



Foreign Trade Zone **FTZ-226** Facts

Content:

Foreign Trade Zone Basics	1
US Businesses that USE FTZs	2
Operations	2
Terminology	3
Business Benefits of Operations	6
California's Central Valley	7
Economic Strategy	8
Local Resources	9
FTZ 226 Locations	9

I. Foreign Trade Zone Basics

A U.S. Foreign-Trade Zone (FTZ, or zone) is a designated area which, for customs purposes, is considered outside the United States.

Foreign or domestic merchandise may enter this enclave without a formal customs entry or the payment of customs duties or government excise taxes. If the final product is exported from the United States, no U.S. customs duty or tax is levied. If, however, the final product is imported into the U.S., customs duty and excise taxes are due only at the time of transfer from the FTZ and into the U.S. Thus, zones provide opportunities to realize customs-duty savings by zone users.

Why do firms use FTZs? To keep their U.S.-based operations competitive with their foreign-based competitors.

Why do communities organize trade zones? To contribute to the area's appeal as a place to do business. Using local business initiatives and existing facilities, a zone can be a relatively inexpensive feature of an area's overall economic development. A well-organized zone will provide immediate service to the area's current business-base, as well as help to attract new business.

American FTZs are made possible by the Foreign-Trade Zones Act of 1934, as amended. The act establishes the U.S. FTZ board as the agency responsible for the establishment and administration of zones through the board's regulations. The board does not handle day-to-day administration of any zones, but provides grants to establish, operate and maintain zones. Grantees are almost always public corporations or governmental agencies. A grantee will usually enter into an agreement with an operator or subzone for actual zone operations. Customs holds the operator responsible for compliance with the customs regulations relating to zones. A firm uses a zone for its benefits, and pays the grantee or operator for services such as rent on facilities, storage, handling, etc.

There are two types of zone sites: general purpose sites and subzones. A general purpose site is usually run by an operator with multiple users. A subzone is a special-purpose site for operations such as manufacturing, which cannot be accommodated within an existing zone. In a subzone, the operator and user are usually the same entity.

US Businesses THAT USE FTZs

- Alcoa AT&T
- Bausch & Lomb
- Bayer Corporation
- Chrysler Corporation
- Dell Computer Corporation
- Eastman Kodak Company
- Equistar Chemicals
- Exxon Mobil Oil Corporation
- General Electric Company
- Grundfos Manufacturing Corporation
- Gymboree Corporation
- Hewlett-Packard Company
- Honda of America
- JVC America
- Lucent Technologies
- Nine West Distribution Corporation
- Nokia Mobile Phones
- PETSMART
- Pier 1 Imports
- Reilly Dairy & Food Company
- Sargento Foods
- Squibb Manufacturing
- United Technologies Corporation
- United States Cold Storage
- Wal-Mart
- Xerox Corporation

Operations

There are only two customs forms (CFs) specifically related to zone admissions: CF 214 and CF 216. CF 214 is used for admission of foreign merchandise into a zone. Under most circumstances, no CF 214 is necessary for domestic status merchandise. The form is usually handled by a customs broker for the zone user or operator, but the operator may take responsibility for execution of CF 214s. Information included on a CF 214 is the same as the information on a customs entry form, except that it may also be used as a delivery ticket. One additional information item required on CF 214 is a declaration of the material's FTZ status.

For action to be performed on or with the merchandise, a CF 216 is required. The CF 216 is an application for activity. However, for a period of up to one year a blanket CF 216 may be filed, covering all types of activity anticipated. The operator must maintain records and document approved activities to provide an accounting and audit trail of the merchandise through the approved operation.

To remove material from a zone, the appropriate customs document must be filed: either a CF 3461 for entry into the U.S., or a CF 7512 for export or transfer to another U.S. zone. These documents are usually handled by a customs broker, unless the operator is also a licensed broker and chooses to conduct these operations in-house.

An operator's or user's inventory tracking system (ITS) must be able to account for all merchandise in a zone and provide enough information to make entry for merchandise being removed from the zone. Experience show that 99 times out of 100, the corporation's existing MRP, bill of materials or internal inventory tracking system(s) are 80-90% complete and sufficient for customs purposes.

Customs, by regulation, accepts: first-in/first-out; foreign-in/first-out; lot-specific; part number; bill of materials; liquid bulk FIFO; serial-number specific; and almost any other inventory tracking system that "protects the Revenue of the U.S." For the 300 operating zones and 350 Subzones of the U.S., there are approximately 650 different ITS and operating systems. Customs also accepts the concept of "work in progress" as a "black box" that they are not allowed to penetrate. This means that if an operator can demonstrate raw material balance, inputs to production, finished product balance and some form of correlation between the three, this is satisfactory for customs.

U.S. customs is currently under specific legal restrictions against divulging company cost, quantity and specification data on imported products. Becoming an FTZ makes your firm no more or less subject to currently gathered and publicly reported trade statistics through the Department of Census, the PIERS network, and other statistical summations. Any applications filed with the FTZ board become public information; however, procedures exist in the regulations to protect sensitive and proprietary information. The protection supersedes the Freedom of Information Act and allows a level of confidentiality which has been acceptable to a large percentage of Fortune 500 companies that currently enjoy FTZ status.

Sources: U.S. Department of Commerce, Foreign-Trade Zones Board; U.S. Customs Service, Part 146 Regulations and FTZ Manual; National Association of Foreign-Trade Zones.

Terminology

Act: The Foreign-Trade Zones Act of June 18, 1934, as amended.

Activation: The process by U.S. customs for operations and for the admission and handling of merchandise in zone status.

Admit: To bring merchandise into a zone under zone status. Goods brought into customs territory by the U.S. are entered.

Alteration: A change in the boundaries of an activated zone or subzone; Activation of a separate site of an already activated zone or subzone with the same operator at the same port; The relocation of an already activated site with the same operator.

Audit-Inspection Procedures: To reduce the on-site supervision of zones by customs. These systems may be manual, computerized or a combination of both.

Customs Territory: The territory of the U.S. in which the general tariff laws of the U.S. apply. The U.S. customs territory includes the states, the District of Columbia and Puerto Rico, minus any areas within the boundaries of Foreign-Trade Zones.

De-activation: Voluntary discontinuation of the activation of an entire zone or subzone by the grantee or operator. Discontinuance of the activated status of only part of a zone site is an alteration.

Direct Delivery: Procedure for delivery of merchandise to a zone without prior application and approval; designed for low-risk, repetitive shipments whose ordering and timing are under the control of the operator.

Drawback: Import duties or taxes repaid by a government, in whole or in part, when the imported goods are re-exported or used in the manufacture of exported goods.

Entry: Notification to customs of the arrival of imported goods into the customs territory of the U.S. Merchandise withdrawn from a zone for consumption in the U.S. is entered when it is removed from the zone. Goods brought into a zone are admitted.

Foreign First: An accounting method based on the assumption that foreign status merchandise is disposed of first. Permission to use "foreign first" must be obtained from U.S. customs and is granted on a case-by-case basis.

Foreign-Trade Zones Board: Established to carry out the provisions of the Foreign-Trade Zones Act.

General Purpose Zone: Established for multiple activities by multiple users. Storage, distribution, testing, repackaging and repair are some of the possible activities in a GP zone. Processing or manufacturing in a GP zone requires the permission of the FTZ Board.

Grantee: A corporation to which the privilege of establishing, operating and maintaining a FTZ has been granted by the Foreign-Trade Zones Board.

Inverted Tariff Structure: Where imported parts are dutiable at higher rates than the finished product into which they are incorporated.

Manipulation: Processing wherein merchandise is packed, unpacked, repacked, cleaned, sorted, graded or otherwise changed in condition. The precise distinction between manipulation and manufacturing is subject to interpretation and enjoys a long history of case law.

Manufacturing: The U.S. customs service determines what constitutes manufacturing on a case-by-case basis, distinguishing it from other such operations as manipulation, processing, production and blending. The FTZ board has defined it as any process that results in a change in customs classification of the merchandise and therefore, requires prior clearance from the Board pursuant to the manufacturing conditions in specific Foreign-Trade Zone grants.

Merchandise: FTZ merchandise includes: goods, wares and chattels of every description, except prohibited merchandise, building materials, production equipment and supplies for use in the operation of a zone.

Merchandise, Domestic: Those goods that have been produced in the U.S. and not exported there from, or previously imported into the customs territory of the U.S. with payment of all applicable duties and taxes.

Merchandise, Foreign: Imported merchandise that has not been properly released from customs custody into the customs territory of the U.S.

Merchandise, Fungible: Merchandise that, for commercial reasons, is identical and interchangeable in all situations. Originally applied to bulk liquids or free-flowing substances, it is now applied to shipments of goods that arrive packed, but are unpacked and placed together in storage or manufacturing locations so that identification with the shipment as admitted to the zone is lost. Concept widely used in manufacturing environments where it is not feasible to store goods in their original lots awaiting manufacture.

Merchandise, Non-Privileged Foreign: Foreign merchandise or non-tax paid domestic merchandise upon which the duty and applicable taxes will be determined at the time the merchandise enters the customs territory of the U.S. from the zone for consumption.

Merchandise, Privileged Foreign (PF): Foreign merchandise or non-tax paid domestic merchandise upon which the duty and applicable taxes have been determined at the time PF status is approved. PF duty rate and taxes are not subject to future fluctuation and status cannot be changed.

Merchandise, Zone-Restricted: Merchandise admitted to a zone for the sole purpose of exportation or destruction. ZR merchandise may not enter customs territory for consumption except with approval by the FTZ board.

Operator: A corporation, partnership or person that operates a zone or subzone under the terms of an agreement with the grantee. A grantee may act as its own operator.

Processing: Any zone activity involving a change in condition of merchandise, other than manufacturing, which results in a change in the customs classification of an article or in its eligibility for entry for consumption.

Re-exports: Merchandise which is imported into the U.S. for admission into a Foreign-Trade Zone and later re-exported from the zone is never assessed any customs duties.

State: Includes any state of the United States, the District of Columbia, and Puerto Rico.

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

User: A person or firm using a zone for storage, handling or processing of merchandise. Note: An operator may authorize a user to maintain its own inventory system unless the user posts its own operator's bond.

Zone Lot: A collection of merchandise maintained under an inventory control method based on specific identification of merchandise admitted into a zone by lot.

Zone Project: All of the zone and subzone sites under a single grantee.

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

Zone Status: The status of merchandise admitted to a FTZ, i.e.: domestic, non-privileged foreign, privileged foreign or zone-restricted status.

II Business Benefits of FTZ Operations

If you import goods worth \$1 million or more, or if you purchase foreign goods from a domestic supplier valued at \$1 million or more, you'd do well to examine the benefits that an FTZ offers.

- Merchandise imported into an FTZ and later re-exported from the zone is never assessed any customs duties.
- Imported merchandise admitted into a zone and then rejected, scrapped or returned to vendor -- and the waste products of a manufacturing process -- are considered to be duty free. Some materials can be consumed in the zone and receive duty free status as well.
- When imported merchandise is shipped to U.S. locations from a zone, duties are deferred until the merchandise leaves the zone.
- When components are imported into an FTZ and manufactured into a new product for re-export or sale in the U.S., the importer may choose between the finished-product duty rate and the imported-component duty rate, whichever is lower.
- Importers located in an FTZ are required to submit only one customs entry per week, instead of an entry on each and every shipment. Firms using an FTZ are the only ones in the U.S. that currently enjoy this type of efficiency.
- Merchandising processing fees (MPF), based upon the value of the goods, are typically paid on a per-entry basis with a maximum dollar cap. Weekly entry for FTZ allows users and operators to file what would be multiple payments of the MPF only once, with the dollar cap still applying. This can constitute a tremendous savings in MPF, reducing costs to importers who otherwise would file multiple entries.

Car manufacturing plants, oil refineries, computer manufacturers and textile distributors are taking advantage of the benefits of zones. So are companies with as few as 15 employees. In fact, in the U.S. there are nearly 2500 companies utilizing zones and nearly 250 manufacturing subzones.

Will an FTZ save your company money? If you are already using another customs tariff-reduction program, such as Duty Drawback, Temporary Importation Bonds, or a bonded warehouse, an FTZ can streamline your operations, cut down on paperwork, increase your flexibility, and save money - all at the same time. Many companies are discovering that zones meet their needs more efficiently than other customs programs.

To find out if a Foreign-Trade Zone is right for your firm -- and determine your level of savings -- please submit your inquiry to www.ftz226.co.merced.ca.us.

III. California's Central Valley

Do you really know what the great Central Valley of California is, where it is, or its claim to fame?

Myth would have it that the area is an extension of Los Angeles or San Francisco. In fact, the Central Valley differs considerably from the rest of the state. Unlike those more notable locations, the Central Valley is a quiet, rural area. It represents 25 percent of the entire state's land but less than 10 percent of its population. The Central Valley is also adjacent to some of the country's best-known national parks: Yosemite, Sequoia, and King's Canyon. Another important fact distinguishing the valley from the highly populated coastal areas of the state is that the Central Valley is one of California's most seismically stable areas -- quite the opposite of the fast-action, big cities of Los Angeles and San Francisco.

Commercial and industrial real estate prices are substantially lower than other locations, especially the San Francisco Bay Area and Los Angeles. Prices for fully improved properties can be as low as \$0.53 per square foot, and the average price per acre is \$23,000. The low industrial and commercial property prices provide an incentive for companies to locate in the Central Valley.

The Central Valley is the world's most prolific location for food production and processing. Agriculture drives the valley's economy; the area supplies half the nation's fruits and vegetables. In addition to large agricultural production, the Central Valley is the nation's largest dairy region and is home to the world's largest ice cream plant. The high productivity level in agriculture and agriculture-related companies gives the valley a great advantage. However, the industry is highly cyclical. The Central Valley has recognized the need to diversify its economy. Indeed, it is moving rapidly toward being the new mecca for service businesses, distribution centers, high-technology service centers, and manufacturing industries. The valley will become the home for the newest, most modern university to be built in the United States in the past 30 years: University of California, Merced.

The valley is loaded with a talented, hardworking labor force anxiously awaiting an opportunity to serve companies, the region and the nation. The valley is also the transportation link between northern and southern California. It boasts two major highways (Interstate 5, State Highway 99), two rail lines that stretch the length of the state, and a number of airports (including Fresno-Yosemite International and the Castle Aviation Development Center, formerly Castle Air Force Base), one with a runway almost 12,000 feet long, 300 feet wide and able to park approximately one hundred 747 aircrafts.

The Central Valley certainly represents a unique part of California, located close enough to the large, active ports of San Francisco and Los Angeles to participate in international trade, but far enough away to avoid the urban sprawl and congestion accompanying city growth.

The counties of the Central Valley have developed their economic strategies for the future, and premier among them is the creation of a relevant FTZ program. The zone project created serves regional economic development projects in seven California counties on the verge of dynamic economic growth: Fresno, Kings, Madera, Mariposa, Merced, Stanislaus and Tulare. The zone project mirrors the region's existing economic development strategy, which is cohesively regional in its marketing and promotion. Zone status is available to qualifying companies in the Central Valley area and gives those companies involved in the site selection process a wider variety of locations from which to choose.

Economic Strategy

Merced County and the Central Valley's (Merced's) economic development coalition have designed their economic development strategy with the intent of creating lasting, sustainable and broad-based development. The coalition's mission is to make the area a place of economic opportunity by offering abundant employment opportunities and a broad base of services to meet the needs of the region. In order to achieve its mission, the coalition seeks to:

- Diversify and balance the local economies
- Create new, full-time, year-round jobs paying at least the national average wage
- Achieve economic performance at least equal to the national average
- Decrease the area's high unemployment rates
- Raise per-capita incomes

The coalition's economic goals and strategies remain consistent with those of the Central Valley region and state. The desire to diversify and balance the economy, create full-time year-round jobs paying the national average, and achieve economic performance on a par with the national average, are the economic goals of the entire seven-county FTZ service region.

In order to accomplish their goals, the counties developed a range of incentives and economic development initiatives to retain and expand local business and industry and to recruit new business and industry.

Additionally, counties have implemented a continuing strategy to assist in its economic development efforts. The components of this ongoing process are listed below.

- Retain, expand and foster new local business and industry by continuing participation in retention and expansion programs for local businesses, and continuing to develop and carry out programs and workshops for local businesses
- Recruit new business and industry, both international and domestic, by responding to industrial/commercial prospects and generating new prospects
- Increase the supply of industrial and commercial lands and industrial buildings by generating plans to bring additional industrial sites on-line and implementing actions to bring additional sites on-line
- Continue to improve the Central Valley's image for development

Coordinate the overall development program with other organizations and the private sector

To contribute to this diversity of incentives, initiatives and programs, the counties must have a Foreign-Trade Zone.

Local Resources -Counties

- Economic Development Corporation serving Fresno County: www.fresnoedc.com
- Kings County Economic Development Corporation: www.kingsedc.org
- Madera County Economic Development Commission: www.maderaindustry.org
- Mariposa County: www.mariposacounty.org
- Merced County Economic Development Corporation: www.mcedco.com
- Stanislaus Economic Development and Workforce Alliance: www.scedco.org
- Tulare County Economic Development Corporation: www.edctulare.com

IV FTZ 226 Locations



FTZ 226 is sponsored by Merced County Pursuant to a grant from the U.S. Department of Commerce, Foreign-Trade Zones Board on December 22, 1997.

The Zone is located on twelve sites designated in the records of the Foreign-Trade Zones board:

- [Site 1](#) (Hub Site): 1A, Castle Airport; 1B: Riverside Motorsports Park (near Atwater)
- [Site 2](#) (Private Site): MidState 99 Distribution Center (Visalia)
- [Site 3](#) (Private Site): Mid Cal Business Park (Santa Nella)
- [Site 4](#) (Public Site): Applegate Business Park (Atwater)
- [4A](#) (Private Site): U.S. Cold Storage, Inc. (Tulare)
- [Site 6](#): (Public Site) City of Madera Airport Industrial Park; (Private Site) State Center Commerce Park (Madera)
- [Site 7](#) (Public Site): City of Madera Industrial Park (Madera)
- [Site 8](#) (Private Site): Airways East Business Park (Fresno)
- [Site 9](#) (Private Site): Central Valley Business Park (south of Fresno)
- [Site 10](#) (Public Site): Fresno Airport Industrial Park; City of Clovis Industrial Park (near Fresno-Yosemite International Airport)
- [Site 11](#) (Public Site): Reedley Industrial Park II (Reedley)
- [Site 12](#) (Private Site): City of Selma Industrial Park (Selma)

For more information turn to

Merced County Regional Foreign-Trade Zone, No. 226

John F. Fowler, Administrator

2507 Heritage Drive

Atwater, California 95301

phone: 209.385.7686

fax: 209.383.4959

e-mail: jfowler@co.merced.ca.us