

# Foreign Trade Zone

The grant for FTZ #137 was obtained in 1987 at the request of the Economic Development Authorities in Fairfax and Loudoun Counties and Washington Dulles Foreign Trade Zone, Inc. was created as the Grantee. The Grantee's board of directors consists of the Executive Committee of the Task Force, as well as economic development representatives of Loudoun, Fairfax, Prince William and Winchester-Frederick Counties.

The primary service area of FTZ #137 is the Port of Washington, D.C., which includes the District of Columbia, the City of Alexandria, and the Virginia counties of Loudoun, Fairfax, Arlington, Prince William, Frederick, Clarke and all independent cities and towns within those counties. As the zone based at Virginia's (and, in fact, the Washington, DC region's) major international airport, FTZ #137 has a responsibility to provide zone services, particularly with respect to air related international commerce.

Zone #137's approved general purpose sites are:

Site 1: 243 acres Within the Washington Dulles International Airport complex.

Site 2: 2 buildings totaling 153,125 square feet located at 110 Terminal Drive, Sterling, Virginia.

Site 3: 141.66 acres located near the intersection of Routes 606 and 621, Loudoun County.

Site 4: 183 acres, consisting of 6 parcels within the 330-acre Fort Collier Industrial Park, U.S. Route 11, Winchester and 14 acres located at 402 McGhee Road, Winchester operated by Great American Trading Company.

Site 5: 64 acres contiguous to the Winchester Regional Airport consisting of three industrial parks.

Parcel 1A: 5-acre Pegasus Business Center, Airport Road, Winchester.

Parcel 1B: 49 acres within the 219-acre Airport Business Center, Airport Road, Winchester.

Parcel 2: 10-acre AeroCentre Business park, east of U.S. Highway 522 South, Winchester.

Site 6: 155 acres, 6 parcels within the 236-acre Wrights Run complex, U.S. Route 522 and new Route 624, Winchester consisting of two industrial parks. Parcels 1-4 and 6 consist of 71 acres located within the Jouan Global Center. Parcel 5 consists of 84 acres within the Wrights Run Industrial Park.

Use of the on-airport site was limited to aviation related activities by the federal law which transferred operation of the airport to local control in 1987. As a result, the majority of activity applicable to a general purpose zone cannot be undertaken within the on-airport site. Specifically, the on-airport site may not be used for general economic development. Businesses cannot be located on-airport unless they have a direct relationship to the operation of aircraft. Cargo moving on aircraft can be warehoused on the airport, but it cannot be processed, manipulated, assembled into a product (unless it is into an aircraft), or manufactured.

The Grantee's first action to address this problem was a boundary modification approved on September 30, 1994, to provide approximately three acres of general purpose zone space just off the airport.

The first expansion application concerned approximately 141.66 acres in Loudoun County, off-airport but immediately adjacent to the airport's future cargo development area. The second expansion application included approximately 490 acres in Winchester, VA. The Winchester region is replete with distribution and assembly activities which are conducive to foreign trade zone procedures.

In 2006, the Department of Commerce approved a minor boundary modification deleting 16 acres from the western portion of current Site 4 and adding a 14-acre site located at 402 McGhee Road, Winchester, Virginia, within the Stonewall Industrial Park.

Grantee	Operator
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## What is a Foreign Trade Zone?

### **Foreign Trade Zones – General Info**

The foreign trade zones program was established by the FTZ Act of 1934 to provide a competitive advantage, by way of savings on Customs duties, for companies with locations on US soil. By providing this cost savings, companies were encouraged to maintain and grow their businesses here in the US rather than setting up shop off-shore where labor and operating costs were lower. A property that has been given designation as a foreign trade zone is treated as being outside US Customs territory for purposes of tariff laws and Customs entry procedures. Duties on merchandise admitted into a zone may be deferred, reduced, or eliminated. When merchandise that has entered the FTZ is removed from the zone, customs duties may be eliminated if the goods are re-exported from the US. If the merchandise is transferred into US commerce, duties and taxes are due only at the time of transfer from the zone. If re-exported, duty is never paid. Approval for designation of zone status is given by the FTZ Board, an independent agency within the Department of Commerce.

## Types of Foreign Trade Zones

There are two types of foreign trade zones. A general-purpose zone (GPZ) is established for multiple activities by multiple users. A general-purpose zone must be operated as a public utility and must be located within 60 statute miles or 90 minutes driving time from the out limits of a U.S. Customs Port of Entry. FTZ projects may consist of one or multiple sites, e.g., a single building, an industrial park, a deep water port, or an international airport. While activities including storage, inspection, and distribution are permitted at all FTZs, other activities including processing or manufacturing require special permission from the Foreign Trade Zones Board.

In instances where a firm wants foreign trade zone status for its own plant or facility, and when the existing general-purpose zone cannot accommodate the firm's proposed activity, the designation of "subzone" may be granted. There is no legal difference in the types of activity that may be undertaken in GPZs or subzones. Typically, subzones are designated for an individual company's manufacturing operations. Subzones must be located so that Customs & Border Protection can fulfill its proper oversight of functions at the proposed location of the subzone.

# Benefits of the Foreign Trade Zone Program

It is the intent of the U.S. FTZ program to stimulate economic growth and development in the United States. In an expanding global marketplace, there is increased competition among nations for jobs, industry and capital. The FTZ program was designed to promote American competitiveness by encouraging companies to maintain and expand their operations in the United States.

The FTZ program encourages U.S.-based operations by removing certain disincentives associated with manufacturing in the United States. The duty on a product manufactured abroad and imported in the U.S. is paid at the rate of the finished product rather than that of the individual parts, materials or components of the product. The U.S.-based company find itself at a disadvantage from its foreign competitor when it must pay the higher rate on parts, materials, or components imported for use in the manufacturing process. To correct this imbalance the program treats a product made in a U.S. foreign trade zone for purposes of tariff assessment as if it were produced abroad.

## Benefits for Businesses

The fundamental benefit offered by the FTZ program is the ability to defer, reduce or even eliminate Customs duties on products admitted to the zone.

**Deferral of Duties:** Customs duties are paid only when and if merchandise is transferred into U.S. Customs territory. This benefit equates to a cash flow savings that allows companies to keep critical funds accessible for their operating needs while the merchandise remains in the zone. There is no time limit on the length of time that merchandise can remain in the zone.

**Reduction of Duties:** In a foreign trade zone, 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 the U.S. commerce from the FTZ. This process allows user 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 successfully elect the finished product rate, thereby reducing the amount of Customs duties that would be owed.

**Elimination of Duties:** No Customs duties 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, Customs duties are also eliminated for merchandise that is scrapped, wasted, destroyed or consumed in the zone.

**Elimination of Drawback:** In some instances, Customs duties previously paid on exported merchandise may be refunded through a process called drawback. The drawback law is 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.

**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, Customs duties are not owed on labor, overhead and profit attributed to production in an FTZ.

**Taxes:** Since goods in a zone are considered to be international commerce, 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 ad valorem taxes.

# FAQs About FTZs

Q. Why do companies use foreign-trade zones?

A. *To maintain the cost competitiveness of their U.S.-based operations with their foreign-based competitors. For a company, zone status provides an opportunity to reduce certain operating costs associated with a U.S. location that are avoided when operating from a foreign site.*

Q. How does the zones program fit within the economic development efforts of the various states?

A. *The zones program is a federal program. The underlying authority to approve the creation of a foreign trade zone resides with the federal government. However, every state has enabling legislation providing statutory authority for the establishment of FTZs in each state. FTZs complement other state and local incentives that are incorporated into the overall efforts of a community to maintain their attractiveness as a business location.*

Q. Is zone status more beneficial to foreign-owned companies as compared to American-owned companies?

A. *The benefit of zone use is determined by the location of a company's operations in the United States, not by its ownership. If an American-owned company and a foreign-owned company have identical trade operations in the U.S., the potential benefit of the U.S. Foreign Trade Zones program for each of them will be identical. The U.S. FTZ program encourages investment and production in the U.S. that might otherwise take place in another country.*

Q. Does the cost reduction feature of zone status translate into an import subsidy?

A. *No. Zones do not cause imports. The reverse is true. The increasing importance of international trade in the U.S. economy has caused an increase in the use of zones. Periodically, oversight agencies including the International Trade Commission and the General Accounting Office examine the impact of the U.S. FTZ program. Congress has also held hearings on the subject. These periodic studies and reviews have not produced any information leading to the conclusion that zones cause imports. The decision to import precedes the decision to use zones.*

Q. How to zones expedite and encourage direct foreign investment in the United States?

A. *The United States welcomes foreign investment but does nothing to overly attract or discourage it. Through the policy of "National Treatment", foreign investors are offered the same conditions, rights and benefits associated with investing in the U.S. as an American investor can expect to receive. In keeping with this policy, zones encourage foreign and domestic investment by removing a tariff bias that unintentionally discourages investment in the U.S. and encourages supplying the U.S. market from off-shore.*

Q. Is there a need for foreign trade zones since the U.S. participates in trade agreements?

A. *Trade agreements, including the Uruguay Round and the NAFTA, have resulted in the reduction of many U.S. tariffs. As a result, certain companies that have benefited from the foreign trade zones program in the past may find that they no longer need FTZs to place them on a level playing field with their competitors abroad. This phenomenon occurs by design and is a positive reflection on the FTZ program as a temporary solution to irrational tariff relationships. It is for this reason that companies must continually evaluate the impact of the evolving trade environment on their business. At the same time that some companies find the FTZ is no longer required to rationalize irrational tariff relationships, other companies find that the FTZ program offers needed relief from the unintended effects of trade agreements and changing tariff schedules which place U.S. based manufacturers at a disadvantage as compared to their competitors abroad. For example, when industries that were previously subject to quotas transition to tariffs, new industries benefit by use of FTZs. An analysis of the growth of the U.S. Foreign Trade Zones program over the past 20 years illustrates that overall the volume of trade moving through zones has increased steadily over time despite trade liberalization efforts and shift in industry participation.*