

## Guide to Palestine – Israel Economic and Trade Relations

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## 1 Country Profile:

Palestine is located on the East coast of the Mediterranean Sea, West of Jordan and to the south of Lebanon<sup>1</sup>. According to the Palestinian Central Bureau of Statistics (PCBS), in 2007, the total population in the West Bank & Gaza is 3,761,646. Since 1967, Palestinians in the West Bank, east Jerusalem and Gaza have lived under Israeli occupation. The conflict remains as intense and intractable as ever. Despite the relatively limited economic policy options accorded by Israeli-Palestinian accords since 1994 and the lack of political stability, the Palestinian Authority (PA) during that time succeeded in establishing a functioning government with a national mandate that was able to create much of the needed institutional and regulatory framework for stimulating economic growth in the Palestinian Territories (PT). But following the second Intifada (Uprising)<sup>2</sup> in 2000, those institutions were destroyed and became dysfunctional due to the closure and the continuous Israeli invasion to the Palestinian Territories. Law and order was not functional and major Palestinian Ministries were impotent towards implementing either policies or their day to day work. For example, obtaining import or export Licence was done through the Palestinian Ministry of National Economy, but due to the Israeli disconnection and disposition, this Ministry has lost its image and Israel refused to accept their involvement, which lead the importers/exporters to surpass them and apply directly to the Israeli Ministries. This has prolonged the process and imposed a negative impact on the Palestinian Economy as a whole.

Despite the numerous economic and development projects that were initiated in 1994, the PT are still totally dependent on support from outside. Palestinian economy is dominated by services, while industry remains underdeveloped and at a low level, and the agricultural sector from the lack or restrictive access to natural resources.

The main reason behind the current economic crisis is the general **closure and separation policy** imposed by Israel in March 1993, which has never been lifted ever since? In violation of international law, **the closure is used as collective punishment against the Palestinian people, preventing PT residents from entering Jerusalem or Israel unless they hold an Israeli-issued permit**. Any sustained Palestinian economic recovery will ultimately require the dismantling of the closure system.

PCBS data suggest that **per capita GNI** declined by 15% and **GDP** by 6.6% in 2006, while others estimate worse declines (e.g., the World Bank and IMF suggest an 8% decline).

**Following the Hamas election victory in January 2006, international aid to the PA was widely suspended and Israel stopped the transfer of Palestinian VATs**, leading to an unprecedented deterioration of the local economy, especially in Gaza. According to a July 2007 report by the UNDP, a majority of Palestinians (58%) live below the poverty line, and about half of them live in extreme poverty. A majority of Palestinians (about 60%) reported a decline in their household incomes in 2006–07.

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<sup>1</sup> [www.pipa.gov.ps/import\\_laws.asp](http://www.pipa.gov.ps/import_laws.asp)

<sup>2</sup> Following Israeli Minister Sharon visit to Aqsa Mosque in 2000

**The PA has been facing a severe liquidity crisis since early 2006.** It is estimated that budgetary resources fell by over a third in 2006 compared to 2005 (from \$2.20 billion to \$1.45 billion), despite a doubling of external budgetary assistance, leading to a 30% contraction in cash spending<sup>3</sup>

#### Key Indicators of the Palestinian Economy (Excl. Jerusalem, selected years)

	1995	1999	2001	2002 <sup>1</sup>	2003 <sup>1</sup>	2004 <sup>1</sup>	2005 <sup>2</sup>	2006 <sup>3</sup>
GDP (US\$ million)	4,511	4,261	3,816	3,556	3,995	4,248	4,443	4,150
GNI (US\$ million)	3,699	4,932	4,143	3,835	4,251	4,884	5,119	4,522
GDP per capita (US\$)	1,380	1,478	1,229	1,146	1,221	1,264	1,258	1,134
GNI per capita (US\$)	1,583	1,736	1,335	1,215	1,298	1,441	1,452	1,236
Real GDP growth (%)	6.1	8.6	-6.6	-3.8	8.5	6.3	4.9	-6.6
Real GNI per capita growth (%)	7.9	4.1	-16.1	-8.9	6.2	1.5	-1	-14.9
Domestic expenditure (% of GDP)	151.8	163.0	143.3	145.8	150.2	150.7	154.5	173
Inflation (CPI - annual %)	10.8	5.5	1.2	5.7	4.4	3.0	3.6	3.6
Poverty rate <sup>4</sup> (% of population)		20	37	51	47	48		
West Bank:		13	27	41	37	38		
Gaza Strip:		32	54	68	64	65		

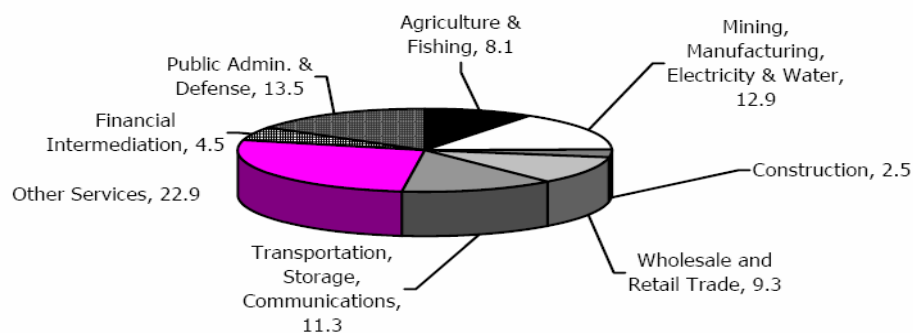
<sup>1</sup> Revised; <sup>2</sup> preliminary; <sup>3</sup> estimates <sup>4</sup> World Bank estimates

Source: UNCTAD. Report on UNCTAD's Assistance to the Palestinian People. July 2007, except:

<sup>1</sup> poverty rate: World Bank estimates.

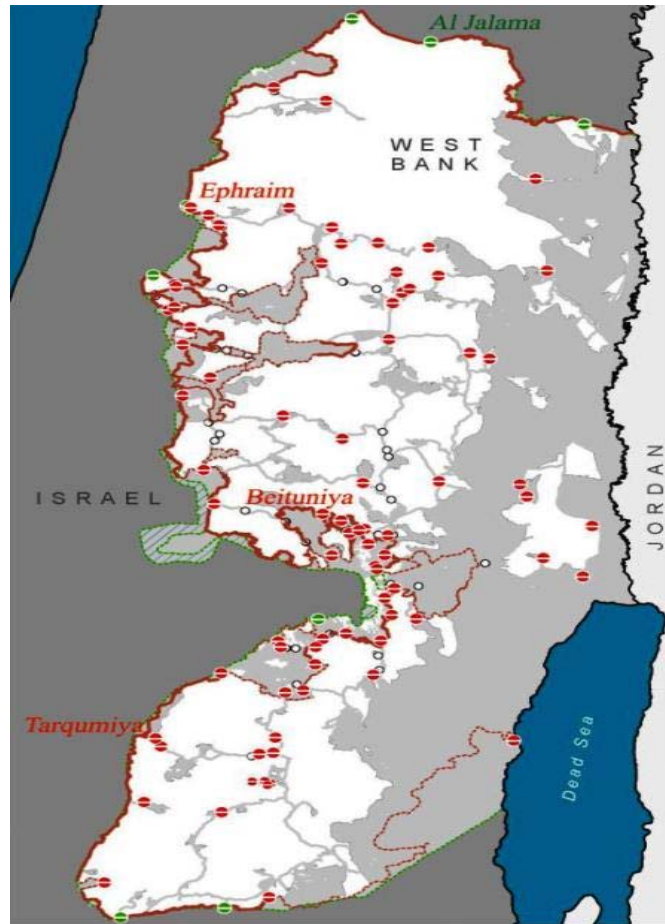
- According to the **PCBS**, the relative **poverty line** and the absolute poverty line for a six-member household in the Palestinian Territory in 2006 stood at NIS 2,300 (US\$ 518) and NIS 1,837 (US\$ 414) respectively.
- **Poverty** has reached unprecedented levels, with around 53% of households (with an average size of six members) living below the national poverty line of \$385 per household per month in 2005. According to the World Bank, an estimated 71% of public employees fall under the poverty line based on income estimates, and 46% do not have enough food to meet basic needs. The number of people in deep poverty nearly doubled in 2006, to more than 1 million (*OCHA, 2007*).
- The World Bank estimates that the **separation barrier** costs the Palestinian economy 2-3 percentage points of GDP annually! (World Bank, West Bank and Gaza Investment Climate Assessment, March 2007).

#### WBGS Economic Structure, 2006 estimates (% of GDP)



Source: PCBS, *Quarterly National Accounts*, 2007 (Jerusalem excluded).

<sup>3</sup> IMF. *Macroeconomic and Fiscal Developments in the West Bank and Gaza*, Sept. 2007.



Source: Ocha (West Bank map. Red spots are checkpoints and separation barrier)

## 2 Introduction

The emerging State of Palestine has its own problems that are aggravated by the Israeli occupation and its current land-locked<sup>4</sup> status and, as such, complete dependence on the utilization of neighbouring transport facilities for participation in international trade. However, in contrast to other land-locked states, whereby access to international markets is obstructed by the absence of seashore, Palestine's poor market access conditions are dictated by the absence of a national seaport, airport and total control of its national borders, not just the absence of coastal fronts. **In addition, Israeli control of the borders and transport routes causes Palestinian trade to be totally dependent on political considerations and developments in the peace process and in the region.** The security freakiness and sometimes the total isolation and strict measures that the Israeli army imposes on the West Bank, makes the movement of cars or people almost impossible.

At present, Palestinian enterprises are mainly dependent on Israeli port facilities for export and import activities. Palestinian traders use mainly Israel's Ashdod and Haifa ports, as

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<sup>4</sup> UNCTAD

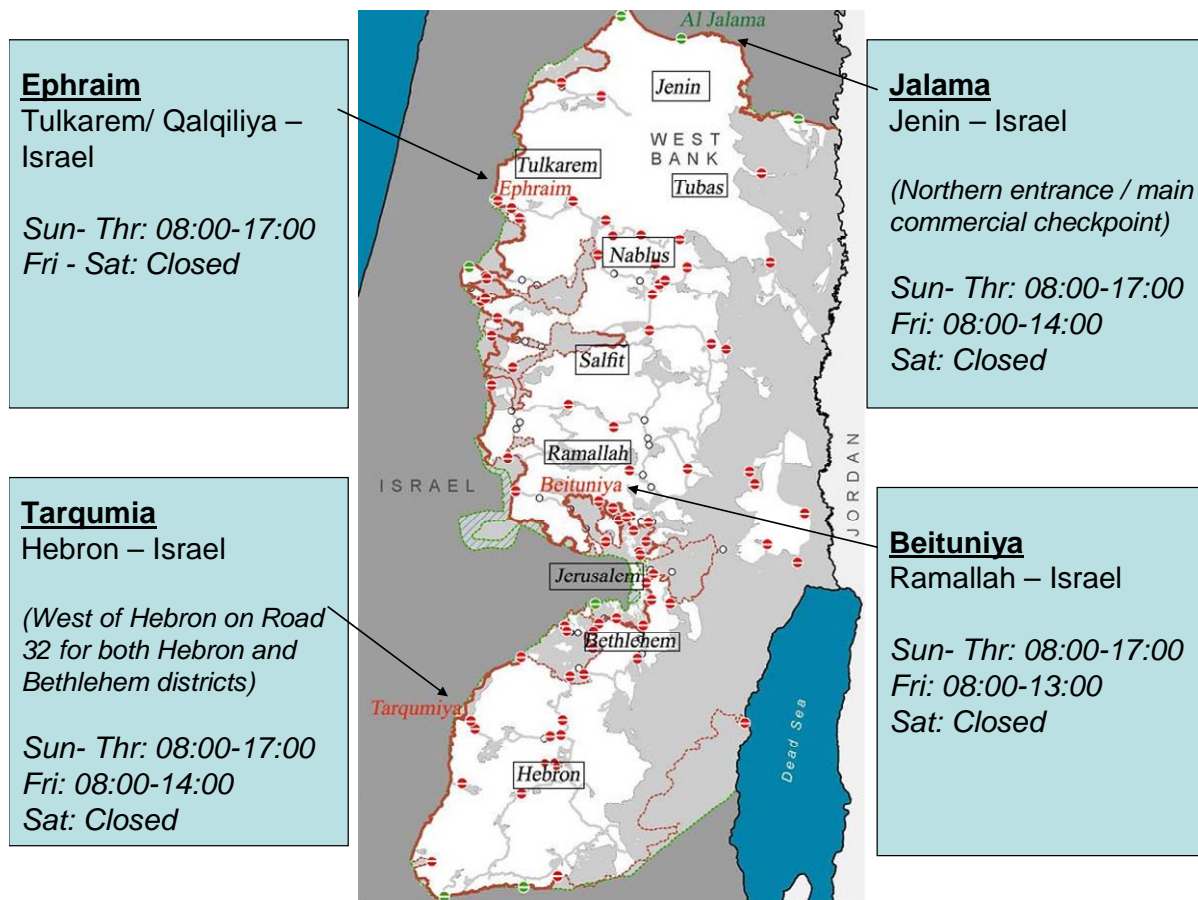
well as Ben-Gurion airport, for both direct and indirect imports and for most exports. Only limited merchandise trade flows through the Allenby and Rafah (Palestinian Authority-PA) border crossings with Jordan and Egypt, respectively, and Nitzana/Auja Israel-Egyptian border crossing. Moreover, around one-third of total Palestinian imports from the rest of the world (i.e. excluding Israel) is registered as destined to the Palestinian territory while Israeli shippers, who deal with the two economies as one market, indirectly imports the rest.

**Commercial crossing points /borders in the West Bank & Gaza are a key factor behind today's economic crisis in the area.** The fragmentation of Palestinian land combined with the Israeli policy of closure has eroded the economic viability of the Palestinian private sector. **The commercial borders' system has become more complicated and has increasingly channelled Palestinian traffic onto smaller, limited roads for the passage of cargo and residents.** The Palestinian-Israeli borders, like many other borders, shapes the relations of production by regulating the flow of commodities into and out of the Palestinian cities; accordingly, a combination of checkpoints, physical obstacles and a permit system has cut the West Bank into distinct areas – in addition to East Jerusalem; isolating Palestinians and restricting their access to active commerce. Consequently, restriction on the movement of goods to and from the West Bank is at the heart of the Palestinian economic decline. Certain roads are, for the most part, off limits to Palestinians, requiring them to take longer routes to reach their destinations. For example, a journey that used to take an hour drive, it takes now around four hours and sometimes more depending on the soldier's mood, if these cars unluckily encountered an Israeli flying checkpoint on the way. **The end result is a shrinking economy that has become more localized, as sections of the West Bank get cut off from each other.**

### 3 Border Crossings

#### Commercial Borders in the West Bank & Gaza

Commercial Borders<sup>5</sup> : The borders between Israel and PT where an exchange of goods take place.



It is well known that the Israeli authorities claim that the crossing points and the closure regime are to protect its citizens from terrorist attacks. However, these actions have also divided the sections of the West Bank from each other and both importers and exporters struggle to pass through an increasing array of obstacles just to transfer their goods from one city to another. (see the number of red spots on the map)

Movement within and in and out of the West Bank is controlled by numerous checkpoints as indicated in the above map, roadblocks, earth mounds and gates. These manned and unmanned physical barriers combined with the Barrier and complex permit regime, restrict the movement of around 2.4 million Palestinians to basic services, jobs, places of worship and even to their families in the West Bank<sup>6</sup>

<sup>5</sup> Source: Ocha, World Bank and Palestinian Shippers' Council (PSC)

<sup>6</sup> Ocha 2007

## Gaza<sup>7</sup>

In late 2003, with the roadmap<sup>8</sup> for peace stalled, Israeli PM Ariel Sharon announced his intention to unilaterally withdraw Israeli forces and to evacuate four Israeli settlements from Gaza and a small section of the northern West Bank (Samaria). This "strategic retreat" would allow Israel to conserve resources being wasted on the settlements, reduce friction with Palestinians, and reduce pressure on Israel to negotiate a settlement on unfavourable terms. This surprise move by the right-wing "father" of Israeli settlement activity may also have been aimed at ending the Oslo Peace Process, and giving Israel a free hand to operate against Gaza.

The main points of the disengagement plan are:

- Israel withdraws from Gaza and four settlements in the northern West Bank ('Samaria')(Jewish name for the area).
- The settlements remain intact for use of the Palestinians if accepted by an appropriated agency. (they were destroyed)
- Israel retains, for now, temporary control of the Philadelphi road that separates Egypt from Gaza, in order to patrol the border. (Israel wiped out all the houses along that road).
- The Palestinian airport and the port in Dahanieh remain closed.
- The Erez joint industrial area which employs about 4,000 Palestinians will continue to operate. The Erez border crossing will be moved and rebuilt on the Israeli side. ( This has never took place)
- The borders are not final. Final borders will be negotiated with the Palestinians when they have fulfilled the conditions of the roadmap\_for peace (controlling terror). The roadmap remains the basis for peace and Israel will not accept it.

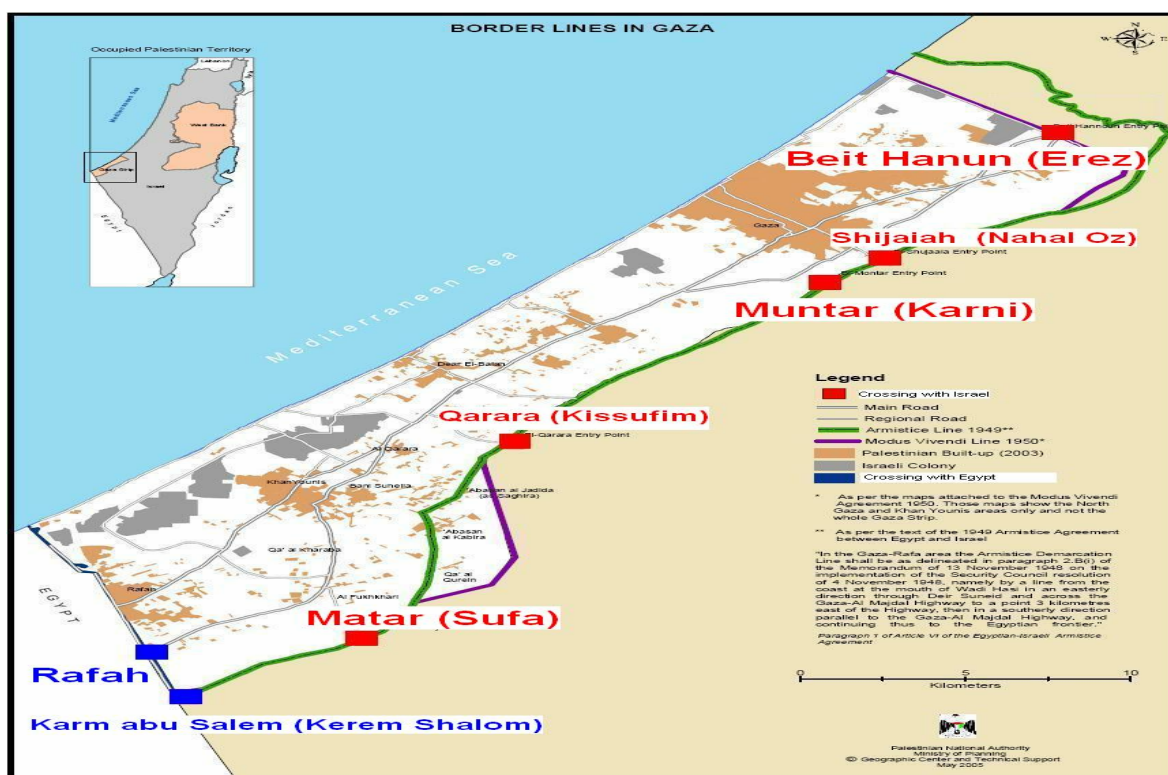
The Plan was never accepted by the Palestinians or by the Arab World despite America's blessing. This plan has put Gaza in a bigger prison, where movement within Gaza was no longer an Israeli responsibility, but borders with Israel were under the total control of the Israeli Army as indicated in the green line in the below map. Israel had total control of the flow of goods through the four major commercial crossings.

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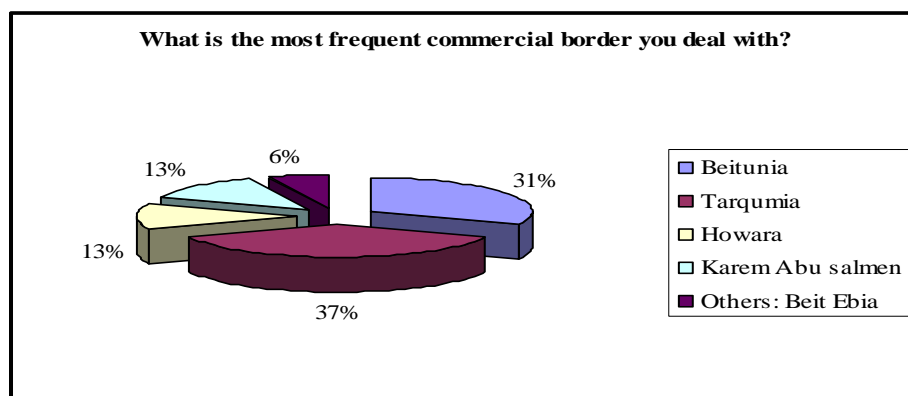
<sup>7</sup> Source: [www.mideastweb.org/disengagement.htm](http://www.mideastweb.org/disengagement.htm)

<sup>8</sup> The "**road map**" for peace is a plan to resolve the Israeli-Palestinian conflict proposed by a "quartet" of international entities: the United States, the European Union, Russia, and the United Nations. The principles of the plan were first outlined by U.S. President George W. Bush in a speech on June 24, 2002, in which he called for an independent Palestinian state living side by side with Israel in peace: "The Roadmap represents a starting point toward achieving the vision of two states, a secure State of Israel and a viable, peaceful, democratic Palestine. It is the framework for progress towards lasting peace and security in the Middle East.





The following graph indicates the most frequent commercial borders used by the Palestinian importers and exporters to transfer goods in the West Bank<sup>9</sup>.



Beituniya border is the most frequent commercial border used in the West Bank, which is situated in southern Ramallah and Tarqumiya border is situated in western Hebron (See Map on page 7). Given the feedback from Palestinian Importers/Exporters, they all face significant physical obstacles at the all Commercial Borders; including problems which completely prevent goods from passing smoothly. Although the severity of the restrictions differs from one commercial border to another and from time to time, almost all commercial borders share the followings:

<sup>9</sup> Survey conducted by PSC

- Some Commercial Borders **operate under the supervision of the Israeli Army**, which makes their operation to be unpredictable and depends on the soldier's mood. Beituniya is a good example.
- Commercial vehicles that carry goods to the PT area are sometimes allowed to cross to the Palestinian side only if they **have special permits**; which are very difficult and sometimes impossible to obtain.
- **The prolonged checks and searches carried out by soldiers on Palestinian destined goods** that were already inspected thoroughly at ports before clearance. Israeli products and Israeli companies get a priority and a privilege at the border crossings and will go through without inspection. For example the Israeli dairy company was always able to maintain the flow of its product through all border crossings, including Gaza, where Palestinian Pharmaceutical companies were not allowed to transfer any of their products into Gaza.
- **The working capacity of these commercial Borders is not enough**, which causes long waiting hours due to congestion and long queues; the borders would have to open 24 hours if to suffice for the demand of the Palestinian market. The Palestinians have never had a saying in opening and closing time. **During seasonal time such as the Muslim and Christian feasts, opening and closing time should be adjusted to serve the market demand.**
- **The long routes and the increasing number of major and flying checkpoints** has increase the transport **time and cost** to almost triple;
- Goods arriving at Israeli ports or airports can only be transported to the commercial border through an Israeli car, where the goods are unloaded into a platform for security check and then loaded again into a Palestinian car to transport the goods to its final destination. **This operation is called Back-to-back and it causes damages and losses to these goods.**
- The Back – to – back process can only take place if the two cars from both sides are the border and have registered to receive goods. Delays still take place even if the two cars are there on time.
- Rejection of goods entry although all documentations are completed; another example of the **borders unpredictability**. Sometimes to give Israeli goods a priority and sometimes to annoy the importers.
- Unloading goods for checking which can take hours. In certain cases pharmaceutical goods were left exposed in the sun for hours since the soldiers had no idea on how to deal with them.
- The **Israeli customs prior to clearing Palestinian goods** has to **allocate a Commercial crossing for the goods to enter PT area**. Therefore, when the truck arrives at the commercial crossing, a turn number will be assigned without a time frame of entry. The Israeli border authority then decides what to let in and when. Sometimes a truck arrives at 8am and does not do the exchange until 12pm.
- **Restrictions on Pallets size, which increases the cost on the importer** and limiting the Pallet to one product only due to the limitation of the laser machine at the crossing;
- **The requirements and conditions at all Borders might change without any notice or formal agreement.**

This dense network of fixed borders depends mainly on reserving a turn to move goods in or out of cities. The procedural mechanism on the borders can be summarized for imported and exported goods in the following four areas: **(The element of unpredictability remain high in all cases)**

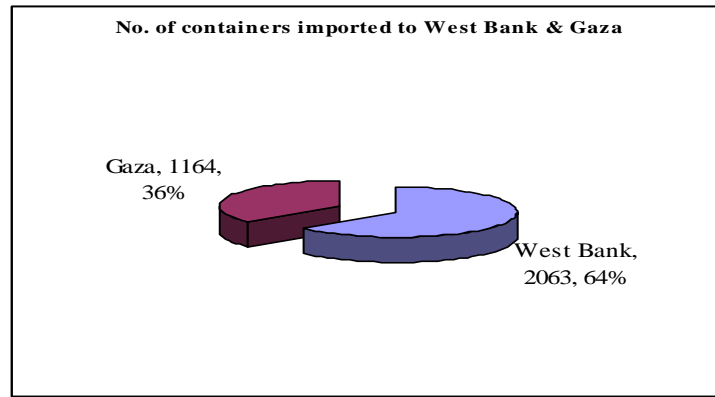
- **Mechanism:** mainly, reserving a turn by waiting for hours in the queue. Security check is conducted by the soldiers and permits are needed for the drivers.
- **Working hours:** mainly, from 8.00am till 4.00pm; which is not enough, borders should open 24 hours or at least until midnight.
- **Lead time:** The average time needed to bring products from the port to their final destination within the West Bank, ranges between four hours to one day.
- **Needed documentations:**
  - Certificate from the Ministry of Agriculture. For example, in the case of exported flowers, strawberries or perishables.
  - Certificate from the Ministry of Health, such as pharmaceutical products, or medical instruments to hospitals.
  - Purchase or Sales Invoices indicating the origin of the product and its final destination.
  - Delivery Order, if the product is moving amongst PT cities or is transferred to a company's warehouse in Gaza.
  - Customs report "Richimon", if the goods have been cleared through Israeli customs.
  - Unified invoice, that allows importer to claim VAT. A proof of purchase or sales from or to a non Palestinian trader. (Between Israel and Palestine only).

In 2007 around 3228<sup>10</sup> containers per month are imported to the West Bank & Gaza; around 1164 containers are destined to Gaza (one third of the total number) and 2063 containers are destined to West Bank.

Taking into account all the above restrictions, if the cost of importing a container was increased by \$50 due to these obstacles the Palestinian economy will loss around (\$50x3228x12 Months) \$2,000,000 per year. But surely the above obstacles impose a higher cost than just \$50.

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<sup>10</sup> According to Ashdod and Haifa ports information. Peak periods can reach to 5000 containers per month.



## 4 International Trade Agreements

### 4.1 The Paris Protocol

The Paris Protocol is the framework establishing the interim-period economic relations between Israel and the Palestinian Authority. The Protocol was signed in April 1994 and is part of Oslo<sup>11</sup>, which was signed a few days later. **The model established in the Protocol is known as a "customs union," the primary characteristic of which is the absence of economic borders between members of the union at the time of the agreement (this is not the case now).** The practical effect of selecting this model was preservation of the economic relations that had existed until then, i.e., a Palestinian economy integrated in and dependent on the Israeli economy.

Regarding goods from other countries, **the Protocol established a joint external border for the interim period (There is no such committee at the moment).** Israel collects the import taxes on the goods and transfers to the Palestinian Authority the taxes on goods that were intended for the Palestinian Territories. **The Protocol further provides that Israel may unilaterally establish and change the taxes imposed on imported goods.** Regarding V.A.T., Israel transfers to the Palestinian Authority, in accordance with a monthly accounting, revenues collected for goods and services sold in Israel and intended for consumption in the Palestinian Territories. **During 2006, Israeli authorities withheld, for the second time since 2002, more than \$800 million in Palestinian tax revenue collected on behalf of the PA (OCHA, 2007). This action continued during 2008, which pushed Prime Minister Fayyad to write a letter to the international community asking them to urge Israel to pay the due VAT money to the Palestinians on time and without delay.**

This kind of relationship - unlike economic separation or establishment of a free-trade area - was preferable to Israel, which did not want to establish an economic border with

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<sup>11</sup>On September 13, 1993 representatives of the State of Israel and the Palestine Liberation Organization (PLO) signed the "Declaration of Principles On Interim Self-Government Arrangements", a document also known as the "Oslo Accords".[http://palestinefacts.org/pf\\_1991to\\_now\\_oslo\\_accords.php](http://palestinefacts.org/pf_1991to_now_oslo_accords.php)

the Palestinian Authority, an act that would give a clear flavour of sovereignty and create a binding precedent on the eve of the final status stage. The Palestinian Authority had no choice but to accept the model set forth in the Protocol, because Israel made acceptance a condition for Israel's continuing to allow Palestinians to work in Israel. Israel imposed the condition at a time that the Palestinian Authority was unable to provide employment within the autonomous areas to the tens of thousands of Palestinians working in Israel.

**The Paris Protocol transferred to the Palestinian Authority several powers relating to economic policy, such as the authority to impose direct and indirect taxes, set industrial policy, establish a monetary authority to regulate financial mediation, and employ persons in the public sector. The Protocol also stipulated the gradual cancellation of export restrictions on agricultural produce exported from the Palestinian Territories to Israel that had been in effect until then and protected Israeli farmers from competition.**

The relations established in the Paris Protocol emphasized the disparity in power that had existed between the two sides from the start. The disparity was clearly evident during the first four years of implementation of the Protocol, which took place at the time (unexpected at the time of its signing) of suicide attacks and imposition of prolonged comprehensive closure of the Palestinian Territories.

**The “customs union” agreed upon gave Israel sole control over the external borders and collection of import taxes and V.A.T., thus enabling Israel to delay transfer of taxes that it collected for the Palestinian Authority, or threaten delay in transferring the monies, as a means of pressure or punishment, which indeed occurred in first the summer of 1997 and continues to occur until this date**

According to the agreement, Palestinian trade with other countries would continue to be handled through Israeli sea and air ports, or through border crossings between the Palestinian Authority, Jordan and Egypt, which are also controlled by Israel. The necessity of obtaining Israeli approval to conduct trade leads to substantial economic loss to Palestinians whenever Israel imposes a comprehensive closure on the Palestinian Territories and cancels all the relevant permits, as was often the case between 1994 and 1997 and 2000 - 2008.

Although the “customs union” framework was intended to ensure free flow of workers, the Paris Protocol did not expressly prevent Israel from prohibiting workers to enter its territory. During the first four years of the Protocol's implementation, Israel imposed prolonged comprehensive closures on the Palestinian Territories, causing a significant drop in income of Palestinians from employment in Israel and a substantial increase in poverty and unemployment<sup>12</sup>.

According to PCBS data, **146,000 Palestinians** (116,000 from the West Bank, including East Jerusalem, and 30,000 from Gaza) **worked in Israel**, including industrial estates and settlements, during the third quarter 2000. Since then, numerous Palestinian workers have lost their jobs in Israel as a result of Israel's closure policy.

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<sup>12</sup> [www.btselem.org/english/freedom\\_of\\_movement/paris\\_protocol.asp](http://www.btselem.org/english/freedom_of_movement/paris_protocol.asp)

By **Sept. 2007**, they numbered **66,806**, one third of which held an Israeli Identity (Mainly Jerusalemites) or foreign passports. The balance in the number of workers in Israel from the West Bank - excl. East Jerusalem - are believed to be divided roughly equally between those holding work permits and those working illegally<sup>13</sup>..

- Since April 2006, **labour flows from Gaza** have been non-existent, while an estimated 15-20,000 of the total Palestinian labour flows have been “illegal” workers, i.e. those without permits. According to a 2007 B’Tselem report, Israeli Border Police alone apprehended 148,417 Palestinians **without a permit** in 2005, in addition to a further 51,000 from 1 Jan.-14 June 2006. According to data by the Israeli Defence Ministry’s Coordination of Government Activities in the Territories (COGAT), the total number of **permits issued** for employment in the settlements rose from 13,600 in May 2006 to 17,600 in Jan. 2007, reaching 18,400 by March 2007<sup>14</sup>.
- As of Sept. 2007, 9.3% of Palestinian workers were employed in **Israel**, including settlements (12.9% of West Bankers, including Jerusalemites).

#### **4.1.1 Effect of restrictions on the economy and its implication on PP**

Despite the many factors affecting the economic situation in the West Bank, it is generally undisputed that the sweeping restrictions on movement since the outbreak of the second Intifada<sup>2</sup> are a major reason for the deterioration of the Palestinian economy and the increase in unemployment and poverty<sup>15</sup>.

As a result of the comprehensive closure on the Palestinian Territories that Israel imposed at the beginning of the second Intifada, tens of thousands of Palestinians lost their jobs in Israel. Therefore, the number of Palestinians entering Israel to work has varied, depending on the number of entry permits Israel issues (a working permit that is issued by Israeli Army that allow Palestinians to travel within Israel) and the degree to which it enforces the closure. However, the number of expatriate professional Palestinians entering the country to work is much less than it was prior to the second Intifada.

Within the West Bank, the restrictions make it very hard for Palestinians to get to their jobs and to transport goods from area to area. This has led to an increase in transportation cost and consequently to lower profits, in some cases, to transport goods from Jenin in the north to Ramallah in the south, it used to cost \$200 per truck and now it costs around \$600 with triple the time spent at checkpoints or through the long routes. Trade from one section to another in the West Bank has become expensive, uncertain, and inefficient. The economy in the West Bank has been split into smaller, local markets. Restrictions on access of West Bank farmers to their lands in the “seam zone” (areas where the Separation Barrier divided and prevented farmers from entering their own land) and in the Jordan Valley have severely harmed the farming sector in these areas. Tourism, which began to flourish after the Oslo Agreements, has also suffered greatly because of the inability of Palestinians to get to the vacation and holy sites. In the past Hotels in Bethlehem benefited

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<sup>13</sup> World Bank. *West Bank and Gaza Update*, Sept. 2006.

<sup>14</sup> ILO, *The Situation of Workers of the Occupied Arab Territories*, 2007.

<sup>15</sup> Ocha and World Bank reports.

during pilgrimage time and had a high occupancy rate, but following the installment of the Bethlehem Checkpoint this number has been reduced immensely and the time that tourist used to spend in these areas was reduced to almost hours than days.

The restrictions imposed on the commercial crossing points between the West Bank and Israel have critically impaired trade ties carried out by Palestinian importers and exporters with the rest of the world. The restrictions also affect manufacturers who rely on imported raw materials, such as textiles, wood, machinery..etc. The harm is especially grave in light of the dependence of the Palestinian economy on foreign trade, which constitutes about 80 percent of its gross domestic product. The closing of the crossings also harms internal trade between the West Bank and the Gaza Strip, which was totally stopped following the Hamas elections.

Israel also controls all movement to and from Gaza, including imports and exports. Gaza's foreign trade is almost exclusively with Israel or is conducted via Israeli ports. Since the takeover of Gaza by Hamas, in June 2007, the Gaza Strip has been under siege. Israel changed the crossing arrangements at the five border crossings under its control (Erez, Karni, Nahal Oz, Suffa, and Kerem Shalom)(See Map) and, except for a few cases, does not permit persons or goods to cross between Gaza and Israel. The Karni Crossing, "Gaza's lifeline," through which most of the goods coming into or leaving Gaza pass, is almost completely closed, paralyzing many trade sectors and creating a growing economic crisis.

Most of the restrictions on the movement of workers and goods are sweeping and indefinite in duration. Because of the severe consequences on the local population, this policy breaches a variety of rights that Israel is bound to respect under the Covenant on Economic, Social and Cultural Rights: the right to gain a livelihood, the right to an adequate standard of living, including adequate nutrition, clothing, and housing, and the right to the highest attainable standard of physical and mental health.

#### **4.2 Agreement on Movement and Access (AMA)**

On November 15, 2005, United States Secretary of State Condoleezza Rice and the Quartet for Middle East Peace Special Envoy James Wolfensohn brought Israelis and Palestinians together in a twenty-four hour negotiations marathon. Based on the principle that **the best way to improve security for Israelis and Palestinians alike is to create economic opportunity for Palestinians**, Secretary Rice and Envoy Wolfensohn brokered the much-heralded Agreement on Movement and Access (AMA)—the basis of which had been under negotiations for months.

**The AMA primarily seeks to facilitate the movement of Palestinian people and goods.** Both the United Nations and the World Bank identify Israeli restrictions on Palestinian movement **and trade as the direct cause of the humanitarian crisis that continues to endure today.** These restrictions include hundreds of roadblocks and military checkpoints inside the PT, ultimate control over all Palestinian crossing points to Israel and the outside world, and an elaborate permit system designed to enable the free

movement of 430,000 illegal Israeli settlers at the expense of the livelihoods of 3.9 million Palestinians<sup>16</sup>.

Moreover, Israeli restrictions are making the Palestinian economy far more vulnerable and aid-dependent than it actually is. The World Bank estimates the losses in 2005 due to the internal closure and the reduction of Palestinian labour in Israel stand at \$750 million, or 58% of the \$1.3 billion in aid provided to the PA. Accordingly, by lifting these restrictions the aid basket to the PA could be cut by more than half<sup>17</sup>.

Israel, however, continues to refuse to implement the AMA. And it continues to tighten its restrictions on the movement of Palestinian people and goods. Now, nearly 80% of households in Gaza live in so-called “deep poverty,” unable to adequately nourish themselves<sup>18</sup>.

**Palestinians and Israelis reached agreement on the AMA because of a strong and engaged international broker.** Had the AMA been fully implemented, Palestinians and Israelis would likely not find themselves in the same humanitarian and political crises today. **Israelis and Palestinians now need the same level of sustained commitment from the international community as they received during the conclusion of the AMA to ensure its full implementation.**

**The AMA was negotiated on the heels of Israel’s controversial Gaza “Disengagement” Plan<sup>19</sup>.** Although “Disengagement” was a unilateral Israeli act, Palestinians and Israelis—along with the support of the international community—met to coordinate technical aspects of “Disengagement” for months (*i.e.* movement of goods and people, what would happen to settlement structures). At that time, the international community feared that the security, humanitarian and political spheres in Israel and the PT would deteriorate substantially if Gaza were allowed to become a large open-air prison. Accordingly, the international community helped broker the AMA to create political and factual conditions conducive to addressing the core issues of the Israeli-Palestinian conflict.

Meanwhile, Israel had sold **Gaza “Disengagement” as a historic step towards peace.** Palestinians welcomed the evacuation of some settlements, but were skeptical of “Disengagement” since Israel still planned to effectively control the Gaza Strip while expanding its other, much larger settlements, throughout the West Bank. **The international community eventually welcomed “Disengagement,”** believing that although the Plan was unilateral, it could nonetheless generate momentum to help revive the peace process.

Specifically, **the Quartet** for Middle East Peace—composed of the United States, the United Nations, the European Union, and Russia—**identified six conditions for Gaza’s success after “Disengagement.”** The first four Quartet conditions pertained to the movement of people and goods: (1) over land crossings and trade corridors; (2) between the West Bank and the Gaza Strip; (3) through an airport and sea port in Gaza; (4) and

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<sup>16</sup> (PLO NEGOTIATIONS SUPPORT UNIT WEBSITE: [WWW.NAD-PLO.ORG](http://WWW.NAD-PLO.ORG))

<sup>17</sup> World Bank

<sup>18</sup> (PLO NEGOTIATIONS SUPPORT UNIT WEBSITE: [WWW.NAD-PLO.ORG](http://WWW.NAD-PLO.ORG))

<sup>19</sup> [http://en.wikipedia.org/wiki/Israel's\\_unilateral\\_disengagement\\_plan](http://en.wikipedia.org/wiki/Israel's_unilateral_disengagement_plan)



within West Bank, including East Jerusalem. The AMA was the crowning achievement of the months-long coordination process, seeking to realize the first four Quartet conditions.

**Today, however Israel continues to exert effective control over the Gaza Strip, controlling its borders, airspace, sea space, and ultimately reserving the power to potentially decide such basic matters as whether Gazans can live with their spouses. Gaza is thus still occupied, a humanitarian crisis boils out of control, and today there are more Israeli settlers on Palestinian land after “Disengagement” than there were before.**

The AMA sought to facilitate the movement of Palestinian people and goods between:

1. **Gaza and Israel** (through crossing points between the two areas).
2. **Gaza and the West Bank** (through bus and truck convoys running between the two parts of the Palestinian Territory).
3. **Palestinian communities in the West Bank, including East Jerusalem** (by working to dismantle the internal closure regime, which consists of hundreds of checkpoints and fixed obstacles to movement between Palestinian communities in the West Bank).
4. **Gaza and the West Bank, and third countries** (by opening the Rafah Crossing Point between Gaza and Egypt, by allowing Palestinians to build a seaport in Gaza, and by allowing Gaza’s airport to re-open)

#### **4.2.1 Implementation Status of the Agreement on Movement and Access<sup>20</sup>**

Despite significant international pressure, Israel refuses to implement the AMA. Some of these failures are outlined below.

##### **4.2.1.1 Crossing Points Between Gaza and Israel.**

*“The agreement stipulated that the passages will operate continuously. On an urgent basis, Israel will permit the export of all agricultural products from Gaza during 2005 harvest season”*

- In 2005, 90% of all Palestinian trade was with Israel or through Israel to markets in third countries.
- Since the signing of the AMA, Karni has been completely closed for export for over 155 of approximately 310 working days, or roughly 50% of the time.
- Since the signing of the AMA on average, 18 trucks per day were processed through Karni for export.
- All crossing points, **Karni** included, are under the mandate of the President’s Office.
- Agricultural products from Gaza during the 2005 harvest season (which were sold in winter 2006) rotted in Gaza as they were stuck on the border. According to estimates by Paltrade and the United States Agency for International Development, the losses resulting **from Karni’s closure during the 2005 harvest season were estimated at \$600,000 per day, of which agricultural losses stood at \$400,000 per day.**

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<sup>20</sup> [www.nad-plo.org/palIsraeli/roadagree/Agreement%20Access.pdf](http://www.nad-plo.org/palIsraeli/roadagree/Agreement%20Access.pdf)

- In December 2005, on average, 56 trucks were processed per day through Karni for export, while the highest number of trucks to be processed for export through Karni that month was 100, **far below the AMA's December 31<sup>st</sup> target of 150.**
- Israel has argued that security concerns have prevented it from keeping the crossing point open. **However, even when the crossing point is operating, it is not run efficiently, and its operating hours are unpredictable.**
- The number of trucks to be processed through Karni established in the AMA is only a minimum based on immediate needs; that base-line does not meet the demands of an expanding economy. Between 1997 and 1999, prior to the eruption of the second Intifada, **an average of 5,000-6,000 trucks were processed for export through Karni per month, corresponding to a daily average of approximately 250.** Despite the higher number of exported trucks, Gaza's economy at the time was also depressed. Demand for exports would still be higher if the economy was healthy.
- **Limits on Karni's capacity also limit the growth potential of business in Gaza.**
- As a consequence of these closures, **there are an estimated 1600 containers stuck at the Israeli freight terminals and warehouses in 2008.** Some of those containers were transferred to the West Bank and generated million of dollars in revenue losses.

#### 4.2.1.2 Link between Gaza and West Bank

*"The agreement stipulated that Israel will allow the passage of convoys to facilitate the movements of goods and persons"*  
*Specifically, there will be established "bus convoys by December 15, 2005" and "truck convoys by January 15, 2006"*

*A link between Gaza and the West Bank is vital for the Palestinian economy. Neither area alone possesses the characteristics to be economically and independently viable. Together, however, the Gaza Strip and the West Bank economically complement one another: Gaza has an airport, access to the sea, and natural gas reserves, while the West Bank has water resources, room for development, and the international market of East Jerusalem. Israel had agreed to implement a more robust convoy provision under the Oslo Accords. Yet, other than a few atypical instances, the convoys system was never implemented.*

**Israel called off discussions regarding implementation of the convoy provision shortly after the AMA was concluded, and refused to recommence discussions.** As a result, and in direct violation of the AMA, no truck or bus convoys between the West Bank and the Gaza Strip have operated. Israel also refuses to discuss the establishment of a permanent road link between the West Bank and Gaza.

#### 4.2.1.3 Gaza's Airport and Seaport: Gaza's Access to the Outside World

*"The agreement stipulated that the parties agree on the importance of the airport. Discussions will continue on the issues of security arrangements, construction, and operation".*

- Israel has refused to discuss the re-opening of Gaza's airport since the signing of the Agreement.
- **The Israeli government has yet to assure donors that it will not interfere with the operation of the port, thereby preventing the construction of the seaport as no donor party is willing to invest in it before they get such assurance.**
- Gaza's airport and seaport could provide Gazans with the means to independently export produce to third countries.

**Associated economic impacts on Gaza are<sup>21</sup>:**

- More than 3,200 establishments have temporarily closed.
- About 70,000 employees are temporary laid off. The Hamas cue has also affected such a high figure.
- Estimated US\$ 35 million losses for the private sector (2007).
- Halting the utilization of US\$ 160 million on construction projects.

**Require immediate actions for Gaza:**

1. Allowing clearance of accumulated containers and products from Israeli ports.
2. Opening of crossing points for both imports and exports.
3. Cancelling all eligible demurrage and storage costs, which exceeded millions of US dollars.
4. Smoothing the movement for businessmen.

**4.3 EU – PLO/PA Trade Agreement<sup>22</sup>.**

Euro-Mediterranean Interim Association Agreement on trade and cooperation between the European Community and the Palestine Liberation Organization (PLO) for the benefit of the Palestinian Authority of the West Bank and the Gaza Strip:

- Protocol 1: On the arrangements applying to imports into the Community of agricultural products originating in the West Bank and the Gaza Strip.
- Protocol 2: On the arrangements applying to imports into the West Bank and the Gaza Strip of agricultural products originating in the Community.
- Protocol 3: Concerning the definition of the concept of 'originating products' and methods of administrative cooperation.
- Final Act: Joint Declarations - Declaration by the European Community

The EU and PLO accepted and signed the agreement under the basis and consideration of:

- The Community and the PLO wish to strengthen those links and to establish lasting relations based on partnership and reciprocity,
- the importance which the Parties attach to the principles of the United Nations Charter, particularly the observance of human rights, democratic principles and political and economic freedoms which form the very basis of their relations,

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<sup>21</sup> (Palestinian Federation of Industries, Paltrade and PSC )

<sup>22</sup> European Union

- the desire of strengthening the framework of relations between the European Community and the Middle East, and of regional economic integration of the Middle Eastern countries as an objective to be achieved as soon as conditions permit,
- the difference in economic and social development existing between the Parties and the need to intensify existing efforts to promote economic and social development in the West Bank and the Gaza Strip,
- the desire of establishing a cooperation, supported by a regular dialogue, on economic, cultural, scientific and educational matters with a view to improving mutual knowledge and understanding,
- the commitment of the Parties to free trade, and in particular to compliance with the provisions of the General Agreement on Tariffs and Trade of 1994,
- the desire of building on the existing autonomous trade arrangements between the Parties and placing them on a contractual and reciprocal basis,
- the conviction on the need to promote the creation of a new climate for their economic relations in order to improve the environment for investment flows,
- the rights and obligations of the parties under the international agreements which they have signed,
- the conviction that the full participation of the Palestinian Authority in the Euro-Mediterranean Partnership launched at the Barcelona Conference is an important step in the normalization of relations between the Parties, which should be reflected in an Agreement on an interim basis at the present stage,
- that the parties are aware of the major political significance of the holding of Palestinian elections on 20 January 1996 for the process leading to a permanent settlement based on United Nations Security Council Resolutions 242 and 338,
- that both parties recognize that this Agreement should be replaced by a Euro-Mediterranean Association Agreement as soon as conditions permit,

The Agreement included:

- An Interim Association on Trade and Cooperation is hereby established between the Community and the Palestinian Authority.
- **The objectives of this Agreement are:**
  - to provide an appropriate framework for a comprehensive dialogue, allowing the development of close relations between the Parties,
  - to establish the conditions for the progressive liberalization of trade,
  - to foster the development of balanced economic and social relations between the Parties through dialogue and cooperation,
  - to contribute to the social and economic development of the West Bank and Gaza Strip,

- to encourage regional cooperation with a view to the consolidation of peaceful coexistence and economic and political stability,
- to promote cooperation in other areas which are of reciprocal interest.

Relations between the Parties, as well as all the provisions of the Agreement itself, shall be based on respect of democratic principles and fundamental human rights as set out in the universal declaration on human rights, which guides their internal and international policy and constitutes an essential element of this Agreement.

#### **4.4 Trade Agreement with USA<sup>23</sup>.**

President Clinton in 1996 signed a legislation that gives him the authority to provide duty free treatment to products of the West Bank and Gaza Strip. The intent of the legislation is to spur export-related economic development in the region.

This new trade initiative is one element of tangible U.S. support for the Middle-East peace process, facilitating enhanced economic cooperation among Israel, Jordan, Egypt and the Palestinian Authority. Products of the West Bank and Gaza Strip and of industrial zones established on the borders of Israel and Jordan and Israel and Egypt will enjoy duty-free entry into the United States, treatment identical to that currently provided products of Israel under the Israel-U.S. Free Trade Agreement. Such a special trade status will provide new employment opportunities for Palestinians outside Israel proper and lure increased foreign investment to the West Bank and Gaza, improving the security situation in Israel.

"We know trade can be a positive force in expanding cooperation across borders," said Ambassador Barshefsky. "Obviously, it is our hope that extension of duty-free treatment to products of the West Bank and Gaza Strip and special industrial zones will open doors for more commerce and jobs in the region."

Overall economic activity in the West Bank and Gaza Strip today is quite small and U.S. trade with the West Bank and Gaza Strip is minimal.

The Palestinian Authority has agreed to provide duty free access for U.S. products into the West Bank and Gaza Strip and national treatment for those products within that region. The Palestinian Authority will also assist the United States in verifying compliance with U.S. trade laws and preventing unlawful transshipment of products to the United States. In addition, the Palestinians will support all efforts to end the Arab League Boycott of Israel in all its respects.

**Over than four shipments of herbs were exported to the US over the past two years through a USAID project.**

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<sup>23</sup> (Paltrade)

## 4.5 Trade Agreement with Egypt

### Economic Agreement between PLO and Egypt.

The Palestinian-Egyptian Trade Agreement states that Egyptian products of national origin are exempt from customs and related duties if in Lists A1 A2 and B (Annex 1). Palestinian products are granted duty free entrance to Egypt according to a defined list.

### Egyptian Rule of Origin

The Egyptian rule of origin states that the production cost of industrial products of national origin should consist of a minimum of 40% of local input.

## 4.6 Trade Agreement with Jordan.

### Economic Agreement between the Palestine Liberation Organization and Jordan

The Agreement provides preferential tariffs for goods traded between the West Bank and Gaza Strip (WBGS) and Jordan. Goods in Lists A1, A2, and B (Annex 1) entering the WBGS and the agreed upon products entering Jordan are duty free, provided that the import volume does not exceed the pre-determined quota.

### The Jordanian Rule of Origin

The rule of origin states that a product should be wholly obtained (grown, produced or manufactured).

If not wholly obtained, the product should at least have 35% of the value added produced locally (either WBGS or Jordan).

A certificate of origin is required for exemption

(Lists A1, A2 and B are included in the Paris Protocol.

Goods Imported under List A1 must be locally produced in Jordan, Egypt or in other Arab Countries.

Goods Imported under List A2 can be imported from Arab, Islamic or other countries.

Goods Imported under List B are not subject to quantitative restrictions but are subject to Israeli standards. )

## 5 Trade With EU<sup>24</sup>.

EU - Israel	EU – PLO/PA
1948 - West Europe was a major trade partner of Israel even before its establishment.	1971 - European Community assistance to the Palestinians began in 1971, when the first contribution was made to the regular budget of the United Nations Relief and Works Agency for Palestine Refugees in the Near East.
1964 - The first agreement with Europe that dealt with quotas of agricultural trade.	
1975 - Israel's free trade agreement with the EU.	1980 - the EU-9 put forward the <u>Venice Declaration</u> , which expressed support for Palestinian self-determination. Funding then commenced for a variety of NGO projects, in sectors such as health, agriculture, and education.
1994 - Essen Declaration - The European Council considers that Israel, on account of its high level of economic development, should enjoy special status in its relations with the EU on the basis of reciprocity and common interest.	1993 - An international donor mechanism, the <u>Ad Hoc Liaison Committee</u> was established to coordinate the assistance to the Palestinians.

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<sup>24</sup> [www.mfa.gov.il/MFA/MFAArchive/1990\\_1999/1995/11/IsraelEU%20Trade%20Agreement%20-%20November%201995](http://www.mfa.gov.il/MFA/MFAArchive/1990_1999/1995/11/IsraelEU%20Trade%20Agreement%20-%20November%201995)) (Israeli Ministry of Finance) and Ministry of Foreign Affairs.

	1994,- the EU has been providing more than half a billion euros in assistance to the Palestinians
<b>1995</b> - The <u>Association Agreement between Israel and the European Union</u> was signed on November 20.	
<b>1995</b> - The Barcelona Conference is a milestone in the process of integration with the Mediterranean Basin envisioned and promoted by the EU. The conference makes an attempt to create a comprehensive economic, political, and social framework between the 15 EU members and 12 countries of the Mediterranean Basin. This effort comes as part of the EU's response to the new post-Cold War world order. The twelve Mediterranean participants are: Israel, Egypt, Jordan, Palestinian Authority, Lebanon, Syria, Tunisia, Morocco, Algeria, Turkey, Cyprus, and Malta.	<p><b>1995</b> - Barcelona Declaration, the Palestinian Authority has been a full and equal partner of the <u>Euro-Mediterranean Partnership</u>.</p> <p><b>1997</b> - The Interim Association Agreement on Trade and Co-operation between the EC and the PLO (for the benefit of the Palestinian Authority) was signed on 24 February 1997 and entered into force on 1 July 1997. The primary aim of this Agreement is to establish the conditions for increased liberalisation of trade and to provide an appropriate framework for a comprehensive dialogue between the EU and the PA.</p>
<b>2000</b> – Association Agreement underwent a ratification process between 1996-2000, and entered into force on June 1.	
<p><b>2004</b> - European Neighbourhood Policy-Draft Action Plan. (ENP)</p> <p>It covers a timeframe of three years. Its implementation will help fulfill the provisions in the Association Agreement (AA), build ties in new areas and will encourage and support Israel's objectives for further integration into European economic and social structures. It will also build solid foundations for further economic integration based on the adoption and implementation of economic and trade-related rules and regulations with the potential to enhance trade, investment and growth. It will furthermore help to devise and implement policies and measures to promote economic growth, employment and social cohesion, to reduce poverty and to protect the environment, thereby contributing to the long-term objective of sustainable development</p>	<b>2004 – 2005</b> The ENP Action Plan adopted in May 2005 reflects long-standing priorities of the EU's relations with the Palestinians. It is driven by the pursuit of reforms, namely building democracy and the institutions, governance, transparency and respect for human rights as well as improving the economic and humanitarian situation of the Palestinians.
2005 - EU trade Commissioner Peter Mandelson agreed in May with his Israeli and Palestinian counterparts to set up a trilateral working group to improve trade relations between the three parties. Two meetings of the working group have taken place up to late 2005, when activities were suspended for political reasons.	On 21 November 2005, the Council of the EU welcomed the Access and Movement Agreement and agreed that the EU should undertake the Third Party role proposed in the Agreement. It therefore decided to launch the EU Border Assistance Mission at Rafah crossing point, code-named EU BAM Rafah, to monitor the operations of this border crossing point.
<p>2007 - Israel is one of the biggest EU trading partners in the Euromed area, with total trade with the EU amounting to more than €25.7 billion in 2007. The EU is Israel's largest market for exports and its second largest source of imports after the US.</p> <p>Israel is part of the <u>Euro-Mediterranean Partnership</u>, which involves extending free trade across the Mediterranean region through a network of bilateral agreements between the EU and individual Mediterranean partners, with the ultimate aim of creating a Euro-Mediterranean Free Trade Area by 2010.</p> <p>2007 - EU good exports to Israel, €14billion EU goods imports from Israel, €11.3billion</p>	2006 - the Quartet asked the European Union to propose a "Temporary International Mechanism to ensure direct delivery of assistance to the Palestinians.

### The Israeli and Palestinian Economy

	Israel (2007)*	Israel (2006)*	PT (2006)**
Population	7.4 million	7.1 Million	3.89 Million***
GDP (p.c.)	\$25,762	\$24,271	\$1,134
GDP Growth	3.2%	3.1%	-.6.6%
Unemployment	7.6%	8.4%	23.6%

\* Source : Israel Ministry of Finance – Central Bureau of Statistics

\*\* Source: PCBS

\*\*\* Around 160,000 Palestinians either left Palestine or expiates were not allowed in due to Israeli restrictions.

The difficult nature of political relations between the Israeli and the Palestinian authorities makes it hard for the Palestinian importers and exporters to achieve economic interdependency. Although the procedures and regulations governing the economic relations between the Palestinian Territories with Israeli and with the rest of the world are regulated by Paris Protocol concluded in April 1994, **yet the failure to implement the Paris Agreement in its main aspects has contributed significantly to economic hardship in the West Bank and Gaza.** As a consequent to such failure, the Palestinian shippers encounter some difficulties when conducting trade with the EC. The following is a case study outlining some of the major issue.

#### **A case study of a Palestinian importer: Medical Supplies & Services Co. (MSS)**

The company was established in 1994 in Palestine. The main HQ is in Ramallah and a branch in Gaza Strip, employing a total of 60 professionals with very high qualifications, in which every one is an expert in his/her specialized field.

MSS today is the largest distribution operation company covering the medical sector in West Bank and Gaza Strip. MSS enjoys the leading market position in the local market for the Pharmaceuticals, Medical Equipment, Diagnostics and Laboratory, Surgical & Disposables and FMCG. MSS has direct sales and delivery forces covering all sectors of the market including; Pharmacies, Private Hospitals, Ministry of Health, Perfumeries, Groceries and Supermarkets class “A”.

MSS represents many multinational companies; Abbott International & Diagnostics, Aloka, Aventis, Beiersdorf (Nivea), B-Braun, Boehringer Ingelheim, Eli Lilly, GlaxoSmithKline, Janssen-Cilag, Nihon Kohden, Pharmaton, Trisa, among others.

#### **Problem:**

1. MSS used to have all its products manufactured by BDF (Manufacturing depot) and being imported directly from Germany. Until the executive board of Beirsdorf AG has decided to create in 2006 a BDF Affiliate in Dubai (UAE) to focus & provide local support to all its 16 markets in the Middle East and Africa.
2. A physical hub has been created managing import products from its production centres (in Europe), the storage of those goods in Jebel Ali Free Zone (Dubai), and the order preparation & dispatch to all its 16 customers.
3. Cosmetics products are purely of European Origin (Germany, France & Spain) and stored in Jebel Ali Free Zone.



4. According to the United Arab Emirates – Dubai customs law, no EURO1 (Annex 2) certificate is required for the transport from Europe to Dubai.
5. Thus, MSS can't receive any more the EURO1 document for its Nivea products coming from Dubai Free Zone Area and have customs exemption as used to be for orders shipped directly from Germany.
6. MSS is paying now 12% customs' duties which is affecting their business negatively and at the same time can't raise the end consumer prices as this would not be affordable to customers and lead to drop in sales dramatically.
7. However, shipping lead-time from Europe used to be 7-10 days, while now from Dubai the route is going through Mondra-Barcelona – Ashdod Port, which takes in-transit time of 35-40 days.

#### **Proposed solutions:**

1. **There should be a solution to facilitate trade from Dubai applying a method of approving the Certificate of origin issued from Dubai** which shows the country of origin for these European Countries products, since these companies can't issue Euro1 again.
2. Having the option of importing closed containers through Allenby Bridge will save around 30 days extra shipping period of time if shipments could pass directly from Dubai – Jordan (Allenby Bridge) – Palestine, as the current process through open trucks will lead to huge damages especially for the cosmetics products.
3. Utilize the benefit of the payment term given, instead of losing it in the in-transit new lead-time.

#### **The Israeli importer who imports the same products from the same company(ies) do not face the same problems.**

1. Imports directly.
2. Euro1 applies and custom exemption is implemented automatically.
3. 24 – 48 hours to clear goods at ports or airports.
4. No security check or Pallet/Container limitation.
5. Access to ports and airports.
6. Warehouses within the Israeli custom envelope, which allow them to store products locally and custom free. This eliminates the extra cost of storage.

#### **Some of those difficulties can be summarized as follows:**

1. Palestinian imports face delays at ports & airport of arrival and departure, since final destination is indicated to be West Bank or Gaza. **The average clearing time for goods is 10 days for Palestinians and two days for Israelis.**
2. **The majority of imported products have to be tested by the Israeli Standard Institute**, e.g.: Plastic empty bottles, TV sets, Washing Machines...etc. Palestinian importers feel discriminated against, because of the length of time, cost and lack of information. On the other hand, the Israeli counterpart has the ability to clear, store and access to information and to market without having to pay the hefty cost of the test. Israeli importers can share the cost of testing similar products and have the ability to renegotiate specifications with manufacturer and government.

3. **Israel had been unprepared to acknowledge the relationship between the EU and the PA**, because it implies that the Palestinian Territories are a separate customs area from Israel. Therefore, customs duty was charged by Israel on directly imported products to PT ignoring the EU obligations towards such an agreement.
4. **If the Euro1 form contains only West Bank or Palestinian Authority rather than Israel, the Israeli customs charges duty ignoring and disregarding EU-PLO/PA agreement.**
5. Some imported products by Palestinian importers are re-valued and re-priced according to the Israeli Authority mood. **The no trust factor between Palestinian importers and Israeli Customs on actual invoice price.**
6. **Palestinian importers are prevented from importing certain EU products that are considered dangerous and have security concerns** such as, Telecommunication Equipments, Pesticides & Chemical Fertilizers, Agricultural products and Buses' spare parts..etc. **Israeli Authority has created an unavailable list of products.** For example, a Palestinian importer from Hebron was prevented from importing Drills from Europe despite his long history of importing the same product. No explanation was given and the shipment had to be transferred to an Israeli importer who then sold it on back to the Palestinian importer.
7. Vehicle importers face a problem with the requirements for the homologation of Vehicles types; the Palestinian importers have to import the exact specifications determined by the Israeli Ministry of Transport. **Israeli importers can release cars without paying customs or guarantees provided they remain within one custom envelope that allow them to store them at their own warehouses and to reduce delivery time.** Palestinian importers can only release cars if all customs paid. Cars have to remain in a bonded area that normally cost an average of \$5 per day per car.

The main exports from the EU include ceramics & glass. While, there's a wide range of imported products including: household products, water & sanitation networks, water meters, food products, electronic calculators, raw materials, Pharmaceutical materials, baby's milk, ceramics raw materials, telecoms & computers, materials & machines to formulate gold, cleaning tools, rice, chemical products, boilers & radiators, paper & stationary, empty bottles, spices, mineral oils, paints, paints tools, photocopiers cleaning tools, consumer products, candies, medical cosmetics, cars & trucks and many others.

6. **Palestinian Foreign Trade in numbers<sup>25</sup>:**

<b>Foreign Trade</b> <b>Palestinian Exports Indicators, 2001-2006</b>						
Value in Million US \$						
Indicator	2001	2002	2003	2004	2005	2006**
Total Palestinian Exports	290	241	280	313	335	339
Total Palestinian Exports by Country						
To Israel	273	216	256	281	290	298
To Arab Countries	15	15	15	20	26	34
To Other Countries	2	10	9	12	19	7
Total Distribution of Exports						
National Exports	216	177	196	216	234	234
Re- Exports	74	64	84	97	101	105
Total Exports by Region						
Remaining West Bank *	252	208	235	273	294	281
Gaza Strip	38	33	45	40	41	58

\*: Data do not include those parts of Jerusalem Governorate which were annexed by Israel in 1967

\*\* Primary Data

<sup>25</sup> (Source: PCBS)

### Palestinian Imports Indicators, 2001-2006

Value in Million US \$

Indicator	2001	2002	2003	2004	2005	2006**
Total Palestinian Imports	2,034	1,516	1,800	2,373	2,667	2,835
<b>Total Imports by Means of Transportation</b>						
By Land*	1,811	1,284	1,522	2,102	2,411	2,540
Through Electricity Networks & Pipes	223	232	278	271	256	295
<b>Total Imports by Country</b>						
From Israel	1,352	1,117	1,310	1,748	1,873	2,397
From EUCC	359	161	155	205	240	275
From Arab Countries	37	31	46	65	69	66
From American Countries	52	8	43	56	51	21
From other countries	234	199	246	299	433	76
Net Trade Balance	-1,744	-1,275	-1,520	-2,060	-2,331	-2,469

Note: PCBS advises to use the numbers cautiously as they are based on various data sources and diversity of methodology applied for each data source.

\* Include imports through crossing borders, ports and deliveries from Israel.

\*\* Primary Data

The Palestinian import has moderately increased over the past two years despite of all the obstacles and restrictions imposed. On the other hand, export figures have plummeted dramatically due to the closure of Gaza and the Hamas takeover.

## 6.1 Major Industries Analysis<sup>26</sup>

### Agriculture Sector

Agriculture is a very important sector as it contributes around 9% of GDP, and almost 17% of all exports (fruits, olives and olive oil, vegetables and cut flowers). The Palestinian Agriculture sector is currently one of the largest employers in the Palestinian Territories, and it is notable that one third of employed females work in the agricultural sector, compared to only about 12% of males.

Agriculture plays a key role in the Palestinian economy. The sector acts as a buffer, absorbing excess labour during recessions and closure periods and supplying labour during the occasional boom periods. The variety of climates permits cultivation of around 60 different kinds of crops, although, because of the dependence on rainfall, crops are

<sup>26</sup> (Source: passia)

grown using traditional low-risk, low-input methods. Agricultural productivity compares reasonably well with neighbouring countries.

The Favourable climatic conditions and varying temperature regions in Palestine can be of great importance in enhancing agricultural output as a result of the different seasons and off season production that could be exported to target markets. The variation in temperate zones has enhanced the potential for growing exotic fruits (strawberries, seedless grapes, avocado and papaya ... etc. Olive cultivation is the backbone of West Bank agriculture, accounting for some 75% of the area under trees and 50% of cultivated land. Local production exceeds consumption and both oil and olives are exported. The last two decades have witnessed a major shift in Palestinian agriculture towards the cultivation of vegetables. This was more profound in the Gaza Strip, where the value of vegetable production now accounts for 50% of the total value of agricultural output, compared to 11 % in the late seventies.

Livestock and fishing account for almost half of agricultural production in the West Bank, and around a third of that in Gaza. With the exception of red meat, local demand is currently satisfied by local production. Fisheries are important to the economy of the Gaza Strip. Their future depends on the removal of restrictions imposed by Israel on the area allowed for fishing and on negotiating an agreement with the Egyptian Government allowing Palestinian fishermen access to Egyptian territorial waters off north Sinai.

The early stages of economic recovery are expected to witness substantial expansion in the agriculture sector for two main reasons; the first is due to the expected expansion in the production of food to accommodate the expected increase in both income and population, and the second reason is the export potential of the wide array of cash crops currently being cultivated in the Palestinian Territories, as well as the historically important olive oil industry. The major cash crops are tomatoes, cucumbers, eggplants, beans, peas, and olive oil; these items continue to be exported to and through Israel, suggesting that they are competitive and capable of regaining their old share in neighbouring markets given a suitable investment in export facilities.

With the emergence of a more positive operating environment, agriculture can quickly stimulate economic growth through exports (including exports to Israel), generate productive employment, and help improve overall social development. Many of the required inputs are already in place and can be mobilized quickly and efficiently.

### **Manufacturing Sector**

The level of industrialization has dramatically improved in The Palestinian Territories, and its contribution to GDP increased from 8% in the mid-1980s to 17% in the mid-1990s and around 16% in the last few years. The sector includes a little less than 14,000 firms employing a total of approximately 60,000 workers, or 12.5% of total employment. Major sub sectors include:

#### **1- Food processing**

The food processing sector witnessed a rapid development in the second of the 1990s as local market share creased from 25% to 30%. Market studies show that the average

Palestinian family spends 42% of its income on food, indicating the importance of this and the ample room for investing in develop a competitive local industry provide high quality food products.

## 2- Textiles and garments

The Palestinian garments and textiles sector is an important sector as it contributes approximately 15% of Palestinian manufacturing output, and employs almost 10% of the labour force. Palestinian producers sell approximately 70% of their production locally, with an additional 20% being sold to Israel (and through Israeli agents to oversee markets). There is a lot of room to invest in the sector so as to improve quality and export directly to Europe and US buyers. Exported products could include underwear, children's wear, knitwear, tailored shirts and trousers, etc.

## 3-Quarrying and stones

Stone-based industries are concentrated in Hebron, where the quality of the stone makes it competitive in export markets. Marble and stone exports to Israel, Jordan, Arab countries and international markets have gradually increased, reaching 40% of total industrial exports compared with under 10% in the early 1980s.

## 4- Metal products and engineering

The metal products and engineering sector satisfies an estimated 60-80% of the local market demand, and its products have been increasingly successful in export markets. Its products include wire, nails, welding rods, office furniture, warehouse shelving, household utensils, industrial scales, agricultural equipment, industrial machinery and tools, abrasives and others.

The success in the expansion of the construction and the agriculture sectors require an expansion of the manufacturing sector. Construction of infrastructure will increase the demand for building materials substantially, especially cement, concrete, asphalt, crushed stones, aluminium, and iron and steel rods. At the same time, the expansion in agriculture requires a parallel expansion in agro-industries as an outlet for agricultural surplus and a supplier of processed food, which could reduce the pressure on both foreign exchange reserves and the price of food. Agro-industry has a great potential to expand provided it secures access to foreign markets. Presently, agro-industry firms satisfy a sizable portion of the local demand; this includes olive presses, food processing, cigarettes, dairy plants and others.

Accordingly, the manufacturing sector is expected to grow at a rate similar to the overall growth rate of the economy. This provides a great opportunity for investing in stones, textiles, leather, pharmaceuticals, in addition to agro-industries and building materials industries.

The expected expansion in the services sector, especially financial services, and the modernization of construction offers another great opportunity for investing in industries employing highly skilled labour and using advanced technology, like engineering designs, electronics and computer software.

## **Services' Sector**

The service sector plays a large role in the Palestinian economy; it contributes almost 60 % of the GDP and 60 % of the employment. The service sector has been identified as the sector with the largest capacity for labor absorption. The major sub sectors within services are:

### **1- Internal Trade**

The majority (57%) of all the private, public and NGO establishments in the Palestinian Territory operate in the field of internal trade. More than 80% of these establishments are in retail trade-half of which sell food products - while 4% are wholesalers and the remaining firms sell and repair motor vehicles. Most of the persons engaged in this sector are men: only 7% are women. Internal trade establishments are found all over the Palestinian Territory, with approximately one third of enterprises, as well as employment, in the Gaza Strip.

### **2- Transportation**

A large part of the transportation firms deal with land transport and offer supporting services, such as cargo handling, storage and warehousing, travel agencies etc. These establishments employed a total of 3,819 people in 2005, of whom almost 60% worked in the field of 'non-scheduled passenger transport.

### **3- Information and Communication Technology**

The Information Technology (IT) sector is a 'young' sector in Palestine but is generally recognized as a significant and very promising sector. The sector is linked with almost every other sector in an economy (business, production, banking, education, health, etc), and its development is becoming a key marker of the advancement and growth of nations. Before the creation of the Palestinian Authority, telecommunications infrastructure and services in the West Bank and Gaza Strip were in a very poor state, due to underinvestment, negligence and Israeli restrictions. Since the mid-nineties, however, the ICT sector has developed rapidly. The Palestine Telecommunications Company (PALTEL) was established in 1995 and Mobile company (Jawwal) was set up in 1999 to provide mobile phone services. Between 1998 and 2005, the number of telephone lines more than doubled to approximately 345,000. Meanwhile, Jawwal counted 1,000,000 subscribers as by the end of 2007.

## **Tourism**

The strong cultural and religious heritage of Palestine provides the environment to develop a tourism sector that could make a significant contribution to growth. The Palestinian territory contains more than 1,600 archaeological sites. It is central to the three monotheistic religions and home of most of their sacred sites. Naturally, the sector was hard hit by the outbreak of violence at the end of 2000. A partial recovery started in 2004, and there are hopeful signs that the situation might become more stable. Usually, the sector contributes around 12% of GDP. This number is expected to substantially increase once peace and stability are resumed.

With an improvement in the security situation, the tourism industry has the potential of becoming an important growth enhancing sector. In the early 1990s, the World Bank

estimated 'that given political stability, the Palestinian tourism industry can expect to receive between 500,000 and one million tourists (both religious and recreational) on an annual basis, generating income in the entire tourism sector of \$250-300 million' . Realizing this potential, however, requires an effective partnership between the public and the private sectors. The former has to coordinate with neighbouring countries to establish a regional framework needed to facilitate the expected increase in the number of foreign tourists. The latter has to put up the financial resources needed for investment in hotels, restaurants and places of entertainment. Domestic and foreign investments have a great opportunity to modernize the sector and expand its scope.

### **Construction**

The construction sector is currently expanding contributing around 9% of GDP and employment in West Bank and Gaza Strip. The sector is also important for growth as it carries significant forward and backward linkages ranging from simple manufacturing plants to major construction materials production and processing industries.

The construction sector remains a drive force of the economy in terms of increasing capacity of labour absorption accounted by 10% of total employment on one hand, and due to its developing growth in number of building licenses, cement imports, and the number of newly registered companies.

Demand for residential construction is expected to increase substantially in the eventuality of an inflow of Palestinian returnees, as well as the resettlement of refugees. Assuming the influx of perhaps one million returnees, the total population of the West Bank and Gaza could reach over 6 million. Naturally, the reconstruction program will start with building physical infrastructure and public institutions that were damaged in the past few years. There are huge opportunities in rehabilitating the Airport and in the construction of the Seaport. Building hotels, restaurants and recreational sites would be needed to revive the tourism sector, which was stagnant in the past six years.

In addition, building activities for residential houses would register a great increase to accommodate the natural increase in population, the rehabilitation of the refugee camps, and the expected inflow of Palestinian returnees. Thus the sector will offer an unprecedented opportunity for investment and help in creating employment and stimulating linkages to other sectors, in particular manufacturing.

## **7 Trade Security and its impact on the Palestinian Economy.**

Trade is an important engine of economic growth and the globalisation of trade is a dominant feature of today's economy in many countries. **The creation of an open and equitable trade environment is a key goal, particularly in relation to economic development and poverty reduction.** Security issues clearly pose a real threat to the stability, further development and equalisation of global trade. However, these security issues must be addressed in such a way as **to minimise the potentially negative side effects**; otherwise a real, and perhaps intended, reward may be handed to the very groups these measures are intended to defeat. **For example, new measures to support security must not add undue procedures and costs to international trade transactions, as it is**



**the case on the cargo that is destined to Palestine and comes via Israeli ports.** Further, one must ensure that no specific country or group is excluded from the international trading system through these measures, as exclusion would undermine the basic foundation of security, which is a fair and just society, free from poverty and degradation.

Security has always been a factor in international trade and many mechanisms and procedures already exist to address this issue. However, both the nature of the security threat and, importantly, **the perception of the nature of that threat have changed dramatically since the attacks of September 11<sup>th</sup> 2001.** Effectively, the focus has shifted from the relatively minor threat to trade (from theft, hijackings, terrorist interventions, etc.) to the much more alarming threat from trade, where terrorists could use the mechanisms and processes of trade as a weapon against the developed, and indeed the developing world.

Although the nature and extent of this threat is, fortunately, mostly speculative at present, it is essential to understand the seriousness with which many countries approach the issue. **For example and under the name of security, Israel has imposed a strict regime on the movement of goods and people in and out of the West Bank and Gaza. This complication of security definition by Israel has cost the Palestinian Economy millions of dollars and has impacted industries across the Palestinian private sector, which has increased unemployment and poverty.** The same reasons that the International Trade intervention tried to avoid when introducing strict security chain of supply measures.

The Access and Movement Agreement (AMA) signed on November the 15<sup>th</sup> 2005, to facilitate and enhance the movement of passengers and cargo to and out of Gaza after the Israeli disengagement, has not gone into effect, despite of the rigorous measures that are implemented at Karni and Erez. **The closure remains the almost status to most of crossing points especially after February 2006 when Hamas won the elections. This dramatic perception of security by Israel continues to this date despite of all the international pressure that is imposed on it.** The Israeli Private Sector is also suffering from this closure and is also losing millions of Dollars in contracts.

Many countries and their respective organisation took the issue of security seriously and several approaches to addressing it have been launched by leading trade-related organisations over the past years and much work is currently under way in developing standards and systems to increase the security of the international trade transaction process. The task is enormous; and there is the obvious danger that the immediate responses to this threat (whether real or perceived) may not be consistent with the longer-term development of an efficient trading system. The Israeli – Palestinian mistrust is a live example of the inefficiency of the system. The Palestinian cargo can take a minimum of 7-10 days to clear in comparison with 24-48 hours clearance for Israel destined cargo. Another cost that the Palestinian traders have to pay for what Israel considers to be a security concern.

It is recognised that this security shock to the trade system presents an opportunity to re-examine current trade procedures and processes and to speed up implementation of

advanced technologies and approaches, such as risk assessment based on advance information. The challenge is to facilitate the majority of legitimate international cargo movements, and as efficiently as possible, while at the same time dealing effectively with the small percentage that could pose a threat to security. To achieve this, all parties in the trade transaction chain (from factory all the way to end-user) need to work closely together.

The international supply chain involves a potentially large number of activities performed by a considerable number of different parties. An activity may be carried out by different parties depending on the terms of business, type of product, country and market etc. as well as on the methods of operation of the buyer and seller. For a supply chain to operate effectively and efficiently, the relationships and activities have to be clearly identified and managed.

International Supply Chain Model sets out to identify and model the key processes and relationships of the parties involved in international trade. This Model helps in the understanding of how a supply chain operates, and it can be used to highlight opportunities for “best practice” improvements in international trade for all countries, businesses, governments or economies. The Model can also be used to identify procedures that do not add significant value or enhance security or safety, and it can indicate opportunities for facilitation actions.

In a study that was conducted by the Palestinian Shippers’ Council in 2007, the distortion and imbalance of any of the factors can negatively affect the chain supply process and increase the cost on one of the key factors, the customer, as it is the case in Gaza. Therefore, the recent closure of the crossings has serious implications on the Palestinian importers who have to absorb tens of millions of dollars in losses and carry further costs of storage fees to the ports and delay fees to the shipping companies, under the name of security. By the second week of July 2007, the volume of extra expenses of storage and demurrage fees was estimated at around \$3 million dollars. The study also indicated that more than 1600 containers worth over \$130 million dollars are presently held up at the freight terminals and warehouses in the ports.

The economic situation in Gaza is also affected with closure imposed on exports and the limitation of imports to basic commodities and processed food, while needed raw materials for industry production are banned from entry. This will increase Gaza’s high poverty (85% of households are living under the poverty line as it stands now) and unemployment (65%) levels have sharply limited households’ ability to buy supplies.

These factors amongst other impediments have affected and impacted the operation and growth of the private sector enterprises. Currently 85% of establishments in Gaza have shut down and the rest are operating with 50% capacity leading to unemployment of more than 35,000 workers. If this is the definition of Security management System that is supposed to achieve sound performance and commitment from all parties involved, then the world in general and Israel in particular has definitely misconceived their proper understanding of the system that should provide order and consistency through the allocation of resources, assignment of responsibilities, ongoing evaluation of practices,

procedures and processes, and active utilisation of inputs from security authorities and other stakeholders in the supply chain. Therefore the development and maintenance of a Security-management System is an ongoing and interactive process.

Setting standards in the area of security and having those standards implemented in the near future will be an enormous task that will require very considerable resources. The huge sums of money that was invested in airports and seaports all around the world would seem to lend credence to this.

The international community needs to decide whether it wants global standards for the security of goods in transit from country of origin to country of consumption and, if so, whether it is ready to pay the considerable cost associated therewith. Inability to agree on global standards is likely to increase the overall cost of implementation and also reduce the effectiveness. Therefore, Israel should understand that the cost of its so called security measures should not come from Palestinian traders but from its national budget and Israeli tax payers. We have also to bear in mind that the majority of imported goods that are destined to Palestine go through International ports that apply the security management system.

On the other hand, the implementation of security standards which enable the parties in the supply chain to demonstrate their compliance should provide an excellent opportunity for customs administrations to grant trade facilitation benefits to the parties in such certified supply chains. This could include green channel cargo clearance and implementation of the integrated seamless transaction concept whereby the export declaration data may be used as the import declaration data. The objective should be that the costs associated with the implementation of security measures would be more than compensated for by the trade facilitation benefits. The uses of ICT devices that can seal a container and can be monitored through satellite are a good tool to implement in order to reduce time and cost.

A concerted effort from all the relevant organisations involved in international trade facilitation and standards will be required in order to ensure that the developed standards are effective and that they achieve the dual aim of enhancing both security and trade facilitation for all countries. Strong collaboration and coordination amongst the relevant standards-setting organisations is the only way to achieve this.

## 8 Problems Facing Shippers community<sup>27</sup>.

Key Impediments	Impact/Consequences	Relevance to Interim Association/ accumulation	Security related concerns
<b>1. Import constraints</b>			
Imports from the EU: need to refer to the EC-Israel association agreement in the EURO 1.	If the EC-PLO IAA is mentioned, goods are either rejected or subject to Israeli custom duties.	Contradiction with the Paris Protocol allowing for trade agreements between the PA and third countries (provided they are in compliance with the Paris Protocol).	No security concerns.
Pledges not to sell in Israel goods destined to West Bank & Gaza (while Israelis can sell in Palestinian Territories).	Discriminatory measure and technical barrier preventing importers from organising themselves according to market demands and therefore competing on an equal footing	This might affect future Euro-Med Free Trade Area.	Neither security nor standards compliance concerns. Discriminatory measure. (As for standards all incoming goods (for Israel and WBG) are subject to technical inspections and certification.)
Long clearance procedures.  Strikes at ports and in Israeli official institutions.	Extra storage & demurrage expenses	Discrimination and contradiction to PP	Security Checks are required
Heavy restrictions on import of pesticides, chemicals, special machinery and equipment. (Only pesticides from Israel can be imported)  Restrictions have been decreased. Certain items imported by Palestinians are actually cleared from PA customs.  Pharmaceutical raw materials are treated with restriction and long clearances days despite having import licence	2-4 years needed for Palestinian importers/users of pesticides to register and to obtain an import licence from Israelis. Import of telecom equipment faces recurrent difficulties, while same equipment is sold by Israelis to WBG.	Situation might have improved, but restrictions remain an obstacle.	Certain pesticides contain chemicals that might use for manufacture of explosives. Security concerns on direct Palestinian import of telecom equipment are not justified as Israelis sell the <i>same</i> equipment regularly; this seems to constitute a discriminatory technical barrier for Palestinian traders.
Highly restrictive Israeli requirements on technical standards, health and environmental requirements (often higher than EU's and not reflecting Palestinian market demand).	Frequent difficulties and delays for importing EU products and for exporting to the EU (and other countries). High costs for testing imported goods (usually waived for Israeli importers as already registered/licensed for import of same goods). No Palestinian Database to follow up on such registered goods.	Technical barrier for imports from EU. Additional difficulties for Palestinian (semi-finished and finished) goods to enter the Israeli and Jordanian markets in the context of future pan accumulation.	Partial security and safety (product quality) concerns. The requirements seem to reflect a certain degree of protectionism.  (Discussions are under way between the Israeli and Palestinian Standard Institutes to facilitate future testing procedures possibly also by Palestinians; Israel claims that the latter are not sufficiently equipped to carry necessary tests and checks. Moreover, the

<sup>27</sup> Source: World Bank, Ocha, UNDP and EU.

			Israeli Ministry of Industry and Trade claims that, as far as imports from the EU, this is the consequence also of the lack of an agreement between the EU and Israel on mutual recognition of standards.)
Limitation on imports (goods and quantities) from Jordan, Egypt, Arab and “other” countries (lists A1, A2 and B of Paris Protocol, <i>such lists reflecting Palestinian market needs</i> ). Moreover, there are limitations on the height of the pallets due to size limits of the scanning equipment. Israeli Customs recently waived import restriction from most of the arab and Islamic countries.	No possibility to import other goods from these countries (if, for example, they are cheaper than those available from Israel itself or other possible exporting countries) leading to limited supply sources. Need for negotiating each time the inclusion of products not contemplated in the lists. Extra loading and unloading charges, increasing transaction costs.  Allenby bridge has promised to improve services and increase height, but new procedures are yet to be implemented.	A1: Possible constraints on pan accumulation of origin. A2: Palestinian quotas for import of EU goods (if not in List A2) to be negotiated with Israelis ( <i>f.i. cheese and eggs as agreed in 2004</i> ). (List A1: imports from Jordan and Egypt; List A2: imports from Arab, Islamic and “other” countries; List B: import of machinery, equipment and other special goods (pharmaceutical, wood etc.) from all countries.)	No security concerns.
Lack of logistical information. Invoices and correspondences are in Hebrew.	Importers pay higher cost due to not fully understanding the procedures or invoices	Require a multilingual system than can issue invoices in English or any other language.	
<b>2. Export constraints</b>			
Need for Israeli export licences to Palestinian exporters (in contradiction with articles VII/11 and IX/6 of the PP).	Delays and forced use of Israeli trading/distribution companies. Higher costs.	This might adversely affect the potential benefits from future pan accumulation of origin.	No security concerns.
Security, scanning and technical standard checks. In particular, application of Israeli standard are required for exports (to EU etc.).	Delays and high costs.	This might adversely affect the potential benefits from future pan accumulation of origin and FTA.	Israeli claim security concerns (related to terrorist activity) and safety concerns (related to untested produce/goods accessing Israeli territory); often – especially for goods from Gaza – double security checks are undertaken.
Palestinian businesses can only use cargo planes, no passenger planes.	Passenger planes are cheaper and more frequent and go to more destinations		Security concern
<b>3. Movement and access constraints</b>			
Back to back and security checks at crossing points, ports and airport.	Excessive goods’ transfer and delivery delays (sometime of weeks); product quality deterioration (especially for perishable produce); dramatic increase of transaction costs. Frequent cancellation of orders. Average waiting time at a crossing border is almost 120mins  High Expenses incurred due to excessive security measures		While Israelis claim these measures are essential for preventing terrorism and similar risks, such measures as currently constituted appear excessive and further deteriorate the already damaged Palestinian economy.
Internal closures and checkpoints in WB; limited access hours.	Use of longer alternative and damaged routes by trucks. Long waiting times. Damage of trucks. High transport costs.		Security Concerns
Palestinian clearing agents cannot operate in Israeli ports and	Forced use of Israeli clearing agents for accelerating procedures.	The Palestinian Authority – Ministry of Finance should qualify	Security concerns appear limited, while the resulting

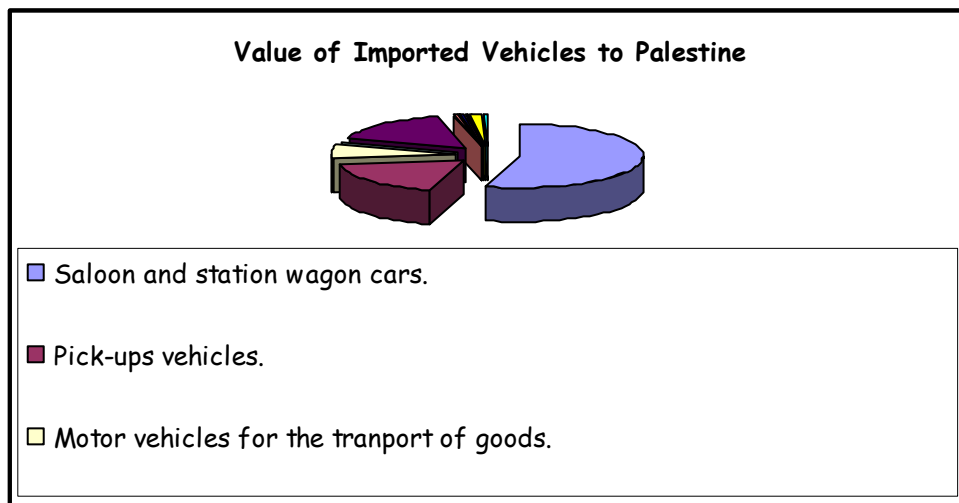
<p>airport. Highly variable charges for cargo storing, checking and clearing (no standard tariff system)</p> <p>Palestinian importers/exporters are banned from entering ports and airport unless receiving a special permit.</p> <p>Israeli freight forwarders are issuing court injunctions against Palestinian Counterparts and halting them from importing, trading or even obtaining permits.</p>	<p>Higher transaction costs.</p> <p>Impossible sometimes</p> <p>They claim no payment, but figures asked for are exaggerated. Some Palestinians refuse to pay.</p>	<p>some Palestinian custom agents (PCA), who will only operate on the Palestinian side of the border. PP agreement does not allow PCA to operate anywhere else, unlike Israeli CA.</p>	<p>situation seems to reflect a certain degree of protectionism.</p>
<p>Complex procedures for transport of goods travelling from WB to Gaza.</p> <p>Gaza Customs code had been freezed. No products designated to Gaza are allowed to pass Israeli ports. Complete closure is implemented on Gaza except for the 4 essential products (flour, sugar, rice and medicine). Petrol is allowed with limited quantities. Movements to/out of Gaza in nearly impossible, only very few businessmen are allowed to pass via Erez.</p> <p>No pesticides are allowed into Gaza.</p>	<p>10-15 days needed for necessary registrations and authorizations; then, 2-4 weeks needed to enter Gaza.</p> <p>Traders incur theft and damaged products at Karni border due to closures and delays in entering goods to Gaza.</p> <p>Importers paid up to \$10,000 cost per truck at some point.</p>	<p>Gaza closed since July 2007.</p>	<p>Israelis claim these measures are essential for preventing terrorism and similar risks.</p>
<p>For exports to Jordan or to third countries via Jordan, Damiya and Allenby bridges must be utilized, according to lists of items, varying from time to time. Damiya bridge is currently closed by Israelis for "reconstruction works" but no progress is reported (being a military bridge no official explanation has been disclosed by Israelis on the actual objectives and duration of the works).</p> <p>Israeli stalling in regards to the operation of the Gaza sea and air ports, which further impedes Palestinian access to direct imports and export markets.</p> <p>Traders are not able to communicate to borders officials.</p>	<p>Extremely complicated and costly situation for Palestinian exporters and shippers due to back to back process instead of direct off loading in Jordan, similarly to Sheikh Hussein bridge – for Israeli and Jordanian trucks -).</p> <p>For export of Palestinian goods to Jordan not complying either with Israeli or Jordanian authorized lists, exceptional permits have to be requested each time through the PA (Ministry of National Economy) to Jordanian authorities.</p>	<p>Possible difficulties for Palestinian (semi-finished and finished) goods to enter Jordanian markets for further processing in the context of future pan-accumulation.</p> <p>Damiya Bridge still closed but goods are exported through Allenby Bridge without any problems. A major issue remains the unavailability of warehouses (storage areas) in case goods are not exported for any reason.</p>	<p>Damiya bridge is a military bridge and Israelis allow limited number of items to transit for security reasons (food stuff, construction materials etc.). Israelis require, for security reasons, that different items loaded on miscellaneous trucks are unloaded and transferred individually to Jordan.</p>

## 9 Bonded Areas.

(Storage areas pre custom)

Despite the Israeli restrictive measures, the land-locked status and the market access conditions, yet still the Palestinian shippers and traders have recorded an enormous performance by year 2005 (most updated statistics as published by the PCBS). The total value of imported automotive vehicles is equal to 131 million USD.

As apparent by the below chart, the most frequent vehicles which are imported to Palestine are the saloon and station wagon cars, as they account to 55% of the Palestinian market share; followed by the pick ups vehicles accounting to around 18% and the motor vehicles for the transport of goods of around 16%.



Palestinian importers are forced to store their automotive transports at Israeli warehouse facilities called “Bonded areas”. These are warehouses under the control of customs authorities. Goods are placed in the bonded areas, before going through clearing procedures. Customs duties are not paid unless goods are taken out of the bonded area.

### **Problems encountered by Palestinian importers:**

Palestinian importers encounter daily problems at Israeli storage facilities areas, referred to as bonded.

1. They don't have an easy access to check their vehicles at the Israeli bonded.
2. Palestinians pay extra charges for inland transportation to their warehouses.  
Israelis use their own showrooms as Bonded Areas since customs apply the custom envelope on products that have high custom tariff such as cars.
3. Damages to vehicles during shipping and storage can only be assessed by Israeli surveyor. Vehicles can't be released for damage assessment until customs is paid.  
Again Israeli importers of the same vehicles have better privileges.
4. Some parts are stolen from the vehicles during storage or within port areas.

5. Palestinian importers are required to provide a Bank Guarantee if to release any of the cars for an automotive exhibition. The guarantee will cover the full custom duty and VAT. Israelis have no such requirement.
6. The Israeli Ministry of Transportation check each and every car imported by Palestinian importer; while Israeli counterparts have less rigours checks. Moreover, the check is done by one person only.
7. The Bonded never admitted of any of the damages or theft occurring while cars are stored at their warehouses; thereby, most often, the Palestinian importer is not compensated by the insurance companies.

### **Reasons to have a Palestinian Bonded:**

The Israelis have tied the Palestinian economy along with the Israeli economy for the interest of the latter and thereby the Palestinian foreign trade is captive to the unpredictable Israeli economic policies imposed on Palestinian imports only. Therefore the need to have a Palestinian Bonded can be summarised as:

- a. A full Palestinian control over all imported products. A sense of independence rather than caption.
- b. Facilitate the access to all Palestinian Shippers' under the supervision of Palestinian customs and the creation of a custom's envelope that will enable Palestinians to release goods without paying the full customs as the case might be for vehicle.
- c. Reduce high storage rates imposed by the Israeli bonded. Create a competitive advantage.
- d. Increase volume of imports, especially where custom duty is high, such as cars.
- e. Reduce extra transportation cost between cities and from port to warehouses.
- f. Inflect the reduction in cost on the consumer.
- g. Activate the responsibilities of each Palestinian Ministry towards import specification.

The development of the Palestinian economy throughout decades of the Israeli occupation provides a striking proof that the Palestinians can effectively manage their own bonded given that the Palestinian vehicles are properly licensed by the concerned authorities. Therefore, trade and logistics problems have to actively be addressed and reported, for example PSC has saved the Palestinian economy millions of dollars, when it negotiated with port authority the increase in number of free storage days that were allocated to Palestinian Shippers' from three days to six days. Israeli importers on average clear their goods in 24-48 hours, while Palestinians require an average of 7-10 days.



## 10 Summary

The Table below intends to match "Main Problems" identified and  
Proposed Solutions  
(Reference PSC)

KEY AREAS	MAIN PROBLEMS	Interventions Carriers	Interventions Administrations	Network	Information	Training
		I	II	III	IV	V
<b>Inland transport</b>	Trucks movement & availability (cost)	a	b		a	
	Transport permits (Trucks & Drivers).	c	b		a	
	Check points (delays and damages).		b		a	
	Back – to – back (no containers)	c	a		a	
<b>Crossing into Israel</b>	Lack of knowledge on legal framework and procedures related to imports and exports.			a	a	b
	Excessive Security checks.	c	b	b		
	High Cost of transport	c	b		a	
	No direct route (transit route control).	b	b			
<b>Ports/Airports</b>	Special permit for trucks in/out of port area.	c	b			
	No proper knowledge on ports processing procedures.			a	a	b
	Costs related to scanning of Containers and corresponding billing;		b	a	a	
	Demurrage (time & cost) due to security checks (scanners, long waiting time, full checks).	c	b			
	Limitation on plane cargo.	a	a	a	a	

KEY AREAS	MAIN PROBLEMS	Interventions Carriers	Interventions Administrations	Network	Information	Training
		I	II	III	IV	V
<b>Border crossing (incl. Customs)</b>	Back-to-back truck transfer.	<b>b</b>	<b>b</b>		<b>a</b>	
	Undue charges for screening of Containers	<b>b</b>	<b>b</b>		<b>a</b>	
	Damaged goods from handling.	<b>b</b>	<b>c</b>			
	Inflexibility of procedures at crossing points resulting in excessive costs and time;	<b>b</b>	<b>b</b>		<b>a</b>	
<b>General administration</b>	Handling of container deposits and their recovery.	<b>b/c</b>	<b>b</b>		<b>a</b>	<b>b</b>
	Importer/Exporter keeps containers too long.	<b>c</b>	<b>a</b>		<b>a</b>	<b>a/b</b>
	Palestinian customs agents (do not exist) depend on Israeli Customs brokers.		<b>a</b>		<b>a</b>	<b>a/b</b>
	Lack of up-to-date information on Customs laws, regulations and tariffs, as well as fees & charges.				<b>a</b>	
	Discriminated treatment of Palestinian cargo as compared to Israeli cargo (Customs, security, fees,...).	<b>c</b>	<b>b</b>		<b>b</b>	<b>a</b>
<b>Shipping and Air transport</b>	Control of main transport left to Israeli Freight Forwarders.	<b>c</b>	<b>b</b>			
	Reduced air-freight opportunities.	<b>c</b>	<b>b</b>	<b>b</b>	<b>a</b>	
	Air minimum weight stipulations	<b>c</b>	<b>b</b>	<b>b</b>	<b>a</b>	
<b>General transport and freight</b>	Consolidation of cargo by shipping lines	<b>a</b>	<b>c</b>		<b>a</b>	

KEY AREAS	MAIN PROBLEMS	Interventions Carriers	Interventions Administrations	Network	Information	Training
		I	II	III	IV	V
forwarding and support services	Lack of understanding of legal obligations, procedures, fees and charges.				a	a
	Lack of access to air freight on passenger planes and obligation to use specific freighters.	a	c			
	No licensed Palestinian freight forwarders and use of Israeli Freight Forwarders.	b	a			
	Knowledge of transport obligations stemming from sales terms (INCOTERMS 2000).				a	a

#### **Interventions / negotiations with Carriers**

- I.a.** Negotiate conditions of carriage with carriers' associations and/or individual carriers (e.g.: minimum weight requirement on air shipment);
- I.b.** Organize collective action to support initiatives that would benefit Palestinian shippers (e.g. provision of door-to-door transport operations between Israeli ports and available Inland Clearance Depots (so-called "dry-ports") located along the Israel-Palestine border lines);
- I.c.** Negotiate improved organization and efficient provision of services by individual Palestinian and Israeli carriers/terminal operators.

#### **Interventions / lobbying with Administrations**

- II.a.** Palestinian authorities have to be informed of domestic and international developments affecting shippers. Ensure that concerns of Palestinian shippers are adequately reflected in PA decisions and legislative processes;
- II.b.** Raise Palestinian trade-related issues to selected Israeli administrations with a view to reach fair treatment and solutions;

- II.c.** Draw the attention of concerned administrations and a wider international audience to specific and critical issues regarding the situation of Palestinian shippers.

### **Networking**

- III.a.** Facilitate exchange information among importers/exporters on particular Israeli trade requirements (e.g. certificate of product conformity; consolidation among shippers);
- III.b.** Facilitate “external” networking with trade and transport-related international/regional/national organizations with a view to share experiences on actions.

### **Share / provide information**

- IV.a.** Provide general information to all importers/exporters, particularly regarding:
- Update –on a regular [ad-hoc] basis- of national Israeli and Palestinian laws, regulations, documents and procedures applicable to Palestine Import and Export [with linkage to ASYCUDA functionalities],
  - Compilation of typical cost structures based on transport operation details (costs and times) corresponding to representative shipments by major industrial/economic sectors;
  - Establishment of simple benchmark indicators on transport costs and times under similar operational conditions
- IV.b.** Provide individualized information (on an ad-hoc and possibly commercial basis), such as in the case of certification of product conformity;

### **Training**

- V.a.** Training on general issues with a duration between one full day and three days (e.g.: International Trade Transport; INCOTERMS 2000; Transport contracts; Payment issues, etc.)
- V.b.** Targeted/pragmatically training on specific issues with duration between a half-day and a full day (e.g.: Guideline on Import/Export operations in/out of West Bank)

## **11 Recommendations.**

1. The Israelis in cooperation with all Palestinian Ministries should facilitate the process of all necessary documents, licenses and certificates required for importing and comply with all International Trade Agreements that are signed either with Israel – PLO or PLO with the rest of the world.
2. Israel and the Palestinian Authority should start the process of having Free Zone Areas, Bonded or Dry Port that will allow Palestinians to have full control of their own imported/exported goods. The EU can supervise such areas and capacity builds the Palestinians in this field, similar or quasi similar to the EU BAM at Rafah crossing.

3. Palestinian importers who are credible and have a long importing history should be fast tracked by the Israeli customs. A list can be updated and coordinated between the Palestinian Ministry of Economy and its Israeli counterpart.
4. Legalising Palestinian Custom Agents and Freight Forwarders. This should protect the interest of the Palestinians and the Israelis. Palestinians amongst themselves will arabise their own documents.
5. A coordinated effort between Palestinian Standard Institute (PSI) and Israeli Standard Institute on issues concerning Palestinian Importers specifications and checks. Palestinians should approach their own Standard Institute, who then coordinates with the Israeli institute. The PSI will create a database of all products checked and can reduce cost if similar product is to be imported by a different Palestinian importer.
6. Special import certificates or licences should be coordinated between Israeli and Palestinian Ministries in order to assist importers and exporters and expedite process.
7. Key members of the Israeli and Palestinian private sectors recommended in a joint study that peace negotiators adopt a "Free Trade Agreement Plus" (FTA Plus) as the basis for economic relations between Israel and any future Palestinian state. (This agreement compliments the PP and it avoids its pitfalls). (This can also be a new trade agreement). (PA might be in the process of negotiating such new agreement)
  1. Provides a free trade in goods and services but with economic borders and hence economic sovereignty.
  2. Involves deeper integration of the two economies to make doing business easier.
8. Israel must reduce time spent or processed on high security inspection on export and import at all ports and airports including Allenby Bridge (with Jordan). And increase the security area and reduce the exposed area to any weather conditions.
9. Containers are not allowed to and from Jordan due to lack of infrastructure. Palestinians can benefit a lot from this route if allowed via Aqaba port. (Competitive advantage)
10. Reinstall the Palestinian presence at the Allenby Bridge as it was the case in 1995, when Palestinian customs acquired a joint responsibility with Israelis after signing PP.
11. Not to limit export and import through Allenby to open Damyia Bridge as well.
12. Sustained commitment from the EU and the international community in a similar manner as the AMA was brokered in order to bridge the economical gap between Israel and Palestine and to ensure that all trade agreements are properly implemented by both parties.

## Annex 1

### List A1

(According to Article III, para 2.a. (1))

TARIFF ITEM	DESCRIPTION	QUANTITIES (Tons)	
		Annual	3 Months
17.01	Cane or beet sugar and chemically pure sucrose, in solid form	25,000	6,300
9/1100	Cane sugar		
7/1100	Beet sugar		
1/9100	Other, containing added flavouring or colouring matter		
5/9990	Other		
10.06	Rice	20,000	5,000
5/1000	Rice in the husk (paddy or rough)		
4/2000	Husked (brown) rice		
3/3000	Semi-milled or wholly milled rice, whether or not polished or glazed		
2/4000	Broken rice		
07.13	Dried leguminous vegetables, shelled, whether or not skinned or split	2,000	500
3000	Beans ( <i>Vigna</i> spp., <i>Phaseolus</i> spp.)		
3/3100	Beans of the species <i>Vigna mungo</i> (L.) Hepper or <i>Vigna radata</i> (L.) Wilczek		
1/3200	Small red (Adzuki) beans ( <i>Phaseolus</i> or <i>Vigna anularis</i> )		
9/3300	Kidney beans, including white pea beans ( <i>Phaseolus vulgaris</i> )		
6/3900	Other		
4/4000	Lentils		
07.13.5000/3	Broad beans and horse beans	4,500	1,100
52.01/9	Cotton, not carded or combed	(a)	(a)

10.05.9000	Maize (corn)	1,200	300
Ex 04.06.9000/0	Dried yogurt	500	125
01.04.1000/9	Live sheep	(b) 5,000 hds	3,000 hds
25.05.1000/5	Silica sands and quartz sands	(a)	(a)
10.02/5	Rye	(a)	(a)
10.03/3	Barley	36,000	9,000
76.01	Unwrought aluminum		
1000/7	Aluminum not alloyed		
2000/6	Aluminum alloys		
76.02/6	Aluminum waste and scrap	4,000	1,000
76.03	Aluminum powders and flakes		
1000/3	Powders of non-lamellae structure		
2000/2	Powders of lamellae structure; flakes		
18.01/0	Cocoa beans, whole or broken, raw or roasted	(a)	(a)
25.23	Cement (c)	150,000	50,000
JE 1090/9	Cement clinker, not white		
JE 2900	Portland cement, not white		
	Bars and rods of iron or non-alloy steel: (c)	24,000	8,000
JE 72.13.1000/1	Containing indentations, ribs, grooves or other deformations produced during the rolling process		
JE 31.03	Mineral or chemical fertilizers, phosphatic		
1000/8	Super phosphates		
2000/7	Basic slag		
9000/0	Other		
JE 31.04	Mineral or chemical fertilizers, potassic		

1000/6	Carnallite, sylvite and other crude natural potassium salts	(c) 6,000	2,000
2000/5	Potassium chloride		
3000	Potassium sulphate		
9010			

Items marked JE may be imported only from Jordan and Egypt

List A2

(According to Article 111, para 2.a. (2))

TARIFF ITEM	DESCRIPTION	QUANTITIES (Tons)	
		Annual	3Months
17.01	Cane or beet sugar and chemically pure sucrose, in solid form	25,000	6,300
9/1100	Cane sugar		
7/1100	Beet sugar		
1/9100	Other, containing added flavoring or coloring matter		
5/9990	Other		
10.06	Rice	20,000	5,000
5/1000	Rice in the husk (paddy or rough)		
4/2000	Husked (brown) rice		
3/3000	Semi-milled or wholly milled rice, whether or not polished or glazed		
2/4000	Broken rice		
07.13	Dried leguminous vegetables, shelled, whether or not skinned or split	2,000	500
3000	Beans (Vigna spp., Phaseolus spp.)		
3/3100	Beans of the species Vigna mungo (L.) Hepper or Vigna radata (L.) Wilczek		



1/3200	Small red (Adzuki) beans ( <i>Phaseolus</i> or <i>Vigna anularis</i> )		
9/3300	Kidney beans, including white pea beans ( <i>Phaseolus vulgaris</i> )		
6/3900	Other		
4/4000	Lentils		
07.13.5000/3	Broad beans and horse beans	4,500	1,100
52.01/9	Cotton, not carded or combed	(a)	(a)
10.01	Wheat and meslin	(c)	(c)
11.01/5	Wheat and meslin flour	(c)	(c)
10.05.9000	Maize (corn)	1,200	300
Ex 04.06.9000/0	Dried yogurt	500	125
01.04.1000/9	Live sheep	(b) 5,000 hds	3,000 hds
25.05.1000/5	Silica sands and quartz sands	(a)	(a)
10.02/5	Rye	(a)	(a)
10.03/3	Barley	36,000	9,000
09.01.1000	Coffee not roasted	2,200	550
1120/4	Not decaffeinated, not ground		
2/1220	Decaffeinated not ground		
09.02	Tea, in packages exceeding 3 kg.	400	100
5/2000			
4000/3			
18.01/0	Cocoa beans, whole or broken, raw or roasted	(a)	(a)
15.13.2000	Palm kernel oil or babassu oil babassu oil and their fractions	5,600	1,500
5/2110	Crude edible oil		
7/2911	Hardened or solidified edible oil		
5/2921	Other edible oil		
02.01	Meat of bovine animals, fresh or chilled	5,000	1,500
02.02	Meat of bovine animals, frozen		
12.07.4000/6	Sesame seeds	2,000	1,000

1. Quantity will be approved according to Palestinian proved needs.
2. To be discussed by the Joint Sub-Committee.
3. To be raised with the United States and subsequently discussed by the Joint Sub-Committee

#### List B

1. Equipment for building and sand work
2. Equipment for textile industry
3. Commercial refrigerator
4. Farm machinery
5. Electrical equipment
6. Equipment for the stone industry
7. Conveyance equipment
8. Pharmaceutical products
9. Other equipment

#### Annex 2

EURO.1<sup>28</sup> is the name for a form, which is used in international commodity traffic. The application of this form is based on application of various bi- and multilateral agreements within the Pan-European preference system (the European Union Association Agreement).

In the free trade agreements goods are defined, which apply to cheaper rates of duty or to be completely duty-free introduced, on the condition that they were completely manufactured in a member country or in such were so far worked on that they become on an equal footing in accordance with the agreements of the origin of the products. In order to profit from the preferential rate during a customs clearance, a EURO.1 movement certificate, in short EURO.1, must be handed over to the competent authority (usually a customs administration), in which the manufacturer certifies the origin of the goods.

The EURO.1 is recognized also as a certificate of origin in the external trade in legal sense. In place of a movement certificate also a declaration of origin on the invoice can be provided by the manufacturer or sender of the goods, if the amount of items with EU preferential origin of a single shipment does not exceed €6,000. If it concerns an approved exporter, the delimitation of 6,000 Euro does not apply. The creator of such a movement certificate or declaration of origin must be able to prove the origin characteristics of the goods with a possible check on supplier declarations.

The exporter fills in the form and then hands it over or sends it in to the competent authorities, usually customs, who stamp it and send it back to the exporter.

A **Certificate of Origin** (often abbreviated to CO) is a document used in international trade. It traditionally states from what country the shipped goods originate, but "originate" in a CO does not mean the country the goods are shipped from, but the country where there goods are actually made. This raises a definition problem in cases where less than 100% of the raw materials and processes and added value are not all from one country. An

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<sup>28</sup> Reference - [http://en.wikipedia.org/wiki/EUR.1\\_movement\\_certificate](http://en.wikipedia.org/wiki/EUR.1_movement_certificate)

often used practice is that if more than 50% of the sales price of the goods originate from one country, that country is acceptable as the country of origin (then the "national content" is more than 50%). In various international agreements, other percentages of national content are acceptable.

When countries unite in trading agreements, they may allow Certificate of Origin to state the trading bloc as origin, rather than the specific country.

The document may be informal, i.e. issued for example by the exporter, but often the importing country may require a formal document, often to be confirmed by an official body in the exporting country. In many cases specific formal documents are required, such as for shipments under the North American Free Trade Agreement, or for preferential customs treatment in importing countries for shipments of processed/manufactured goods from less developed countries to developed ones (often referred to as the green CO form "A", or GSP (Generalized System of Preferences) Form A CO).

The CO is primarily important for classifying the goods in the customs regulations of the importing country, thus defining how much duty shall be paid. But it may also be important for import quota purposes and for statistical purposes, and especially for food shipments, it may also be important for health regulations.

Before concluding a transaction, the exporter and importer should always clarify whether a CO is required, and if so, agree on exactly the form and content of the CO.

A **preferential certificate of origin** is a document attesting that goods in a particular shipment are of a certain origin under the definitions of a particular bilateral or multilateral free trade agreement (FTA). This certificate is required by a countries customs authority in deciding whether the imports should benefit from preferential treatment in accordance with special trading areas or customs unions such as the European Union or the North American Free Trade Agreement (NAFTA) or before anti-dumping taxes are enforced.

The definition of "Country of Origin" and "Preferential Origin" are different. The European Union for example generally determines the (non-preferential) origin country by the location of which the last major manufacturing stage took place in the products production (in legal terms: "last substantial transformation").

Whether a product has preferential origin depends on the rules of any particular FTA being applied, these rules can be value based or tariff shift based. The FTA rules are commonly called "Origin Protocols".

The Origin Protocols of any given FTA will determine a rule for each manufactured product, based on its HTS (Harmonised Tariff Schedule) code. Each and every rule will provide several options to calculate whether the product has preferential origin or not. Each rule is also accompanied by an exclusion rule that defines in which cases the product cannot obtain preferential status at all.

A typical value based rule might read: raw materials, imported from countries that are not members of this FTA, used in production do not make up for more than 25% of the Ex-Works value of the finished product.

A typical tariff shift rule might read: none of the raw materials, imported from countries

that are not members of this FTA, used in production may have the same HTS code as the finished product.