

## Foreign-Trade Zone Frequently Asked Questions and Terminology

### Frequently Asked Questions

#### **Why are there Foreign Trade Zones?**

The Foreign-Trade Zones Program was created by the U.S. Congress with passage of the Foreign Trade Zones Act of 1934. Enacted during the Great Depression, the FTZ Act was intended to “expedite and encourage foreign commerce and other purposes.” The Act allows the authorization Foreign-Trade Zones as secure areas under the supervision of the U.S. Customs and Border Protection that are outside of the Customs territory of the United States for the purposes of payment of duty.

#### **What is the role of the U.S. FTZ Board?**

Authority for establishing these facilities is granted by the Foreign-Trade Zones Board. The FTZ Board has authority to determine the rules and regulations concerning zones, authorize zones and users, approve manufacturing and processing activities, approve modifications, inspect zone users and premises, require reporting, and more. Visit the [FTZ Board’s website](#) for further information on foreign-trade zones.

#### **What is the role of the Grantee, FTZ 125?**

A Grantee is the entity to which the privilege of establishing, operating, or maintaining a zone project has been given. FTZ 125 operates under the authority of the St. Joseph County Airport Authority. The principal responsibilities of a Grantee are to operate the zone as a public utility with fair and reasonable rates, report on usage, promote utilization of the zone to operators and users, and more.

#### **What is the role of the Operator/User?**

An Operator is an organization that operates an FTZ subzone under the terms of an agreement with the Grantee. A User is an organization that uses a zone under agreement with the Grantee or Operator for storage, handling, processing, or manufacturing of merchandise in zone status, whether foreign or domestic. Usually, the User is the entity which requests a permit to admit, process, or remove zone status merchandise. In subzones, the Operator and User are usually the same entity.

#### **What is the role of the Service Provider?**

Service providers in the FTZ sector are companies that provide important FTZ-specific services to grantees and operator/users. Examples of such services are legal representation, consulting, bond insurance, zone management, inventory-control and recordkeeping software, customs brokerage, and third-party logistics.

## **What is the role of U.S. Customs and Border Protection?**

The principal interest and concern of U.S. Customs and Border Protection (CBP) in zones is control of merchandise moving to and from the zone, the protection of the revenue, and to ensure that zone procedures are in compliance with the FTZ Act and all laws and regulations pertaining to zone use. Regulations of U.S. Customs and Border Protection concerning zones are contained in 19 CFR Part 146. More detail on the role of CBP can be found [on their website](#).

## **What is the role of State and Local Jurisdictions?**

Generally, state and local laws are applicable in zones, except to the extent that they would contravene the Constitution and federal laws under the Constitution. The FTZ Board is directed to cooperate with the state, subdivision, and municipality in which an FTZ is located in the exercise of their police, sanitary, and other powers.

## **Why do companies use foreign-trade zones? What types of companies benefit from FTZs?**

U.S.-based companies locate in foreign-trade zones for a variety of reasons. The common thread among all FTZ-using companies is that they are importing merchandise for warehousing and distribution or for production into final products for sale domestically or for export. Companies that import parts, inputs and products from international markets are attracted to FTZs due to huge savings in time and costs. A FTZ candidate is looking for duty deferral or duty elimination opportunities and wants to reduce or eliminate duty drawback processes and expenses, brokerage fees and associate merchandise processing fees. Companies that both import and export should seriously consider the benefits of FTZ status.

## **Many types of companies use FTZs to gain a competitive advantage, including:**

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

## **Frequently Used Terminology**

**FTZ:** Foreign Trade Zone

**CBP:** U.S. Customs and Border Patrol

**Activation:** Approval by the Customs Port Director and the Grantee for the zone to begin receiving merchandise in zone status.

**Admission:** Process of bringing merchandise into the activated zone area with zone status.

**Alternative Site Framework (ASF):** An optional approach to designation and management of zone sites with FTZ activities to fixed sites with additional flexibility to serve companies at other locations where demand for services arise.

**Cargo Release:** The initial process of filing data related to an import with U.S. Customs. A Cargo Release is the actual approval by U.S. Customs for the goods to enter the commerce of the United States.

**Dutiable Value:** The value of merchandise imported into the U.S. upon which duty is owed.

**Entry:** The Customs process that allows merchandise to be brought into the commerce of the U.S.

**Foreign Merchandise:** Imported merchandise which has not been entered into the Customs territory of the U.S. It may have privileged, non- privileged or zone restricted status.

**Grantee:** An organization to which the privilege of establishing, operating, and maintaining a Foreign Trade Zone has been granted by the FTZ Board.

**Harmonized Tariff Schedule of the U.S. (HTSUS):** The HTSUS is an international classification system of imported commodities that is used to determine the tariff that is assessed by the government for these commodities. A Harmonized Code is a specific classification for a specific type of commodity. <https://hts.usitc.gov/current>

**Operator:** A corporation or company that operates a zone or subzone under the terms of an agreement with the Grantee.

**Port Director:** The Customs person in charge of a Port of Entry area.

**Production:** Activity involving the substantial transformation of a foreign article resulting in a new and different article having a different name, character, and use or activity involving a change in the condition of the Customs classification of the article or its eligibility for entry for consumption.

**Service Area:** Jurisdiction within which a Grantee proposes to be able to designate sites via Minor Boundary Modification (MBM) under the ASF.

**Subzone:** A special purpose zone established as part of a zone project for a limited purpose which cannot be accommodated within an existing zone facility.

**Traditional Site Framework (TSF):** Designed to serve zones that are focused on attracting FTZ activities to fixed sites.

**Unique Identifier Number (UIN):** A number or identifier assigned to a specific type of material or merchandise admitted to the zone.

**User:** A company, firm or person using a zone for storage, handling, or processing of merchandise.

**Zone Schedule:** A Grantee publication that contains rates and charges and all internal rules and regulations that apply to their identified Foreign-Trade Zone.

**Zone Site:** The physical location of a zone or subzone.

**Zone Status:** The status of merchandise admitted to an FTZ.

*The four types of Zone Status are:*

1. **Privileged Foreign (PF):** Foreign merchandise upon which the duty and applicable taxes have been determined at the time that this status is approved. The determined duty rate and taxes are not subject to future fluctuation. Once established, privileged foreign status cannot be changed.
2. **Non-Privileged Foreign (NPF):** Foreign merchandise upon which the duty and applicable taxes will be determined at the time that the merchandise enters the Customs territory of the U.S. from the zone for consumption.
3. **Domestic:** Merchandise which has been produced in the U.S. and not exported; or merchandise imported into the U.S. and duty paid at the time of entry.
4. **Zone Restricted (ZR):** Merchandise admitted to the zone for the sole purpose of exportation or destruction. Merchandise with zone restricted status may not enter U.S. Customs territory for consumption except when approved by the FTZ Board.

## Frequently Used Customs Forms

**214:** Document which authorizes the admission of merchandise into a zone and designates the status of the merchandise.

**216:** Document which authorizes the User to engage in certain activities with the zone such as manipulation, storage, destruction, etc.

**7501:** The final declaration of goods, and values as approved by a corresponding Cargo Release, on which final duty payment is made.

**7512:** Document which must be approved by Customs and furnished to the Operator prior to the physical removal of any merchandise from the zone for exportation of merchandise from the U.S.

### Contact FTZ125

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