



State of Israel

**Measures Taken by Israel in Support  
of Developing the Palestinian  
Economy and Socio-Economic  
Structure**

**Report of the Government of Israel to  
the Ad Hoc Liaison Committee (AHLC)**

New York, September 18, 2011

## Acronyms

AFD – Agence Française de Développement  
AHLC – Ad Hoc Liaison Committee  
BTC – Belgian Development Agency  
COGAT – Coordinator of Government Activities in the Territories  
GDP – Gross Domestic Product  
DFID – UK Department for International Development  
GOI – Government of Israel  
ICBS – Israel Central Bureau of Statistics  
ICD – Israel Customs Directorate  
IDF – Israel Defense Forces  
IMF – International Monetary Fund  
ISA – Israel Security Agency  
JWC – The Joint Water Committee  
MOF – Ministry of Finance  
NIS – New Israeli Shekels  
NRO – Netherlands Representative Office  
OQR – Office of the Quartet Representative  
PA – Palestinian Authority  
PCBS – Palestinian Central Bureau of Statistics  
PACE – Palestinian Authority Customs and Excise  
USAID – United States Agency for International Development  
USD – United States Dollars  
UNCTAD- United Nations Conference on Trade and Development  
UNDP – United Nations Development Program  
UNRWA – United Nations Relief and Works Agency for Palestinian Refugees  
VAT – Value Added Tax  
WB- West Bank

## Executive Summary

The Government of Israel views the bilateral track with the Palestinians as the only way to reach a sustainable solution, based on two states for two peoples. The Government of Israel wishes to maintain the existing legal framework, as long as circumstances allow.

After two consecutive years of impressive economic growth in the West Bank, the Palestinian economy now faces a slowdown. According to IMF estimates, in the first half of 2011 real GDP growth amounted to approximately 4% (compared to real GDP for the first half of 2010), a decline from the 8% annual growth rate the previous year. The PA now faces a financial crisis. The factors fueling the crisis include: the Palestinian budget's ongoing dependency on foreign aid and the shortfall in aid in 2011; the PA's inability to finance the shortfall through bank loans; the lack of sufficient internal resources to generate income; and a relatively large public sector which consumes a large portion of the budget. The current fiscal situation raises doubts about whether the PA will be able to reduce its dependency on foreign aid in the coming years.

Israel's policy in the West Bank has contributed significantly to growth in the past year. Trade between Israel and the PA continuously increased by 7% throughout the first half of 2011, an increase reflected by a 6% increase in tax revenue collection transferred to the PA<sup>1</sup>. A higher volume of commercial goods was shipped from the West Bank via the land crossings to Israel. In the first half of 2011, there was a 31.32% increase in commercial movement of goods via the Allenby Bridge. Palestinian imports (except Israel) amounted to NIS 3,127,395,640, a 17.44% increase compared to the parallel period in the previous year. Palestinian exports (except Israel) amounted to USD 45,458,095 in the first half of 2011, a 23% increase compared to the parallel period in the previous year.<sup>2</sup>

Israel calls for ongoing international support for the PA budget and development projects that will contribute to the growth of a vibrant private sector, which will provide the PA an expanded base for generating internal revenue.

Israel maintains bilateral dialogues with the PA on a variety of matters, aiming to support the upgrade of Palestinian infrastructure in these areas, including: financial and customs services, water and sewage infrastructure, the legal system and the rule of law, the agriculture sector, and the electricity network.

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<sup>1</sup> Source: Israel Ministry of Finance

<sup>2</sup> Source: Israel Customs Directorate

These measures have been accompanied by intensified security coordination between the authorities on both sides, seeking greater security and improved institutional capacity. Israeli–Palestinian security coordination and the continuous relative security created have provided the necessary environment for business development and economic growth.

Still, terror threats remain imminent. In August, an Israeli operation uncovered 13 Hamas terror cells in the West Bank, on the eve of a planned attack in Israel. This is a disturbing reminder of just how distant real security remains. In 2011, civilians in Israel were unfortunately victimized by several deadly attacks: the horrific murder of five members of the Fogel family of Itamar in March, a bombing near the International Convention Center in Jerusalem, also in March, and a violent attack against a crowd of youths in Tel Aviv in August.

In the Gaza Strip, in the first half of 2011, real GDP growth amounted to 28%.<sup>3</sup> Unemployment dropped to 25.6%.<sup>4</sup>, one of the lowest rates in recent years. Israel's June 20, 2010 Civilian Policy has made a substantial contribution to the Gaza economy on the ground.

Gaza is still controlled by Hamas, a terrorist organization. During the past few months, security in southern Israel along the border with Gaza has been under constant threat. An escalation that began in July 2011 peaked in mid-August 2011, in the worst escalation since Operation Cast Lead. **Between August 15 and 25, 2011, 149 rockets (of 200 fired) and 19 mortar shells fell in Israeli territory.** During this time, the area was subjected to a continuous, almost daily, barrage of heavy rocket and mortar fire launched from the Gaza Strip into Israeli territory. This fire was deliberately aimed at civilian targets, hitting schools, residences and places of worship, and has reached major population centers in southern Israel, including Beer Sheba, Ashdod, Ashkelon, and surrounding areas, paralyzing daily life. Three Israeli civilians were murdered in these attacks, while numerous civilians have been wounded and have suffered trauma.

Renewed hostilities from Gaza come just as we reach the one-year mark for Israel's new Civilian Policy towards Gaza, adopted on June 20, 2010. Israel has implemented this policy consistently throughout the past year, despite ongoing attempts by Hamas to attack Israeli cities and towns and the crossings between Israel and the Gaza Strip. This policy, aimed at improving the quality of life in Gaza, has enabled an economic and humanitarian recovery in the area.

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<sup>3</sup> Source: IMF

<sup>4</sup> Source: Palestinian Central Bureau of Statistics

Despite the deteriorating security situation, Israel has implemented its June 2010 policy in Gaza rapidly, approving 163 projects led by the international community, as well as increasing the flow of all commercial and humanitarian goods.<sup>5</sup> Israel has upgraded the infrastructure and capacity of the Kerem Shalom crossing, which exceeds 300 trucks of commercial goods per day, far beyond actual needs and the daily average of 230-250 trucks. More people are exiting Gaza for humanitarian or commercial purposes. As of June 2011, there is an 87% increase in the quantity of goods entering the Gaza Strip on a daily basis.<sup>6</sup> Agricultural exports have been expanded and exports of furniture and textiles to international markets have been approved. Now the Gazans must develop their export markets abroad.

Between January 1 and September 1, 2011, 281,438 tons of construction materials for international projects were shipped into Gaza. Recently, Israel approved a pilot for the entry of construction materials for the private sector to Gaza as well.

Israel is committed to the understandings reached between Prime Minister Netanyahu and Quartet representative Tony Blair in February 2011, containing measures in both the West Bank and Gaza. A significant part of these measures have already been implemented.

**Gilad Shalit** remains in captivity in the Gaza Strip, for more than five years, while his most basic rights, such as the right to be visited by the Red Cross, are violated. The International Community must do its utmost to bring about his immediate and unconditional release.

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<sup>5</sup> With the exception of dual use materials

<sup>6</sup> Source: COGAT

## Chapter One

# **Economic Growth in the West Bank - Israeli Measures**

### The Economic Situation in the West Bank and the PA Fiscal Crisis

Economic activity in the West Bank appears to have entered a slowdown, after two years of rapid growth. According to IMF estimates, in the first half of 2011 real GDP growth amounted to approximately 4% (compared to real GDP for the first half of 2010), a decline from the 8% annual growth rate the previous year.

Moreover, the private sector has not yet reached its potential, particularly the manufacturing sector.<sup>7</sup>

The economic slowdown can be attributed largely to the fiscal crisis currently plaguing the PA, which is due primarily to a decline in donor aid, and the inability to obtain loans from the banking system to finance the shortfall. The fiscal crisis is especially acute because much of the West Bank economy still depends on the public sector and on construction projects, both still heavily financed by foreign aid.

As a result of the crisis, the PA has withheld payment to contractors, postponed development projects, and delayed the payment of public sector wages, for the first time in over three years. The fiscal crisis has also affected private spending. The unemployment rate has remained relatively unaffected, at around 15%.<sup>8</sup>

While the present fiscal crisis was caused by a shortfall in donor aid, there were probably also shortcomings in the public finance management system, which was based on an unrealistic framework for income and unpredictable expenditures. The public finance management system's role in the current crisis may undermine its track record as a system that meets the requirements of a well-functioning state.

The PA economy depends on Israel, whether for tax collection or trade. Each month Israel collects revenues on behalf of the PA and transfers more than USD 100 million in tax revenues to the PA, in accordance with the 1994 Paris

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<sup>7</sup> Source: Palestinian Central Bureau of Statistics (PCBS)

<sup>8</sup> Source: PCBS, Second Quarter 2011 Labor Force Survey

Protocol<sup>9</sup>. The annual amount of these collections represents more than one third of total PA revenues (including foreign aid for the budget). Optimistic projections regarding future clearance revenues from Israel, one of the main factors behind projections for growth in PA revenues, cannot be guaranteed.

Regarding trade, as of June 2011 Israel was the destination for 90.3% of Palestinian exports and the source for 65.2% of Palestinian imports.<sup>10</sup>

Among the implications of the crisis: the accumulation of substantial domestic payment arrears, including on wages (for the first time since 2007), and borrowing from commercial banks.<sup>11</sup> Foreign aid requirements for the recurrent budget for the coming year (2012 – 2013) are expected to be even higher than the current year, reaching approximately USD 1.2 billion,<sup>12</sup> keeping the PA distant from its commitment to reduce dependency on foreign financial assistance.

Discussions between the ministries of finance of Israel and the PA seek to identify possible solutions, which may help increase budget revenue (tax collection from the Gaza Strip, allowing the PA to settle electricity bills directly with the Israeli provider, easing restrictions on dual-use imports, etc.)<sup>13</sup>. However, the above underlines the shortcomings of the PA's current fiscal management framework, which helped contribute to the present fiscal crisis. This demonstrates the need for further reform in order for the PA to meet the standards of a well- functioning state.

## Netanyahu- Blair Package – Israeli Measures for Economic Growth

On February 4, 2011, a package of measures designed to facilitate economic activity in the West Bank and Gaza was agreed between Prime Minister Netanyahu and Quartet Representative Blair.

Information regarding measures for **Gaza** appears in Chapter Three of this Report, which addresses Israel's policy towards the Gaza Strip.

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<sup>9</sup> For further information, see Chapter 2, below.

<sup>10</sup> Source: Palestinian Central Bureau of Statistics

<sup>11</sup> Source: IMF Staff Report on the Recent Experience and Prospects of the Palestinian Economy Prepared for the Meeting of the Ad Hoc Liaison Committee, Palestinian Ministry of Finance

<sup>12</sup> Source: IMF

<sup>13</sup> For more information about the Joint MOF Team, see Chapter 2, below.

Below are the measures related to the **West Bank**, and their implementation status:

- Telecommunications

The GOI transferred frequencies to Wataniya Telecom Company (pending since November 2009), completing its commitment to the PA. Now the Palestinians must return the temporary frequencies Israel had given them.

- Area C Schools and Health Clinics

The GOI has committed to prioritizing projects in Area C, and fast-tracking the construction and renovation of a number of schools and health clinics in Area C, from the lists submitted by the OQR and SEMEP. Fifteen out of 31 projects submitted were approved (6 in Area B and 9 in Area C).

- Convening of MOF Joint Teams

Since February 14, several meetings have already been held between MOF officials from both sides, aiming to improve the mechanism of tax revenue collection, inter alia.<sup>14</sup>

- PA Security Presence in Area B

The GOI has agreed in principle to facilitate expansion of the PA security presence to seven towns in Area B. The Palestinian side has indicated that they are preparing a list of seven new police stations to be built. The list has not yet been submitted.

- West Bank IDs for Gazans Residing in West Bank

The GOI has agreed to authorize 5,000 West Bank residents who currently hold Gaza IDs to change their address for ID purposes to the West Bank. So far, 3,886 residents have submitted requests. 2,776 requests have been approved, and 720 have been implemented.<sup>15</sup>

## Trade with Israel

As stated above, Palestinian exports to Israel constitute about 90% of all Palestinian exports. Naturally, exports from the PA to Israel depend on demand in the Israeli economy. These exports dropped in late 2008 and early 2009, as Israel was hurt by the global recession, and then recovered after

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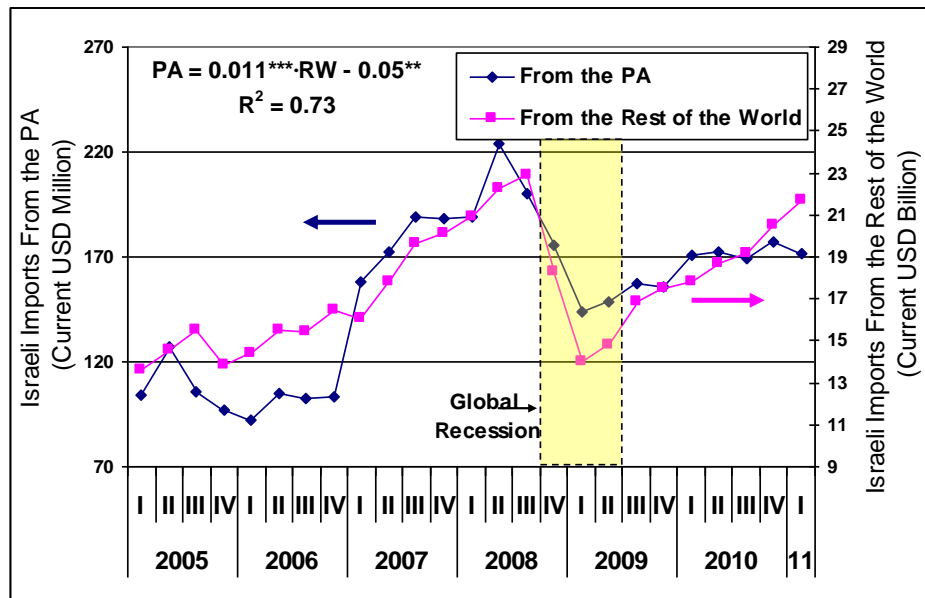
<sup>14</sup> For further information, see Chapter 2 below.

<sup>15</sup> Source: COGAT



2009/Q2, when the Israeli economy recovered from the recession. This trend paralleled imports to Israel from the rest of the world.<sup>16</sup> Figure 1 below demonstrates the impact of the global recession on imports to Israel from the PA and the rest of the world.

**Figure 1<sup>17</sup>**  
**Imports to Israel from the PA and the Rest of the World**



According to data collected by Israel's Ministry of Finance, trade between Israel and the PA continued to grow by 7% during H1 of 2011. Overall Israeli sales to the PA grew by 8% while overall Israeli purchases from the PA grew by 2%. The total volume of bilateral trade exceeded NIS 7.5 billion in the first half of the 2011.<sup>18</sup>

The following table illustrates the volume of trade between Israel and the PA from 2007 until 2011, in half year figures:

<sup>16</sup> Notably the IMF (April 2011, p. 8) and UNCTAD (July 2011, p. 6) claimed that the 2009 drop in exports to Israel resulted from the construction of the Security Fence, yet they did not provide adequate evidence to support these claims. Indeed, the Fence was not built during 2008-9, when the Palestinian exports dropped, nor was it removed in 2010 when the Palestinian exports to Israel increased, but rather the Israeli economy slowed down and recovered from the global recession, accordingly.

<sup>17</sup> Source: ICBS

<sup>18</sup> Does not include agricultural trade.

**Figure 2<sup>19</sup>: Overall Trade between Israel and the PA  
2007 - 2011(H1 of 2011)<sup>20</sup>**

In millions of NIS

| Year                                | Overall Israeli Sales to the PA | Overall Israeli Purchases from the PA | Overall Trade Between Israel and the PA |
|-------------------------------------|---------------------------------|---------------------------------------|---|
| Half I 2007                         | 4,861                           | 1,177                                 | 6,038                                   |
| Half II 2007                        | 5,594                           | 1,248                                 | 6,842                                   |
| Half I 2008                         | 5,995                           | 1,308                                 | 7,303                                   |
| Half II 2008                        | 5,615                           | 1,247                                 | 6,862                                   |
| Half I 2009                         | 5,455                           | 1,043                                 | 6,498                                   |
| Half II 2009                        | 5,975                           | 1,117                                 | 7,092                                   |
| Half I 2010                         | 5,895                           | 1,212                                 | 7,108                                   |
| Half II 2010                        | 6,380                           | 1,344                                 | 7,723                                   |
| Half I 2011                         | 6,352                           | 1,237                                 | 7,589                                   |
| <b>% Increase H I 2011/H I 2010</b> | <b>8%</b>                       | <b>2%</b>                             | <b>7%</b>                               |

### Trade through Commercial Crossings and Additional Measures

The following data summarize different aspects of the volume of trade passing through the West Bank crossings in 2011:

- While remaining fairly stable over the last couple of years, the number of truckloads entering the West Bank through back-to back crossings **increased by 3%** between H2 2010 and H1 2011.<sup>21</sup>
- In the area surrounding Jerusalem, there was a **58% increase** in shipments passing through the Beituniya Crossing in the first eight months of 2011 (28,949 entries and exits), compared to the first eight months of 2010 (16,672 entries and exits).<sup>22</sup>

Additional measures have been taken to encourage trade:

- The number of permits for traders<sup>23</sup> has been increased by 1,000 and is currently 16,000.<sup>24</sup>
- A growing number of Israelis are now entering Area A in order to procure goods and services. They provide a significant contribution to the Palestinian economy in the West Bank.<sup>25</sup>

<sup>19</sup> Source: Ministry of Finance, Tax Authority

<sup>20</sup> Trade is calculated according to the VAT rate in Israel. It should be noted however, that the VAT rate in the PA is subject to fluctuation, and can be as much as 2% lower than the VAT rate in Israel.

<sup>21</sup> Source: COGAT

<sup>22</sup> Source: Israeli Police - Commander of Jerusalem Vicinity

<sup>23</sup> Individuals recognized as traders by the Civil Administration are eligible for permits to enter Israel in order to engage in trade.

<sup>24</sup> Source: COGAT

## Upgrading of Commercial Crossings<sup>26</sup>

### Gilboa Crossing

In partnership with USAID, NIS 18 million have been invested in the upgrade of the Gilboa crossing. Access roads have been expanded on both the Israeli and Palestinian sides. The scanner area was expanded, an area for the intake of containers was constructed, and an area was built for the transfer of cement in bulk from Israel to the Palestinian side.

### Shaar Efrayim Crossing

In partnership with USAID, NIS 15 million have been invested in the upgrade of the Shaar Efrayim crossing. Access roads have been constructed in order to ease heavy traffic. Additional scanner and aggregate areas have been built, and the area of the crossing has been doubled. This upgrade has enabled a substantial increase in the volume of goods passing through the crossing and has cut in half the time it takes to transport goods through the crossing.

### Tarkumiya Crossing

In partnership with USAID, an NIS 13.5 million project aims to expand the passage area for goods, the entry to the passage area, and other unloading areas, at the Tarkumiya crossing. Furthermore, an additional scanner will be installed, and additional unloading areas will be constructed. Hours of operation have been expanded to 13 hours a day.

## Pedestrian and Vehicle Crossings

On average, 18,950 pedestrians and 21,420 vehicles pass through the different pedestrian crossings in the West Bank each day.<sup>27</sup> At the **Gilboa Crossing**, approximately 1,900 vehicles and 6,600 passengers pass between Israel and Jenin each day. On Saturdays, this number reaches 4,500 and 15,600, respectively. During the month of Ramadan, Muslim holidays and special occasions (such as festivals), the crossing remains open until 24:00. Record levels are recorded during the holidays Id al-Fitr and Id al-Adha.<sup>28</sup> The average expenditure in Jenin per individual: NIS 400.<sup>29</sup>

Several projects are underway for the upgrading of pedestrian crossings, inter alia at the Meitar (an NIS 3 million project), Eyal, Eliyahu, Rachel<sup>30</sup> and Cross-Shomron Crossings.

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<sup>25</sup> Source: COGAT

<sup>26</sup> Source: Ministry of Defense, Land Crossings Authority

<sup>27</sup> Source: Crossings Authority

<sup>28</sup> Source: Crossings Authority

<sup>29</sup> Source: Israeli Civil Administration

<sup>30</sup> Source: Commander, Surrounding Areas of Jerusalem

## International Trade<sup>31</sup>

According to data issued by the Israel Customs Directorate, in the first half of 2011, Palestinian imports (except Israel) amounted to NIS 3,127,395,640, a **17.44% increase** compared to the parallel period in the previous year. Palestinian exports (except Israel) amounted to USD 45,458,095 in the first half of 2011, a **23% increase** compared to the parallel period in the previous year.

## Allenby Bridge<sup>32</sup>

The Allenby Bridge serves Palestinian trade with international markets<sup>33</sup> as well as the passage of pedestrians and vehicles. The volume of exports passing through the Allenby Crossing from the West Bank increased, as follows<sup>34</sup>:

- The volume of shipments from January through July 2011 **increased by 31.32%** (10,814), compared to the parallel period in the previous year.
- Vehicle imports to the Palestinian Authority, **increased by 50.27%** (2,541), from January through July 2011, compared to the parallel period in the previous year.
- The number of passengers at the Allenby Bridge **increased by 3%** (1,022,442) from January through July 2011,

For the last couple of years, the hours of operation of the Allenby Bridge have been extended, and the Bridge is now open from Sunday through Thursday until midnight (8:00 – 24:00) **for passengers and for commercial traffic**. On weekends (Friday and Saturday), the Bridge is open until late afternoon (8:00 – 15:00).

## Employment in Israel<sup>35</sup>

Palestinian employment in Israel is one of the West Bank economy's major sources of income. According to the PCBS, compensation for employees in Israel in 2009 totaled USD 627 million,<sup>36</sup> more than 9% of the West Bank GDP. The increasing importance of Palestinian employment in Israel is due to the high wages earned in the Israeli economy, and to the Israeli policy of increasing the number of employment permits (see below). Notably, the increase in the share of permit holders among employees in Israel is one of the reasons for the increase in the wages.

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<sup>31</sup> Source: Israel Customs Directorate

<sup>32</sup> Source: Border Terminals – Allenby Border Terminal

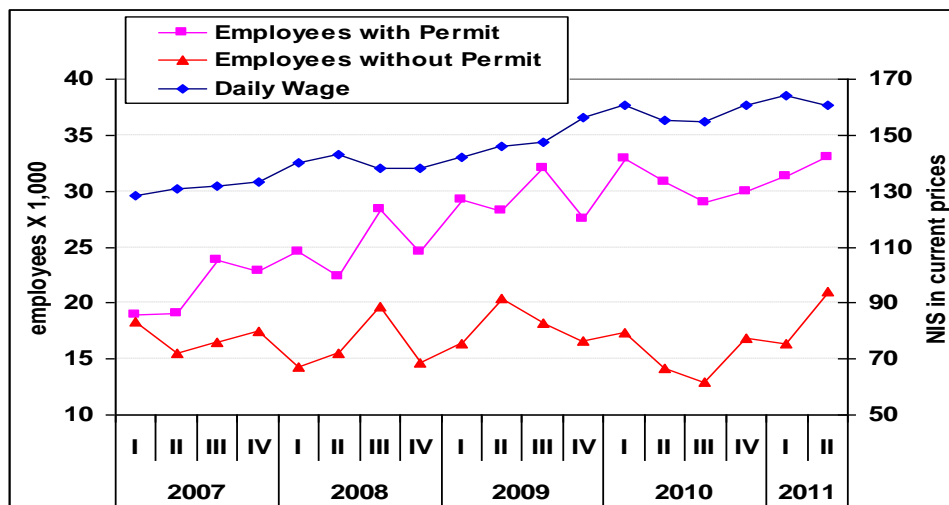
<sup>33</sup> Palestinian international trade is also transported through Israeli ports and airports.

<sup>34</sup> Source: Israel Airports Authority

<sup>35</sup> Source: COGAT

<sup>36</sup> The ICBS estimate of compensation to Palestinian employees is USD 749 million in 2009 and USD 919 million in 2010.

Figure 3: Palestinian Employment in Israel<sup>37</sup>



As of September 1, 2011, the number of West Bank Palestinians employed in Israel stood at 29,851. The maximum number of employment permits for Palestinians working in Israel, which amounts to 36,650, is not utilized in full. The number of Palestinians employed by Israelis in the West Bank is 24,503.<sup>38</sup>

In 2011, Israel increased the number of permits for both seasonal and permanent employment of Palestinians from the West Bank in Israel. Working permits were issued as follows:

- Construction – 4,000 new permanent permits.
- Agriculture – 1,250 new permanent permits, 3,000 seasonal olive harvest permits for families<sup>39</sup>, 750 seasonal almond picking permits for families.

The validity of employment permits for factories and industrial zones in the West Bank was extended from six months to one year.

### Health Care

Thousands of Palestinian patients receive medical treatment in Israel each year. Figure 4 below demonstrates the numbers of patients from the West Bank who received medical care in Israel from January to August 2011.

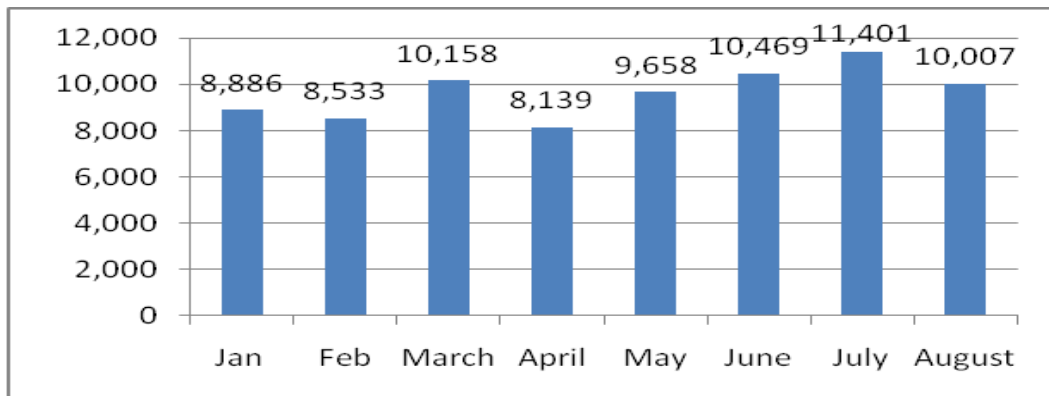
<sup>37</sup> Source: PCBS

<sup>38</sup> Source: COGAT

<sup>39</sup> The olive harvest begins in September.

**Figure 4: Palestinian Patients from the West Bank Treated in Israel<sup>40</sup>**

January – August 2011



#### Marketing Dairy and Meat Products to Jerusalem<sup>41</sup>

Instituting veterinary services made it possible for eight factories in the West Bank to continue marketing their goods in Jerusalem. While the process is still being developed in cooperation with international organizations, temporary authorization to market these goods has been granted until the end of 2011.

#### Water Supply<sup>42</sup>

Unfortunately, over the past year the Palestinians have politicized this topic, instead of increasing cooperation, which had improved over the past few years. Greater cooperation would have made it easier for the two sides to surmount the problems connected to water relations between them, and provide the Palestinians with better solutions to water shortages in Gaza and the West Bank.

The Palestinians in the West Bank produce approximately 135 million cubic meters per year from springs and wells, and Israel supplies another 52 million cubic meters annually directly to the Palestinians in the West Bank (over 20 million cubic meters more than Israel is obligated to supply). In addition, the Palestinians can produce another 60 million cubic meters per year from the Eastern Aquifer. Altogether, the Palestinian Authority currently has at its disposal some 250 million cubic meters of water per year in the West Bank for approximately two million residents, which is 125 cubic meters per person annually for all of their needs. At present, the amount of water at the Palestinian Authority's disposal per year exceeds by 25% the amount forecasted for the future needs of the Palestinians in the West Bank, as set forth in the Water Agreement from 1995.

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<sup>40</sup> Source: COGAT

<sup>41</sup> Source: COGAT

<sup>42</sup> Source: The Water Administration for the WB&GS

It must be emphasized that, despite reforms in the Palestinian Water Authority, the Palestinians do not utilize the entire quantity of water at their disposal, mainly due to continued administrative shortcomings on their part.

Due to Israel's ongoing efforts, the numbers of Palestinians in the West Bank connected to water supply networks has increased steadily over the past few decades, at a rate far higher than the global average. At present, some 95% of the Palestinian population in the West Bank is connected.

The Joint Water Committee (JWC), which includes representatives from the Israeli and Palestinian water authorities, has authorized hundreds of Palestinian projects, including drilling for water, since its establishment in 1995. Due to the fact that Israel and the Palestinian Authority share their water resources, it is important to maintain and improve this mechanism.

Most projects approved within the JWC are funded by donor countries. Israel would like to acknowledge the important role played by donor countries, whose funding and support have helped implement projects in the water sector. In particular, Israel would like to thank the World Bank, which undertook, in mid-September 2011, to fund and support a wastewater treatment plant in Hebron, which had been held up for a number of years due to lack of funding. Israel would also like to thank the United States, which helped connect the World Bank to this project. This project will make a significant contribution to the environment in the Hebron and Beer Sheba areas, which suffer from sewage contamination. Israel is willing to help train Palestinian professionals to operate the wastewater plant. A course for Palestinians and Jordanians began in 2010.

Although there has been welcome progress in this area, there is still much to be done, and the role of donor countries remains crucial.

## Security Challenges

Maintaining security and preventing terrorism is critical, in order to promote stability and economic development on the ground. Despite improved security coordination and relative calm throughout the year, terrorism continues to threaten the lives of innocent civilians in the area.

Sadly, several major terrorist attacks were perpetrated against Israeli civilians in 2011:

- On March 11, 2011, in a horrific terrorist attack, five members of the Fogel family of Itamar (the parents, aged 36 and 35, two sons, aged 11 and 4, and a 3-month-old baby girl) were brutally murdered while sleeping.

- Less than two weeks later, on March 23, 2011, terror struck again when there was a bombing near the International Convention Center in Jerusalem, at the entrance to the city, killing a British tourist and injuring 28 civilians.
- On the night of August 29, 2011, a Palestinian terrorist from Nablus hijacked a taxi in Tel Aviv, and drove it into a crowd, where more than a thousand people, most of them youth, had congregated. After ramming the taxi into a joint police-border guard barrier, the terrorist ran over two border guards, and got out and stabbed police and security guards. Seven people were wounded in the attack, three critically.<sup>43</sup>

During the first eight months of 2011, **94 terrorist incidents were recorded in the area surrounding the Kalandiya and Rachel crossings** near Jerusalem, including: Molotov cocktails, shooting, explosive devices, seizing knives to carry out terrorist activity, throwing stones. This marked a decrease in comparison to the parallel period in the previous year, during which 124 terrorist incidents were recorded.<sup>44</sup>

In addition, on September 7, 2011 it was made public that the IDF, Israel Security Agency and Israel Police prevented a major terrorist attack in Jerusalem in August 2011. The attack was thwarted after a terrorist had already entered Jerusalem planning to activate an explosive device on a bus or at a shopping mall in the Pisgat Ze'ev neighborhood. The attack was prevented through joint operations by the IDF, ISA and Israel Police.<sup>45</sup>

**The ISA has noted that Hamas has been trying to rehabilitate its military infrastructure in the West Bank in order to carry out attacks against Israeli targets. According to the ISA, Hamas leadership abroad (in Syria, Saudi Arabia and Turkey) has provided funding, guidance and training for the establishment of terrorist infrastructure. Hamas in the Gaza Strip has been involved as well, attempting to move weaponry into the West Bank and providing funding for terrorist activities.**<sup>46</sup>

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<sup>43</sup> Source: [http://www.terrorism-info.org.il/malam\\_multimedia/English/eng\\_n/html/ipc\\_e224.htm](http://www.terrorism-info.org.il/malam_multimedia/English/eng_n/html/ipc_e224.htm)

<sup>44</sup> Source: Commander Surrounding Areas Jerusalem

<sup>45</sup> Source: <http://www.idf.il/1283-13091-en/Dover.aspx>

<sup>46</sup> Source: <http://www.idf.il/1283-13091-en/Dover.aspx>



## Chapter Two

# Fiscal Cooperation

### Transfer of Clearance Revenues

Cooperation between the ministries of finance of Israel and the Palestinian Authority includes, inter alia, the regular transfer of tax clearance revenues to the Palestinian MOF by the Israeli MOF, meetings of the joint bilateral MOF professional team, and training for Palestinian professionals on customs and tax systems.

Transfers of tax revenues have been made on a monthly basis. Revenues transferred constitute one of the PA's primary sources of income, and are indispensable, together with budget support provided by donors and local tax collection, in enabling the PA to sustain operations, including payment of public sector salaries and private sector contracts.

The following tables illustrate transfers since 2007:

**Figure 5<sup>47</sup> : Transfer of Tax Clearance Revenues 2007-2011<sup>48</sup>**

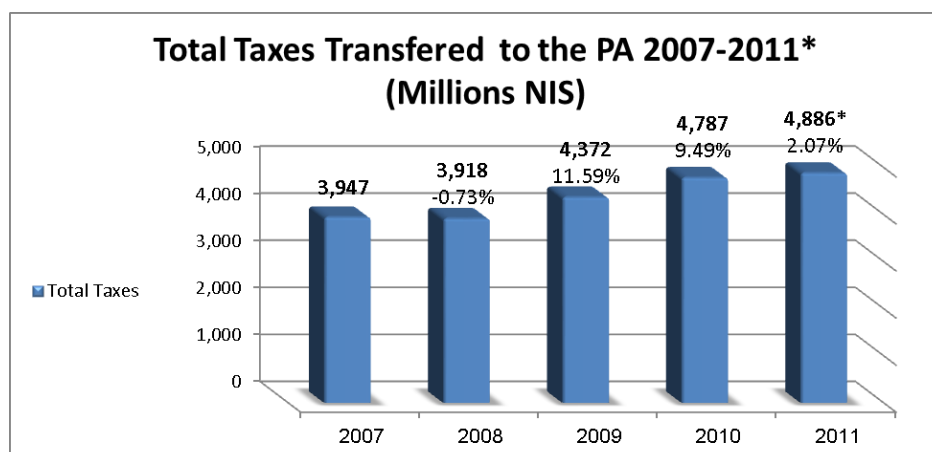
(Millions of NIS)

| Year                              |         | Import Taxes | Fuel Excise | VAT | Purchase Tax | Total Taxes |
|-----------------------------------|---------|--------------|-------------|-----|--------------|-------------|
| 2007                              | Half I  | 581          | 532         | 737 | 0            | 1,850       |
| 2007                              | Half II | 682          | 690         | 702 | 23           | 2,097       |
| 2008                              | Half I  | 581          | 602         | 675 | 7            | 1,865       |
| 2008                              | Half II | 732          | 625         | 690 | 6            | 2,053       |
| 2009                              | Half I  | 717          | 665         | 640 | 7            | 2,029       |
| 2009                              | Half II | 805          | 793         | 737 | 8            | 2,343       |
| 2010                              | Half I  | 767          | 788         | 736 | 8            | 2,299       |
| 2010                              | Half II | 863          | 852         | 767 | 6            | 2,488       |
| 2011                              | Half I  | 865          | 793         | 782 | 3            | 2,443       |
| <b>% Increase HI 2011/HI 2010</b> |         | 13%          | 1%          | 6%  | -62%         | 6%          |

<sup>47</sup> Source: Ministry of Finance, Tax Authority

<sup>48</sup> H1 2011.

Figure 6<sup>49</sup>



\* Estimate based on data from H1 2011.

### Joint Ministry of Finance Team

At the beginning of 2011, the Israeli Ministry of Finance and the PA Ministry of Finance decided to establish a joint team (MOF to MOF) headed by the Head of the Israeli Customs Directorate and the Palestinian General Accountant. The Joint Team has held several meetings, has set an agreed agenda and has addressed issues such as updating existing economic arrangements, increasing transparency, and mutual information sharing. The team is in the process of formulating principles for cooperation on several issues, including: passage fees for the Allenby Bridge, electricity payments, and a mechanism for the transfer of goods.<sup>50</sup>

As stated above, one issue discussed by the Joint Team was the practice of settling unpaid electricity bills owed by Palestinian municipalities to the Israel Electric Corporation. Over the years Israel has viewed electricity services supplied to the PA as falling outside of the conflict. The Israel Electric Corporation has no collection enforcement powers in the PA, and the PA takes full responsibility for all its municipal authorities in both the West Bank and the Gaza Strip. Thus far, payments for electricity services have been covered through automatic deductions by the Israeli MOF from clearance revenues owed to the PA. In the Joint Team's discussions, the PA is planning to implement a new procedure, in which commercial companies acting on its behalf will be in charge of collecting payments for electricity, and will work directly with the Israel Electricity Corporation.<sup>51</sup>

<sup>49</sup> Source: Ministry of Finance, Tax Authority

<sup>50</sup> Source: Ministry of Finance, Tax Authority

<sup>51</sup> Source: Ministry of Finance, Tax Authority

The sides have also discussed the development of an electronic interface to access data compiled by Israel on imports via Israel to the West Bank and Gaza, for the purposes of assessing clearance revenues owed to the PA. The technical side has been agreed with the Israel Customs Directorate, and at this point all that remains is to determine payment arrangements with the company constructing the interface.<sup>52</sup>

The monitoring by officials from both sides of the movement of goods at internal land crossing points, in order to improve the collection of various taxes, was also discussed.<sup>53</sup>

There is a mutual need to continue these meetings and the dialogue on bilateral economic issues and to update economic arrangements.

#### Israel Tax Authority Training Activities for the PA Tax Administration<sup>54</sup>

The Israel Tax Authority supports international efforts to provide technical assistance to the PA, in the area of taxation. It plays a major role in the implementation of a comprehensive reform of tax administration with technical assistance from the IMF, DFID and USAID. Under an action plan for 2011–13, since early 2011 the staff of the Palestinian Income Tax Department has been receiving training on the effective application of the recently developed manual on income tax operating procedures, funded by the international community. These training activities are conducted by officials from the Israel Tax Authority, who convey relevant know-how and information to Palestinian personnel.

#### Cooperation between the Israeli and Palestinian Customs Authorities<sup>55</sup>

The Israel Customs Directorate (ICD) continues to support capacity building for the development of the Palestinian Authority Customs and Excise (PACE), and views it as an important element both for PACE and for strengthening cooperation between the customs administrations of both sides. ICD considers itself as an active partner and is willing to assist PACE with its professional capacity building.

In the past year, Israel Customs continued to make efforts to strengthen its relations with PACE, and contribute to PACE capacity building, as follows:

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<sup>52</sup> Source: Israel Customs Directorate

<sup>53</sup> Source: Israel Customs Directorate

<sup>54</sup> Source: Ministry of Finance, Tax Authority

<sup>55</sup> Source: Israel Customs Directorate

## **Working Meetings between Officials of ICD and PACE**

- In the first half of 2011, a number of meetings were held between senior customs officials from ICD and PACE in order to discuss and clarify issues, receive updates, exchange information and forward requests. Within the framework of the ongoing cooperation between the two administrations, meetings at the director general level as well as the senior professional level are held periodically between the two sides.
- In 2009, an Israeli-Palestinian joint team was established for the coordination of procedures and Israeli-Palestinian computer interfaces. As stated above, following the establishment of the team, ICD will operate in the upcoming months a computer interface which will enable it to transmit electronically, on a daily basis, the information stored in the important entries of Palestinian importers. This will provide PACE with a wide database for its customs control work and the establishment of an infrastructure for macro-economic data. In the coming months, a work contract is about to be signed between PACE and "Malam Team", which is the company selected to develop the interface.

## **Meetings with Importers**

Meetings were held between ICD officials and Palestinian importers as per the importers' request.

## **Training Activities**

- In a study visit, in January 2011, the Director General of PACE visited the Israeli customs office at the Tel Aviv Central Post Office in order to become familiar with the customs procedures and methods in the field of parcel inspection.
- ICD and PACE cooperate in learning working methods in bonded warehouses where vehicles are stored prior to their release from customs. These activities are funded by USAID.
- Additional training programs are planned for the future, including: a meeting on the topic of risk assessment will be held between representatives of ICD, PACE and Jordanian customs; a training course on the topic of investigations; a seminar for PACE officials which will review Israel's free trade agreements including the principles and implementation thereof.
- Joint working procedures have been formulated by the customs authorities to enable the release of goods from customs control under the various conditions of conditional exemption, for coordination and cooperation between them.

### **Other cooperation between PACE and ICD**

- In 2010, a procedure that allowed Palestinian importers to take cars out of bonded warehouses in Israel, in order to display them in their stores in the Palestinian areas, was approved. This procedure was continued in 2011.
- The Palestinians requested to exempt vehicles intended for foreign investors and the handicapped from import taxes. This request is currently being examined by ICD.
- ICD is currently examining the possibility of the construction of a general vehicle bonded warehouse in the Palestinian areas.

### **Cooperation with the Private Sector:**

In 2011, ICD held meetings with Palestinian businesspeople on different topics, including holding a panel attended by USAID representatives on various customs and operational issues.

### **Transfer of Deficits Collected from PA Importers and Electronic Transmission of the Details of the Deficits for Collection by PACE:**

According to an arrangement pursuant to the Interim Agreement, ICD transfers to the PA taxes collected for imports destined for the Palestinian territories. In cases where inaccuracies are uncovered, based on post clearance audits, deficits are collected from the importers. Since May 2008, ICD has transferred the deficits collected from Palestinian importers to PACE on a monthly basis. In the first half of 2011, ICD transferred to PACE approximately NIS 10 million in deficits.

Concurrently, ICD transfers information on deficits of Palestinian importers that it was unable to collect due to lack of accessibility to the PA territories. This process and the information forwarded, gives PACE the necessary tools to deal with the importers within its territories, an essential stage in the professional capacity building of PACE. In the first half of 2011, ICD continued a pilot that began in February 2010, giving PACE full responsibility for handling deficits resulting from the importation of vehicles into the PA territories.

### **Cooperation between the VAT Liaison and the PA VAT Unit<sup>56</sup>**

The VAT Liaison and the PA VAT Unit cooperate actively. Cooperation includes:

- Monthly Clearance Meetings - Representatives of Israel and the PA meet on a monthly basis to determine the amounts to be transferred. In the framework of these meetings, each side raises matters that it wishes to discuss. In addition, pre-clearance preparatory meetings are

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<sup>56</sup> Source: Ministry of Finance, Tax Authority

held on a regular basis between the sides, in the middle of each month.

- Implementation of the Large Dealer Arrangement.<sup>57</sup>
- Training in VAT for Palestinian Tax Officials - the Israel Tax Authority has prepared a professional training program for Palestinian VAT officials, similar to training courses given to Palestinian customs officials by ICD. The initiative to organize this training program is based on the common interest of two sides: the Palestinian VAT Authority and the Israel Tax Authority. The United States Government assists in funding the seminar via USAID. In March 2011, an advanced VAT training course was held. This training program was planned and authorized by the professional representatives of both sides and was approved by the Director of the Palestinian VAT Authority. An additional training seminar was requested on the topic of the VAT Law. The Israel VAT Authority will operate in cooperation with PA VAT Unit for the preparation of the abovementioned training seminar, which will take place by the end of 2011.<sup>58</sup>
- Other Areas of Cooperation - In addition to the abovementioned clearance meetings and related activities, bilateral cooperation includes assistance in conducting verifications, including submitting investigation materials to the other side, as well as any other matter raised by one of the sides.

### Clearance of Donations to the PA:<sup>59</sup>

In the first half of 2011, 177 donations intended for the PA were cleared from Israeli customs. The breakdown of the donations was as follows: 58% medicines and medical equipment; 18% vehicles including cars, ambulances and trucks; 1% food donations; and 1% water and electricity infrastructure.

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<sup>57</sup> An arrangement mutually agreed by the sides to facilitate trade by waiving the use of special VAT invoices, while the goods are accompanied by a shipping certificate only. Clearance is conducted at the end of each month by presenting one centralized tax invoice for the sales of each month. As per the request of the Palestinians, several years ago, three large Palestinian dealers were added to the arrangement. It should be noted that this arrangement is not included in the Economic Agreement between the State of Israel and the PA. This arrangement allows the transfer of goods between the sides using shipping certificates instead of special tax invoices as required by the VAT Law. This arrangement benefits the PA authorities, since the clearance includes on the average, amounts exceeding NIS 25 million per month, accounting for 20% of the amount of taxes from invoices transferred to Palestinians.

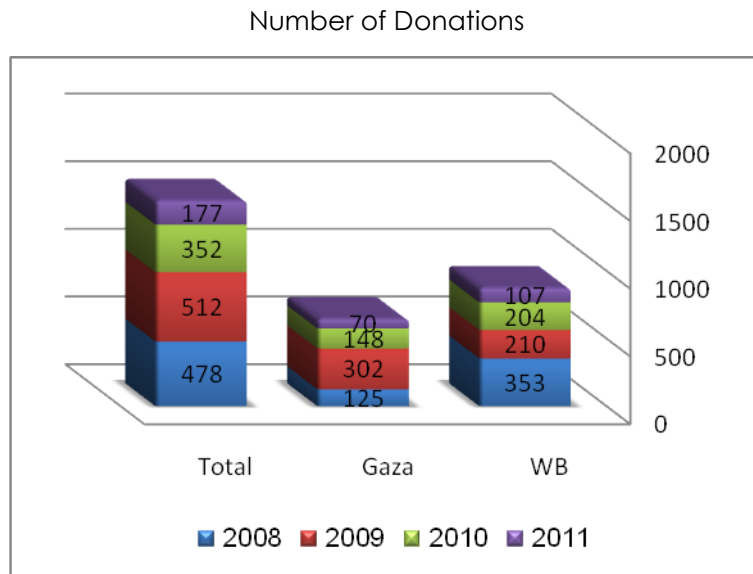
<sup>58</sup> Source: Ministry of Finance, Tax Authority

<sup>59</sup> Source: Ministry of Finance, Tax Authority

The volume of donations in the first half of 2011 was 1% lower than in the first half of 2010.

In the first half of 2011, the distribution of donations between the West Bank and Gaza remained the same as in 2010, as the majority of donations were destined for the West Bank (60%) and a smaller number was destined for Gaza (39%).

**Figure 7: Donations to the PA 2008-2011 (H1) <sup>60</sup>**



<sup>60</sup> Source: Ministry of Finance, Tax Authority

## Chapter Three

# Implementation of Israel's Policy Toward the Gaza Strip

### Introduction

During the past few months, security in southern Israel along the border with Gaza has been under constant threat. An escalation that began in July 2011 peaked in mid-August 2011, and the area has been subjected to a continuous, almost daily, barrage of heavy rocket and mortar fire launched from the Gaza Strip into Israeli territory. This fire is deliberately aimed at civilian targets, hitting schools, residences and places of worship, and has reached major population centers in southern Israel, including Beer Sheba, Ashdod, Ashkelon, and surrounding areas, paralyzing daily life. Three Israeli civilians were murdered in these attacks, while numerous civilians have been wounded and have suffered trauma.

Renewed hostilities from Gaza come just as we reach the one-year mark for Israel's new Civilian Policy towards Gaza, adopted on June 20, 2010. Israel has implemented this policy consistently throughout the past year, despite ongoing attempts by Hamas to attack populated areas within Israel and the crossings between Israel and the Gaza Strip. This policy, aimed at improving the quality of life in Gaza, has made a substantial contribution to the creation of a new reality on the ground, and enabled an economic and humanitarian recovery in the area.

The PA has no effective control in Gaza. While the estimated PA expenditure in Gaza reaches USD 1.4 billion a year (payment for salaries and electricity and water supplied from Israel, mainly) the PA enjoys no income from the effective tax collection system that Hamas operates in Gaza.

### Economic Indicators

The impact of the new Civilian Policy is reflected by several economic indicators:

- In the first half of 2011, real GDP growth in Gaza amounted to 28%.<sup>61</sup>
- GDP per capita rose accordingly by more than 20%.<sup>62</sup>
- The unemployment rate in the first half of 2011 was 25.6%,<sup>63</sup> declining from 37% last year, one of the lowest rates in recent years.<sup>64</sup>

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<sup>61</sup> Source: IMF

<sup>62</sup> Source: Palestinian Central Bureau of Statistics



- There was a 38% rise in private credit at the end of June 2011.<sup>65</sup>
- The inflation rate in Gaza was low (0.1%) in the first half of 2011, reflecting the relaxation of restrictions.<sup>66</sup>
- A narrowing of the gap between the West Bank and the Gaza Strip in the rate of increase in consumer prices since the beginning of the implementation of Israel's new Policy, demonstrates the ready availability of a full range of goods in the Gaza Strip. This rate, which once stood at 10% (between June 2007 and the beginning of 2009), shrunk to 5% in 2009-2010.<sup>67</sup>
- Much of the growth has been led by the construction sector, which expanded, inter alia, as a result of Israel's easing of restrictions on the entry of construction materials. It should be noted that in the first quarter of 2011 the construction sector contributed to over 13% of Gaza's GDP, as opposed to only 3.5% in the first quarter of 2010.<sup>68</sup>
- The construction sector's quarterly output in the third and fourth quarters of 2010 was higher than the industry's annual output for 2008 and 2009. In addition, the percentage of construction workers among the overall employed work force in Gaza increased from approximately 1% in 2008-2009 to approximately 4% in the second half of 2010.<sup>69</sup>
- Over 281,438 tons of construction materials (cement, iron and aggregates) entered the Gaza Strip from January to September 1, 2011.<sup>70</sup>
- Ten private-sector factories in the Gaza Strip have been authorized to undergo expansion and renovation projects under international supervision.<sup>71</sup>
- The number of truckloads bringing goods to the Gaza Strip increased by over 70% between H1 and H2 2010 due to the new Civilian Policy.<sup>72</sup>

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<sup>63</sup> Source: Palestinian Central Bureau of Statistics

<sup>64</sup> Source: IMF Staff Report on the Recent Experience and Prospects of the Palestinian Economy Prepared for the Meeting of the Ad Hoc Liaison Committee

<sup>65</sup> Source: IMF Staff Report on the Recent Experience and Prospects of the Palestinian Economy Prepared for the Meeting of the Ad Hoc Liaison Committee

<sup>66</sup> Source: IMF Staff Report on the Recent Experience and Prospects of the Palestinian Economy Prepared for the Meeting of the Ad Hoc Liaison Committee

<sup>67</sup> Source: Bank of Israel

<sup>68</sup> Source: PCBS, Preliminary Estimates of Quarterly National Accounts, First Quarter 2011

<sup>69</sup> Source: Bank of Israel

It should be noted that construction materials are also smuggled from Egypt, and the illegal tunnels industry has a substantial impact on the Gaza economy, alongside the new Israeli policy.

<sup>70</sup> Source: COGAT

<sup>71</sup> Source: COGAT

## Netanyahu-Blair Package – Agreements Related to Gaza<sup>73</sup>

In February 2011, Quartet Representative Tony Blair and Prime Minister Netanyahu agreed on a package which included measures for West Bank<sup>74</sup> and Gaza. The measures in Gaza included: Israeli agreement, following a Palestinian request, to begin discussions on the development of the "Gaza Marine" gas field; measures in the area of water, sewage and desalination facilities; upgrading of the Gaza power station and other measures to increase the supply of energy electricity; expansion of exports and private sector imports and approval of 20 additional construction projects implemented by the international community; transfer of nearly 40,000 tons of aggregates through Sufa site.

At present, implementation of a number of measures **relating to Gaza** included in the package has progressed, as follows:

- Permits for internationally sponsored projects in the Gaza Strip: As of today, Israel has approved 163 projects. Forty-three of them have been approved since the package of measures agreed upon by Blair and Netanyahu in February 2011 (See detail below).
- Entry of aggregates: A few months ago, nearly 60,000 tons of aggregates were successfully transferred to the Gaza Strip via the Sufa site (see detail below).
- In accordance with the package, produce has been exported in larger volumes than previously (see detail below). In this context, approval has also been granted to expand exports from Gaza abroad to include textiles and furniture. The Palestinians submitted a request on April 7 2011, which was approved by Israel, and now the Palestinians are in the stage of preparations for implementation including identifying markets for their products.
- It should be noted that, within the agreement reached between Blair and Netanyahu, the international community was supposed to fund the installation of a dedicated scanner by June 1, 2011, in order to facilitate the expansion of exports, without impacting the entry of other goods to Gaza. The international community has not yet met this obligation.
- In the area of electricity supply, a UNDP project to upgrade the production capacity of the power station by 40 megawatts is being implemented. Equipment for the project is in the process of being

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<sup>72</sup> Source: COGAT

<sup>73</sup> For further details regarding implementation of the package in the West Bank, see Chapter 1, above.

<sup>74</sup> West Bank measures are detailed in Chapter 1 above

purchased. The projected date for completion is November-December 2011.

- In the area of water supply, Israel gave its approval to increase the amount of water supplied to the Gaza Strip, to a total amount of 5 million cubic meters (1.3 million gallons) per annum. However, supply of the additional water is being held up mainly because of Palestinian unwillingness to make payments, which were agreed in principle in 2006, based on the Water Agreement of 1995. In terms of technical capabilities, the amount can be increased immediately by 2.3 million cubic meters (520 thousand gallons) per annum, the maximum volume the infrastructure in the Gaza Strip is currently able to handle, via the existing pipelines. In order to enable supply of an additional 1 million cubic meters (260 thousand gallons) per annum, a hook-up is needed to the “Norwegian pipeline” near Nahal Oz, which is expected to occur within a short period. Within less than a year of the completion of construction of all additional necessary infrastructures, the technical capabilities needed to supply the full 5 million cubic meters per annum through the pipeline near Nahal-Oz will be present.<sup>75</sup>
- Mobile desalination plants – Despite Israeli approval in principal for the entry of mobile desalination plants, the Palestinians have yet to submit the necessary requests and details in order to complete the process.
- Several wastewater treatment plants have been approved in Gaza: the treatment plant in Sheikh Ajleen is being implemented, the World Bank project in Lahiya is being implemented and the UN has succeeded in raising funds from Kuwait for the project in Khan Yunis.
- As stated above, ten private-sector factories in the Gaza Strip have been authorized to undergo expansion and renovation projects under international supervision.<sup>76</sup>

## Implementation of the Civilian Policy

The new Civilian Policy was instituted in accordance with a June 20, 2010 Security Cabinet Decision comprised of the following elements:<sup>77</sup>

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<sup>75</sup> Source: Israel Water Authority

<sup>76</sup> Source: COGAT

<sup>77</sup> The full text of the Decision can be found at:

[http://www.mfa.gov.il/MFA/Government/Communiques/2010/Prime\\_Minister\\_Office\\_statement\\_20-Jun-2010.html](http://www.mfa.gov.il/MFA/Government/Communiques/2010/Prime_Minister_Office_statement_20-Jun-2010.html)

- Publication of a list of controlled items. **All items not on the list are allowed into the Gaza Strip freely, with no need for any special permit.** The list was published on July 5, 2010, and is based strictly on security considerations, relating to the ability of terrorist organizations to utilize these items for terrorist activities, such as developing, manufacturing and upgrading rocket and explosive capabilities to be used against the civilian population. The list is transparent and can be found on the website of the Ministry of Foreign Affairs.<sup>78</sup>
- Upgrading and expansion of the capacity of the commercial land crossings.
- Expansion of internationally-sponsored and monitored humanitarian projects.

Throughout the past year (June 2010 to present), Israeli authorities have taken expedited steps to implement the new Civilian Policy. These steps have included, inter alia: Coordination of the transfer of goods and construction materials for projects, as well as coordination of repairs to the electric grid, sometimes even during rocket fire and at great risk to the lives of Israeli employees who operate the crossings.

The following is a detailed description of different aspects of implementation of the Policy.

### Goods Entering Gaza

As of June 2011, the new Civilian Policy has brought about an 87% increase in the quantity of goods entering the Gaza Strip on a daily basis.<sup>79</sup> As of September 1, 2011, 281,438 tons of construction materials had been transferred to Gaza for international projects (35,017 tons cement, 8,566 tons iron and 237,855 tons of aggregates).<sup>80</sup> These figures include almost 60,000 tons of aggregates which passed through Sufa during March and April (see below)<sup>81</sup>.

As of June 2011, the broadening of the range of goods entering the Gaza Strip has significantly strengthened the private sector and has resulted in a 66% rise in the extent of goods purchased by the private sector, compared to the parallel period last year.<sup>82</sup>

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<sup>78</sup>[http://www.mfa.gov.il/MFA/HumanitarianAid/Palestinians/Lists\\_Controlled\\_Entry\\_Items\\_4-Jul-2010.htm](http://www.mfa.gov.il/MFA/HumanitarianAid/Palestinians/Lists_Controlled_Entry_Items_4-Jul-2010.htm)

<sup>79</sup> Source: COGAT

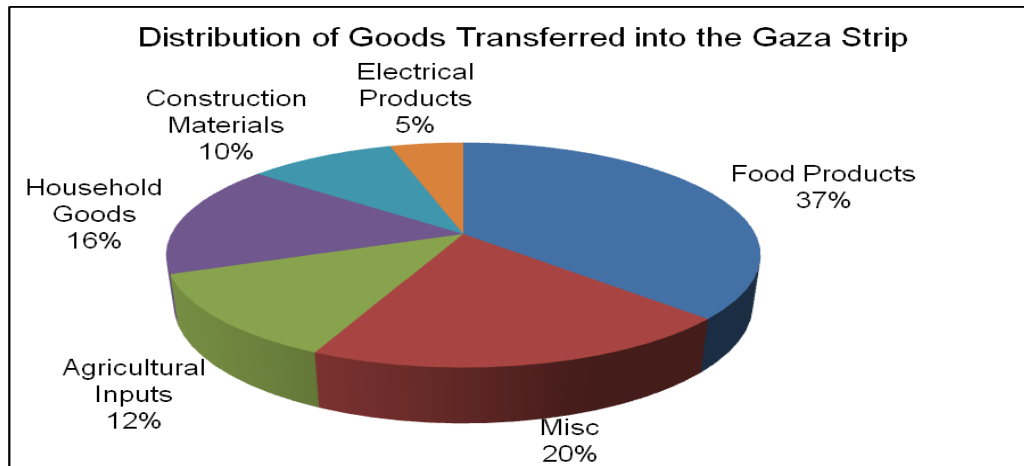
<sup>80</sup> Source: COGAT

<sup>81</sup> Source: COGAT

<sup>82</sup> Source: COGAT

During the same period, 49% of goods transferred into the Gaza Strip consist of products the entry of which was approved following the publication of the list of controlled items, as illustrated by the figure below:

**Figure 8: Distribution of Goods Transferred into the Gaza Strip<sup>83</sup>**  
**(As of June 2011)**



Between the publication of the list of controlled items and June 2011, the transfer of a broad range of products has become possible, including: vehicles (1,271 transferred), bonsai trees, chandeliers, mannequins for display windows, LCD televisions, machines for use in the food industry (snacks and ice cream), printing presses, and more. In total, 27,933 tons of electrical equipment was transferred into Gaza.<sup>84</sup>

### Increased Exports

On December 8, 2010, the Security Cabinet adopted a decision on additional measures to expedite increased exports from the Gaza Strip, thereby boosting the Gaza economy.<sup>85</sup>

In accordance with the Decision, agricultural produce was exported to Europe between November 2010 and mid May 2011. This included approximately 368 tons of strawberries, 10,181,678 carnations, 6 tons of bell

<sup>83</sup> Source: COGAT

<sup>84</sup> Source: COGAT

<sup>85</sup> The full text of the Decision can be found at:

<http://www.pmo.gov.il/PMOEng/Communication/Spokesman/2010/12/spokedes081210.htm>

peppers, and 7 tons of cherry tomatoes.<sup>86</sup> Agricultural export of potatoes to Jordan has also been authorized. Now, the exports must be coordinated between the Palestinians and Jordan. COGAT and the Israel Tax Authority are leading a program for the export of vegetables from Gaza to Jordan, in order to increase Gaza's agricultural exports.<sup>87</sup>

For further information on exports, see section on Netanyahu-Blair Package, above.

## International Activity

Israel works with the international community and the Palestinian Authority to advance and streamline procedures for the approval of internationally funded projects. To this end, a coordination and monitoring mechanism has been set up for the implementation of internationally funded projects in accordance with security considerations.

**As of July 2011, 163 internationally funded projects had been approved for implementation; 149 of them following adoption of the June 20, 2010 Policy.** The projects are being implemented throughout the Gaza Strip – about half in the northern part of the Strip.<sup>88</sup>

Implementation has been conducted by the different international organizations: 63% of the approved projects are carried out by UN agencies. As of July 2011, 79 projects were being implemented by UNRWA, and 152,737 tons of construction materials were transferred to the Gaza Strip for UNRWA projects alone.<sup>89</sup>

As of July 2011, 29 projects were being implemented by UNDP, including the electric grid. 27,893 tons of construction materials had been transferred to the Gaza Strip for UNDP projects.<sup>90</sup>

As of July 2011, 46 projects were being implemented by USAID, and 24,520 tons of construction materials had been transferred into the Gaza Strip for USAID projects.<sup>91</sup>

Twelve projects are being implemented by other organizations, as follows: 3 World Bank Projects, 2 Red Cross Projects, 2 AFD Projects (France), one KFW

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<sup>86</sup> Source: COGAT

<sup>87</sup> Source: Ministry of Finance

<sup>88</sup> Source: COGAT

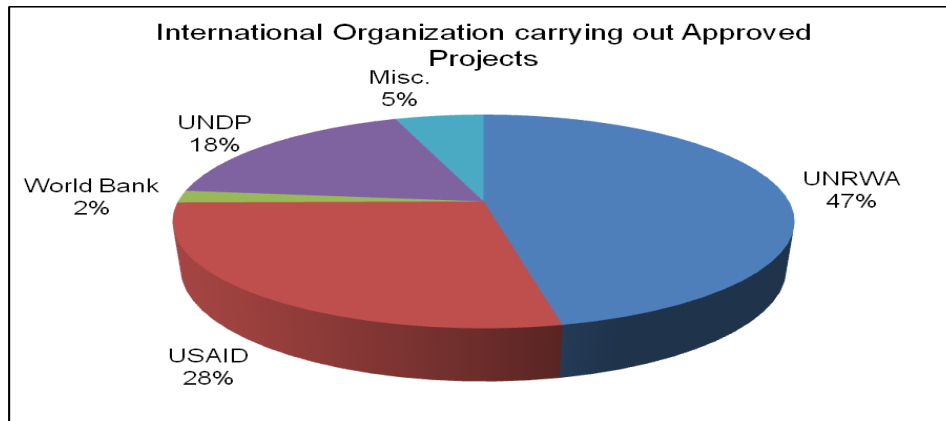
<sup>89</sup> Source: COGAT

<sup>90</sup> Source: COGAT

<sup>91</sup> Source: COGAT

Project (Germany), one Egyptian project, one Medico project (German NGO), one NRO project (Netherlands), and one BTC Project (Belgium).<sup>92</sup>

**Figure 9: International Organizations Carrying Out Approved Projects<sup>93</sup>  
(As of June 2011)**



The Security Cabinet's decision on the new Policy specified that projects in the fields of education, water, sewage, housing and health would be given priority. Projects in these fields constitute 72% of all the projects that have been approved for implementation in the Gaza Strip. **As of the end of June 2011, 33 projects had been completed and 59 were in various stages of implementation.**

Projects include:<sup>94</sup>

- 62 education projects, including the construction of 42 new schools for UNRWA throughout the Gaza Strip;
- 13 health projects, including the construction of five new clinics;
- 31 infrastructure projects (water, electricity, and sewage), including the construction of 3 new wastewater purification plants, the upgrading of three other such plants, and the upgrading of the electric grid;
- 13 housing projects, including the construction of 2,000 new housing units;
- 18 agriculture projects including the establishment of 1,600 cultivation plots and the paving of 21 agricultural roads;
- 9 road paving projects;
- 18 projects in miscellaneous fields have been approved so far, including, among others, the construction of a new cultural center, a

<sup>92</sup> Source: COGAT

<sup>93</sup> Source: COGAT

<sup>94</sup> Source: COGAT

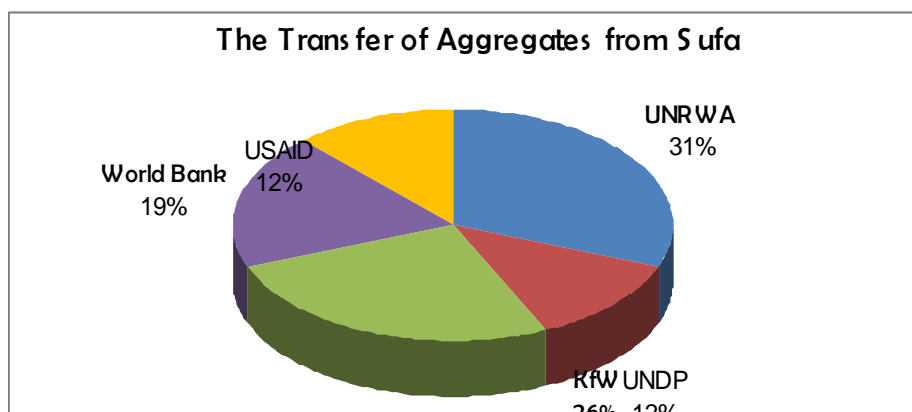
vegetable market, a park, and the renovation and expansion of the UNRWA headquarters.<sup>95</sup>

#### Aggregates from the Sufa Site <sup>96</sup>

In the beginning of March 2011, an agreement was reached between UNRWA and the Gazan owners of aggregates stuck at the Sufa site since Operation "Cast Lead". Thousands of tons of aggregates were transferred during a three-week operation, made possible by the IDF's Southern Command, despite an escalation in the security threat posed by Hamas at the time of the operation (approximately 250 rockets and mortar shells were fired at Israel during the operation).

Israel authorized the exceptional opening of the security fence at the Sufa site<sup>97</sup> in order to make possible the shipment of the aforementioned materials into Gaza. This measure was part of the Netanyahu-Blair Package. As of June 2011, **almost 60,000 tons<sup>98</sup> of aggregates acquired by various international organizations had been transferred to Gaza in order to enable the implementation of approved projects.**

**Figure 10: The Transfer of Aggregates from Sufa<sup>99</sup>**  
(As of June 2011)



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<sup>95</sup> Source: COGAT

It should be noted that implementation percentages do not include 13 projects approved on June 29 2011.

<sup>96</sup> Source: COGAT

<sup>97</sup> Sufa operated unofficially until November 2008.

<sup>98</sup> 58,533 tons

<sup>99</sup> Source: COGAT



## Upgrading Land Crossing Activity

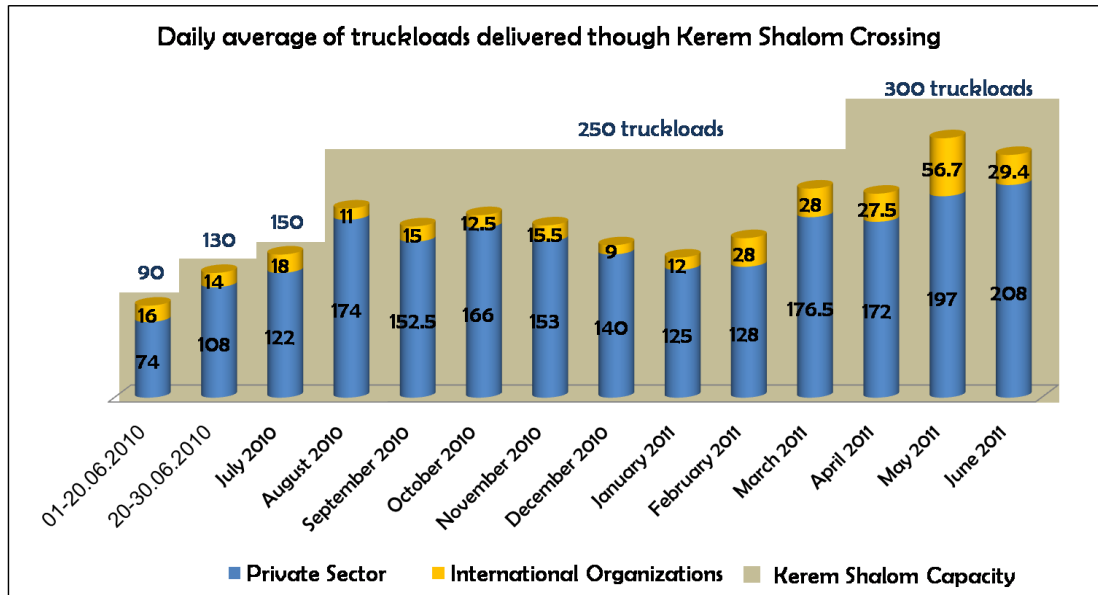
### Kerem Shalom

Kerem Shalom serves for commercial and humanitarian traffic of goods, fuels and aggregates and grains in bulk.

As of September 2011, the Land Crossings Management Authority had invested NIS 55 million in the development of the crossing, in order to double the number of trucks crossing from Israel to Gaza.<sup>100</sup> Improvements completed include: construction of access roads, expansion of work areas, construction and upgrade of security equipment and lighting on both the Israeli and Palestinian sides.<sup>101</sup> The total planned investment is NIS 100 million, and the projected completion date for the project is 2012.<sup>102</sup>

**Although the Kerem Shalom Crossing's capacity has been increased, the average number of truckloads actually sent through the crossing by the Palestinians and the international community remains below actual capacity, as illustrated by Figure 11 below.**

**Figure 11: Daily Average of Truckloads Delivered through Kerem Shalom Crossing<sup>103</sup>**  
(As of June 2011)



In March 2011, and due to security concerns that interfered with the daily functioning of the site, Israel decided to transfer the activities of the Karni

<sup>100</sup> Source: Crossings Management Authority

<sup>101</sup> Source: COGAT

<sup>102</sup> Source: Crossings Management Authority

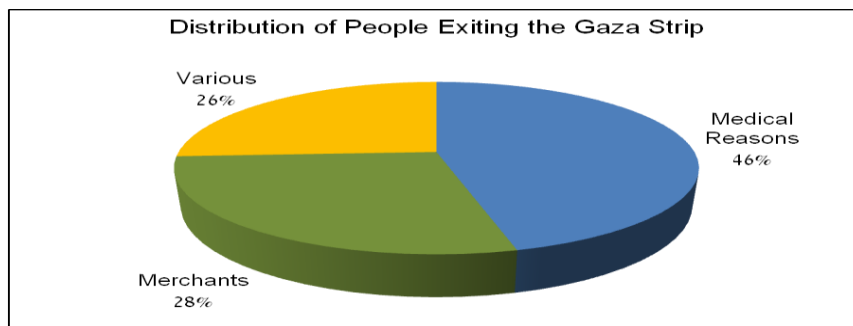
<sup>103</sup> Source: COGAT

conveyor belt to the Kerem Shalom Crossing. This change enabled an increase in the number of working days of the conveyor belt. In addition, the Land Crossings Management Authority created unique infrastructure at Kerem Shalom, enabling the transfer of 80 truckloads of aggregates per day, 30-35 truckloads of grains and 10 export trucks.<sup>104</sup> In parallel, construction of a large conveyor belt at Kerem Shalom began, with the aim of increasing the capacity for the transfer of aggregates and grains on an average day by 150%.<sup>105</sup> Wheat, animal fodder and raw materials for construction are now brought into the Gaza Strip on a daily basis – as opposed to twice a week when the Karni Conveyor belt was operating.<sup>106</sup>

### Movement of People

Between June 2010 and June 2011, 30,090 Palestinians left the Gaza Strip. Additionally, Israel decided to increase the daily passage of merchants and businessmen entering Israel from 70 to 100 people. A total of 7,282 merchants left the Gaza Strip and traveled to Israel, the West Bank, and abroad as part of the ongoing economic activity of the Gaza Strip.<sup>107</sup> Figure 12 below illustrates the distribution of people exiting the Gaza Strip:

**Figure 12: Distribution of People Exiting the Gaza Strip<sup>108</sup>  
(As of June 2011)**



In addition, 622 diplomatic delegations visited the Gaza Strip from June 2010 to June 2011.<sup>109</sup>

As demonstrated by Figure 12 above, many of the Palestinians who exited Gaza were patients seeking medical treatment. Thousands of Palestinians from Gaza have received medical treatment in 2011 thus far. Figure 13 below

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<sup>104</sup> Source: Crossings Management Authority

<sup>105</sup> Source: COGAT

<sup>106</sup> Source: COGAT

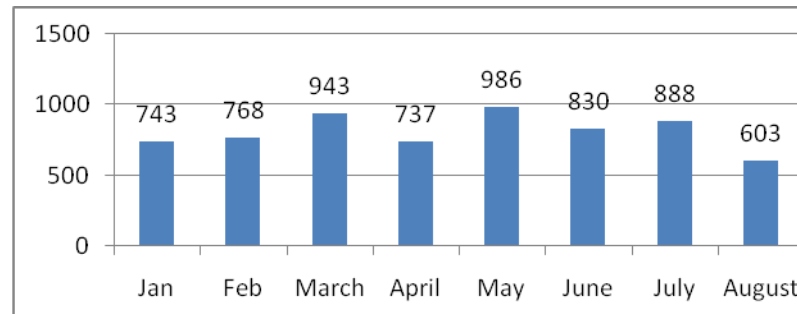
<sup>107</sup> Source: COGAT

<sup>108</sup> Source: COGAT

<sup>109</sup> Source: COGAT

demonstrates the numbers of patients who received medical care in Israel from January to August 2011.

**Figure 13: Palestinian Patients from Gaza Treated in Israel<sup>110</sup>**  
January – August 2011



The vast majority of patients leaving Gaza were accompanied by their relatives. Numbers in the above figure do not reflect the numbers of accompanying individuals, which almost match the numbers of patients.

### The Security Threat from Gaza

At the same time that Israel was implementing the new Civilian Policy, in order to improve the standard of living and meet the needs of the population of the Gaza Strip, terrorist organizations from the Strip, led by Hamas, continued to fire rockets and mortars at Israeli civilian population centers. Terrorist organizations have even attempted to sabotage the activities of the land crossings through which civilian supplies for the Gaza population are shipped, and to bring about their closure.

During the year following adoption of the new Civilian Policy (June 2010 – June 2011), 453 rockets and mortar shells were launched at Israel, of which 62 targeted the crossings between Israel and the Gaza Strip. In April 2011, the Hamas military wing, the Ezedeen al-Quds Brigade, claimed responsibility for firing two "Qassam" rockets at the Kerem Shalom Crossing.<sup>111</sup>

In addition to the above, the past few months have witnessed an **unfortunate escalation in terrorist activity**. This escalation began in July: between July 9 and August 4, 2011, 25 rockets and mortars were fired at Israel, endangering the lives of innocent civilians living in the region.<sup>112</sup>

Furthermore, the escalation peaked from August 18 to 25, 2011, during which time **heavy rocket and mortar fire was launched from the Gaza Strip into**

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<sup>110</sup> Source: COGAT

<sup>111</sup> Source: COGAT

<sup>112</sup> Source: Israel Defense Forces Strategic Division

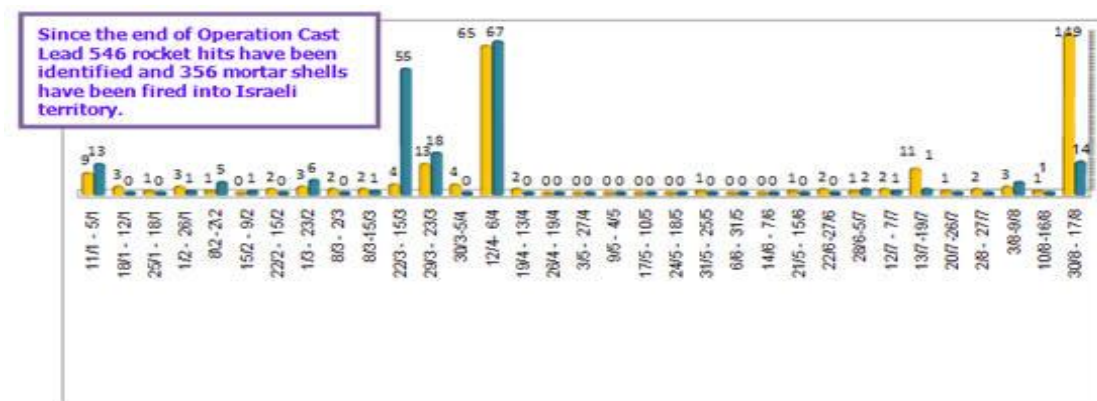
**Israeli territory almost on a daily basis. During this round of escalation, 149 rockets and 19 mortar shells fell in Israeli territory (of 200 fired).** It was the worst round since Operation Cast Lead.<sup>113</sup> These **rockets, missiles and mortars** were fired at Israeli territory in the direction of the major cities Ashdod, Ashkelon and Beer Sheva, as well as neighboring populated areas along the Gaza Strip.

The round of rocket attacks from August 18 to 25 took a heavy toll on Israeli civilians, wounding 27 (5 critically), and killing three.<sup>114</sup> These figures do not include civilians who suffered from panic or trauma.<sup>115</sup>

The number of casualties resulting from these attacks has been kept down due to Israel's use of the Iron Dome defense system, as a means of self-defense. The system successfully neutralized 34 rockets after it was determined they would hit densely populated areas.<sup>116</sup>

**Figure 14: Rockets and Mortar Shells Fired into Israeli Territory**

During 2011<sup>117</sup>



The projectiles launched between August 18 and 25 **deliberately targeted civilian areas, hitting schools, residences and places of worship.**<sup>118</sup> For example:<sup>119</sup>

<sup>113</sup> Source: [http://www.terrorism-info.org.il/malam\\_multimedia/English/eng\\_n/html/ipc\\_e224.htm](http://www.terrorism-info.org.il/malam_multimedia/English/eng_n/html/ipc_e224.htm)

<sup>114</sup> A 62-year-old woman became the second victim to lose her life as a result of the rocket fire on Beer Shev when she passed away on August 24, 2011 at the Soroka Medical Center in Beer Sheba.

A third victim, a 79 year old man, passed away at the Hadassah Medical Center in Jerusalem on September 4, 2011.

<sup>115</sup> Source: COGAT

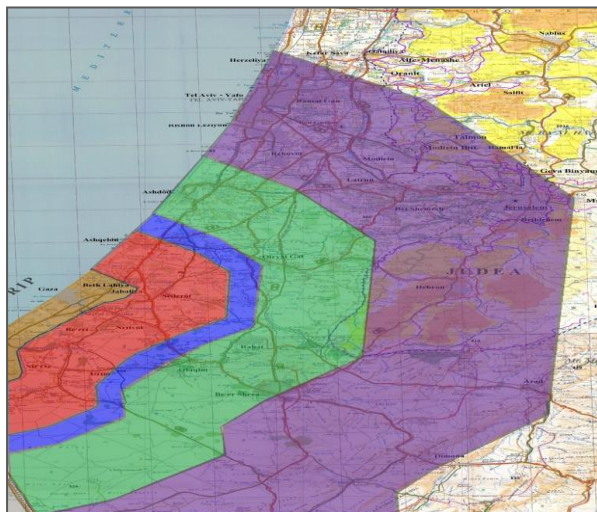
<sup>116</sup> Source: COGAT

<sup>117</sup> Source: [http://www.terrorism-info.org.il/malam\\_multimedia/English/eng\\_n/html/ipc\\_e224.htm](http://www.terrorism-info.org.il/malam_multimedia/English/eng_n/html/ipc_e224.htm)

<sup>118</sup> Source: COGAT

- On August 19, a synagogue and a school in Ashdod were hit by rockets fired from the Gaza Strip. One person was seriously injured, and some ten were wounded. There was extensive damage to the building.
- On August 20, two Grad rocket hits were identified in Beer Sheba, causing the death of one Israeli civilian, critically wounding four others and inflicting varying degrees of injuries on three others. Considerable damage was done to one house in the city.
- On August 20, two Grad rocket hits were identified in the region of Ashdod. Four civilians were wounded, one of them critically; several structures were damaged.
- On August 20, two more Grad rocket hits were identified in the region of Ashdod. Six civilians were wounded, three of them critically; one sustained minor injuries and two were treated for trauma.
- On August 20, three rocket hits were identified in Ofakim, wounding several people, including a four-month-old baby, and causing severe damage.

Rockets launched from Gaza threaten **almost half of Israel's population**, placing in harm's way **3.5 million Israeli citizens**, who live in shooting range of the Gaza Strip, as illustrated by Figure 15 below:



**Figure 15: Gaza Strip Rocket Ranges<sup>120</sup>**

**Red = Mortars** – (60mm, 81mm, 120mm and improvised) 1.8-6 mi / 3-10 km  
**Blue = Improvised rockets** (90mm, 115mm, 168mm) 3.7-12.5 mi / 6-20 km [5-15 kg payload]  
**Green = 122mm (Russian, Chinese and Iranian)** 13 mi / 21 km [20 kg payload]  
**Purple = Fajr-5** 46 mi / 74km [175kg payload]

<sup>119</sup> Source: [http://www.terrorism-info.org.il/malam\\_multimedia/English/eng\\_n/html/ipc\\_e224.htm](http://www.terrorism-info.org.il/malam_multimedia/English/eng_n/html/ipc_e224.htm)

<sup>120</sup> Source: COGAT

On August 22, 2011, Hamas and other terrorist organizations in the Gaza Strip announced a de-facto ceasefire. However, since that time, rocket and mortar fire has continued.

In an August 25 terror attack, rockets and mortar shells launched by terrorist groups from the Gaza Strip hit the **Erez Crossing**, damaging the crossing. The attack occurred as three women and two infants passed through the crossing, returning to the Gaza Strip after receiving medical treatment in Israel. Due to damage caused to the electricity system in this terror attack, these women and children were caught at the crossing, but they were brought to a safe area within the crossing where they received medical treatment.

**Erez crossing** is used for the movement of Palestinians and international staff members, and serves as a lifeline for the thousands of Palestinians who seek medical care in Israel.

Israel holds Hamas, the ruling authority in the Gaza Strip since June 2007, responsible for all terrorist activity originating in the Gaza Strip. Israel has repeatedly filed complaints to the UN over illegal rocket fire from Gaza and continuously calls on Hamas to abide by international law. Israel calls on Hamas to cease all terrorist activity immediately, and calls on the international community to condemn these attacks unequivocally and to make all efforts to encourage their immediate cessation.

**Gilad Shalit remains in captivity in the Gaza Strip for more than five years, while his most basic rights, such as the right to be visited by the Red Cross, are violated. The International Community must do its utmost to bring about his immediate and unconditional release.**