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# **Customs Procedures Manual for the Industrial Free Zones of 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.**

**Sponsored by: Private Enterprise Development  
Support Project III  
Contract No. PCE-0026-Q-00-3031-00  
Delivery Order No. 811  
Prime Contractor: Coopers & Lybrand, L.L.P.**

**January 1998**

**Coopers  
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## TABLE OF CONTENTS

<b>Section 1: Introduction and Purpose .....</b>	<b>1</b>
1 1 Purpose	1
1 2 Definitions	1
1 3 Record-keeping Requirements	2
1 4 Customs Authority in Free Zone	2
1 5 Special Industrial Free Zones	3
<b>Section 2: Admission of Goods to Free Zone.....</b>	<b>4</b>
2 1 Prohibited Goods	4
2 2 Restricted Goods	4
2 3 Temporary Deposit	4
2 4 Transit to Free Zone	4
2 5 Security Procedures	4
2 6 Arrival at Dry Port	4
2 7 Application for Admission to Free Zone	5
2 8 Zone Status	5
2 9 Customs Review of Application	5
2 10 Admission to Special Industrial Free Zones	6
2 11 Release and Admission	6
2 12 Receipt by Authorized Enterprise	6
<b>Section 3: Activities Within Free Zone .....</b>	<b>8</b>
3 1 Permitted Activities	8
3 2 Inventory Record-keeping	8
3 3 Inventory Method	8
3 4 Periodic Physical Inventory and Reconciliation	9
3 5 Discrepancy Reporting	9
3 6 Loss of Identity of Palestinian and Israeli Goods	9
3 7 Casualty Loss and Damage	9
3 8 Scrap and Waste	10
3 9 Destruction Under Customs Supervision	10
3 10 Goods Consumed in Free Zone	10
3 11 Abandoned and Other Goods	10
3 12 Sales Between Authorized Enterprises	11

**Sections 4: Removal from Free Zone .....12**

4 1 General	12
4 2 Exportation Beyond West Bank and Gaza and Israel	12
4 3 Introduction into Israel	12
4 4 Importation into West Bank and Gaza	12
4 4 1 General	12
4 4 2 Palestinian Goods	13
4 4 3 Israeli Goods	13
4 4 4 Foreign Goods	13
4 4 4 1 20% Duty Reduction	14
4 4 5 Valuation	14
4 4 6 Quantity	15
4 4 7 Waste, Scrap, and Damaged and Abandoned Goods	15
4 5 Transfer to Another Free Zone	15
4 6 Customs Review and Examination	16
4 7 Removal from Special Industrial Free Zone	16
4 8 Customs Release and Removal from Free Zone	17
4 9 Record-keeping Upon Removal	17

**Section 5: Customs Organization and Enforcement.....18**

5 1 Customs Organization	18
5 2 Customs Audits	18
5 3 Customs Spot Checks	19
5 4 Customs Actions on Violations	19
5 5 Enforcement Actions by PIFZA	19

**Attachment A: Instructions for Filling Out Declaration of Free Zone Admission**

**Attachment B: Audit Supervision Method in Free Zones**

## SECTION 1: INTRODUCTION AND PURPOSE

### 1.1 Purpose

The purpose of this manual is to prescribe the forms and procedures for bringing goods into free zones, controlling goods within such zones, and removing them from the zones for exportation, introduction into the West Bank and Gaza, introduction into Israel, transfer to another free zone, and other purposes authorized in the laws and regulations of the West Bank and Gaza

### 1.2 Definitions

The following definitions will be used throughout this manual for clarification and simplification

“Conditionally duty-free regime” means any provision of law whereby goods may be imported into Israel or the West Bank and Gaza free of duties and taxes for storage, processing, or other activity, and subsequent exportation or other disposition as permitted by the law

“Customs” means the Customs unit of the Palestinian Industrial and Free Zone Authority, working under the technical instructions of the Customs Department of the Ministry of Finance

“Foreign goods” means goods delivered to a free zone from outside Israel or the West Bank and Gaza, including goods which were under a conditionally duty-free regime in Israel or the West Bank and Gaza before admission to a free zone

“Free zone” means the Gaza Industrial Free Zone and any other free zone established under the authority of the Palestinian Industrial and Free Zone Act, including any Special Industrial Free Zone

“Goods” means any articles, wares, or merchandise for commercial use, including raw materials, components, intermediate goods, finished goods, capital equipment, and waste with commercial value

“Israeli goods” means goods sent to a free zone from Israel, including goods previously sent to Israel from the West Bank and Gaza, but excluding foreign goods under a conditionally duty-free regime

“Palestinian goods” means goods sent to a free zone from the West Bank and Gaza, including goods previously sent to the West Bank and Gaza from Israel, but excluding goods under a conditionally duty-free regime

### **1.3 Record-keeping Requirements**

Authorized enterprises in free zones shall maintain records and accounts according to the following requirements so as to permit audits and checks by Customs and to eliminate delays in the processing of documentation and goods by Customs

- 1 Records and accounts shall be maintained according to the International Accounting Standards of the International Accounting Standards Committee
- 2 The authorized enterprise shall maintain either manual or automated inventory control and record-keeping systems, or a combination of manual and automated systems capable of
  - a accounting for all goods, including Palestinian and Israeli goods, received, admitted, stored, processed, or destroyed in a free zone, or removed from a free zone,
  - b identifying overages or shortages of goods in a free zone in sufficient detail to determine the quantity, description, zone status, tariff classification, and value of the missing or excess merchandise, and
  - c providing an audit trail of the goods from the Customs Declaration of Free Zone Admission to receipt, storage, processing, destruction, and/or removal from the free zone through either specific identification to the applicable Declaration of Free Zone Admission or through an inventory method such as First-In, First-Out (FIFO), which attributes a specific Declaration of Free Zone Admission
- 3 Records relating to goods shall be retained by the authorized enterprise for not less than 3 years after removal of the goods from the free zone
- 4 Authorized enterprises shall provide access to, or produce, records and accounts pertaining to goods within a reasonable time after request by Customs officers
- 5 Authorized enterprises shall follow specific provisions concerning record-keeping specified elsewhere in this manual (see Sections 2 12, 3 2 to 3 5, 3 12, 4 5, and 4 9)

### **1.4 Customs Authority in Free Zone**

Besides having authority to review documentation and goods being admitted to or removed from free zones, Customs officers are also authorized to conduct audits and other checks of goods and records pertaining to goods within free zones for the purposes of verifying Customs declarations and determining whether all goods admitted to the free zone can be accounted for. Such checks could include quantity counts of merchandise in inventory, spot checks or physical supervision of selected transactions or procedures, reviews of record-keeping practices, or audits of inventory records against financial

accounting records The time and expenses of travel of Customs officers (other than auditors from Customs headquarters) to Special Industrial Free Zones for the purpose of conducting checks shall be reimbursed by the SIFZ operator to PIFZA

### **1.5 Special Industrial Free Zones**

Customs will not normally assign full-time staffing to Special Industrial Free Zones unless there is a sufficient volume of admissions, removals, and other activity to justify a full-time staff If full-time staffing is assigned, the salary and expenses of such staffing shall be reimbursed by the SIFZ operator to PIFZA

Similarly, when there is a need for Customs officers to travel to an SIFZ, the SIFZ operator shall reimburse to PIFZA the time and expenses of the officer for travel to and from the SIFZ and the conduct of official duties at the SIFZ However, an SIFZ operator shall not reimburse the time and expenses of a Customs auditor from Customs headquarters

## **SECTION 2: ADMISSION OF GOODS TO FREE ZONE**

### **2.1 Prohibited goods**

No goods may be admitted to a free zone which are prohibited under the regulations and procedures of PIFZA, or for which PIFZA has not issued an authorization to the authorized enterprise. Goods whose importation into the West Bank and Gaza is prohibited may, with the approval of PIFZA, be admitted to a free zone unless admission to a free zone is explicitly prohibited by law.

### **2.2 Restricted goods**

Goods whose importation into the West Bank and Gaza is subject to licensing, quotas, or special permit may be admitted to a free zone, pending compliance with the license, quota, or permit requirements. Goods may be changed in a free zone so as to comply with licensing, quota, or permit requirements, or changed so as to become exempted from those requirements. Restricted goods will be subject to licensing, quotas and special permit requirements in their condition at the time of removal from the free zone.

### **2.3 Temporary deposit**

While most goods will remain in a dry port outside the free zone until admission is fully authorized by Customs and PIFZA, an authorized enterprise may request, and Customs may approve, the temporary deposit of goods when (1) special care or handling is required, (2) there is a shortage of storage space outside the free zone, or (3) a determination of the admissibility of the goods is pending, for instance, when there is a question as to whether the goods are within the existing authorization of the authorized enterprise. While in temporary deposit status, the goods may be received by the authorized enterprise into its premises, but the shipment must be kept intact and segregated from other goods until they are admitted to the free zone.

### **2.4 Transit to free zone**

To be completed pending definition of protocols

### **2.5 Security procedures**

To be completed pending definition of protocols

### **2.6 Arrival at dry port**

Goods for which admission to a free zone is to be requested shall be retained at a dry port pending approval of the Declaration of Free Zone Admission by Customs, and any examination of the goods required by Customs.

## **2.7 Application for admission to free zone**

Application for the admission of goods, including Palestinian and Israeli goods, to a free zone will be made on the Declaration of Free Zone Admission, prepared according to the instructions and guidelines in Attachment A to this Manual. The Declaration must be accompanied by a commercial invoice which represents the transaction under which the goods are being admitted to the free zone, and a packing list detailing the contents of each package in the shipment. The Declaration may be presented in advance of the arrival of the goods so as to allow prior Customs review, however, the Declaration shall not be presented more than 3 days in advance of estimated arrival. The Declaration will be prepared by an authorized clearing agent on behalf of the authorized enterprise. The Declaration will be prepared in the number of copies required by Customs, including a statistical copy for use by PIFZA. Some of the information contained in the Declaration may be used in subsequent transfers to the West Bank and Gaza under Section 4 of this Manual.

## **2.8 Zone status**

The authorized enterprise shall declare the zone status of the goods as Foreign Goods, Palestinian Goods, or Israel Goods, in accordance with the definitions in Section 1.2 of this Manual. This status will remain with the goods until removal from the free zone, and will guide their dutiable and taxable status upon entry into the West Bank and Gaza.

## **2.9 Customs review of application**

Upon receipt of the Declaration, Customs will place on the Declaration a unique and sequentially-numbered identifier to distinguish the goods in that Declaration from those included in any other Declaration. Upon acceptance of the Declaration, Customs will review the Declaration to determine whether (1) the Declaration is completely filled out and all supporting documentation provided, (2) the goods are eligible for admission to the free zone, and (3) there is a need for Customs examination of the goods.

When necessary, Customs will examine the goods to determine (1) whether they correspond with the Declaration and supporting documents, (2) whether they are eligible for admission to the free zone, and (3) the true responsibility of the authorized enterprise for goods received in the free zone.

Customs will use risk management techniques in conducting its review of the application and examination of the goods which recognize the actual risk to PIFZA and the Palestine National Authority represented by the goods in the controlled environment of the free zone. Risk management will be designed so as to reward the honest, accurate, and complete preparation of the Declaration by authorized enterprises and their clearing agents with faster approval of the Declaration and fewer physical examinations of the goods.

When there is a question as to whether the goods described in a Declaration are within the scope of the authorized enterprise's authority from PIFZA, Customs may withhold approval of the Declaration pending a final determination by PIFZA. Similarly, it may withhold or deny approval of the Declaration of any authorized enterprise which PIFZA has determined is in arrears for fees or charges owed to PIFZA.

#### **2.10 Admission to Special Industrial Free Zone**

The procedure for admission of goods to Special Industrial Free Zones authorized by PIFZA shall be the same as for authorized enterprises of multiple-firm free zones, except as specified in this section.

Goods intended for admission may be received at the SIFZ. The shipment shall be segregated from other goods in the SIFZ and any seals affixed to the container or vehicle shall be left intact pending Customs approval of admission and release to the SIFZ. A Declaration of Free Zone Admission shall be presented by the SIFZ operator to Customs at the sub-unit designated by the Director of Customs. The declaration will be reviewed by Customs as specified in Section 2.9, and an examination of goods ordered when necessary. If no examination is required, Customs will release the goods for admission and so inform the SIFZ by any means administratively acceptable to Customs and the SIFZ. If an examination is required, the time and expenses of the officer who travels to the SIFZ to conduct the examination shall be reimbursed by the SIFZ operator to PIFZA.

(Security and transit procedures to SIFZs subject to definition in protocols.)

#### **2.11 Release and admission**

Upon approval of the Declaration, the goods will be released to the authorized enterprise for transfer into its free zone premises. The authorized enterprise assumes responsibility for the goods upon Customs release.

Upon receipt into the zone, Palestinian *and Israeli* goods will be deemed to have been exported from their respective territories. Goods which had been placed under a conditionally duty-free regime in the West Bank and Gaza *and Israel* will be deemed to have satisfied any export condition of that regime. Goods on which duties and taxes have been paid will be eligible for refund of those duties and taxes provided by law as a condition of exportation. Goods for which exportation beyond the territorial limits of the West Bank and Gaza and Israel is required for purposes of plant, animal, or human health, public safety, order, or morality, or similar purposes will not be accepted into the free zone.

#### **2.12 Receipt by Authorized Enterprise**

Upon receipt of the goods at its premises, the authorized enterprise will

1 sign for receipt of the goods from the delivering carrier, or record actual receipt into its premises if the goods are delivered in vehicles of the authorized enterprise,

2 check the quantity and condition of the goods received against the Declaration and commercial invoice, packing list, or other supporting document, and record them in a receiving report,

3 report any discrepancies in the quantity or condition of the goods to Customs, and

4 record the receipt of the goods into the inventory system records of the authorized enterprise, using the Customs-authorized number of the Declaration for tracing or attribution, stating the quantity and date admitted, zone status, cost or value where applicable, and description of the goods including any stock or part number

## **SECTION 3: ACTIVITIES WITHIN FREE ZONE**

### **3.1 Permitted Activities**

Any activities may be carried out in the free zone which are permitted under the Palestinian Industrial and Free Zone Law, authorized under a free zone certificate issued by PIFZA, and within the internal rules and regulations of the zone operator

### **3.2 Inventory record-keeping**

The authorized enterprise shall maintain inventory records and accounts which specify by the Customs-authorized number of the Declaration of Free Zone Admission or other unique identifier (see Section 3.3)

- 1 location of the goods,
- 2 zone status as Foreign Goods, Palestinian Goods, or Israeli Goods,
- 3 cost or value of the goods,
- 4 beginning balance, cumulative receipts and removals, adjustments, and current balance on hand by date and quantity,
- 5 destruction of goods, whether under supervision or by casualty, and
- 6 scrap, waste, and by-products

### **3.3 Inventory method**

The authorized enterprise shall maintain inventories of goods by specific identification, First In-First Out (FIFO), or another method approved by Customs

Under specific identification, the goods are stored, handled, and processed in distinct lots numbered according to the Customs authorized number of the Declaration of Free Zone Admission, with no mixture between goods covered by different Declarations

Under FIFO, identical goods covered by different Declarations and having different zone statuses may be mixed together in inventory and controlled by an inventory category with a unique number or identifier. Under FIFO, any goods withdrawn from stock are assumed, in accordance with good business practice, to be withdrawn from the oldest stock first, so that the withdrawal is attributed to goods covered by the oldest open Declaration of Free Zone Admission. When all of the goods attributed to that Declaration have been withdrawn, the Declaration is closed.

An authorized enterprise may apply for Customs approval of any other inventory method consistent with International Accounting Principles. Customs may approve such a method if it does not result in any loss of revenue to the West Bank and Gaza or permit evasion of any laws or regulations of PIFZA or the Palestinian National Authority.

### **3.4 Periodic physical inventory and reconciliation**

The authorized enterprise shall conduct no less often than once each calendar year a physical inventory and a reconciliation of inventory and financial accounts for all goods in the free zone. The authorized enterprise shall retain a record of the inventory and reconciliation which shows, for each uniquely-numbered Declaration of Free Zone Admission or inventory category, a description of the goods, zone status, quantity on hand at the beginning of the period, cumulative receipts and transfers (by unit), quantity on hand at the end of the year, and cumulative positive and negative adjustments (by unit) made during the period.

### **3.5 Discrepancy Reporting**

Any discrepancies found by the authorized enterprise in the condition or quantity of goods admitted to the free zone, whether through the periodic inventory and reconciliation or other cause, shall be reported to Customs. If the discrepancy is a shortage, the goods will be presumed to have entered the West Bank and Gaza, and the authorized enterprise shall file an import declaration and pay any applicable duties and taxes to Customs. Customs may issue any penalties as authorized by law. If the discrepancy is an overage, the goods will be considered as having never been admitted to the free zone, and the authorized enterprise shall file with Customs a Declaration of Free Zone Admission for the goods.

### **3.6 Loss of identity of Palestinian and Israeli goods**

If the identity of goods in the free zone as Palestinian or Israeli has become lost and cannot be established through physical examination, records, or other proof acceptable to Customs, the goods shall be treated as foreign goods upon their removal from the free zone.

### **3.7 Casualty loss and damage**

The authorized enterprise is not responsible to Customs for any goods lost or destroyed in the free zone through fire or other casualty, evaporation, spillage, leakage, absorption, or similar cause, which did not enter the West Bank and Gaza. However, such losses shall be reported to Customs upon identification as such, accompanied by evidence to document and justify the loss. Similarly, an authorized enterprise is not responsible to Customs for a reduction in the value of goods through damage occurring in the zone, and an allowance in value shall be granted by Customs as specified in Section 4.4.7 of this Manual.

### **3.8 Scrap and Waste**

Valueless or non-recoverable scrap and waste resulting from a manufacturing or production process in the free zone shall be treated as destroyed, and the authorized enterprise shall be relieved from responsibility for it, upon the presentation of evidence acceptable to Customs that it is valueless or non-recoverable. Valueless shall be considered to mean it has no commercial value. Non-recoverable shall be considered to mean that the waste has evaporated, dissolved, or is otherwise not capable of recovery for commercial purposes. Scrap and waste having commercial value shall be classified and valued upon importation into the West Bank and Gaza as specified in Section 4.4.7 of this Manual.

### **3.9 Destruction under Customs supervision**

The authorized enterprise may request that goods be destroyed in the free zone under Customs supervision, so as to relieve itself of responsibility for the goods. Customs may supervise the destruction through physical supervision or any other method by which it is satisfied that the goods were destroyed. The goods will not be considered destroyed unless the process of destruction leaves no residue having commercial value. If the goods are not susceptible to destruction in the free zone, they may be removed from the zone for destruction under Customs permit and supervision outside the free zone.

### **3.10 Goods consumed in free zone**

Goods consumed during production in the free zone, such as fuel, catalysts, stabilizers, and the like shall be treated as destroyed in the free zone and not subject to any duties or taxes.

### **3.11 Abandoned and other goods**

PIFZA shall have the right to sell at auction

- 1 goods which have been abandoned in writing by an authorized enterprise to PIFZA,
- 2 unclaimed goods, goods for which ownership cannot be established, or goods whose owners cannot be located, and
- 3 goods which PIFZA has the right to dispose of according to applicable laws and regulations in the settlement of unpaid fees, charges, or other payments owed to PIFZA.

If the foregoing goods cannot be sold at a price which covers the expenses of sale, PIFZA shall have the right to destroy them under Customs supervision.

Goods subject to foreclosure or bankruptcy proceedings, and goods which have been seized and forfeited for violations of law, shall be disposed of under the provisions of applicable laws and regulations

Owners who have acquired title in the free zone to goods covered under this section shall have the right to export the goods, transfer them to Israel, or import them into the West Bank and Gaza to the extent permitted by applicable laws and regulations. The goods may not be further manufactured or processed in the free zone, except under a free zone certificate issued by PIFZA

### **3.12 Sales between authorized enterprises**

Sales and transfers of goods between authorized enterprises within the same free zone are authorized under the regulations of PIFZA. However, such sales shall be reported to Customs as a change in responsibility for the goods through the filing of a new Declaration of Admission by the purchaser. Inventory records of the sending and receiving enterprises shall be adjusted as specified in Section 2.12 and 4.9 of this Manual to record the physical transfer of the goods

## **SECTION 4: REMOVAL FROM FREE ZONE**

### **4.1 General**

Goods may be removed from a free zone upon application by the authorized enterprise or person having the right to file a declaration for the goods under the applicable customs regime as specified in this Section. The application will be filed on the applicable declaration form, modified as applicable to removal from the free zone for the applicable regime.

### **4.2 Exportation beyond West Bank and Gaza and Israel**

To remove goods from the free zone for exportation beyond the territorial limits of the West Bank and Gaza and Israel, the authorized enterprise or other authorized person shall file an Export Declaration such as is required for exportations from Palestinian territory outside the free zone. However, the Export Declaration shall be modified to show

- 1 the name of the free zone from which the goods were removed for such exportation, and
- 2 a signature block for Customs approval of the removal from the zone, showing the name and title of the approving officer and the date of approval.

(Procedures for security and transit through Israel to be completed upon definition of protocols )

### **4.3 Introduction into Israel**

(Forms and procedures for entry into Israel to be determined by Israeli authorities, security procedures and issues concerning parity between Israeli and Palestinian procedures affecting free zone to be completed upon definition of protocols and other agreements )

### **4.4 Importation into West Bank and Gaza**

#### **4.4.1 General**

Goods which are transferred from the free zone into the West Bank and Gaza shall be considered imported into Palestinian territory at the time of Customs release from the free zone. Goods to be released from a free zone in Gaza for a destination in the West Bank other than another free zone will be released only after payment of applicable duties and taxes in Gaza. Goods to be released from a free zone in the West Bank for a destination in Gaza other than another free zone will be released only after payment of applicable duties and taxes in the West Bank.

Application for removal from a free zone for importation into the West Bank and Gaza shall be made on the same Import Declaration form used for the importation of goods.

from outside the West Bank and Gaza and Israel, as modified by the provisions of this Section. The Import Declaration form shall be accompanied by the commercial invoice reflecting the transaction bringing the goods into the West Bank and Gaza, packing list, any licenses or permits required for the goods, and any other documents as specified in this Section. The form may be presented no more than 3 days in advance of the estimated time of removal of the goods from the free zone.

#### **4.4.2 Palestinian goods**

Palestinian goods as defined in Section 1.2 of this Manual, including Palestinian components and raw materials included in goods manufactured in the free zone, shall be admitted into the West Bank and Gaza free of any import duties. However, they shall be subject to purchase tax and Value Added Tax in accordance with applicable laws and regulations.

Palestinian goods which had been exported to the free zone and received a customs refund of duties paid on foreign components shall be subject to the repayment to Customs of the refund to the same extent required on the return of Palestinian goods which had been exported beyond the West Bank and Gaza and Israel.

#### **4.4.3 Israeli goods**

Israel goods as defined in Section 1.2 of this Manual, including Israeli components and raw materials included in goods manufactured in the free zone, shall be admitted into the West Bank and Gaza free of any import duties. However, they shall be subject to purchase tax and Value Added Tax in accordance with applicable laws and regulations.

(The dutiable status of Israeli goods which received customs refunds may be the subject of negotiation, along with the dutiable status of Palestinian goods, upon importation into Israel, which received West Bank and Gaza customs refunds upon exportation to the free zone.)

#### **4.4.4 Foreign goods**

Foreign goods as defined in Section 1.2 of this Manual, shall be subject to import duties as specified in the West Bank and Gaza tariff schedules, except as specified in

- 1 Annex IV of the Protocol on Economic Relations (Oslo Agreement), and
- 2 Section 19.6(a)(1) of the Palestinian Industrial and Free Zone Act concerning payment of 80% of the import customs duties for goods which are not similar to goods manufactured in the West Bank and Gaza (see Section 4.4.4.1 below)

The rate of duty applicable under those provisions shall be the rate of duty applicable to the goods in their condition at the time the goods were admitted to the free zone, whether

or not they were subsequently manufactured or changed in condition in the zone or incorporated into other goods

However, the purchase tax and Value Added Tax shall be assessed on the goods in their condition at time of importation into the West Bank and Gaza

#### **4.4.4.1 20 percent duty reduction**

To be eligible for the payment of 80% of the import customs duties allowed under Section 19 6(a)(1) of the Palestinian Industrial and Free Zone Act, a manufacturing authorized enterprise shall provide along with the Import Declaration

- 1 a Certificate of No Local Production issued by PIFZA under its Standard Operating Procedures, and
- 2 a sworn statement showing that no more than 20% of the value of the enterprise's total transfers of goods from the free zone during the previous quarter have been transferred to the West Bank and Gaza during the current quarter. The statement shall show total value of goods transferred from the free zone or carried over during the previous quarter, value already transferred to the West Bank during the current quarter, value of goods included in the Import Declaration, and the remaining value eligible for transfer during the current quarter

Raw materials and components, goods which have not been subject to manufacturing, and substandard goods are not eligible for the reduced rate under this subsection, and their value shall not be included in the above sworn statement

#### **4.4.5 Valuation**

Where import duties are based on a percentage of the value, the value of goods imported from the free zone shall be the GATT or Brussels Definition Value, as agreed under the Annex IV Protocol on Economic Relations (Oslo Agreement), of the foreign goods at the time of their admission to the free zone, including the cost of freight and insurance from Israeli ports to the West Bank and Gaza. The cost of Palestinian goods, Israeli goods, labor, overhead, and other costs and expenses incurred in the free zone shall not be included in the value for customs duty purposes

When goods are sold from one authorized enterprise to another within a free zone, and the value of the goods at the time of admission to the zone is unknown to the purchaser at time of importation to the West Bank and Gaza, the goods shall be valued by Customs according to its records of the original Declaration of Free Zone Admission

The value of goods subject to the purchase tax and shall be the value of the goods in the transaction which resulted in their importation from the free zone into the West Bank and

Gaza The value of goods subject to the Value Added Tax shall be the value of goods in the transaction which resulted in their importation from the free zone into the West Bank and Gaza, plus customs duties paid on the importation

#### **4.4.6 Quantity**

Where the rate of import duty is based on weight or other quantity, the quantity of goods shall be the quantity of foreign goods appearing in the goods covered by the Import Declaration, not including any waste or loss incurred with the free zone

#### **4.4.7 Waste, scrap, and damaged and abandoned goods**

Notwithstanding the provisions of Sections 4 4 4 or 4 4 5 of this Manual, the rate of duty and value of the following goods shall be determined according to their condition at the time of removal from the free zone

- 1 valuable scrap and waste resulting from manufacturing or processing in the free zone,
- 2 goods which have been damaged in the zone, and
- 3 abandoned goods and other goods provided for in Section 3 11 of this Manual

### **4.5 Transfer to another free zone**

Goods which have been admitted to a free zone may be transferred without payment of duties and taxes to another free zone within the West Bank and Gaza under the procedures of this section

The sending authorized enterprise shall present Customs with a request, in writing and in such form as Customs may demand, for removal of the goods and transfer to the named destination free zone It shall provide with that request a copy of the original Declaration of Free Zone Admission and commercial invoice covering the goods to be transferred

Upon approval of the request, Customs at the originating free zone shall transmit the original Declaration and commercial invoice to Customs at the destination free zone The goods shall be transported to the destination zone under the joint and several responsibility of the carrier and the sending authorized enterprise The sending authorized enterprise shall adjust its inventory records as provided in Section 4 9 of this Manual

The authorized enterprise at the receiving zone shall file a new Declaration of Free Zone Admission for the goods, accompanied by a commercial invoice representing the transaction under which the goods were sent to the destination zone Upon Customs release and receipt into its premises, the authorized enterprise shall adjust its inventory

records as provided in Section 2 12 of this Manual Customs at the receiving free zone will use the original Declaration of Free Zone Admission in determining the rate of duty and value of foreign goods imported into the West Bank and Gaza, as provided in Section 4 4 of this manual

(Procedures for security and transit through Israel to be added upon definition of protocol )

#### **4.6 Customs review and examination**

Customs shall review import declarations to determine that (1) they have been completely filled out and all required supporting documentation has been provided, (2) the goods are eligible for removal from the free zone and for acceptance under the respective customs regime, (3) the goods have been properly classified and valued for duty and tax purposes, and (4) there is a need for Customs examination of the goods

When necessary, Customs will examine the goods to (1) determine if they correspond with the information contained in the respective declaration and supporting documents, (2) determine if they are eligible for removal from the zone and for acceptance under the respective customs regime, and (3) obtain any information needed for proper tariff classification and valuation of the goods and proper determination of duties and taxes owed on the goods

Customs shall use risk management techniques for document review and goods examination which recognize the reduced risk to Customs and the Palestinian National Authority of goods coming from the controlled conditions and the repetitive nature of operations of the free zone, thus greatly reducing the time needed for document review and the frequency and intensity of goods examination

(Provision for one-time examination for security and duty/tax purposes subject to definition in protocol )

#### **4.7 Removal from Special Industrial Free Zone**

Procedures for removal of goods from Special Industrial Free Zones shall be the same as for removals by authorized enterprises from multiple-firm free zones, except as specified in this section

The required declaration for exportation, introduction into Israel, importation to the West Bank and Gaza, or other purpose shall be presented by the SIFZ operator to Customs at the sub-unit designated by the Director of Customs The declaration will be reviewed by Customs as specified in Section 4 6 of this Manual If the goods can be released to the SIFZ operator or its agent with no Customs examination, the SIFZ operator shall be so informed by Customs If the goods are ordered to be examined, the SIFZ operator shall hold the shipment intact in its condition just prior to loading into the vehicle or container of removal The time and expenses of the Customs officer who travels to the SIFZ to conduct the examination shall be reimbursed by the SIFZ operator to PIFZA Upon

completion of the examination, the Customs officer will release the goods to the SIFZ operator for loading and sealing under Customs supervision, if required

(Security and transit procedures from SIFZs subject to definition in protocols )

#### **4.8 Customs release and removal from free zone**

Upon approval of the applicable declaration, Customs will release the goods for transportation by the authorized enterprise or its agent from the free zone. Approval of a declaration for removal of goods from the free zone may be withheld by Customs if PIFZA has determined that the applicable authorized enterprise is in arrears of any fees or moneys owed to PIFZA.

#### **4.9 Record-keeping upon removal**

Upon removal of the goods from the free zone, the authorized enterprise is relieved from its responsibility to Customs for the goods under the audit supervision method. The authorized enterprise shall record each removal of goods in its inventory and record-keeping system, and delete the quantities of goods from its inventory records. The inventory and record-keeping system for removal of goods shall have the capability to trace all removals back to the Declaration of Zone Admission by specific identification, FIFO, or another inventory method approved by Customs.

## **SECTION 5: CUSTOMS ORGANIZATION AND ENFORCEMENT**

### **5.1 Customs Organization**

Customs in the Palestinian Industrial and Free Zone Authority shall consist of a headquarters unit located in PIFZA headquarters and sub-units located at individual free zones. Sub-units may be located at Special Industrial Free Zones only at the expense of the operator of that zone.

All Customs units will operate under the line direction, budget, and pay and accounting system of PIFZA, but under the technical direction of the Director of Customs, Ministry of Finance. Customs officers will be transferred from the Ministry of Finance to PIFZA for specified periods of time, and be eligible for return to the Ministry of Finance upon completion of that time. Customs officers may be transferred back to the Ministry of Finance before completion of the specified period upon agreement between the Ministry of Finance and PIFZA.

The director of the Customs unit at PIFZA headquarters will report directly to the director of PIFZA. The Customs director's staff will include specialists or divisions for Application Review (to support One Stop Shop processing of applications for new authorized enterprises or revisions), Operations (to establish and maintain procedures at sub-units for clearance of free zone goods and customs checks other than audits), and Audit (to conduct audits of authorized enterprises).

Sub-units will be responsible for conducting actual reviews of declarations and other documents submitted by authorized enterprises for the admission and removal of free zone goods, conducting goods examinations when required, and conducting spot checks of operations, procedures, and records of authorized enterprises.

### **5.2 Customs audits**

Customs audits will be conducted only by auditors assigned to Customs headquarters who will be specially trained for that purpose. An audit will be a systematic and thorough examination of the records of the authorized enterprise and reconciliation of goods in the zone against both inventory records and financial accounting records. Audits will not normally be conducted more often than once every 3 or 4 years, but may be conducted at any time at the discretion of the Director of Customs. Audits will be announced in advance to give the authorized enterprise time to gather and produce records needed for the audit, and will normally require several weeks to complete.

Upon completion of audit tasks, the auditor or audit team will conduct a close-out interview with the authorized enterprise, disclosing the audit findings and soliciting comment by the authorized enterprise. A final report will be made to the Director of

Customs Audit for any official actions to be taken Official actions as a result of an audit report will be taken only at the direction of the Director of Customs

### **5.3 Customs spot checks**

Customs checks other than audits will be made by customs officers of sub-units located at free zones under a program led by the Director of Customs Operations at Customs headquarters Such checks will consist of checks of records for the receipt and removal of goods by the authorized enterprise against corresponding declarations to Customs, physical supervision of destruction processes, checks of casualty losses, and similar checks which Director of Customs Operations has determined necessary for proper audit supervision and within the capability of officers located at sub-units Checks under this section will not normally be announced in advance, however, customs officers will announce their arrival to the authorized enterprise and abide by any security requirements of the enterprise Any findings of the checks will be announced to the authorized enterprise by the Customs officer who conducted the check Any actions taken on the basis of the findings will be made by the Director of Customs at the sub-unit or the Director of Customs headquarters, according to the spot check program requirements

### **5.4 Customs actions on violations**

When a customs audit or check, or other information disclosed to Customs, discloses goods that cannot be accounted for or located in a zone, Customs will issue a demand to the authorized enterprise for an Import Declaration and the payment of duties and taxes on the missing goods If the audit, check, or other information reveals an overage, Customs will issue a demand for a Declaration of Free Zone Admission for the excess goods In addition to the required declarations and payment of duties and taxes, Customs may issue any penalties authorized for any violations of the general customs laws represented by missing or excess goods or for any fraudulent act committed by the authorized enterprise, including any falsification of a declaration to claim the 20% discount provided for in Section 4 4 4 1 of this Manual

If the audit, check, or other information discloses record-keeping or other violations of the procedures of this Manual, but no missing or excess merchandise or fraudulent acts, the Director of Customs will issue a request to authorized enterprise to correct the violations within a specified period If the authorized enterprise fails to correct the violations, or the violations are repeated, the Customs Director may issue a monetary penalty under a transparent schedule and procedure proposed by the Customs Director and approved by the Director of PIFZA

### **5.5 Enforcement actions by PIFZA**

Aside from Customs actions against violations, the Director of PIFZA may revoke or suspend the operations and concession of an authorized enterprise which has committed

gross violations of the Customs or other laws of the Palestinian National Authority under a transparent procedure to be determined by the PIFZA

**INSTRUCTIONS FOR FILLING OUT  
DECLARATION OF FREE ZONE ADMISSION**

<u>Block No</u>	<u>Instructions</u>
Unnumbered	<u>Free zone number</u> - Unique number assigned by PIFZA to zone, may be printed as letterhead
1	<u>Declaration No</u> - Unique and sequential number assigned by Customs, not to be filled out by applicant
2	<u>Name and address of applicant</u> - Name and address of authorized enterprise or other person (such as owner or purchaser of goods) applying for admission of goods to zone
3	<u>Name and address of consignor</u> - Name and address of exporter or Palestinian or Israeli shipper of goods to zone
4	<u>Name and address of clearing agent</u> - Name and address of clearing agent who prepared declaration on behalf of applicant
5	<u>Mode of transport</u> - Mode of transport (sea, air, land, mail, other) used to ship goods to Israel or West Bank and Gaza prior to transportation to free zone Not to be filled out for Palestinian or Israeli goods
6	<u>Vessel, aircraft, or vehicle ID</u> - Name of vessel, airline name and flight number, or license plate of vehicle used to bring goods to Israel or West Bank and Gaza prior to transportation to free zone Not to be filled out for Palestinian or Israeli goods
7	<u>B/L, AWB, or Freight Bill No</u> - Identification of bill of lading, airwaybill, or freight bill under which goods were transported by carrier to Israel or West Bank and Gaza In absence of the foregoing, applicant may use manifest number assigned by Israeli or Palestinian Customs to shipment
8	<u>Carrier to free zone</u> - Name of firm which delivered goods to free zone

- 9            Seal number(s) - Number(s) of seal(s) on container or vehicle of goods delivered to free zone
- 10          Date of arrival at zone - Actual or estimated date of arrival at free zone
- 11          Date of application - Date of preparation of declaration
- 12          Place of loading - Port or place where goods were placed on vessel, aircraft, or other conveyance for shipment to Israel or West Bank and Gaza or, in case of Palestinian or Israeli goods, place where goods were placed on conveyance for delivery to free zone
- 13          Date of loading - Date goods were loaded on conveyance for delivery to Israel or West Bank and Gaza or, in case of Palestinian and Israeli goods, for delivery to free zone
- 14          Place of unloading - Place goods were unloaded from delivering conveyance in Israel or West Bank and Gaza To be left blank for Palestinian and Israeli goods
- 15          Date of unloading - Date goods were unloaded from delivering carrier in Israel or West Bank and Gaza To be left blank for Palestinian and Israeli goods
- 16          Free zone destination site - Location in free zone where goods are to be delivered
- 17          Marks & Numbers and Number of packages - Marks and numbers on exterior of packages and number of packages as delivered to zone, also, include container numbers, if containerized shipment
- 18          Description of goods - General description of goods in language of commerce, not Customs tariff
- 19          C/O - Country of origin code of goods, according to Palestinian or international rules of origin
- 20          Zone status - Zone status code of goods, whether Palestinian, Israeli, or Foreign
- 21          Tariff number - Harmonized System number assigned by tariff
- 22          Tariff quantity - Quantity in units specified in tariff

- 23 Value - BDV or GATT Customs value, as applicable, including cost of insurance and freight from Israeli port to West Bank and Gaza
- 24 Gross weight - Gross weight of goods
- 25 Name and signature - Typed or printed name and signature of person swearing to accuracy of declaration
- 26 Title - Title of person swearing to accuracy of declaration
- 27 Date - Date of signature by named person
- 28 Name and signature - Typed or printed name and signature of Customs officer approving application
- 29 Title - Title of Customs officer approving application
- 30 Date - Date of approval of application by Customs officer
- 31 Name and signature - Typed name and signature of driver or other person who receives goods for delivery to zone premises shown in Block 16
- 32 Title - Title of driver or other person who receives goods for delivery to zone premises
- 33 Firm name - Name of firm employing driver or other person who receives goods for delivery to zone premises
- 34 Date - Date of receipt for delivery to zone premises
- 35 Name and signature - Name and signature of person who receives goods at zone premises specified in Block 16.
- 36 Title - Title of person who receives goods at zone premises
- 37 Firm name - Name of firm employing person who receives goods at zone premises
- 38 Date - Date of receipt at zone premises



## **AUDIT SUPERVISION METHOD IN FREE ZONES**

Audit supervision is a comprehensive method for customs supervision of free zones which is based on 6 principles

- 1 determination by customs of the identity and nature of goods before or upon its deposit in a zone so that the initial responsibility of a zone firm for the goods can be reliably determined,
- 2 issuance of a prior permit by customs to the zone firm for receipt into the zone, delivery from the zone, and certain activities within the zone, such as destruction of goods,
- 3 assumption of responsibility by the zone firm for the goods in the zone, including physical supervision, security, record-keeping, storage, processing, and destruction,
- 4 performance by customs of audits and other checks to verify whether the zone firm is properly supervising the goods and maintaining the records in compliance with customs and free zone authority requirements,
- 5 presumption that goods that cannot be accounted for or located in the zone have entered into customs territory, and are subject to the payment of applicable duties, taxes, and penalties as prescribed by law and regulation, and
- 6 authority for customs or zone authorities to suspend or revoke the operation, or a portion of the operation, of any zone firm which does not or cannot comply with customs requirements for audit supervision

Audit supervision has several advantages for both customs and the zone firms

### For customs

- 1 Reduces customs staffing needs for zone supervision
- 2 Improves customs ability to knowledgeably supervise fast-moving operations, including receipts and deliveries of goods
- 3 Allows the use of risk management techniques based on audit supervision of the protected environment of the zone, which allows quicker and more accurate clearances of goods moving to and from the zone



### For zone firms

- 1 Places customs responsibility on the firm that it bears anyway as a fiduciary on behalf of owners, stockholders and investors,
- 2 Makes use of normal commercial practices in worldwide trade,
- 3 Allows customs to perform faster clearances of goods moving both to and from the zone

Audit supervision does allow customs a close look at activities inside the zone. This is preferable to customs maintaining its own inventory ledger to balance shipments into and out of the zone. However, it places a responsibility on customs to maintain confidentiality about all proprietary information obtained through its supervisory actions, just as it must maintain confidentiality of proprietary information contained in any declarations submitted to customs.

Audit supervision works best when zone firms adhere to generally accepted accounting principles, whether set nationally or internationally. These standards must, in some cases, be made more specific to free zone supervision needs through requirements set forth in customs regulations, procedures, and practices.

An audit is a systematic and thorough check of the zone firm's inventory and financial records against customs declaration. Audits are normally announced in advance to allow the zone firm some preparation time for the audit. To reduce the frequency and intensity of audits, customs normally conducts other and simpler kinds of checks of zone firms, such as spot checks of selected transactions and procedures, reviews of record-keeping practices upon receipt and delivery of goods, quantity counts of selected kinds of inventories, and physical supervision of certain activities, such as destruction of goods. These checks are not usually announced in advance, since they require no preparation time by the zone firm.