

What is a Foreign-Trade Zone?

A foreign-trade zone is a designated site licensed by the Foreign-Trade Zones (FTZ) Board where special customs procedures consider merchandise to still be in “international commerce”. Duty-free treatment is accorded to items that are re-exported 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. Sub-Zones are special-purpose zones that are driven by a particular company for FTZ status outside of the General Purpose Zone. A site which has been granted zone status may not be used for zone activity until the site has been approved for FTZ activation by both the local FTZ administrator and the local U.S. Customs and Border Protection (CBP) officials. Zone activity remains under the supervision of CBP. FTZ sites and facilities remain within the jurisdiction of local, state or federal governments or agencies

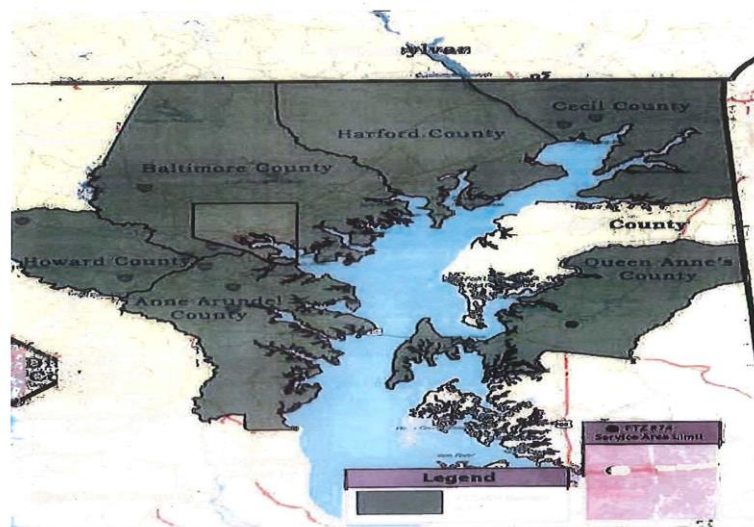


Maryland Foreign Trade Zones

As of 2017, there are four FTZs in Maryland, each with a specific service area: **Baltimore #74**, **BWI Airport #73**, **Prince George’s County #63** and **Washington County #255**. For additional information, please refer to <http://commerce.maryland.gov/grow/expand-to-international-markets>

Foreign Trade Zone #74:

The Foreign-Trade Zone (FTZ) #74 service area comprises of five Maryland jurisdictions in the greater Baltimore region - Baltimore City, Anne Arundel County, Baltimore County, Cecil County, Harford County, Howard County and Harford County. FTZ #74 businesses use activated FTZ space for a variety of uses: non-ferrous metals, spirits and alcohol, and vehicles.



Alternative Site Framework (ASF):

FTZ#74 has an Alternative Site Framework (ASF). ASF gives flexibility to FTZ designation of locations where a company has decided to pursue an FTZ. ASF speeds up the designation process for local manufacturers and exporters by reducing the application paperwork and expedites the decision-making process.

BENEFITS FOR BUSINESSES

The FTZ program helps American companies improve their competitive position versus their counterparts abroad. The program also allows U.S.-based companies to defer, reduce or even eliminate Customs duties on products admitted to the zone.

Deferral of Duties Customs duties and federal excise taxes on imports are paid only when and if merchandise is transferred into U.S. Customs and Border Protection territory. This benefit equates to a cash flow savings that allows companies to keep critical funds accessible for their operating needs while the imported merchandise remains in the zone. There is no time limit on the length of time that merchandise can remain in a zone (as long as the Site is activated for FTZ use).

Reduction of Duties In a FTZ, with the permission of the Foreign-Trade Zones Board, users are allowed to elect a zone status on merchandise admitted to the zone. This zone status determines the duty rate that will be applied to foreign merchandise if it is eventually entered into U.S. commerce from the FTZ. This process allows users to elect the lower duty rate of that applicable to either the foreign inputs or the finished product manufactured in the zone. If the rate on the foreign inputs admitted to the zone is higher than the rate applied to the finished product, the FTZ user may choose the finished product rate, thereby reducing the amount of duty owed.

Elimination of Duties No duties or quota charges are paid on merchandise **exported** from a FTZ. Therefore, duty is eliminated on foreign merchandise admitted to the zone but eventually exported from the FTZ. Generally, duties are also eliminated for merchandise that is scrapped, wasted, destroyed or consumed in a zone.

Re-Exports: Elimination of Drawback. In some instances, duties previously paid on re-exported merchandise may be refunded through a process called drawback. The drawback law has become increasingly complex and expensive to administer. Through the use of a FTZ, the need for drawback may be eliminated allowing these funds to remain in the operating capital of the company. In addition, 3rd-party filing fees may also be eliminated because there is no longer a need to file paperwork with Customs to receive the duty drawback.

Labor, Overhead and Profit In calculating the dutiable value on foreign merchandise removed from a zone, zone users are authorized to exclude zone costs of processing or fabrication, general expenses and profit. Therefore, duties are not owed on labor, overhead and profit attributed to production in a FTZ.

Taxes By federal statute, tangible personal property imported from outside the U.S. and held in a zone, as well as that produced in the U.S. and held in a zone for exportation, are not subject to State and local value-added taxes.

Quotas U.S. quota restrictions do not apply to merchandise admitted to zones, although quotas will apply if and when the merchandise is subsequently entered into U.S. commerce. Merchandise subject to quota, with the permission of the Foreign-Trade Zones Board, may be substantially transformed in a FTZ to a non-quota article that may then be entered into U.S. Customs and Border Protection territory, free of quota restrictions.



Quota merchandise may be stored in a FTZ so that when the quota opens, the merchandise may be immediately shipped into U.S. Customs and Border Protection territory.

Zone-to-Zone Transfer An increasing number of firms are making use of the ability to transfer merchandise from one zone to another. Because the merchandise is transported in-bond, duty may be deferred until the product is removed from the final zone for entry into the U.S. Customs and Border Protection territory.

Logistical Benefits Companies using FTZ procedures may have access to streamlined customs procedures (e.g. "weekly entry" or "direct delivery"). These procedures expedite the movement of cargo, thereby supporting just-in-time inventory methodologies.

Direct delivery Direct Delivery allows for the in-bond transportation of foreign merchandise directly to the Zone user's facility without Customs clearance at the first port of unloading, and additionally without the in-bond carrier needing to report to the local Customs office prior to the delivery of the goods to the Zone site. The loss of this step in the supply-chain creates significant time savings in delivering foreign goods to the Zone user which could save not only hours, but even a day. Inventory/storage needs along the pipeline are greatly reduced as the goods can clear regulatory hurdles more easily.

Weekly entry When goods exit the Zone intended for domestic commerce, a Customs Entry needs to be filed. The Weekly Entry process, which can only be taken advantage of by FTZ businesses, streamlines distribution and Customs paperwork. Presently, FTZ #74's entries can be made electronically which further reduces the wait and reliance on third-party filer fees.

Through Weekly Entries, the Zone user estimates the number and value of its shipments and files only Customs Entry per week no matter how many shipments go out in any given week. For bonded warehouses, most importers must file a Customs Entry per shipment. Some companies save millions of dollars on Merchandise Processing fees through the Weekly Entry procedures because although they are making thousands of shipments a year, they only have to make 52 Customs entries a year.

Merchandise Processing Fees (MPF) are user fees associated to the filing of a Customs entry. The MPF is 0.21% of the value of the merchandise. The minimum cost of an MPF is \$25 and maximum of \$485 per Customs entry. Under Weekly Entries, the max yearly MPF outlay is \$25,220.00 (with a merchandise processing fee of \$485); therefore, if filing only 52 Customs entries per year at the cost savings would be considerable if the Zone user is filling over 52 entries per year.

Other Additional benefits, sometimes referred to as intangible benefits, have begun to play a greater role in a company's evaluation of the FTZ program. Many companies in FTZs find their inventory control and quality control systems run more efficiently, increasing their competitiveness.

For more information

Please contact your local economic development organization about bringing FTZ #74 to your area or contact FTZ Administrator, Foreign Trade Zone #74, grantee Baltimore Development Corporation (BDC) 410-837-9305 or via email at info@baltimoredevelopment.com