



INTERNATIONAL  
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# Alcohol, Tobacco and Foreign-Trade Zones

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## ***What is a Foreign-Trade Zone?***

- A foreign-trade zone is a designated site licensed by the Foreign-Trade Zones (FTZ) Board at which special customs procedures may be used. These procedures allow domestic activity involving foreign items to take place prior to formal customs entry.



### ***Foreign-Trade Zones Board***

- Secretary of Commerce (chair)
- Secretary of the Treasury
  
- U.S. Customs and Border Protection (CBP) acts as an advisor to the Board and represents the Board in the field.



### ***Foreign-Trade Zones Board***

- FTZ Act of 1934 established FTZ Board
  - Envisioned as transshipment centers
- Manufacturing not permitted until 1950
  
- Name sounds similar to “free trade zones” abroad, but major differences exist between the U.S. and other zone programs
  - Primary difference: CBP & other agency oversight



### ***What is a Foreign-Trade Zone?***

- A site which has been granted zone status may not be used for zone activity until the site has been separately approved for FTZ “activation” by local CBP officials.
- Zone activity is under the day-to-day supervision of CBP.
- FTZ sites and facilities remain within the jurisdiction of local, state and federal governments or agencies.



### ***Are zones outside the US?***

- **No!** While merchandise within a zone is considered outside the customs territory of the U.S., this is for formal entry procedures only. Foreign merchandise admitted to a zone is within the territory and jurisdiction of the U.S. and is considered imported (i.e., general imports)



### ***Who has jurisdiction within a Foreign-Trade Zone?***

- If a federal, state or local agency would otherwise have authority under their law or regulations to enter/inspect a facility, the fact that it has FTZ status will not affect that authority.
- Some agencies have jurisdiction over imports generally, others are concerned only with imports for consumption.
- Must have all necessary permits for storage of alcohol, tobacco or firearms.



### ***What are the types of zones?***

- **General-purpose zones** are usually located at ports or industrial parks. They must be open to multiple zone users. Although manufacturing is permitted within general-purpose zones, the most common use is for warehouse and distribution activity.



### *What are the types of zones?*

- **Subzones** are special-purpose zones, usually at manufacturing plants. A subzone of a general-purpose zone can be approved if the company is unable to relocate existing facilities into a general-purpose zone site. Subzones are approved for use by one company for a specific activity.



### *FTZ versus Bonded Warehouse*

#### **FTZ**

- CBP bond required
- Under CBP supervision
- No time limit
- Imported, not entered
- Manufacturing allowed\* (subject to approval)

#### **Bonded Warehouse**

- CBP bond required
- Under CBP supervision
- 5 year storage limit
- Goods considered entered
- Limited processing by bonded warehouse type



### ***Where can a zone be located?***

- Every zone site must be “adjacent” to a CBP port of entry:
  - Within the limits of a CBP port of entry.
  - Within 60 statute miles of the outer limits of a CBP port of entry.
  - Within 90 minutes’ driving time from the outer limits of a CBP port of entry as verified by the CBP Port Director.
- For subzones only: if a subzone site does not meet the adjacency requirement, it may alternatively qualify to be considered adjacent if they work with the CBP Port Director to ensure that proper oversight measures are in place



### ***What activity is permitted in zones?***

- Merchandise in a zone may be assembled, exhibited, cleaned, manipulated, manufactured, mixed, processed, relabeled, repackaged, repaired, salvaged, sampled, stored, tested, displayed and destroyed.
- Manufacturing and processing activity must be specifically approved by the FTZ Board.
- Specific limitations on activity involving alcohol, tobacco and firearms.
- **Retail trade is prohibited in activated zone space.**



### ***What kind of merchandise can be placed in a zone?***

- Merchandise prohibited from import into the U.S. cannot be brought into a zone.
- “Conditionally admissible” merchandise can be brought into a zone for re-labeling/processing to make it eligible for entry (*e.g.* automobile with European emissions standards)



### ***Status of Merchandise in a Zone***

- Privileged Foreign (PF)
  - Merchandise maintains its status based on its condition when it was admitted to the zone. Thus, when the merchandise is shipped from the zone to the U.S. market and entered for consumption by CBP, it is evaluated based on its condition at the time of admission, even though it may have undergone a transformation in the zone.



### *Status of Merchandise in a Zone*

- Non-privileged Foreign (NPF)
  - Merchandise is evaluated based on its condition at the time it is shipped from the zone to the U.S. market and entered for consumption by CBP.
- Domestic
  - Merchandise that is of domestic origin but also includes foreign-origin merchandise on which customs entry and duty payments have been made prior to admission to the zone site.



### *Status of Merchandise in a Zone*

- Zone-Restricted (ZR)
  - Merchandise in this status must be exported or destroyed.
  - Distilled spirits, wine & beer may not be admitted in ZR status for destruction. If needed, destruction can later be done with approval by TTB (27 CFR 28.35-38)
  - **Caution:** Merchandise shipped from a bonded warehouse to a FTZ must be admitted in zone-restricted status.





## *Status of Merchandise in a Zone*

- **Zone-Restricted (con't)**
  - Domestic non-tax paid alcohol and tobacco products can be admitted into a zone in zone-restricted status and be considered exported.
  - ZR merchandise is eligible for drawback of duties or internal revenue taxes.



## *What are the Benefits to Zone Users?*

- **Duty Exemption** on re-exports.
- **Duty Deferral** on imports.
- **Inverted Tariff.** If manufacturing results in a finished product that has a lower duty rate than the rates on foreign inputs, the finished products may be entered at the lower duty rate - subject to public interest considerations.
- **Logistical Benefits.** Companies may have access to streamlined customs procedures (e.g. "weekly entry" or "direct delivery").



### *What are the Benefits to Zone Users?*

- **Other Benefits:**

- Internal revenue tax not due until the 14<sup>th</sup> day after the last day of the semimonthly period during which the merchandise is removed from the first FTZ into which it is admitted.

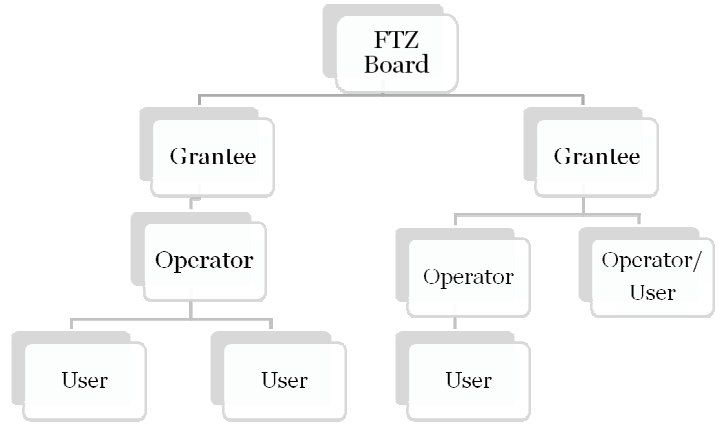


### *What are the public benefits?*

- Help facilitate and expedite international trade.
- Provide special customs procedures to help firms conduct international trade related operations in competition with foreign facilities.
- Encourage and facilitate exports.
- Help attract offshore activity and encourage retention of domestic activity.
- Assist state/local economic development efforts.
- Help create and maintain employment opportunities.

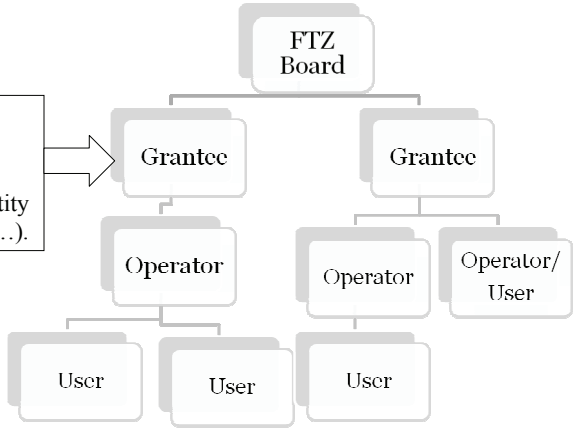


### ***Zone Structure***



### ***Zone Structure - Grantee***

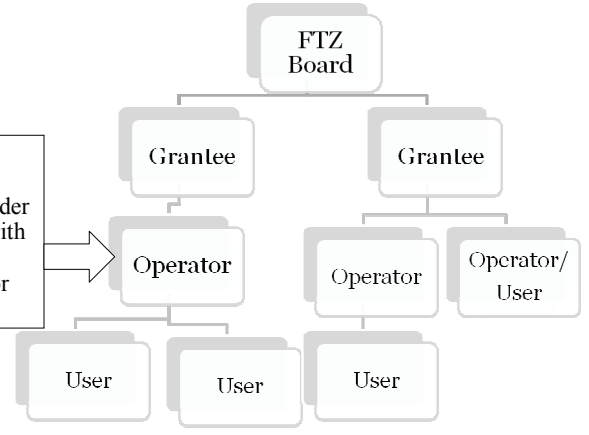
**Grantee –**  
The corporate recipient of a grant of authority for a zone project. Usually a public entity (city, county, port authority...).





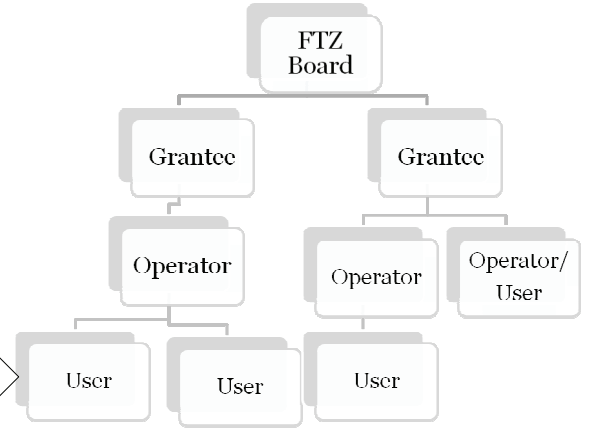
### *Zone Structure - Operator*

**Operator** - A corporation, partnership, or person that operates a zone or subzone under agreement with the grantee, with the concurrence of the Port Director of CBP. The operator has the bond with CBP.



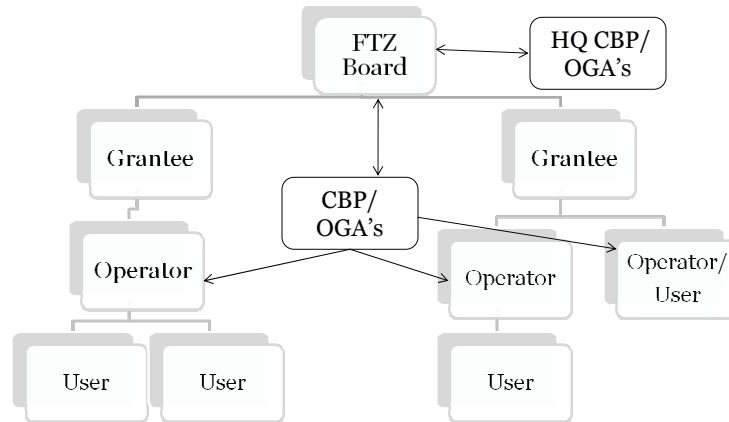
### *Zone Structure - User*

**User** - A party using a zone under agreement with the zone grantee or operator.





## ***Zone Structure***



## ***Current Statistics***

- 254 Zones in all 50 states and Puerto Rico
- 500+ Subzones
- Over 300,000 employees in active zones
- Over \$490 billion in merchandise was handled in FTZs in FY 2006



### ***Specific Restrictions***

- Domestic non-tax paid alcohol and tobacco products may only be admitted to FTZs in zone-restricted status
- P.L. 105-33 (Re-importation of tobacco products) applies to merchandise brought into the U.S. – including into FTZs – so the license is required.



### ***Specific Restrictions***

- Manufacturing of alcohol products, tobacco products and firearms in FTZs is prohibited.
- Some manipulations may be allowed with FTZ Board and TTB approval
- Permitted activities include:
  - Storage, bottling
  - Mixing of 2 alcohol products unfit for beverage purposes
  - Destruction



### ***Specific Restrictions***

- Example of prohibited activities include:
  - Blending of ethanol & gasoline
  - Assembly of firearms
  - Production of anhydrous alcohol
  - Production of industrial ethyl alcohol from propane and other substances
  - Reconstitution of imported beer concentrate



### ***Use of Ethanol***

- Can ETBE be produced in a FTZ from pure or denatured imported ethanol?
  - The FTZ Act prohibits the manufacture of “alcohol products unfit for beverage use” and any operations that would be subject to Chapter 51 if done in customs territory.
  - Imported pure and denatured ethanol must first be transferred to a DSP.
  - TTB: a DSP cannot be established within an FTZ



### ***Recordkeeping Summary***

Zone operators are required to keep the following CBP documents for 5 years:

- Shipments into a zone:
  - CBP Form 214 (with supporting commercial invoice)
- Shipments from a zone:
  - CBP Forms 3461 and 7501 (entry) (with invoice or other supporting documents)
  - CBP Form 7512, AES (export)



### ***Recordkeeping Summary***

- Zone to Zone Transfers:
  - CBP Form 7512
  - The operator of the sending zone is responsible for maintaining a complete record of all goods that have been transferred to another zone for 5 years from the date of transfer.





### ***Recordkeeping Summary***

- Activity beyond simple warehouse/distribution (e.g. re-labeling, processing...) requires a CBP Form 216.
- Any activity that changes the tariff classification requires specific FTZ Board approval (Grant of Authority/Board Order).



### ***What are my options for using a zone?***

- General-purpose zone
  - Contact grantee for available sites
  - Possibility of using an existing operator
- Subzone
  - For your company's facility(if use of an existing FTZ site is not practical).
  - Must demonstrate that approval is in the public interest
- Either way, work with the local grantee.



### ***Your Local FTZ***

- 254 FTZs throughout U.S.:
  - Many of those FTZs have multiple sites in their geographic area.
- List of grantees and contact info on FTZ Board web site.



### ***Applying for a Subzone***

- Subzones can be for warehouse/distribution
- 10 month application process
- Application guidelines available on FTZ website
- Draft applications are highly encouraged
- FTZ staff available to answer any questions on benefits, the application process or guidelines
- Sample completed applications, FAQ's, etc., available on website.



### ***Operating in an FTZ***

- Stage 1: approval with the FTZ Board
- Stage 2: activation with CBP
  - Inventory control system/procedures manual
  - Background checks
  - Bond
- Annually: provide information to the grantee so that the grantee can submit their annual report to the FTZ Board. FTZ Board then reports to Congress on zone activity.



### ***Legal Authority***

- FTZ Act of 1934 – 19 U.S.C. 81a-81u
- FTZ Board Regulations – 15 C.F.R. Part 400
- CBP FTZ Regulations – 19 C.F.R. Part 146



***For more information***

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