

Economic Relations Committee
Meeting Minutes

Date & Time: 5 November 2008

Venue: King David Hotel, Jerusalem

Participants:

Palestinian Side:

1. Dr. Samer Huleileh (SH)
2. Bader Rock, Legal Adviser the Negotiations Support Unit (BR)
3. Enas Abu Laban, Policy Adviser the Negotiations Support Unit (GF)

Israeli Side:

1. Yoram Ariav, Director General Ministry of Finance (YA)
2. Dr. Shavit Matyas, Deputy Government Legal Adviser (SM)
3. Michal Finkelstein, Senior Advisor to Director General Ministry of Finance (MF)
4. Deborah Milstein, Legal Adviser Ministry of Industry, Trade & Labor (DM)
5. Lt. General (Reserves) Kameel Abu Rukun – Prime Minister's Office (KAR)

Meeting Minutes:

SH: How do you perceive the mood in your government before your elections? What will be the positions of Olmert government how far can it continue the negotiations? Will this mean we will proceed as usual or only wait for directions from the government?

YA: I'm willing to go ahead as much as we can. It's a twilight zone and the politicians will be busy with the primaries and the elections. Olmert is very determined to go ahead he doesn't have any burden to be elected and what he wants is to have significant footprint on history. You are aware about the dispute over the Syrian negotiations. He announced that he is going ahead with Syrians even to give certain concessions about the rights over the Golan. There are legal restrictions as well. On the other hand there is the precedent of the Taba talks in 2000. As professionals we would like to continue as normal as possible. It's the interest of both parties. The new government can take it or change it. If we can give them as much as possible a holistic framework it will be positive for both of us.

KAR: Saab and Udi are going to hold meetings to see how we can solve bottle nicks.

SH: personally I believe it depends on how long it will take in Israel you will need 6 month and we are talking about summer 2009. On our side if there will be no major problems in January the situation wont change. We have a new US president. The question is how to keep the momentum how to engage the public and show positive results we need to have steps in addition to what we are doing on the ground and this is a JEC task its not only the implementation of the Paris Protocol (**PP**) but also improvements within the framework of the PP. Steps to be taken by the IDF and the use of area C for development to show people progress some where even if there is no real progress in the negotiations we need to create momentum of support to the negotiations.

Revisit the PP - The use of area C for development or changing the status if possible

YA: I absolutely agree with you and if we can change specific things on the ground especially with the economic crisis if we can do things but some times honestly some times we want to help more than the other side wants if we take one or 2 areas what can be done from all perspective and willingness from the IDF and there is willingness to update the standard of living. It's an Enigma how with all donor money we didn't see any improvements?! I checked there are some facilitations and removal of checkpoints what should be done to see results. The JEC is meeting but we need to see tangible results.

SH: Naser Tahbob was appointed as DG of the Ministry of National Economy. Abd Al Hafez Nofal is DG of PIEFZA.

YA: If there are certain ideas that can be done immediately we are willing to look into them to improve the standard of living.

SH: The unemployment levels are dropping for the first time in Ramallah its 11% and in the WB its 19% incomparable to Gaza. The unemployment is solved through the privet sector there is change because of economic activity and the effect is taking place. The poverty levels are still high because of the global rise in prices.

YA: From our perspective we will not put any breaks or obstacles to promote it.

SH: There will be a conference in Nablus similar to Bet Lahem. Internationals and Arab Israelis will be invited. Arab Israelis are welcomed and we are coordinating with the IDF and MOD. IDF are positive they will allow them with their cars on 22 November 2008.

YA: The unemployed do they receive payments from the PA?

SH: 4000 families receive social benefits. We can't establish National Insurance as it's implemented in Israel. It's a burden on us. We can't deal with it.

YA: You can establish it based on donor money to combat Hamas.

YA: We prepared a written version of the draft we discussed last time. The goal if we can come to a written document regarding these issues as part of the overall agreement it would be a great achievement. We would like to go and see what is accepted and if we can bridge the gap.

YA distributed the draft (attached).

SH: After reviewing this draft cannot serve as a basis for negotiations: There are no commitments what so ever regarding agriculture. Labor would be addressed unilaterally. Transit is not being addressed. No dispute settlement mechanism but rather stick to the JEC model.

YA: I understand that you have to read it carefully. Let's agree that you will take it read it and comment on it and in the next time we will discuss.

SH: There is no need to go into details it's clear that we accept only the first 3 paragraphs with minor changes in 3. The rest we don't agree to. Agree to negotiate on negotiations this is meaningless. We are negotiating. Not including labor is a problem. To have transit to be negotiated and agriculture it means we didn't agree. If there is no agriculture, labor and transit then FTA is not acceptable. In dispute settlement and fiscal we are not in agreement and especially on security. We didn't go beyond the 3 paragraphs which are general and can't be translated into agreement.

We can read and propose adjustments. We are not only frustrated but also disappointed because we thought that we moved ahead and we are going back to square one.

YA: I suggest that you look at it and try to suggest changes. I believe that we have a frame and we will fill it with wording and see if there is a ground for understanding. As to the issue of agreeing to negotiate- I don't see another possible wording

SH: What I need to think about is the following: if we reach a final status agreement I understand that in the future we will negotiate an economic agreement. This can be part of a treaty but we don't need all of these details we need 1 paragraph if it's only to have a treaty. We can keep it after the permanent status has a transition of a year after and negotiate an economic agreement.

YA: I think it could be something in between. From your perspective the essence is the Palestinians will achieve independence in this agreement including the economic institutions and regime and relations ship with your neighbors. To translate it into cash it takes time and trust but it's also dependant on the security. It's very difficult to give concessions without being sure about security. In order to solve this tension there could be something in-between. There is no regime that controls us. If you have language that you would suggest we can discuss and see if we can reach a common language.

SH: does that mean that this is your position on agriculture, labor and transit?

YA: No. I understand now that you want to know what we mean on these three issues we understand the tension in these three items we tried to overcome it in wording. We should not mention specific wording but principles. We are still having internal meetings. For example on transit there is agreement in Israel that it's needed and we can further discuss it. What you are telling me is that I am willing to go to FTA only if I will be satisfied on these sensitive issues we will reach a satisfied agreement from our perspective we understand it we believe that FTA is a win-win but there is a gap on these three issues it is dependent on our success on other issues and we need a transition period. I suggest we try not to commit on a specific quota on labor.

SH: I'm looking for acceptance on the principles of a quota for labor.

Attached IL Proposal

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Economic Relations

General Principles

1. The Parties recognize the importance of establishing an economic environment of stability and prosperity and promoting economic growth for the State of Palestine and the State of Israel.

2. The Parties agree that the economic and trade relations between the two States shall be based on two independent economies and the recognition of the sovereign authority of each Party to conduct its internal and external economic affairs.

3. Subject to the terms of this Treaty, the economic and trade relations between the State of Israel and the State of Palestine shall be compatible with the principles rules and standards of the global trading system, particularly those of the World Trade Organization, having regard to the unique circumstances and relations between the Parties. Each Party shall implement and effectively enforce the rules and standards of the World Trade Organization within its territory.

4. The Parties agree to negotiate a bilateral Israeli-Palestinian Free Trade Agreement (hereinafter: FTA), in order to advance their economic relations in a manner which addresses the needs and concerns of each Party. The FTA shall be based on maintaining the duty free flow of goods and will address, inter alia, issues regarding market access; trade defense mechanisms; intellectual property; rules of origin, including for cumulation for export purposes to other trading

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partners; agriculture; trade in services; and transitional arrangements.

5. The Parties recognize that the entry into force and implementation of the FTA will require both sides to have in place, inter alia, a fully regulated and effective economic border regime in accordance with the provisions of this Treaty, including a fully operational customs regime compatible with international standards, including those of the WCO.
6. The Parties shall not support or participate in any direct or indirect economic boycott against the other Party, and shall actively support the elimination of any boycotts against either Party by third parties.

Fiscal Policy

7. Each side will independently determine and regulate its own fiscal policy.
8. With a view to the prevention of smuggling, the Parties shall agree upon and enforce a minimal gap between the effective purchase taxes and other excise duties on cigarettes, vehicles, alcohols, electronic appliances, batteries, fuel, and other items agreed between them.
9. The Parties agree to coordinate their respective V.A.T rates in a manner that the gap between them shall not exceed 2%.

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Cross Border Employment

10. Each Party shall determine the criteria and number of nationals of the other Party who shall be permitted to work within its territory, and shall establish the arrangements regulating such cross-border employment.

Transit Arrangements For Goods

11. [Transit arrangements for goods will need to be negotiated.]

Implementation and Coordination

12. In order to ensure the implementation of the provisions of this Article, the Parties shall establish effective internal institutions and mechanisms and shall maintain an effective legal and judicial system, ensuring due process and proper judicial and legal standards for the benefit of the commercial community.
13. Nothing in this Article and agreements thereunder shall prevent either Party from taking any action or measure which it considers necessary for the protection of its security interests.
14. The Parties shall establish a bilateral Economic Committee(s) in order to implement this Article, coordinate and promote trade and economic relations between the Parties, and address differences or disputes that may arise. Disputes arising under this Article and agreements thereunder that cannot be settled in the Economic Committee(s) shall be subject exclusively to the dispute settlement mechanism of this Treaty. Any

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difference or dispute arising as a result of any action or measure a Party considers necessary for the protection of its security interests shall be exclusively addressed within the bilateral mechanisms to be established under Article V (Security Arrangements) and not in any external forum.

15. The existing agreed economic arrangements shall remain in force until the entry into force of the FTA. However, and unless otherwise agreed, these arrangements shall not continue to apply beyond ___ years from the date of entry into force of this Treaty.