

Trade Advantages Afforded Under The US Foreign-Trade Zones Program

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Congress established the US Foreign-Trade Zone Program as an economic development incentive intended to create and retain US jobs and investments. A foreign-trade zone ("zone") is a designated area within the United States which is treated as being outside the US Customs territory. By affording numerous Customs duty and other tax saving opportunities, the Program encourages businesses to conduct operations in the United States which they might otherwise conduct abroad and helps make US operations more competitive in the international export markets.

There are two types of zones— general-purpose zones and special-purpose subzones. General-purpose zones are operated under public utility principles under the sponsorship of a corporation granted authority by the Foreign-Trade Zones Board and under the supervision of Customs. Such zones are ordinarily a single building, industrial park or other similar commercial area that, by definition, is open to use by more than one interested firm.

Special-purpose subzones usually involve all or a part of a single company's new or existing operations that cannot be accommodated in a general-purpose zone. Subzones are established at the company's facilities, as part of a general purpose zone, and are operated and utilized by a single user. Close to 5% of US imports flow through zones and, as of October 1, 1996, there were 212 general purpose zones and 324 subzones with 93 pending Applications.

Financial Advantages

Zones provide unique financial savings to businesses involved in international trade which operate warehousing and production activities in the US. Foreign merchandise may be admitted into a zone without filing a formal Customs entry, or paying US Customs duties and government excise taxes. Domestic merchandise is allowed

for any authorized activity. Foreign and domestic merchandise admitted to a zone may be exhibited, stored, tested, sampled, relabeled, repackaged, mixed, manipulated, assembled, processed, manufactured, destroyed, etc. Some of the principal advantages of zone use are as follows:

Cash Flow. Customs duties and excise taxes are paid only when imported merchandise is shipped into the US Customs territory. The cost of Customs duties as a holding cost is eliminated.

Customs Inverted Duty Savings. The zone user may elect to pay duties at the duty rate applicable to either the foreign component admitted to the zone or the finished product produced in the zone, whichever is lower.

Non-dutability of Labor, Overhead, Profit and US Materials. The dutiable value does not include US labor, overhead and profit or the value of domestic materials, but rather includes only the value of the foreign non-duty paid components. This is a significant advantage over foreign production.

Zone-to-Zone Transfer. Networks of zones that allow zone-to-zone transfers without Customs duty payment can create additional savings. As with an increasing number of firms in zone status, suppliers of materials, parts and subassemblies can produce their product in a zone and transfer it in-bond to their customer or an end-user without paying Customs duties.

Defect/Damage/Waste/Scrap/Obsolescence. Customs duties are significantly reduced or eliminated on merchandise subject to these losses while in the zone.

Exports. If the final product is exported from the US, no Customs duties or excise taxes are ever paid. This creates cash flow and significant paperwork savings over the drawback program.

Zone-Restricted Status. By declaring zone-restricted status (export only) on

imported merchandise admitted to the zone, the zone user is able to immediately file for drawback and excise tax rebates.

Merchandise Processing Fee. Fees are due only on merchandise entered into the Customs territory on a daily or weekly basis.

Harbor Maintenance Fee. Fees are paid quarterly on merchandise received in the zone.

Quotas. Quota restrictions do not normally apply to merchandise in a zone (although the Board may restrict activities on public interest grounds).

Property Tax. Tangible personal property imported from outside the US and held in the zone and tangible personal property produced in the US and held in the zone for export, are not subject to state and local ad valorem taxes. Exemptions from state and local real property taxes also exist under certain circumstances.

Other Taxes. Sixteen states and Puerto Rico offer other tax savings opportunities for firms utilizing foreign-trade zones.

Other Advantages

In addition to the standard zone savings, NAFTA and the Uruguay Round Agreements of the GATT offer an unusual number of planning opportunities for companies importing and distributing and/or producing merchandise in the United States, Canada and Mexico. Examples include the following:

NAFTA Qualification. Merchandise from a non-NAFTA country can be admitted to a zone for production of a NAFTA qualified article for subsequent shipment to Mexico or Canada.

Exports to Mexico. For zone shipments to Mexico, by utilizing both the zone and the NAFTA framework, a company is currently able to avoid US Customs duties on the imported components and pay Mexican Customs duties at the preferred NAFTA duty rate.

Exports to Canada For zone shipments to Canada, although it is no longer possible to completely avoid US duties on the non-NAFTA components, there are still a number of benefits to the zone user: 1) the usual cash flow and inverted tariff savings; 2) avoidance of duty on the US labor, overhead and profit; 3) the ability to reduce US duty liability up to the amount of Customs duties paid in Canada; and 4) additional cash flow savings from deferring the payment of US duties for an additional sixty days from the date of importation into Canada or the date of admission into a Canadian duty deferral program.

GATT Tariff Concessions/Carly Reductions in Duty Rates. The implementation over time of the tariff concessions made under the Uruguay Round Agreements of GATT continue to create new zone opportunities in terms of inverted tariff savings, etc. In some instances, Customs duty rates on finished

products reduce yearly while the rates on many parts remain constant. As indicated above, there are numerous ways wnes can be utilized to provide businesses operating in the international arena significant financial savings. As a result of globalization and increased international trading activities, the Program has grown rapidly in recent years and the number of businesses utilizing zones has increased dramatically. Businesses involved in international trade should conduct a cost/benefit analysis of zone utilization as a way to reduce their international trading expenses and thereby make their goods more competitive in the United States and abroad.

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