

FOREIGN TRADE ZONES

WHAT ARE FOREIGN TRADE ZONES?

Foreign-Trade Zones (FTZ) are designated sites at which special Customs procedures may be used. FTZ procedures allow domestic activity involving foreign items to take place as if it were outside the U.S. Customs territory. Goods can remain in a FTZ as “Duty Free” until domestic distribution. If, however the product is exported from the FTZ to a foreign market, no Customs Duty or excise tax is levied. In addition, FTZs provide one of the most flexible methods of handling domestic and imported merchandise. Subzones are special-purpose zones, located at the user’s private facility.

The Foreign Trade Zones Act was passed by Congress in 1934. The program is administered by the Foreign Trade Zones Board in Washington, D.C. Board members include the Secretary of Commerce, the Treasury Secretary, and the Secretary of the Army. The Board oversees the application process to establish these zones, while the U.S. Customs Service provides day to day oversight of zone operations. Foreign Trade Zones are treated as extra-national territory by the U.S. Customs Service and are therefore not part of the Customs territory.

A Foreign Trade Zone is an area that may be a single building, an industrial park, an area of commercial/industrial development, or an existing company’s production facility. There are two types of Foreign Trade Zone authority - “*General-Purpose*” and “*Manufacturing*” authority. Facilities made available for more than one company are considered general-purpose zones (FTZ-126/Sparks, Nv.). General Purpose zones provide authority for warehousing and distribution operations only. No manipulation or transformation of the product is allowed. Manufacturing authority allows for the manipulation or transformation of products within a zone operation. An individual firm seeking authorization for manufacturing operations – manipulation and/or transformation of goods – is normally designated as a Subzone site. The Foreign Trade Zones Board authorizes specific areas to be designated as FTZ space. It is then up to the local Customs officials to approve activation of space within the approved physical site.

The intent of the FTZ program is to provide an opportunity for firms in the U.S. to utilize facilities and commercial/industrial property in efforts to globalize their business, while enhancing U.S. production and job opportunities. It is a very effective tool to lower the cost of production, making U.S. operations more attractive, as compared to similar activity in a foreign country. The program is used by companies with a sophisticated view of financial management in the import/export process. These firms understand the program provides unique financial advantages to U.S. based warehousing, distribution, and production activities.

NEVADA FOREIGN TRADE SERVICES, INC.

Operator - Foreign Trade Zone #126
Sparks, Nevada 89431
Phone: (775) 331- 8010 / Fax: (775) 331-6745

FOREIGN TRADE ZONES

For example; very few products are solely manufactured from U.S. materials or component parts. Nearly every industry uses some degree of foreign sourced materials. The FTZ program allows U.S. firms to consolidate component parts and materials in a "free-zone" area for the manufacture or assembly of a final product that may be "exported" to the U.S. market. Firms are responsible for paying Customs duties only on the final product exported from the zone in the U.S. Customs territory. Furthermore; no duty is paid on a final product exported to a foreign market, or on scrap or damaged components/material parts (if returned to the foreign supplier or destroyed within the zone). Additional cost savings benefits may be realized from reduced inventory carrying costs, improved inventory management, deferral of duty liability, and a number of other benefits specific to the user.

NEVADA FOREIGN TRADE SERVICES, INC.

Operator - Foreign Trade Zone #126
Sparks, Nevada 89431
Phone: (775) 331- 8010 / Fax: (775) 331-6745

FOREIGN TRADE ZONES

FOREIGN TRADE ZONE #126 **Reno/Sparks, Nevada**

Foreign Trade Zones are becoming more popular due to the reduction in cost and operational flexibility. The Reno/Sparks area is well suited for global distribution and manufacturing operations because it is located on the primary east-west artery – interstate 80, the north-south artery-Interstate 395, is served by the Transcontinental Railroad, and has quick access to the ports in the San Francisco Bay area. In addition, virtually all points west of Denver can be reached from northern Nevada by truck within one day. With no inventory, corporate income, or personal income taxes in Nevada, the Reno/Sparks Foreign Trade Zone offers an attractive incentive for firms engaged in International Business and Trade.

Currently, FTZ 126 has seven active locations, providing potential zone users significant flexibility in site selection.

Site 126-1:

FTZ 126-1 was completed in February of 1986. It consists of ten acres and 125,000 square feet of building floor space. This site also has one undeveloped area consisting of five acres.

Site 126-2:

FTZ 126-2 was completed in September of 1988. This site is comprised of one building which is ten acres in size, and has 372,552 square feet of building floor space.

Site 126-3:

The FTZ was expanded in 1997 to include a 3rd site in north Reno comprised of three buildings covering 300,000 square feet of FTZ space. All sites contain ultra-modern, single story, tilt-up concrete buildings. In addition, each site is served by truck common carriers and has easy access to both Interstates 80 and 395.

Site 126-4:

An industrial park located at East Newlands Parkway and Highway 95, in Fernley, Nevada. The Site consists of over 1200 acres. It is approximately 30 miles from Reno/Tahoe International Airport and within the Customs Port of Entry boundaries. The site is served by truck common carriers and has immediate access to Interstate 80, and Highway 95. The park maintains substantial municipal water and sewer capacity, as well as high-pressure gas and abundant electric power. In addition, the park has established fiber optic communication lines for industrial users.

The park offers build-to-suit land for prospective tenants. The severe shortage of alternate industrial sites in Northern Nevada has fed prospects directly into this park. Marketing directed at major Fortune 500 companies has been very successful and produced substantial results. The Stanley Works, a Fortune 400 company, completed construction in February 1997, of a 323,000 square foot warehouse/distribution facility. Stanley currently employs 150 people and intends to expand to 300 people. Quebecor Printing (USA) Corp., the world's second largest commercial printer, will complete its 410,000 square foot, state-of-the-art printing facility in June 1998. The company is

NEVADA FOREIGN TRADE SERVICES, INC.

Operator - Foreign Trade Zone #126
Sparks, Nevada 89431
Phone: (775) 331- 8010 / Fax: (775) 331-6745

FOREIGN TRADE ZONES

expecting to employ 400 people at its \$150 million dollar facility when it is completed. UPS Worldwide Logistics, which already occupies a 256,000 square foot distribution facility, is planning to build a 3.5 million square foot Western Distribution Campus over the next four to five years. The distribution campus is anticipated to employ 2,000 workers when complete.

Site 126-5

An industrial park located at the Patrick Exit off Interstate 80, approximately 15 miles from Reno/Tahoe International Airport and within the Customs Port of Entry boundaries. The site consists of over 1200 acres and is served by truck common carriers and has immediate access to Interstate 80, a major east-west arterial. The park will be served by both the Union Pacific Railroad and the Burlington Northern & Santa Fe Railway, the two largest railroads in the nation. This industrial park is in the early stages of development. Park infrastructure is currently under construction. The park is set to meet the needs of large business users in the 20 to 1,000+ acre range.

Site 126-6

This site encompasses properties within and around the Reno-Tahoe International Airport. The site is served by truck common carriers and has immediate access to Interstates 80 and 395. The terminal area is bounded by Interstate 395 and Terminal Way to the west, and Vassar Street to the North. The Site 6 encompasses approximately 2000 acres of public and private land composed of various facilities that are suitable for a wide range of warehousing, distribution, and production operations. The airport properties are strategically located for distribution and manufacturing operations that need quick and efficient access to air cargo services and interstate transport services.

Site 126-7

Located in and around the Reno-Stead Airport, a converted military base located ten miles north of Reno. The Reno-Stead Airport provides a wide variety of general aviation services and facilities for the Reno/Sparks area. The airport is in the process of upgrading its facilities, and has attracted substantial industrial development. The Reno-Stead Airport Development Plan incorporates multipurpose facilities that can accommodate both corporate and industrial businesses. Land use opportunities have been analyzed to determine the compatible business, commercial, public and recreational developments for the area. The site includes approximately 3000 acres of both Airport and Private land including a mix of developed and undeveloped sites for prospective zone business users. Corporations that have located manufacturing or distribution operations around Stead include J. C. Penney, RR Donnelly, and new a Michelin Tire manufacturing facility.

NEVADA FOREIGN TRADE SERVICES, INC.

Operator - Foreign Trade Zone #126
Sparks, Nevada 89431
Phone: (775) 331- 8010 / Fax: (775) 331-6745

FOREIGN TRADE ZONES

FOREIGN TRADE ZONE BENEFITS

CASH FLOW

U.S. Customs duties are paid only when imported merchandise is shipped into the U.S. Customs territory, transferred to another zone, exported, or destroyed. Merchandise may be held in inventory in the FTZ without U.S. Customs duty payment.

EXPORTS

No U.S. Customs duties are paid on merchandise exported from an FTZ. While the drawback law allows the recovery of U.S. Customs duties previously paid after the merchandise is exported, rarely are all exports subject to drawback. Exports to NAFTA countries of unused merchandise are rarely recovered. In an FTZ, the duties are simply never paid.

WASTE/SCRAP/DEFECTS/DAMAGE/OBSOLESCENCE

U.S. Customs duties are significantly reduced or eliminated on merchandise subject to these accountable losses.

INVERTED U.S. CUSTOMS DUTY SAVINGS

In an FTZ, uniquely, the FTZ user may elect to pay the duty rate applicable to either component materials or the finished product manufactured from the component material, depending upon, which is lower. The reduction or elimination of U.S. Customs duties is significant.

NON DUTIABILITY OF LABOR, OVERHEAD, AND PROFIT

U.S. Customs duties are not owed on labor, overhead and profit attributed to production operations in an FTZ. If the same production operation were done overseas, the value of the labor, overhead and profit would be subject to U.S. Customs duty. The substantial U.S. Customs duty savings may create additional incentives to undertake activity in the United States rather than in a foreign country.

MERCHANDISE PROCESSING FEE/ WEEKLY ENTRIES

Fees are owed only when and if merchandise is transferred from the zone to the U.S. Customs territory. No fee is owed on exports, certain scrap/waste, etc. Weekly entry procedures significantly reduce paperwork and expense.

STAGED DUTY REDUCTIONS

Under the Uruguay Round of GATT, many articles have U.S. Customs duties reduced yearly. Non-privileged foreign status merchandise utilizes the rate of duty in effect as of the shipment date from the zone.

HARBOR MAINTENANCE FEE

Fees are paid quarterly on merchandise admitted in the FTZ, not on the U.S. Customs entry, creating a cash flow advantage.

NEVADA FOREIGN TRADE SERVICES, INC.

Operator - Foreign Trade Zone #126
Sparks, Nevada 89431
Phone: (775) 331- 8010 / Fax: (775) 331-6745

FOREIGN TRADE ZONES

TAXATION

By Federal statute, tangible personal property imported from outside the U.S. and held in a zone, and tangible personal property produced in the U.S. and held in a zone for exportation, are not subject to State and local ad valorem taxes. Many states have tax incentive laws based upon zone status.

INTERNATIONAL RETURNS

A number of firms that export have a percentage of the exports returned to the United States. U.S. Customs duties are owed each time merchandise of foreign origin that has not been registered with U.S. Customs is returned. American Goods Returned merchandise can be verified. By being returned and admitted to an FTZ, no U.S. Customs duties are paid upon return.

COUNTRY-OF-ORIGIN MARKING/LABELING

No country-of-origin labels are required on merchandise admitted to the FTZ. Merchandise shipped into U.S. Customs territory must have appropriate origin labeling which will vary depending on the circumstances.

SECURITY

The FTZ is subject to U.S. Customs Service supervision and security requirements. Unauthorized withdrawal of merchandise, such as employee pilferage or stealing, is a violation of 18 U.S.C. 549, 3571, carrying a penalty up to two (2) years in a federal penitentiary, fines not more than \$250,000, or both per offense.

EXPEDITE IMPORT PROCEDURES

Delays relating to U.S. Customs clearances are eliminated. Special direct delivery procedures expedite the receipt of merchandise in company facilities, reducing inventory transit time.

ANTIDUMPING/COUNTERVAILING DUTIES

Use of an FTZ defers payment of these duties until merchandise enters the U.S. Customs territory. Exported merchandise never pays these duties. Note that recovery of these duties is not available under the drawback law.

SPARE PARTS

To service many products, spare parts must be on hand in the United States for prompt shipment. However, it is impossible for most firms to know the requirements for spare parts, especially with new products. Spare parts may be held in the FTZ without U.S. Customs duty payment, generating cash flow savings. If it is determined that the spare parts are not needed or they become obsolete, they may either be returned to the foreign vendor free of duty or destroyed, avoiding U.S. Customs duties.

U.S. QUOTA

Most merchandise may be held in an FTZ, even if it is subject to U.S. quota restriction. When the quota opens, the merchandise may be immediately shipped into U.S. Customs territory. Voluntary restraint and orderly marketing agreements are not impacted by FTZ use.

NEVADA FOREIGN TRADE SERVICES, INC.

Operator - Foreign Trade Zone #126
Sparks, Nevada 89431
Phone: (775) 331- 8010 / Fax: (775) 331-6745

FOREIGN TRADE ZONES

QUOTA AVOIDANCE

Quota merchandise may be substantially transformed in an FTZ into a non-quota article that may be entered into the U.S. Customs territory free of quota restrictions.

QUALITY CONTROL

The FTZ may be used for quality control inspections to ensure that only merchandise that meets specifications is imported and duty paid. All other materials may be repaired, returned to the foreign vendor, or destroyed.

INVENTORY CONTROL

Operations in an FTZ require careful accounting of receipt, processing, manufacturing, and shipment of merchandise. Firms have found that the increased accountability reduces inventory error, receiving and shipping concerns, and waste and scrap.

ENTIRETIES PROVISION

An importer can choose whether or not the entireties provision (all necessary parts classified as the finished product) is utilized at entry.

EXHIBITION

Merchandise may be held for exhibition in the zone without U.S. Customs duty payment. At a later date the merchandise may be imported or exported.

INSURANCE COSTS

The insurable value of merchandise held in an FTZ need not include the U.S. Customs duty payable on the merchandise. Cargo insurance rates should be reduced because imported merchandise is shipped directly to an FTZ.

ZONE-TO-ZONE TRANSFER

Significant benefits accrue to the in-bond transfer of merchandise from one zone or subzone to another for distribution or manufacture without U.S. Customs duty payment. A network of zone projects provides opportunities to reduce or eliminate duties.

TEMPORARY REMOVAL PROCEDURE

Merchandise may be removed from an FTZ into the U.S. Customs territory for certain activities and returned to the FTZ without U.S. Customs duty payment.

COMPLIANCE WITH FEDERAL LAWS

Merchandise may be admitted into an FTZ without being subject to a wide array of Federal laws that would otherwise prohibit the importation. Upon shipment into the U.S. Customs territory, the merchandise must meet all applicable requirements.

ENTERPRISE ZONE COORDINATION

Foreign-trade zone advantages may be combined with those of enterprise zones for enhanced financial gain.

TRANSFER OF TITLE

Title to merchandise may be transferred in an FTZ as long as there is not a "retail" sale.

NEVADA FOREIGN TRADE SERVICES, INC.

Operator - Foreign Trade Zone #126
Sparks, Nevada 89431
Phone: (775) 331- 8010 / Fax: (775) 331-6745

FOREIGN TRADE ZONES

RECORD IDENTITY ACCOUNTING

Specific physical identification of merchandise is unnecessary in an FTZ. The UIN systems allows FIFO record identity inventory accounting.

CHANGING CIRCUMSTANCES

As U.S. laws and especially U.S. Customs laws change, location in an FTZ allows a firm greater flexibility in addressing these changing circumstances.

Copyright © 1997 Miller & Company P.C.

NEVADA FOREIGN TRADE SERVICES, INC.

Operator - Foreign Trade Zone #126
Sparks, Nevada 89431
Phone: (775) 331- 8010 / Fax: (775) 331-6745