

Your Guide to QIZ

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❖ DEFINITION OF QUALIFIED INDUSTRIAL ZONES (QIZs)

Areas designated by the Jordanian and Israeli authorities and approved by the U.S. government, where products of these zones can be exported duty free to the U.S., making use of the Israeli Free Trade Area Agreement with the U.S. Moreover, Jordan is not restricted by any form of quotas on its exports, thus products produced in the QIZ enter quota free and duty free.

❖ PRODUCT ELIGIBILITY FOR DUTY FREE ENTRY TO THE U.S. (Rules of Origin Requirements)

A product is entitled to duty free entry if it fulfills the following criteria:

1. It is wholly the growth, product or the manufacture if the QIZ.
2. The sum of:
 - a. The cost or value of the materials produced in the QIZ, the West Bank, the Gaza Strip or Israel, plus
 - b. The direct cost of processing operations performed in the QIZ, West Bank, the Gaza Strip, or Israel is not less than 35% of the appraised value.
3. It is imported directly from the QIZ or Israel.
4. It is substantially transformed, meaning the product is a new and different article of commerce.

Simple combination or packaging operations or mere dilution with water or another substance are not considered substantial transformation.

❖ REQUIREMENTS FOR THE QUALIFICATION OF A PRODUCT UNDER THE QIZ AGREEMENT

A product is qualified under this agreement by one of the following methods:

Method 1:

1. 11.7% content must be added by the Jordanian manufacturer in the QIZ (1/3 of the 35%).
2. 8% content must be added by the Israeli manufacturer (7% for high-tech products).
3. The remainder of the 35% can come from the QIZ, Israel, Gaza Strip, West Bank, or the U.S. (with a maximum of 15% from the U.S.) For this method only direct cost is applied to the calculation of content.

Method 2:

Jordanian and Israeli manufacturers must each contribute at least 20% of the total cost of production of the QIZ product.

For this method, both direct and indirect cost is applied to the calculation of the content.

Method 3:

Mixing and matching of the two above alternatives.

A situation where one side contributes to the content and the other side contributes to the total cost of production

For Textiles and Apparel produced under this agreement, Rules of Origin set out in section 334 of the Uruguay Round Agreement Act, 19 U.S.C. 3592 apply.

Frequently Asked Questions

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Q. Who qualifies the products?

A. A Jordanian-Israeli joint committee with two co-chairmen, each appointed by their respective government, and an observer from the United States must approve all the eligible products, satisfying the requirements of the QIZ agreement and the rules of origin thus allowing duty free entry to the U.S.

Q. What is the application for the qualification called?

A. The application is called the Qualified Product Request, referred to as QPR.

Q. To whom is the application submitted?

A. The applicant submits the application (QPR) to the designated co-chairman on a form designed and agreed upon by the committee, at the Ministry of Industry and Trade in Jordan.

Q. Who is responsible for checking each application? Is there a time limit on such a check?

A. Each co-chairman is responsible for checking and verifying the application from his side. If the application is incorrectly or not fully completed, the respective chairman will request its completion within ten days. The co-chairmen have to reach a decision within ten days of receiving all pertinent material and correctly filled forms. The chairman who receives the application has to notify the co-chairman of the application with the required information for verification from the other side.

Q. How long is the approval granted for and what are the renewal procedures?

A. After the verification of the information in the QPR, from the two sides, a Letter of Approval is issued. The approval is given for a period of 12 months. Two months prior to its expiration date, the applicants submit their renewal figures. The approval is renewed for another 12 months, after verification of the approval conditions.

Q. What happens if the production parameters vary during these 12 months?

A. The applicant should contact the Industrial Development Directorate at the Ministry of Industry and Trade I Jordan and inform them of the changes.

Q. How are the U.S. authorities notified of the qualified products?

A. The QIZ committee provides copies of the product letter of approval to the U.S. authorities.

Q. Once granted, can the approval be canceled?

A. Yes. If, during the period of approval, it is found that the enterprise whose product has been qualified does not comply with the conditions state in the QIZ agreement, the approval will be canceled. The decision to cancel the approval will be taken jointly by both chairmen, and will be reported separately to the U.S. Customs via the diplomatic channels in their respective countries.

Q. How does the U.S Customs know that a product comes from a QIZ and qualifies for duty free entry to the U.S.?

A. Once the product has been approved by the Jordanian-Israeli committee, the shipper and/or importer is allowed to put an "N" before the product's HTS number on the customer invoice. This alerts the U.S. Custom Service that the goods come from a QIZ.

Q. Can products of the QIZ be shipped through Jordan or Israel?

A. Yes, products of the QIZ may be shipped from either Jordan or Israel. Products must obtain a certificate of origin from the Ministry of Industry and Trade in Jordan indicating that it is a product of the QIZ.

Q. Are there any other means to export to the U.S. duty free besides the QIZ?

A. Yes. Jordan is part of the Generalized System of Preferences (GSP). This system allows a number of products duty-free access to the U.S. market. Jordan also signed a Free Trade Area (FTA) agreement with the U.S. Under the FTA, tariffs are phased out over a period of time reaching a maximum of ten year, starting in 2001. Thus, each product should be checked according to its HTS code for custom duties under FTA and eligibility for GSP. Both GSP and FTA rules of origin are 35% Jordanian content.

However, Jordan is a member of the WTO; therefore, custom duties under NTR (Normal Trade Relations; i.e., fellow member of WTO) might also be competitive. This should also be checked according to the HTS code. Examples of some products that can be exported duty free to the U.S. under various agreements are:

Under GSP:

Bath salts, “Split System” air conditioning, ceramic tiles, ceramic sinks, ceramic washbasins, ceramic tableware and kitchenware, electric motors, electric generators, hair dryers, magnetic tapes, video tapes, television sets with videos, television antennas, glasses’ frames, sunglasses, active yeast, mixed spices.

Under NTR:

Shampoos, salts, soaps, television sets, fax machines, magnetic tape recorders, video recorders radios, television sets, stuffed toys, wooden furniture.*

Q. How do I find the Harmonized Tariff Schedule (HTS) number for a commodity?

A. The HTS numbers for the United States are available from the Data Web of the U.S. International Trade Commission, (www.dataweb.usitc.gov) Click on the 2002 ITC Tariff Database link. This will take you to a page where you can enter the HTS number for the product of interest, or to find the number, enter the name of the product. After entering number or the name of the product, a page with a detail button will appear. Click on the button to display a list of potentially applicable HTS numbers and their descriptions. You can also get information about the information about the eligibility of the product for duty free entry or customs reductions under various agreements.*

**For further information about HTS codes, custom duties and eligibility under different agreements please contact the Industrial Development Directorate at the Ministry of Industry and Trade.*

Q. What kinds of industries are in the QIZ?

A. Currently, most of the qualified products in the QIZs are garments, luggage, and textiles. The fact that Jordan is not restricted by any form of quotas on its exports to the U.S. – added to the fact that products of these zones can be exported duty free – has attracted garment and textile manufacturers, since exports of these products to the U.S. are usually subjected to quotas duties.

Q. Are there other unexplored investment opportunities in these zones?

A. the footwear industry is an unexplored opportunity. These products are subject to custom duties up to 47% under NTR, thus exporting them from the QIZ will give them a competitive edge.

Q. Is profit included in appraised value?

A. Generally, the appraised value of the merchandise imported into the U.S. is the transaction value of the goods. The transaction value is the price actually paid or payable by the buyer to the seller for the merchandise when sold for exportation to the U.S., plus other expenses, such as packaging costs incurred by the buyer, when not included in the original price.

Q. Are the costs involved in transporting materials (such as cut apparel components) from Israel to the QIZ or the cost of transporting finished goods from the QIZ to the port of exportation in Jordan or Israel (for shipping to the U.S.) included in the “direct cost of processing?” Are these costs included in the appraised value?

A. The cost of transporting the materials to the QIZ may be counted toward satisfying the 35% value content requirements as part of the cost of “materials produced” but not as part of “direct cost of processing.” The cost involved in transporting the finished goods from the QIZ to the port in Jordan or Israel for shipment to the U.S. generally would not be included in the appraise value of the imported merchandise.

Q. Regarding the “double substantial transformation” in the apparel industry, what manufacturing operations qualify as substantial transformation operations? Do both transformations have to take place in the same country?

A. An example of a double substantial transformation in the apparel industry is cutting the fabric to shape, which results in garment components, and the subsequent assembly of these components by sewing to produce a finished product. The double substantial transformation does not need to take place in a single country but may take place in more than one country, where cutting is done in one and sewing is done in the other.

Q. If the manufacturer used foreign fabric (from country x) in producing the finished products, is the freight, insurance, packing and other costs incurred in transporting the material from country x to the QIZ manufacturer counted towards satisfying the 35% requirement?

A. If the fabric is subjected to double substantial transformation in the QIZ, then, freight, insurance, packing and all the other costs incurred in transporting the material to the manufacturer's plant may be counted towards satisfying the 35% requirement. However, if the fabric is subjected to only one substantial transformation, then its cost or value could not be counted towards the 35% requirement whether as "material produced" or as "direct cost of processing."

Examples

Examples

Example 1

Fabric woven in Pakistan, shipped to the QIZ where the fabric is cut to shape to create components for polo shirts. The components are then assembled in the QIZ to produce finished shirts, which are classified under the HTS code 6110.20.20. The "direct labor and overhead costs" are provided for the QIZ operations if cutting, preparation of collars and cuffs, assembly of shirt, and packaging the shirt. The cost of the Pakistani fabric (which includes shipping costs to the QIZ manufacturer) and cost of the trims (threads, labels, bags, boxes, etc.) made in Israel are also provided.

The country of origin of the shirts is the QIZ, as per textiles as apparel rules of origin.

How is the 35% QIZ value content calculated, in the mentioned example?

Since the Pakistani fabric is subjected to double substantial transformation in the QIZ (cutting and assembly), its cost or value may be accounted towards satisfying the 35% requirement. This would be the price paid for the Pakistani fabric by the QIZ manufacturer plus, if not included in that price, the cost to transport the fabric to the QIZ manufacturing facility. The cost or value of the threads and labels, which are of Israeli origin, could also be counted towards the 35% requirement because they are also subjected to a double substantial transformation (one in Israel when they are produced and one in the QIZ when they are incorporated into the finished garment). The cost of the packaging materials made in Israel may also be counted towards the 35% requirement.

Example 2

Fabric woven in Pakistan is shipped to Israel where the fabric is cut to shape to create components for a basic T-shirt. The components are assembled by sewing to create the finished shirt in the QIZ.

The country of origin of the T-shirt is the country in which it was wholly assembled – the QIZ Jordan.

The costs, which may or may not be counted towards satisfying the 35% value content requirement set forth in example 1, would apply equally to this example. As the Pakistani fabric is subjected to a double substantial transformation (one in Israel when cut to shape and one in the QIZ when assembled), its cost may be attributed towards the 35% content requirement.

Rules of Origin of Some Textile and Apparel Products

A textile or an apparel product is considered a product or a manufacture of Jordan, if:

A. Yarn, Thread, Twine, Cordage, Rope, or Braiding:

The constituent fibers are spun in Jordan (for natural yarns), or the continuous filaments are extruded in Jordan (for synthetic yarns).

B. Fabric:

The fibers, filaments, or yarns are woven, knitted, needled or transformed by any other fabric-making process to produce a fabric in Jordan.

C. Apparel, Clothing Product:

It is assembled by sewing and/or tailoring of the cut component pieces of fabric into a finished garment in Jordan.

D. Knit to Shape Products:

The major parts that are used in the finished product are knitted or crocheted to shape in Jordan.

E. Handkerchiefs, Shawls, Bed Linen, Table Linen, Towels, Labels, and Badges:

The fabric from which these products are produced is produced in Jordan starting from yarn. The reason for this is that these articles are generally

complete for their intended commercial use once the fabric is formed. Only minor finishing operations are usually required to complete these articles (cutting to length or width or hemming).

Cost of Production

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Which items considered under Direct Cost of Production and Indirect Cost of Production?

❖ **Items under Direct Cost of Production**

- ✚ Salaries, wages, and fringe benefits of production workers.
- ✚ Utilities to the extent actually used in the production process.
- ✚ Salary and fringe benefits of the plant manager/general manager/general foreman to the extent he performs functions of first-line production.
- ✚ Payroll taxes for direct labor.
- ✚ Groups insurance for employees.
- ✚ Labor cost of shipping and receiving employees.
- ✚ Depreciation of items used in production, and on laboratory equipment.
- ✚ Building rent on that portion of building space directly used in the processing operations, but not for space.
- ✚ Wages of drivers who transport raw materials from the border to the plant.
- ✚ Property taxes directly attributed to the plant space used in the production process.
- ✚ Depreciation of equipment and machinery used in the production process.
- ✚ Inland and international freight costs for transporting materials to a QIZ for use in the manufacture of an eligible article.
- ✚ Cost of maintenance of production equipment, cost of repair and modification.
- ✚ Packing costs. (Plastic bags, paper, and other U.S. produced packaging materials).

- ✚ Research, development and design engineering costs directly applicable to the specific merchandise.

❖ **Items under Indirect Cost of Production**

- ✚ Salaries of personal manager and accounting and payroll departments.
- ✚ Telephone expense, computer services for payroll, and janitorial supplies.
- ✚ General administrative costs, auto expense, office supplies, telephone, postage, legal expense, casualty and liability insurance, janitorial service and supplies, and accounting department.
- ✚ Selling expenses, administrative expenses, and finance charges.
- ✚ Cost of Personnel Officer (labor relations officer).
- ✚ Interest expense.
- ✚ Building space used for personnel offices, accounting departments and other administrative functions.
- ✚ Telephone expenses incurred by reason of daily reporting on production, inventories, and similar matters.
- ✚ Office supplies.
- ✚ Cost of security guards.

For a detailed list of direct and indirect costs of production, please contact the Industrial Development Directorate at the Ministry of Industry and Trade www.mit.gov.jo

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