Understanding Customs-Bonded Warehouses and Foreign-Trade Zones

U.S. businesses that import significant volumes of goods — which then spend time in a warehouse — may benefit from the ability to delay paying import duties on those goods. U.S. Customs and Border Protection (CBP) makes available two options — customs-bonded warehouses and foreign-trade zones (FTZs) — that may help importers better manage their international trade strategies.

A new white paper from Purolator International, "*Understanding Customs-Bonded Warehouses and Foreign-Trade Zones*," provides a basic understanding of the two options. Perhaps not surprisingly, CBP imposes strict eligibility and regulatory requirements for both bonded warehouses and FTZs. Please click here to download a complimentary copy of the white paper.

What Is a Customs-Bonded Warehouse?

CBP defines a bonded warehouse as "a building or other secured area in which imported dutiable merchandise may be stored, manipulated, or undergo manufacturing operations without payment of duty for up to five years from the date of importation."

Bonded warehouses are under CBP's supervision, and merchandise entering a facility must be accounted for via strict record-keeping and documentation requirements. Merchandise in a bonded warehouse is considered to have not made entry into U.S. commerce and is secured by the bond on the warehouse.

Activities Permitted in a Bonded Warehouse

Certain activities — referred to as "manipulations" — may be performed on products held in a bonded warehouse, including:

- Cleaning, sorting, or repackaging
- Simple packing or unpacking
- Dismantling or disassembly
- Opening containers for viewing, exhibition, or sampling
- Labeling, tagging, or insertion of instructional or sales brochures
- Sorting, grading, or separation of damaged-from-good order-merchandise

Important to note: Manufacturing is NOT permitted.

> With narrow exceptions, manufacturing is not allowed in customs bonded warehouses.

Key Benefits

CBP cites several benefits of using a bonded warehouse, including:

- **Duty deferral.** Duty is not collected until merchandise is withdrawn from the warehouse.
- **Long-term storage.** Imported goods can be stored in a bonded warehouse for up to five years.
- **Ability to export unsold goods.** If no domestic buyer is found for the imported goods, the importer can export the goods, thereby eliminating any obligation to pay duty.
- **Potential for reduced tariff obligations.** If the rate of tariff for a particular product is reduced while the item is stored in the warehouse, the reduced rate will apply when the product leaves the warehouse.
- **Duty on manipulated goods.** Duties owed on articles that have been manipulated while in the warehouse

are determined at the time the products are withdrawn from the warehouse.

- **Ability to store "restricted" items.** Many items subject to quota or other restrictions may be stored in a bonded warehouse.

What Is a Foreign-Trade Zone?

Foreign-trade zones (FTZs) are secure areas that are outside of U.S. customs territory. Specifically, zones are physical areas into which foreign and domestic merchandise may be moved for lawful operations including storage, exhibition, assembly, manufacture, or processing. FTZs are licensed by the Foreign-Trade Zone Board (FTZ Board) and operated under the supervision of CBP.

FTZs generally fall into two categories:

- **General Purpose Zones:** Usually located in an industrial park or port complex, with facilities available for use by the general public.
- **Subzones:** Sites that are sponsored by a general-purpose zone that are normally for a single-purpose, which cannot be moved or accommodated in a general-purpose zone. An individual company's qualified warehouse is a common example of an FTZ subzone.

FTZ Benefits

Businesses that take advantage of FTZs can avail themselves of a multitude of benefits that include:

- **Duty deferral.** Instead of paying U.S. duty when a shipment arrives in the U.S., duty payment is deferred until the goods are actually transferred from the zone into the U.S. market. Goods may be stored indefinitely in an FTZ.
- **Duty reduction (inverted tariff).** Businesses utilizing a particular FTZ can petition the board to use a certain "zone status" on merchandise admitted to the zone. Through this process, a business can elect to pay either the duty rate applied to foreign components placed in the zone or the duty rate applicable to the finished product transferred from the zone — whichever is lower.
- **Elimination of duties.** Duties are also eliminated on merchandise that is scrapped, wasted, destroyed, or consumed in a zone.
- **Labor and overhead costs.** Zone users are authorized to exclude costs associated with processing or fabrication, general expenses, and profit.
- **Streamlined logistics.** FTZ users can take advantage of direct delivery whereby imported goods move directly from the port of unloading to the distribution center, thereby eliminating certain customs-related delays.

Foreign-Trade Zones vs. Customs Warehouses — Key Differences

While FTZs and bonded warehouses have many similarities — namely the ability to defer duty payments — each has distinguishing characteristics that include:

- **Time limits.** Goods may be held in a bonded warehouse for five years, whereas they can be held indefinitely in an FTZ.
- CBP Authority. Bonded warehouses are under the direct control and supervision of CBP, while FTZs are not.
- **Foreign vs. domestic goods.** Only foreign goods are allowed to be stored in bonded warehouses. An FTZ may include both domestic and foreign merchandise.
- **Entry payment.** Entry must be paid at the time goods enter a bonded warehouse. Entry payment is only paid when goods held in an FTZ enter U.S. commerce.
- **Duty payment.** Duties are paid when goods exit the FTZ and enter U.S. commerce. Similarly, duties are not paid until withdrawal from a bonded warehouse.
- **Allowable activities.** Manufacturing processes are permitted in an FTZ, but not in a bonded warehouse.
- **Ease of withdrawal or removal.** Shipments stored in a customs warehouse must be withdrawn in their entirety, rather than as a series of partial "as-needed" removals. A business seeking to withdraw a partial quantity must obtain CBP permission. Goods stored in FTZs, on the other hand, can be withdrawn with few limitations.

To learn more, please click here to download a copy of *Understanding Customs-Bonded Warehouses and Foreign-Trade Zones.*