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Primer: Foreign Trade Zones and Customs Bonded Warehouses

Foreign Trade Zones

Foreign-Trade Zones (FTZs) are locations in the United States designated by the FTZ Board where merchandise can be imported prior to duty payment and formal entry into the Customs territory of the United States. In an FTZ, merchandise may be assembled, exhibited, cleaned, manipulated, manufactured, mixed, processed, relabeled, repackaged, repaired, salvaged, sampled, stored, tested, displayed, and/or destroyed. “Production” (manufacturing or processing) activity requires specific advance approval by the FTZ Board.

There are multiple functions within an FTZ. The grantee has received a grant of authority from the FTZ Board to sponsor one or more FTZ sites in its region. Grantees are typically public entities like a city, county, or port authority. The operator is a corporation, partnership, or person that operates a zone or subzone under agreement with the grantee and with the concurrence of the Customs and Border Protection (CBP) Port Director. The operator holds the bond with CBP. In some zones, the operator may also be the grantee. The user is the party using an FTZ under agreement with the grantee or operator. Users often own the merchandise handled by the operator, and may even be the operator (i.e., handling its own merchandise).

A typical general-purpose FTZ provides leasable storage/distribution space to users in general warehouse-type buildings with access to various modes of transportation. Many FTZ projects include an industrial park site with lots on which zone users can construct their own facilities. No retail trade of foreign merchandise may be conducted in an FTZ. However, foreign and domestic merchandise may be stored, examined, sampled, and exhibited in a zone.

There are several benefits to using an FTZ. Payment of duties and excise tax is deferred on imports until entry is made. If the goods are subsequently exported, no duties or quota charges are due because the merchandise is never entered into U.S. Customs territory for consumption. It is also possible for an importer to get the benefits of an inverted tariff. If FTZ production results in a finished product with a lower duty rate than the foreign components, a finished product may be entered at the rate that applies to its condition as it leaves the FTZ. There are also logistical benefits because companies using FTZ procedures may have access to streamlined Customs procedures (e.g., weekly entry or direct delivery).

Customs Bonded Warehouses

A Customs bonded warehouse is a building or other secured area in which imported dutiable merchandise may be stored, manipulated, or undergo manufacturing operations without payment of duty for up to 5 years from the date of importation. Upon entry of goods into the warehouse, the warehouse proprietor incurs a liability for the merchandise under a warehouse bond. This liability is generally cancelled when the merchandise is exported; withdrawn for supplies to a vessel or aircraft; destroyed under CBP supervision; or withdrawn for consumption within the United States after payment of duty.

When using a bonded warehouse, duty is not collected until the merchandise is withdrawn for consumption. The importer may also export the articles from the warehouse, eliminating the obligation to pay duties. Duties owed on articles that have been manipulated in the warehouse are determined at the time of withdrawal from the bonded warehouse. There are eleven classes of bonded warehouse, depending on the use of the warehouse. Many activities are restricted in bonded warehouses. Manipulation of a product is only permitted in a class 8 bonded warehouse and manufacturing may only occur in a class 6 and only for export. Merchandise may be kept in a bonded warehouse for up to five years.