

(b) with respect to Israel the territory where its customs laws are applied;

2. The rights and obligations of the Parties relating to the observance of this Agreement by regional and local governments shall be governed by Article XXIV:12 of the GATT 1994.

PART TWO

TRADE IN GOODS

Chapter Two

Tariff Elimination and Related Matters

TARIFF ELIMINATION

Article 2.1: Tariff Elimination

1. Except as otherwise provided in this Agreement, neither Party may increase any existing customs duty, or adopt any customs duty, or any charge of equivalent effect on an originating good to which paragraph 2 applies.

2. Except as otherwise provided in this Agreement, each Party shall,

(a) by January 1, 1997, eliminate its customs duties on originating goods listed in Chapters 25 to 97 of the Harmonized System with the exception of the tariff items listed in Annex 2.1.1 and

(b) in the case of originating goods listed in Chapters 1 to 24 of the Harmonized System eliminate or reduce duties on goods in accordance with Annex 2.1.2.

RELATED MATTERS

Article 2.2: Customs Duties: Repair and Alteration

1. Neither Party may apply a customs duty to a good, regardless of its origin, that re-enters its territory after that good has been exported from its territory to the territory of the other Party for repair or alteration, regardless of whether such repair or alteration could be performed in its territory.

2. Neither Party may apply a customs duty to a good, regardless of its origin, imported temporarily from the territory of the other Party for repair or alteration.

3. The Parties shall comply with the requirements set out in Annex 2.2.3, as amended by the Parties from time to time, to verify that the repair or alteration has been performed in the territory of one of the Parties.

Article 2.3: Definitions

For purposes of this Chapter:

customs duty includes any customs or import duty and a charge of any kind imposed in connection with the importation of a good, including any form of surtax or surcharge in connection with such importation, but does not include any:

(a) charge equivalent to an internal tax imposed consistently with Article III:2 of the GATT 1994 as specified in, or any equivalent provision of a successor agreement to which both Parties are party, in respect of like, directly competitive or substitutable goods of the Party, or in respect of goods from which the imported good has been manufactured or produced in whole or in part;

(b) antidumping or countervailing duty that is applied in accordance with the WTO Agreement, including the GATT 1994 pursuant to a Party's domestic law; and

(c) fee or other charge in connection with importation commensurate with the cost of services rendered.

existing customs duty means the rate of duty applicable to imports from the other Party on January 1, 1996.

repair or alteration does not include an operation or process that either destroys the essential characteristics of a good or creates a new or commercially different good.

Chapter Three Rules of Origin

Rules for Originating Goods:

Article 3.1: Basic Rules for Originating Goods

Except as otherwise provided in this Chapter, a good shall originate in the territory of a Party where:

(a) the good is wholly obtained or produced entirely in the territory of one or both of the Parties, as defined in Article 3.13;

(b) each of the non-originating materials used in the production of the good undergoes an applicable change in tariff classification set out in the rule for that good in Annex 3.1, and the good satisfies any other applicable requirement set out in that rule, as a result of production occurring entirely in the territory of one or both of the Parties;

(c) the good satisfies, as a result of production occurring entirely in the territory of one or both of the Parties, the applicable requirements set out in the rule for the good in Annex 3.1 where no change in tariff classification is required in that rule;

(d) the good is produced entirely in the territory of one or both of the Parties exclusively from originating materials; or