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The U.S. Foreign-Trade Zones Program

Information for CBP



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WHAT IS A FOREIGN-TRADE ZONE?

- Foreign-Trade Zones (FTZs) are locations in U.S. designated by the FTZ Board where merchandise can be imported prior to formal entry and duty payment
- Zone activity cannot occur until a site is designated by the FTZ Board and then “activated” by CBP
- Zone activity remains under the direct supervision of CBP
- FTZs encourage U.S. activity and jobs – in competition with foreign alternatives – by allowing delayed or reduced duty payments on foreign merchandise, as well as other savings



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WHAT ACTIVITY IS PERMITTED IN FTZs?

- In an FTZ, merchandise may be assembled, exhibited, cleaned, manipulated, manufactured, mixed, processed, relabeled, repackaged, repaired, salvaged, sampled, stored, tested, displayed, & destroyed
- “Production” (manufacturing/processing) activity needs specific advance approval by FTZ Board
- Retail trade is prohibited. No one can reside in an active FTZ.
- All other federal, state, and local laws apply
 - FDA, TTB, and EPA all have regulations that apply to FTZs



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FTZ vs BONDED WAREHOUSE

- Both are designated areas that provide duty benefits under CBP supervision
- However, in FTZs:
 - No time limit on goods
 - Domestic and foreign goods can comeingle
 - Wide range of production activity may be authorized



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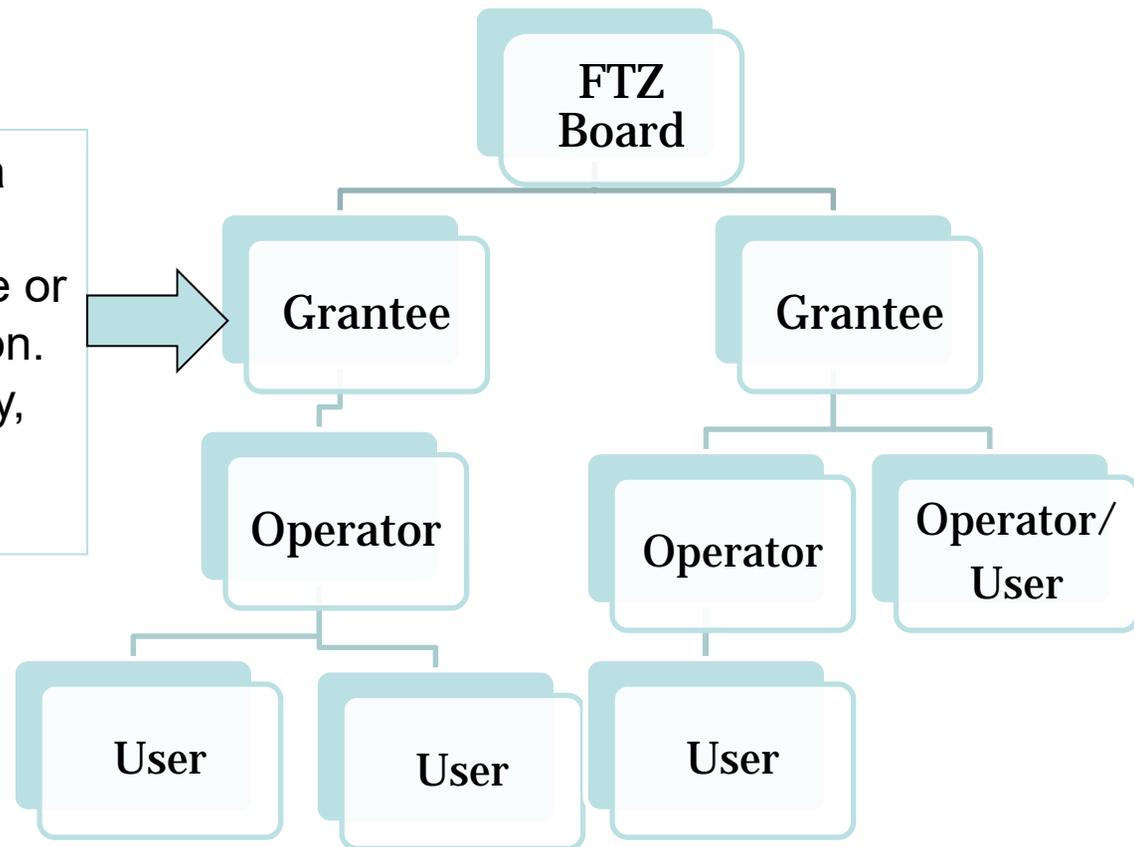
WHO'S WHO IN FTZs

- FTZ Board
 - Commerce (chair) and Treasury departments.
 - FTZ Staff located at Commerce
 - Makes decisions on requests for FTZ sites and activity
- Customs and Border Protection (CBP)
 - Advises the FTZ Board on applications
 - Oversees FTZ activity (incl. making decisions on requests to activate)



WHO'S WHO IN FTZs - Grantee

Grantee – Has received a grant of authority from the FTZ Board to sponsor one or more FTZ sites in its region. Usually a public entity (city, county, port authority...).

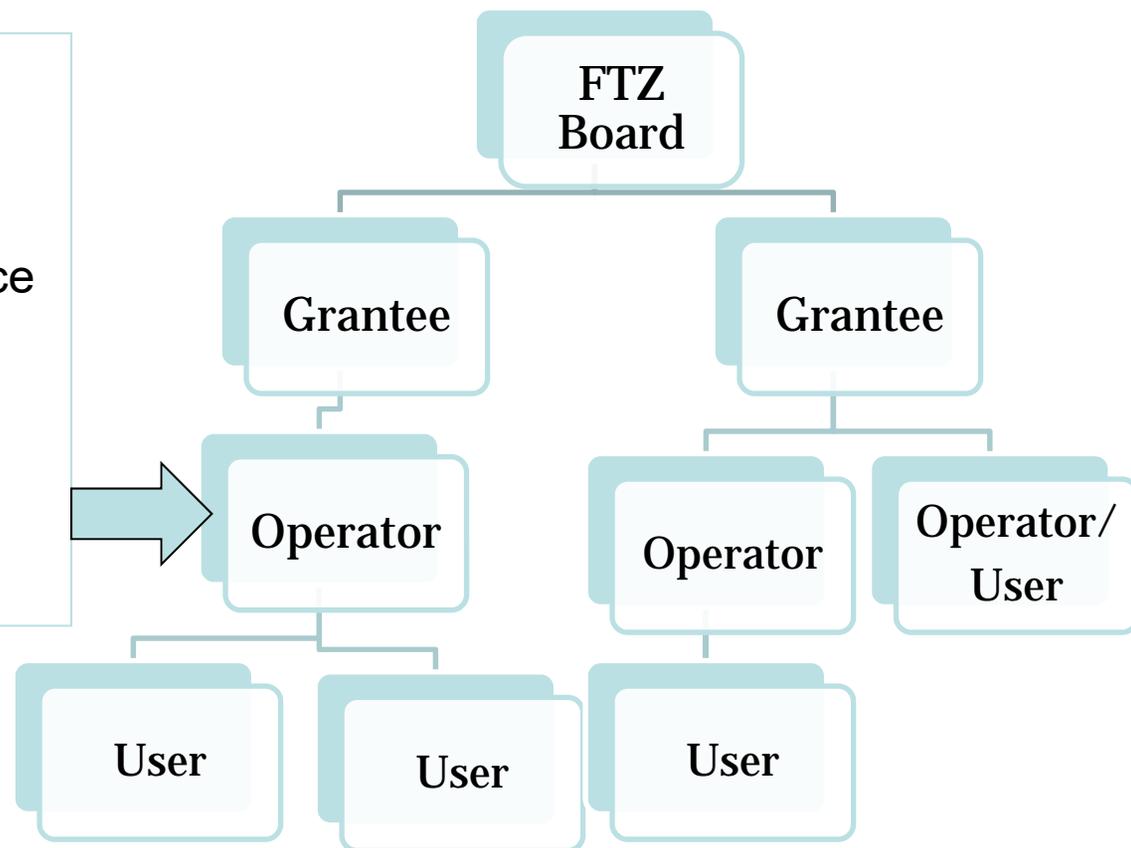




WHO'S WHO IN FTZs - Operator

Operator - A corporation, partnership, or person that operates a zone or subzone under agreement with the grantee, with the concurrence of the Port Director of CBP. The operator has the bond with CBP.

In some zones, the grantee may also be the operator.

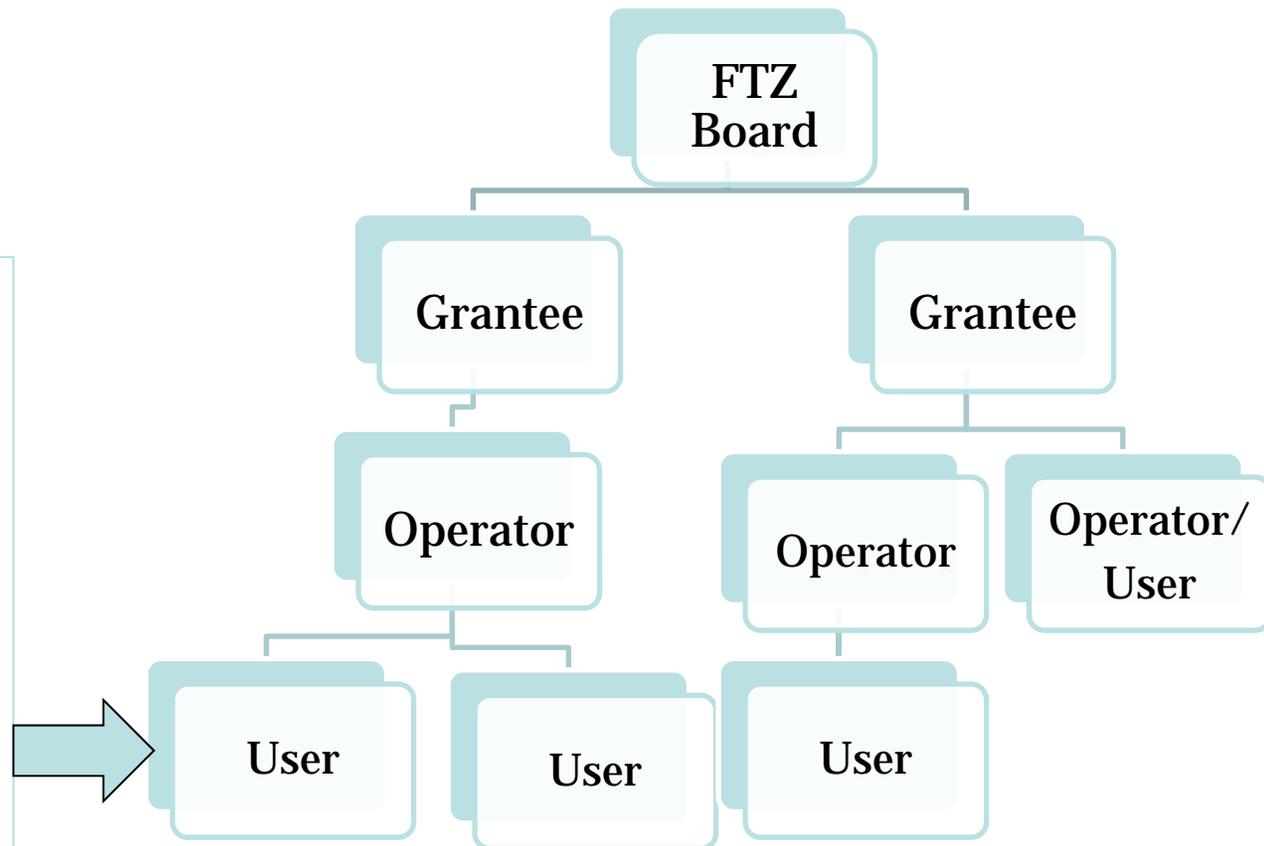




WHO'S WHO IN FTZs - User

User - A party using a zone under agreement with the zone grantee or operator. Users often own the merchandise handled by operators.

A user may also be an operator (*i.e.*, handling its own merchandise).





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POSSIBLE FTZ SAVINGS TO COMPANIES

- **Duty Exemption.** No duties on or quota charges on re-exports because the merchandise is never entered for consumption.
- **Duty Deferral.** Payment of duties and federal excise tax deferred on imports until entry is made.
- **Inverted Tariff.** Where FTZ production (manufacturing/processing) results in a finished product with a lower duty rate than the rate on the foreign component(s), the finished product may be entered at the duty rate that applies to its condition as it leaves the zone. (Reminder: Any such production activity requires advance approval by the FTZ Board.)



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POSSIBLE FTZ SAVINGS TO COMPANIES

- **Logistical Benefits.** Companies using FTZ procedures may have access to streamlined customs procedures (e.g., "weekly entry" or "direct delivery").
- **Scrap/Waste.** Duty may be reduced on foreign articles that become scrap/waste through FTZ activity.
- **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 other state/local benefits.



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TWO “FRAMEWORKS” FOR GRANTEES’ MANAGEMENT OF THEIR ZONE SITES

- Traditional Site Framework: Default approach that has existed – with evolutions in FTZ Board practice – since beginning of FTZ program in 1934.
- Alternative Site Framework: Option that grantee can request for shift (“reorganization”) in management of existing zone or establishment of new zone. Adopted as part of FTZ Board practice in 2008, incorporated into the Board’s regulations in 2012.



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TRADITIONAL SITE FRAMEWORK (TSF)

- Expansions/reorganizations must be approved by the FTZ Board (lengthy process)
- Minor boundary modifications (MBMs) – to meet certain time-sensitive needs – involve swapping acreage from an existing site to create a new one
- Problems:
 - Inflexible for companies. Many situations will not qualify for MBM
 - Can encourage grantees to establish sites speculatively that may never get used (but that CBP has agreed to oversee)
 - Recordkeeping difficult due to swapping of acreage



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ALTERNATIVE SITE FRAMEWORK (ASF)

- Developed to address problems with TSF
- Grantee gets FTZ Board approval to reframe zone to serve broader “service area”
- Simplified MBMs can then be used – with CBP concurrence followed by approval of FTZ Board staff – to designate sites for individual companies’ needs within the approved service area
- Essentially all sites get “sunset” limits that remove designation if unused in 3 to 5 years
- No swapping needed for minor boundary modifications
- Zone will be subject to 2,000-acre activation limit



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ALTERNATIVE SITE FRAMEWORK – KEY TERMS

- Service Area – is the geographic area where grantee wants to be able to propose usage-driven sites/subzones
 - Most commonly will be specific counties
 - The **entire** Service Area must meet the FTZ “adjacency” requirement – that is, be within 60 miles/90 minutes’ driving time of CBP port of entry limits
 - In a few parts of the country, closely clustered CBP Ports of Entry may lead to grantees proposing partially overlapping Service Areas. CBP would need to consider whether the overlap would cause problems for CBP’s oversight of the zones.



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ALTERNATIVE SITE FRAMEWORK – KEY TERMS

- Magnet Site – selected by grantee based on ability to attract multiple potential FTZ operators/users.
 - Designated only via action by full FTZ Board after lengthy process (incl. public comment period)
 - Akin to traditional FTZ site (industrial park, port facility, etc.) designated in advance – essentially speculatively – to attempt to draw FTZ operators/users
 - Generally subject to a five-year sunset provision



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ALTERNATIVE SITE FRAMEWORK – KEY TERMS

- Usage-Driven Site/Subzone – designated for a company ready to pursue conducting FTZ activity
 - Can be designated by FTZ Board staff via quick, simple MBM process (with no swapping of acreage required)
 - Designation tied to the specific company and limited to the space needed by the company
 - If company vacates its designated Usage-Driven/Subzone site, the FTZ designation terminates
 - Subject to a three-year sunset provision



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WHERE CAN ZONES BE LOCATED

- **TSF and ASF sites (incl. Magnet and Usage-Driven/Subzone under ASF)**
 - Must be located either within or “adjacent” to CBP port – meaning within 60 statute miles or 90 minutes’ driving time from the outer limits of a port of entry (15 CFR 400.11(b)(2))
- **Other Subzones**
 - May be located beyond 60 miles/90 minutes driving time if CBP can adequately oversee the activity (including through electronic supervision)



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FINDING ZONE SITE INFORMATION

- To confirm that a zone site exists and can be activated, use FTZ Board's online tool – Online FTZ Information System (OFIS)
- On the FTZ staff's main page - www.trade.gov/ftz - click on the OFIS link under the FTZ Board seal
- From the menu on the left select "Zone and Site Information"
- Choose the zone, and click "open"
- At the bottom of the screen will be a list of sites, you can click "open" next to any of the sites for additional information and a map of that site



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ZONE SITE INFORMATION

- The zone structure in ACE is not yet complete
- Until the system is complete, the FTZ staff can only add site information into ACE if the site is part of a subzone
- Once complete, the FTZ staff will add zone site information to ACE
- Currently: to activate an operator within a magnet or usage-driven site, CBP must enter zone site information as well as operator information



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INFORMATION AVAILABLE IN ACE

- General zone info (approval date, grantee information)
- FTZ Board decisions and *Federal Register* notices since 1980
- Any restrictions or manufacturing approvals for each zone will be listed in the “Remarks” field
- Recent application records also include a copy of the application and examiner’s report
- Subzone Information:
 - FTZ Board decisions and *Federal Register* notices since 1980 (including applications and examiner’s reports for recent actions)
 - Restrictions will be listed in the “Remarks” field
 - Site Information



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APPLICATION TYPES

- Minor Boundary Modifications (for action by FTZ Board staff)
 - Applicable to TSF or ASF. Under the ASF, this includes usage-driven sites and subzones within the approved service area
 - Time frame for FTZ Board staff review -- 30 days
 - Company or grantee will request comments from CBP to include as part of the application
 - CBP comments should indicate whether the port will be able to adequately oversee the proposal and if there are any other concerns



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APPLICATION TYPES

- Zone Expansions or Reorganizations (TSF or ASF)
 - Time frame for FTZ Board review – 7.5 - 10 months
 - FTZ Board staff will send a letter to CBP requesting comments after the application has been formally docketed
 - CBP comments should indicate whether any proposed sites and the entirety of any proposed service area meet the adjacency requirement and if there are any other issues/concerns



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APPLICATION TYPES

- Subzone Applications (non-ASF)
 - Time frame for FTZ Board review – 3 or 5 months
 - FTZ Board staff will send a letter to CBP requesting comments after the application has been formally docketed
 - CBP comments should indicate whether the proposed subzone site(s) meet the adjacency requirement and if there are any other issues/concerns



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APPLICATION TYPES

- New Zone Applications (new grantees)
 - Applicant can choose either TSF or ASF
 - Time frame for FTZ Board review –10 months
 - FTZ Board staff will send a letter to CBP requesting comments after the application has been formally docketed
 - CBP comments should indicate whether any proposed sites and the entirety of any proposed service area meet the adjacency requirement and if there are any other issues/concerns



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APPLICATION TYPES

- Production Notifications
 - 120-day FTZ Board process
 - FTZ staff will send a letter to CBP requesting comments after the application has been formally docketed
 - CBP comments should address whether the port has any issues or concerns with the proposed activity



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APPLICATION TYPES

- Interim Production Authority (while applicant awaits FTZ Board decision on Production Notification at end of standard 120-day process)
 - Can be approved by FTZ Board's Executive Secretary to cover period until FTZ Board action on production notification
 - To seek interim authority, company must be in a position to use the authority (incl. activate site(s)) before the end of the standard 120-day decision process for notifications. Company would request comments from CBP. Such comments should cover:
 - Is the company already activated or on track to activate sooner than the 120-day notification period?
 - Does CBP have any concerns regarding the activity?



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APPLICATION TYPES

- Production Applications
 - 12 month FTZ Board process
 - A company may submit a production application if FTZ Board did not approve all of company's requested production authority through the notification process
 - FTZ Board staff will send a letter to CBP requesting comments after the application has been formally docketed
 - CBP comments should address whether the port has any issues or concerns with the proposed activity



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WHERE TO FIND APPLICATION DOCUMENTS

- To find a copy of the application and (where applicable) *Federal Register* notice:
 - Log in to ACE
 - Click on “Accounts”, then choose “FTZ Operator” and click “GO” then click “Records” and select the zone number at the bottom of the screen.
 - Click on the “Documents” tab to find the docket information



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CBP INPUT (COMMENTS) ON APPLICATIONS

- Reflecting the time-sensitive nature of MBMs and requests for interim production authority (while FTZ Board conducts 120-day process to make decision on production notification), the grantee or operator will contact the CBP port directly to request comments/concurrence for MBMs and interim production requests.
- For all other application types – incl. non-ASF subzones, expansions, reorganizations and production notifications – after the FTZ Board has started processing the application, the Board staff will contact the CBP port to request comments/concurrence.



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DURING AND AFTER APPLICATION PROCESS

- Company's pre-activation process with CBP can run concurrent with the FTZ Board/staff reviewing the company's application for FTZ site(s) and/or production authority.
- Once the FTZ Board has made a decision on an application, the CBP Port that submitted comments will be notified.



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COMMON RESTRICTIONS ON FTZ APPROVALS

- Approval of an application may be subject to restrictions
- Common restrictions include:
 - 2,000-acre activation limit
 - Expiration dates or sunset limits on sites
 - For production activity, approval for export only or requirement that certain merchandise be placed in Privileged Foreign (PF) status
- Note: All merchandise subject to AD/CVD orders must be admitted in PF status (15 CFR 400.14(e)(2))



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COMMON RESTRICTIONS ON FTZ APPROVALS

- TSF - Sites may be subject to sunset limits that are dependent on activation/use of the site within a certain time frame
 - In some cases, sites may have expiration dates - absolute time limits regardless of zone activity
- ASF - Sunset Limits are dependent on activation/use of the site within a certain time frame
 - Each site (with possible exception of 1 magnet site) approved under ASF usually has a 3 or 5 year sunset limit
 - ASF magnet sites will maintain FTZ designation if activated within the sunset period
 - ASF usage-driven sites/subzones must not only be activated but also receive foreign-status merchandise during the sunset period



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FTZ PRODUCTION ACTIVITY

- Prior approval by the FTZ Board needed for any activity that changes the 6-digit HTSUS classification or changes the eligibility of an article for entry into the U.S.
 - Includes kitting (examples: imported glassware and a bottle of liquor placed in a box and entered as a gift set ; an imported battery combined with a cell phone into a retail package)
- Approval is limited to the specific foreign-status components and finished products approved by the FTZ Board
- Use of new imported components or production of new finished products would require additional approval from the FTZ Board



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REFERENCE

- FTZ Act of 1934 -- 19 USC 81a-81u
- FTZ Board's Regs 15 CFR 400
 - Revised in 2012
 - Include criteria for establishing FTZ authority
- CBP FTZ Regs 19 CFR 146
 - Describe CBP day to day oversight
- FTZ Manual for CBP
 - Includes information, procedures and processes related to FTZ activity



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ACE AND ACTIVATIONS

- Tips:
 - **Zone Site #** = Assigned by FTZ Board (check with FTZ staff or website to confirm)
 - **Site #** = alphanumeric code (A1, B1, Z6...) CBP chooses to distinguish between operators within a zone site