

FOREIGN-TRADE ZONES BOARD

Luther H. Hodges, Secretary of Commerce
Chairman and Executive Officer

C. Douglas Dillon
Secretary of the Treasury

Cyrus R. Vance
Secretary of the Army

Richard H. Lake
Executive Secretary

Committee of Alternates

Jack N. Behrman, Chairman
*Assistant Secretary for
International & Domestic Business
Department of Commerce*

James A. Reed
*Assistant Secretary of the Treasury
Department of the Treasury*

Colonel Edmund H. Lang
*Resident Member
Board of Engineers for Rivers and Harbors
Corps of Engineers, Department of the Army*

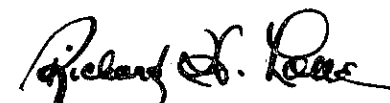
Foreword

Current emphasis on international trade has focused considerable attention on United States Foreign-Trade Zones where foreign and domestic merchandise may be brought without the payment of customs duties and without other restrictions applying to the movement of foreign materials to U.S. shores.

The foreign-trade zone is a unique business facility designed to serve many and varied needs of the international business community—exporters, importers, and producers alike. In a zone, goods and materials may be used for manufacturing and processing; they may be displayed, marketed, handled, stored, or staged for subsequent export or import.

The Foreign-Trade Zones Act (Public Law 397, 73d Congress, approved June 18, 1934) provided for the establishment of these zones to "expedite and encourage foreign commerce". In 1950, legislative amendment (Public Law 566, 81st Congress) expanded the Act to include manufacturing and exhibiting along with the many other business services authorized in the basic legislation. Zones are in operation in New York City, New Orleans, San Francisco, Seattle, Toledo, and Mayaguez, Puerto Rico.

This booklet is provided as a basic reference on the utilization, operation, and administration of the zones. Inquiries concerning zone facilities, services, and opportunities should be directed to the management of existing zones or to the Executive Secretary, Foreign-Trade Zones Board, Washington 25, D.C.



RICHARD H. LAKE,
*Executive Secretary,
Foreign-Trade Zones Board.*

November 1962

III

Introduction

Advantages to Zone Users

The usefulness of zones in foreign trade promotion should be more widely known and understood by business. *Foreign traders and other prospective zone users are urged, therefore, to consult their nearby zone operator as they would the operator of any other trade or transportation facility as to its possible utility to their particular enterprises.* Especially significant and worth mentioning are the privileges authorizing manufacturing and exhibiting.

Manufacturing

Under the original Foreign-Trade Zones Act, activities within foreign trade zones were limited to so-called manipulation, e.g., sorting, grading, cleaning, repacking, re-marking, or other assembly or minor processing; but there was an express prohibition against manufacturing. This distinction between manipulation and manufacturing gave rise to considerable uncertainty and was a handicap to full utilization of the zones. Under the subsequent law and regulations, however, manufacturing is now permitted, with certain exceptions, so that this troublesome administrative problem is eliminated and at the same time the usefulness of zones is substantially enlarged.

Production of articles in zones by the combined use of domestic and foreign materials makes unnecessary either sending the domestic materials abroad for manufacture or the duty-paid or bonded importation of the foreign materials into this country. Duties on the foreign goods involved in such processing or manufacture are payable only on the actual quantity of such foreign goods incorporated in merchandise transferred from a zone for entry into the commerce of the United States. If there is waste resulting from manufacture or manipulation, allowances are made for it. This eliminates payment of duty except on the amount of foreign material which is actually entered; and if there is any recoverable waste, it is dutiable only in its condition as such and in the quantity when entered.

Exhibiting

A second notable feature under the amended zone act is the authority to exhibit merchandise within a zone. Zone facilities may now be utilized for the full exhibition of foreign merchandise without bond for an unlimited length of time, and with no requirement of exportation or duty payment. Thus, the owner of goods in a zone may now display his goods where they are stored, establish showrooms of his own, or join with other importers in displaying his merchandise in a permanent exhibition established in the zone. And, since he may store and process merchandise in a zone, he is not limited to the mere display of samples or sale for later delivery, but he may sell from stock in wholesale quantities. Furthermore, his ability to get advance termination of duties and taxes helps him to quote firm delivery prices, and consequently the hazards of uncertainty as to the amount of the customs assessment, as well as the possibility of a larger assessment due to a rise in tariff rates while the merchandise is in the zone, are eliminated.

To render the greatest possible service to foreign trade in the use of this right of exhibition, and other privileges granted to the zones, Board regulation (sec. 400.304 of Order No. 29) was promulgated authorizing the establishment of zones or subzones for one or more of the specialized purposes of storing, manipulating, manufacturing, or exhibiting goods, if the Board affirmatively determines that the services of existing zones are not adequate for the needs of commerce. The reason is to permit their establishment in the most suitable location for the specialized purpose, and with the best facilities available. Insofar as exhibiting is concerned, this regulation authorizes the establishment of a new type of foreign trade mart in the business centers of the port area, readily accessible to exhibitors and buyers alike.

Related Zone Privileges

1. Foreign merchandise may be brought into a zone without custom entry, and without the payment of duties or furnishing of bond therefor. This makes it unnecessary to tie up operating capital in the items. If merchandise is reexported, there is no drawback problem, and if merchandise ultimately is transferred into customs territory, duties are paid only on the merchandise actually transferred.

Generally speaking, the costs of harbor transportation, handling, and storage of zone merchandise are comparable with those involved in the use of corresponding types of facilities in customs territory, so that the aforesaid savings are not offset by any additional costs.

2. Domestic merchandise may be taken into a zone and, provided its identity is maintained in accordance with prescribed regulations, may be returned to customs territory free of quotas and duty. This is permitted so that domestic merchandise may be used in manipulations, manufactures, or exhibits, and also, for example, used for packing material.

3. There are a variety of possibilities for savings through manipulations and manufacture in a zone.

For example, many products shipped to the zone in bulk can be dried, sorted, graded, or cleaned, and bagged or packed, permitting

losses of duties and taxes on moisture taken from content or on dirt removed and culls thrown out. From incoming shipments of packed or bottled goods, damaged packages or broken bottles can be removed. Where evaporation results during shipment or while goods are stored in the zone, the contents of barrels or other containers can be re-gaged and savings obtained, as no duties are payable on the quantities lost or removed. In other words, barrels or other containers can be re-gaged at the time of transfer to customs territory to insure that duties will not be charged on any portion of their contents which has been lost owing to evaporation, leakage, breakage, or otherwise.

Considerable savings can be made in ocean freight, and sometimes in duties and taxes, by shipping unassembled or disassembled furniture, machinery, etc., to the zone and assembling or reassembling them there.

Merchandise may be re-marked or relabeled in the zone to conform to requirements for entry into the commerce of the United States if otherwise up to standard.

Substandard foods and drugs may, in certain cases, be reconditioned to meet the requirements of the Food, Drug, and Cosmetic Act.

There is no time limit as to how long foreign merchandise may be stored in a zone, or when it must be entered into customs territory, reexported, or destroyed. When commodities are not affected by long storage (or when storage for aging is necessary) and prices fluctuate widely over periods of years, this is an obvious advantage.

Foreign merchandise in bonded warehouses may be transferred to the zone at any time before the limitation on its retention in the bonded warehouse expires. This may result in substantial savings if the final disposition of merchandise is to be long delayed for one season or another, but such a transfer to the zone may be made only for the purpose of eventual exportation or destruction.

When foreign merchandise is taken into the zone from customs bonded warehouses for the sole purpose of exportation or destruction, the bond is canceled and all obligations in regard to duty payment, as to the time when the merchandise is to be reexported, are terminated. Similarly, the owner of domestic merchandise stored in customs or internal revenue bonded warehouses may transfer his goods to the zone for the sole purpose of exportation, and obtain cancellation of duties. If such products are subject to taxes, such taxes may be refunded or refunds obtained for taxes already paid. Consequently, the owner's funds that otherwise would be tied up in taxes are at hand for investment in the business proper. A manufacturer, operating in customs territory and using dutiable imported materials in his production, may also obtain drawback of duties paid or cancellation of bond on transferring the product to the zone and complying with the appropriate regulations. Thus, he need not wait until he finds a foreign customer, or until his customer is ready for delivery, to obtain these benefits.

Notwithstanding these advantages, it is apparent that the trade is not making full advantage of the many benefits to be derived from zone operations.

However, it is gratifying to note that operations in the zones are beginning to reflect their potentials for carrying out the intent of the legislation in providing for such means to encourage and expedite foreign trade.

EXAMPLES OF ZONE OPERATIONS

There are countless opportunities for imaginative, convenient and profitable business operations in foreign-trade zones. The following are examples of activities that have been, or are being conducted in zones around the country:

New York

For many years an importer has been renting the heated area of several thousand square feet of space on an annual basis at the New York Foreign-Trade Zone. This firm brings to the zone new designs and weaves of British woolen textiles and suiting materials in bolts and rolls packed in cases. These are unpacked upon arrival and the contents are stored away on shelves for ready accessibility. Samples and swatches are entered through customs, displayed at trade shows, or shown to leading stylists. Larger samples of those attracting attention and meeting favorable approval are made up (not in the zone) into pre-season suits for display to the clothing trade.

Other clothes, designed expressly for South American wear, are packed for shipment to Latin American countries. Use of the zone permits small samples of a large number of trial shipments to be brought into this country for display before stylists. Larger quantities of the goods chosen are immediately available for delivery. If the zone facilities were not available case lots could not be broken up, and thus cumbersome quantities and excessive duty payments would be involved.

A perfumery company is developing the Latin American trade for its perfumes, soaps, powder, makeup preparations, and toilet water. Import duties on these luxury items are so severe, both in this country and South America, that stocks on consignment cannot be maintained for every potential South American marketing city without tying up considerable sums of the firm's capital. Yet deliveries direct from France against orders received are so slow as to engender loss of sales. Consequently, this company has for some time maintained an ever-increasing stock of wares unpacked on shelves in a privately rented stockroom at the New York Foreign-Trade Zone.

Furthermore, certain other of this company's products, that is, face powders and novelty packages, are made up in the United States and kept available as local stocks here. Orders received from Latin America for immediate supply are filled at the New York zone, packed, and shipped out by air express. Because these orders sometimes cover small replacement quantities of half a dozen bottles at a time, but of many different types, they could not be handled through facilities where case lots may not be broken. Absorption of United States duty payments in the Latin American sales price would raise the cost prohibitively.

Valuable metal ores are brought to the zone for analysis of content before delivery is made to purchasers. If the ore content should fall slightly below specifications, forfeiture would be faced by the supplier and an adjustment would have to be made by him. If the imported ore should turn out to be fractionally high in content, then an unnecessary delivery of overly high grade ore would normally be made. By bringing it to the zone for analysis and possibly for mixing with ores of opposite specifications, an exact delivery can be made. There would be no opportunity other than in a zone to mix and average the grades after official entry examination has occurred. Considerable amounts of the ores are for Government stockpiling account.

One of the more important metal corporation users of the zone mentioned three reasons for use of the zone for temporary storage of imported aluminum ingots and copper wire bars, etc. The company purchases these metals abroad with the intention of reselling them at a very small profit in the United States, in Canada, or in Latin America. By bringing them to the zone the traders have all of these markets at their immediate option, without being involved later with bonding troubles and delaying-action drawbacks.

They like the harborside storage facilities, where they have arranged direct and very inexpensive discharge and delivery right out of steamers berthed at the zone piers. These traders operate at exceedingly small profits. They often figure margins in very small fractions and eagerly seek any savings.

Another reason given for preferring the zone is the ease of the transfer out of a zone by lighter; storage having been in the zone's open area, nearness to a loading berth helps to keep costs down.

Perhaps the most interesting activity, because one of the oldest at the zone, is the handling of Brazil nuts. The principal user of the zone's facilities stated that the zone had been a most useful asset to the organization for drying and curing Brazil nuts, and he doubted that the development which had taken place in treating these nuts could have occurred were it not for the space and the equipment provided by the zone.

To begin with, many dollars are saved by the firm—and by others similarly using the piers—by unloading in bulk direct from shipside into permanent storage. In former years, it was necessary to bag the Brazil nuts and transport them to a warehouse, thereby adding unnecessary costs for bagging and transportation and for the value of the bags used.

Originally, treatment at the zone was limited to drying and trenching the nuts. The company has designed and built automatic machines which pick out, by air-blow, lightweight nuts (the hearts of which are almost always decayed), broken nuts, and other discards. With these culls rejected and destroyed, the customs duty eventually collected by the Government is figured only on the sound, first-class nuts. A further advantage, and a very important one, is that this duty, paid on the weight ascertained at the moment of import into customs territory, is not on the weight landed from the steamer. The curing and drying processes at the zone usually shrink the nuts by as much as 20 percent in weight, thereby effecting a substantial saving.

The foreign-trade zone management has made available to this firm additional rooms where machinery automatically packs Brazil nuts intended for the retail trade. They are also mixed with domestic nuts (almonds, walnuts, etc.) and put up in 1-pound salable packages and trays. At the peak of this operation as many as 200 people are employed, and because of the efficiency of operation a saving in costs is achieved which permits a lower price to customers.

Another interesting operation in the New York zone, because of the many improved advantages, is that of sorting, inspecting, and bagging cocoa beans. About half a dozen firms dealing in cocoa bring large shipments of cocoa beans, cocoa powder, and cocoa press cake into the zone. Because the beans are not a dutiable article the question arises, "Why use the zone?" The importers favor bringing them to the zone because they may be inspected there for quality and condition and before an official entry is made. Once a customhouse entry has been effected, inspection is made promptly by the Food and Drug Administration, which bears down heavily on arrivals that fail to qualify under its standards. One importer, in particular, values highly the opportunity to make, in advance, his own private inspection and to recondition his beans and bags, if required, before an official entry.

Another advantage to the cocoa bean importer, and one which has not been fully explored by other members of the trade, is that the eastern railroads consider shipments of cargo tendered to them from the foreign-trade zone as having just arrived in this country, because an official entry has usually just been made. Therefore, the railroads accept the cargo, in whatever bags it is then packed and under whatever marks it then bears, at the through import rail rate for this class of cargo. Were cocoa beans to be reconditioned at a warehouse or on a steamship pier and then tendered to an eastern railroad for inland shipment, the local rail rates would be applied. Under the rail tariff, rebagging, re-marking, or reconditioning in transit is not permitted (exceptions are made in 4 or 5 types of cargo), and obviously this prohibition in itself would be a very valid reason for importers to use the zone facilities.

The cocoa trade finds the location of the New York Foreign-Trade Zone convenient for reaching the chocolate plants in the eastern and midwestern sections of the country because of the direct rail connections.

For a number of years the New York zone's facilities have been used for the importation of talc from Italy by regular merchants for the account of important customers. The reason for using a zone is that talc is imported in shipload lots and discharged direct from the ship to the zone piers, where it is stored until shipping instructions are received from customers. By having these cargoes brought in and stored in the zone the importers have eliminated the need to cart bags from steamship pier to inland warehouse for storage until the customers are ready to make the pickup. This, of course, materially reduces the trucking and handling charges.

Also, of special benefit to the importers and to the customers is the fact that no customs duties or bonds are required while cargoes are stored in the zone. The duty on imported talc is assessed only on such portions as are actually brought into the United States for domestic consumption. Any portion lost in handling, and this is considerable, would not be subject to customs duties. Any lots

reexported would not be subject to customs duties, with the attendant formalities or resort to drawbacks.

An ever-increasing operation at the zone is the bottling of a carbonated beverage. At this plant, all of the ingredients are combined, mixed, bottled, and packed for export shipments to all parts of the world.

Imported lemon solution is brought into the zone in metal drums and then mixed with domestic ingredients and bottled and packed in domestic cases and cartons ready for shipment.

No customs duty or posting of bonds is required while the foreign solution is stored or handled in the zone. In addition to this savings the bottlers also benefit by the fact that the Internal Revenue taxes originally assessed on the alcoholic contents of the domestic solutions are immediately refunded, on proof of exportation, without drawback formalities.

The handling in a zone of pharmaceuticals, vitamins, and other medical preparations from many foreign countries, while not a large-volume operation, is extremely important and makes it possible to market these products in other countries with ease and at a minimum of expense.

The shipments of this type of merchandise arrive in a zone in packages varying from a few grams to drums of 60 kilograms each. These are then repacked according to the specific requirements of the customers. The pharmaceuticals are measured out, weighed, and packed into vials, small bottles, and packages according to the requirements. The weighing is done on special scales to insure accurate measurements. Shipments are then forwarded to destinations by air express, parcel post, or other means as requested by the purchaser.

The special benefit to the trade is from use of the facilities furnished by the zone for these manipulations, and the fact that no bonds or customs duties are required for any merchandise handled through the zone. Duty is assessed only on such portions as are brought into customs territory for domestic consumption.

Among the older operations in the zone is the handling of consigned shipments of fountain pens, cigarette lighters, silk scarves, and watches and movements, all of which are brought into the zone and there repacked for shipment to various destinations. The last-mentioned commodity is among the highest in value of foreign merchandise received at a foreign-trade zone for manipulation. Approximately 50 percent of imported watch movements are reexported in American watch cases.

Use of the zone's facilities enables these importers to save on handling and labor costs and the cost of bonds and other documentation. It also enables the importers to repack their merchandise in small packages to conform to customs and postal regulations of the country of destination, and to combine various types of merchandise in the same package, thus assuring their customers a wide assortment of articles.

As the majority of these shipments are for immediate delivery, they benefit from the foreign-trade zone service for same-day delivery to the post office.

Sugar brokers and dealers find the facilities of the zone most useful. An official of one of the more active companies stated that his firm's experience was excellent and that the zone enabled the firm to carry on a small but valuable branch of business which otherwise would be impossible.

Facilities in the Port of New York with or without bonded space and on the waterfront are few and far between. United States imports of sugar from some of the Latin American countries are restricted by quotas. The firm in question handles these quota sugars because the quality is high and they are in special demand by candy manufacturers. With quotas as a factor in marketing and quota commodities may be imported into customs territory only according to the quota arrangement, the zones are a good intermediate depository.

The quotas are fixed on an annual basis, and for some countries they are small enough to be completely filled within a few days of the annual reopening. The first shipments to arrive in United States customs territory are the ones to be admitted and applied against the new quotas. The date of departure from the country of origin is the basic date establishing priority for entry permit. After part of the cargo has been entered, then the entry permit priority is established on the date of receipt of the application of entry.

The use of zones solves this problem. Not only are excess quota commodities freely accepted for indefinite storage in the zone, but the date of departure from the country of origin is established so that an importer is assured that his goods will be admitted against subsequent shipments from the country of origin.

Furthermore, in the case of this particular operation, the firm mentioned above has managed great economies by arranging discharge of the steamer directly

at Port 16, Staten Island, thereby eliminating sugar lighterage, transfer, and storage. The final, and perhaps most important, advantage is that, once the sugar has been delivered to the zone and a negotiable warehouse receipt has been issued, the importer can regain the use of most of his capital investment by obtaining a commodity loan from his bank.

The members of the trade consulted said that their experience with sugar imported in the New York zone was excellent—that it keeps in good condition and does not cake or harden. They were very complimentary, too, as to the care taken in handling, and mentioned that the number of bags receipted for as torn and mended was negligible. The statement was made that without the facilities of a zone the particular operations would not be available and no attempt would be made to carry on a sugar business with Latin American quota countries.

New Orleans

For some years a Midwestern importer of hardwood lumber used the New Orleans Foreign-Trade Zone to grade, sort, and size the lumber and has now moved into the zone a kiln in which the lumber is dried. A considerable saving is made in transportation costs and also in duty, which is much less on dried lumber than on green lumber.

Another midwestern company moved its plant to the New Orleans zone and installed machinery to grind and package casein imported from Argentina and other producing countries. The casein is mixed with other ingredients for packaging in various sizes to meet trade requirements and is shipped direct to customers in the United States. This procedure eliminates considerable double handling and other costs that were entailed in the operation when the plant was located in Wisconsin.

A mail-order firm occupies some 20,000 square feet of space in the zone in which to assemble its foreign purchases for distribution to American and Latin American countries. This operation furnishes the company with a central marketing depot from which to make deliveries to any of its branches, thereby eliminating possible back hauling in addition to reducing handling and transportation costs.

New Orleans has in operation complete facilities for cleaning and processing spices and seeds, bringing an increase to the Port of New Orleans of spice and seed imports destined to the United States midcontinent.

The zone at New Orleans has a vacuum fumigation plant, the only one in a United States foreign-trade zone, which has been of great value and of particular benefit to importers and exporters of cotton products, seeds, beans, and similar products.

An electric storage battery manufacturing company is operating in the zone where it is possible for them to use both foreign and domestic materials in the manufacture of the batteries they make for both the domestic and the export markets.

These are but a few examples of the varied operations taking place at the New Orleans zone, in addition to the ever-increasing use traders of the area are making of the zone when faced with hindrances and delays that might add to the cost of the merchandise.

San Francisco

The zone at San Francisco has probably made more use of the exhibiting privilege than have any of the others. Here, importers have rented space and are displaying in merchandise from the Far East and other parts of the world. The goods are opened and samples are put on display, and sales are made to dealers from these samples. There are a variety of such operations. The distributor is enabled to make available to salesmen new designs or patterns as soon as they arrive and to make immediate delivery to the buyers at a minimum cost of operation.

At one time, in cooperation with the Bureau of Animal Husbandry of the U.S. Department of Agriculture the zone was used as a detention station for imported animals and birds. Special facilities were erected for the care of small animals and birds. This arrangement relieved the importers from the burden of special documents which were required if the facilities of the zone had not been available.

Substantial use is being made for the manufacture of pharmaceuticals and related products. Finished products are from a combination of foreign and domestic ingredients most of which are exported.

Hypodermic needles from abroad are brought to this zone where they are combined with domestic made syringes.

Several firms maintain stockpiles of consumer goods in rented areas where they sort, display, and conduct wholesale transactions. These firms maintain their offices in the zone for their convenience.

Frequent use of this zone is made for the purpose of displaying and selecting precious and semiprecious stones. After selections have been made, unsold stones are returned to country of origin.

As in the case of New York and New Orleans there is a diversified traffic, and it is reasonable to assume that the zone facilities at the Port of San Francisco will increase as trade relationships with the Far East expand.

Seattle

Merchandise from the Orient is received and stored at the zone. The zone then serves as a marketing and distribution point obviating the necessity for payment of customs duties prior to actual transfer of goods to customers in the United States.

A local clothing manufacturer finds it convenient and advantageous to store bolts of imported woolen cloth in the zone. He periodically removes only so much material as he then requires for processing, paying duty only on the portion of cloth actually removed from the zone.

Toledo

The Toledo Foreign-Trade Zone, the first and only such zone on the Great Lakes, began operation in August of 1961 on a 5½-acre site on the Toledo harbor owned by the Toledo-Lucas County Port Authority. The location of the Toledo Foreign-Trade Zone offers the advantages of lower transportation costs to industries and consumers in Midwestern United States and a large portion of Canada. On goods received via the St. Lawrence Seaway, distribution to the Port of Toledo's hinterland can usually be accomplished in a day. This is made possible by the zone's immediate access to major truck lines, railroads, airlines and highways which serve the city of Toledo.

Heavy machinery was imported from Denmark for later sale to a Midwestern manufacturer. The sale was not completed until several months after the arrival of the machinery, but the exporter wanted to take advantage of early St. Lawrence Seaway shipping dates and store the goods in the Toledo Zone duty-free until the final transaction was completed.

A product utilized almost exclusively by beautician and barber schools is being imported from Germany by a Canadian importer and held in the Toledo zone. The shipments are received via water during the shipping season and by rail in the winter months. The importer is using the zone as a distribution point for the product in the United States and Canada. By using the zone as a duty-free storage area, the importer is saving high overhead costs and many service charges normally connected with distribution. In this case the importer has found use of the zone a valuable marketing tool.

Another Midwestern importer is receiving a German manufactured item and is storing it in the Toledo Foreign-Trade Zone warehouse while he sets up a sales and distributing program in the United States. An English tool product is being received, in some cases by air freight, illustrating the use of the zone as a receiving point for low-weight, high-value cargo brought in by air or water.

Mayaguez, P.R.

A pharmaceutical distributor stores imported goods at the zone. From these stocks he is able to fill orders for Latin American customers without the outlay of capital for payment of customs duties.

This zone, oriented toward manufacturing operations, provides factory space for firms producing a variety of merchandise. Mayaguez has a substantial labor force possessing a wide range of industrial skills.

Manufacturers using the zone are eligible for the tax exemptions and other industrial development incentives offered by the Commonwealth of Puerto Rico.

Panuelas, P.R.

A purely industrial foreign-trade subzone is operated here by the Union Carbide Corp. (Union Carbide Caribe, Inc.).

This special purpose facility is an olefins plant using refinery gas, imported light virgin naphtha, or any other hydrocarbon suitable for processing into various hydrocarbon products, which, in turn, may be transferred into the customs area, reexported, or consumed as fuel within the subzone.

Where Zones May Be Located

The law authorizing the establishment of foreign-trade zones specifically permits their location in or adjacent to ports of entry. It is, however, required that any proposed plan and location for a zone must be found to be suitable to accomplish the purposes of a zone, namely, to facilitate and otherwise serve the foreign commerce of the area involved. An inland zone could, therefore, legally be authorized if otherwise feasible. As a matter of fact, such a zone did operate at the San Antonio, Tex., airport for a few years, but was terminated for reasons unrelated to its inland character.

The initiative in opening a zone should, of course, come from local sources, such as municipal or port officials, trade associations, or other private trade groups. And, as a first step, there should be a determination as to the local trade interest and demand for a zone facility.

Incidence¹ of Federal Income Tax on Sales Profits of Foreign Firms

This section on Federal taxation was prepared in response to inquiries for information as to the incidence of United States taxation on profits made by foreign firms selling from stocks held in their own name in United States foreign-trade zones. In general, it sets forth the circumstances under which sales by foreign firms from foreign-trade zones would be liable to Federal taxation.

Insofar as the United States Federal income tax law is concerned, United States foreign-trade zones do not differ from any other location or facility within the United States. The United States Federal income tax law is based on income or profit "derived from sources within the United States" by a foreign firm.

¹The information and analysis set forth here are necessarily stated in general propositions in the absence of full details surrounding proposed transactions and the other operations, if any, of specific seller-firms in the United States; and because the final determination of such tax questions is, of course, a matter for the U.S. Internal Revenue Service.