



## **FOREIGN – TRADE ZONES**

Foreign-Trade Zone status is available in the Cincinnati USA region providing businesses with opportunities to reduce their international business costs through duty, tax and a variety of operational savings.

The Cincinnati USA Regional Chamber serves as the Grantee for the FTZ program in this region with FTZ No. 46 in Southwestern Ohio and FTZ No. 47 in Northern Kentucky.

### **FTZ No. 46 – Southwestern, Ohio**

FTZ designated properties for development include:

|  |           |
|--|-----------|
| Hamilton County/Harrison Commerce Center | 160 acres |
| Brown County/Mt. Orab                    | 490 acres |
| Clermont County/Afton                    | 600 acres |

### **FTZ No. 47 – Northern, Kentucky**

FTZ designated property for development as well as warehouse space for lease/sale:

|                                      |           |
|--------------------------------------|-----------|
| Boone County/Park West International | 190 acres |
|--------------------------------------|-----------|

### **Current users of the FTZ Program in Cincinnati USA include:**

Ashland Marathon Petroleum Inc.  
Avon Products Inc.  
Cincinnati Machine/UNOVA  
General Electric Aircraft Engines  
Honda of America Manufacturing Inc.  
Milacron Inc.  
ZF Batavia

For more information on FTZ opportunities available in the Cincinnati USA region, please contact Ken Fightmaster at:

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<http://www.naftz.org/>

Click here, for Cincinnati USA Foreign-Trade Zone maps, [http://www.cincinnatiusa.org/get\\_lit.asp](http://www.cincinnatiusa.org/get_lit.asp)

# Foreign-Trade Zones - Making Business More Competitive

## What is a Foreign-Trade Zone?

A Foreign-Trade Zone (FTZ) is a restricted-access site that is treated - for purposes of the tariff laws and Customs procedures - as being outside the Customs territory of the United States. Foreign and domestic merchandise may enter the FTZ without a formal Customs entry, the payment of Customs duties or the payment of federal excise taxes.

There are a number of activities that can be undertaken in an FTZ. Merchandise entering a zone may be:

- Assembled
- Relabeled
- Displayed
- Manipulated
- Cleaned
- Salvaged
- Tested
- Sampled
- Repackaged
- Repaired
- Mixed
- Stored
- Destroyed
- Manufactured\*

\*Manufacturing operations within an FTZ require special approval from the FTZ Board.

## Types of Foreign-Trade Zones

There are two types of FTZs - a General-Purpose Zone (GPZ) and a subzone. While there is no legal difference in the types of activity that can go on in these zones, a GPZ is established for multiple activities by a number of users. A subzone is generally established when a company seeks foreign-trade zone status for its own plant or facility, or when the existing general-purpose zone cannot accommodate the company's proposed activity.

## Foreign-Trade Zones are Good for the County

The purpose of any FTZ is to stimulate economic growth and development in the United States. An FTZ is just one way of staying abreast of increased international competition for jobs, industry and capital investment by encouraging companies to maintain and expand their operations in the United States.

FTZs can remove certain disincentives associated with manufacturing in the United States. For example, the duty on a product manufactured abroad and imported in the U.S. is assessed on the finished product, rather than on the individual parts, materials or components. U.S.-based manufacturers who may have found themselves at a distinct advantage vis-à-vis foreign competition because they must pay a higher rate on parts, materials or components imported for use in their manufacturing process. The FTZ can correct this imbalance by allowing the U.S. manufacturer to select either the tariff classification and duty rate on the component materials or the finished product - whichever is lowest.

## Foreign-Trade Zones are Good for the Community

As stated earlier, the purpose of an FTZ is to encourage growth and economic development, which in turn results in benefits to the community. The FTZ program promotes local economic development activity by providing international business operational savings opportunities which can result in the retention, expansion and attraction of both jobs and investment.

An FTZ can also be a valuable economic development tool when a community is attempting to attract new business investment. A community with an FTZ may also experience an improved infrastructure and expanded tax base as a result of the increased employment and investment.

## Foreign-Trade Zones are Good for Your Business

One of the objectives of an FTZ is to encourage corporations to maintain and expand their operations in the U.S. So, if you are involved in international trade, the FTZ program offers a way to improve your competitive position against your foreign counterparts. You could benefit from:

**Deferral of Duties:** This benefit offers cash-flow savings because Customs duties are paid only when - and if - merchandise is transferred into U.S. Customs territory. This allows you to keep critical funds available for operating needs while merchandise remains in the FTZ.

**Reduction of Duties:** As an FTZ user, you are allowed to elect a zone status on merchandise admitted to the zone. The zone status determines the duty rate that will be applied to foreign merchandise if it is eventually entered into U.S. commerce. Through this process, the lower duty rate can be applied - either the rate for foreign inputs or the rate for finished product manufactured in the zone. If the rate on the foreign inputs is higher than the finished product rate, the lower duty rate for the finished product can be used - a benefit only available through an FTZ.

**Elimination of Duties:** If you export merchandise from an FTZ, you don't pay Customs duties. Therefore, duty is eliminated on foreign merchandise admitted to the FTZ but eventually exported from the FTZ. In addition, Customs duties are generally eliminated for merchandise that is scrapped, wasted, or destroyed in an FTZ.

**Labor, Overhead & Profit:** No Customs duties are owed on labor, overhead and profit attributed to operations conducted in an FTZ.

**Taxes:** By federal law, tangible personal property imported and held in a zone is not subject to state and local ad valorem taxes.

This is just an example of the savings opportunities available to FTZ users.

Depending on the type of business activities conducted in the zone, you may also be able to take advantage of special Customs procedures such as direct delivery and weekly entries, which can facilitate a more timely flow of goods both in and out of the U.S.

### **Foreign-Trade Zone Application Procedures**

Applications for Foreign-Trade Zones are submitted by the grantee to the FTZ Board on behalf of the corporation seeking zone benefits. Application notices are published in the Federal Register and are subject to public notice and comment proceedings. The average processing-time for new applications is one year.

All applications submitted to the FTZ Board must contain:

**Letter of Transmittal:** A letter from the grantee requesting approval for the zone application.

**Executive Summary:** This summary includes the type of authority requested, proposed site and description of the facilities, the relationship of the project to the community's economic development plans, as well as, the plans for operating and financing the zone project.

#### **Exhibits:**

- #1 Legal Authority to Apply
- #2 Site Description
- #3 Operation and Financing
- #4 Economic Justification
- #5 Maps

### **Activating a Foreign-Trade Zone**

After a foreign-trade zone has been approved, but before operation can begin, the zone must undergo a process called "Activation". A written activation request is submitted to the Customs Port Director for review of zone procedures, inventory control record-keeping systems and security. The request for activation must include a description of the zone sites covered by the original application, and operation to be conducted within the site and a statement regarding the general character of the merchandise to be admitted.

The request must also include the following supporting documents: an initial blueprint of the area approved by the FTZ Board identifying area to be activated; a gauge table (where appropriate); a procedures manual describing the inventory control and record-keeping systems and a written concurrence of the grantee.

As a condition of activation approval, background inquiries as well as an inspection of the physical facility will be conducted to determine the level of security and its suitability to receive merchandise in zone status.

Upon the Customs Port Director's approval; including the execution and acceptance of an FTZ Operator's Bond, the amount of which is determined by the Customs Port Director, the zone will be considered activated.

### **Foreign-Trade Zone Participants**

Here's a look at the organizations that participate in the FTZs and what role they play:

**U.S. Foreign-Trade Zones Board:** This regulating arm of the FTZ program was established within the U.S. Department of Commerce (Department of Import Administration) to carry out the provisions of the FTZ Act of 1934.

**U.S. Customs Service:** The enforcement authority governing the rules and regulations of Foreign-Trade Zones as set forth in 15 CFR Part 146.

**Grantee:** Usually a local/regional economic development corporation authorized by the FTZ Board to establish, operate and maintain a zone project.

**Operator/User:** A corporation, partnership or person using a zone for storage, handling or processing of merchandise.

### **Understanding Foreign-Trade Zone Terminology**

If you are entering into the world of FTZs for the first time, some of the language can be quite confusing. Here's a brief glossary to explain the basics:

**Activation:** Approval by the grantee and U.S. Customs Service Port Director for operations to begin, thereby allowing the admission and handling of merchandise in zone status.

**Customs Territory:** The territory of the U.S. in which the general tariff laws of the U.S. apply. The U.S. Customs Territory includes the States, the District of Columbia and Puerto Rico, minus any areas within the boundaries of foreign-trade zones.

**Direct Delivery:** A procedure for the delivery of merchandise to a zone without prior application and approval from Customs. This procedure is designed for low risk, repetitive shipments whose delivery is under the control of the operator. Direct Delivery authorization must be obtained from the Customs Port Director.

**General-Purpose Zone:** A general-purpose zone is established for multiple activities by a number of users. Storage, distribution, testing, repackaging and repair are some of the possible activities in a GPZ. Processing or manufacturing in a GPZ requires the permission of the Foreign-Trade Zone Board.

**Inverted Tariff Structure:** Where imported parts/components are dutiable at higher rates than the finished product into which they are incorporated.

**Merchandise:** Foreign-Trade Zone merchandise includes goods, wares and chattels of every description. Not included are prohibited merchandise, building materials and supplies for use in the operation of a zone. The different categories of merchandise within a zone are as follows:

*Domestic Status (D):* Status of zone merchandise grown, produced or manufactured in the U.S. on which all internal revenue taxes have been paid. Also includes the status of zone merchandise previously imported on which all applicable duties and internal revenue taxes have been paid.

*Foreign Status:* Status of zone merchandise grown, produced or manufactured outside the U.S. on which no taxes or applicable duties have been paid.

*Non-Privileged Foreign Status (NPF):* Status of zone merchandise not previously cleared by Customs which is appraised in the condition of the merchandise at the time it enters the Customs territory upon exiting the zone. NPF status may be changed upon approval from Customs, provided the merchandise is still in the same condition as when admitted to the zone. While in the zone, NPF status merchandise can be manipulated or manufactured into another commercial item with a different tariff classification. NPF status allows zone users to pay duty at the rate of the finished product produced in the zone.

*Privileged Foreign Status (PF):* Zone status whereby merchandise is classified and appraised - with duties and taxes determined - at the time the status is elected. Privileged foreign status cannot be changed once chosen.

*Zone Restricted Status (ZR):* Status of zone merchandise transferred to a zone for the sole purpose of exportation or destruction. Zone restricted merchandise cannot be changed or brought into U.S. Customs territory without the specific permission of the Foreign-Trade Zones Board on a case-by-case basis.

**Subzone:** A special-purpose zone established as part of a zone project for a limited purpose that cannot be accommodated within an existing general-purpose zone. Subzones must be sponsored by the grantee of a general-purpose zone.

**Zone Status:** The status of merchandise admitted to a zone, i.e. Domestic (D), Non-Privileged (NPF), Privileged Foreign (PF) or Zone Restricted (ZR).

For more information on the opportunities available in FTZ No. 46 and FTZ No. 47, please contact Ken Fightmaster:

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