

## ZONES AND SUBZONES

Foreign-trade zones (FTZs) are secure areas located in or near CBP's ports of entry, but legally considered to be outside the Customs territory for the purpose of tariff laws and Customs entry procedures. Foreign-trade zones are part of a duty deferral program.

There are two types of foreign-trade zones: General Purpose Zones and Subzones. General Purpose Zones are usually an industrial park or port complex whose facilities are available for use by the general public. Subzones are sponsored by General Purpose Zones and are normally single-purpose sites for operations that cannot be feasibly moved to or accommodated in a General Purpose Zone. Subzones are also used when a company prefers to use land it owns for zone operations. Subzones are typically designated for an individual company's manufacturing operations. There is no legal difference in the types of activity that may be undertaken in General Purpose Zones or subzones.

Grantees receive the original authority to create General Purpose Zones. Grantees must be non-profit organizations, and are usually local government or quasi-government entities that wish to use zones to generate jobs and help their constituents. Companies operating a General Purpose Zone or subzone are called zone operators. The companies that actually conduct manufacturing activities or admit and entry goods into zones are called zone users. Zones are not "owned" by grantees, zone operators, or zone users, although they may own the land on which a zone sits or the building and machinery within a zone. Zones are public utilities and are allowed to operate only as long as they benefit of the public. Any fees that users pay for operating within a zone are published.

General Purpose Zones, and their associated subzones, are assigned a number (and a letter for subzones) depending on when they were created. General Purpose Zones and subzones that share the same number also share the same port of entry and are, therefore, supervised by the same port director.

To become a zone user, a company must file an application to the Foreign -Trade Zones Board, who review and approve applications to establish, operate, and maintain foreign-trade zones. If manufacturing will be conducted, the user must specifically request permission to manufacture within the zone at the time of his application. The CBP Port Director nearest the zone location (must be at or near a Customs port of entry) should also be consulted. Applications for a zone grant are involved and have a lengthy approval process, perhaps a year or more.

Zones are not operational immediately when the Foreign-Trade Zones Board issues the grant of approval. Before operations can take place, the zone operator (or grantee/operator) must submit a written application to the Customs Port Director to obtain approval of activation of a zone. The entire area receiving the zone status does not have to be activated at the same time. Portions may be carved out to meet the user's needs.

## BENEFITS

Goods admitted into a zone may be stored, exhibited, repacked assembled, distributed, sorted, graded, cleaned, processed, tested, labeled, repaired, mixed with foreign or domestic merchandise otherwise manipulated, destroyed, or manufactured. Zones offer several important benefits to encourage manufacturers to stay in the U.S. Some of those important benefits include:

- Duties and excise taxes on foreign merchandise admitted to a zone will be deferred until the goods are transferred from the zone to the Customs territory for consumption.
- With foreign-trade zones, unlike other similar programs (bonded warehouses and temporary importing under bond) administered by Customs, there is generally no time restraints on merchandise remaining in a zone, whether or not subject to duty. Domestic and foreign goods may be admitted to a zone without being subject to Customs duties or certain excise taxes. Goods may be exported from a zone generally, free of duty and tax.

# FTZ Summary



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- Merchandise admitted into a zone may be stored, exhibited, repacked assembled, distributed, sorted, graded, cleaned, processed, tested, labeled, repaired, mixed with foreign or domestic merchandise otherwise manipulated, destroyed, or manufactured.
- Merchandise may be manufactured or changed in condition while in the zone, substantially lowering or eliminating the duties eventually paid. Zone users can pay the duty rate on component material or merchandise produced from component material, whichever is lower.
- Opportunity to file entry on a weekly basis instead of shipment by shipment. Consequently, merchandise processing fees and customs brokerage costs are greatly reduced.
- Opportunity to consolidate harbor maintenance fee payments on a quarterly basis instead of import by import.
- Duties are reduced or eliminated on materials subject to defect, damage, obsolescence, waste or scrap.
- Spare parts may be stored, returned, or destroyed without duty payment.
- Delays in Customs clearances and duty drawback are eliminated.
- Duties are not owed on labor, overhead, or profit attributed to zone production operations.
- Quality control inspections can identify sub-standard goods to be destroyed or returned without duty payment.
- No duty is owed on in-bond, zone-to-zone transfer of zone merchandise.
- Relief from local ad valorem taxes of foreign merchandise in a zone.
- A zone must adhere to strict security requirements provide protection against theft. Although Customs is still tinkering with the program, an importer that retains merchandise in a zone may be able to more easily qualify for the Customs-Trade Partnership Against Terrorism (C-TPAT).

### **ADMISSION vs. ENTRY**

Zones are located on U.S. soil and are within U.S. jurisdiction (and are, therefore, unlike foreign embassies). However, zones are outside the U.S. Customs Territory. When goods arrive into zones, no import fees or duties are owed because the goods have not "entered" the U.S. Customs Territory. Goods are admitted, not entered, into zones, and an admitted good is called an admission or a receipt. Goods can be stored, processed, etc. in a zone and thereafter exported to another country without ever entering the U.S. Customs Territory. As with all other goods, goods in zones are entered, if at all, only after the goods are shipped from the zone into the U.S. Customs Territory. There are several kinds of entry, depending on the method used to enter goods into the U.S. Customs Territory.

The Foreign Trade Zones Board (FTZB) creates zones. Zones have their own laws, namely the Foreign Trade Zones Act and FTZ regulations, although some other import laws may apply as well. In addition, there are specific zone regulations for petroleum refineries. CBP, through port directors, enforces the FTZ laws. After the FTZB approves the creation of a zone, the port director must approve its **activation** (the commencement of zone activity) and every change thereafter in zone activity. The port director ensures that the zone operator complies with the grant of authority and the FTZ regulations (e.g., security, inventory control, etc.).

### **DESIGNATING THE GOODS' STATUS**

The duty rate on the goods admitted to a zone may change as a result of operations conducted therein. Therefore, the importer who plans to enter the goods for consumption into the U.S. Customs Territory must decide whether it wishes to pay duties on the foreign material placed in the zone or the finished product that will be entered. The importer makes its choice known to CBP by assigning the goods a status using Customs form 214. Importers may designate goods as non-privileged foreign, privileged foreign, domestic, or zone-restricted.

- Nonprivileged Foreign Status

Non-privileged foreign status (NPF) status goods are classified and duties assessed at entry, i.e., when the goods leave the zone for consumption into the U.S. Customs Territory. Importers designate their goods as NPF status because the duty rate on the finished product is lower than the duty rate on the components that were admitted into the zone. NPF status also allows the importer to store the goods in the zone and enter them only when a more favorable rate of duty is available.

- Privileged Foreign Status

The importer can designate the goods as privileged foreign (PF) status when the goods are admitted into a zone or at any time thereafter, but before they have been manipulated or manufactured in the zone" in a matter which has effected a change in tariff classification." When the importer designates its goods with PF status, the appraisement, classification, and duty rate are frozen, although the importer does not have to pay any duties owed until goods are actually entered into the U.S. Customs Territory. The advantage is that the duty owed will not change even if the goods, after the PF status designation, are manufactured or manipulated in the zone into finished products with a higher duty rate.

- Domestic Status

This means the goods were either made in the USA, or that they were imported and the duties, if any, have already been paid. Since these goods are domestic goods, no import duties will be charged on these goods once they leave the zone. As a result, the portion of the final product that is attributable to these goods will also receive duty-free treatment.

- Zone Restricted Status

Zone restricted goods are those non-domestic products which are admitted into the zone free of any duties for use within the zone. Once they are given zone-restricted status, however, the goods cannot later be converted to any other status except with special permission.

### **INVENTORY CONTROL AND RECORD-KEEPING**

In return for the privilege of operating a zone, a zone user is required to comply with all applicable laws and to abide strictly by the grant of authority. Inventory control is an underlying theme of both the laws and the grant. A zone user must make a proper accounting of all goods coming into and exiting its zone. This tracing-back is called attribution. Thus, a zone user must attribute goods going out to goods coming in. This is not a simple obligation for any user to discharge. Zone users often do not have a one-for-one match. Goods coming in are often repacked or processed into completely new goods and in different amounts before they leave the zone. Furthermore, goods may come through a zone without being admitted or entered (e.g., products, equipment, and machinery used to construct or run manufacturing facilities).

Attribution is even more confusing for oil refiners. Oil is unlike other zone goods. It comes in liquid/gaseous form. It can be shipped via pipeline, truck, rail, or ocean tanker. Oil, to an extent, is fungible and can be bought and sold many times over before it is finally consumed.

To accommodate the oil industry's peculiar needs, CBP devised the concept of producibility. Producibility means that a ratio determines out how much of a certain feedstock it takes to create a given product. Producibility ratios allow CBP and the zone user to attribute petroleum products back to their feedstocks. Producibility ratios are based on historical and scientific records and industry standards. The first schedule or table of producibility ratios for oil refiners was issued by Customs in Treasury Decision 66-16 ("T.D. 66-16"). Oil refiners may, upon CBP's approval, revise TD. 66-16 to reflect their own feedstocks and products. These schedules are called producibility or attribution schedules

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