ANNEX 3

(Rules of Origin)

1. This Agreement shall apply to any article if:

(a) that Article is wholly the growth, product, or manufacture of a party or is a new or different article of commerce that has been grown, produced, or manufactured in a Party:

(b) that article is imported directly from one Party into the other Party; and

(c) the sum of (i) the cost or value of the materials produced in the exporting Party, plus (ii) the direct costs of processing operations performed in the exporting Party is not less than 35 percent of the appraised valued of the article at the time it is entered into the other Party.

2. No article shall be considered a new or different article of commerce under this Agreement and no material shall be eligible for inclusion as domestic content under this Agreement by virtue of having merely undergone (1) simple combining or packaging operations or (2) mere dilution with water or with another substance that does not materially alter the characteristics of the article or material.

3. For other purposes of this Agreement, the expression "wholly the growth, product, or manufacture of a Party" refers both to any article which has been entirely grown, produced, or manufactured in a Party and to all materials incorporated in an article which have been entirely grown, produced, or manufactured in a Party, as distinguished from articles or materials imported into a Party from a non-participating country, whether or not such articles of materials were substantially transformed into new or different articles or commerce after their importation into the Party.

4. For the purposes of this Agreement; "country of origin" requires that an article or material, not wholly the growth, product, or manufacture of a Party, be substantially transformed into a new and different article of commerce, having a new name, character, of use, distinct from the article or material from which it was so transformed.

5. For purposes of determining the 35 percent domestic content requirement under this Agreement, the cost or value of materials which are used in the production of an article in one Party, and which are products of the other Party, may be counted in an amount up to 15 percent of the appraised value of the article. Such materials must in fact be products of the importing Party under the country of origin criteria set forth in this Agreement.

6. (a) For the purposes of this Agreement, the cost or value of materials produced in a Party includes:

(i) The manufacturer's actual cost for the materials,

(ii) When not included in the manufacturer's actual cost for the materials, the freight, insurance, packing, and all other costs incurred in transporting the materials to the manufacturer's plant.

(iii) The actual cost of waste or spoilage (material list), less the value of recoverable scrap, and

(iv) Taxes and/or duties imposed on the materials by a Party, provided they are not remitted upon exportation.

(b) Where a material is provided to the manufacturer without charge, or at less than fair market value, its cost or value shall be determined by computing the sum of:

(i) All expenses incurred in the growth, production, or manufacture of the material, including general expenses;

(ii) An amount for profit, and

(iii) Freight, insurance, packing, and all other costs incurred in transporting the material to the manufacturer's plant. If the pertinent information needed to compute the cost or value of a material is not available, the appraising officer may ascertain or estimate the value thereof using all reasonable ways and means at his disposal.

7. For the Purposes of this Agreement, direct costs of processing operations performed in a Party mean those costs either directly incurred in, or which can be reasonably allocated to, the growth, production, manufacture, or assembly, of the specific article under consideration. Such costs include, but are not limited to the following, to the extent that they are includable in the appraised value of articles imported into a Party:

(a) All actual labor costs involved in the growth, production, manufacture, or assembly, of the specific article, including fringe benefits, on-the-job training, and the cost of engineering, supervisor, quality control, and similar personnel;

(b) dies, molds, tooling and depreciation on machinery and equipment which are allocable to the specific article;

(c) research, development, design, engineering, and blueprint costs insofar as they are allocable to the specific article; and

(d) costs of inspecting and testing the specific article.

Those items that are not included as direct costs of processing operations are those which are not directly attributable to the articles under consideration or are not costs of manufacturing the product. These include, but are not limited to:

(i) profit; and

(ii) general expenses of doing business which are either not allocable to the specific article or are not related to the growth, production, manufacture, or assembly, of the article, such as administrative salaries, casualty and liability insurance, advertising, and salesmen's salaries, commissions, or expenses.

8. For the purposes of this Agreement, "imported directly" means:

(a) direct shipment from one Party into the other Party without passing through the territory of any intermediate country; or

(b) if shipment is through the territory of an intermediate country, the articles in the shipment do not enter into the commerce of any intermediate country and the invoices, bills of lading, and other shipping documents, show the other Party as the final destination, or

(c) if shipment is through an intermediate country and the invoices and other documents do not show the other Party as the final destination, then the articles in the shipment, upon arrival in that Party, are imported directly only if they

(i) remain under the control of the customs authority in an intermediate country;

(ii) do not enter into the commerce of an intermediate country except for the purpose of a sale other than at retail, provided that the articles are imported as a result of the original commercial transaction between the importer and the producer or the latter's sales agent;

(iii) have not been subjected to operations other than loading and unloading, and other activities necessary to preserve the article in good condition; and

(iv) comply with the origin requirements for articles exported to a Party form the other Party under this Agreement as stated in the documents required under the certification procedure.

9. All articles entered under this Agreement shall be documented by a certificate, specimens of which are given in the attachment to this Annex, signed by the exporter to be completed in accordance with the rules specified in the certificate. The certificate should contain sufficient information to identify the articles described on the certificate as the articles to be exported and a statement as to the percentage of value added in a Party and that the articles comply with the country of origin requirements set forth in this Agreement. The certificate will be presented to the Customs authorities of the importing Party in accordance with its internal regulations.

Notwithstanding the above, either Party may waive production of the certificate on a case by case basis for articles imported into such Party and for which the benefits of this Agreement are claimed, if

the Party is otherwise satisfied that the imported articles comply with the country of origin requirements set forth in this Agreement.

The exporter or person signing the certificate of origin shall be prepared to submit a declaration setting forth all pertinent details, concerning the production or manufacture of the articles, which were used to prepare the certificate of origin. The information on the declaration should contain at least the following pertinent details:

A. a description of the article, quantity, numbers and marks of packages, invoice numbers, and bills of lading;

B. a description of the operations performed in the production of the article in a Party and identification of the direct costs of processing operations;

C. a description of any materials used in production of the article which are wholly the growth, product, or manufacture of either Party, and a statement as to the cost or value of such materials;

D. a description of the operations performed on and a statement as to the origin and cost or value of, any foreign materials used in the article which are claimed to have been sufficiently processed in a Party so as to be materials produced in that Party; and

E. a description of the origin and cost or value of any foreign materials used in the article which have not been substantially transformed in a Party.

This declaration shall be prepared and submitted upon request by a Party. A declaration should only be requested when a Party has reason to question the accuracy of the statements on a certificate of origin, or when a Party randomly verifies certificates of origin.

10. In order to further the administration of this Agreement, the Parties agree to assist each other in obtaining information for the purpose of reviewing transactions made under this Agreement in order to verify compliance with the conditions set forth in this Agreement.

11. The Parties will consult from time to time on the interpretation of these provisions and on a practical problems which may arise with a view to prevent unnecessary barriers to trade which are inconsistent with the objectives of this Agreement.

In this connection, amendments of the present rules could be proposed.

Attachment

Specimens of Certificates of Origin

An original of Attachment I shall be used for exports of the United States and an original of Attachment II shall be used for exports of Israel.

NOTES

1. Conditions. The main conditions for admission under the Free Trade Area Agreement (FTAA) between the United States of America and Israel (the Agreement) are:

(a) The goods must be consigned direct from the United States of America to Israel but in most cases shipment through one or more intermediate countries is accepted provided that the goods did not enter into the commerce of that country and otherwise complied with the direct shipment requirements of the Agreement.

(b) The goods comply with the origin criteria specified in the Agreement. Indication of the origin requirements is given in paragraph 2.

(c) Each article in a consignment must qualify separately in its own right concerning the rules of origin and direct shipment.

2. Origin requirements for goods originating in the United States of America.

The Agreement shall apply to any article if:

(a) That article is wholly the growth, product, or manufacture of the United States of America or is a new or different article of commerce that has been grown, produced, or manufactured in the United States of America.

(b) The sum of (a) the cost or value of the materials produced in the United States of America plus (b) the direct cost of processing operations performed in the United States of America is not less than 35 percent of the appraised value of the article at the time it is entered into Israel.

No article shall be considered a new or different article of commerce under the Agreement and no material shall be eligible for inclusion as domestic content under the Agreement by virtue of having merely undergone (a) the simple combining or packaging operations or (b) mere dilution with water or with another substance that does not materially alter the characteristics of the article or material.

The expression "wholly the growth, product, or manufacture of the United States of America" refers both to any article which has been entirely grown, produced, or manufactured in the United States of America and to all materials incorporated in an article which have been entirely grown, produced, or manufactured in the United States, as distinguished from articles or materials imported into the United States of America from a third country, whether or not such articles or materials were substantially transformed into new or different articles of commerce after their importation into the United States of America.

"Country of Origin" requires that an article or material, not wholly the growth, product, or manufacture of the United States of America, be substantially transformed into a new and different article of commerce, having a new name, character , or use, distinct from the article or material from which it was so transformed.

For purpose of determining the 35 percent U.S.A. content requirement under the Agreement, the cost or value of materials which are used in the production of an article in the United States of America, and which are the products of Israel, may be counted in an amount up to 15 percent of the appraised value of the article. Such materials must in fact be the products of Israel under the country or origin criteria set forth in the Agreement.

3. Entries to be made in Box 8.

Products must be either wholly obtained in accordance with the rules of the Free Trade Agreement or sufficiently worked or processed to fulfill the requirement of the Free Trade Agreement.

(1) Products wholly grown, produced, or manufactured in the United States: enter the letter P in Box 8.

(2) Products sufficiently worked or processed in the United States of America: enter in Box 8 a Y value for the sum of the cost or value of the domestic materials and the direct cost of processing expressed as a percentage of the ex-factory price of the exported products. (Example: Y=35%.)

4. The declaration of the exporter on this certificate shall be notarized by a notary public and certified by an appropriately constituted local business organization, such as a chamber of commerce or board of trade.

NOTES

1. Conditions. The main conditions for admission under the Trade

Area (FTA) Agreement between Israel and the United States of America are:

(a) The goods must be consigned direct from Israel to the United States of America but in most cases shipment through one or more intermediate countries is accepted provided that the goods did not enter into the commerce of that country and otherwise compiled with the direct shipment requirements of the Agreement.

(b) The goods comply with the origin criteria specified in the Agreement. Indication of the origin requirements is given in paragraph 2.

(c) Each article in a consignment must qualify separately in its own right concerning the rules of origin and direct shipment.

2. Origin requirements for goods originating in Israel.

The Agreement shall apply to any article if:

_____

The conditions specified on this Form are for reference purposes only and do not change in any way or manner the binding rules of origin as specified in Annex III of the FTA Agreement between Israel and the United States of America.

(a) That article is wholly the growth, product, or manufacture of Israel or is a new or different article of commerce that has been grown, produced or manufactured in Israel.

(b) The sum of (a) the cost or value of the materials produced in Israel plus (b) the direct cost of processing operations performed in Israel is not less than 35 percent of the appraised value of the article at the time it is entered into the United States of America.

No article shall be considered a new or different article of commerce under the Agreement and no material shall be eligible for inclusion as domestic content under the Agreement by virtue of having merely undergone (a) simple combining or packaging operations or (b) mere dilution with water or with another substance that does not materially alter the characteristics of the article or material.

The expression "wholly the growth, product, or manufacture of Israel" refers both to any article which has been entirely grown, produced or manufactured in Israel and to all materials incorporated in an article which have been entirely grown, produced, or manufactured in Israel, as distinguished from articles or materials imported into Israel from third country, whether or not such articles or materials were substantially transformed into new or different articles of commerce after their importation into Israel.

"Country of Origin" requires that an article or material, not wholly the growth, product, or manufacture of Israel, be substantially transformed into a new and different article of commerce, having a new name, character or use, distinct from the article or material from which it was so transformed.

For purposes of determining the 35 percent Israeli content requirement under the Agreement, the cost or value of materials which are used in the production of an article in Israel, and which are the products of the United States of America, may be counted an amount up to 15 percent of the appraised value of the article. Such materials must in fact be products of the United States of America under the country of origin criteria set forth in the Agreement.

3. Entries to be made in Box 8.

Products must be either wholly obtained in accordance with the rules of the Free Trade Agreement or sufficiently worked or processed to fulfill the requirements of the Free Trade Area Agreement.

(1) Products wholly grown, produced, or manufactured in the United States of America" enter the letter P in Box 8.

(2) Products sufficiently worked or processed in Israel; enter in Box 8 a Y value for the sum of the cost or value of the domestic materials and the direct cost of processing expressed as a percentage of the ex-factory price of the exported products. (Example: Y=35%.)

4. The declaration of the exporter on this certificate shall be required.

Generalized System of Preferences

The Notes included in Form A will apply to the use of this form for the purposes of the Generalized System of Preferences.