

# Foreign Trade Zones Unlocked

## Strategic Benefits, Cost Savings and Compliance Excellence

A Foreign Trade Zone (“FTZ”) is a designated area within the U.S. that, for duty and customs “entry” purposes, is treated as though it is outside of U.S. customs territory. Many countries have a rough equivalent of this program, including “free trade zones,” “export processing zones,” “industrial free zones,” or “special economic zones.”<sup>1</sup>

In the U.S., FTZs have been around since the 1930s but have seen an explosion of growth in the last decade, particularly due to a more efficient application process and escalation of tariff actions.<sup>2</sup>



### — WHAT INDUSTRIES CAN BENEFIT FROM AN FTZ?

Nearly every industry that has imports or exports takes advantage of these benefits. The industries which use FTZs the most include, but are not limited to:



Pharmaceuticals



Oil/Petroleum



Vehicles and Vehicle Parts



Consumer Electronics and Products



Machinery and Equipment

### What Are the Benefits of Using an FTZ?

FTZs provide cost savings and operational efficiencies:

- **Duty Exemption:** Without an FTZ, duty and import fees are generally paid upon importation and customs entry. By bringing merchandise into FTZs, customs entry is not required, and duty is not paid at time of importation. Goods re-exported from FTZs are generally not subject to duty at all.<sup>3</sup>
- **Duty Deferral:** Goods withdrawn from FTZs for U.S. consumption benefit from duty deferral, realizing a cash-flow savings.
- **Inverted Tariff:** Goods withdrawn from FTZs after having undergone “production” activity are eligible for duty reduction.
- **Reduction in Merchandise Processing Fee (“MPF”) Payments:** In lieu of paying MPF on every importation, FTZs users with weekly entry approval only pay MPF once per week (currently capped at around \$600), often resulting in significant annual fee reduction.
- **Direct Delivery:** FTZs with direct delivery approval from U.S. Customs and Border Protection (“CBP”) may move imported merchandise directly to their FTZ site, often bypassing CBP delays, holds or examinations at the first U.S. port of arrival.

- **Entry Eligibility:** In certain instances, merchandise not eligible for entry into the U.S. (e.g., pending FDA approval, or not properly marked/labeled) may be admitted into an FTZ until the entry requirement is satisfied.
- **Free Trade Agreement (“FTA”) Transshipment:** Many FTAs include provisions which allow originating merchandise to transit a third country, provided that the transshipped merchandise remains “under customs control.” U.S. FTZs generally satisfy the “under customs control” condition for eligible merchandise transiting the U.S., thus preserving FTA duty benefits through the supply chain transshipment.
- **Inventory Tax Savings:** Qualifying tangible personal property held in an FTZ is not subject to state and local ad valorem taxation. This benefit is state- and jurisdiction-specific and generally requires cooperation with relevant taxing jurisdictions.
- **Duty Savings on Eligible Production Equipment:** Imported equipment is not subject to duty until that equipment is completely assembled and used in production.

**What Are the Implementation Considerations?**

The average FTZ implementation timeline is 4-6 months, but may take longer depending on the size and complexity of the proposed operation:



**An FTZ strategy may be helpful in the following scenarios:**

-  Companies who pay a significant amount of duty (tariffs), merchandise processing fees (MPF) or inventory tax
-  Companies with a high volume of import and export transactions
-  Companies thinking about reshoring operations to the U.S. or building new manufacturing plants
-  Companies looking to leverage U.S. operations to facilitate North American supply chain activity

**— HOW FTI CONSULTING CAN SUPPORT**

FTI Consulting’s international trade and customs professionals provide practical guidance on all aspects of the FTZ program. We help companies new to the idea evaluate the strategy holistically — not only for one location or business unit, but through an analysis of the entire international supply chain (including embedded duty and tariff costs). We also guide our clients through every step of the implementation process, from proof of concept and feasibility to activation approval by the CBP.

Our goal is to help clients reduce costs while simultaneously arming them with procedures designed to minimize compliance risk and prevent operational disruptions. Following successful implementations, we provide ongoing support to our FTZ clients through simulated compliance reviews, process improvement management, audit support and customized training packages.

Our team has extensive experience recognizing that no two FTZ projects are the same and each Grantee is unique. For that reason, we approach our FTZ clients with customized care and truly tailored solutions. We also understand potential risks and common barriers to success with the FTZ program, and proactively addressing these risks is a critical part of our approach.

Our FTZ expertise is complemented by the broader experience and technical knowledge within our International Trade practice. Since FTZs intersect with many other areas of trade, such as valuation, origin determination, classification, supply chain planning and export controls, we can address complex issues more comprehensively and strategically than our FTZ competitors.

#### The FTZ Advisory Offering at FTI Consulting Includes:

- Activation Support with U.S. CBP
- Analysis of Other Program Impacts to the FTZ
- Application Preparation and Submission
- Compliance Program Assessment and Development
- Customizable Training Packages and Simulated Audits
- Development of Operational Procedures and the Inventory Control and Recordkeeping System (“ICRS”)
- FTZ Administrator Insourcing and Training Support
- FTZ Software Consulting
- Grantee Marketing Plans and Compliance Support
- Navigation of Local Taxing Jurisdictions
- Preparation of Periodic Reporting Requirements
- Production Authority Preparation and Submission
- Strategic Feasibility Studies and Presentation to Stakeholders
- Support with CBP Compliance Reviews and Audits
- Support with FTZ Board Monitoring Visits and Scope Reviews
- Technical and Industry Research

- 1 Congressional Research Service, “U.S. Foreign-Trade Zones: Background and Issues for Congress,” (December 19, 2019), <https://crsreports.congress.gov/product/pdf/R/R42686>
- 2 U.S. Foreign-Trade Zones Board, “85th Annual Report of the Foreign-Trade Zones Board to the Congress of the United States,” (August 2024), <https://www.trade.gov/sites/default/files/2024-08/AR-2023%20.pdf>
- 3 National Association of Foreign-Trade Zones, “Basics & Benefits,” NAFTAZ, <https://www.naftz.org/basics-benefits/>

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