

Israeli Security, Economic Facilitation and Phase 1 of the Roadmap

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I. Introduction

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.

Prior to 2000, more than half of all Palestinian establishments were involved in international and internal trade, (while 19 % work in services, 8% in agriculture, and 21% in industry). Palestinians are reliant on international trade, both with and through Israel, to import necessary goods for production, investment and consumption while also reliant on exports, especially in the form of labor services to Israel, to earn hard currency.

By preventing people from accessing their worksites and by preventing the movement of necessary goods, especially in the field of agriculture and industry, whether by imposing curfews or internal closures within the West Bank and the Gaza Strip, Israeli measures impair economic activity and income. Consequently, demand for trade, transportation,

and services also decline.

Income losses resulting from Israeli policy are at \$7.6 million per day, cumulating in a staggering total of almost \$3.3 billion dollars in losses since October 2000. This includes income from jobs in Israel as well as from domestic productive activities.

GDP was estimated at \$3.7 billion by the end of 2001, as compared with \$4.6 billion in 1999. By the end of March 2002, the Palestinian economy had lost \$2.4 billion in gross national income (GNI), equivalent to around 40 per cent of 1999 GNI and over half of 1999 gross domestic product (GDP). The losses in GNI can be mainly explained by the hampered access of Palestinian labors into Israel. In 1999, approximately 17 percent of Gross National Income came from Palestinians employed in Israel. By 2001, this share shrunk to 11 percent and is expected to diminish further.

Regardless of the developments in the political situation, Israel can take many steps to facilitate Palestinian economic activities and alleviate the economic crisis. Such Israeli economic facilitation steps are the focus of this paper. However they in no way imply recommendations for permanent arrangements, which of course must depend on the outcome of permanent status negotiations between the two sides.

It is important to note that none of the recommended steps jeopardize Israel's security and that they would provide mutual benefits for both Palestine and Israel.

II. Economic Facts and Figures¹

The overall poverty rate increased from 44 to 60 percent in 2002, with levels at 70% percent in the Gaza Strip and at 55% in the West Bank due to a decrease in income and consumption.

The overall adjusted unemployment rate for the entire Palestinian Territory, including Jerusalem during the second quarter of 2002 increased from roughly 36 percent to approximately 50 percent. This percentage masks disparities between the West Bank and Gaza, and do not reflect the impact of the curfews on the Palestinian labor market. On days when there is a total or partial curfew, unemployment reaches 63.3 percent in the West Bank areas, excluding Jerusalem, leaving around 600,000 Palestinians jobless. Although unemployment in the Gaza Strip has remained steady, it stands at an unsustainable level of nearly 50 per cent.

Compared to 1999, both exports and imports declined by approximately 30 percent in US dollar value. In Gaza, average monthly imported truckloads for the first six months of 2002 registered a 15 percent decrease compared to the same period in 2001, while average monthly exports decreased by 60 percent. The period April 2001 to March 2002 constitutes the lowest number of exported truckloads since 1997, on an average annual basis.

As for the Palestinian budget, revenues declined from a monthly average of USD 88

million in the third quarter of 2001 to only USD 21 million in the first quarter of 2002. Total revenues declined by 76% between the third quarter of 2000 and the first quarter of 2002. This decline is due to Israel's withholding clearance of VAT revenues it collects on behalf of the PA, movement restrictions on tax officers, and erosion in the income base of domestic revenues due to Israeli closures.

As for labor, prior to the implementation of the mobility restrictions in October 2000, approximately 145,000 Palestinians were employed in Israel and its settlements in the occupied territories. These figures dropped to 33,000 by the second quarter of 2002.

III. Recommended Israeli Action

As documented by the World Bank, UNSCO and UNCTAD, the direct cause for Palestinian economic distress is Israel's restrictions on economic activity. Specifically on:

1. The movement of people and goods within and between the West Bank and the Gaza Strip.
2. The access of Palestinian trade (both imports and exports) to Israeli ports and airports..
3. The access of Palestinian labor into Israel.

The key prerequisite to relieving the economic crisis is by easing movement from/to/within and between the West Bank and Gaza Strip to allow the Palestinian businesses and cross-border laborers and service providers to resume operation in a fashion that is predictable, regular, and feasible. Below are specific recommendations.

1. Movement within the West Bank and Gaza Strip

Most of Israel's economic measures are not dictated by security needs, rendering these measures as effective tools for imposing collective punishment on the Palestinians. For example, the number of permits granted to Palestinian laborers working in Karni and Israel is not always linked to political developments. Moreover, Israeli border controls hold up trucks for indefinite periods at checkpoints and Israeli ports without checking them, i.e. just to limit economic activity and not to carry out security checks.

Therefore, as a first step towards full and definitive withdrawal the Government of Israel (GOI) should:

- Withdraw all military forces from Palestinian built-up residential, commercial and urban areas, especially during normal business hours and refrain from imposition of harsh security measures, especially curfews.
- Lift closures within the West Bank and the Gaza Strip during normal business hours (i.e. 6 AM – 10 PM). Consideration should be given to security arrangements that would cater to Israeli security demands and more free movement of persons and goods. As a first step to resumed Israeli-Palestinian security cooperation, clearly

designated, hermetic "safe passages" not involving immediate Israeli security presence between major Palestinian cities and towns and policed by PA security agents, could operate during business hours to allow a predictable and efficient resumption of internal trade and labor flows.

- Eliminate back-to-back shipping for all internal trade (i.e. movement of persons and goods not involving passage through or into Israel), and permit all commercial trucks and licensed public transport operators to travel within the West Bank and Gaza Strip.
- Until the Gaza-Tarqumia safe passage can be reopened, the convoy system could be adopted for Palestinian commercial traffic between the West Bank and Gaza Strip, for a pre-approved list of transporters and/or drivers and using advanced security-screening technology at departure points.
- Permit the unrestricted movement of farmers to cultivate and to harvest their lands, especially at peak harvest seasons and during daylight hours.
- Permit the unrestricted movement of the technical staff of the ministry of agriculture to ensure control over veterinary and plant diseases.

2. Palestinian International Crossing Points:

Since September 2000, Palestinian commercial operators have not been able to import input material and export products in a normal feasible fashion. The working hours, procedures, security checks have been interrupted and are constantly changing, thereby disturbing the free flow of goods. At present, only 7 trucks are allowed to cross the Palestinian international crossing borders on a daily basis, as compared with 25 trucks before the Intifada.

Therefore, the GOI should:

- Allow for the regular uninterrupted operation of all Palestinian crossing points with Jordan and Egypt from 6:00 am to 12:00 AM.
- Allow for the return of Palestinian customs and trade officials to their jobs at Allenby and Rafah crossing points especially that all the officials, according to Israel, pose no security risk. This could be considered as a first step to greater PA-Israeli customs cooperation, including the possibility (already discussed at the JEC prior to 2000) of presence of PA customs officials at designated Israeli ports and airports to facilitate clearance of imports destined to PA. This issue should be considered as a possible area for third party technical involvement (eg. international customs and trade facilitation experts assisting the parties).
- Permit the immediate repair, maintenance, reopening and operation of the Gaza International airport- under previous security supervision arrangements, and international technical monitoring.
- Establish a joint Israeli-Palestinian-international expert technical task force to investigate the physical, technical, financial and security implications of establishing a temporary maritime landing facility for bulk and other specified Palestinian imports, until such time as Gaza seaport is operational.

3. Movement Restrictions (to/from Israel)

The GOI should:

- Allow for the regular uninterrupted operation of all crossing points between the Gaza Strip and Israel.
- Allow for the operation of the Karni crossing point at full capacity including the reopening of all lanes of the Karni crossing point from 6:00am to 12.00 am.
- Allow for the entry of Palestinian laborers and businesspeople to and through Israel on a regular, uninterrupted and facilitated manner, through easing the working permit system .
- Facilitate the movement of NGO personnel, medical staff, donor countries officials, and representatives of international organizations within and between the West Bank and the Gaza Strip.

4. Israeli Ports and Airports

The GOI should:

- Clear all Palestinian imports and exports that are currently withheld at the Israeli ports (for examples, see attached Jawaal and PALTEL documents).
- Palestinian imports of necessary products for the agricultural sector such as pesticides especially when an import license for the products is issued. (Attached are two supporting documents for two companies, imports of which have been held at ports.)
- Relieve companies of demurrage dues for imports, especially since their clearance was delayed by Israel for “security” reasons.
- Refrain from restricting Palestinian imports of products that do not pose security threat to Israel. Specific examples are: tissue culture laboratory for agricultural sector- license to import has not been granted although granted in the past.
- Grant type approval to clear imported goods through the Israeli ports.
- Restore the multiple daily convoy transportation of goods between the Gaza Strip and the Israeli airport and ports.
- Establish a joint Israel-Palestinian-international expert task force to identify key procedural and technical barriers to efficiency of transit of imports destined to Palestine and to make concrete recommendations for new, streamlined and internationally accepted trade facilitation measures.

5. Restoring Normal Operation of Industrial Estates

The operation of industrial estates, like the Gaza Industrial Estate, was severely hampered by the closure and curfew policies to the extent that operation decreased by 75% percent.

Therefore, the GOI should:

- Allow for the regular uninterrupted return of 20,000 Palestinian workers to the Gaza

industrial estate.

- Return privileges accorded to investors in the Gaza industrial estates including:
- Issuing closure proof permits to the GIE investors to travel freely between the West Bank, Gaza Strip, Israel and Israeli ports and airports.
- Allowing for the unrestricted movement of trucks hired specifically to carry imports and exports of the GIE.
- Carrying out the Israeli security checks and possibly sealing of goods traveling to or through Israel at the GIE.
- Permit the repair, reopening and normal operation of the Khadduri Industrial and Technology Estate.

6. Labor in Israel

The GOI should:

- Facilitate the re-employment of Palestinian laborers in Israel.
- Give Palestinian labor long duration, closure proof permits to enter Israel while arranging for a non-stop transportation from their areas to Israel and back.

7. Revenues

The GOI should:

- Release the remaining revenues held.
- Allow for the free movement of Palestinian tax officers within the West Bank and the Gaza Strip.
- Immediately transfer newly collected revenues, through a regular, coordinated, and transparent process.
- Provide PA Customs with valid, updated files on revised tariff rates and related trade taxes, as well as full disclosure of updated information on import tax clearance for PA destined goods.

8. Energy

Prior to September 2002, operation of the electricity generating projects was proceeding at a good pace to achieve Palestinian self-sufficiency. However, over the past two years Israel halted operational steps.

The GOI should:

- Facilitate the operation of the electricity generator in the Gaza Strip.
- Make legally binding guarantees to the PA and concerned creditors that it will not damage the electricity plant in Gaza and related assets.
- Facilitate circumstances and procedures for British Gas to construct the gas pipe across the “K” Zone.

9. Telecommunications

The telecommunication sector is one of the fastest growing services in Palestine. This growth has been obstructed by Israeli restrictions on telecommunication operations.

To resume such growth, the GOI should:

- Allocate new frequency bandwidth to allow – Palestinian telecommunication operators to offer new services e.g. 3G and LMDS.
- Allow the setting up of international links through Terrestrial, Satellite & Submarine.
- Expedite the replacement of Bezeq lines existing in Paltel's areas with Paltel's lines.

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¹ All the cited figures in this section are UNSCO figures as published in the “The Impact of Closure and Other Mobility Restrictions on Palestinian Productive Activities. 1 January 2002-30 June2002”