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RECIPROCAL TARIFFS
FTZ MANAGEMENT UPDATE
(April 9, 2025)

The implementation of country-specific Reciprocal Tariffs on April 9, and the increased China reciprocal tariff rate, will profoundly impact the U.S. Foreign-Trade Zone (FTZ) program. Nevertheless, positive benefits remain for the continued use of the FTZ program:

- **PF Status.** All the trade remedies require FTZ e-214 receipts to be admitted in Privileged Foreign (PF) zone status, eliminating inverted duty savings for a wide range of FTZ firms.

- **Exemptions Eligible for NPF.** There are 1,039 HTS Annex II exemptions (covering pharma, agricultural chemicals, certain electronics, etc.) to the reciprocal tariffs, not including Section 232 steel and aluminum and automobile and automobile part exemptions and HTS Chapter 98 exceptions. See Executive Order (EO) 14257. FTZs may consider admitting Annex II merchandise in Non-Privileged Foreign (NPF) zone status for FTZ production with inverted duty savings or admitting in PF zone status, which depends on a variety of factors and uncertain future.

- **Inventory Adjustments.** Many FTZ software packages report shortages and overages on a daily basis on Customs entries and e-214s. FTZ clients should refrain from reporting these inventory adjustments on a daily basis, because this will subject the FTZ transactions to reciprocal tariffs and other trade remedies. Instead, when identified inventory adjustments should be recorded and researched, and true discrepancies should be reported to CBP on a periodic basis. Final balancing of inventory must be confirmed in CBP FTZ annual reconciliation reporting. Where FTZ inventory adjustment management is changed, FTZ Operations Manuals may require update.

- **NPF Status Inventory.** None of the trade remedy actions require FTZ on-hand inventory in Non-Privileged Foreign (NPF) zone status to be retroactively changed to PF status (although depending on the trade remedy, there may be advantages for NPF status changes to PF). FTZ on-hand NPF merchandise and new e-214 receipts in NPF status (for merchandise exempted from trade remedies) can continue to be produced in FTZs into finished products. We urge clients to take this "window of opportunity" and work 24/7 to produce final products in FTZs.

- **Substantial Transformation.** As noted in previous What's New updates, FTZ production/manufacturing activity might result in a "substantial transformation," so contact the firm for reasonable care memorandum with support in CBP CATAIR, CBP FTZ Manual, and Customs rulings to identify U.S. origin for FTZ-produced goods.

- **Increase in FTZ Entry Lines.** With the imposition of reciprocal tariffs and other trade remedies, a large number of FTZ Privileged Foreign (PF) zone status line items will be required on individual and Weekly Estimate Type 06 FTZ consumption entries. This increase may require FTZs to file multiple CBPF 3461s and 7501s each zone week. FTZ clients with Partner Government Agency (PGA) reporting may face new issues where all inputs are in PF status and the Customs entry no longer reflects the HTSUS classification of the final product withdrawn from the FTZ.

- **Continued FTZ Benefits.** We encourage clients to start or continue FTZ use for the following reasons:
    - Cash flow savings will be extraordinary
    - Scrap/Waste savings
    - Zone-to-Zone Transfers
    - Duty avoidance on exports
    - Future changes in U.S. tariffs and their application to FTZs may alter available benefits

We look forward to working with clients to ensure continued vitality of the U.S. FTZ program. Please contact Marshall Miller, Brian Murphy, Sean Murray, Linda King, or David Ostheimer with questions.

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