

## OVERVIEW - FOREIGN-TRADE ZONES

### What is a Foreign-Trade Zone?

Foreign-trade zones are designated sites licensed by the Foreign-Trade Zones (FTZ) Board (Commerce Secretary is Chairperson) at which special Customs procedures may be used. These procedures allow domestic activity involving foreign items to take place prior to formal Customs entry. Duty-free treatment is accorded items that are reexported and duty payment is deferred on items sold in the U.S. market, thus offsetting Customs advantages available to overseas producers who compete with producers located in the United States. A site which has been granted zone status may not be used for zone activity until the site or a section thereof has been separately approved for FTZ activation by local U.S. Customs officials, and the zone activity remains under the supervision of the Bureau of Customs and Border Protection, U.S. Department of Homeland Security. FTZ sites and facilities remain within the jurisdiction of local, state or federal governments or agencies.

### What are the types of zones?

Under the Alternative Site Framework (ASF), there are two basic types of general-purpose zones:

- **Magnet Site**--is a zone facility selected by a grantee and designated via FTZ Board action, based on its ability to attract multiple potential FTZ operators/users. It is akin to the traditional industrial park or port facility FTZ site.
- **Usage-Driven Site**--is designated for a specific company ready to conduct FTZ activity. Designation by the FTZ Board is via a simplified boundary modification application using the space needed by the company. Under ASF, a Usage-Driven Site is considered general purpose if the adjacent space to the company has potential for future FTZ use.

**Subzones** are special-purpose zones, usually at manufacturing plants. Subzones are approved for use by one company for a specific activity. Applications for subzone status must demonstrate a significant public benefit for approval.

### What are the public benefits?

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

### What are the benefits to a zone user?

- **Duty Exemption.** No duties on or quota charges on re-exports.
- **Duty Deferral.** Customs duties and federal excise tax deferred on imports.
- **Inverted Tariff.** In situations where zone manufacturing results in a finished product that has a lower duty rate than the rates on foreign inputs (inverted tariff), the finished products may be entered at the duty rate that applies to its condition as it leaves the zone -- subject to public interest considerations.
- **Logistical Benefits.** Companies using FTZ procedures may have access to streamlined customs procedures (e.g. "weekly entry" or "direct delivery"). Financial savings could be substantial because of the merchandise processing fee charged on every shipment. The maximum fee is

\$485 per shipment but with zone status, numerous shipments can be bundled into one weekly entry so only one fee of \$485 would be charged.

- **Other Benefits.** Foreign goods and domestic goods held for export are exempt from state/local inventory taxes. FTZ status may also make a site eligible for state/local benefits which are unrelated to the FTZ Act.

### **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, processing and any activity that results in a change of the tariff classification must be specifically approved by the FTZ Board.
- Retail trade is prohibited in zones.

### **MEMPHIS FOREIGN-TRADE ZONE NO. 77**

The City of Memphis was granted authority by the Foreign-Trade Zones Board by Board Order No. 0189, dated April 2, 1982, to establish, maintain and operate General-Purpose Zone No. 77. Enabling legislation authorizing the creation of the Memphis Foreign-Trade Zone (FTZ) is provided in the Tennessee Code, Title 7, Chapter 85: Foreign Trade Zones and the City of Memphis Charter, Part I, Article 77, Sec. 867.3: Foreign Trade Zone. On February 29, 2012, an expansion and reorganization of the Memphis FTZ under the Alternative Site Framework of the Foreign-Trade Zones Board was approved by Board Order No. 1817 to expand the Zone Service Area to include all of Shelby County, Tennessee.

In Fiscal Year, 2017, management of FTZ activities is being carried out by MAP Studio, LLC through a contract with the Economic Development Growth Engine (EDGE) for Memphis & Shelby County.

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**Websites:** Foreign-Trade Zones Board <http://ia.ita.doc.gov/ftzpage/>  
National Association of Foreign-Trade Zones <http://www.naftz.org/>