

GREEN PAPER

key stakeholders in foreign trade zone infrastructure

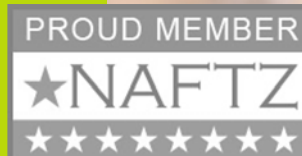
The audience for this paper are businesses considering becoming an Operator or User in a Foreign Trade Zone.

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BONUS CONTENT

Foreign Trade Zone Advantages
for Arizona Businesses



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introduction

If you have been considering becoming a Foreign Trade Zone Operator or have analyzed the benefits¹ and want to take the next step, it is important to know who the key stakeholders are and understand their roles in the Foreign Trade Zone Infrastructure.

Key stakeholders include Zone Operators and Zone Users, Governmental Bodies, Economic Parties, and Service Providers. Collaboration between all parties enables each to be successful in their respective role and can directly impact Foreign Trade Zone implementation.

KEY STAKEHOLDERS³

- FTZ Operator
- FTZ User
- Foreign Trade Zone Board
- United States Customs & Border Protection (CBP)
- Partner Government Agencies
- The Grantee

FOREIGN TRADE ZONE SUCCESS

Did you know that a full zone implementation can take anywhere from 9-18 months and can vary?

A complete end-to-end Foreign Trade Zone implementation can include many steps, such as Application, Activation, Production Notification, IT Integration & Testing, Training etc., each with their own timeline that intertwine and can impact each other².

The overall implementation timeframe considers numerous factors that include (but are not limited to) the complexity of your company's processes, approval timeframes, zone construction, IT support, and resource availability.

Having key insight on who's who in an FTZ and the parts that each play can help guide your company through engaging the right players to achieve your goal of an activated and operational Foreign Trade Zone.

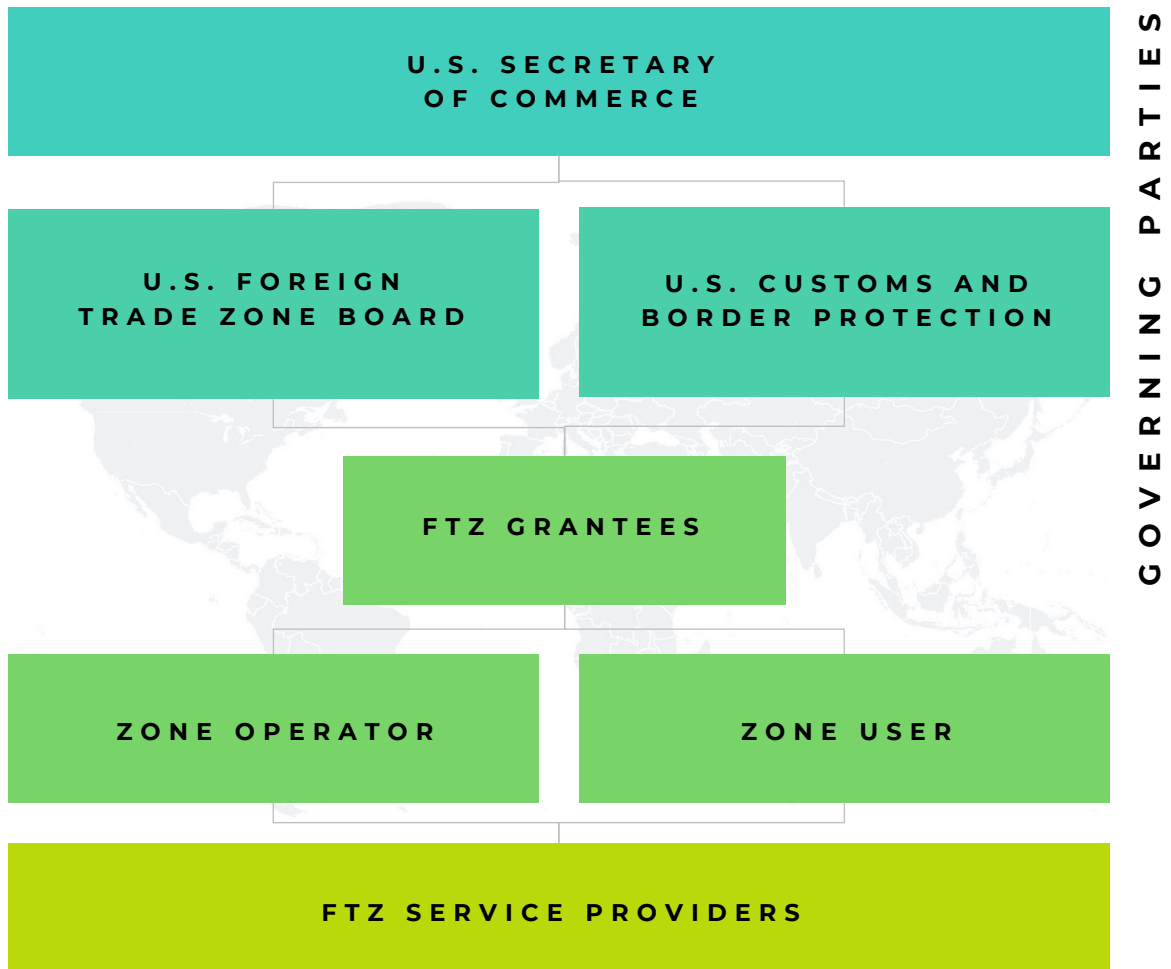
¹The FTZ Program offers zone operators and users a variety of cost savings including duty exemption, deferral, reduction, tax savings, reduction in MPF (merchandise processing fees) and many other logistical benefits.

² (Congressional Research Service, 2020)

³ (FTZManual, 2011)

IS YOUR COMPANY CONSIDERING STARTING A FOREIGN TRADE ZONE?

When analyzing the benefits of implementing a Foreign Trade Zone (FTZ) for your business, it is important to understand the key stakeholders, their roles and the general infrastructure of the program.



Managed Solutions Providers⁴
Licensed Customs Brokers
FTZ Consultants
FTZ Software & ICRS Providers
Freight Forwarders
Customs FTZ Bond Providers

⁴ (FTZ Manual, 2011)

Collaboration between these parties enables each to be successful in their respective role and is crucial in the Foreign Trade Zone infrastructure.

Here we will provide you with key insight on who's who in an FTZ and the parts that each play to help guide your company in engaging the right players.

GOVERNING PARTIES

⁵ (FTZ Manual, 2011)

There are several governing parties that supervise, facilitate, and manage the FTZ Program.

foreign trade zone board

The Foreign Trade Zone (FTZ) Board⁵ is chaired by the United States Secretary of Commerce and is responsible for the establishment, maintenance, and administration of zones under the Foreign-Trade Zone Act of 1934.

The FTZ Board does not own or operate any zones; rather, it provides authority to FTZ Grantees to establish, operate, and maintain zones.

Here are a few areas of responsibility that the FTZ Board has, not limited to the below:

- Prescribing rules and regulations regarding zones
- Grants of authority
- Modifications to existing zones
- Reviewing and approving manufacturing activity performed in zones
- Reporting to Congress
- Fines and Penalties under the FTZ Act

QUESTIONS? CONTACT FTZ@GREENWORLDWIDE.COM

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customs and border protection



The Commissioner, through authority delegated from the Secretary of the Treasury, assigns the necessary CBP personnel to protect the revenue of the United States and to provide for the entry of foreign merchandise into the Customs territory (19 U.S.C. §81d, 2021).

FTZ Operators and Users are required to obtain an Activation letter from U.S. Customs. FTZ procedures cannot begin until the Zone has been Activated.

Prior to any providing Activation, CBP will review the Application. This includes background checks⁶ of key personnel and additionally, CBP will visit any prospective zone site to ensure its suitability & security measures are sufficient to receive zone merchandise. The surveying CBP Officer will prepare a report for the Port Director who is the final administration determination regarding the Activation for the Zone.⁷

While the FTZ Operator is responsible to exercise physical supervision, CBP exercises general supervision through the audit-inspection program.

CBP supervision may be exercised through, but not limited to:

- Audits of Records
- Quantity Counts of Merchandise in Inventory
- Compliance Reviews
- Physical Supervision
- Security Services
- Access to Zones

As part of its oversight responsibilities, CBP can take a range of enforcement actions in FTZs. When CBP officials discover FTZ operator violations, the Port Director overseeing the FTZ Operator can take enforcement actions depending on the violations uncovered during compliance reviews and audits including, but not limited to, warning letters, assessments of liquidated damages, fines, penalties, and seizures.^{8,9}

⁶The background investigation is made of the Operator, management involved in the operation of the zone, and key employees that have access to or could cause changes to the inventory and recordkeeping system. (FTZ Manual, 2011)

⁷Additional considerations and decision timeframes. (FTZ Manual, 2011)

⁸Foreign Trade Zones: CBP Should Strengthen Its Ability to Assess and Respond to Compliance Risks across the Program United States. Government Accountability Office, 2017. www.gao.gov/assets/gao-17-649.pdf

⁹Liquidated damages are fines and penalties that the FTZ Operator agrees to pay for damages arising from a default by the FTZ Operator on the terms of their Operator Bond.

zone grantee

A Zone Grantee is the corporate recipient of a grant of authority for a zone.¹⁰

A Grantee is a public or private corporation to which the privilege of establishing, operating, or maintaining a Foreign Trade Zone project has been given by the FTZ board.

Examples of public entities that might receive a Foreign Trade Zone grant include; a political subdivision such as a municipality, a public agency, a corporate municipal instrumentality of one or more states. Qualified private corporations must be chartered for this purpose under the laws of the state in which the zone is located.

Consistent with FTZ Board regulations, Grantees are allowed to charge fees to recover costs from the services they offer to operators and users in their zone.¹¹

Grantees have liability to comply with the Foreign Trade Zone Act and the implementing regulations.¹² The Grantee is not automatically liable for violations of Operators, Users, or other parties when it delegates its authority to operate and maintain a zone to another and does not operate the zone.¹³

Examples of the principal responsibilities of the Grantee: ^{14, 15}

- Provide and maintain facilities in connection with a Zone according to the provisions of 19 U.S.C. §81(b);
- Operate the Zone as a public utility with fair and reasonable rates and charges for all Zone services and privileges and afford to all who apply for the use of the Zone and its facilities and provide uniform treatment under like conditions, in accordance with 19 U.S.C. §81(n);¹⁵ 400.42 (b).
- Make annual reports (and at other such time it may prescribe) to the FTZ Board containing such information as the FTZ Board may require (19 U.S.C. §81p (b) and 15 CFR 400.46(d).
- Operate, maintain, and administer the zone project under the FTZ Act, and laws and regulations, administered by CBP for other agencies or administered directly.

¹⁰19CFR 400.2, 202

¹¹NAFTZ FTZ Resources Q&A. <https://www.naftz.org/ftz-resources/q-a/>

¹²(19 CFR 146.6(e))

¹³(15 CFR 400.28(a)(9); 19 U.S.C. 81g)

¹⁴Not a complete list.

¹⁵(FTZ Manual, 2011)



zone operator



An FTZ Operator is a Corporation, Partnership, or Person that operates a Foreign Trade Zone or Subzone under the terms of an Operators Agreement with the Grantee.¹⁶

If your company is looking to start operating a Foreign Trade Zone, your company will be considered the Zone Operator. Part of becoming a Zone Operator is submitting an Application with the Port Director.¹⁷

Many types of companies can submit an Application to become an Operator of an FTZ; manufacturers, distributors, and storage facilities can all apply to realize Foreign Trade Zone benefits.¹⁸

Being an FTZ Operator is a significant responsibility for any company and involves daily, compliant operational management.

For example, exercising physical supervision of your Foreign Trade Zone must include (but is not limited to) activities such as:

- Receipts
- Deliveries
- Recordkeeping
- Manipulation
- Destruction
- Manufacturing
- Security
- Storage Conditions

Additionally, as a Zone Operator, you will be tasked with choosing your Service Providers to partner with in your Zone.¹⁹

Activation of a Zone will require the Operator to execute an FTZ Operator's Bond.²⁰

Failure to carry out the Operator Responsibilities may result in claims or liquidated damages against the Operator.²¹

¹⁶19CFR 400.2, 202

¹⁷The steps of Activation include (1) an outline of the area requested to be activated, (2) a completed FTZ Procedures Manual, (3) Key employee designation and (4) background check. (FTZ Manual, 2011)

¹⁸The FTZ Program offers zone operators and users a variety of cost savings including duty exemption, deferral, reduction, tax savings, reduction in MPF (merchandise processing fees) and many other logistical benefits.

¹⁹See page 7, FTZ Service Providers.

²⁰See page 10, FTZ Operator Bond Providers.

²¹19 CFR 146.81

zone user



A Foreign Trade Zone User is a Corporation, Partnership, or person that uses an FTZ under agreement with the Grantee or Operator for storage, handling, processing, or manufacturing of merchandise in zone status, whether foreign or domestic.

The FTZ Operator may authorize an FTZ User to utilize their own recordkeeping and procedures; however, the Operator is still ultimately responsible, unless the FTZ User posts their own Operator Bond.



ZONE OPERATOR VS. ZONE USER

What is the difference between an FTZ Operator and an FTZ User?

A third-party provider has an FTZ warehouse and Company ABC would like to utilize their zone for their own purposes. In this case, the third-party FTZ provider is the Zone Operator and Company ABC is the Zone User.

foreign trade zone service providers

Foreign Trade Zone (FTZ) service providers play a crucial role in the early stages of implementation and in the day-to-day operations of a Foreign Trade Zone.

Foreign Trade Zone service providers include:

- Managed Solutions Providers
- Licensed Customs Brokers
- Software / ICRS Providers
- FTZ Consultants
- Freight Forwarders
- Surety Bond Providers



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MANAGED SOLUTIONS PROVIDERS & LICENSED CUSTOMS BROKERS

When you get down to the nuts and bolts of Foreign Trade Zone operation, one of the key components is the **daily processing of inventory**.

Per U.S. Customs regulations²², every transaction in the zone which utilizes foreign status material²³ is required to be consumed, tracked & monitored daily. Every admission of foreign material into the zone needs to be reported to CBP within a certain timeframe.²⁴

At the end of every zone business day, the ending balance of material in the recordkeeping/software (ICRS) system and the ERP of the Operator needs to align & balance. All records need to be maintained according to the regulations.

A User and/or Operator can employ staff to manage the FTZ process internally to some extent, however, some activities must be performed by a Licensed Customshouse Broker (LCHB). Alternatively, Managed Solutions Providers with in-house Customs Brokerage can manage the Customs responsibilities on a Zone Operator's and/or User's behalf.²⁵

A Managed Solutions provider specializes in managing the daily inventory, processing transactions, performing Customs procedures (including admissions and entries), and provides root cause analysis for any issues that allow for quick resolution to balance discrepancies.

CBP AUDIT SUPPORT

FTZ Managed Solutions Providers are also able to provide Zone Users and Operators with compliance support during recurring CBP reviews and audits.

It's important to remember that a Zone Operator cannot delegate all responsibility to a Managed Solutions Provider²⁶ and is still responsible for their zone activity, just as an importer is ultimately responsible for activity performed under their company's name and identification number.



**foreign
trade
zone
service
providers**

²²19 CFR 146.21

²³Fungible domestic products are also required to be included

²⁴19 CFR 146 Subpart C

²⁵19 CFR 142.21 (b3)

²⁶19 CFR 146.21 (c)

foreign trade zone service providers



SOFTWARE PROVIDER AND INVENTORY CONTROL & RECORDKEEPING SYSTEM (ICRS)

In order to be activated by U.S. Customs as an FTZ Operator or User, a company must have an FTZ Inventory Control and Recordkeeping System (ICRS).²⁷

A key component of an ICRS is the software.

In addition to recordkeeping, it acts as the system-of-record for the Zone with U.S. Customs. The software allows for control of merchandise, electronic recordkeeping, and transmission of required data to U.S. Customs.

Most Managed Solutions Providers can recommend or provide the software packaged along with their services and play a vital role in the implementation of systems and processes for a successful set up and continuous operations.



²⁷19 CFR 146 Subpart B

FREIGHT FORWARDERS

A Freight Forwarder's main role is facilitation and management of the transportation of raw materials and goods -in and -out of the Foreign Trade Zone.

Freight Forwarders are usually responsible for issuing an in-bond movement or permit-to-transfer (PTT) to move goods from the port of entry into the Foreign Trade Zone without entering U.S. Commerce, under U.S. Customs regulations.

CUSTOMS FTZ

BOND PROVIDERS

Every Zone Operator is required to post an FTZ Operator Bond with U.S. Customs prior to activation.²⁸

The FTZ Operator Bond is acquired through a Surety Bond provider. Bond providers are third-party insurance and risk companies and are contracted directly with a Managed Solutions Provider and / or Customs Broker.

The FTZ Operator Bond must contain certain conditions, that include (but are not limited to):

- Agreement to pay duties, taxes, and charges,
- Proper receipt, handling, and disposition of merchandise
- Payment of annual fees

The amount of the bond is dictated by US Customs in accordance with the bonding guidelines²⁹ on a case-by-case basis and is periodically evaluated for sufficiency.³⁰

FOREIGN TRADE ZONE CONSULTANTS

An FTZ Consultant's role in an FTZ includes (but is not limited to):

- Assisting businesses with the Application & Activation to become a Foreign Trade Zone
- Feasibility Studies
- Modifications to Zones
- Training
- Auditing
- Procedures & Manuals

As you can see, there are a lot of parties involved in the setup and ongoing management of a compliant Foreign Trade Zone.

It's important to align with the right partners for your company to ensure its success.

²⁸For additional information on FTZ bonds, see (19CFR Part 113)

²⁹19CFR 113.13(b) and CD3510-004

³⁰(FTZ Manual, 2011)

A - T O - Z

foreign trade zone management



- Zone Consulting for Application & Activation
- Zone Software ICRS
- FTZ Implementation Services
- ERP & ICRS Integration Assistance
- ICRS Background Data Creation & Maintenance
- Customs Document Creation & Filing
- Local Management & Operations
- Daily Management of Zone Software
- Customs Statement Payments
- On-Site & Electronic Records Management
- CBP Visit Facilitation
- CBP Activation Support
- Technical & Compliance Support
- Audit Support
- Basic Training
- Ad-hoc Reporting
- FTZ Board Report

Existing, expanding or newly inquiring Foreign Trade Zone programs need a high-level of compliance and technical support.

With the high-stakes of running a zone, it's important to have the appropriate oversight.

Green Worldwide Shipping assigns only Licensed Customhouse Brokers to oversee all zone operations.

Errors, especially with large data sets, are a fact of running a business. The key is building mechanisms to reduce these errors, catching them quickly and resolving to ensure they do not happen again.

As part of the Green's FTZ Management Solution, we will work with you to build exception management tools & provide corrective action that resolve discrepancies quickly.

QUESTIONS?

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B O N U S C O N T E N T



The state of Arizona is a prime location for warehousing and distribution because of its proximity to other major U.S. markets.

More than 33 million consumers can be reached from Phoenix, AZ within a single day truck haul, while Phoenix Sky Harbor International Airport connects to 124+ domestic and international locations.

PRE-CONSTRUCTION TAX BENEFITS

Arizona provides a lower assessment ratio for approved, pre-construction activated foreign trade zones or subzone sites. Once approved, activated sites are eligible for a property tax reclassification benefit to a Class 6 property, which carries a 5% assessment ratio.

While the approval process can be extremely complicated, requiring consent from local authorities and tax entities, a reclassification may result in up to a 72.9% reduction in real and/or personal property taxes for business within the zone.

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Transportation to major markets and west coast ports via I-10, I-8 and I-40.

Six-hour drive to Los Angeles and San Diego.

Three-hour drive to the U.S.-Mexico border.

Less than one day drive to Albuquerque, Austin, Dallas, and Salt Lake City.

Backhaul rates heading to California are 65% of the fronthaul rates.

Shipping costs to California are up to 75% cheaper than other Mountain West markets.

Phoenix Sky Harbor International Airport handles 44 million passengers annually.

Home to 8 additional Aviation airports.

Sky Harbor offers approximately 1,200 daily flights to hundreds of domestic and international cities throughout Canada, Mexico, and the United Kingdom.

Serviced by all major air cargo carriers.

Phoenix Goodyear and Mesa Gateway Airports provide additional capacity.

Rail-served sites are available, including an intermodal station.

Transload and reload centers in key industrial corridors.

100,000+ SQFT FTZ WAREHOUSING IN ARIZONA

Green Worldwide Shipping® is the exclusive provider of Foreign Trade Zone Warehousing support for overflow inventory to existing FTZ production facilities in Arizona's Zone 75.



OVERFLOW SUPPORT

TURNKEY FTZ SPACE

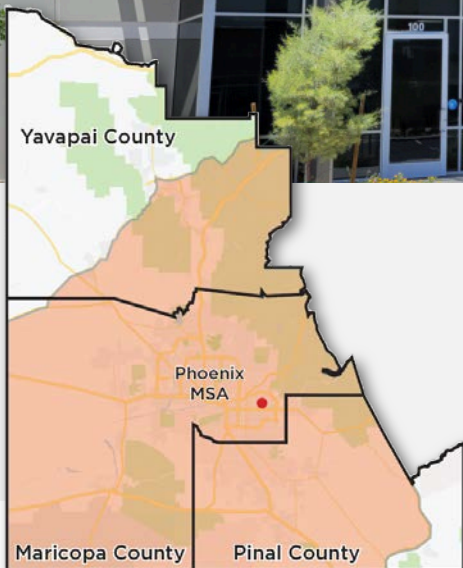


**SHORT & LONG TERM
SUPPORT**

FTZ MANAGEMENT



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BOTTOM LINE

we speak freight

ISN'T IT TIME TO MOVE
FREIGHT FORWARD

