

FOREIGN TRADE ZONES

WHAT IS A FOREIGN TRADE ZONE?

A Foreign Trade Zone (FTZ) is a special economic zone in the United States where imported goods can be stored, distributed, processed and used without being subject to customs duty. FTZs provide customs-related advantages. Specifically, foreign trade zones help U.S. companies compete in the global marketplace by eliminating, deferring, or reducing duties and, potentially, other costs.

WHY DO FTZs EXIST?

FTZs were created under the federal Foreign Trade Zone Act of 1934 to create and retain employment and capital investment in the U.S., and to increase the global competitiveness.

WHO USES FTZs?

Many types of companies use FTZs to gain a competitive advantage, including:

- Warehousing/distribution
- Auto assembly
- Vehicle assembly
- General manufacturing
- Pharmaceuticals
- Capital equipment producers
- Machinery
- Oil refinery/petrochemical
- Electronics
- Food processing

WHAT MAKES A GOOD FTZ CANDIDATE?

A FTZ candidate is looking for duty deferral or duty elimination opportunities. A FTZ candidate also wants to reduce or eliminate duty drawback processes and expenses, brokerage fees and associated merchandise processing fees. A company that imports and pays duties is a potential candidate for the FTZ program. Companies that both import and export should seriously consider the benefits of FTZ designation.

WHAT CAN BE DONE INSIDE A FTZ?

Once a company imports merchandise into a FTZ, they are allowed to store it indefinitely and use it in a number of ways, including the following activities:

Assembly	Manufacturing	Salvaging
Storing	Sampling	Mixing
Manipulation	Processing	Display
Cleaning	Repairing	Testing
Relabeling	Repackaging	

WHAT ARE THE BENEFITS AND ADVANTAGES OF FTZs?

There are many benefits available to FTZ users, including:

- Relief from inverted tariffs
- Duty exemption on re-exports
- Duty elimination on waste, scrap and yield loss

- Weekly entry savings
- Duty deferral
- Reduction of taxes and fees
- Enhance global competitiveness
- Creating or retaining jobs and encouraging investment
- Improve supply chain performance
- Zone-to-zone transfers
- FTZs are considered by customs to be CTPAT best practices
- Drive supply chain efficiencies through expedited processing, weekly entry and direct delivery from ports of entry

WHAT ARE THE SUPPLY CHAIN EFFICIENCIES THAT FTZs CAN BRING TO THE COMPANY?

FTZs can improve supply chain efficiencies for a company. When merchandise ships into the zone, users may obtain permission from customs to move merchandise directly from the port of arrival to the FTZ without undergoing commercial selectivity exams. When products ship out of the zone, users may obtain permission to ship weekly (unrestricted) based on an estimate approved by customs before the start of each business week. When goods move in and move out of the zone on an expedited basis, FTZs also create greater supply chain efficiencies.

WHAT ARE THE ADDITIONAL CONSIDERATIONS?

Besides all of the benefits listed above, companies that use FTZs should also consider other factors. Specifically, companies should consider facility site and security assessment. U.S. Customs will review and make recommendations for a company. Level of security will be tied to nature of the operations. Ownership and materials management staff backgrounds will be checked. Also, material management system is important. Companies should make sure of the accuracy of current inventory. Companies can consider to use the FTZ software to manage materials, routine inspections and annual reporting requirements.

WHAT IS THE DIFFERENCE BETWEEN THE GENERAL PURPOSE ZONE AND SUBZONE?

A Foreign Trade Subzone is an area approved by the FTZ board for use by a specific company. Foreign Trade Subzone companies enjoy all the same benefits as FTZ companies. However, there are the differences between general purpose zones and subzones:

- Subzones are located outside the general purpose sites but are within 60 miles of the port of entry.
- General purpose zones (GPZs) allow multiple users which

meet the FTZ regulations to benefit from a public location already established for security, annual reporting and oversight of the FTZ activities.

- GPZs are ready for the business community with a legitimate FTZ need to start taking advantage of zone benefits.
- Subzones allow companies that import and/or re-export products to take advantage of FTZ benefits without having to physically relocate within the FTZ general purpose sites.

WHOM SHOULD I CONTACT FOR MORE INFORMATION

Phone numbers for all Michigan FTZs are listed in the table below. The FTZ specialists at each site can explain and assist with the process.

LIST OF MICHIGAN FOREIGN TRADE ZONES		
Zone	Port of entry	# of subzone(s)
FTZ No. 16 Sault Ste. Marie, tel 906.635.9131	Sault Ste. Marie	
FTZ No. 43 Battle Creek, tel 269.968.8197	Battle Creek	4
FTZ No. 70 Detroit, tel 313.331.3842 x306	Detroit	16
FTZ No. 140 Flint, tel 810.600.1433	Saginaw/Bay City/Flint	3
FTZ No. 189 Kent/Ottawa/Muskegon counties tel 616.331.6810	Grand Rapids	3
FTZ No. 210 St. Clair County, tel 810.982.9511	Port Huron	
FTZ No. 275 Lansing, tel 517.886.3716	Lansing	1

For more general information, contact the MEDC customer contact center at 517.373.9808.

FOREIGN TRADE ZONES IN ACTION

EXAMPLE 1: Duty elimination

Zero duty is due if goods are re-exported. Imported components brought through U.S. ports that enter into U.S. Commerce and are then exported to Mexico for assembly. No duty is owed on goods destroyed or scrapped in the zone. Imported material has been determined to be unusable or defective can be scrapped in the zone without paying U.S. import duty on the original product.

EXAMPLE 2: Duty reduction and duty drawback savings

Upon exit from the zone, the U.S. duty owed will be the lesser of the tariff on the imported component or the finished assembly. An automotive plastic housing has a tariff of 2.5% while a finished assembly unit has an import tariff of 1.5%. The housings could be imported into the FTZ and assembled into a finished unit. Upon shipment out of the FTZ, the plastic housing would pay the 1.5% tariff not 2.5%.

Reduce/eliminate duty drawback processes:

- Time value of money
- 8–20% fees charged by third party processors

EXAMPLE 3: Duty deferral

No duty is paid until goods are withdrawn from the FTZ for U.S. domestic consumption. Generally when importing auto components:

- A minimum of U.S. \$25 in customs duty is due at time of port entry
- If imported directly to a FTZ, no duty is due at entry
- Duty is only upon exit of the FTZ into U.S. Commerce
- If the warehouse (FTZ) holds an average inventory of 45 days, the duty payment will be deferred on average by 45 days

EXAMPLE 4: Taxes and fees

Local Ad Valorem Tax exemption on inventory: In states and cities that impose a tax on goods in inventory, these taxes may be exempt as material in the FTZ has not legally made entrance into U.S. Commerce.

Reduce Merchandise Processing Fees (MPF): Upon import an MPF of 0.34641% up to a maximum of \$485 per entry is paid to the U.S. Through an FTZ and allowable weekly consolidated entries, the annual maximum fees are \$25,220, as well as reduce brokerage fees.

EXAMPLE 5: Drive supply chain efficiencies

FTZ users may obtain permission from customs to move merchandise directly from the port of arrival to the FTZ without undergoing commercial selectivity exams (direct ship). This may accelerate the movement by 2–5 days MMS (prior Flint operation data)

- Imports from Asia to Flint prior to FTZ = 36 days
- Imports from Asia to Flint after FTZ = 27 days