Foreign Trade Zone No. 42

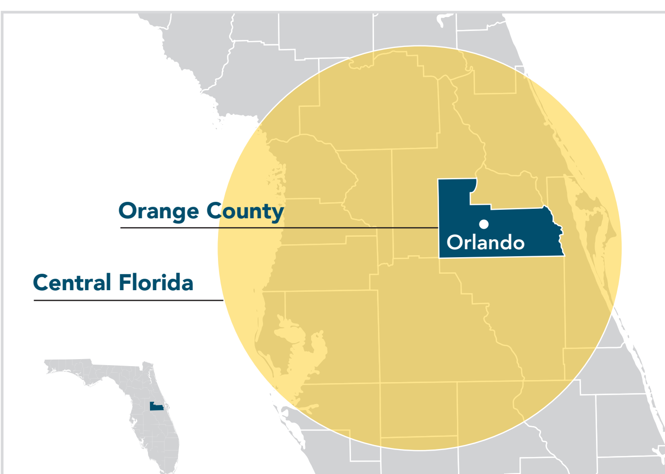
ORLANDO INTERNATIONAL AIRPORT | MCO

WHAT IS A FOREIGN TRADE ZONE?

Foreign-Trade Zones (FTZ) are secured, designated locations around the United States in or near a U.S. Customs Port of Entry where foreign and domestic merchandise is generally considered to be in international commerce and outside of U.S. Customs territory. Certain types of merchandise can be imported into a Zone without going through formal Customs entry procedures or paying import duties. Customs duties and excise taxes are due only at the time of transfer from the FTZ for U.S. consumption. If the merchandise never enters the U.S. commerce, then no duties or taxes are paid on those items.

ABOUT FTZ 42

Foreign Trade Zone 42 (FTZ 42) service area encompasses Orange County, which includes the City of Orlando, in Central Florida. The Greater Orlando Aviation Authority, Grantee of FTZ 42 and operator of Orlando International Airport (MCO), facilitates zone administration as a public benefit to manufacturers and distribution centers. Companies located within the service area can be designated as an FTZ site **within 90 days** after filing the application. Within the service area, there are *two Magnet Site locations, One Subzone, and one Usage Driven Site*. Magnet Sites are pre-designated sites located at existing industrial and distribution facilities whose transportation infrastructure, building space and available land are well established, giving businesses built-in flexibility for their operations.



WHAT ACTIVITIES ARE PERMITTED?

Any merchandise that is permitted to enter into the U.S. may generally be admitted into a Zone. Manufacturing, processing, and any activity that results in a change of the tariff classification can occur in a Zone but must be specifically approved by the FTZ Board. Retail trade is prohibited in Zones.

Merchandise entering a Zone may be:

- Stored
- Sample
- Salvaged
- Repackaged
- Processed
- Displayed
- Repaired
- Destroyed
- Manipulated
- Assembled
- Tested
- Cleaned
- Relabeled
- Mixed
- Manufactured

WHO CAN BENEFIT FROM AN FTZ?

Importers who are:

- Manufacturers
- Warehouse
- Distribution Centers
- Third-Party Logistics Service Providers

APPLICATION REQUIREMENTS

- Application fee and Annual Fee payable to Greater Orlando Aviation Authority per current Zone schedule
- Operations Agreement with the Greater Orlando Aviation Authority
- Approval and acceptance of the Greater Orlando Aviation Authority Board
- Approval by the FTZ Board that governs FTZ42
- Operations subject to requirements of U.S. FTZ Act, FTZ Board Regulations, and U.S. Customs Regulations
- Submission of Annual Reports to the FTZ Board

FOR MORE INFORMATION

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BENEFITS OF A FOREIGN TRADE ZONE 42

DUTY EXEMPTION

No duties or quota charges on re-exports (exception applies for exports to Canada and Mexico under NAFTA). By using a Foreign-Trade Zone, the company avoids the lengthy Customs duty drawback process.

Exports
Customs duties are not paid on merchandise exported from the FTZ to a foreign country.

Consumed Merchandise
Merchandise consumed during processing in the FTZ is generally not subject to Customs duties.

Defects, Damage, Obsolescence, Waste, Scrap
Duties are eliminated on merchandise that is obsolete, damaged, destroyed as defective, scrapped, or wasted.

Spare Parts
Unneeded spare parts may either be returned to the foreign vendor or destroyed, duty free.

Nondutiability of Labor, Overhead and Profit
Customs duties are not owed on labor, overhead and profit attributed to production operations in the FTZ.

International Returns
Merchandise exported and subsequently returned to the FTZ is not subject to Customs duties upon return. It can be repaired and re-exported without duty.

Exhibition
Merchandise may be held for exhibition without Customs duty payments. Many companies use FTZ's as display areas for merchandise and machinery.

DUTY DEFERRAL

Customs duties and federal excise tax deferred on imports until they leave the zone and enter the U.S. Customs territory. Unlike bonded warehouses or temporary importing under bond programs, there is no limit on the length of time that merchandise may be held in inventory in the FTZ without Customs duty, indefinitely. Customs duties are paid only when imported merchandise is shipped into US Customs territory.

When importing product into the U.S., a duty may be assessed on the product. FTZs allow businesses to defer this duty until the product is removed from the Zone and enters the U.S. commerce.

Zone-to-Zone Transfer
If the transfer is in-bond, customs duty is not owed until the product is finally shipped into the US.

Indefinite Storage
Allows for any size or quantity of merchandise to be placed in a foreign trade zone and stored for an indefinite period.

Quota Avoidance
Most merchandise may be held in the FTZ, even if it is subject to absolute quota restrictions. When the quota opens, the merchandise may be immediately shipped into the U.S. Customs territory. Items can be stored indefinitely in a FTZ unlike a bonded warehouse. Additionally, except for certain textiles, inputs subject to quota may be manipulated or manufactured while in the zone into a product not subject to a quota.

DUTY REDUCTION

(Inverted Tariff)

Where zone manufacturing results in a finished product that has a lower US Harmonized Tariff rate than the rates on foreign inputs, the finished product may be entered into the U.S. Customs territory at the duty rate that applies to its finished condition. Moreover, duty is not owed on labor, overhead or profit attributable to zone production operations.

When importing parts for manufacturing or assembly in an FTZ, duties may be reduced, or inverted, to the rate of the final product, reducing the cost on the imported part.

FTZ users may elect to pay the duty rate applicable to component materials or merchandise produced from component materials - whichever is the lower rate.

Certain duty deferral and reduction benefits also apply on equipment admitted to the FTZ for assembly and testing prior to use in production (e.g. racking systems, conveyors, etc.).

Merchandise Processing Fee (MPF) Reduction
MPF is only paid on goods entering the U.S. Customs territory. Zone users can file a single entry for all goods shipped from a zone in a consecutive seven-day period instead of one entry file for each shipment (excluding merchandise subject to live entry).

MPF fees are charged at 0.3464% of the Total Estimated Value (TEV) of the shipment, with a minimum weekly fee of $27.23 and a maximum weekly fee of $528.33 per entry. Fewer entry filings can also reduce Brokerage fees. For a company not operating in a zone, it must pay an MPF for each individual entry.

BENEFITS OF A FOREIGN TRADE ZONE 42

LOGISTICAL BENEFITS

Companies using FTZ procedures may have access to streamlined Customs procedures.

Weekly Entry Savings
Reduce cost of fees by using weekly entries versus entry per shipment. Provides the zone user with the ability to operate their business 24/7 and file one Customs entry per week, rather than per shipment, saving merchandising processing fees. Filings also are generally electronic for quicker processing.

Instead of incurring a Merchandise Processing Fee (MPF) for every shipment that enters the U.S., FTZs allow businesses to combine multiple shipments per week into one formal entry.

Direct Delivery
Minimize delays in Customs clearance and increase delivery times. The opportunity for foreign merchandise to be transported in-bond directly to the zone user's facility without Customs clearance at the first port of unloading, and without the in-bond carrier needing to report to the local Customs office prior to the delivery of the goods to the zone site.

Country of Origin Marking and Labeling
No country-of-origin labels are required on merchandise admitted to the FTZ, saving a complicated procedure and up-front expense. If needed, the labels can be applied in the FTZ.

Transfer of Title
Title to merchandise may be transferred in the FTZ, if there is no "retail" sale. The global supplier can own it until it is shipped just-in-time to local manufacturers.

Inventory Control
FTZ operations require careful accounting on receipt, processing, and shipment of merchandise. Firms find that the increased accountability cuts down on problems with inaccurate receiving and shipping as well as waste and scrap.

Quality Control
The FTZ may be used for quality control inspections to ensure that only products that meet specifications are imported. Substandard goods can be destroyed before duty is paid.

Changing Circumstances
As US laws and especially US Customs laws change, location in an FTZ allows operators and users greater flexibility in addressing these changing circumstances.

TAX ADVANTAGES

By federal statute, tangible personal property imported from outside the U.S., and tangible personal property produced in the U.S. held in a zone for export are not subject to state and local ad valorem taxes.

Inventory Taxes
Tangible personal property imported from outside the US or produced in the US, that is held in a zone for exportation, is exempt from State and local ad valorem taxes by federal statute.

SECURITY & CARGO INSURANCE

The FTZ Operator is subject to Customs supervision and security procedures, saving the FTZ users expenses for security and insurance. Some FTZ users have negotiated up to 40% reduction in cargo insurance rates because imported merchandise is shipped directly to the FTZ, thus avoiding potential pilferage at deep-water ports and major international airports.

Reduced Insurance Costs
The insurable value of merchandise held in the FTZ need not include the Customs duty payable on the product. Therefore, insurance costs should be less.