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# Organizing Imports For The Benefit Of the Palestinian Producer and Consumer

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## **Significance**

The importance of this study stems from producing detailed information about the Palestinian imports from various countries and how the Palestinian producers and consumers are affected by these imports, hoping that the private sector will come up with recommendations for the public sector in order to organize the process of importing goods and to help eliminate damages to the local products and increase their competitiveness and emphasize on importing high quality products.

## **Objectives**

The study aims at finding out the volume of Palestinian imports from various countries as well as the varieties, their specifications, and their impact on the Palestinian producer and consumer, including:

- The volume of imports from different countries
- The problems caused by these imports on the local producers especially the unfair competition.
- The problems caused by these imports on the local consumer, especially those associated with poor quality products and their effects on the consumers' health.
- To determine Palestinian standards and measures as well as health and safety regulations imposed on imports and the necessary documents required for importing goods
- To examine the Palestinian Customs evaluation methods, and compare them with both the Jordanian and Israeli methods.
- Make recommendations to the appropriate authorities regarding the importation process in addition to the health and technical requirements, the evaluation process and to make sure that these recommendations are implemented, for the benefit of both the Palestinian producer and consumer.

## **Executive Summary**

This study specified the quantities and types of Palestinian imports from various countries, the negative impact that some of these imports could have on the local producers and consumers in addition to the means that the Palestinian Authority could deploy to limit this negative impact. Moreover, the study dealt with the problems that face the Palestinian consumer as a result of these imports especially the health and quality concerns associated with the imports. The study also discussed the Palestinian and Israeli standards and measures, health and safety regulations imposed on imports and the necessary documents required for importing goods. The study tried to find the system used by the Palestinian side associated with evaluation imports and how it relates to the systems deployed by Jordan and Israel. Finally, the study concluded by providing some recommendations to the appropriate authorities regarding imports, setting the needed health and safety regulations, the appropriate evaluation system and ways to communicate with the importers to implement these recommendations for the benefit of the consumers

### **Effects of Imports on the Palestinian Producer and Consumer**

1. A significant percentage of the imports were low quality products that led in certain situations to health problems as a result of using cheap and harmful materials in the production process.
2. Some locally produced goods specifically shoes and garments were adversely impacted by similar imported products because of low labor and material costs and due to mass production of the imported products, in addition to invoice manipulation by the importers which lowered the tariffs imposed on these products.
3. The random and uncontrolled process of importing led to the closure of many Palestinian factories, which led factory entrepreneurs to start importing themselves or change their line of work. This made it difficult for these entrepreneurs to go back to manufacturing due to the high cost of starting over.
4. The closure of these factories led to the layoffs of many workers especially in the garment and shoe industries that contributed to the high level of unemployment and negatively affected the GNP.
5. The absence of regulations and control led many inexperienced individuals to start importing low quality goods and distribute these goods at huge discounted rates, competing with their law-abiding counterparts who were registered and paid taxes, thus not only affecting them, but also the taxation and customs structure.
6. The emergence of health problems in some imported shoes, garments, and popular toys due to harmful chemicals and plastics used in the manufacturing process of these

products; for example, some of the garments caused skin irritations and rashes since the Israeli Standards Institute only checks the labels without actually inspecting the fabric itself.

## **The Importation Process and the technical systems used**

One: In order to be able to import goods from abroad, one requires certain documents, starting with a certificate dealing with foreign trade; however the necessary documents needed before starting to import are:

- Importation license that can be obtained from the Ministry of Trade and other related ministries depending on the type of goods to be imported.
- Trade marks and labels
- The approval of the Israeli Standard Institute concerning electrical items, tiles and other items.
- The approval of the Palestinian and Israeli health ministries concerning medical, cosmetic and food items.
- The approval of the concerned ministry according to the proposed item to be imported (agriculture, environment, communication, ...)

Two: The required documents:

- Bill of Lading
- Commercial invoice
- Packing list
- Certificate of Origin and other forms proving the rules of origin such as EUR1 or Form A that prove tariff exemptions according to signed international trade agreements.

Three: Banned Products:

- All internationally banned products such as Nicotine
- Pornographic materials, insinuating printed material and all other anti social conduct material.
- Vehicles that are more than three years old
- Products from countries that ban or limit Israeli exports.
- Recently the Israeli Ministry of Finance (Customs Department) restricted or set harsh requirements on the imports to Palestinian territories of certain products such as chemicals, dual use products, equipment for excavations and water pumping, etc.

## **The role of the Palestinian Standard Institute (PSI)**

According to the Paris Protocol, the Palestinian specifications must match that of Israel regarding imported products except those that fall under A1 & A2 lists.

1. Most of the products imported under the aforementioned A1 & A2 lists are imported to the PA area without performing any testing procedures.
2. The Palestinian Standard Institute (PSI) developed the needed technical specifications for only a limited number of imported products.
3. PSI has no role when the imported products' specifications meet the Israeli specification and these products enter the Palestinian area without the control of the Palestinian side.
4. In cases where the product specifications do not completely meet the Israeli specifications, the Palestinian importer is required to lodge a bank guarantee to the Israeli customs authorities to allow for the required alterations to be made on the products to meet the specs; in such cases, the products are allowed to be delivered to the importer's warehouses for the necessary adjustments to be made under the supervision of the PSI where the guarantee will be released after the necessary amendments are done.
5. The inability of the PSI to test some imported goods due to the unavailability of proper laboratories and the necessary testing equipment; leading the Palestinian testing authority to use the available laboratories in neighboring countries such as Jordan.

## **Obstacles Facing Importation**

1. The absence of a clear manual with guidelines on the importation process and the lack of concern to update the importers of any new rules or regulations.
2. There are no clear specifications agreed upon to estimate the value of the imported goods which leads to many disagreements between the merchants and the customs authority.
3. Israel's refusal to recognize the Palestinian-European free trade agreement and forcing the Palestinian importer to pay tariffs when the EUR1 certificate shows in box number 5 Palestine/West Bank and Gaza instead of Israel.
4. The many delays in clearing goods at the Israeli ports due to strikes, however, a large quantity of the Israeli goods are processed and cleared during these strikes while the Palestinian products are left in warehouses unprocessed which leads to an added cost for storage, demurrage, and other expenses.
5. In the case of imported food products which require special testing, the Israeli importers are allowed to transfer these goods to their warehouses until the testing is performed which is normally done promptly; however, the Palestinian importer has to wait for three to four weeks for the testing while the products remain in warehouses of the ports causing additional expenses and occasionally damaging the products.

6. The lack of a unified pricing for shipping and clearing services which in certain instances adds to the cost of the product.
7. The delays caused by the Israeli Standards Institute, the Israeli Health Ministry and the Israeli Environmental Ministry.
8. In many instances the samples taken for testing are not returned.
9. The non-issuance of “NON MANIPULATION” certificates when it comes to the European imports via Jordan. The Palestinian-European Free Trade Agreement requires this certificate when products are shipped from Europe to Israel or the Palestinian area through a third country such as Jordan. The third country must issue this certificate to allow for free tariffs on these products.

### **Evaluation Methods used in Jordan**

The Jordanian customs department is considered one of the developed authorities when it comes to estimating the value of the imported products to Jordan where it works under clear and specific methodology developed by specialized people in addition to the vast experience enjoyed by the customs personnel operating at their ports: land, sea and air. Consequently, the methodologies used at the Jordanian ports could be summarized as follows:

1. The declared value is accepted if it meets the following conditions:
  - Shipping, receiving and product value are in unison in the bill of lading, certificate of origin, insurance policy and all other documents.
  - The actual product’s type, quantity and origin must be the same as the ones stated in the customs entry.
  - The commercial invoice must be issued by either the original manufacturer, one of its branches, or one of its officially approved exporting agents in countries other than its origin.
  - Declaring values similar to previously approved shipments of the product within the same time frame.
  - The documents showing the declared value must be original documents not photocopies.
2. In instances where the products under evaluation have similar previous estimates, these products will be evaluated according to the previous estimates while taking into account the quantity and time frame. Fair adjustments must be made when the quantities differ in addition to making adjustments regarding the shipping distances. If there were more than one previous estimate, the lower value will be taken and a reference to the compared case will be noted.
3. The customs value of the imported product is based on the following:
  - Raw material and manufacturing costs.
  - General expenses and profit margin that normally reflect the type of product.

- Wages, overhead and expenses.
4. The custom estimation must not be based on the local retail price for similar locally produced goods, the products retail price in the exporting country, the retail price in a different country or any other random estimate.
  5. When requested, the importer must be notified in writing of the basis used in the appraisal.
  6. The manager can release the products in instances where the original copies are not available for a cash deposit of 2% or a bank guarantee not more than 4% of the value. This deposit is refundable if the original documents are supplied within 60 days.
  7. For the purpose of appraisal, the customs department has the right to request all the documents and correspondences pertaining to the products under evaluation.
  8. The value declared is the cost stated in the customs entry plus all the expenses incurred until the product reached the port.
  9. In every port a local committee comprised of the manager's assistant and the heads of two clearing units is formed to rule, when notified in writing, in a disagreement between the department and the importer. If the matter is not resolved, it moves to the appropriate division in the department with the local committee ruling and the manager's decision. The manager can release the products under review provided a deposit or a bank guarantee is supplied.
  10. In instances where the value can not be determined, the following procedure is used:
    - The importer is notified by way of the appropriate form of the reason why the information in the documents is not accepted.
    - The importer is allowed when requested to prove the accuracy of his numbers.
    - When convincing and valid arguments that prove the accuracy of the stated value are presented in writing, the value stated is accepted and approved by the manager or her/his assistant.

### **Evaluation Methods used in Israel**

There are no set rules or regulations used in appraising the products that come to the Israeli ports. Each port's customs department acts as they see fits depending on each shipment. Albeit, there are some typical means used in these ports some of which are:

1. For products that are dealt in the international stock markets such as sugar, grain coffee and others, the current market price is used.
2. The Israeli customs occasionally contact the original manufacturer in the exporting company to get the actual price.
3. In instances where the manufacturer publishes their prices on the internet, these prices are used.
4. The current local market price minus a profit margin and all the costs associated with the product until the product reaches the consumer is another way used for appraisal.

5. If the declared price is found to be less than the actual price, the importer is ordered to pay the customs associated with the new estimate and maybe charged with tax evasion.
6. The customs authority often refers to previous shipments of similar products in the same time frame.

### **Evaluation Methods used in the Palestinian Custom Authority**

The Palestinian customs authority kept the task of collecting data about the imported products to the Palestinian area through the exporting companies, invoices and customs entries presented to it. They discovered vast discrepancies between the declared values and the actual ones. Therefore, the customs authority started to work on developing an appraisal system highlighting means of appraisals. Currently, there are no clear and specific ways that are implemented. The appraisal method can be currently described as follows:

1. In most cases a settlement is reached between the importer and the customs department as a lump sum amount paid by the importer.
2. With respect to the imported products from Arab countries which are tariff free, the Israeli customs collect the tariffs and the Palestinian Authority is obligated to reimburse the importers, however, due to lack of funds there are always long delays for the reimbursement process.
3. The Palestinian Authority tries to lessen the indirect imports by way of Israeli merchants by monitoring these products and inspecting the required tax forms exchanged between the PA and Israel called (MAKASA). Nevertheless, the indirect importing process can not be controlled completely at the present time.
4. For products under evaluation that have previously been sold in Palestine, these products will be appraised according to the previous estimates while taking into account the quantity differences and time frame.
5. Occasionally, the estimated value of the product under appraisal is based on analyzing the cost associated with its production in the exporting country (raw materials, production expenses and expected profit margin) while considering the effect of mass production on the actual cost.
6. At times the evaluation is based on the documents obtained from the importer's computer showing the various correspondences, money transfers, and any other document pertaining to the shipment.
7. Other times, the evaluation is based on the comparison with the locally produced competing product with minor adjustments.
8. The local retail price is used after deducting the Value Added Tax (VAT) and the expected profit margin which is typically 20-30% depending on the product, in addition to subtracting the cost associated with importing the product which is normally obtained from the clearing agents.

9. The importer has the right to object to the Israeli appraisal. If the Palestinian customs is convinced of the over estimation, a refund of the difference will be awarded to the importer for some of the products that have Israeli alternatives.

## **Results**

1. It is clear that the majority of imports come from Israel. The products are not necessarily Israeli products, but products from other foreign countries, whose main importers are Israeli, and the Palestinians import these products from them. This is mainly because Palestinian importers are not ready to take the risk of importing, or the quantity needed is small that does not warrant importing on their own. This process has a negative effect on the Palestinian customs' income.
2. Palestinian imports are not allowed to be sold in Israel and the Palestinian importer is required to sign an affidavit to that effect.
3. Some importers do not research the products they import before they go through the whole process, which leads to high costs associated with the product and they have a hard time marketing these products in the local market.
4. The Israeli customs deals with the Palestinian importers differently from the Israeli ones. The Palestinian importer is allowed to import using her/his Identification card number while the Israeli must be registered with the appropriate departments and have the necessary documents. Although the Palestinian importer can not recover the (VAT) paid on the products, it still costs her/him less than the officially registered importers since there are costs associated with being officially registered in addition to the taxes levied such as income taxes. Furthermore, this process leads to the inability of the Palestinian concerned authorities to monitor and regulate the importation process.
5. Because of the ease in the importation process, many inexperienced individuals turned to importing under their names and started competing with the original merchants and importers.
6. Because of the low cost of production, the imported goods have a competitive advantage over the locally produced goods.
7. The current importing process has an adverse effect on the Palestinian industry and its future because of the gradual disappearance of talent and the gradual loss of factory equipment due to lack of use.
8. The absence of clear guidelines regarding the importation process and the lack of concern to update the merchants of any new rules or regulations.
9. Many importers under-declare the value of the products, increasing the competition between the imported and local products, in addition to creating difficulties competing between one merchant to the other.

10. The lack of Palestinian appraisal standards and the fact that the appraisal process is normally done by the Israeli side for products through Jordan. Also, the products coming through the Israeli ports are rarely reappraised.
11. In some instances the Israeli customs deliberately over-estimate the value of the products and force the Palestinian importer to pay accordingly.
12. Many of the imports are low quality cheap products that do not adhere to the specifications. The Israeli side is concerned with only checking the labels without actually testing the products such as shoes, garments and accessories. In its turn, the Palestinian side does not do its job in this regard either.
13. The Palestinian imported food items stay at the ports until the testing process is complete contrary to the food items imported by the Israelis which are allowed to be properly stored in the importers warehouses.
14. In cases where the products need alterations to meet the specifications, a bank guarantee is required and must be through an Israeli bank.
15. In general, the cost endured by the Palestinian importer is more than that of the Israeli importer. This is due to the cost of security inspection, transportation to the Palestinian side requiring loading and unloading from Israeli trucks to Palestinian ones (Back to Back), in addition to the extra cost of storage at the ports due to delays.
16. There are some Palestinian companies that constantly export to the European Union Countries which requires having the status of “Approved Exporter” instead of obtaining EUR.1 certificate for each shipment.

## **Recommendations**

### **First- Recommendations Specific to the Ministry of Trade and Other Ministries**

1. Necessary course of action must be taken to end the process of individual importing under one own Identity number concurrent with the Israeli side for the proper implementation.
2. Organize the importation process through activation of the importer’s license subject to specific regulations (registered with the ministry of commerce, tax departments, chamber of commerce and other concerned authorities).
3. The Ministry of Trade must monitor and inspect the Israeli products and the products that Israel does not inspect to insure proper storage, expiration dates and suitability for human consumption.
4. Provide the proper means of supervision of the importing process beginning with import licensing and ending with inspecting the final product.
5. Set restrictions on the foreign products imported through Israeli merchants to encourage direct importing.

6. Work with the European partners to promptly pressure Israel to recognize the Palestinian- European signed Free Trade Agreements.
7. Protect the Palestinian merchants who are agents for major brands by prohibiting the Israeli agent from selling in the Palestinian market.
8. Pressure the Israeli authorities to expedite the approvals of certain products such as chemicals and telecommunication equipment.
9. Give precedence to obtaining the (GLOBAL STANDARD 1) for the Palestinian “BAR CODE”

### **Second- Recommendations Specific to the Palestinian Standard Institute Department**

1. The priority must be to reorganize the department administratively and technically and to find the proper means for the department to fulfill its role.
2. Set forth the proper procedure to determine the products that the Israeli Standard Institute does not test and generate the necessary specifications for each product and distribute these specifications to the concerned parties. This should include all the products imported from Israel.
3. Take into account the Israeli specifications when deciding the Palestinian ones so as to have conformity in the specs and expiration dates enabling competition with the products imported from Israel.
4. Revive the department’s role in inspecting the non-conformed products and help in the process of releasing the products that need alterations within certain conditions that benefit the Palestinian merchant and consumer and in turn help update the department’s specifications.
5. The use of modern testing laboratories, encourage investments in laboratories that are not available in Palestine, and work with the local universities to establish such modern laboratories.
6. Coordinate with the Ministry of Trade with respect to the products imported under the A1 & A2 where these products will be denied entrance without the department’s inspection.
7. Publish a clear and concise manual detailing the specifications, instructions, and procedures and make it accessible to the importers with periodic updates of any changes made.

### **Third- Recommendations specific to the Palestinian Customs & Excise Department**

1. Provide a clear and concise manual detailing the specifications, instructions, and procedures and make it accessible to the importers with periodic updates of any changes made.
2. Develop a system and clear methodology for the process of evaluation benefiting from other countries' experiences. The system must be based on fairness and the department should make it known to the importers and work with the importers or their agents (private sector organizations) through the following:
  - Organize seminars and workshops to inform the importers of the appraisal process.
  - Create an information center that includes information about the sizes, types, and prices of the imported products that can be used in the appraisal process.
  - The evaluation should be done by a specialized committee not individually.
  - Organize training sessions for the department's employees to educate them of the proper evaluation process.
  - Deal with the Palestinian merchants in a respectful manner throughout the evaluation process in a way insuring justice for all involved.
  - Inform the importer in writing of the method used while evaluating the product and make it official only after hearing the importer's opinion.
  - Permit the Palestinian importer to challenge the Israeli evaluation through the Palestinian customs and compare the Israeli evaluation with that of the Palestinian specifications and approve the value based on the Palestinian specifications.
3. Request from the Israeli side to accept the bank bonds through Palestinian banks.
4. Implement the system of suspending the tax levied on raw materials to be used in remanufacturing and exporting.
5. Request the Jordanian and Egyptian customs to issue the "NON-MANIPULATION" certificates imported from Europe through those countries.
6. Implement the preferred status given to the signatories of the European Free Trade Agreement and give the Palestinian exporters the status of "Approved Exporter" within specifications set forth by the Palestinian customs department.



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