

# Trade Impediments



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## Freedom of Trade

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 pre-determined 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.

Nonetheless, over the course of the hesitant steps to implement the Oslo 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. . Since 2000, Israeli measures have severely constrained the limited trade flows that had begun to emerge until then, plunging the occupied Palestinian territories 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.

## Back to Back

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. An exception 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 onto 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.



Beytounia Back to Back Checkpoint

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).

### Inside this issue:

Closure: A West Bank Divided 2

Gaza Closure 2

The Jordan Valley 3

Palestinian Agricultural Exports 3

Distortions in the Local Market 4



Howwara Check point at the entrance to Nablus.

The far right lane is for Palestinian vehicles, while the left lane is for Israeli vehicles.

## Closure: A West Bank Divided



Road Gate blocking agricultural road

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.

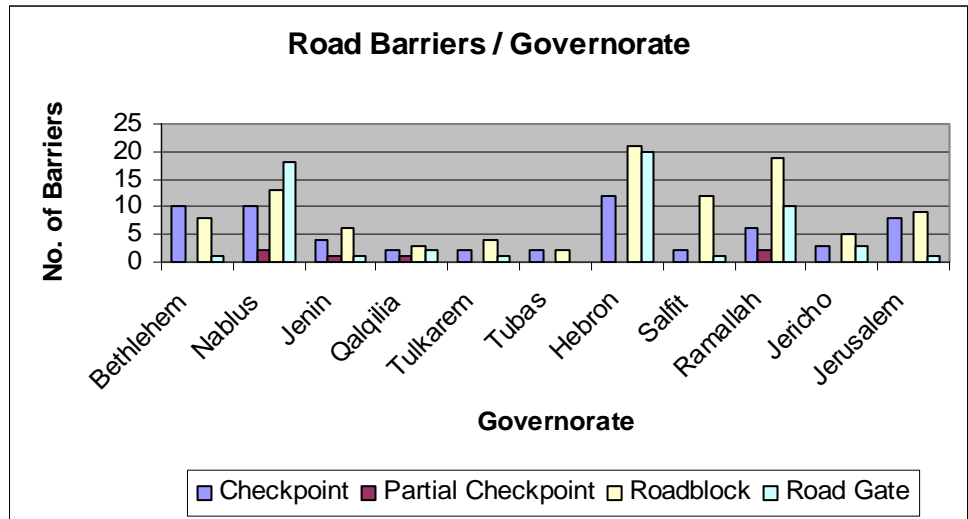
Closures are a key factor behind today's economic crisis in the West Bank. They have fragmented Palestinian economic space, raised the cost of doing business and eliminated the predictability needed to conduct business," says **Nigel Roberts, World Bank Country Director for the West Bank and Gaza**

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**.

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.



Trucks waiting at checkpoint



## 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 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, and which cuts the Gaza Strip into two parts.



## The Jordan Valley

The Jordan valley is blessed with large agricultural land and warm weather which makes it an important source of Agricultural produce in Palestine. The valley, however, suffers from lack of access to water, which is abundant, but mostly used for Israeli settlements. The Palestinian farmer is not permitted to utilize the water network which has been established by the Israeli Occupation Authority, and is limited to monitored small quantities which may be drawn from artesian wells, under the supervision of the occupation. Settlements in the Jordan Valley, on the other hand have an abundant supply of water, given that these settlements form less than 10% of the population in the West Bank, yet utilize more than 70% of the water resources, while the majority of the Palestinian population lives off less than 25%.



Palestinian Farm in the Jordan Valley

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Palestinian Water Well

Palestinian Farmers in the Jordan Valley, sold a good portion of their products in the Israeli market prior to September, 2000. These products were sold under the Palestinian brand name. Since the beginning of the Intifada, however, the Israeli authorities have imposed severe restrictions on the movement of these products. These restrictions range from specifying passage ways /crossings and land routes which may be used for agricultural products, to imposing a permit system for movement of trucks carrying produce within the West Bank and into Israel. Israel now also prevents Israeli wholesale buyers of produce from entering into Palestinian market areas, thus products have to be re-loaded from Palestinian to Israeli trucks outside the markets.



Permit for movement of agricultural goods must be carried at all



Settlement Dates

Palestinian producers are now forced to re-package their products in Israeli packages in order for them to be allowed market entry (see pictures).



Sign prohibiting Israelis from entering the wholesale market at Bardala Village



Water Installation for Settlement use only



Repacking Palestinian Produce in Israeli Boxes

*settlements form less than 10% of the population in the West Bank, yet utilize more than 70% of the water resources, while the majority of the Palestinian population lives off less than 25%.*

### In the Next Issue

*Water Shortage*

*Export Problems*

*Pesticides*

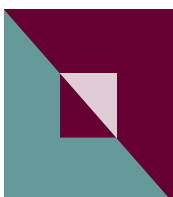
*Transaction Costs*

#### Palestinian Agricultural Produce Markets:

- 70,000 tons of fruits and vegetables from West Bank to Israel annually
- 30,000 tons of fruits, vegetables and citrus from Gaza Strip to Israel
- 3,000 tons of cash crops from Gaza Strip to Europe
- 8,000 ton of citrus from Gaza Strip to the Arab World



Export quality vegetables from the Jordan Valley



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*The Best of Palestine*



**Agri-business  
Trade  
Development  
Program**

*The Agribusiness Trade Development and Promotion Project is an ACDI VOCA—USDA financed project managed by the Palestine Trade Center—Paltrade, designed to improve the agriculture sector in Palestine and to promote Palestinian Agri-business locally and internationally. The project mandate covers the following three major sub-sectors:*

- *Olives and Olive Oil*
- *Cash Crops*
- *Food Processing*

*The project aims to establish an effective marketing framework to supply the agriculture products of Palestine with competitive advantage in international and local markets.*



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## Distortions in the Local Market

Prior to the Israeli re-invasion and occupation of the West Bank and parts of the Gaza Strip, six wholesale agricultural produce markets were found in Palestine. These markets (Nablus, Jenin, Tolkarem, Hebron Ramallah and Gaza) provided wholesale fruits, vegetables and citrus to distributors and retailers and were the major source of produce to the local market. As a result of the closures and the changes in the routing and the inability of trucks carrying goods as well as merchants to reach these wholesale markets, most of them were either closed or reduced to selling within the internal city boundaries. The closure also resulted in the fragmentation and inability of products to reach targeted markets within the West Bank and the Gaza Strip, and forced trucks to use unpaved and inaccessible dirt roads, which increased the cost of transportation drastically, and caused artificial shortages in products, thereby distorting the price structure of agricultural products within Palestinian areas falling under the closure. The pattern of consumption was also changed, whereby the consumer resorted to buying exceptionally large quantities of whatever produce is available in order to compensate for the lack of predictability in supply.

Producers and wholesalers resorted to establishing makeshift markets outside the cities in order to distribute their products to the widest possible market. This decentralization of wholesale distribution has not only negatively affected the price structure of these products by artificially inflating them, but has also minimized the Authority's capacity to control quality and inspect for health and safety standards. It has also affected the tax administration's capacity to collect revenues, resulting in a serious fiscal leakage problem.

One of the major wholesale agricultural produce markets in the West Bank was found in Nablus. This market consisted of 45 wholesale shops that bought their products from farmers and sold them to distributors and retailers. The market, which was operated by the Nablus Municipality, had at its disposal 6 refrigeration units and 2 freezers which would store up to 400 tons and a Ministry of Health and Agriculture inspection office. Annual sales in 1999 reached 250 Million NIS. Today, there are only 7 shops out of the 45 that are operational and the annual sales for the year 2004 were a negligible 12 Million NIS, the equivalent of 5% of sales in 1999. Some of agricultural produce wholesalers have now moved to a nearby village "Beita" (see photos) which provides for a market, but which neither meets health standards, nor makes up for the distortions in the market. Many other markets have been established all over the West Bank and Gaza Strip similarly.



Beita Makeshift Market



Another view of the unhealthy conditions



Market Distortion