



May 2017

FOREIGN TRADE ZONE 205 – PORT OF HUENEME

General

The foreign-trade zones (FTZs) program was authorized by Congress (FTZ Act - 19 USC 81a-81u), to encourage activity and added-value at U.S. facilities in competition with foreign alternatives, and to allow delayed or reduced duty payments on foreign merchandise.

1. Companies may use FTZs for both storage/distribution activities or, after specific authorization by the U.S. FTZ Board, for production.
2. The FTZ program allows domestic activity on foreign items prior to formal customs entry. Duty-free treatment is accorded items that are re-exported and duty payment is deferred on items sold in the U.S. market, thereby offsetting customs advantages available to overseas producers who compete with producers located in the U.S.
3. By reducing costs, FTZs level the playing field and improve U.S. competitiveness. They help businesses reduce production, transaction and logistics-related costs by lowering effective duty rates, allowing special entry procedures, and encouraging production closer to market
4. By helping local employers remain competitive, FTZs can contribute to maintaining or boosting employment opportunities; also, lower FTZ-based production costs encourage increased investment in U.S. facilities
5. The FTZ Act prohibits residence within a zone
6. Retail trade is prohibited in any zone
7. With the exception of formal customs entry procedures, all other local, state and federal laws and regulations apply (including labor and immigration laws)
8. FTZs remain under direct supervision of U.S. Customs and Border Protection

9. FTZs are within the territory of the U.S. and merchandise stored in a FTZ is considered imported into the U.S.

Foreign-Trade Zone Operating Agreements

Any entity seeking to operate a Zone Site (including a Subzone) within FTZ No. 205 must enter into an operating agreement with the Oxnard Harbor District, Port of Hueneme, as Grantee (copies of operating agreements are maintained at the office of FTZ No. 205 for reference). If there is any conflict with this Schedule, the operating agreement shall prevail.

Production Activity (Defined)

For any foreign status item, if activity results in a change in HTSUS classification at the 6-digit level (“substantial transformation”) or a change in eligibility for entry, production authority will be required from the FTZ Board to conduct such activity under zone procedures.

Merchandise in a zone may be assembled, exhibited, cleaned, manipulated, manufactured, mixed, processed, relabeled, repackaged, repaired, salvaged, sampled, stored, tested, displayed and destroyed.

Production activity must be specifically authorized by the FTZ Board. And advance approval is needed prior to any production activity in a zone, even if it is proposed that all foreign status inputs be admitted in privileged foreign status.

Zone Benefits

Inverted Tariff Savings: In an FTZ, the importer may elect to pay the duty rate applicable to either raw material/parts or finished article (articles have different duty rates for parts and finished units, offering substantial CBP duty savings).

International Returns: Certain exporters have a percentage of the exports returned to the U.S. CBP duties are owed a second time on returned product if it is of foreign origin; by being returned to an FTZ, no CBP duties are paid upon return.

Exports: No CBP duties are paid on merchandise exported from an FTZ. While the drawback law allows recovery of most CBP duty previously paid after exportation, the law is complex and repayments may be delayed; however, in an FTZ, duties are simply never paid. If duties have already been paid, merchandise may be admitted to an FTZ in Zone restricted status, which allows an immediate claim for drawback, even though the merchandise is still in the U.S.

Spare Parts: To service products, spare parts must be on-hand in the U.S. for prompt shipment; however, it is impossible for most firms to know their requirements. Spare parts may be held in the FTZ without CBP duty payment, generating cash flow savings, but if it is determined they are not needed, they may either be returned to the foreign vendor free of duty or destroyed, avoiding CBP duty payment.

Waste/Scrap/Damage/Defects: CBP duties not paid on merchandise subject to accountable losses.

Cash Flow: CBP duties are paid only when merchandise enters CBP territory. The inventory on-hand can be held in FTZ without CBP duty payment – a temporary but often significant savings of carrying costs.

Quality Control: The FTZ may be used for quality control to insure only merchandise that meets specifications is imported and duty paid. All other materials may be repaired, returned to the foreign vendor, or destroyed under CBP supervision.

Country-of-Origin Marking/Labeling: Depending on the merchandise, level of activity and use of U.S. sourced goods and processes, merchandise may be "substantially transformed" into a product considered to be of U.S. origin; however, FTZ Board approval is required prior to engaging in manufacturing operation within a Zone.

Security: The FTZ is subject to CBP supervision and security requirements; unauthorized withdrawal of merchandise, such as employee pilferage or stealing, is a violation of 18 U.S.C. 549, carrying a penalty of 2-years in federal prison and \$5,000 fine per offense (of substantial benefit in reducing inventory losses).

Inventory Control: Operations in an FTZ require accuracy of receipt, processing and shipment of merchandise. Increased accountability cuts down on inaccurate inventory and requirements for emergency air freight shipments from overseas of necessary merchandise.

Entireties Provision: Importer can choose whether this provision applicable to merchandise admitted to FTZ.

Exhibition: Merchandise can be held as exhibition for customers without CBP duty payment.

Compliance with Federal Laws: Merchandise can be admitted into an FTZ without being subject to a federal laws that would otherwise prohibit importation (e.g. FDA, DOT, EPA, and USDA).

Applicability

The following fees, charges and lease rates apply to operators of zone and sub-zone sites and will be charged in accordance with rates established by the Zone Site Operator and as approved by Grantee to ensure charges are fair, reasonable and provide Zone use on an equitable basis to all similarly situated entities.

Application fee

An Application Fee will be charged whenever Grantee must file a request with the FTZ Board to:

1. Expand FTZ No. 205 so as to include a new Zone Site
2. Modify FTZ No. 205 boundaries to alter existing Zone Site or add new Zone Site
3. Obtain authorization to engage in production/manufacturing or seek determination
4. Obtain Subzone designation

The fee will cover Grantee expenses for obtaining the necessary approvals/resolutions of the Application, submission to the FTZ Board and support services required during approval process (fee does not include actual preparation of applications or requests), based on following:

- Expansion Application to establish new Magnet Site \$ 2,500

- Minor Boundary Modification Usage-Driven Sites \$ 1,500
- Manufacturing/Production Authority and Scope Determination Request \$ 4,000
- Subzone Application \$15,000

All fees are payable in advance of Application request. For sub-zone request, \$10,000 must be paid in advance and \$5,000 on approval.

Operator will also be responsible for paying any Application or filing fee required by FTZ Board for such an Application.

Activation Fee

An Activation fee will be charged to any Operator when seeking to activate a Zone Site on execution of an operating agreement. The fee will cover Grantee expenses for preparation and processing, providing Grantee concurrence letter to CBP, and review of Activation and operation's procedures (fee does not include preparation of actual Activation request, procedures manual, or other documents required by CBP regulations).

\$5,000 activation fee by Grantee is payable in advance of submitting U.S. Customs request.

Annual Fee

The annual fee covers the administration of the Zone by Grantee, preparation of annual report, attendance at educational seminars, promotional activities and other accounting and administration expenses (fee is for privilege of using FTZ 205 grant, does not include lease of property or other Port use or services).

The following annual fees are due from an operator:

1. General-purpose site: \$5,000
2. Special-purpose site: \$10,000

The fee is due on U.S. Customs' activation and each anniversary of such activation, and may be increased annually at a rate not to exceed the CPI, at the option of Grantee.

Custom Fees and Penalties

Grantee is not responsible for fees or penalties that may be imposed by U.S. Customs for any operations or actions within an activated zone site.

Negotiated Fees for Multiple Services

Port users may seek FTZ services or privileges in conjunction with other Port use or services, such as leasing property or use of wharf, dock or shed spaces. In such cases, the application, activation, annual and staff fees cited herein (including any increases), may be subject to negotiation as part of a multiple services package; in such case, the operating agreement will be the controlling instrument.