

FTZ Seminar on October 6, 2010

**CAPITAL DISTRICT REGIONAL PLANNING COMMISSION
GRANTEE OF FOREIGN-TRADE ZONE NO. 121**

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General Information on Foreign-Trade Zones

History of FTZ Program

- ▶ 1934 -- New Deal Legislation (maintain and create jobs and investment in the US)
- ▶ 1950 -- Manufacturing Authorized (Public Law 566 of the 81st Congress)
- ▶ 1952 -- First FTZ Subzone created (Board Order No 29)

History of FTZ Program

- ▶ 1980 -- Value Amendment to Customs Regulations (19 C.F.R. 146.48(e))
- ▶ 1984 -- Pilot Program for Weekly Entry for Manufacturing
- ▶ 1990 -- Global Economy/Customs Duty Planning
- ▶ 2000 -- Weekly Entry For Distribution
- ▶ 2009 -- Alternative Site Framework

Growth of FTZ Program

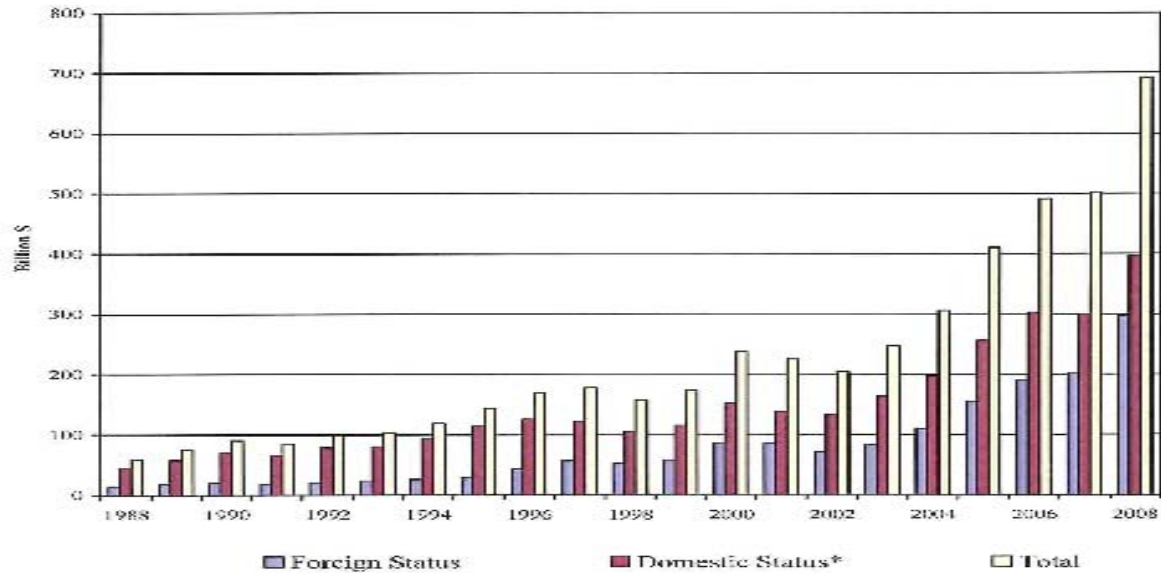
1970

- ▶ 10 General-Purpose Zones
- ▶ 3 Subzones
- ▶ 1,401 Jobs
- ▶ \$104 Million Volume (received)
- ▶ 11% Domestic Material

2010

- ▶ 274 GP Zones Approved 257 currently authorized
- ▶ 660 Subzones Approved 515 currently authorized
- ▶ 330,000 Jobs (FY 2008)
- ▶ \$693 Billion Volume (received) (FY 2008)
- ▶ 57% Domestic Material (FY 2008)

Figure 1: Foreign-Trade Zones: Merchandise Received
(General-Purpose Zones and Subzones)
1988-2008



* "Domestic status merchandise" includes both domestic-origin items and foreign-origin items that have been entered for consumption (duty-paid) prior to FTZ admission.

New York FTZ Projects

- ▶ FTZ No. 1 – New York City
- ▶ FTZ No. 23 – Buffalo
- ▶ FTZ No. 34 – Niagara County
- ▶ FTZ No. 37 – Orange County (ASF)
- ▶ FTZ No. 52 – Suffolk County
- ▶ FTZ No. 54 – Clinton County (ASF)
- ▶ FTZ No. 90 – Onondaga
- ▶ FTZ No. 109 – Watertown
- ▶ FTZ No. 111 – JFK International Airport
- ▶ FTZ No. 118 – Ogdensburg
- ▶ FTZ No. 121 – Albany (ASF)
- ▶ FTZ No. 141 – Monroe County
- ▶ FTZ No. 172 – Oneida County

Who Are The Players

- ▶ Foreign–Trade Zones Board -- Secretary of Commerce and the Secretary of Treasury. These officials or their designee are empowered to issue to appropriate applicants the Grant of Authority to establish, maintain and operate FTZ projects
- ▶ Foreign–Trade Zones Board staff -- Officials in the Department of Commerce, International Trade Administration responsible for overseeing the administration of Foreign Trade Zones. The Executive Secretary heads up this office
- ▶ Port Director of Customs and Border Protection (CBP) -- Customs official with responsibility for overseeing the activation and operations of zone projects within his customs port of entry.

Who Are The Players

- ▶ Grantee – Entity to whom the privilege of establishing, operating, and maintaining a foreign–trade zone has been granted
- ▶ Operator – Entity that operates a zone or subzone under the terms of an Agreement with the Grantee. A Grantee can function as an Operator
- ▶ User – Entity using a zone or subzone for storage, handling, or processing of merchandise
- ▶ Property Owner – Entity that owns the property on which FTZ designation is bestowed

FTZ Terminology

- ▶ FTZ Eligibility -- Issuance of a Grant of Authority by the FTZ Board results in the designated area obtaining FTZ eligibility
- ▶ Activation -- Filing of an application with CBP by the Operator, with the Grantee's concurrence, results in the actual utilization of an FTZ eligible site as an FTZ

FTZ Terminology

- ▶ Non-Privileged Foreign Status – Imported merchandise which has not been cleared by CBP and for which the User does not wish said merchandise to retain its identity, from a customs classification standpoint. As a result, if the merchandise is altered from a customs classification standpoint, it will become classifiable in its condition when it ultimately enters the customs territory of the United States
- ▶ Privileged Foreign Status – Imported merchandise which has not been cleared by CBP and for which the User wishes said merchandise to retain its identity, from a customs classification standpoint, regardless of its condition when it ultimately enters the customs territory of the United States

FTZ Terminology

- ▶ Domestic Status – Merchandise produced in the United States or imported merchandise for which customs duties have already been paid
- ▶ Zone Restricted Status – Merchandise which can not re-enter the U.S. customs territory – it must be either exported or destroyed

FTZ Benefits

FTZ Benefits for Storage of Merchandise

- ▶ **Cash Flow Benefit** -- Customs duties and excise taxes are not payable until merchandise is actually released from FTZ and enters U.S. customs territory
- ▶ **Duty Elimination** -- Re-exported merchandise is not subject to payment of regular customs duties, countervailing and dumping duties nor excise taxes
- ▶ **Duty Elimination** -- Non-conforming merchandise can be returned to foreign supplier or destroyed under Customs' supervision without being subjected to payment of customs duties and/or excise taxes

FTZ Benefits for Storage of Merchandise

- ▶ **Direct Delivery** is available if the FTZ Operator is the owner or purchaser of the imported merchandise
- ▶ **Weekly Estimated Entry** is available at the option of the Operator or User
- ▶ **Zone security** must be in compliance with standards set forth by U.S. Customs and theft of merchandise located within a zone is punishable as a federal offense -- thus, zone utilization generally reduces rate of pilferage experienced by User, as well as insurance premiums paid by User

FTZ Benefits for Storage of Merchandise

- ▶ **Tighter Inventory Record Keeping** -- Zone Users must adopt inventory control procedures in compliance with the Customs Regulations, which enables Users to maintain tighter inventory control over merchandise located within FTZ
- ▶ **Storage of Quota Merchandise** -- Zone Users can store Quota merchandise for a Quota Category that has been filled until Quota Category reopens

FTZ Benefits for Storage of Merchandise

- ▶ **Re-marking or Re-labeling of Merchandise** -- Merchandise may be remarked or relabeled in to conform to U.S. Customs requirements
- ▶ **Zone Restricted Status** -- Merchandise placed in a zone in "zone restricted" status is considered, for customs purposes, to have been exported from United States and, if applicable, duty drawback can be claimed

FTZ Benefits for Manufacturing of Merchandise

- ▶ **Inverted tariff** -- Components with higher duty rate, utilized in production of articles with lower duty rate, can have their duty rate reduced to duty rate applicable to finished article
- ▶ **Lower Valuation** -- The expense of labor, overhead and profit incurred in operations performed in FTZ is not subject to customs duties
- ▶ **Eliminate Duties on Exports** -- Articles produced in FTZ that are re-exported without entering the customs territory of the U.S. are never subject to payment of U.S. customs duties, dumping and countervailing duties nor excise taxes

FTZ Benefits for Manufacturing of Merchandise

- ▶ **Eliminate Duty on Waste** -- Any waste or scrap generated in manufacturing performed in FTZ is not subject to customs duties
- ▶ **Zone to Zone Transfer** -- Articles can, in various stages of manufacture, be transferred from zone to zone
- ▶ **Made in USA** -- Articles produced in an FTZ are considered products of the U.S.

Direct Delivery

- ▶ Regulatory Procedure
- ▶ Merchandise can be delivered to FTZ without prior application and approval on C.F. 214
- ▶ Port Director shall approve application if three criteria are satisfied
 - Merchandise is not restricted or of a type which requires CBP examination or documentation review before arrival at zone
 - Merchandise to be admitted and operations to be conducted within zone are known well in advance, or predicable and stable over the long term
 - Operator is the owner or purchaser of merchandise

Weekly Entry Statute

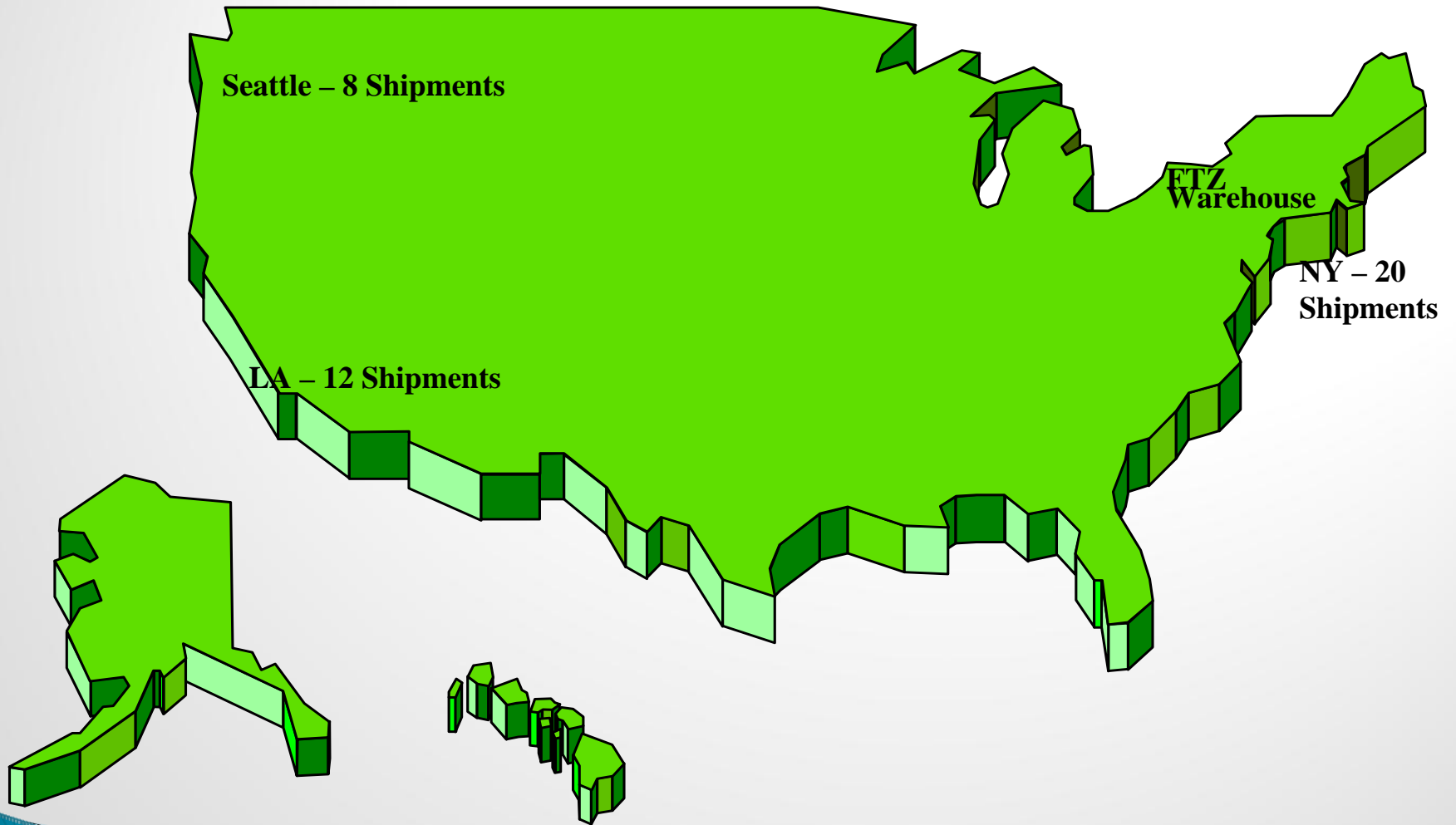
- ▶ Notwithstanding any other provision of law and except as provided in paragraph (3), ***all merchandise*** (including merchandise of different classes, types, and categories), ***withdrawn*** from a foreign trade zone ***during any 7-day period, shall, at the option of the operator or user*** of the zone, be the subject of a ***single estimated entry*** or release filed on or before the first day of the 7-day period in which the merchandise is to be withdrawn from the zone. The estimated entry or release shall be treated as a single entry and a single release of merchandise for purposes of section 58c(a)(9)(A) of this title and all fee exclusions and limitations of such section 58c of this title shall apply, including the maximum and minimum fee provided for subsection (b)(8)(A)(i) of such section. The entry summary for ***the estimated entry or release shall cover only the merchandise actually withdrawn from the foreign trade zone*** during the 7-day period

Weekly Entry Statute

- ▶ Paperwork Reduction
- ▶ Brokerage Fee Reduction
- ▶ Merchandise Processing Fee (MPF) Reduction

Weekly Estimated Entry FTZ Savings

Weekly Estimated Entry Example



Weekly Estimated Entry Example

NON-FTZ SCENARIO

- ▶ All 40 shipments are entered into Customs territory at Port of Unloading so that the Broker will file **40 separate entries**
- ▶ Each of the 40 shipments is subject to MPF payment (40 X 485 = \$19,400)
- ▶ Each Shipment is subject to HMT payment (.125% of value)

Weekly Estimated Entry Example

FTZ SCENARIO

- ▶ No separate consumption entries at Port of Unlading -- Merchandise moves in bond on IT
- ▶ No MPF payment per shipment (1 entry per week = \$485); weekly savings of \$18,915; annual savings of \$983,580)
- ▶ HMT payments deferred for average of 60 days

FTZ Savings in a Warehouse Environment

FTZ Duty Savings Analysis For Merchandise Stored In A Foreign Trade Zone

Article Description	PLASMA TV MONITORS
HTSUS Classification	8528.21.7001
Annual Dollar Volume 60,000 monitors @ \$1,000 each	\$60,000,000
Duty Rate	5%
Annual Duty Liability	\$3,000,000

FTZ Duty Deferral Benefit

Annual Duty Liability	\$3,000,000
X Cost of Money	5%
= Yearly Savings if Un-entered	\$150,000
Divided by 365	365
Daily Savings if Un-entered	\$411
Avg. # of Inventory Days	120
FTZ Savings / Duty Deferral	\$49,320

FTZ Duty Elimination Benefit

Annual \$ Value /Exports	\$6,000,000 (10%)
Annual \$ Value /Defects	\$1,200,000 (2%)
Annual \$ Value Not Entered	\$7,200,000
Duty Rate	5%
Annual FTZ Duty Elimination	\$360,000

Weekly Entry Savings

Number of Entries Per Week	4
\$485 per Entry MPF	\$1,940
1 Estimated Weekly Entry MPF	\$485
Weekly MPF Savings	\$1,455
Annual MPF Savings	\$75,660

Weekly Entry Savings

Number of Entries Per Week	4
\$100 per Entry Broker's Fee	\$400
1 Weekly Entry Broker's Fee	\$100
Weekly Brokerage Savings	\$300
Annual Brokerage Savings	\$15,600

FTZ Annual Savings

TOTAL ANNUAL SAVINGS ON ARTICLE THROUGH FTZ USE:

\$500,580

FTZ Savings in Manufacturing Environment

The Ostheimer Concoction Company

The Ostheimer Concoction consists of the following Ingredients

- ▶ Dough
- ▶ Tomatoes
- ▶ Ham
- ▶ Onions
- ▶ Swiss Cheese
- ▶ Black Olives
- ▶ Lettuce
- ▶ Secret Sauce

These ingredients are combined in specified amounts, baked in laser reactors, frozen at -100F and vacuum packed at the production facilities of OCC in New Jersey.

The Ostheimer Concoction Company

- ▶ The Ostheimer Concoction, if imported, would be dutiable as an “edible preparation” at 3%
- ▶ OCC imports 5 of the ingredients utilized in the Ostheimer Concoction – the Dough, Ham, Swiss Cheese, Onions and Black Olives. The lettuce comes from California, the Tomatoes from New Jersey and the Secret Sauce from Parts Unknown, USA

The Ostheimer Concoction Company

- ▶ Dough is dutiable at a 2% duty rate
- ▶ Ham is dutiable at a 10% duty rate
- ▶ Swiss Cheese is subject to a 20% duty rate
- ▶ Onions are duty free
- ▶ Black Olives are dutiable at a 8% duty rate

The Ostheimer Concoction Company

The value of the respective ingredients used in one Ostheimer Concoction are as follows:

- ▶ Foreign dough – 12 cents
- ▶ Foreign ham – 27 cents
- ▶ Foreign swiss cheese – 20 cents
- ▶ U.S. lettuce – 8 cents
- ▶ U.S. tomatoes – 11 cents
- ▶ Foreign onions – 6 cents
- ▶ Foreign black olives – 16 cents
- ▶ U.S. secret sauce – 11 cents

Overhead, labor and profit is 19 cents

Total Cost (exclusive of Customs Duties) of one Ostheimer Concoction is \$1.30

The Ostheimer Concoction Company

If the imported ingredients were entered directly into the customs territory of the United States, the following duties would be owed for the ingredients necessary for one Concoction:

▶ Dough	.24 cents (12 cents x 2%)
▶ Ham	2.7 cents (27 cents x 10%)
▶ Swiss Cheese	4.0 cents (20 cents x 20%)
▶ Onions	0 cents
▶ Black Olives	1.28 cents (16 cents x 8%)

TOTAL DUTIES FOR ONE OSTHEIMER CONCOCTION is 8.22 cents.

The Ostheimer Concoction Company

- ▶ Since the duty rates for dough (2%) and onions (0%) are less than the duty rate for the Ostheimer Concoction (3%) they would be admitted in PFS. Since the duty rates for the ham (10%), swiss cheese (20%) and black olives (8%) are higher than the duty rate for the Ostheimer Concoction, they would be admitted in NPFS
- ▶ The lettuce, tomatoes and secret sauce would all be admitted into the zone as domestic status merchandise

The Ostheimer Concoction Company

In producing an Ostheimer Concoction, some ingredients result in waste. The ham and swiss cheese are both trimmed with a waste factor of 10% for the ham and 15% for the swiss cheese. The duties owed on one Ostheimer Concoction would therefore be:

NPF (Duty Rate = 3%):

▶ Ham	27 cents x 90% =	24.3 cents
▶ Swiss Cheese	20 cents x 85% =	17 cents
▶ Black Olives	16 cents x 100% =	<u>16 cents</u>
Total NPF =		57.3 cents at 3% = 1.72 cents

PF:

▶ Dough	12 cents x 2% =	.24 cents
▶ Onions	6 cents x 0% =	<u>0 cents</u>
Total PF =		.24 cents

Total Duties = 1.72 cents + .24 cents = 1.96 cents

The Ostheimer Concoction Company

- ▶ Savings Realized by OCC through the Inverted Tariff Principle is 6.26 cents/Concoction (8.22 cents – 1.96 cents)
- ▶ Assuming OCC produces 10 million Ostheimer Concoctions per month, Zone Utilization results in a monthly savings of \$626,000 and an annual savings of \$7,512,000

Duty Savings Analysis For Merchandise Manufactured In A Foreign Trade Zone

YOU ARE A U.S. MANUFACTURER OF LIGHTWEIGHT BICYCLES WHICH
IF IMPORTED INTO THE UNITED STATES AS A FINISHED PRODUCT
WOULD BE CLASSIFIED UNDER HTSUS ITEM NO. 8712.00.25 AT 5.5%

Total value of imported components -- \$93.50

Remainder of parts sourced in the United States -- \$50.00

Other expenses including U.S. labor, overhead and profit -- \$56.20

Value of finished bicycle = \$200.00

Your Imported Components Are:

- 1) Bicycle chain from Taiwan with an appraised value of \$5.00 would be classified under HTSUS item no. 7315.11.00 and would be entered duty free = \$0.00
- 2) Derailleurs from Japan with an appraised value of \$17.50 would be classified under HTSUS item no. 8714.99.50 and would be entered duty fee = \$0.00

Your Imported Components Arc:

- 3) Frames from England with an appraised value of \$35.00 would be classified under HTSUS item no. 8714.91.30 at 3.9% = \$1.37
- 4) Pedals from China with an appraised value of \$2.00 would be classified under HTSUS item no. 8714.96.10 at 8% = \$.16
- 5) Saddles from Germany with an appraised value of \$21.00 would be classified under HTSUS item no. 8714.95.00 at 8% = \$1.68 duty

Your Imported Components Are:

6) Spokes from Japan with an appraised value of \$3.00 would be classified under HTSUS item no. 8714.92.50 at 10% = \$.30

7) Wheel rim sets from Korea with an appraised value of \$10.00 per set would be classified under HTSUS item no. 8714.92.10 at 5% = \$.50

**TOTAL DUTY ON ABOVE LISTED IMPORTED COMPONENTS
IF ENTERED DIRECTLY INTO THE CUSTOMS TERRITORY OF
THE UNITED STATES = \$4.01**

FTZ Status To Be Selected

Items 1, 2, 3 and 7 will be admitted into the FTZ in PRIVILEGED FOREIGN STATUS so as to retain their classification and applicable duty rate as admitted.

Items 4, 5 and 6 will be admitted into the FTZ in NONPRIVILEGED FOREIGN STATUS so as they will be subject to classification as part of the finished lightweight bicycle and their respective values subject to the 5.5% duty rate for such bicycles.

The following duty will therefore be due at the time the finished lightweight bicycle is removed from the FTZ:

**PRIVILEGED STATUS
MERCHANDISE**

Bicycle chain =	\$0.00
Derailleurs =	\$0.00
Frames =	\$1.37
Wheel rim =	<u>\$0.50</u>
Duty owed:	\$1.87

**NONPRIVILEGED STATUS
MERCHANDISE**

Pedals =	\$ 2.00
Saddles	\$21.00
Spokes =	\$ <u>3.00</u>
Dutiable Value	\$26.00
Duty rate:	<u>5.5%</u>
Duty Owed:	\$ 1.43

Total Duty Owed: \$ 3.30

DUTY SAVINGS PER BICYCLE THROUGH FTZ USE = \$.71

FTZ Savings

If 750,000 bicycles are manufactured for U.S. consumption then **inverted tariff savings = \$532,500/year** ($750,000 \times \0.71)

If an additional 50,000 bicycles are manufactured for re-export then no duty will be paid on the appraised value of the imported components utilized on these bicycles, resulting in a **further savings = \$200,500/year** ($50,000 \times \4.01)

Example of FTZ Savings through Combining Generator and Turbine

Classification of Generator Only

8501.61.00	00	AC generators (alternators): Of an output not exceeding 75 kVA	No.	2.5%	Free (A,AU,B,BH, C,CA,CL,E,IL,J, JO,MA,MX,OM,P, SG)	35%
8501.62.00	00	Of an output exceeding 75 kVA but not exceeding 375 kVA	No.	2.5%	Free (A,AU,B,BH, C,CA,CL,E,IL,J, JO,MA,MX,OM,P, SG)	35%
8501.63.00	00	Of an output exceeding 375 kVA but not exceeding 750 kVA	No.	2.5%	Free (A,AU,B,BH, C,CA,CL,E,IL,J, JO,MA,MX,OM,P, SG)	35%
8501.64.00		Of an output exceeding 750 kVA		2.4%	Free (A,AU,B,BH, CA,CL,E,IL,J,JO, MA,MX,OM,P, SG)	35%
	20	Exceeding 750 kVA but not exceeding 10,000 kVA	No.			
	30	Exceeding 10,000 kVA but not exceeding 40,000 kVA	No.			
	50	Other	No.			

Classification of Turbines Only

Heading/ Subheading	Stat. Suf- fix	Article Description	Unit of Quantity	Rates of Duty		
				1		2
				General	Special	
8406		Steam turbines and other vapor turbines, and parts thereof:				
8406.10		Turbines for marine propulsion:				
8406.10.10	00	Steam turbines	No.	6.7%	Free (A,BH,CA,CL, E,IL,J,JO,MA,MX, OM,P,SG) 2.5% (AU)	20%
8406.10.90	00	Other	No.	Free		27.5%
8406.81		Other turbines:				
8406.81.10		Of an output exceeding 40 MW:				
		Steam turbines		6.7%	Free (A,AU,BH,CA, CL,E,IL,J,JO,MA, MX,OM,P,SG)	20%
	20	Stationary steam turbines, condensing type	No.			
	70	Other	No.			
8406.81.90	00	Other	No.	Free		27.5%
8406.82		Of an output not exceeding 40 MW:				
8406.82.10		Steam turbines		6.7%	Free (A,AU,BH,CA, CL,E,IL,J,JO,MA, MX,OM,P,SG)	20%
	10	Stationary steam turbines, condensing type: Not exceeding 7,460 kW	No.			
	20	Exceeding 7,460 kW	No.			
	50	Other: Not exceeding 7,460 kW	No.			
	70	Exceeding 7,460 kW	No.			
8406.82.90	00	Other	No.	Free		27.5%

Classification of Generator Sets

Heading/ Subheading	Stat Suf- fix	Article Description	Unit of Quantity	Rates of Duty		
				1 General	Special	2
8502		Electric generating sets and rotary converters: Generating sets with compression-ignition internal combustion piston engines (diesel or semi-diesel engines):				
8502.11.00	00	Of an output not exceeding 75 kVA	No.	2.5%	Free (A,AU,B,BH, C,CA,CL,E,IL,J, JO,MA,MX,OM,P, SG)	35%
8502.12.00	00	Of an output exceeding 75 kVA but not exceeding 375 kVA	No.	2.5%	Free (A,AU,B,BH, C,CA,CL,E,IL,J, JO,MA,MX,OM,P, SG)	35%
8502.13.00		Of an output exceeding 375 kVA		2%	Free (A,AU,B,BH, C,CA,CL,E,IL,J, JO,MA,MX,OM,P, SG)	35%
	20	Exceeding 375 kVA but not exceeding 1,000 kVA	No.			
	40	Exceeding 1,000 kVA	No.			
8502.20.00		Generating sets with spark-ignition internal combustion piston engines		2%	Free (A,AU,B,BH, C,CA,CL,E,IL,J, JO,MA,MX,OM,P, SG)	35%
	30	Of an output not exceeding 1.875 kVA	No.			
	60	Of an output exceeding 1.875 kVA but not exceeding 6.25 kVA	No.			
	70	Of an output exceeding 6.25 kVA but not exceeding 75 kVA	No.			
	85	Of an output exceeding 75 kVA	No.			
8502.31.00	00	Other generating sets: Wind-powered	No.	2.5%	Free (A*,AU,B,BH, C,CA,CL,E,IL,J, JO,MA,MX,OM,P, SG)	35%
8502.39.00	00	Other	No.	2.5%	Free (A,AU,B,BH, C,CA,CL,E,IL,J, JO,MA,MX,OM,P, SG)	35%
8502.40.00	00	Electric rotary converters	No.	3%	Free (A,AU,B,BH, C,CA,CL,E,IL,J, JO,MA,MX,OM,P, SG)	35%

Example of FTZ Savings through Processing Imported Silicon Metal into Polysilicon

Summation of Silicon Metal Analysis

- ▶ The way to interpret the attached HTSUS provisions is as follows:
- ▶ If the silicon contains by weight between 99% and 99.98% silicon, it is classified under 2804.69.1000 with duty assessed at 5.3%. However, silicon metal from a GSP eligible country, other than Brazil, would be entitled to duty free entry if the proper documentation is provided to Customs.
- ▶ If the silicon contains by weight less than 99% silicon, it is classified under 2804.69.5000 with duty assessed at 5.5%. This provision is not eligible for GSP unless the silicon metal comes from a so-called least-developed beneficiary developing country. South Africa does not qualify as such
- ▶ If the silicon contains by weight 99.99% silicon, it is classified under 2804.61.0000 which is a duty free provision. This is the classification provision for polysilicon

Classification of Silicon Metal and Polysilicon

2804.61.00	00	Silicon: Containing by weight not less than 99.99 percent of silicon	kg	Free		25%
2804.69		Other:				
2804.69.10	00	Containing by weight less than 99.99 percent but not less than 99 percent of silicon	kg	5.3%	Free (A*,AU,BH, CA,CL,E,IL,J,JO, MA,MX,OM, P,PE,SG)	21%
2804.69.50	00	Other	kg	5.5%	Free (A+,AU,BH, CA,CL,E,IL,J,JO, MA,MX,OM, P,PE,SG)	45%

Obtaining FTZ Designation

Alternative Site Framework (ASF)

Alternative Site Framework (ASF)

- ▶ The ASF is an option to give Grantees flexibility to use simplified minor boundary modifications (MBMs) – without “swapping” of acreage – to bring FTZ designation to companies with immediate need
- ▶ A Grantee can participate in the ASF by applying to the FTZ Board to “reorganize” its FTZ under the ASF

Alternative Site Framework (ASF)

- ▶ The traditional site-management framework (TSF) is outmoded and often requires too much Grantee and FTZ Staff resources for simple FTZ designations
- ▶ TSF's limitations for MBMs often lead to only temporary approvals, with later applications for full FTZ Board action needed for longer term designations
- ▶ The TSF MBM requirement to “swap” acreage – which may revert later – adds complexity and burden

Alternative Site Framework (ASF)

- ▶ ASF participation starts with Grantee's application for FTZ Board action to reorganize zone under ASF
- ▶ Framework is a "package deal" – Grantee would either manage its zone sites under TSF or opt for ASF in its entirety
- ▶ No direct impact on subzones

Alternative Site Framework

- ▶ “Service Area” is the geographic area where Grantee intends to propose general-purpose FTZ sites
 - Most commonly will be specific counties. Each county in proposed Service Area must concur in writing
 - Must meet adjacency (60 miles/90 minutes from CBP POE)
 - The reason to define Service Area up front is to eliminate need for full FTZ Board processes (Federal Register notices, public comment periods, etc.) when new potential zone users appear and need FTZ designation quickly

Alternative Site Framework (ASF)

- ▶ A “Magnet” site is one selected by Grantee based on ability to attract multiple potential FTZ operators/users
 - Designated only via FTZ Board action. Akin to traditional FTZ site (industrial park, port facility, etc.) designated in advance to attempt to draw FTZ operators/users
 - The sites must be general-purpose in nature – be available to serve multiple businesses; not be limited to a single company for its own products; operate under public utility principles
 - Magnet sites are not the true focus of the ASF because the model of trying to draw companies to already designated FTZ sites has a poor overall record of success

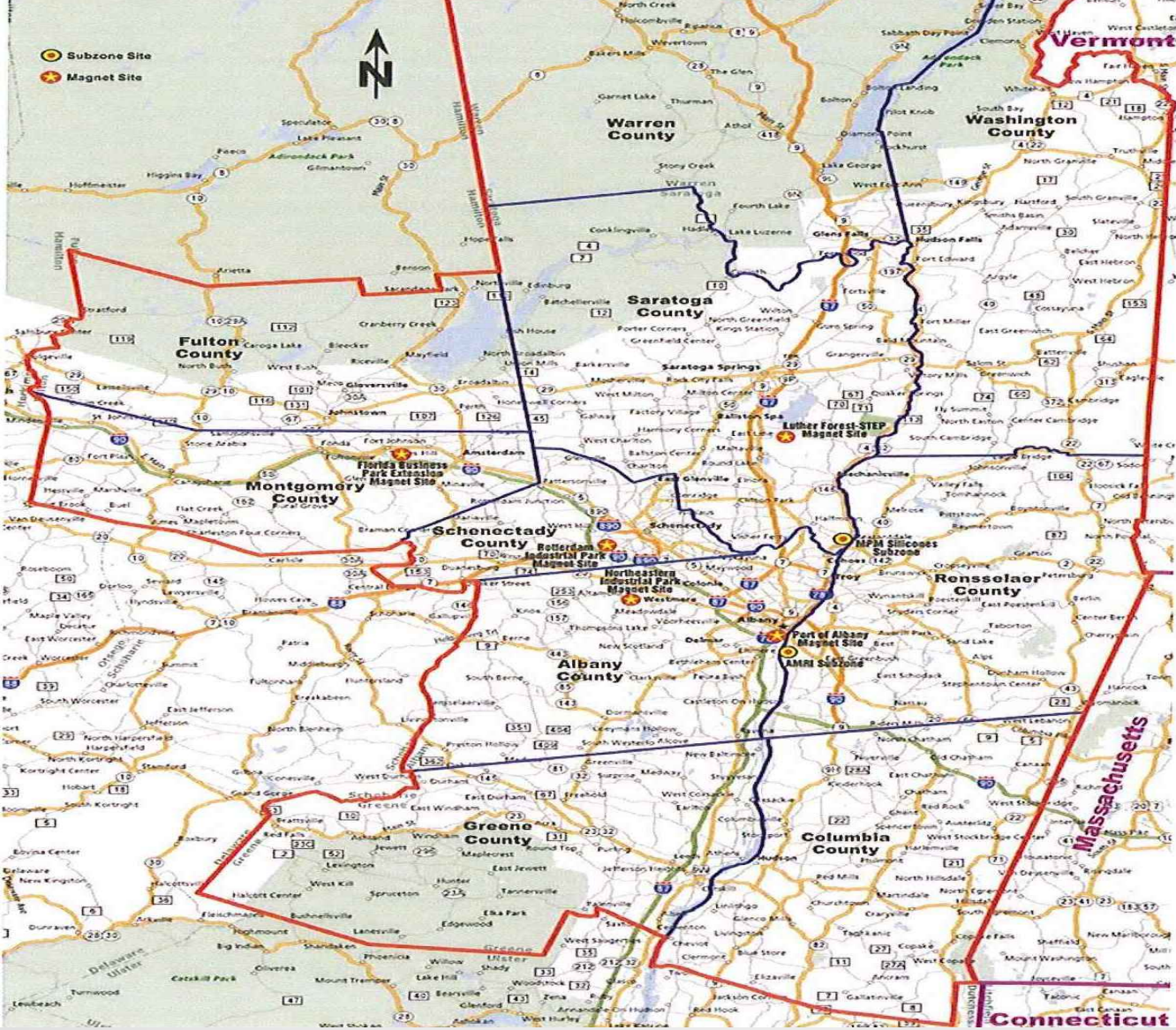
Example of Magnet Site



FTZ No. 121 ASF

- ▶ Grantee is the Capital District Regional Planning Commission
- ▶ ASF Application filed November 3, 2009 and amended May 5, 2010
- ▶ ASF Application approved July 8, 2010
- ▶ Service Area covers 10 counties
- ▶ Five Magnet Sites
- ▶ No Usage Driven Sites at this time

Proposed Reorganization FTZ #121 at Albany, NY



Alternative Site Framework (ASF)

- ▶ A “Usage–Driven” site is designated for a company ready to pursue conducting FTZ activity
 - Future Usage–Driven sites can be designated via simplified boundary modification (with no swapping of acreage required)
 - Usage–Driven sites can also be requested in original ASF reorganization application
 - Designation tied to the specific company and limited to the space needed by the company

Example of Usage-Driven Site



Alternative Site Framework (ASF)

- ▶ “Activation Limit” is cap on amount of space that can simultaneously be in CBP “activated” status
 - 2,000-acre activation limit for each zone has long been standard FTZ Board practice (although a zone’s total designated space may have been larger than 2,000 acres)
 - No zone has ever reached the limit of activating 2,000 acres

Alternative Site Framework (ASF)

- ▶ Ongoing “Sunset” tests remove unused sites
 - **Standard five-year sunset period for Magnet sites** (applicant can request longer on case-specific basis; possible waiver of sunset for one site)
 - **Three-year sunset period for all Usage-Driven sites**
 - **Sunset deadline for each Magnet site extended for additional five years based on the site’s activation at any time during the sunset period.** For example, a Magnet site with a sunset deadline of November 1, 2014 is activated in mid-2010. That activation pushes the sunset deadline back to November 1, 2019

Alternative Site Framework (ASF)

- ▶ “Sunset” tests (cont.)
 - **Sunset deadline for each Usage-Driven site extended for additional three years based on admission of foreign-status merchandise during sunset period.**
For example, a Usage-Driven site with a sunset deadline of October 31, 2012 has admission of foreign-status merchandise in early 2011. As a result, the sunset deadline automatically pushes back to October 31, 2015
 - If Usage-Driven site sunsets because not used, designation can always be brought back via simple MBM when actually needed

Obtaining Subzone Designation

Prior to Filing Subzone Application with FTZB

- ▶ Grantee Sponsorship
 - FTZB only accepts applications from Grantees
 - Entity is authorized to function as Grantee by state-enabling legislation
 - Grantee's Charter or Formation Documents must not preclude sponsoring FTZ activities in area to be covered by FTZ application
 - Company desiring subzone status should contact the Grantee of closest Zone Project
- ▶ Preliminary discussions with FTZB and CBP
 - FTZB and CBP should be notified of application prior to submission and discussions should occur
 - Should minimize delays, complications, or conflicts that could occur during the application process
 - Allows for a good head start into the activation process

Application to Establish Subzone

- ▶ Subzones are special purpose sites for use by one company for a limited purpose, usually for manufacturing or processing activities. They are established as adjuncts to existing general-purpose zones
- ▶ Guidelines for preparation of a manufacturing subzone and a distribution subzone can be found on FTZB website
- ▶ Subzone application must be filed by Grantee, not by company seeking subzone status
- ▶ Adjacency requirements are not applicable to subzones, however, local CBP must be willing to service subzone and needs to provide a concurrence letter

Application to Establish Subzone

- ▶ Subzone application for distribution subzone or manufacturing subzone in which less than 3 products are manufactured or processed must be accompanied by a \$4,000 filing fee
- ▶ Subzone application for manufacturing subzone in which 3 or more products are manufactured or processed must be accompanied by a \$6,500 filing fee
- ▶ Consideration should be given to possible opponents of subzone application and their potential concerns should be addressed in application and perhaps through a meeting with said opponents

Application to Establish Subzone

- ▶ Manufacturing Subzone
 - Guidelines contained 49 questions to be addressed
 - Application letter:
 - Application letter including Executive Summary transmits the application and its attachments and must be signed by an official of the Grantee and be currently dated
 - The transmittal letter should identify the company for whom the subzone is requested; summary of the locations of the subzone; and explain the proposed FTZ activity and why approval would be beneficial for the United States
 - Economic Justification:
 - Company history including total employment both company-wide and at the proposed subzone
 - Industry trends including both foreign competition and domestic competition and potential impact of requested subzone designation on both competitors and suppliers

Application to Establish Subzone

- Economic Justification:
 - Identify competitive factors in industry and whether imports' share of the U.S. market has changed in the past 10 years
 - What percentage of the proposed manufacturing would be sold to export markets?
 - What are the estimated annual FTZ related savings – logistical savings; inverted tariff savings; export savings; duty deferral and scrap/waste savings
 - List proposed subzone sites with their addresses, acreage, existing buildings, existing and planned activities at each site – provide each site with an identifying number

Application to Establish Subzone

- ▶ Economic Justification:
 - For each site, provide a legal description
 - If the proposed site is not adjacent to a CBP Port of Entry indicate whether you have discussed with local CBP the servicing of site
 - Indicate local zoning and status of any applications for construction approvals at said sites
 - Identify any land use issues relating to the site
 - Provide local map indicating location of sites
 - For each site provide a detailed street map
 - For each site provide a detailed blueprint showing zone boundaries in red with dimensions

Application to Establish Subzone

- ▶ Economic Justification:
 - Does company own each of the sites?
 - If not, provide a letter of consent from property owner concurring to the proposed FTZ designation
 - Describe physical security measures to be implemented
 - Indicate commitment to meet current and future CBP requirements for its automated systems
 - Provide a certified copy of the State Enabling Legislation
 - Provide a copy of the Grantee's charter pertinent to FTZs
 - Provide a certified copy of resolution authorizing Grantee official to sign and submit the application
 - Describe in detail the specific manufacturing activity sought to be conducted under FTZ procedures and identify any inputs subject to ADD or CVD or quotas

Sunset Provision

- ▶ Grant of Authority shall lapse within five years from a Board Order if site not activated (15 CFR 400.28(a)(5))

Temporary Interim Manufacturing Request

Temporary Interim Manufacturing Request

- ▶ Not Provided For in FTZB Regulations
- ▶ Developed in 2004 to provide access to FTZ program for small to medium sized companies located or locating in General Purpose FTZ project
- ▶ Guidelines on FTZB Website
- ▶ Companies can obtain approval for inverted tariff relief (up to 2 years) within 75 days versus the standard 1 year
- ▶ Qualified companies must manufacture/process non-controversial products which have received FTZB approval within the past
- ▶ Maximum of 10 inputs (6-digit HTS) subject to inverted tariffs; maximum of 5 finished products (6-digit HTS)
- ▶ Permanent Manufacturing Authority can be achieved concurrently

Once Site Receives FTZ Designation

Activation Process

Activation Process

- ▶ Activation is the approval by the Port Director and the grantee for the zone to begin operations
- ▶ Activation request letter sent to Customs includes
 - Blueprint of the approved areas showing the area to be activated including all buildings, openings, inlets, outlets, pipelines to tanks or storage of liquid products

Activation Requirements

- ▶ Activation requirements and procedures
 - Written application
 - Blueprint of area to be activated
 - Gauge table (if appropriate)
 - Zone procedures manual
 - Background investigation
 - Approved security
 - FTZ Operator's Bond
 - Written concurrence from the Grantee

Initial Meeting with Customs

- ▶ Gain an understanding of the zone project
- ▶ Meet the people involved with the zone
- ▶ Explain the Customs role, policies, and procedures

Initial Meeting With Customs

- ▶ Conduct preliminary security check
- ▶ Begin background checks
- ▶ Begin procedures for establishing amount of Operator's Bond

Blueprint - Defining Physical Area

- ▶ Entire physical area approved in the grant can be activated
- ▶ Portion of the area approved in the grant can be activated based on FTZ benefits sought
 - Production count point
- ▶ Any area where foreign goods admitted to the zone can be stored, processed, manufactured or shipped must be in the activated area

Blueprint - Defining Physical Area

- ▶ The following is provided to CBP:
 - Map of entire area approved by FTZB may be provided with 'activated' area indicated
 - Generally, a blueprint of actual facilities is included with the 'activated' area indicated
- ▶ Activated area can be altered as needed through subsequent alteration requests to CBP
- ▶ Operator must retain copy of most current maps/blueprints showing activated area

Procedures Manual

- ▶ Purpose
 - Describes methodology of all zone transactions
 - Must provide sufficient detail of zone operations for CBP's understanding
 - Not so detailed that it can't be kept up to date, current copy reflecting current operations must be on file with CBP
 - Used as training document for employees
- ▶ Must be submitted as part of activation request

Procedures Manual

- ▶ Identifies location of and activities conducted in zone
- ▶ Includes transportation and admission to zone, activity in zone, transfer of merchandise from zone
- ▶ Describes process for preparing required periodic reports

Background Investigations

- ▶ Who
 - Principal Officers
 - Managers of zone operations, key operational areas
 - Supervisors with access to zone records
- ▶ Required Information
 - Name
 - Title
 - Current Address
 - SSN
 - Birth date
 - Place of birth
 - May require fingerprints
- ▶ Background investigations should be started during application process due to time required

Security

- ▶ Port Director will conduct a physical security check
- ▶ Guidelines for security are found in:
 - FTZ Manual, Chapters 4 and 8
 - Treasury Decision 72-56/“Standards for Cargo Security” booklet (Issued in 1976; Current electronic security generally recognized as sufficient)
 - Currently under review by CBP

FTZ Operator's Bond

- ▶ Port Director sets bond amount
 - Sufficient to cover potential duty on type of merchandise admitted
 - Influenced by nature of merchandise
 - Risk incurred by CBP in processes authorized by FTZB
- ▶ Submitted to CBP on CBPF 301 by Operator

FTZ Operator's Bond

- ▶ Amount
 - Regulatory minimum – \$50,000
 - Current minimum in practice \$100,000
 - Customs generally reviewing bond amounts

Grantee-Operator Agreement

- ▶ Between Grantee, Operator, and/or User
- ▶ Does *not* involve CBP
- ▶ Terms and conditions for operating the zone
 - Responsibilities
 - Fees
- ▶ Grantee typically provides Grantee letter of concurrence which must be provided to CBP as part of activation request

Census Bureau Reporting

- ▶ Statement must be included in activation request describing methodology of how Census Bureau reporting requirements will be met
 - e214 filing
 - Pink Statistical Copy of CBPF214
 - Single 214 per Bill of Lading

Special Considerations

- ▶ Requests for activation often contain requests for procedures such as:
 - Direct delivery (of in-bond merchandise)
 - Authorization to break and affix Customs seals
 - Weekly estimated entry and export
 - No longer have to request
 - Should inform Customs of intent
- ▶ CBPF216 for manufacturing or manipulation operations must be approved prior to commencement of such activities

Approval

- ▶ Application for activation may be reviewed/issued by Service Port Director
- ▶ Issued in writing specifying approval of:
 - Activation
 - Special Procedures requested
- ▶ Approval typically requires 30 days
 - Can be reduced through prior communications with CBP

Customs Documentation Used with regard to FTZ Activity

Customs Forms

- ▶ CBP Form 214 – Document (now almost exclusively electronic) signed by User and Operator and approved by CBP authorizing the admission of merchandise into a FTZ and designating the status of the merchandise
- ▶ CBP Form 216 -- Document prepared by Operator and approved by CBP, authorizing certain activities within the FTZ such as manipulation, repair, destruction and manufacture

Customs Forms

- ▶ CBP Form 3461 / 7501 -- Document prepared by User, which must be approved by CBP and furnished to Operator prior to physical removal of any merchandise from FTZ into the customs territory of the U.S.
- ▶ CBP Form 7512 -- Document prepared by User, which must be approved by CBP and furnished to Operator prior to the physical removal of any merchandise from FTZ for exportation of merchandise from the U.S.

Inventory Control Methodology

- ▶ There are two principal methodologies used for the tracking of merchandise in an FTZ:
 - Unique Identifier – FIFO basis
 - Lot Number – Direct Identification

FTZ vs. Bonded Warehouse

Differences

- ▶ FTZ – unlimited time to retain merchandise within FTZ
- ▶ Customs Bonded Warehouse – five year time period for retention of imported merchandise
- ▶ FTZ – foreign and domestic goods can be stored in same facility
- ▶ Customs Bonded Warehouse – only foreign goods can be stored in facility; domestic goods must be stored in a completely separate area
- ▶ FTZ – foreign and domestic inputs can be manufactured and either entered into the U.S. or exported
- ▶ Customs Bonded Warehouse – foreign and domestic inputs can be manufactured for export only

Differences

- ▶ FTZ – weekly estimated entry is available
- ▶ Customs Bonded Warehouse – no weekly estimated entry is available, duties are deposited at time of warehouse withdrawal
- ▶ FTZ – HMT paid on a quarterly basis
- ▶ Customs Bonded Warehouse – HMT paid at time of entry

Primary FTZ Users

Top 15 Foreign-Status Products Received in U.S. FTZs During FY 2008

Vehicles	\$10.421 B	Vehicle Parts	\$1.45 B	Beverages/Spirits	\$437 M
Petroleum Products	\$7.337 B	Other Consumer Products	\$1.314 B	Pharmaceutical Products	\$344 M
Consumer Electronics	\$1.294 B	Ships/Boats	\$1.193 B	Iron/Steel	\$333 M
Other Metals/Minerals	\$1.924 B	Machinery/Equipment	\$1.065 B	Crude Oil	\$274M
Textiles/Footwear/Leather	\$1.604B	Other Electrical Products/Parts	\$978 M	Food Products	\$234 M