

GAO Highlights

Highlights of [GAO-17-649](#), a report to the Ranking Member, Committee on Finance, U.S. Senate

Why GAO Did This Study

The FTZ program was established in 1934 to expedite and encourage international trade and commerce. FTZs provide benefits to companies that import foreign goods for distribution or for manufacturing in order to encourage them to maintain and expand their operations in the United States. The total value of foreign and domestic goods admitted to FTZs in 2015 was about \$660 billion. CBP is responsible for oversight and enforcement in FTZs, including revenue collection and assessing risk of noncompliance with U.S. laws and regulations.

GAO was asked to review CBP's oversight of FTZs and FTZs' economic impact. This report examines (1) the benefits of the FTZ program to companies operating FTZs and revenues collected from FTZs, (2) what is known about FTZs' economic impact, and (3) CBP's ability to assess and respond to compliance risks across the FTZ program. GAO analyzed CBP documents and data, interviewed agency officials and FTZ operators, and visited five FTZs based on trade volume, industry sector, and FTZ activity.

What GAO Recommends

GAO makes three recommendations to CBP to strengthen its ability to assess and respond to compliance risks across the FTZ program, including actions to centrally compile FTZ compliance and enforcement data, and to conduct a risk analysis of the FTZ program. CBP concurred with these recommendations and identified steps it will take to address them.

View [GAO-17-649](#). For more information, contact Kimberly M. Gianopoulos at (202) 512-8612 or gianopoulosk@gao.gov.

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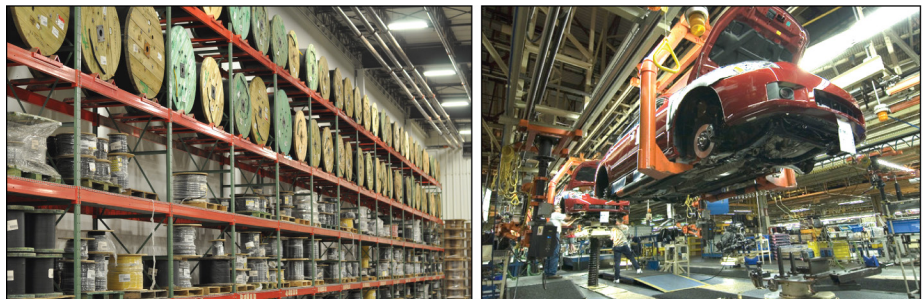
FOREIGN TRADE ZONES

CBP Should Strengthen Its Ability to Assess and Respond to Compliance Risks across the Program

What GAO Found

The Foreign Trade Zones (FTZ) program provides a range of financial benefits to companies operating FTZs by allowing them to reduce, eliminate, or defer duty payments on goods manufactured or stored in FTZs before they enter U.S. commerce or are exported. FTZs are secure areas located throughout the United States that are treated as outside U.S. customs territory for duty assessments and other customs entry procedures. Companies using FTZs may be warehouse distributors or manufacturers (see figure). A manufacturer, for example, that admits foreign components into the FTZ can pay the duty rate on either the foreign components or the final product, whichever is lower—resulting in reduced or eliminated duty payments. Distributors can also benefit by storing goods in FTZs indefinitely and thereby deferring duty payments until the goods enter U.S. commerce. In 2016, U.S. Customs and Border Protection (CBP) collected about \$3 billion in duties from FTZs.

Foreign Trade Zones Include Distribution Warehouses and Car Manufacturers



Source: National Association of Foreign Trade Zones. | GAO-17-649

While FTZs were created to provide public benefits, little is known about FTZs' economic impact. For example, few economic studies have focused on FTZs, and those that have do not quantify FTZs' economic impacts. In addition, these studies do not address the question of what the economic activity, such as employment, would have been in the absence of companies having FTZ status.

CBP has not assessed compliance risks across the FTZ program, and its methods for collecting compliance and enforcement data impair its ability to assess and respond to program-wide risks. While CBP regularly conducts compliance reviews of individual FTZ operators to ensure compliance with U.S. customs laws and regulations, it does not centrally compile FTZ compliance and enforcement information to analyze and respond to compliance and internal control risks across the program. Federal internal control standards state that management should obtain relevant data and assess and respond to identified risks associated with achieving agency goals. Without a program-wide assessment of the frequency and significance of problems identified during compliance reviews, risk levels determined, and enforcement actions taken, CBP cannot verify its assertion that the FTZ program is at low risk of noncompliance. Incorrect determinations about program risk level may impact program effectiveness and revenue collection for the FTZ program, which accounted for approximately 11 percent of U.S. imports in 2015.