

UNDERSTANDING BONDED WAREHOUSES & FOREIGN TRADE ZONES

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VANTAGE POINT

Amid ongoing trade policy uncertainty and tariff increases that pushed the effective rate to its highest level since 1901, U.S. manufacturers and importers are facing rising costs—particularly for parts sourced overseas. In response, many are turning to Bonded Warehouses and Foreign Trade Zones (FTZs) as strategic tools to help reduce or defer these expenses.

Bonded Warehouses allow importers to delay duty and tariff payments until goods are removed for domestic sale, offering valuable cash flow flexibility. FTZs, often located near ports of entry including airports, offer similar benefits—allowing companies to store, assemble, or manufacture goods without immediate tariff obligations.

WHAT IS A BONDED WAREHOUSE?

A Bonded Warehouse is a facility where imported goods and materials can be stored without immediately incurring duties or tariffs, with the potential to store goods for up to five years from the recorded date of import. These warehouses operate under customs supervision until the goods enter the market and are typically located near ports and airports.

Historically, Bonded Warehouses have made sense for several reasons:

- They allow companies to manage cash flow by delaying tariff payments on imports, which is helpful for businesses buying in bulk but only wanting to pay tariffs as individual goods are sold and shipped domestically.
- They help avoid local taxes on goods that are going to be re-exported for sale internationally. Conceivably, a new potential benefit is for importers who are using Bonded Warehouses to store goods with the expectation that tariff rates may be lower later, since the tariff rate is paid upon the time of withdrawal from the warehouse.
- Goods in Bonded Warehouses can also undergo assembly, packing or other minor value-added services within the warehouse, helping offset duties and tariffs as raw materials typically carry higher rates than finished products.

However, companies should consider the setup process and associated costs of operating a Bonded Warehouse.

Bonded Warehouses are subject to strict customs regulation and oversight, which can increase costs associated with inventory tracking and compliance. Additionally, they don't offer much value for goods that are not intended for long-term storage or will be re-exported without entering the domestic market.

ESTABLISHING A BONDED WAREHOUSE

The application process for a Bonded Warehouse includes a written submission to the Customs and Border Protection (CBP) Port Director at the nearest port of entry.

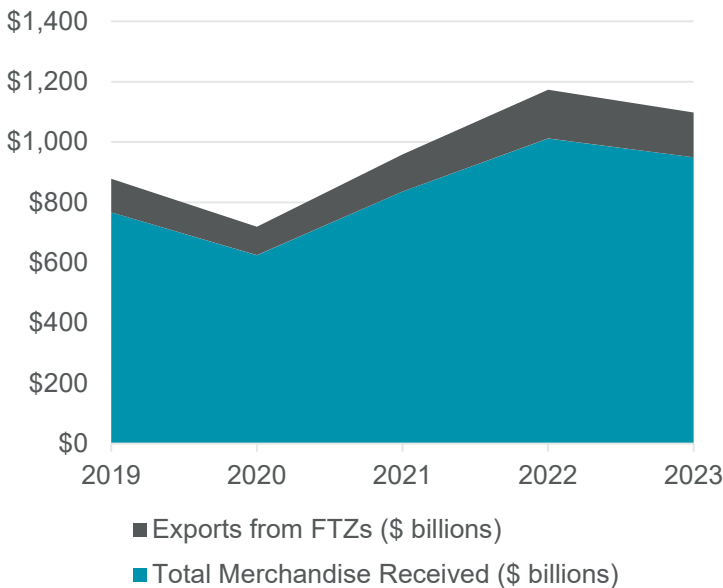
- The application may be filed by either the owner or tenant of the proposed bonded warehouse.
- The applicant must complete [CBP Form 300](#), describing the premises, including the location and class of warehouse.
- The application must be accompanied by a certificate signed by the president or a secretary of a board of fire underwriters, certifying that the facility is suitable for warehousing and acceptable for fire-insurance.
- A blueprint showing measurements must also be included.
- The warehouse must become bonded, the cost of which is determined by the Port Director. The bond cannot be less than \$25,000 for each building or area. The bond cost, or bond premium, typically ranges from 1% to 5% of the bond amount and is determined by various factors, including the cost of goods kept in the warehouse.

WHAT IS A FOREIGN TRADE ZONE?

FTZs were created by Congress in 1934 under the Foreign-Trade Zones Act to ease tariff burdens on domestic manufacturers. They are secure areas where cargo entering the U.S. can be stored without immediately incurring duties or tariffs. Goods in an FTZ are considered outside of U.S. Customs territory and have not technically cleared customs. FTZs are located throughout the country within the limits or adjacent to port of entry, including airports. They are overseen by U.S. Customs and Border Protection.

There are 197 active FTZs across the U.S., employing approximately 550,000 people. As of 2023, there were 374 active production operations receiving \$949 billion in merchandise (+24% from 2019) and exporting \$149 billion, up 34% over the last five years.

FOREIGN TRADE ZONES: Total Annual Value of Goods Received & Exported



ADVANTAGES OF OPERATING IN AN FTZ

- FTZs allow goods to remain indefinitely, offering companies the option to either lock in the tariff rate at the time of entry or use the rate at the time of withdrawal, whichever is lower. This flexibility is especially attractive right now given higher levels of uncertainty.

- Companies can also benefit from inverted tariffs: importing raw materials and parts into the FTZ and manufacturing them into a final product helps garner a lower tariff, as finished products often have lower tariff rates than the raw materials.
- No tariffs or duties are paid on goods exported directly from an FTZ to another country. Additionally, FTZs do not impose time limits, allowing companies to maintain higher inventories.

APPLYING FOR FTZ DESIGNATION

For tenants/occupiers wishing to produce goods under FTZ procedures, the facility must first be granted FTZ designation and receive production authority.

- Production activity within an FTZ requires advance approval from the FTZ Board. If the production results in changing of the Harmonized Tariff Schedule of the U.S. (HTSUS) at the six-digit level for any item brought in from another country, or if the production results in the change or transformation in eligibility for entry, then the FTZ will need to authorize as well.
- Production includes traditional manufacturing and assembly operations.

To request production authority:

- Submit a production notification including a list of all foreign-status components and finished items.
- A 40-day public comment period will follow.
- The FTZ Board typically decides within 120 days of submission.
- There is no fee to apply for production authority.
- If a manufacturer needs authority faster than the 120-day window, FTZ Board regulations allow interim authorization during the 120-day review period, however, it will only be considered if U.S. Customs and Border Patrol has confirmed the activity may begin without objection.
- Send all [applications](#) to ftz@trade.gov.

[A sortable list of Foreign Trade Zones in the U.S.](#) can be found on the International Trade Administration website.

FOREIGN TRADE ZONE VS. BONDED WAREHOUSE: KEY DIFFERENCES

FOREGIN TRADE ZONE

- Considered outside of U.S. Customs territory
- Can store goods indefinitely
- Located within or adjacent to U.S. Customs and Border Protection port of entry
- Can manufacture raw materials/parts into a final product (which often garners a lower tariff rate)
- Duties are deferred until goods are released from the FTZ and enter the U.S. market for consumption
- Goods stored in a FTZ for export are not subject to state or local taxes

BONDED WAREHOUSE

- Inside U.S. Customs territory
- Can store goods for up to 5 years
- Typically located near airports and/or ports
- Goods can undergo value-added services but manufacturing activities typically not allowed
- Duties are paid when goods are released from bonded warehouse
- Goods stored are still liable to state and local taxes

FOREIGN TRADE ZONES IN CANADA

Canada's FTZ programs are unique in that they have no geographic limitations—companies can access FTZ benefits from any location in the country. This flexibility allows businesses to choose sites that best align with their logistics or operational needs while still taking advantage of FTZ benefits. Canada offers five FTZ programs, with the three core programs falling under the Duty Deferral Program (DDP). The DDP delays and/or reimburses duties and taxes on goods that are exported within four years from the date of importation. The program is accessible to a wide range of applicants, including importers, warehouse operators and owners. To participate, applicants must submit the required documentation to their local Canada Border Services Agency (CBSA) office. More detailed information can be found on the [CBSA website](#).

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APPENDIX: FOREIGN TRADE ZONES NEAR TOP U.S. MARITIME PORTS OF ENTRY

Key Port of Entry	State	Industrial Market	FTZ Area(s)
Port of LA/LB	California	Los Angeles/Orange County/Inland Empire	Orange County and portions of Los Angeles and San Bernardino Counties
Port of Oakland	California	East Bay/Oakland	City of Oakland
Port of Jacksonville	Florida	Jacksonville	Baker, Bradford, Clay, Columbia, Duval, Flagler, Nassau, Putnam and St. Johns Counties and a portion of Alchua County
Port of Miami	Florida	Miami	Miami-Dade County
Port of Savannah	Georgia	Savannah	Bulloch, Bryan, Candler, Chatham, Columbia, Effingham, Emanuel, Evans, Jenkins, Liberty, Long, Richmond, Screven, Tattnal, Toombs and Treulten Counties and a portion of Burke County
Port of Baltimore	Maryland	Baltimore	City of Baltimore & Anna, Arundel, Baltimore, Cecil, Harford, Howard, and Queen Anne's Counties
Port of NY/NJ	New Jersey	Northern & Central New Jersey	Hudson County + portions of Bergen, Essex, Middlesex, Monmouth, Passaic, Union and Somerset Counties
Port of NY/NJ	New York	New York Outer Boroughs	Bronx, Queens, Manhattan, Brooklyn, Staten Island
Port of Charleston	South Carolina	Charleston	Beaufort, Berkeley, Charleston, Colleton, Dorchester, Georgetown, Hampton, Jasper, Orangeburg and Williamsburg Counties
Port of Houston	Texas	Houston	Harris, Waller and Wharton Counties
Port of Virginia	Virginia	Hampton Roads	Accomack (partial), Gloucester, Isle of Wight, James City, Mathews, Northampton, Southampton, Sussex, Surry and York, and the Cities of Chesapeake, Franklin, Hampton, Newport News, Norfolk, Poquoson, Portsmouth, Suffolk, Virginia Beach and Williamsburg, Virginia, as well as the Counties of Camden, Chowan, Currituck, Gates, Hertford, Pasquotank and Perquimans Counties, North Carolina and the City of Elizabeth City, North Carolina
Northwest Seaport Alliance	Washington	Seattle & Puget Sound Eastside	King and Snohomish Counties, Pierce County