graded, cleaned, mixed with foreign or domestic merchandise, otherwise manipulated, destroyed, or manufactured. On the other hand, machinery and equipment that is imported for use within a zone is not exempt from the payment of duty. Such equipment and supplies may include, but are not limited to: office furniture, machines, and equipment; construction machinery and materials; manufacturing machinery and equipment, tooling, and supplies; packaging machinery and equipment; food to be eaten in the zone and water and fuel that do not become part of a zone product.

**What may not be done in an FTZ?**

In specific cases, the [Foreign-Trade Zones Board](#) may prohibit or restrict any activity in a zone in order to protect the public interest, health, or safety. All manufacturing is reviewed in terms of government policy and its net economic effect.

Many products subject to an internal revenue tax may not be manufactured in a zone. These products include alcoholic beverages, products containing alcoholic beverages (except domestic denatured distilled spirits), perfumes containing alcohol, tobacco products, firearms and sugar. In addition, the manufacture of clocks and watch movements is not permitted in a zone.

Retail trade is prohibited in zones, unless conducted under a permit issued by the zone grantee and approved by the Foreign-Trade Zones Board. Retail trade is then allowed only for the sale of domestic goods, or goods brought from the Customs territory following a regular Customs entry on which any applicable duties and/or taxes have been paid.

**How is merchandise admitted into a zone?**

Merchandise does not achieve zone status until a permit is given by the port director for its admission (except in the case of domestic status merchandise for which no permit is required), and the zone operator signs for receipt of the merchandise into the zone.

**Customs Form 214 Application**

Merchandise may be admitted into a zone after application has been made on a Customs Form 214, "Application for Foreign Trade-Zone Admission and/or Status Designation," or its electronic equivalent, and a permit is issued by the Port Director. The application for admission is submitted to the port director, including a statistical copy on Customs Form 214A to be transmitted to the Bureau of Census, unless the applicant has made arrangements for the direct transmittal of statistical information to that agency. The form

will be signed by the zone operator, unless a separate individual or blanket approval has been given.

Application for admission may be made only by the person with the right to make entry. Right to make entry will be determined according to the provisions of Section 484(a) (19USC 1484(a)) Tariff Act, Customs Directive 099 3530-002, and other pertinent Service-wide instructions. However, a Customhouse broker or foreign-trade zone operator may prepare and/or file the application on behalf of the person with the right to make entry, if a proper power of attorney is on file.

The CF214 will be presented to the location designated by the port director within a port of entry. Customs will review the application and supporting documentation for completeness and to determine whether the application may be approved without a physical examination of the merchandise. Customs approves permits of admission for most low-risk shipments without examination.

Customs may examine merchandise to be admitted to a foreign-trade zone to:

- Determine if the goods are admissible to the zone.
- Determine the true liability of the zone operator for merchandise received in a zone under its bond.
- Reduce the need for further examination of the merchandise if it is later transferred to Customs territory, in the same condition, for consumption or warehouse.
- Ensure full compliance with all applicable laws and regulations.

After document review and physical examination, as appropriate under the above provisions, the port director shall issue a permit for the admission of merchandise to a zone.

### **Direct Delivery**

Direct delivery allows for the delivery of merchandise into a zone without prior application and approval on Customs Form 214. The operator, meeting all the requirements outlined below, shall file a written application with the appropriate port director at least 30 days before the special procedure is to become effective. The application will describe the merchandise to be handled or processed and the kind of operation which it will undergo in the zone (19 CFR 146.39).

Criteria to be met for direct delivery approval:

- The merchandise is not restricted or of a type which requires Customs examination or documentation review before or upon its arrival at the zone, (example, quota/visa merchandise).

- The merchandise to be admitted to the zone, and the operations to be conducted in the zone, are known well in advance, are predictable and stable over the long term, and are relatively fixed in variety by the nature of the business conducted at the site.
- The operator is the owner or purchaser of the goods.

**What documents are needed for admission?**

The following documents must accompany the CF 214:

- Commercial Invoice - The applicant shall submit two copies of an examination invoice meeting the requirements of Subpart F, Part 141 CR, for any merchandise, other than domestic status merchandise for which no permit is required, to be admitted into a zone. The notation on the invoice of tariff classification and value required by Section 141.90 CR need not be made, unless the merchandise is to be admitted in privileged foreign status.
- Evidence of Right to Make Entry - The applicant for admission shall submit a document similar to that which would be required as evidence of the right to make entry for merchandise in Customs territory under Section 141.11 or 141.12 CR and CD 099 3530-002.
- Release Order - Customs officers shall not authorize any merchandise for delivery to a zone until a release order has been executed by the carrier which brought the merchandise to the port, unless the merchandise is released back to that same carrier for delivery to the zone.
- Application to Unlade - For merchandise unladen in the zone directly from the importing carrier, the application on Customs Form 214 shall be supported by an application to unlade on Custom Form 3171.
- Other Documentation - The port director may require additional information or documentation as needed to examine the merchandise under Customs selective processing criteria, or to determine whether the merchandise is admissible to the zone. This includes documentation such as export certificates for certain steel products and machine tools under voluntary restraint and information needed for selectivity processing such as importers' and manufacturers' numbers.

**How is merchandise removed from a zone for U.S. consumption?**

Normal entry, classification and appraisal procedures covering foreign merchandise entering the U.S. commerce are used.

**What are the four types of zone status?**

**Privileged Foreign Status (PF):** Prior to any manipulation or manufacturing in the zone that would change the tariff classification, the port director will, if requested by the importer, give imported merchandise privileged foreign status. The merchandise is classified and appraised and duties and taxes are determined, but not collected, as of the

date the application is filed, (First Proviso, Sec.3 (a) FTZA). Under this provision, the importer chooses to have the merchandise classified, for tariff purposes, as what it is at the time privilege is granted, rather than what it becomes at a later date.

**Zone-Restricted Status** is given to merchandise brought into to a zone from the Customs Territory for the purpose of exportation, destruction (except destruction of distilled spirits, wines, and fermented malt liquors) or storage. The merchandise is considered exported and cannot be returned to the Customs territory for consumption unless the Foreign-Trade Zones Board rules specifically that its return is in the public interest. Zone-restricted status merchandise may not be manipulated, manufactured, processed or assembled in a zone.

**Nonprivileged Foreign Status (NPF)** is a residual category for foreign merchandise that does not have privileged or zone-restricted status. Articles in NPF status are classified and appraised in their condition at the time of transfer to the Customs territory and NAFTA countries.

**Domestic Status** is available for merchandise that is:

- Wholly grown, produced or manufactured in the U.S. on which all revenue taxes, if applicable, have been paid.
- Previously imported merchandise on which all duties and internal revenue taxes have been paid.
- Merchandise that was previously admitted into the U.S. free of duty.

**Articles of Mixed Status:** Since manipulation and manufacturing may be permitted in a zone, a shipment of articles transferred to the Customs territory may be made up of merchandise that is privileged and nonprivileged, whether foreign and/or domestic status. The articles are appraised according to that status of the merchandise of which they are composed, or from which derived, as explained above. Privileged Foreign Status merchandise is classified in its condition at the time of that privilege was granted. Privileged Status merchandise has a fixed classification rate previously established at the time of request.

**Where is additional information available?**

The Executive Secretary of the Foreign-Trade Zone Board is located in the U.S. Department of Commerce, Washington, DC 20230, telephone (202) 482-2862. The website address is <[www.ita.doc.gov/import\\_admin/records/ftzpage/ftzhome.html](http://www.ita.doc.gov/import_admin/records/ftzpage/ftzhome.html)>.

For answers to specific questions, contact the U.S. Customs Port Director where the zone is located or the U.S. Customs Service Headquarters, Office of Trade Programs, Washington, DC 20229, telephone (202) 927-0510. Additional information can be found on the U.S. Customs website at <[www.customs.gov](http://www.customs.gov)>.



Report Drug Smuggling to the  
U.S. Customs Service  
1-800-BE ALERT

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