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Impact of Trade Remedy Tariffs on the U.S. FTZ Program

Effective April 5, 2025, President Trump implemented reciprocal tariffs on most goods imported into the US from all countries, with limited exceptions in certain industry sectors. The executive order requires that all subject goods be admitted to U.S. Foreign-Trade Zones (FTZs) in Privileged Foreign (PF) status (unless Customs-entered first and then admitted in Domestic Status). This status locks in the tariff rate in effect at the time the status is elected, which is typically when the goods are admitted into the zone. Tariffs on the product must be paid when the goods are removed from the zone and shipped into U.S. commerce.

As a result of the scope of the reciprocal tariffs and the PF status admission requirement, the FTZ inverted tariff benefit, which allows for duty reduction where the duty rate on the finished product is lower than on the imported component, is limited. While this is a reduction of cost mitigation factors companies can use as they maintain or increase manufacturing in the U.S., a wide range of capabilities remain available to U.S. FTZ program participants.

Whether U.S. FTZ Operator/Users choose to elect PF status, or if the PF status election is due to the mandatory requirement of the recent Executive Orders for all trade remedy tariffs, the rate(s) of duty owed upon entry of the goods into the commerce of the United Sates is the rate(s) in effect at the time of the PF election, as the recent CSMS message from CBP confirmed. If there are subsequent increases or decreases in these tariffs based on country- or industry-specific negotiations, the rate(s) in effect at the time of the PF election will be owed when the goods are removed from the zone for U.S. consumption, unless there is contrary guidance from the government in a subsequent modifying order. [1]

The FTZ program was created by Congress to incentivize U.S. manufacturing and distribution specifically in cases where foreign entities maintain a tariff advantage. While

[1] U.S. FTZ Operators should be aware that per 15 CFR 400.13(c)(2), and Section 9.7(j) FTZ Procedures Manual, the rules for items subject to antidumping (AD) and countervailing duties (CVD) are different as AD/CVD rates are assessed based on the rates applicable at the time of entry into commerce from the zone.

the implementation of the PF status requirement lessens the tariff mitigation opportunities for many U.S. manufactures, U.S. FTZ Operator/Users may still:

- Export from the FTZ duty-free. This applies to both distribution and manufacturing zones. There are limitations on this benefit with respect to the shipment of U.S. FTZ manufactured goods to Canada, Mexico or Chile due to terms of trade agreements between the U.S. and those countries.
- Defer duty payment (a cash flow savings opportunity) until the time at which the goods are shipped into the U.S. commerce.
- Reduce fees and increase efficiencies for entry processing by utilizing FTZ weekly entry procedures.
- Streamline logistics and accelerate supply chain speed through direct delivery privileges

This tariff situation is, of course, fluid and subject to change and requires close monitoring of all government actions. U.S. FTZ operators may consider maintaining activated status, even if a decision is made by the company to voluntarily temporarily cease the admission of imported items in foreign status while assessments are being made. Companies who take this route need to be mindful of the applicability of any sunset provision for ASF usage-driven/subzone sites.

THE U.S. FTZ PROGRAM BENEFITS THE U.S. ECONOMY

The NAFTZ strongly supports the preservation and expansion of U.S. manufacturing—in fact, this a key objective of the foreign-trade zones program. U.S. FTZs employ more than 550,000 American workers across all 50 states and Puerto Rico and in virtually every industry sector. U.S. FTZs were created by Congress in the 1930’s to incentivize domestic investment in U.S. value-add operations that is otherwise incentivized to be located offshore. U.S. FTZs are subject to dual federal agency approval and regulatory oversight and serve as highly secure operations which require close partnership with CBP. FTZs enhance global competitiveness for U.S. operations, thus helping to balance trade.

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NAFTZ is a non-profit trade association comprised of more than 800 members spanning the United States and Puerto Rico. The association is the collective voice of all that engage in the U.S. FTZ program, serving as the premier advocacy and educational organization for the U.S. FTZ community of professionals. For questions or more information about FTZs visit our website at www.naftz.org.