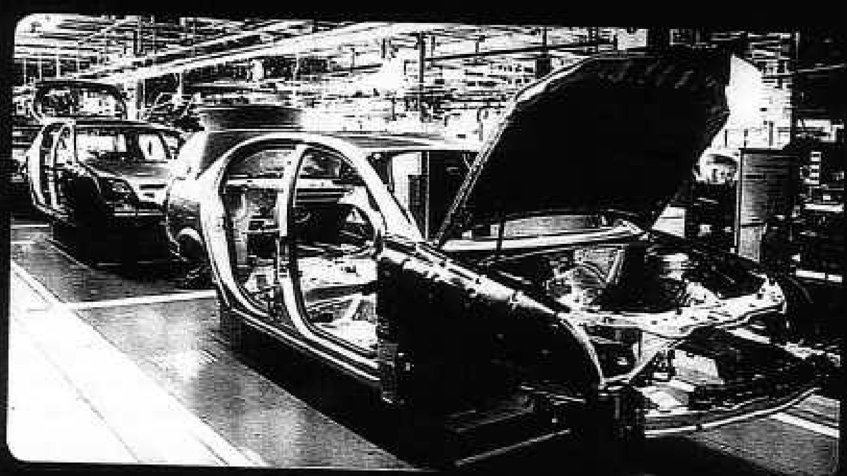
The U.S. Foreign-Trade Zones Program — Promoting Trade, Job Creation & Economic Development

NAFTZ

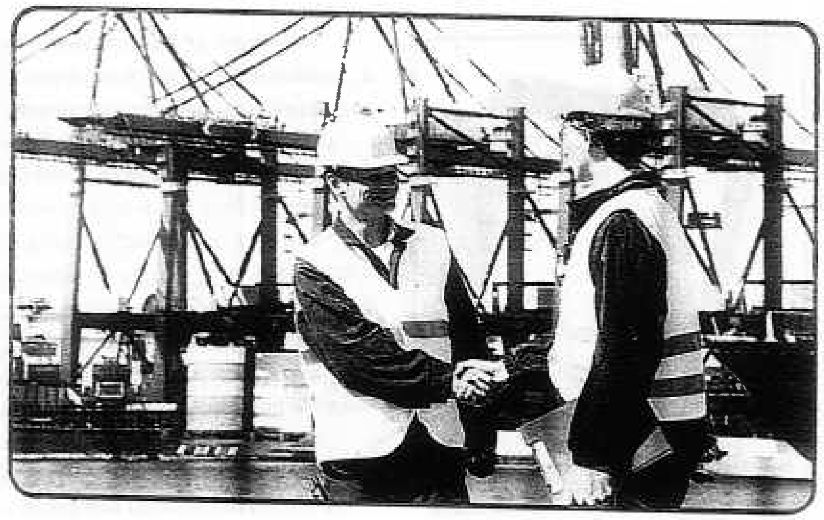
Partnership. Pride. Prosperity.



The U.S. Foreign-Trade Zones Program — Promoting Trade, Job Creation & Economic Development

Table of Contents

Executive Summary	2
What is a Foreign-Trade Zone?	4
Types of Foreign-Trade Zones	6
Benefits of the U.S. Foreign-Trade Zone Program	7
Zone Activity in the United States	12
Foreign-Trade Zone Activation and Application Procedures	14
Legislative and Regulatory Highlights	16

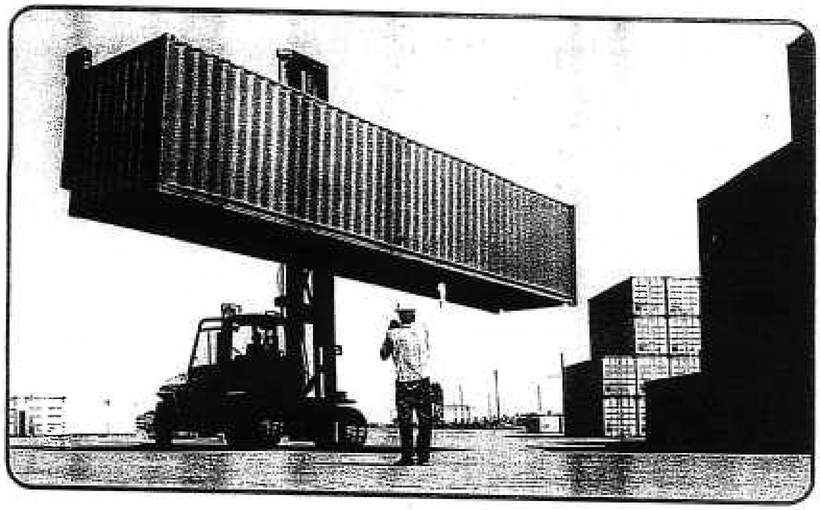


EXECUTIVE SUMMARY

For more than 75 years, the Foreign-Trade Zones (FTZ) program has been instrumental in promoting international trade, economic development, and job creation in the United States. Authorized by the Foreign-Trade Zones Act of 1934, the FTZ program expedites and encourages foreign commerce by lowering the costs of U.S.-based operations engaged in international trade.

- **Today, foreign-trade zones are a major economic engine in the United States, accounting for a growing share of U.S. trade.** There are more than 250 FTZs spread throughout all 50 states, with 2,800 firms participating in the program. The largest users of the program manufacture and process goods, and include companies in the automotive, oil refining, pharmaceutical, and heavy equipment sectors.

- **By helping these U.S.-based companies to stay competitive in the global marketplace, the FTZ program fuels U.S. exports and employment growth.** Exports from foreign-trade zones have reached record highs in recent years, and have grown at a faster rate than total U.S. goods exports, contributing to such goals as the National Export Initiative. Foreign-trade zone operations have proven to be a reliable source of employment, providing jobs for more than 300,000 Americans in recent years.



- **Regulatory changes implemented in 2012 have streamlined the application process, making zones more accessible for small and medium-sized businesses.** For participating FTZ projects, the new Alternative Site Framework (ASF) enables zone Grantees to deliver FTZ status directly to local companies within 30 days. This modernization of the program has been enhanced by advancing automation of FTZ filings and the availability of sophisticated software for inventory and record keeping, opening the program to an ever wider range of companies.

- **In addition to these valuable contributions to our nation's economic objectives, the Foreign-Trade Zones program enhances our national security.** Firms located in FTZs develop strong relationships with local U.S. Customs and Border Protection (CBP) officials, and adhere to strict security and information reporting requirements. Acknowledging the heightened level of security present in FTZ operations, CBP's Customs-Trade Partnership Against Terrorism (C-TPAT) program recently recognized the use of foreign-trade zones as a "C-TPAT best practice."

These benefits, along with information about the structure and scope of the FTZ program, are explained in detail in this brochure. For decades, U.S. foreign-trade zones have been an effective, flexible tool for promoting growth in an increasingly global economy. At the National Association of Foreign-Trade Zones, we look forward to continuing to support this successful program in the future.

What is a Foreign-Trade Zone?

Foreign-trade zones (FTZs) are designated areas within the United States which, for the purposes of tariff laws and Customs entry procedures, are treated as though they are outside of U.S. Customs territory.

Foreign and domestic merchandise may be admitted into foreign-trade zones for storage, exhibition, assembly, manufacture, production, and processing, without formal Customs entry procedures, the payment of Customs duties, or the payment of federal excise taxes. These benefits help stimulate U.S. employment, attract foreign investment, and improve the export competitiveness of U.S.-based companies.

FTZs help the U.S. economy by allowing companies to source component products from around the world at competitive prices, while keeping important value-added activities such as manufacturing within the United States. For example, when a manufacturer wishes to remove a finished product from an FTZ for U.S. consumption, they may elect to pay Customs duties at either the rate of the finished product or that of its foreign components. This option allows U.S. based firms to select the lower of the two duty rates, placing them on equal footing with their foreign competitors.

Zones also increase the export competitiveness of U.S.-based producers. When merchandise is removed from a foreign-trade zone, Customs duties can be eliminated if the goods are then exported from the United States. This benefit helps U.S. firms compete in export markets.

If merchandise is removed from a zone and formally entered into U.S. commerce, Customs duties and excise taxes are not due until the time of transfer from the foreign-trade zone. This delay allows firms to realize cash flow savings while goods are being processed in the zone. For a full list detailing all of the benefits of FTZs, see page 7.

Designation as a foreign-trade zone is granted by the Foreign-Trade Zones Board, which is an independent agency housed within the U.S. Department of Commerce. The Board consists of the Secretary of Commerce and the Secretary of the Treasury. An Executive Secretary administers the day-to-day activities of the Board and supervises the FTZ Board staff. Grants of Authority are given by the FTZ Board to state and local government agencies or non-profit corporations, known as Grantees, which are then empowered to establish and maintain zone projects in their communities as a public utility.

The other important federal agency involved in the FTZ program is U.S. Customs and Border Protection (CBP). U.S. Customs and Border Protection is responsible for the control of merchandise moving into and out of FTZs, and ensures that all revenues are collected properly. In addition, CBP is charged with ensuring that all zone procedures are in compliance with the Foreign-Trade Zones Act, and that all CBP and other federal agency laws and regulations pertaining to zone use are followed. The CBP Port Director where the FTZ is located is the local representative of the Foreign-Trade Zones Board.

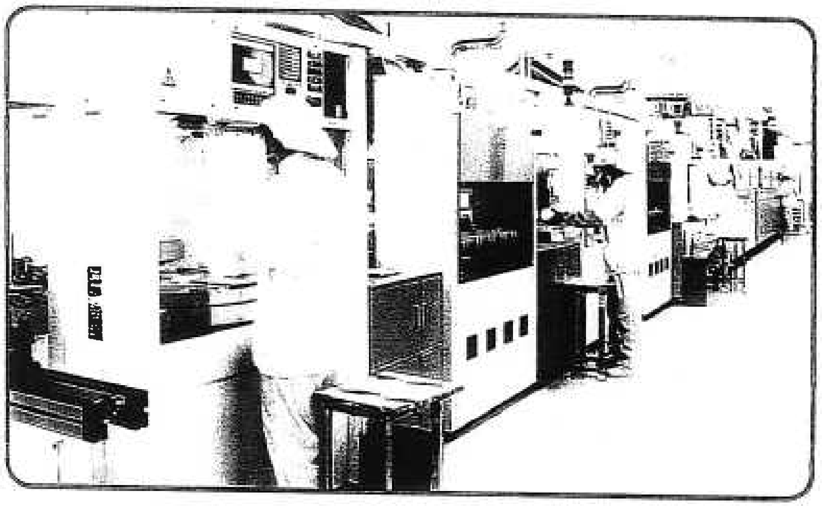
Types of Foreign-Trade Zones

Foreign-trade zones must be organized under one of two separate frameworks, known as the Traditional Site Framework (TSF) and the Alternative Site Framework (ASF). Both frameworks provide flexibility for companies of all sizes to access the benefits of operating in an FTZ. Depending on the unique characteristics of a particular region, either the TSF or the ASF may be more appropriate. While activities including storage, inspection and distribution are permitted at all FTZs, other activities including processing or production require special permission from the Foreign-Trade Zones Board.

Within a foreign-trade zone, companies engage in either warehouse/distribution operations or manufacturing/production operations. Warehouse/distribution activities typically take place in a **General-Purpose Zone (GPZ)**. By definition, a GPZ must be available to more than one company. Federal regulations require that GPZs must be located within 60 statute miles or 90 minutes driving time from the outer limits of a CBP port of entry. Due to the need to accommodate multiple users, common locations for GPZ sites include industrial parks, public warehouses, or sea and air port facilities. In the Alternative Site Framework, multi-user locations are referred to as **Magnet Sites**, and can be located within a multi-county service area.

Manufacturing/production operations typically take place in single user sites not geographically connected to a GPZ or magnet site. In the Traditional Site Framework, these locations are referred to as **Subzones** and in the Alternative Site Framework as **Usage-Driven Sites**. While GPZs are well-utilized by a variety of firms, the large majority of FTZ activity (more than 80 percent) occurs in subzones or usage-driven sites. If a firm wants foreign-trade zone status for its own existing plant or facility, and the existing general-purpose zone cannot accommodate the firm's proposed activity, the subzone designation may be granted. Subzone status is "delivered" to the user's existing site, as opposed to having to relocate to a general-purpose zone site.

The expedited approval time and streamlined application process required to obtain a usage-driven site help to make FTZ status more accessible, especially for small and medium-sized businesses. Applications for a usage-driven site containing production activity can typically be approved within four months.



Benefits of the U.S. Foreign-Trade Zones Program

For U.S.-based companies involved in international trade, the FTZ program provides a means of improving their competitive position vis-à-vis their competitors abroad. The fundamental benefit offered by the FTZ program is the ability to defer, reduce or even eliminate Customs duties on products admitted to the zone.

Benefits for Businesses

Deferral of Duties

Customs duties are paid only when and if merchandise is transferred into U.S. Customs territory. This benefit equates to a cash flow savings that allows companies to keep critical funds accessible for their operating needs while the merchandise remains in the zone. Unlike bonded warehouses, there is no limit on the length of time that merchandise can remain in a zone.

Reduction of Duties

In a foreign-trade zone, with the permission of the Foreign-Trade Zones Board, users are allowed to elect a zone status on merchandise admitted to the zone. This zone status determines the duty rate that will be applied to foreign merchandise when it is eventually entered into U.S. commerce from the FTZ. This process allows users to elect the lower duty rate applicable to either the foreign inputs or the finished product manufactured in the FTZ. If the rate on the foreign inputs admitted to the zone is higher than the rate applied to the finished product, the FTZ user may elect the finished product rate, thereby reducing the amount of Customs duties that would be owed.

Elimination of Duties

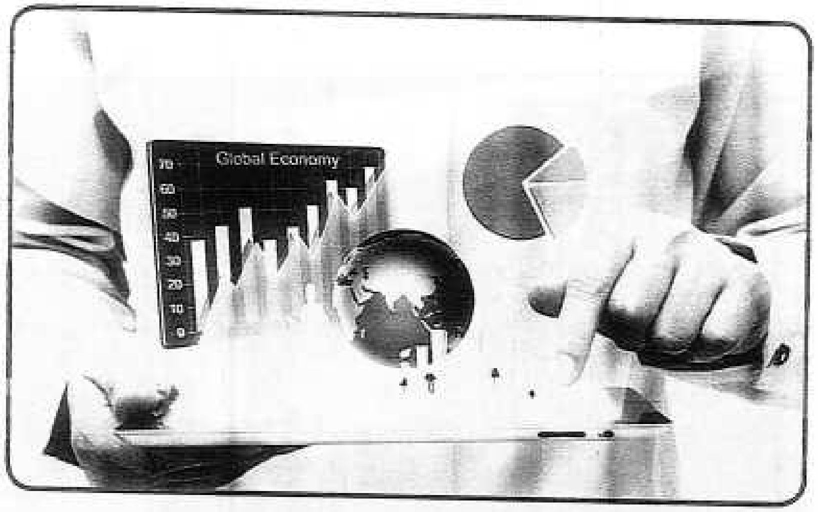
No Customs duties are paid on merchandise exported from an FTZ. Therefore, duties are eliminated on foreign merchandise admitted to but eventually exported from an FTZ. Generally, Customs duties are also eliminated for merchandise that is scrapped, wasted, destroyed or consumed in a zone.

Elimination of Duty Drawback

In some instances, Customs duties previously paid on exported merchandise may be refunded through a process called duty drawback. The drawback law is increasingly complex and expensive to administer. Through the use of an FTZ, the need for drawback may be eliminated, allowing these funds to remain with the company as operating capital. In certain cases, a zone operator may continue to file drawback on goods manufactured or processed within an FTZ and subsequently entered into the Customs territory prior to exportation.

Weekly Entry

Foreign-trade zone users are required to file only one Customs entry per week regardless of the number of shipments received, rather than filing one for each shipment as is normally required by federal law. This can translate into significant savings for companies receiving multiple shipments per week. Companies outside of foreign-trade zones that receive multiple shipments per week must pay the Merchandise Processing Fee (MPF) upon each entry, which can range from $25 to $485 per entry depending on the value of the shipment. Foreign-trade zone users are only required to pay the Merchandise Processing Fee once per week, regardless of how many shipments are received.



Labor, Overhead and Profit

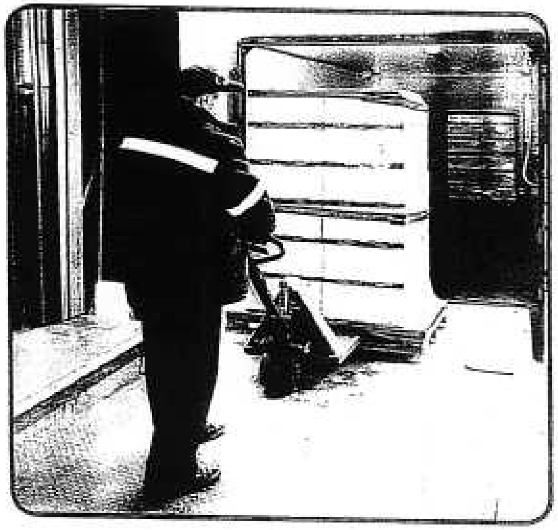
In calculating the dutiable value on foreign merchandise removed from a zone, zone users are authorized to exclude costs of processing or fabrication, general expenses, and profit. Therefore, Customs duties are not owed on labor, overhead, and profit attributed to production in an FTZ.

Taxes

Since goods in a zone are considered to be in international commerce, tangible personal property imported from outside the United States and held in a zone, as well as that produced in the United States and held in a zone for exportation, is not subject to state and local ad valorem taxes.

Quotas/Safeguards

U.S. quota/safeguard restrictions do not apply to merchandise admitted to zones, though quotas/safeguards will apply if and when the merchandise is subsequently entered into U.S. commerce. Quota/safeguard merchandise may be stored in an FTZ so that when the quota opens, the merchandise may be immediately shipped into U.S. Customs territory.



Zone-to-Zone Transfers

An increasing number of firms are making use of the ability to transfer merchandise from one zone to another. Because the merchandise is transported in-bond, Customs duties may be deferred until the product is removed from the final zone for entry into U.S. Customs territory.

Other Benefits

Additional benefits, sometimes referred to as intangible benefits, have begun to play a greater role in a company's evaluation of the FTZ program. Many companies in FTZs find that their inventory control systems run more efficiently, increasing their competitiveness. Foreign-trade zone users also find that in meeting their FTZ reporting responsibilities to the U.S. government, they are eligible to take advantage of special Customs procedures such as the automated zone admission process (e-214), direct delivery, and weekly entries, which facilitate the timely and predictable movement of cargo in and out of the country and improve competitiveness.

Benefits for Communities

When firms are provided with the opportunity to increase cash flow, save on tax payments, and improve their bottom lines by locating their operations in U.S. foreign-trade zones, communities benefit in several important ways. Economic growth and development are stimulated as a result of the jobs that are retained and created in the community.

The FTZ program impacts indirect employment as well. Increased employment activity in foreign-trade zones creates opportunities for other suppliers and service providers in the community, resulting in spillover benefits. The Alternative Site Framework, detailed on page 6 of this brochure, has also made the program more accessible for firms of all types, especially small and medium sized enterprises. As a result, an FTZ project can be a valuable asset when a community is trying to attract new business investment.

Finally, a community with an FTZ may experience an improved infrastructure and expanded tax-base as a result of higher employment and the influx of new businesses. For all of these reasons, more than 250 communities throughout the United States support and rely on the benefits that the FTZ program offers public as well as private entities.

Zone Activity in the United States

FTZ Activity Promotes U.S. Economic Growth

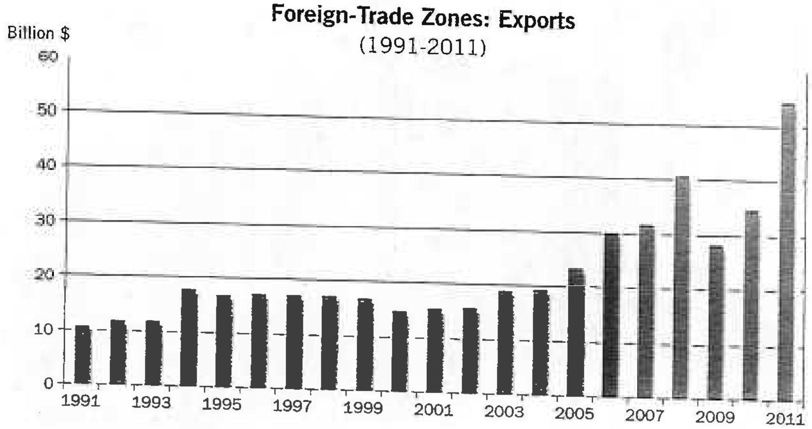
Foreign-trade zones play a growing role in promoting U.S. economic activity and exports in a range of important industrial sectors. Recent annual reports from the Foreign-Trade Zones Board highlight that the program is now used by nearly 3,000 U.S.-based companies employing more than 300,000 U.S. workers.

The major industries utilizing FTZs for manufacturing and production activities include the oil refining, automotive, electronics, pharmaceutical, and machinery/equipment sectors. The FTZ environment allows manufacturers to source components and materials at globally competitive prices, enabling their U.S.-based operations to remain competitive in global markets.

The program also attracts large, name-brand retailers who are using zones to manage inventory and enhance cash flow to more efficiently deliver clothing, footwear, and household goods to American families while retaining warehouse and distribution employment in the United States.

U.S. foreign-trade zones create a more competitive platform for U.S. exports. In recent years, exports from FTZ companies have reached record levels, with annual growth rates exceeding that of overall U.S. exports. Companies operating in FTZs are making an out-sized contribution to realizing the National Export Initiative goal of doubling U.S. exports in the five years through 2014.

Foreign-Trade Zones: Exports
(1991-2011)



Merchandise received by FTZ users has also been growing as a share of overall U.S. economic activity, reflecting increased U.S. integration in the global economy. More than 40 percent of merchandise admitted to foreign-trade zones is now sourced from abroad, led by petroleum and crude oil, motor vehicles and vehicle parts, machinery and equipment, consumer electronics, pharmaceutical ingredients, and textiles and footwear. FTZ-based companies and their workers combine many of those inputs with the majority of merchandise sourced domestically to produce a range of high-value-added final products for sale in domestic and world markets.

The Top 15 Foreign-Status Inputs Used in FTZs, 2011

Ranking	Inputs
1	Oil/Petroleum
2	Vehicle Parts
3	Vehicles
4	Machinery/Equipment
5	Pharmaceuticals
6	Consumer Products
7	Other Electronics
8	Textiles/Footwear
9	Petrochemicals
10	Other Metals/Minerals
11	Ships/Boats
12	Electrical Machinery
13	Plastic/Rubber
14	Chemicals
15	Beverage/Spirits

Source: 73rd Annual Report of the Foreign-Trade Zones Board to Congress

Since the first FTZ was established in New York City in 1937, the number of active FTZs has multiplied to more than 170 operating across the 50 states and Puerto Rico. Those zones include more than 250 active manufacturing/production operations, which encompass subzones as well as usage-driven sites under the Alternative Site Framework (see map on page 14).

Foreign-Trade Zones in the United States

FOREIGN-TRADE ZONE APPLICATION & ACTIVATION PROCEDURES

Establishing & Operating in a Foreign-Trade Zone

Setting up and operating in a foreign-trade zone has become more user-friendly than ever under recent regulatory changes. The revised FTZ Board Regulations (15 CFR Part 400) implemented in April 2012 reduce the amount of paperwork and application times needed to authorize a Grantee to launch a new foreign-trade zone project. The same regulations have also reduced the reporting requirements and time for a company to receive permission to use a foreign-trade zone.

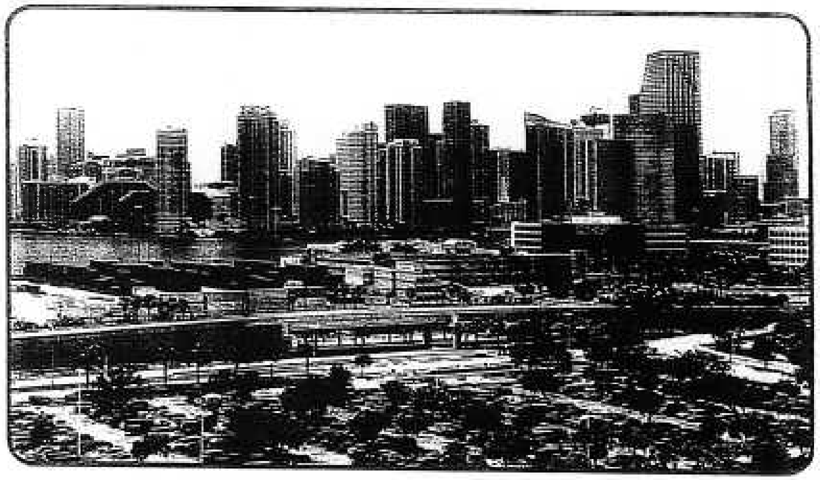
Complementing the more streamlined regulatory environment for FTZ users has been the expanded implementation of the Alternative Site Framework (ASF), detailed earlier.

ASF and the new regulations together have dramatically reduced the timing and cost constraints that conspired in the past to make it unwieldy for small and medium-sized companies to enter the program. The new regulations have opened up the application process significantly by offering companies a more streamlined site designation process under the ASF structure.

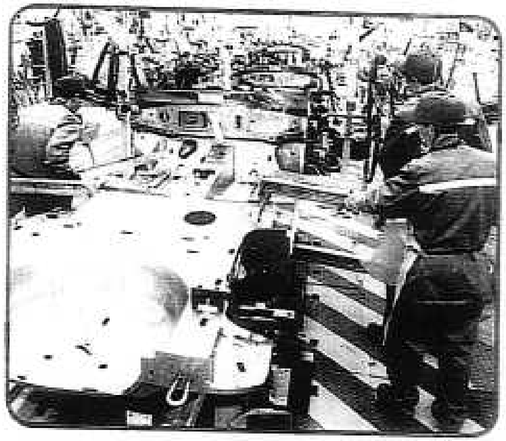
A company seeking to establish and activate a site under an existing FTZ can submit a request and receive approval in as little as 30 days. If the company then requires approval of its operation under a Production Authority request, they will complete the streamlined application and can receive approval within 120 Days. For certain "trade-sensitive" Production Authority applications, there are additional considerations. For those applications, the process requires more information and a much longer approval time. However, these types of applications are rare and usually known in advance by the applicant.

After a foreign-trade zone has been approved but before operations may begin, the zone must undergo a second process called activation. Activation takes place locally under the supervision of the Customs Port Director, U.S. Customs and Border Protection, and involves a review of zone procedures, inventory control and record-keeping systems, and site security. Once the FTZ is activated, users may begin admitting merchandise under zone status.

A growing number of companies are seeking information from local communities and zone administrators regarding the newer and faster approval process available from the FTZ Board. Many local administrators for the zones, known as Grantees, are restructuring their zone programs to the faster ASF model. Grantees often implement educational and marketing efforts to inform the business community about the ASF and other changes within the zone program.



Legislative & Regulatory Highlights



In 1934, the U.S. Congress passed the Foreign-Trade Zones Act "to expedite and encourage foreign commerce." The intent of the Act was to stimulate international trade and create jobs and investment in the United States. The Act sets out the rules for the authorization of zones and the regulation of activities in FTZs. When the Act was originally passed, FTZs were envisioned as centers for storage and distribution. Since 1934, Congress has passed several amendments to the legislation to enhance the utility of the Foreign-Trade Zones program. In addition, several regulatory developments led to the evolution of the FTZ program.

These legislative and regulatory highlights include the following:

1950 — An amendment to the Foreign-Trade Zones Act allowed manufacturing and exhibition.

1980 — An amendment to the U.S. Customs Service Regulations excluded processing costs including labor, overhead and profit occurring in FTZs from valuation for purposes of calculating Customs duties.

1988 — An amendment to the Foreign-Trade Zones Act acknowledged "producibility" as an acceptable Customs accounting method for the petroleum refining industry.

1995 — Finalization of the Customs FTZ Oil Refinery Regulations standardizing the treatment of petroleum refining in foreign-trade zones.

1996 — H.R. 3815 clarifying that the merchandise processing fee (MPF) is to be assessed only against foreign status merchandise entered into U.S. Customs territory from a foreign-trade zone.

1996 — H.R. 3815 allowing for the deferral of duty on foreign production equipment admitted to the zone until such equipment is completely assembled, installed, tested, and turned on for use in full-scale production.

2000 — Trade and Development Act of 2000 providing for the weekly entry of merchandise for all types of foreign-trade zones.

2005 — CBP launches the e-214 automated admission pilot program providing a means to completely automate the FTZ admission process for cargo destined for a participating FTZ operator or zone user site. This process includes the bonded movement of imported cargo from the first port of entry directly from admission to zones located anywhere within the United States and Puerto Rico.

2009 — The Alternative Site Framework (ASF) is introduced to streamline the application process and reduce application processing time for potential zone users

2012 — The Foreign-Trade Zones Board publishes a sweeping revision of the FTZ Board regulations, significantly reducing application times. The Board also implements the Online FTZ Information System (OFIS) to allow the electronic filing of reports on zone activity.

More Information about the U.S. Foreign-Trade Zones Program Is Available at the Following Websites:

National Association of Foreign-Trade Zones
www.naftz.org

Foreign-Trade Zones Board
http://ia.ita.doc.gov/ftzpage/

U.S. Customs and Border Protection
http://www.cbp.gov/xp/cgov/trade/cargo_security/cargo_control/ftz/about_ftz.xml

Want to Learn More?

Contact the Central Maine Growth Council

Tel: (207) 680-7300

50 Elm Street, Waterville, ME 04901

Email: director@centralmaine.org

CentralMaine.org

Sign Up for our Monthly Newsletter! Use this QR Code with your smart phone.