



Foreign Trade Zones & Foreign Trade Zone No. 86, an Overview

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FTZ Basics

Why were FTZs created?



Foreign-trade zones (FTZs) were created by the Foreign-Trade Zones Act of 1934 for the purpose of:

- Expediting and encouraging foreign commerce;
- Making U.S.-based businesses more competitive;
- Creating employment opportunities in the U.S.

What is a Foreign Trade Zone?



- ❖ Defined physical area within the United States deemed to be outside U.S. Customs territory of the United States for duty purposes
- ❖ Goods in zones are considered to be part of international commerce, not domestic
- ❖ Foreign and domestic merchandise may be admitted into zones without being subject to formal Customs entry procedures, the payment of Customs duties, or the payment of federal excise tax.
- ❖ It is only once goods leave the zone to enter the commerce of the US that normal tariff and Customs regulations apply to those goods.

Key participants



- ❖ FTZ Board – Comprised of the Secretary of Commerce and the Secretary of Treasury
- ❖ Establish how FTZs are designated and modified, approves production authority, approves new zone activities
- ❖ US Customs – Authorize activation and direct oversight of FTZ activity
- ❖ Grantee – Entity to which privilege of establishing, operating, and maintaining an FTZ has been granted
- ❖ Operator – A corporation, partnership, or person that operates a zone (or subzone) under terms of an Agreement with zone Grantee

Commonality among companies using FTZs



- ❖ Importing merchandise for warehousing and distribution or for production into final products for sale domestically or for export
- ❖ Looking for duty deferral or elimination
- ❖ Wish to reduce various fees, such as merchandise processing fees

Types of companies using FTZs



- ❖ Warehousing/Distribution
- ❖ Motor Vehicle Assembly
- ❖ General Manufacturing
- ❖ Pharmaceuticals
- ❖ Machinery/Equipment
- ❖ Oil refinery/Petrochemical
- ❖ Electronics
- ❖ Food Processing

FTZ activities



- ❖ **Any merchandise not prohibited by law may be admitted to an FTZ**
- ❖ **Merchandise admitted into a zone may be:**

| | | |
|-----------|------------|----------|
| Assembled | Displayed | Stored |
| Tested | Repaired | Cleaned |
| Sampled | Repackaged | Salvaged |
| Relabeled | Destroyed | |



High-level concept

Import duties and Federal excise taxes are not paid until, and unless, the goods enter the commerce of the United States

May result in:

- Duty deferral
- Duty reduction or elimination
- No quotas
- Weekly entries
- Streamlined logistics

Any merchandise that is not prohibited from entry into the U.S. may generally be admitted into a Zone

Benefits, a closer look



Duty Deferral/Reduction/Elimination

- ❖ No duty paid on goods destroyed in zone (large amounts of scrap, fragile imports)
- ❖ No limit on length of time that merchandise may remain within the Zone, whether or not duty is owed
- ❖ Inverted Tariff: Finished product results in lower tariff rate than individual components (Kitting)
 - ❖ Example:
 - ❖ Zone user imports motor with 4% duty rate;
 - ❖ Uses it in manufacture of vacuum cleaner which is duty free;
 - ❖ When assembled vacuum leaves zone, no duty paid

Benefits, a closer look cont.



- ❖ Quotas: In most instances, imports subject to quotas may be retained with zone once quota has been reached
 - ❖ Merchandise can then be admitted once new quota year starts
- ❖ Zone-to-Zone Transfer
- ❖ Expedited Deliver – direct delivery to zone reducing transit times
- ❖ Weekly Entries vs. Each Shipment: Zone User files one customs entry per week, rather than filing one entry per shipment
 - ❖ Thus, Merchandise Processing Fees are assessed once per week rather than per shipment

National benefits



- ❖ Job creation and retention: FTZs provide a competitive advantage for U.S.-based manufacturing and distribution operations. As a result, jobs that otherwise might be located overseas are created and retained in the U.S.
- ❖ Increased exports: The elimination of duties on exported merchandise makes U.S.-based companies more competitive in export markets



Establishing a Zone

Foreign Trade Zone No. 86



Service Area (i.e. jurisdiction) for Port of Tacoma is
Pierce County



How to establish a zone in Pierce County



Designation (Application Phase)

- ❖ Apply to Port of Tacoma
- ❖ CBP site inspection and concurrence letter
- ❖ Grantee submits application to FTZ Board for review/approval

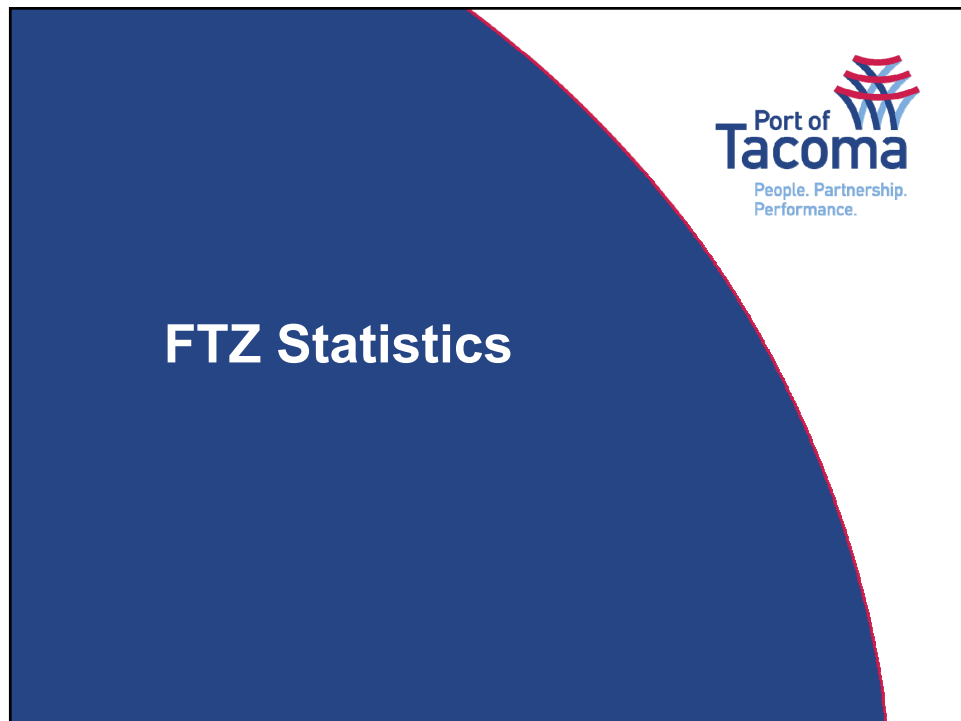
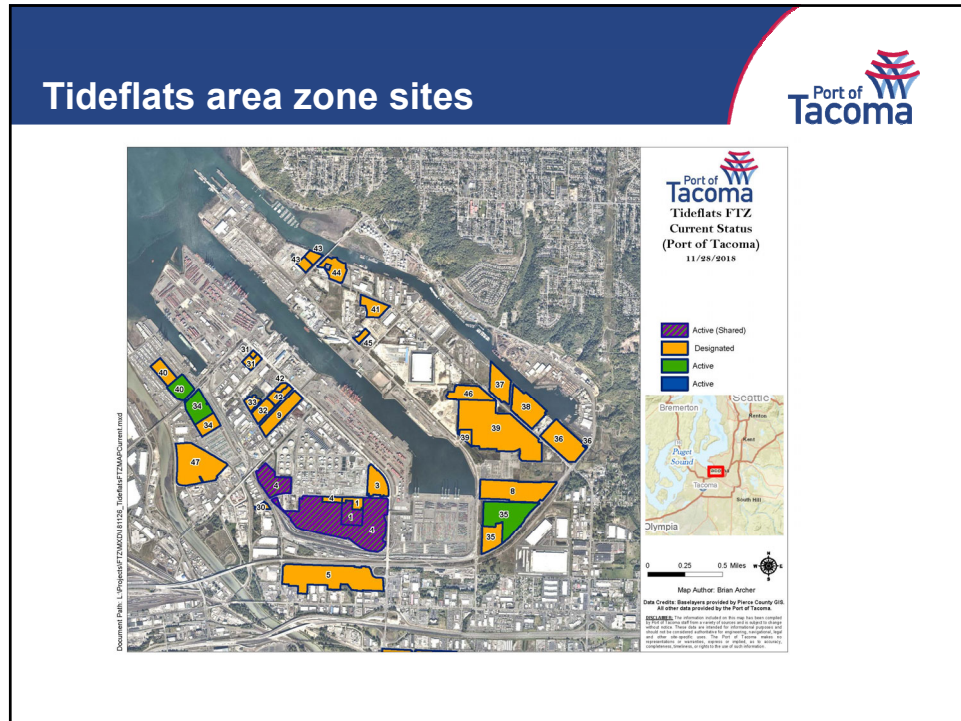
Implementation and Activation

- ❖ Create procedures manual, staff training, inventory software, Operating Agreement with Grantee

Production Authority

- ❖ Anything that results in substantial change of an article or that changes the tariff classification

**Operators currently located in: Tacoma, Sumner,
Spanaway, Anacortes***



Foreign Trade Zone #86, 2018



- ❖ 12 Operators of activated zone sites
 - ❖ 10 warehouse/distribution operators
 - ❖ 1 production operator
 - ❖ 1 oil refinery operator (located in Skagit County)
- ❖ Our operators are involved in: Storage and accessorization of imported vehicles, storage and warehousing of general merchandise including: Footwear, textiles, consumer and electronic goods, and heavy machinery

Foreign Trade Zone #86, 2018

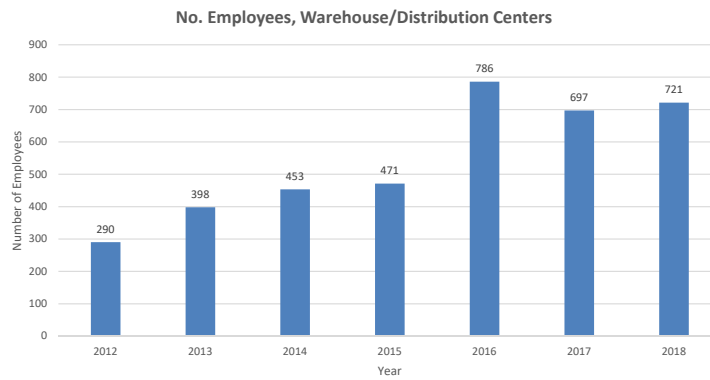


- ❖ FTZ #86 had over \$1.7 billion dollars worth of foreign status merchandise received
- ❖ \$332.5 million value of exported merchandise
- ❖ FTZ #86 was formed in July of 1983 (36 years!)

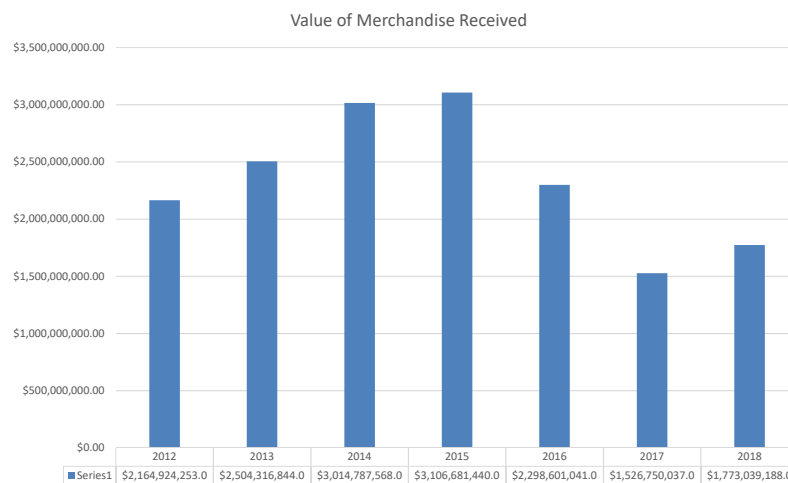
Foreign Trade Zone #86, employment



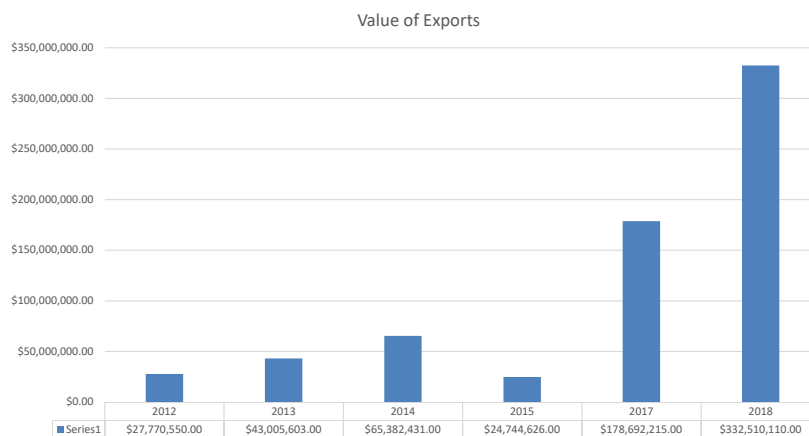
- ❖ In 2018: approximately 901 people employed by FTZ operators within Pierce County (29% increase from 2017)



Foreign Trade Zone #86, employment



Foreign Trade Zone #86, employment



*Note: 2016 (excluded) \$1,189,022,877.00

2017 Annual Report, FTZ Board



❖ <https://enforcement.trade.gov/ftzpage/annual-report.html>

FTZ 86, TACOMA
GRANTEE: PORT OF TACOMA

All Activity:

| MERCHANDISE RECEIVED | EXPORTS | EMPLOYEES |
|----------------------|---------------|-------------|
| \$1,000-5,000 mil | \$100-250 mil | 1,501-2,000 |

Warehouse/Distribution Activity:

| NUMBER OF COMPANIES | MERCHANDISE RECEIVED | EXPORTS | TOTAL SHIPMENTS |
|---------------------|----------------------|---------------|-------------------|
| 15 | \$1,000-5,000 mil | \$100-250 mil | \$1,000-5,000 mil |

Production Activity:

| | COMPANY | MERCHANDISE RECEIVED | EXPORTS | TOTAL SHIPMENTS |
|-----|---------------------------------------|----------------------|-------------|-------------------|
| 86D | Tesoro Refining and Marketing Company | \$1,000-5,000 mil | \$10-25 mil | \$1,000-5,000 mil |

2016 Annual Report, FTZ Board



Top 25 by Zone (Warehouse/Distribution Activity)

Merchandise Received

| Zone | Location |
|------|---------------------------------------|
| 1 | 38 Spartanburg County, South Carolina |
| 2 | 124 Gramercy, Louisiana |
| 3 | 202 Los Angeles, California |
| 4 | 1 New York, New York |
| 5 | 78 Nashville, Tennessee |
| 6 | 21 Dorchester County, South Carolina |
| 7 | 84 Harris County, Texas |
| 8 | 138 Franklin County, Ohio |
| 9 | 147 Berks County, Pennsylvania |
| 10 | 74 Baltimore, Maryland |
| 11 | 22 Chicago, Illinois |
| 12 | 49 Newark/Elizabeth, New Jersey |
| 13 | 50 Long Beach, California |
| 14 | 29 Louisville, Kentucky |
| 15 | 144 Brunswick, Georgia |
| 16 | 75 Phoenix, Arizona |
| 17 | 26 Atlanta, Georgia |
| 18 | 68 El Paso, Texas |
| 19 | 61 San Juan, Puerto Rico |
| 20 | 148 Knoxville, Tennessee |
| 21 | 276 Kern County, California |
| 22 | 235 Lakewood, New Jersey |
| 23 | 86 Tacoma, Washington |
| 24 | 205 Port Hueneme, California |
| 25 | 62 Brownsville, Texas |

Exports

| Zone | Location |
|------|---------------------------------------|
| 1 | 21 Dorchester County, South Carolina |
| 2 | 62 Brownsville, Texas |
| 3 | 281 Miami-Dade County, Florida |
| 4 | 25 Broward County, Florida |
| 5 | 86 Tacoma, Washington |
| 6 | 68 El Paso, Texas |
| 7 | 1 New York, New York |
| 8 | 94 Laredo, Texas |
| 9 | 38 Spartanburg County, South Carolina |
| 10 | 114 Peoria, Illinois |
| 11 | 84 Harris County, Texas |
| 12 | 148 Knoxville, Tennessee |
| 13 | 2 New Orleans, Louisiana |
| 14 | 276 Kern County, California |
| 15 | 32 Miami, Florida |
| 16 | 202 Los Angeles, California |
| 17 | 49 Newark/Elizabeth, New Jersey |
| 18 | 9 Honolulu, Hawaii |
| 19 | 26 Atlanta, Georgia |
| 20 | 61 San Juan, Puerto Rico |
| 21 | 27 Boston, Massachusetts |
| 22 | 40 Cleveland, Ohio |
| 23 | 77 Memphis, Tennessee |
| 24 | 160 Anchorage, Alaska |
| 25 | 138 Franklin County, Ohio |

FTZs, nationally



In 2017:

- ❖ 191 active FTZs in all 50 states plus Puerto Rico
- ❖ 3,200+ companies currently utilize the program
- ❖ \$87 billion in merchandise exported
- ❖ \$669 billion, foreign and domestic merchandise received
- ❖ 450,000 employed

