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Technical Assistance to Support the Operations of an Industrial Estate in the West Bank and Gaza

Final Report

U.S. Agency for International Development

Prepared for: USAID/West Bank and Gaza

Prepared by: Coopers & Lybrand L.L.P.

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I. INTRODUCTION

This report is conducted under a consultant agreement with Coopers & Lybrand under USAID Prime Contract No PCE-0026-Q-00-3031-00 (D O 811). The purposes of the agreement are set forth in a Scope of Work for the Delivery of Technical Assistance to Support the Operations of an Industrial Estate Authority in Gaza. The principal deliverables are

- 1 a manual for security and customs procedures,
- 2 a draft final report to describe the principal findings, recommendations, and conclusions of the consultancy

This draft report follows generally the outline of an inception report submitted to the USAID on November 11, in accordance with the Statement of Work

II. BACKGROUND

The establishment of an Industrial Estate Authority in Gaza, as well as other locations in the West Bank and Gaza, is being undertaken under the general framework of the Israel-Palestinian Interim Agreement on the West Bank and Gaza Strip, and in particular the Protocol on Economic Relations and the Protocol Concerning Israeli-Palestinian Cooperation (Annexes V and VI of the Interim Agreement). Details of the Industrial Estate Authority are being undertaken under various protocols, including one for agreed principles regarding the movement of goods and access of people to and from the Gaza Industrial Estate via Israel.

The Palestinian National Authority is nearing enactment of a Palestinian Industrial and Free Zones Law, an English-language draft of which has been provided by the Palestinian Ministry of Industry for the purposes of this project. The draft law contemplates the establishment of both industrial estates and industrial free zones under the supervision of a Palestinian Industrial and Free Zone Authority (PIFZA). (The law was enacted by Executive Decree on November 19, 1997). Until the PIFZA is created and staffed, industrial estate and free zone planning and functions are being carried out by the Palestinian Ministry of Industry.

Under the law, goods are to be brought into industrial estates only after having cleared Customs and paid applicable duties and taxes. The emphasis in this project is solely on the free zone aspects of the law, that is, how goods may be delivered to and removed from free zones, and controlled within such zones, without payment of duties and taxes, yet without a threat to Customs and other laws of the Palestinian National Authority. An equally important consideration is how Customs controls can be accommodated with minimum disruption to the use of the free zone by authorized firms and without lessening the attractiveness of the zone to potential investors.

Customs controls of free zones are envisioned to be exercised by a Customs unit which is responsible directly to the PIFZA, but acts directly under the technical direction of the Director of Palestinian Customs in the Ministry of Finance. Palestinian Customs itself is still operating under separate archaic laws for the West Bank and Gaza, a 1962 Jordanian law for the West Bank and a British mandate law of 1929 for Gaza. The gaps in these laws have been filled in by various instructions, including ones issued by the Israeli Civil Administration before the Interim Agreement was signed and the Palestinian National Authority was established. Palestinian Customs has been in existence only about three years, and it is severely challenged with trying to establish a staff, organization, rules, and procedures in a fast-evolving environment of continuing negotiations with Israel over matters deeply affecting customs operations, such as duty rates, customs borders posts, and transit of cargo through Israel.

PIFZA officials have visited a number of industrial estates and free zones in other countries, and have adapted many concepts and procedures from those visits. Free zones are recognized internationally by customs authorities through the International Convention on the Simplification and Harmonization of Customs Procedures, popularly known as the Kyoto Convention. Annex F 1 of that Convention contains a model of standards and recommended practices for Customs authorities to follow in administering free zones.

III. FINDINGS AND ISSUES

In accordance with the Statement of Work and the inception report, background reports by the USAID, World Bank, and International Monetary Fund were consulted concerning free zone and customs matters. Other review sources included the Palestinian Industrial and Free Zone law, Article III of the Protocol on Economic Relations between Israel and the Palestine Liberation Organization, a draft protocol on the movement of goods and people via Israel, and a draft Standard Operations Manual for Industrial and Free Zones prepared under the auspices of the USAID.

Also visits and consultations were made with Customs officers, Ministry of Industry officials, importers, exporters, and businessmen, as shown in Attachment A to this report.

The only issue which Ministry of Industry officials specifically asked to be examined was that of control of Special Industrial Free Zones.

The principal issues disclosed during the above reviews have been discussed with Customs and Ministry of Industry officials, and are described below.

A Method of supervision of free zones. Typical methods used by customs authorities for administering free zones include, besides checking goods entering and leaving the zones: (1) ignoring what happens within the zones, (2) checking certain operations within zones, but maintaining duplicate inventory records of zone goods, based on declarations of admission and removal, and (3) placing responsibility on zone

operators or users for physical supervision and record-keeping of zone goods, subject to checks and audits by Customs

Each of these methods has been used by customs authorities, and all (except possibly method 1 are within the scope of the free zone model in the Kyoto Convention

Palestinian Customs has had little experience with any mechanism similar to a free zone, such as bonded warehouses or temporary importation regimes, so it has no practical experience for guidance in selecting a zone supervision method

B Rate of duty of goods entering West Bank and Gaza Goods entering the West Bank and Gaza from a free zone, as those entering from outside the West Bank and Gaza and Israel, would be subject to the Palestinian tariff in force. Today this is the Israeli tariff, as modified by the A1, A2, and B lists and other modifications permitted under the Article III of the Protocol on Economic Relations. However, what has not yet been delineated is whether those tariffs are to be applied, at the time the goods enter the West Bank and Gaza from a free zone, according to the condition of the goods when they were admitted to the free zone or according to the condition of the goods when they were removed from the zone.

Both methods have been used by various customs administrations and national governments. Generally, condition at the time of removal is more characteristic of developed economies with established industries to protect, while the condition at time of admission is more characteristic of developing economies with export-driven economies. A plain reading of the draft law seems to indicate, without being definitive, that the time of admission should be the criterion.

C Valuation of goods Where the rate of duty of goods entering the West Bank and Gaza is an *ad valorem* rate, an issue is how value is to be determined. Under Article III of the Protocol on Economic Relations, Israel and the Palestinian National Authority have agreed that the valuation method to be used will be the Brussels Definition of Value (BDV) until such time as the GATT Valuation Agreement is introduced in Israel. However, neither the BDV nor GATT deal directly with the valuation of goods imported into a country from a free zone. Here again, the issue is whether the value to be considered is the BDV or GATT value of the goods at the time of admission to the free zone, or the BDV or GATT value of the goods at the time of removal from the zone, including value added in the zone.

Again, both methods and variations of them have been used in other countries. A plain reading of the draft law indicates, without being definitive, that the value to be considered should be the value at the time of admission, which would include freight and insurance costs incurred in Israel, but would exclude any value added in the free zone.

D Treatment of goods transferred from West Bank and Gaza to free zones The issue here is whether Palestinian goods transferred to the free zone should be considered

exported, and thus exempt from the conditions of any Palestinian temporary duty-free regime, such as bonded warehouses or temporary importation. An additional issue is whether they would be eligible for any Palestinian customs refunds allowed by reason of exportation. A related issue is the treatment of Palestinian goods which had been exported to the free zone upon any subsequent return to the West Bank and Gaza.

International practice varies on these issues. In most countries, goods are considered exported upon admission to the free zone, in accordance with the Kyoto Convention model. In other countries, goods are not considered exported until they are removed from the national territory of the country. Yet in others, firms are given an option of whether or not to declare goods for exportation upon admission to a zone. It is noted that the Israeli tariff adopted by the West Bank and Gaza, in Heading 810 of Group 2 goods, contains provisions for the exemption or repayment of duty refunds of goods returned after exportation abroad.

E Customs examination and document review Many customs administrations, including Israel, use manual or automated risk management techniques to assist Customs officers in deciding (1) how extensively to check declarations or other documentation, (2) whether the goods should be examined, and (3) what to look for during the goods examination. These techniques allow customs organizations to use their time and resources where they are most likely to be effective, and allow more rapid processing of most goods. They also serve to reward declarants who prepare proper documentation and discourage declarants who do not.

The issues concerning free zones is whether risk management techniques should be used upon both admission and removal of goods, and what kind of criteria should be used, consistent with the intent of the law, to simplify and facilitate the entry and exit of goods.

F Parity of procedures with Israel Procedures used by Israel for importation of goods from Palestinian free zones is doubtless a matter for Israeli authorities to decide. However, it is probably in the interest of PIFZA to be able to describe Israeli clearance procedures for the information of authorized enterprises and potential free zone investors intending to send goods to Israel. Understanding the procedures could be less clear if Israeli procedures are markedly different from those of the West Bank and Gaza, in such matters as the rate of duty to be applied, valuation of goods, treatment of Palestinian and Israeli components included in goods manufactured in the free zone, and similar matters. Differences in procedures could also become intended or unintended barriers to trade to and from the free zone.

Therefore, the issue is whether the West Bank and Gaza should ignore Israeli methods and procedures for clearing free zone goods, or whether differences in some methods should be negotiated with Israel.

G Supervision of Special Industrial Free Zones The draft law authorizes the establishment of Special Industrial Free Zones (SIFZs), that is single-factory free zones,

to accommodate the desire and need for free zone treatment for firms that cannot easily locate or relocate their facilities within a free zone

There are at least 7 proposals being considered for SIFZs. The concern is how Customs and PIFZA can administer individual free zone units without having to assign staffing at each and every SIFZ, most of which are not expected to have a need for the full-time presence of Customs or PIFZA officers. A related concern may be how to avoid a proliferation of SIFZs which could discourage the development and use of space within existing free zones.

Proper administration of SIFZs could be exercised through 2 methods: (1) requiring SIFZs to bring their goods to an existing free zone Customs unit for clearance both upon admission and removal, and making the SIFZ responsible for safe delivery to and from those free zone units, and (2) sending Customs officers to the SIFZ to clear goods upon admission and removal, while requiring the SIFZ operator to hold the shipments intact at the SIFZ until customs clearance. Under the second method, the operator would be responsible for reimbursing PIFZ for the time and costs incurred by Customs officers in traveling to the SIFZ and performing their official duties.

While not a principal issue for the purposes of this report, some recommendations have been provided for administration of the limited 20% reduction in the tariff authorized by the Palestinian Industrial and Free Zone law for the importation of noncompetitive products of the free zone into the West Bank and Gaza. These recommendations are shown in Attachment B to this report.

IV. RECOMMENDATIONS AND CONCLUSIONS

The foregoing findings and issues were discussed with Customs and Ministry of Industry officials, along with tentative recommendations. The officials indicated agreement with all of the tentative recommendations except that concerning Special Industrial Free Zones, as further discussed below.

A Customs should supervise free zones through the audit supervision method. This method allows an enterprise to use any control method within a free zone that is a standard commercial practice. Customs could then audit or otherwise check goods and records within a zone to verify the firm's use of standard practices. Any goods which cannot be accounted for in the free zone would be assumed to have entered the West Bank and Gaza and be subject to duties and taxes. Since Customs would be responsible to PIFZA, PIFZA would be able to forestall any improper audit practices that may tend to impede the proper development of the free zone.

B The duty rate on free zone goods entering the West Bank and Gaza from the free zone should be the rate applicable to the goods at their time of admission to the free zone. The goal here would be to construct a level playing field between Palestinian firms operating outside the free zone and those operating within the free zone, if both are using

imported components. If the firm outside the zone is not using imported components, it would receive the tariff protection applicable to the Palestinian or Israeli components, in the case of importations from the free zone. At the same time, such a firm would receive tariff protection on its finished goods from importations outside the West Bank and Gaza and Israel.

C Valuation of free zone goods should be based on their customs value at the time of admission to the free zone. The goal here is the same as that of the applicable rate of duty - to provide a level playing field between firms operating outside the free zone and firms operating within the free zone, when both are using imported components. Basing the valuation on the customs value of goods at the time of removal from the free zone, by including value added in the free zone, would overprotect Palestinian industries, and add an unnecessary bias against the use of the free zone for sales to the Palestinian market.

D Palestinian goods should be considered exported at the time of admission to a free zone. If such goods are reintroduced into the West Bank and Gaza, they should be treated as a re-importation. This position supports the intent of the draft Palestinian Industrial and Free Zone law, and would simplify Customs administration by not having to trace goods intended for ultimate exportation through the zone to actual exportation from the West Bank and Gaza. The current tariff allows the duty-free re-importation of Palestinian goods from outside Israel and the West Bank, and the same provision should be made applicable to the re-importation of Palestinian goods from the free zone.

There may be a small number of goods which it may not be desirable to treat as exported upon admission to a free zone, such as infected meat, pornography, and other goods which the owner has the option under the law to export rather than destroy or have confiscated. In such cases, PIFZA may want to deny admission of the goods to the free zone, or treat the goods as not yet meeting the legal conditions of exportation, as a special situation.

E Customs should use risk management techniques that recognize the reduced risk inherent in the use of the free zone. Customs should use risk management techniques to review documentation and examine goods upon admission that recognize that the goods are entering a controlled environment where Customs authorities would have an easy opportunity, when necessary, for a second look at the goods. At the same time, appropriate document review and examination at the time of admission are important to establish the initial responsibility of the authorized enterprise for the goods, an important principle of the audit supervision method. Customs would use risk management techniques upon removal from a free zone that recognize not only that the goods are coming from a controlled environment, but also that the shipments are repetitive and the conditions of the free zone shipper are well-known to Customs. The result of risk management techniques should be faster Customs clearances at free zones than those experienced at other border stations.

F Differences between Palestinian and Israeli treatment of free zone goods should be reduced as much as possible While negotiations to reduce differences in duty determination, valuation, duty treatment of goods manufactured in the free zone, and possibly other matters may have to take second place for now to higher-priority negotiations, PIFZA should keep parity between Palestinian and Israeli treatment of free zone goods in mind as an overall goal. It may not be possible to eliminate all such differences, which may reflect differing national or territorial goals (such as the limited 20% discount for noncompeting Palestinian goods), but they should be discussed with a view toward overall reduction of differences that would simplify free zone procedures and eliminate unnecessary trade barriers.

G Goods destined to and from Special Industrial Free Zones should be examined at SIFZ sites, rather than at ordinary Industrial Free Zones A tentative recommendation had been made that the documentation be reviewed and the goods examined at ordinary Industrial Free Zones where Customs units are established. However, Ministry of Industry officials pointed out that there may be insufficient space for such examinations at IFZs, and that IFZs may be poorly located in relation to SIFZs, causing expensive hauling of goods to the IFZ and thence to the destination SIFZ. It is therefore recommended that only the documentation be presented to Customs units at IFZs for review. If no examination is needed, the goods would be released directly to the SIFZ operator. If an examination is needed, the goods would be retained intact at the SIFZ, and a Customs officer would travel to the site to examine the goods. The time and expenses of the officer would be reimbursed by the SIFZ operator to PIFZA. Reimbursement of costs would recognize that SIFZs, by not allowing a concentration of free zone enterprises in one area, create extra administration and supervision costs for PIFZA. At the same time, the expense of reimbursement may tend to avoid a proliferation in SIFZs.

V. DELIVERABLES

A Customs Procedures Manual for Industrial Free Zones in the West Bank and Gaza was prepared for Palestinian Customs and the Ministry of Industry in accordance with the Statement of Work and is submitted with this report. The manual includes the measures recommended in Part IV of this report. However, it omits security procedures since key protocols between Israel and the Palestinian National Authority had not been completed during the period of this project.

The November 11 Inception is attached to this report as Attachment C.

LIST OF INTERVIEWS AND SITE VISITS

1	November 5	Brad Wallach, Chief, Private Enterprise Support Office, USAID/West Bank and Gaza
2	November 6	Jafar Hdaib, General Director of Industrial Estates and Free Zones, Ministry of Industry
3	November 10	Dr Naser Jaber, Director General, Ministry of Industry, Jafar Hdaib and Brad Wallach
4	November 11	Site visit to Gaza Industrial Estate with Engineer Naim, Ministry of Industry
5	November 18	Musa Abu Dieb, Allied Accountants, Dajani & Co , agents of Andersen Worldwide
6		Michael Orfaly, Sa'adi, Farrage, Orfaly, agents of Price-Waterhouse
7	November 19	Naser Taboub, Director of Palestinian Customs, Ministry of Finance, and Jafar Hdaib
8	November 20	Site visit to Palestinian Customs, Allenby Bridge, and interview of Palestinian Customs officials
9	November 22	Maha Abu-Shosheh, Abu-Shosheh Trading Co , Ramallah (automobile importer)
10	November 23	Naser Taboub and Jafar Hdaib
11	November 24	Yoseph Bassan, Deputy Port Manager, Port of Ashdod, Israeli Customs official, and Eric Richardson, U S Embassy, and site visit to Port of Ashdod
12	November 25	Hani Mourad, Executive Director, Fashion & Textile Institute (Latin Patriarchate), Jerusalem (apparel manufacturer, importer, and exporter)
13	November 26	Dr Naser Jaber
14	December 1	Naser Taboub and Jafar Hdaib

ADMINISTRATION OF 20% DISCOUNT ON GOODS SOLD ON LOCAL PALESTINIAN MARKET

Section 19 1(a) of the Palestinian Industrial and Free Zone Law provides that manufacturing authorized enterprises in a free zone may be entitled to payment of only 80% of import customs duties due on imported components and raw materials used in manufacturing of goods sold in the local market. To be eligible for the reduced duties, the authorized enterprise must meet 2 conditions

- 1 the amount sold in the local Palestinian market may not exceed 20% of the annual quantity produced by the manufacturing authorized enterprise, and
- 2 there must be no local production within the West Bank and Gaza of goods similar to those produced by the manufacturing authorized enterprise

The draft Standard Operating Procedures Manual for Industrial and Free Zones includes some procedures for tax and tariff treatment of local sales, including the issuance of a Certificate of No Local Production by PIFZA. Some further definitions and procedures are needed for implementation of the 20% reduction of import duties in Section 19 1(a)

1 Definition of “annual quantity produced by the manufacturing authorized enterprise”

It is recommended that the annual quantity be considered as the total value of transfers of manufactured goods by the authorized enterprise from the free zone, including both sale and non-sale transactions and including the value of all components and raw material brought into the free zone, plus value added in the zone. Finished goods still in inventory would not be included within the annual quantity until shipped from the free zone pursuant to a sale or non-sale transaction. Similarly, the 20% limit on sales to the local Palestinian market should be considered as including both sale and non-sale transactions and including the full value of the goods

Using value as a basis of quantity produced is preferable to using weight or production units such as square yards or individual pieces because it is simpler to administer and more relevant to the purpose of the legislation to protect Palestinian producers

2 Period of measurement

Although the legislation specifies “annual quantity”, it may be preferable to allow measurement of the value of production according to a shorter period of time. It is recommended that the measurement period be quarters, i.e. January 1- March 31, April 1

- June 30, July 1 - September 30, and October 1 - December 31 Thus, 20% of the value of transfers measured during the quarter of January 1- March 31 would be the limit on sales to the Palestinian market during the subsequent quarter of April 1 - June 30 An unused allowance during a quarter may be carried over into subsequent quarters up to the end of the calendar year, at which time all such carryovers would lapse

Using a shorter period of time would allow a manufacturing authorized enterprise to adjust sooner to opportunities for sales to the local Palestinian market, particularly during its first year of operation

3 Declaration versus PIFZA maintenance of records

Records of quarterly transfers, both total transfers and those to the local market, should be maintained by the manufacturing enterprise, rather than be maintained by PIFZA or Customs When a declaration is filed for a transfer to the local Palestinian market, it should include a statement of the 20% limit for the current quarter, the value already transferred to the local market during the current quarter, the value of the instant declaration, and the adjusted value available for future transfers during the current quarter The records and declarations of the manufacturing authorized enterprise would be subject to audits and checks under the audit method of supervision

4 Transfers of raw materials, same-condition goods, and substandard goods

Since the 20% discount applies only to goods of manufacturing authorized enterprises, transfers of component and raw material overstocks or goods which have not been subject to manufacturing or production in the free zone should not be included in either the total value or 20% value measurements or calculations If it is desired to exclude seconds, goods with defects, or similar kinds of substandard goods from eligibility for the 20% discount, they also should not be included in the total value or 20% value measurements or calculations

5 Definition of manufacturing and production

Whether considering manufacturing by an authorized enterprise or local production in Palestine, PIFZA should exclude from its understanding of manufacturing or production any operations that consist only of packing, re-packing, sorting, grading, adding water, or similar processes that add little value to Foreign Goods in the free zone or the West Bank and Gaza

6 Local production of similar goods

In considering issuance of a Certificate of No Local Production, PIFZA should consider only the production of goods in the West Bank and Gaza which are the same or similar in physical characteristics and competitive with those produced by the manufacturing authorized enterprise This would exclude dissimilar goods which may be competitive,

e.g. apples are not similar to oranges, but may be competitive if they are cheap enough. It would also exclude goods which may be similar but not competitive, e.g. high-end leather shoes valued at US\$250 per pair would not be competitive with leather sandals valued at US \$12.50 per pair. To settle issues of similarity and/or competition, it may be desirable for PIFZA to have some kind of transparent procedure to notify local Palestinian producers of the intent of a manufacturing authorized enterprise to sell its goods to the local market with the 20% duty discount.

INCEPTION REPORT

This report is made pursuant to the Statement of Work for PCE-Q-811-93-3031-00 T O #811 for the delivery of technical assistance to support the operations of an industrial estate authority in Gaza, specifically to assist in the development of an integrated operations manual incorporating customs, shipping, and security procedures for an industrial estate and free zone in Gaza

A. METHODOLOGY

Completion of this consultancy will be accomplished in three phases The target periods for completion of the phases are approximate

1 Fact-finding - November 5-19

During this period, the consultant will conduct research, both in the West Bank & Gaza and Israel, on the existing background, authority, procedures, and practices of existing customs, shipping, and security operations related to the Gaza industrial estate and more specifically to its anticipated free zone operations

The research will be conducted through document reviews, interviews, and site visits

Document reviews:

Draft industrial estate law and customs regulations, WB&G Customs laws of 1929 and 1962, general customs regulations, protocols and draft protocols between the WB&G and Israel pursuant to the Declaration of Principles of 9/13/93, background reports and recommendations by the USAID, World Bank, and International Monetary Fund, and existing and draft written procedures of WB&G Customs and Palestinian Industrial Zone Agency, and other documents that may come to light during this phase of the consultancy

Interviews:

Interviews with officials of the Palestinian Industrial Zone Agency, Ministry of Industry, and Customs, Israeli Customs and security agency, present Palestinian importers and those contemplating use of the Gaza free zone, present customs brokers, international carriers at seaport and airport, an independent audit and accounting firm, and other persons identified during the course of this phase of the consultancy (One of the basic issues of customs administration of a free zone is its ability to count on generally recognized accounting standards and practices of free zone firms)

Site visits:

Visits to the Gaza industrial estate and free zone, Israeli security facilities adjoining the industrial estate, port facilities and offices at the Ashdod seaport, Ben Gurion airport, and Allenby Bridge and/or Rafah

2 Report writing - November 20-29

During this phase the consultant will write the draft procedures manual and final report of the project. It is assumed that a **final** procedures manual will be prepared by officials of WB&G Customs and the Palestinian Industrial Zone Agency after completion of relevant protocols between the WB&G and Israel.

Drafting of the procedures manual will marry the observations noted during the fact-finding phase with international customs and free zone reference sources and the consultant's own experience. Drafting will probably require intermittent liaison with WB&G Customs officials to clarify points and issues not considered during the fact-finding phase, but most of the report-writing will probably be conducted at the Ministry of Industry.

Most likely, the procedures manual will contain recommended procedures for transfer of goods from the port of arrival to the free zone, introduction of goods into the zone, certain operations in the zone, removal of goods from the zone for transfer to the WB&G, Israel, and the port of export, actual transfer to the port of export, and, perhaps, record-keeping practices. An issue in drafting of the manual is whether the targeted users of the manual will be the free zone users or WB&G Customs or both of them.

Contents of the final report are provided in Part B.

3 Consultancy Closeout - November 30-December 3

During this phase the consultant will conduct the oral presentations and debriefings of the Ministry and Industry and the USAID as specified in the Statement of Work. At this time, the final draft version of the procedures manual will be presented to the Ministry of Industry and the final draft report will be presented to the USAID.

B. OUTLINE OF FINAL REPORT

It is likely that the draft final report will be arranged as follows:

I Introduction

Background and purpose of consultancy

- II Background
 - A Declaration of Principles and protocols
 - B WB&G industrial zones and free zones
 - C WB&G Customs Department
 - D International context
- III Findings and issues
 - A Facilitation in free zone environment
 - B Customs enforcement/facilitation challenge
 - C Selectivity in document review, goods examinations, and physical supervision
 - D Customs supervision through audits and checks
 - E Procedures manual
- IV Recommendations and conclusions
 - Yet to be determined

**IMPLEMENTATION PLAN FOR CUSTOMS CONTROLS AND PROCEDURES
FOR PALESTINIAN INDUSTRIAL FREE ZONES**

Methods and practices embodied in the Customs Procedures Manual for Industrial Free Zones of the West Bank and Gaza cannot and should not necessarily be implemented simultaneously. Some preparation is required on the part of PIFZA and Customs authorities, zone developers, authorized enterprises, and other parties to import and export transactions connected with Industrial Free Zones. Also, due consideration should be given to plans to initiate operations of authorized free zone enterprises as early as May or June 1998.

STAGE ONE – Initial Preparations – February to May 1998

- 1 Translation by PIFZA of draft Customs Procedures Manual into Arabic and perhaps Hebrew, distribution to Customs, potential zone developers, and potential authorized enterprises for comment
- 2 Preparation and publication for trade and general public in Arabic and perhaps Hebrew of Summary of Customs procedures. Summary would include *Audit supervision method and principles, Importer record-keeping requirements, Customs audit and spot check authority and responsibilities, and use of Customs risk management practices upon admission and removal of goods*
- 3 Organization and staffing of Customs unit at PIFZA headquarters and Gaza Industrial Estate
- 4 Development of provisional procedures by Customs, which would allow proper Customs control along with a measure of forgiveness for errors by authorized enterprises during this trial period
- 5 Initial training
 - a Zone developers and authorized enterprises
 - Procedures for admission and removal of goods, including preparation of forms
 - Record-keeping requirements and conversion of existing systems

b Customs

- Document review and examination practices and procedures
- Spot check and follow-up procedures

6 Initiate negotiations with Israelis on parity issues

STAGE TWO – Initial Operations – May 1998 to December 1998

1 Authorize and implement initial operations at Gaza Industrial Estate under provisional procedures

2 Continue training

a Zone developers and authorized enterprises

- Admission and removal procedures
- Record-keeping practices and procedures

b Customs

- Document review and examination practices and procedures
- Spot check and follow-up procedures
- Begin audit training

3 Receive and analyze comment on draft procedures manual

4 Conclude negotiations with Israelis on parity issues

5 Prepare permanent Customs Procedures for Industrial Free Zones

STAGE THREE – Final Implementation – December 1998 to June 1999

1 Publish final Procedures Manual

2 Conduct first audit of authorized enterprise

3 Continue training on as-needed basis for new authorized enterprises and Customs officers

**ISSUES TO DISCUSS WITH ISRAELI AUTHORITIES CONCERNING
REMOVAL OF GOODS FROM INDUSTRIAL FREE ZONES
FOR INTRODUCTION INTO ISRAEL**

For purposes of establishing rules and procedures for Palestinian Industrial Free Zones, it is desirable that methods for removal of goods for introduction into the West Bank and Gaza or into Israel be as uniform as possible within the bounds of national or territorial laws and policies. Such uniformity will make the rules easier for Free Zone users and investors to understand, and reduce the incidence of errors in their use of Free Zones.

1 Tariff classification

- Should the tariff classification of goods introduced into the West Bank and Gaza from the Free Zones be the same as identical goods introduced into Israel from the Free Zones?

Suggested position Under Article III of the Protocol on Economic Relations, Israel and the Palestinian National Authority agreed that tariff classification of goods will be based on the principles of the Harmonized Commodity Description and Coding System, as embodied in the Israeli tariff schedules. However, rates of duty may differ for goods on the A1, A2, and B lists and certain other goods specified in Article III of the Protocol. Authorized enterprises should be allowed to identify discrepancies in tariff classification by authorities of the 2 territories and bring them before an administrative mechanism which would establish a common tariff classification of the goods for the West Bank and Gaza and Israel.

Suggested position Tariff classification of goods introduced into both the West Bank and Gaza and Israel from a Free Zone should be based on the foreign goods or components in their condition at the time of their admission into the Free Zone, without any consideration of processing or incorporation of Palestinian or Israeli goods within the Free Zone.

2 Valuation of goods

Should there be a common valuation method for goods introduced in the West Bank and Gaza and goods introduced into Israel from Free Zones of the West Bank and Gaza?

Suggested position Under Article III of the Protocol on Economic Relations, Israel and the Palestinian National Authority agreed that valuation for customs purposes will be based on the GATT 1994 agreement as of the date it will be introduced in Israel or, until then, on the Brussels Definition of Value system. The customs value of foreign goods and components removed from Free Zones for introduction into the West Bank and Gaza

or Israel should be their customs value at the time of their admission to the Free Zones, determined according to the GATT or the BDV, as appropriate, without any consideration of any value added in the Free Zones. This imposes upon Free Zone and Palestinian authorities the responsibility of informing Israeli authorities, upon request, of the customs value of goods upon their admission to Free Zones. However, the customs value of valuable waste produced in the Free Zones should be the GATT or BDV customs value at the time of introduction into the West Bank and Gaza or Israel.

3 Introduction of goods to Free Zones treated as exportation

Should the introduction of Palestinian or Israeli goods from their respective territories to the Free Zones be treated as an exportation?

Suggested position Under the provisions of the Palestinian Industrial and Free Zones law, goods taken out of a Free Zone for delivery within the West Bank and Gaza are considered to be imported into the West Bank and Gaza at the time they are so taken out. Therefore, it is consistent that the reverse is also true: goods taken out of the West Bank and Gaza or Israel for delivery within a Free Zone should be considered to be exported.

Upon exportation to a Free Zone, any responsibility of a Palestinian or Israeli firm for a conditionally duty-free temporary importation into their respective territories should be considered satisfied. Similarly, upon exportation to a Free Zone, a Palestinian or Israeli firm should be entitled to legitimately claim a drawback or refund of duties and taxes payable upon exportation of the goods.

4 Re-importation from Free Zones

What should be the customs treatment of goods that are re-imported directly into Palestinian or Israeli territory after exportation to a Free Zone from their respective territories?

Suggested position Foreign goods on which Palestinian or Israeli duties had never been paid should be treated as new importations, subject to full duties and taxes. Goods of Palestinian or Israeli origin, or goods or components of foreign origin on which duties were previously paid but not refunded, should be exempted from import duties and taxes. Goods of Palestinian or Israeli origin containing components of foreign origin on which duties have been refunded, or goods of foreign origin on which Palestinian or Israeli duties had been paid and subsequently refunded should be subject to duties equivalent to the refund paid upon exportation. The burden of proof for satisfying duty responsibility upon re-importation should lie with the importer of the goods.

5 Importation from each others' territories through Free Zones

What should be the customs treatment of goods that are imported directly into Palestinian or Israeli territory after exportation to a Free Zone from one another's territories?

Suggested position The goods should be treated the same as those re-imported into their own territories. The burden of proof for satisfying duty responsibility should lie with the importer of the goods, and Palestinian and Israeli authorities should provide applicable duty information upon demand from one another.