

---

# **Trade and Transport Facilitation Audit**

---

Palestine

By

Saad O. Khatib, J.D.

December, 2005

---

**Overview**

The Palestinian economy has undergone a drastic change in the past four years. The strong yet nascent economic growth and development of the 1990s came to a standstill in September 2000. The unrest, Israeli invasions and destruction of property and infrastructure, Israeli-imposed restrictions on movement of people and goods, both internally and through borders, and deterioration of trade relations with Israel have intensified the de-development process resulting from years of occupation of the West Bank and Gaza. Efforts to break out of this trend through political initiatives such as the Roadmap and attempts to restart final status negotiations have yet to show political or economic results. Despite some limited indications of economic stabilization in 2003, the burden of recovery has been too heavy to overcome under the current circumstances. Furthermore, aid efforts have been focused on relief and stabilization and have been unable to reverse this trend.

The past two years have brought new political realities with further economic implications. Despite the recent ruling by the International Court of Justice, the building of the 'separation' wall continues. While the impact of the wall on Palestinians' productive capacity has yet to be fully studied, it is likely to cripple economic activity in Palestinian areas directly affected by the wall (on both sides) and have demographic impacts that further compound the pressures on the economy. Furthermore, the proposed Israeli 'unilateral disengagement' plan is sure to have economic implications, particularly on Palestinian employment and trade, which must be addressed.

The implication for policy-makers is that efforts to develop the Palestinian economy must address the political realities that have set this trend of de-development in motion, primarily the impacts of Israeli occupation and Palestinian dependence on the Israeli economy. In terms of immediate

---

recovery, this translates into addressing the internal closures and restrictions in the West Bank and Gaza and restricted border access.

The proposed disengagement plan, with its limited withdrawal from Gaza, will not provide an adequate impetus for economic recovery and has broader economic implications. On the other hand, a removal of internal closures within the West Bank and Gaza, the establishment of a territorial link between the West Bank and Gaza, and the establishment of a reformed border regime would provide an impetus for immediate recovery of the Palestinian economy in the short-term. Specifically, trade and more precisely export facilitation should not only be considered an essential part of a recovery package, but should be viewed as a necessary tool to achieve said recovery within the understanding that export of Palestinian goods and services is the major instrument for recovery and potential development.

### **The Paris Protocol**

The Palestinian economy has become increasingly mortgaged to the Israeli economy since the beginning of Israel's occupation on June 4, 1967. The existing trade regime between Palestine and Israel, as stipulated under the terms of the Paris Protocol has aggravated the Palestinian economy's dependence on Israel, rendering Israel crucial for setting the Palestinian economy on the path of sustained development.

The Protocol stipulates the freedom of movement of agricultural and manufactured goods between the two sides and the normality of labor movement, while limiting Palestinian trade with Egypt and Jordan to a specific list of goods, subject to predetermined quantities.

Although the Protocol denotes the same economic and trade treatment for Palestinian trade through Israeli ports and airports, Israeli security measures at the main border crossings with the two countries have undermined the ability of Palestinian industries to extend their outreach beyond Israel. Israel's management of ports and airports, when related to Palestinian trade activities, has been described as poor, unpredictable, and expensive, not to mention discriminatory against Palestinian trade.

Nonetheless, over the course of the hesitant steps to implement the Oslo

*Closures are a key factor behind today's economic crisis in the West Bank. They have fragmented Palestinian economic space, raised the cost of doing business and eliminated the predictability needed to conduct business," says Nigel Roberts, World Bank Country Director for the West Bank and Gaza*

Agreements  
and the Paris  
Protocol, the  
Palestinian  
economy

began to show growth as Israel gradually reduced its barriers to trade, thus allowing increased trade with Israel and a modest increase in trade with regional and international markets. This growth was underscored by a further integration of the Palestinian economy with that of Israel, which accounted for nearly 80% of total value of Palestinian trade in 1998.

## **Closure and Trade**

Since 2000, Israeli measures have severely constrained the limited trade flows that had begun to emerge until then, plunging the occupied Palestinian territory into a humanitarian catastrophe that has complicated attempts to re-establish the foundations for peace and increased Palestinian popular desperation. The need to restore Palestine's economic and trade relations with Israel and the rest of the world cannot be over-emphasized, especially when considering the devastating economic impact of the abrupt suspension of these relations in October 2000.

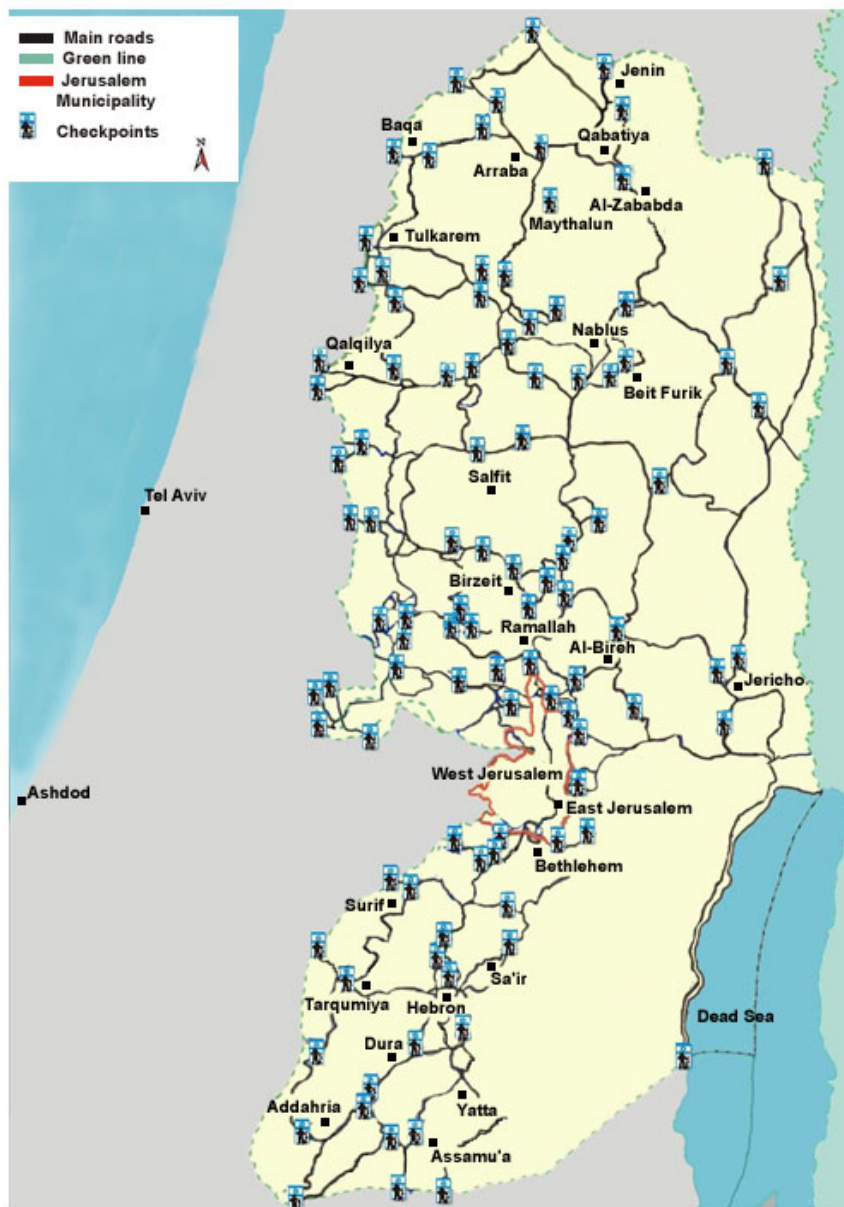
### **The West Bank Closure**

The West Bank closure system comprises over 600 physical barriers placed by the Israeli Occupation Army on roads to control and restrict Palestinian vehicular traffic, which the Israeli Government claims is designed to protect Israeli citizens from Palestinian attacks. The closures are the primary cause of poverty and the humanitarian crisis in the West Bank and Gaza and have restricted Palestinian access to health and education services, employment, markets and social and religious networks. The types of barriers include full-time and partially manned checkpoints, roadblocks (consisting of rows of one meter concrete blocks), metal gates, earth mounds, earth walls (a long series of earth mounds) and trenches.

The Palestinian Economy faces an extremely severe state of stagnation and an alarming trend of decline in the basic economic indicators if measured with the situation prior to the Israeli re-occupation of Palestinian territory. Closures and movement restrictions, the construction of the Separation Wall and the often disappearing/ reappearing checkpoints have all created a severe level of economic uncertainty which resulted in the decline of the economy.

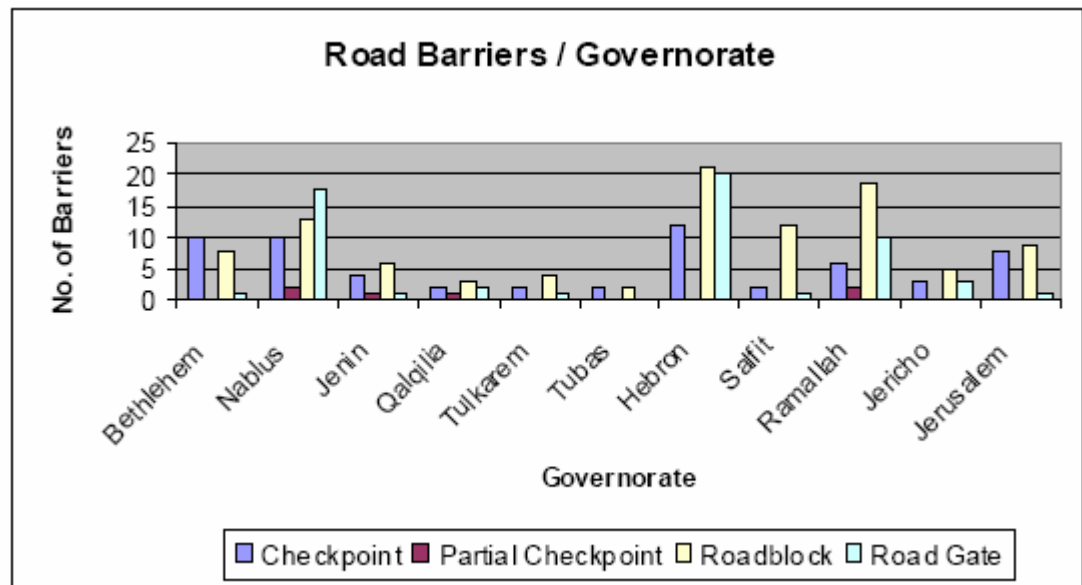
Recent (December 2004) reports by UN Office for the Coordination of Humanitarian Affairs indicate that up to **600 barriers were encountered in the West Bank alone**. These barriers can be divided into six types: (1) checkpoints, (2) partial checkpoints, (3) roadblocks, (4) road gates, (5) earth mounds (6) earth walls, and trenches. These barriers are

accompanied by severe changes in the movement of trucks carrying goods, and the cumbersome and costly back to back procedures for the delivery of goods into and out of the major Palestinian urban areas, have resulted in increasing transaction costs on Palestinian products and the minimization of internal trade. More importantly, these procedures have also affected Palestinian external trade with the whole world, including trade with Israel. The Israeli Central Bureau of Statistics has placed **Palestinian exports to Israel at about 45% lower than they were in 2000**, while **imports are about 34% lower than they were in 2000**.



Map to illustrate checkpoints within the West Bank

The presence of these barriers has been cited by the World Bank in its Four Years—Intifada, Closures and Palestinian Economic Crisis (Nov. 2004) as the most serious impediment to potential economic recovery of the Palestinian economy and a serious challenge to any possibility for development in the future. Below is a graphic of the existing barriers encountered by OCHA divided by governorate.



As of 12th of April 2005, 605 closure barriers were recorded in the West Bank compared to 680 in November 2004. The 605 figure indicates a net decline of 75 closure barriers (in certain governorates the Israeli Army installed additional closure barriers). The bulk of the 75 net decrease occurred in selected areas:

- 1) 34 were removed from the Bethlehem Governorate,
- 2) 16 barriers from the Hebron Governorate and
- 3) 12 from the Jenin Governorate.

Most of the closure barriers removed were earth mounds (92) which mostly benefited movement between individual Palestinian villages. An increase of flying checkpoints (random stop and searches), however, has been observed at locations where earth mounds were removed.

It has been observed that movement between governorates improved with the easing of two checkpoints:

- 1) The Shave Shomeron checkpoint between Jenin, Nablus and Qalqiliya; and

- 2) The Ein-ad-Duyuk checkpoint, between Jericho and Ramallah, which was relocated following the handover of security of Jericho City to the Palestinian Authority.

It should be indicated, however, that in areas where the changes in closures occurred, the removal of closure barriers is consistent with the shifting of Palestinian vehicular traffic away from routes used by Israeli settlers and from the Barrier (or its planned route). Thus, it becomes clear that the closure regime, with all the suffering and damage it has caused to the Palestinian economy aims first and foremost at changing the movement patterns of the Palestinian Population in the West Bank in order to forcibly accommodate the illegal settlements and to prevent Palestinians from using the roads network which has been dedicated to settlers.

Movement into the closed areas between the Wall and the Green Line has been restricted through the irregular opening and closing of the gates along the wall, and the issuance as well as manipulation of the green permits (permits to move in and out of the walled area).

### **The Gaza Closure**

Just as in the West Bank, the Gaza Strip has its share of closure and movement restrictions. In most cases, these are even more severe than the West Bank. In the area of external trade, **Rafah Crossing** is a passenger and a commercial crossing point for travelers and goods into and from Egypt. This crossing point is currently closed to Palestinians and their goods. **Gaza Airport** is a passenger and light cargo airport which was closed down by the Israeli army in 2001 when the runways were partially razed by the Israeli army. **Erez or Beit Hanoun crossing:** into Israel is a passenger and limited goods crossing which opens and closes at whim, thus denying Gaza residents and laborers a passage for going from Gaza to the West Bank and Israel. **Karni or Al Montar Crossing** is a commercial crossing for manufactured goods, agricultural produce and food supplies to enter into and out of the Gaza Strip. It is the main crossing for imports and exports of goods into and out of the Gaza Strip via Israel and into the West Bank. It has finally been opened after 14 days of closure by the Israeli Army. **Sofa Crossing** a passenger and commercial crossing for Palestinian laborers working in Israeli settlements, aggregate and construction materials. **Kissufim or Al Qarara Crossing** is a passenger crossing that allows Palestinian laborers to go to their work in nearby settlements.

**Gaza Sea Port** work started on the port before the second Intifada and stopped during the first year of the Intifada due to Israeli military orders.

The major checkpoint separating the north and the south of Gaza Strip is Abu-Holi that is situated near the town of Deir Al Balah, which cuts the Gaza Strip into two parts.

### **Back to Back Transport**

Movement restrictions are of a varied nature within the West Bank and Gaza Strip for Palestinian trucks (and to a lesser extent Israeli trucks). The movement of goods has been restricted in several ways. Restriction of entry of trucks into each of the Palestinian Urban areas is by checkpoints and the Israeli army, whether these trucks carry products, raw materials or machinery. Exceptions to this rule are trucks that have permits, which are difficult to obtain. Having a permit does not necessarily mean going through checkpoints, it is dependent on the soldiers manning these checkpoints. Upon arrival at a checkpoint, products are off loaded from the back of one truck and re-loaded on to another at the entry point. Unloading is done either through forklifts or through placing products on the ground and then re-loading them manually onto the other truck.

Israeli authorities facilitate Israeli trucks carrying products and raw materials of Israeli origin. The cost of these Israeli trucks is 4 to 5 times the cost of Palestinian trucks carrying the same products. Products are allowed to enter on a daily basis with the exception of Fridays, Saturdays and holidays and only until 7:00 PM. Even trucks which carry permits for entry into the cities are arbitrarily prevented from doing so and forced to use the back to back system. It is estimated that around 50 trucks per day pass through the commercial checkpoints of each city in a back to back manner, whether incoming or outgoing. The number of trucks within each governorate ranges from 150 to 200 trucks, which are only allowed to move within the governorate (within the checkpoint area).

### **Transaction Costs**

The back to back system naturally increases the cost of transportation for both finished products and raw materials; this increase in transaction costs manifests itself in two ways: First, these Israeli measures have forced a diversion from the use of Palestinian trucks to Israeli ones because they are guaranteed easier passage from one town to the other and simpler procedures. Second, the process of unloading and reloading products has also increased the cost of transportation significantly, thereby rendering locally manufactured Palestinian products uncompetitive even in the Palestinian market.

Prior to September 28, 2000, a Palestinian producer used to pay 100 to 150 Israeli Shekels (NIS) to transport his/her product from Nablus to

Ramallah on Palestinian trucks. Now, the same product with the same quantity costs between 600 to 700 NIS to travel the same distance. The added costs of transport are broken down as follows:

- 1) The transfer of products from one trailer head to another for construction materials costs about 250 NIS.
- 2) The transfer of products from one trailer head to another for raw materials costs about 350 to 400 NIS.
- 3) Use of a forklift for unloading and reloading pallets costs about 100 to 200 NIS per truck, which does not include the cost of the forklift operator.
- 4) Cost of transportation after the checkpoint ranges between 200 to 600 NIS.
- 5) The cost of waiting in line at the checkpoint and demurrage, as well as delays due to closure and security checks.

Thus, the back to back system has caused major delays in the delivery of products, lost time, as well as an overall increase in the cost of transportation by approximately ten times what it was prior to September 28. In the case of bulk materials, the damage is doubled, since the product is off loaded onto the ground, and then reloaded onto another truck with a crane, thereby, damage is incurred to the product and a significant amount is lost in the process as it mixes with the dirt, sand and pebbles which are customarily found at any checkpoint.

### **The Functioning of a Checkpoint :- The Karni Example**

Al-Muntar (Karni) commercial passage is the only trade gateway between Israel and the Gaza Strip. Products moving from this passage are not only destined to Israel, but they may also be headed to the West Bank, or to the outside world through Israeli ports and airports. Thus, Karni formulates the lifeline between the Gaza Strip and the rest of the world, especially with the closure and limitations on the movement of commercial traffic through the Rafah Checkpoint into Egypt.

The number of trucks going through Karni, and carrying products (mostly Agricultural products) from Gaza to the outside ranges from 30 to 40 per day, while the number of trucks bringing in products is anywhere from 150 to 200 daily. Most of the incoming shipments (approximately 80%) are Israeli products, while 20% are from the West Bank and other sources.

Products going out of the Gaza Strip through the Karni crossing are off-loaded into special loading areas and then placed on a moving conveyor belt which is secured by cement blocks. The product then moves on the conveyor belt into windows which end in x-ray machines that check the contents, and then is re-loaded onto Israeli trucks that carry it to its destination.

Containerized products which are destined out of Gaza must go through a similar procedure, whereby the truck carrying the container enters Karni from the Palestinian side, and backs into a long cement protected corridor. The container is unloaded by the Israeli side, checked and reloaded onto Israeli trucks to go to their respective destinations.

Products which are intended for entry through Karni into the Gaza Strip undergo a puzzling process. Trucks must take a turn to enter the crossing depending on the point of origin of the product (Israel, Israeli ports or the West Bank). The waiting time for entry into the crossing point for products of Israeli origin range from one to 3 days, while products coming from Israeli ports destined for Palestinian importers may take up to a week. Products coming from the West Bank to Gaza may take up to 4 weeks of waiting to be allowed to enter into the crossing point, and to enter the security checking procedures prior to entry into Gaza. Products of Israeli origin do not have to undergo security checks, while all other products have to go through strict security procedures, even products coming from Israeli ports, which have just undergone security inspection in these ports.

Dairy products originating in Hebron, for example have to undergo a security inspection at the Tarqoumia checkpoint on the way out of the West Bank towards Gaza because they are going to cross Israeli territory. Upon arrival at the Karni checkpoint, these same products have to wait on the truck for their turn to go through security inspection. The waiting period even for perishable dairy products ranges from 7 to 12 days. On the other hand, similar types of products by Israeli dairy manufacturers enter the same day and do not undergo any type of security inspection. This type of discrimination and selectivity in permission of entry formulates a serious barrier to trade and negatively impacts the competitive capacity of Palestinian products coming from the West Bank as well as directly imported products from other trading partners. Currently (and for about one month now) there are around 20,000 tons of construction steel at Ashdod port destined for Palestinian importers in Gaza, which are being stored at the port due to the fact that they cannot get a turn to enter Karni. This type of delay can only result in an increase in the cost of the product to the Palestinian consumer, and a reduction of competitive capacity.

The Israeli side of the Karni Checkpoint charges anywhere from 250 to 450 NIS (\$ 58 - \$105) depending on the size of the truck and the product transported, whether the product is entering or leaving Gaza. The amount charged is then divided 60% to the Israeli side and 40% to the Palestinian side for what is claimed to be crossing operations costs. Transportation costs from Karni into Gaza range between 200 to 250 NIS (\$ 46 - \$ 58) per truck.

The Karni crossing has no stable opening and closing hours, it is dependent on the mood of Israeli security at the time, but generally it is open from 6 AM to 5 PM.

## **Conclusion**

In conclusion, it becomes quite clear that the Israeli occupation with all that it entails, ranging from the internal closure and alleged security procedures, to the discrimination against Palestinian trade at Israeli ports and airports, going through the incredibly high transaction costs which are accrued along the way are all relevant factors which are set in the background, and which must be taken into account when auditing trade facilitation in Palestine. To a large extent, therefore, the majority of required facilities which go into an audit such as this one are by no means under the control of the Palestinian government / authority, but are controlled by a hostile occupation which seems intent on using economic collective punishment for both beating a population's political will into submission as well as maintaining an artificial competitive edge for Israeli products in a "captive" market worth around 2.4 billion dollars per year.

### The Concept of a Trade Facilitation Audit<sup>1</sup>

*Under normal circumstances*, the purpose of an Audit is to examine and evaluate difficulties and obstacles presented to the cross-frontier movement of a routine consignment and means of associated payment.

Experience shows that these *generally* centre on official and other authoritative procedures and related information flows. "Authoritative" procedures, apart from Customs, security and other governmental controls include banking requirements, particularly when these combine payment with credit or discounting services, pre-shipment inspection regimes, non-competitive transport systems, for example monopoly airlines or national shipping lines and quasi-monopolistic port operations.

Customs, however, form the hard core of most procedural problems. In many countries operational inefficiency and outdated regulations are aggravated and perpetuated by dishonesty.

There may be other difficulties from rigid, complex exchange controls, Payment systems, especially full-dress documentary credits, which still slow the delivery of consignments, even when carried in modern transport systems, to the leisurely pace of nineteenth century paper based banking practices. There is hardly any competition between banks in this part of their business. Too many consider it is more profitable to palliate chronic delays by issuing letters of indemnity than to strive to get the poor best out of an essentially outdated procedure.

Trading communities are often captive customers of their local port. Geographical constraints can be powerfully reinforced by limited access to key container services. State ownership, protected from competition, adds an extra dimension to operational inefficiency.

---

<sup>1</sup> Adapted from *A Trade Facilitation Toolkit: Audit, Analysis and Remedial Action*, Global Facilitation Partnership, The World Bank Group, April 2000.

Even after many years of growth, there are a surprising number of countries that have failed to assimilate and exploit the full potential benefits of multi-modality, through transport systems. Customs procedures, there, are still adjusted to traditional port-to-port movement and freight-forwarders, or others, seeking to set up as “through-transport providers”, may be unable to do so for lack of necessary legal status.

All these difficulties cast sufficiently serious burdens on traders and carriers with direct access to maritime services. Land-locked developing countries, however, largely dependent on transit arrangements, can incur a range of additional costs and handicaps.

The sort of audit set out in this toolkit is intended and has served, in practice, to offer a reasonably reliable assessment of the general nature and balance of gross difficulties. In crude terms it should show quite accurately where most of the important facilitation bodies are buried and offer an initial signpost to the sort of skills needed for priority expert advice and action.

## The Audit and Palestine

In its report Four Years – Intifada, Closures and Palestinian Economic Crisis: An Assessment, the World Bank has stated the following of the Palestinian Economy:

**“...the economy is stagnant once again. After almost four years of the conflict, average Palestinian incomes have declined by more than one third...The precipitator of this economic crisis has been ‘closure,’ a multi-faceted system of restrictions on the movement of Palestinian people and goods, which the Government of Israel argues is essential to protect Israelis in Israel and in the settlements. Closures, including the Separation Barrier, prevent the free flow of Palestinian economic transactions; they raise the cost of doing business and disrupt the predictability needed for orderly economic life. Without major changes in the closure regime and significant progress in the Palestinian reform program to improve the climate for private investors, there is no prospect of a sustained recovery of the Palestinian economy.”<sup>2</sup>**

In the same report, the World Bank then goes on to say that a trade facilitation scenario would entail:

**“A radical easing of internal closures, combined with a revival of trade across borders could foster growth in GDP per capita. Under this scenario, we assume that transaction costs for goods drop. Investment growth rates would be positive..., in response to an improved business outlook; they**

---

<sup>2</sup> Four Years – Intifada, Closures and Palestinian Economic Crisis: An Assessment, the World Bank Group, October 2004.

**would reach 2.5 percent in 2006 (compared with a negative rate of -14.5 percent under the status quo scenario).**

**Exports would grow at a rate of 30 percent per annum by 2006, compared with a 2006 level of 3.4 percent under the status quo scenario. Export growth would spur job creation, pushing unemployment down to 23 percent by 2006 (27 percent in Gaza). As a result, the poverty level would fall to 46 percent by 2006 (compared with a projected level of 56 percent under the status quo scenario).**

**Real GDP would grow by 9.2 percent in 2006, against a negative growth rate of -0.8 percent under the status quo scenario. However, by the end of 2006, per capita real GDP would remain 31.5 percent below its 1999 level.”<sup>3</sup>**

## **Methodology**

From the aforementioned World Bank assessment, it becomes clear that any attempt at trade facilitation must be undertaken through (1) a change in the treatment of Palestinian trade by the Israeli occupation authorities and (2) the identification of problem areas and bottlenecks within the Palestinian Authority and the business support services ranging from logistics and clearance to information and technology required for trade facilitation.

A clear outline of the facilitation measures required from the Israeli side can be found in the report presented by the World Bank on disengagement from the Gaza Strip and the Northern West Bank to the meeting of the Ad Hoc Liaison Committee (AHLC) in December, 2004. An Audit of trade facilitation using the aforementioned Trade and Transport Facilitation Toolkit (TTF Toolkit) developed by the World Bank will reveal what is required from the Palestinian/internal side for trade facilitation.

## **The Audit and Study**

This study is part of the United National project for capacity building in trade facilitation and electronic business in the Mediterranean (E-Med Business Project). The project aims at examining and evaluating the difficulties and obstacles related to the import and export of standard consignments, including payment processes. The study was conducted through face – to – face interviews with the main national stakeholders in the international supply chain, based on the World Bank TTF Toolkit.

Taking into account the guidance provided in the terms of reference to the study in which stakeholders and number of interviews were

---

<sup>3</sup> *Four Years – Intifada, Closures and Palestinian Economic Crisis: An Assessment*, the World Bank Group, October 2004.

identified, and in an attempt to fulfill the aforementioned objectives, 22 interviews were conducted in the following areas:

<i>Type of Stakeholder</i>	<i>Recommended number of interviews</i>	<i>Actual number of interviews</i>	<i>Notes</i>
<b><i>Forwarder, customs broker, transport operator</i></b>	6	3	As a result of Israeli regulations, only Israelis can function as customs brokers and forwarders, hence there interviews were conducted with 2 agents of Israeli customs brokers and forwarders, as well as one transport operator
<b><i>Exporters</i></b>	3	3	Two exporters from the West Bank and one from Gaza
<b><i>Importers</i></b>	3	3	Two Importers from the West Bank and one from Gaza
<b><i>Carriers</i></b>	3	1	An interview was conducted with only one express carrier, since there are no Palestinian ocean or air carrier agents
<b><i>Ports</i></b>	2	0	There are no Palestinian ports and the Israeli port authority was not accessible
<b><i>Airports</i></b>	1	0	There are no Palestinian airports functional which can be interviewed and Israeli airport authorities were not accessible
<b><i>Border Crossing Points</i></b>	2	0	Since border crossing points (both with Jordan and Egypt) are under Israeli control, Palestinian customs officials at the border crossings do not exist, and the same is applicable crossing point officials
<b><i>Commercial Bank</i></b>	1	1	One bank was interviewed in the West Bank
<b><i>Customs</i></b>	3	3	Three customs officials were interviewed, the Director General of customs, Director of Export Procedures and the director of the Asycuda project
<b><i>Chambers of commerce and local trade associations</i></b>	4	4	2 from chambers and 2 from trade associations
<b><i>Other government departments</i></b>	4	4	Director of International Relations, Ministry of National Economy, Director of Import and Export department (import licensing), and Director of Internal Trade.
<b><i>Total</i></b>		22	

## **Analysis Process**

After conducting the interviews, an analysis of the results of the interviews were qualitatively analyzed in order to identify trends, bottlenecks and points of weakness. This qualitative analysis would provide for a ball park knowledge of problems that exist in order to recommend solutions based on international best practice.

**Interview results****Customs Clearance**

The results of the interviews indicated that there are some underlying problems in both the import and the export process which are a direct product of the fact that Palestinian customs function as processors of clearing documentation “ex-post-facto” in most cases, with the aim of collecting customs revenue through the Palestinian – Israeli clearance system. Hence, the process of facilitation which comes from expediting the clearing process is not a direct responsibility of Palestinian customs, but of Israeli customs. This, coupled with the fact that there are no Palestinian customs clearance agents, in effect renders the process of facilitation hostage to the will of Israeli customs and brokers and their priorities. It also opens the door for potential corruption in Palestinian customs, since they have the capacity to follow up with the Israeli side on a case by case basis. Hence, a personal (or otherwise) relationship with a Palestinian customs official who is in touch with Israeli customs officials can expedite a business’s clearance process through personal contacts, and not in a systematized process.

Palestinian customs are in the process of implementing the Asycuda automated clearance system, which now is only used for statistical/data collection purposes. Customs identified that they deal with up to 30,000 customs clearance forms per year, which formulate the equivalent of 3 Billion U.S. Dollars in imports per year. As a result of the Paris Protocol, and the Israeli trade regime, there is no process for entry of products in transit. Products which enter the territory are either stored in special warehouses or cleared by the Israeli customs.

Both customs officials and clearance representatives have stated that an average shipment arriving at the port of Ashdod or Haifa takes about 1 week to be cleared and delivered to the final destination under normal circumstances (which are rare). This is applicable to bulk, container and other traffic.

---

On the other hand a land transport consignment usually takes anywhere from one to two weeks to clear. This is relevant to the Israeli customs broker being contracted to do the clearance and his/her connection to Israeli customs, as well as the security alert situation and the impact of the imported product on the competitive capacity of similar Israeli products in the Palestinian market.

Palestinian customs officials believe that the clearance time is too long and should be reduced, but that it is not possible for them to do anything about because it is completely under Israeli customs control. Again since clearance is done by the Israeli customs, the Asycuda system used by Palestinian customs is only for statistics. Palestine is neither a member nor an observer in the World Customs Organization, nor in the World Trade Organization, and hence does not participate in any of the technical committee in either the WCO or the WTO.

Tariffs are not published, and there is no joint private – public customs and trade committee, and no official complaints are registered against customs because of Israeli control, thus no disputes arise with the Palestinian side, and there is no point of reference on the Israeli side with regards to clearance procedures, including valuation, and there is no process of appeal.

### **Import / Export licensing and procedures**

According to both importers and exporters, the process of licensing as related to the Palestinian side does not pose a serious problem in delays. All the delays are at the Israeli side, which is responsible for giving the final approval for the issuance of licenses. There is only one potential area of delay or corruption and that is related to the licensing on imports which fall under import quotas, especially lists A-1 and A-2 whereby there is a certain level of arbitrariness. There is very little by way of delay, however in this process.

One major area of delay that forms a bottleneck for importers is the issue of standards, whereby most of the products imported by Palestinian businesses are subject to Israeli standards requirements. Most products fall under the responsibility of the Israeli standards institute, which performs prolonged and costly testing procedures to imports. There is a certain category of product which along with Israeli standards testing must also undergo Palestinian standards testing, thus exposing the importer to what legally be called double Jeopardy, which may cause delays, or even added cost, since the Palestinian standards are tested after the product is cleared and customs and taxes are collected. Therefore, if a product passes Israeli technical requirements, it may still fail Palestinian standards, and hence must either be destroyed or re-exported with no possibility for reimbursement on taxes and duties paid.

## **Trade Agreements and Facilitation**

Palestine is a partner in several trade agreements including preferential and free trade. These agreements require special certificates of origin both in import and export in order for the trader to benefit from the preferences they entail. Palestinian traders, however face an added burden resulting from the refusal of Israeli customs to recognize these agreements, as a result of the varying interpretations in the Paris Protocol on the capacity of the Palestinian Authority to enter into trade agreements. Therefore, a Palestinian importer expecting products from Europe under the EU – PLO Interim Association agreement, may expect problems at Israeli customs in the clearance process because the certificate of origin through which the preference is determined may not be recognized by Israeli customs because it refers to the Palestinian not the Israeli agreement.

There is also a problem of bureaucracy which has just surfaced with regard to certificates of origin for products exported to Arab countries which must be produced by the Chambers of commerce, and which then need to be notarized by the Ministry of National Economy. Recently the Ministry of National Economy has been requesting that prior to notarization, the exporter must get the approval of the customs, VAT and Taxes department. This of course will only add a layer of bureaucracy, therefore causing further delays.

## **Transportation**

Given the existing closure system and the roadblocks and impediments to trade which exist, the Palestinian transportation system for goods is on the verge of a breakdown. This is most prevalent because under this closure system, it is much easier and faster to use Israeli (yellow plated) trucks, than Palestinian trucks, but Israeli trucks cost up to 10 times as much as Palestinian trucks. Palestinian trucks sometimes cannot move from one city to the other, and require special permits in order to get around within Palestine. Thus trucks that have a permit to move within the West Bank cost more than others, and are only for internal movement or to reach the border crossing point with Jordan. In order for products to reach Israeli ports and airports, which most Palestinian trade is dependent on, as well as for transportation between the West Bank and Gaza, higher cost Israeli trucks must be used.

## **Communications and Technology**

Importers, exporters and clearance representatives all stated that they mostly use the Facsimile and the email in their communications. Two importers said that they track their shipments through the internet services of the shipping company.

## **Financial Services**

Financial transfers for both clearance and services within Israel have to be done at the counter of the Bank. Transfers to Egypt or Jordan, however can be done through the internet, and payment of bills internally can be done either through the internet or through the bank counter of ATM machine.

5 of the six traders interviewed stated that they have good access to financial services through the banks, but that these services are too expensive. Most have used letters of credit but because of cost prefer transfers when purchasing from a known business associate.

The intricate functioning of clearance as related to documentary letter of credit are not very well known by most of the traders interviewed. The types of documents required and the level of safety are not well known either.

## **Information Services**

Very little is available to traders by way of information on clearance, procedures or requirements, and little communication takes place between the parties to any transaction. Recently the Ministry of National Economy established an internet portal which has the required forms and administrative procedures, as well as trade information regarding agreements and preferential relations. The Chambers of commerce and other private sector organizations provide some information, but not in a systematic way. Mostly, it is information which they are able to gather from the internet.

Due to the case of hostile occupation, the Palestinian autonomy and room for maneuver is rather limited. Therefore, possible measures of trade facilitation first and foremost depend on further developments in the Peace Process and basic decisions with regard to economic policy. In any case, the extent to which trade can be facilitated will depend on Israeli willingness and a joint Palestinian-Israeli effort. As security is the overriding issue, both parties might agree on a third-party security oversight.

#### **Palestinian Authority**

Despite the restrictions in decision-making powers, the PA can nevertheless assist in establishing a healthier business environment. PA priorities could lie in the creation of a legal and regulatory framework for commercial activities, the promotion of banking services and the enhancement of transparency which implies public-private interaction.

It is important for the PA to demonstrate a sincere commitment to security issues and to seek further co-operation with Israel as well as other neighboring countries (e.g. with regard to transit arrangements and the mutual recognition of documents, standards and procedures).

Other measures will depend on the future decision for or against economic separation. However, even in the case of a continued quasi-Customs Union with Israel, the PA can prepare for assuming its own responsibilities, e.g. in the field of customs clearance. Staff needs to be trained and requirements need to be communicated and streamlined as a prerequisite for computerization. In the case of economic separation, efforts in establishing the necessary institutional structures would have to be multiplied.

#### **Israel**

Assuming an unrevised political and economic environment, Israel definitely has the biggest potential to facilitate trade for Palestinian businesses – even without having to make any concessions in terms of security. On the contrary, the introduction of modern security

---

technology would allow for a smoother course of inspections (by abolishing the back-to-back system) while at the same time enhancing the level of security. Furthermore, certain management procedures are likely to enhance trade flows. It would be helpful to have a set of service standards that reflect international standards and stipulate the time and costs involved in Palestinian trade procedures in order to prevent arbitrariness as well as unnecessary actions and promote transparency and consistence. Other measures include e.g. the provision of alternative gateways (redundancy), the move towards a single inspection (e.g. through the sealing of cargo), the use of risk management systems and the introduction of free-circulating trailers.

As the Palestinian territories are defacto landlocked, Israel's consent to the operation of a Palestinian seaport in Gaza is long overdue. As a first step towards a full-service harbor, the construction of a RoRo terminal in Gaza could be considered. A key factor in the process of trade facilitation is the Israeli approach to lifting closure. A secure and efficient Gaza – West Bank transport link should be re-established and the over 700 checkpoints and barriers in the West Bank should gradually be dismantled. For a greater freedom of movement is indispensable for Palestinian economic growth and at the same time a prerequisite for a more peaceful coexistence.

### **Private Sector**

Due to the limited scope of action, the private sector's primary role is to co-operate in the identification and especially communication of the impediments they face as well as possible remedial actions.

### **Donors**

Apart from the provision of financial resources for Palestinian and Israeli investments in infrastructure, equipment and technical services, the major role of donors should in the long term lie in the promotion of an institutional framework, i.e. the further development of existing structures as well as the setting up of new ones (e.g. a Palestinian Customs law). Furthermore, it is their job to raise international awareness of the Palestinian issue and exert a certain pressure on Israel to comply with existing arrangements and facilitate Palestinian trade.

It is important to note that a significant portion of the problems which exist in Palestinian trade are a direct result of the Israeli occupation, but upon searching, one can find some serious problems which face Palestinians and which result from Palestinian action or inactions, corruption and bad administration.

## **Customs Clearance**

1. When it comes to customs clearance, which is controlled by Israel, there is the matter of coordination which should be developed in a systemized way in order to prevent corruption or preferential treatment by Palestinian customs.
2. There is a dire need to develop a transit agreement with Israel for the movement of products through Israeli territory going from ports and airports, which seem to be slated for Palestinian use for a long time to come, into Palestine and *vice versa*.
3. Systemization of land clearance of products coming in through Rafah and Allenby bridges from Jordan and Egypt, to ensure higher efficiency in the movement of goods owing to the fact that they are coming into Palestine and will not cross Israeli territory.
4. Systemization, monitoring and process development of the Karni crossing point, which is a potential bottleneck for movement of goods from and to Gaza at all times.
5. Actively seek membership in the World Customs Organization whose technical assistance and good offices can help in both developing Palestinian customs properly, as well as ensuring that the relationship between Palestinian and Israeli customs are under proper terms.
6. To ensure that all terms of trade are in appropriate order and that there is a venue for dispute settlement between Palestine and Israel if the need arises, Palestine should actively seek to become a member of the World Trade Organization.
7. Palestinian customs should publish the Tariff Schedule and make it available for regular use and accessible for business people to eliminate the monopoly which Israeli customs clearance agents have over this information. It should be placed in libraries and over the internet for easy accessibility.
8. Palestinian customs should actively seek to establish the Joint public – Private customs and trade committee in order to address any internal disputes or complaints.

## **Import / Export licensing and procedures**

9. A clearer more transparent system should be developed which deals with the distribution of import quotas, whether on agricultural

products or for lists A-1, A-2 and B in order to guarantee no favoritism and eliminate the potential for corruption.

10. Ensure coordination and harmonization, where possible, between the Israeli and Palestinian standards bodies, in order to guarantee that products do not undergo testing twice by both authorities.
11. In order to facilitate the issuance of certificates of origin, a system should be devised which would make the process a one-stop-shop rather than going through the prolonged process of Chambers to Ministry of Economy with the approval of customs.

### **Transportation**

12. The government should further provide incentives that would increase the use of communications and modern technology in order to facilitate movement and provide information on shipping and transportation processes.
13. Establish a Palestinian Shipper's Council which would act as a lobbying body on behalf of businesses that use shipping services, and which should champion the concept of trade facilitation in Palestine.

### **Financial Services**

14. Reduce the cost of financial services and borrowing procedures, as well as cost of issuance of documentary letters of credit which are a necessary instrument for guaranteeing safety and proper delivery of products.
15. Conducting awareness raising campaigns which would increase knowledge of business people on financial instruments which can be used for trade to increase security and safe delivery.

### **Information**

16. Increase all possible avenues of information for trade, whether in the area of facilitation itself, being movement of goods and customs, to market information which would facilitate trade transactions.