

FOREIGN TRADE ZONES & BONDED WAREHOUSES

AN OVERVIEW BY ROCKEFELLER GROUP FOREIGN TRADE ZONE SERVICES

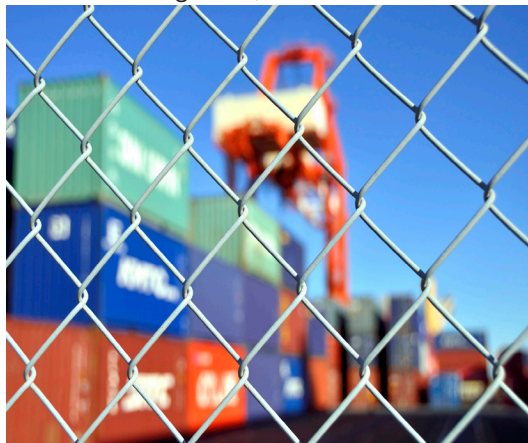
Impact of Reciprocal & Other Trade Remedy Tariffs: FTZs vs. Bonded Warehouse FTZ Duty/Tariff Treatment

Merchandise subject to reciprocal tariffs and all other trade remedy tariffs (i.e., IEEPA, Section 301, Section 232, AD/CVD, etc.) is **currently required to be admitted/brought into Foreign Trade Zones (FTZs) in Privileged Foreign (PF) Status**. PF Status locks in the Harmonized Tariff Schedule (HTS) classification(s) and corresponding duty/tariff rate(s) that are in effect on the date PF status is elected, which is typically at the time of admission. For manufacturing FTZs, electing PF Status at the time of admission *prevents* the company from achieving the “inverted tariff” benefit, which traditionally allowed FTZ users to apply a lower finished good duty rate to the value of the imported parts/components consumed in the FTZ-manufactured finished good.

Whether merchandise is manufactured in or only stored/distributed from an FTZ, **PF Status is binding and may not be abandoned**. This means that the HTS classification(s) and corresponding duty/tariff rate(s) applicable at time of PF Status election remain with the merchandise and will be paid when such merchandise is entered into U.S. commerce regardless whether duty/tariff rate(s) may have been eliminated or reduced while the merchandise was held in the FTZ.

Conversely, since PF Status locks in the HTS classification(s) and duty/tariff rate(s) at the time of election, PF Status merchandise is typically protected from further duty rate increases that may occur while the merchandise is held in the FTZ.

NOTE: FTZ sites are generally required to be located within or adjacent to a U.S. Customs and Border Protection (CBP) port of entry. FTZ sites may be located within CBP port of entry boundaries, or within 60-statute miles of the port of entry's outer limits or within a 90-minute drive from the outer limits of a CBP port of entry. Certain subzones may be located further distances from the port of entry boundaries at CBP's discretion.



Bonded Warehouse Duty/Tariff Treatment

Merchandise deposited in a bonded warehouse will be subject to the prevailing duty/tariff rate(s) in effect at the time the merchandise withdrawn from the warehouse and entered into U.S. commerce. Therefore, if additional tariffs are eliminated or lowered while merchandise is held in a bonded warehouse, duty/tariffs will be paid on the lower rate in effect at the time of withdrawal. However, if duty/tariff rates increase while merchandise is held in a bonded warehouse, the merchandise will be subject to the higher rate(s) at the time of removal.

NOTE: Bonded warehouses are typically located within a reasonable distance of a CBP port of entry but generally not more than 35 miles. This proximity allows for efficient movement of goods between the port and the warehouse, facilitating import and export processes.

FTZs & Customs Bonded Warehouses Comparison

Legal Differences

FTZ

Considered outside U.S. Customs territory; some federal laws do not apply to merchandise admitted to an FTZ. Regulated/overseen by U.S. Foreign-Trade Zones Board and U.S. Customs & Border Protection (“CBP or Customs”).

Bonded Warehouse

Considered within U.S. Customs territory; all federal laws apply to merchandise entered into a bonded warehouse. Regulated/overseen by CBP only.

FTZs & Customs Bonded Warehouses Comparison cont...

Foreign vs. Domestic Merchandise

FTZ

Foreign and domestic may be admitted to an FTZ.

Bonded Warehouse

Generally, only dutiable imported merchandise and/or merchandise subject to a quota may be entered into a bonded warehouse.

Bond Requirements

FTZ

No importer/entry bond is required when merchandise is admitted to an FTZ; however, an FTZ operator's bond is required.

Bonded Warehouse

Proprietor must have a proprietor's bond and each entry must be covered by either a single or continuous importer/entry bond.

Types of FTZs vs. Bonded Warehouses

FTZ

- Importer-operated FTZs vs. 3PL-operated FTZs.
- Distribution-only FTZs vs. manufacturing/production FTZs.

Bonded Warehouse

There are different "classes" of bonded warehouses. Manufacturing can occur only in a Class 6 bonded warehouse for export. Note that Classes 1, 2, 3, 4, 5, 6, 7 or 11 *may* also be approved by CBP for 'manipulation' activities similar to Class 8. The distinctions between manipulation and manufacturing may be significant and complex.

- Class 1: Merchandise undergoing examination by Customs, under seizure, or pending final release from Customs custody.
- Class 2: Importers' private bonded warehouses used exclusively for the storage of merchandise belonging or consigned to the proprietor thereof.
- Class 3: Public bonded warehouses used exclusively for the storage of imported merchandise.
- Class 4: Bonded yards or sheds for the storage of heavy and bulky imported merchandise; stables, feeding pens, corrals, or other similar buildings or limited enclosures for the storage of imported animals; and tanks for the storage of imported liquid merchandise in bulk.
- Class 5: Bonded bins or parts of buildings or of elevators to be used for the storage of grain.
- Class 6: Warehouses for the manufacture in bond, solely for exportation, of articles made in whole or in part of imported materials or of materials subject to IRS tax; and for the manufacture for home consumption or exportation of cigars in whole of tobacco imported from one country.
- Class 7: Warehouses bonded for smelting and refining imported metal-bearing materials for exportation or domestic consumption.
- Class 8: Warehouses for the purpose of cleaning, sorting, repacking, or otherwise changing in condition, but not manufacturing, imported merchandise.
- Class 9: Duty-free stores.
- Class 11: General Order warehouses.

FTZs & Customs Bonded Warehouses Comparison cont...

Customs Filings Upon Merchandise Arrival

FTZ

Merchandise is 'admitted' on a CBP Form 214/FTZ Admission, which is not a customs entry.

Bonded Warehouse

Merchandise is 'entered for warehouse' on a CBP Form 7501/Warehouse Entry, which is a customs entry.

Merchandise Handling in the Facility

FTZ

FTZs can have domestic and foreign merchandise stored together in the activated area, and merchandise of both types can be commingled and/or combined in an FTZ. Inventory can be managed by Lot # or by UIN (Part Number/SKU) with depletion under FIFO or FOFI methodology.

Bonded Warehouse

Bonded warehouses may only store imported dutiable merchandise in the active bonded warehouse area and therefore cannot commingle foreign and domestic merchandise. Inventory can be managed by Lot # or, with approval from U.S. Customs, by UIN (Part Number/SKU) with depletion under FIFO methodology. Commingling and/or combining of merchandise is restricted.

Classification & Tariff Treatment

FTZ

Different 'zone statuses' allow classification and duty/tariff payment either in condition of merchandise as admitted to FTZ (PF Status) or condition of merchandise upon withdrawal from FTZ (NPF Status).

NOTE: All trade remedy actions (i.e., Reciprocal Tariffs, IEEPA, Section 301, Section 232, Section 201, AD/CVD) mandate that imported merchandise be admitted to FTZs in PF Status, thereby "locking in" the duty/tariff rates associated with that merchandise at the time of FTZ admission and preventing traditional FTZ inverted tariff/duty reduction benefits. It should also be noted that merchandise subject to Antidumping (AD)/Countervailing (CV) duties must be admitted in PF Status but is assessed AD/CVD duties at the rate in effect at the time of entry for consumption from the FTZ.

Bonded Warehouse

Duty/tariff rates are paid based on the date of the bonded warehouse withdrawal entry.

Scrap/Loss/Obsolescence Waste

FTZ

FTZs provide a wide range of savings opportunities related to scrap, loss, obsolescence, damaged goods and waste, including possible duty/tariff elimination through destruction to the point of no commercial value.

Bonded Warehouse

Bonded warehouses provide a limited scope related to destruction.

FTZs & Customs Bonded Warehouses Comparison cont...

Withdrawals for U.S. Consumption

FTZ

Most importers may utilize FTZ weekly entry procedures to withdraw merchandise for U.S. consumption, which may provide considerable financial savings and logistics benefits.

Bonded Warehouse

No weekly entry option. Bonded warehouse withdrawal entries are individual in nature per bonded warehouse entry, which may be feasible for certain companies, commodities and shipping patterns but may be cumbersome for others.

Restrictions on Transfers Between FTZs & Bonded Warehouses

FTZ

Merchandise in non-privileged foreign (NPF) status can be transferred for entry into a bonded warehouse with certain date restrictions. However, merchandise in privileged foreign (PF) status cannot be entered into a bonded warehouse from an FTZ.

Bonded Warehouse

Bonded warehouse entered merchandise can only be transferred for admission to an FTZ for exportation or destruction in Zone Restricted (ZR) Status.

Time Limits

FTZ

Merchandise may remain in an FTZ for an unlimited period of time.

Bonded Warehouse

Merchandise in a bonded warehouse may remain there for only five (5) years.

