

**PROTOCOL
BETWEEN
THE GOVERNMENT OF THE ARAB REPUBLIC OF EGYPT
AND
BETWEEN THE GOVERNMENT OF THE STATE OF ISRAEL
ON
QUALIFYING INDUSTRIAL ZONES**

The Government of the Arab Republic of Egypt and the Government of the State of Israel (hereinafter "the Parties") noting the 25th Anniversary of the signing of the Peace Agreement between the Parties and desiring to promote economic and trade relations for the benefit of the Parties have agreed to conclude this protocol.

In recognition of the requirements in Section 9 of the United States-Israel Free Trade Area Implementation Act of 1985, as amended, and Proclamation No. 6955 of the President of the United States of America, hereinafter "the legislation and proclamation" and on the recommendation of the private sector of the Parties have agreed to the creation of the Qualifying Industrial Zones (hereinafter the "QIZ"), and request the Government of the United States to designate

them as "Qualifying Industrial Zones" under the legislation and proclamation.

ARTICLE I GEOGRAPHIC BOUNDARIES

The Parties hereby designate the following territories of their respective countries as enclaves where merchandise may enter for purposes of export, without payment of duty or excise taxes, no matter what the country of origin of the merchandise.

A. For the Government of Egypt: areas as designated by the Parties and as approved by the United States Trade Representative (USTR) and as specified in Annex A to this protocol.

B. For the Government of Israel: An Area under Israeli Customs control within the boundaries of the land crossing border at Nitzana Crossing Point.

On the basis of the respective national legislation of the Parties, the competent authorities of Israel and Egypt shall establish the necessary procedures for the purpose of assuring the speedy flow of goods into and out of these areas. The purpose of these procedures is to ensure the

strict enforcement of the principles of duty and taxation pursuant to this protocol.

In the case of the State of Israel, where factories located outside the zone shall contribute part of the 35 percent minimum content required by the legislation and proclamation, the Israeli customs authority shall ensure that inputs imported from abroad incorporated into goods shipped into the zone shall be exempt from duty.

ARTICLE II QIZ JOINT COMMITTEE

A. The Parties hereby agree to the establishment of a QIZ Joint Committee which shall have the responsibilities, outlined in Annex B, of identifying those manufacturers located within the Qualifying Industrial Zones, which involve substantial economic cooperation between Israel and Egypt. Goods processed in these zones by manufacturers whose names appear on a list (hereinafter "the list") approved by the QIZ Joint Committee shall be eligible for duty-free entry into the United States if the goods meet the requirements of this Protocol and its Annexes as well as of the legislation and proclamation.

B. The QIZ Joint Committee shall meet in Jerusalem and in Cairo, alternately, every three months or upon request by either Party whichever comes earlier. During every fourth

quarter the QIZ Joint Committee shall hold a business cooperation event in which business people and other persons of both Parties who have interest in the QIZ shall have the opportunity to participate. This event shall be held in Egypt and Israel alternately.

C. A representative of the United States shall have the right to participate in meetings of the QIZ Joint Committee as an observer.

D. The QIZ Joint Committee may determine that a business qualifies for QIZ treatment if:

1. A. The company of the Egyptian side of the QIZ and the company of the Israeli side each contribute and maintain at least one third (11.7%) of the minimum 35% of local content required under the legislation and the proclamation for duty-free treatment in the United States and according to the procedures as detailed in Annex B to this Protocol; or

1. B. The manufacturer on the Egyptian side of the QIZ and the manufacturer on the Israeli side each contributes and maintains at least 20 percent of the total cost of production of goods eligible for duty-free treatment, excluding profits, even if the costs cannot be considered as part of the 35 percent minimum content requirement. For this purpose, costs may include originating materials, wages and salaries, design, research and development, depreciation of capital investment, overhead including marketing expenses, etc.

2. Only Israeli companies operating in areas under Israel's customs control shall be recognized for the purposes of applying the Israeli contribution as mentioned in subsections 1.a. and 1.b. above.

E. The QIZ Joint Committee shall issue a certificate, valid for a period of one year, recognizing that a company is located within the QIZ.

1. Only companies located in areas specified in Article I may be eligible to request such a certificate.

2. This certificate will be valid for the purpose of eligibility for duty free treatment under the provisions of this Protocol, only when the company's name appears on the list, described in Paragraph F below.

3. The QIZ Joint Committee shall have the authority to cancel this certificate only if the requirements of this Protocol and its Annexes are not met.

F. The QIZ Joint Committee shall promptly provide quarterly the U.S. Customs Authority (Trade Compliance Office, Office of Field Operations) and the Egyptian Customs Authority with a list of Companies entitled to duty free treatment for the next quarter only, according to the provisions of this Protocol.

Only companies which have fulfilled all the requirements of this Protocol and its Annexes for the previous quarter shall be eligible to be included in the list for the next quarter.

ARTICLE III RULES OF ORIGIN

The Parties agree that the origin of any textile or apparel product that is processed in the Qualifying Industrial Zones, regardless of the origin of place or processing of any of its inputs or materials prior to entry into, or subsequent to withdrawal from, these zones, shall be determined solely pursuant to the rules of origin for textile and apparel products set out in Section 334 of Uruguay Round Agreement Act, 19 U.S.C. 3592.

ARTICLE IV CUSTOMS VERIFICATION

The Parties shall assist United States authorities in obtaining information, including means of verification, for the purpose of reviewing transactions for which duty-free access into the U.S. is claimed, in order to verify compliance with applicable conditions, and to prevent unlawful transshipment of articles not qualified for duty-free access into the U.S.

**ARTICLE V
AMENDMENTS Annexes to this Protocol shall be amended by the QIZ Joint Committee and upon approval by the United**

States.

**ARTICLE VI
ENTRY INTO FORCE**

This Protocol shall enter into force upon the notification of both Parties on the completion of the necessary legal procedures required by them for the entry into force of this Protocol.

Done at Cairo, Egypt on December 14, 2004, in two original copies in the English ***.**

Annex B - QIZ Joint Committee

1. A QIZ Joint Committee shall be established, in accordance with Article II of the Protocol, with two co-chairpersons: an Egyptian appointed by the Egyptian Government, and an Israeli appointed by the Israeli Government. A representative of the United States may attend the meetings as an observer

2. The responsibilities of the QIZ Joint Committee shall be to:

*** Supervise the implementation of the QIZ Protocol**

*** Verify full compliance with the QIZ requirements**

*** Issue and/or cancel certificates pursuant to Article E of the Protocol;**

*** Determine the lists of companies pursuant to Article F of the Protocol;**

*** Prepare an annual report that to be submitted to the relevant Ministers**

3. The QIZ Joint Committee shall carry out its responsibilities on a quarterly basis as per the following periods:

*** January 1 - March 31**

*** April 1 - June 30**

*** July 1 - September 30**

*** October 1 - December 31**

(Hereinafter: "quarters")

4. The certificate issued by the QIZ Joint Committee, pursuant to Article E of the Protocol, shall include the following information: name, address, tel. /fax numbers, e-mail address and contact person.

5. The QIZ Joint Committee shall convene quarterly, pursuant to Article II.B of the Protocol, in order to determine the list of companies, in accordance with Article F of the Protocol. The hosting Party shall issue an invitation to the other Party for a date after which both Parties have received the documents

mentioned in paragraphs 6A and 6B below, but no later than 45 days after the end of the previous quarter. The meeting of the QIZ Joint Committee shall take place on a mutually agreed upon date, within 10 days from the proposed date.

6. In order for the QIZ Joint Committee to determine the lists of companies to appear on the lists pursuant to Article F of the Protocol the following procedures must be followed:

A. The company shall provide its Authorities evidence of full compliance with all the requirements of the QIZ Protocol for the previous quarter, no later than 15 days from the end of each quarter. This evidence shall include the following:

a. Name of company, address, tel. /fax numbers, and e-mail addresses, contact person,

b. Type of products exported,

c. Type of input purchased, documented by copies of invoices from Egyptian/Israeli suppliers and list of Egyptian/Israeli suppliers in the last quarter, including contact persons,

d. Total export of the company to the United States under the QIZ duty free treatment for the previous quarter, supported by relevant documents.

B. The authorities of the Party receiving the documents and

evidence shall submit to the authorities of the other Party, no later than 30 days from the end of each quarter all quarterly data as specified in paragraph 6.A. above.

C. the QIZ Joint Committee shall verify the data specified in paragraph 6.A. in order to determine whether the requirements of the Protocol, particularly Article II.D., and the Annexes, particularly paragraphs 9, 10 and 11 of Annex B, have been fulfilled.

7. The Joint Committee shall issue the quarterly lists according to the following:

A. A company that fulfills the requirements of the Protocol and its Annexes shall appear on the list for the first two quarters following the entry into force of the Protocol.

B. For the periods that follow the first two quarters after the entry into force of the Protocol:

I. The QIZ Joint Committee shall determine the list for the following quarter, based on the company's fulfillment of the requirements of the Protocol and its Annexes for the previous quarter.

ii. Companies that have not previously exported under the QIZ Protocol, and that request to be included in the list determined by the QIZ Joint Committee after a quarter has already begun, will not be required to report until the end of the next full quarter.

8. If any Party fails to attend the quarterly QIZ Joint Committee meeting as required in Article II.B. of the Protocol, the Party that has attended the meeting may carry out the responsibilities of the QIZ Joint Committee. If the hosting Party fails to issue the invitation to the other Party to attend the meeting, the other Party may carry out the responsibilities of the QIZ Joint Committee.

9. The Israeli inputs that shall be recognized for the purpose of the QIZ must be direct relevant inputs.

10. The QIZ Joint Committee shall not recognize inputs purchased from Israeli enterprises as fulfilling the minimum content required from Israeli manufacturers unless those inputs fully comply with the rules of origin as stipulated in the US-Israel Free Trade Area Agreement.

11. Compliance with criteria set forth in Article II.D. of the Protocol will be calculated on the basis of total duty free export to the United States under the QIZ on a quarterly basis per company and in accordance with the conditions set forth in paragraphs 9 and 10 above.

12. In the event the QIZ Joint Committee finds that a company fails to comply, for any reason, with the requirements of the QIZ Protocol and its Annexes, the following steps shall be taken:

a. for a first-time failure - the company will not be eligible for

QIZ approval for the following quarter.

b. for a second-time failure - the company will not be eligible for QIZ approval for the following two quarters.

c. for every failure beyond the second time - the company will not be eligible for QIZ approval for the following four quarters.

13. In case there is a need for additional data in order to verify QIZ compliance, the QIZ Joint Committee may request the US Customs Authorities to provide the necessary data.

14. In case the QIZ Joint Committee finds during the implementation of the above mentioned procedures a need to amend these procedures, it will submit a proposal to the Minister of Foreign Trade and Industry of Egypt and the Minister of Industry , Trade and Labor of Israel, for their approval.