

MINUTES

Economics Negotiating Group
Palestinian-Israeli Permanent Status Negotiations
Dan Pearl Hotel, Jerusalem
August 15, 2000, 10 am

Attendees:	<u>Palestinian:</u>	<u>Israeli:</u>
	M. Masri (MM)	A. Ben-Bassat (AB)
	S. Bamieh (SM)	T. Gal-Yam (TG)
	A. Nowfal (AN)	B. Bar-Zion (BB)
	O. Dajani (OD)	T. Noiman (TN)

MM: We were taken by surprise by your announcement regarding purchase tax yesterday.

AB: We're in the process of reducing taxes across the board. Attempting to reduce income tax right now is tough in the Knesset. We decided yesterday to reduce indirect taxes – specifically purchase tax. There's a lot of excitement about it in Israel.

MM: Excitement on your side, anxiety on ours. We don't know how this will affect our revenues for the year – in terms of trade – and the cost of products. We wish you had coordinated with us so that we could run the numbers, etc.

TG: The reduction in tax will actually encourage people to buy more. One quarter to one third of the reduction will be returned this way.

AB: During ad hoc negotiations, the Palestinian side was advocating abolition of the purchase tax. Our impression was that Palestinians were unhappy with high indirect taxes.

MM: True. It's simply a prior notification issue – so that we have time to do our own homework.

TG: We'd be pleased to give you our data. Keep in mind it wasn't mainly consumer goods. Construction and office equipment was affected. The outcome will be much more beneficial than how the media is portraying it. It's not just applicable to luxury items.

AB: Perhaps we should return to where we ended last time?

MM: Yes.

AB: Last time, we agreed you'd raise the issues in the Interim Agreement that you'd like to change until we move to an FTA.

MM: Yes. This is not an exclusive list, but we'd like to give you some examples of issues to consider. We'll return to the issue at a later time. Last time you mentioned that we'll deal with each item as a subject on its own. Today, we'll discuss the transitional period and the economic border, which is linked to it.

Some of the basic changes we envision are: more freedom to trade with 3rd countries, as we've discussed; our people in total charge of customs points with Jordan and Egypt; that actions or decisions taken by Israel – like the one yesterday – would be done in consultation with Palestine; that discrepancies between your agreement with Jordan and your agreement with us would be eliminated

BB: Can you elaborate on that?

MM: The A1 List governs trade with Jordan. Israel's agreement with Jordan creates a kind of list with reduced rates on certain goods. This has caused some disruption in our market. Goods come to us through Israel. There needs to be more coordination.

AB: But we are living in one market. If goods come in at one tax rate, it's the same rate for the Palestinians. What's the problem?

MM: Your agreement with Jordan should not be different than our agreement with Jordan. For example, your agreement with Jordan exempts steel bars from taxes. Ours does not.

BB: So any trade with neighboring countries should be coordinated.

OD: I think trade with any third country with which both countries trade must be coordinated. Keep in mind we're seeking freer trade with 3rd countries, as well.

MM: In addition, certain products are taxed very highly, preventing their import into our territories – for example, dairy. These are needed by us. We want more access to international markets. We will consequently be asking for a reduction in these duties.

Also we seek access to Israel on the touristic side for buses, etc. subject to security measures that are already in place, which is something we don't deal with here.

These are the headlines – the main topics. We'll submit specifics later.

Now we'd like to talk about the transitional period. The tariff book will remain intact for the transitional period. Smuggling therefore will not be an issue.

This is where we come to the economic border. We agree that we'll have an economic border. We disagree about what is "effective." It's important that we agree because you've linked the end of the transitional period to the establishment of an effective economic border.

When economic borders are delineated, our concept is once we agree on routes of trade, each party will have to put clearing houses up and then each party has the responsibility to prevent smuggling elsewhere.

We can't build the FTA on "no smuggling" slogans. It's not the place to start. But there will be a lot of coordination to address smuggling. There may be loose ends -- we don't want an iron curtain because there will be so many other routes for passengers. We realize that there are other political factors involved, but those are not my area.

AB: OK. The topics are the transitional period and the economic border. We'll start with the transitional period. As I've said, the number of changes in the transitional period should be minimal. Take, for example, reductions in the agriculture area. I'd have to bring in our people dealing with this. Look at France and the UK and their talks about cheese. Two years! I'm not against changes, but we should keep these minimal because it will take a long time.

I would suggest that both sides introduce changes as soon as possible; I'd prefer not to make it an ongoing process.

Regarding the economic border, what are the characteristics we have in mind?

First, let me say that we should both make an effort to ensure that it will be established as soon as possible. If we're convinced the transitional period will be short, we don't need to make so many changes.

But the characteristics I have in mind are the following:

(1) Where and how many trade channels? I don't want too many because of cost. We don't need too many.

(2) There is a distinction between trade routes and other routes. We don't discuss those in this group -- but in another group. There will be some; I don't know how many. There should be supervision of those routes; I prefer not to block them.

OD: What do you mean by supervision?

AB: That someone would be there to direct vehicles with goods to the goods station 10km away or whatever
Then there are some places where routes are not paved where vehicles could move through. For economic reasons – I'm not talking about security here – there need to be obstacles to movement of goods. In some cases it may be a fence. In others cement blocks or something else. I don't know.

That's our idea and that's the reason we call it an "effective" economic border.

MM: On the issue of the economic border, we're in agreement that there should be trade routes – and not too many. And that there will be passenger routes prohibited to trade. And that in between these routes there will be barriers to smuggling. They could be static barriers such as a fence or mobile barriers.

TN: When is it appropriate to designate trade routes? The FAPS? The CAPS?

MM: We want to do research to avoid major re-routing of trade. We should be able at least to figure out how many in the FAPS.

There is momentum at this stage toward reaching an understanding. Let's take advantage of this and deal with as many points as possible in the economic sphere.

AB: I agree about fixing the number and not the locations of the stations – because we don't know where the borders will be!

[5 minute break – at table]

TG: I like very much your way of advancing things. I think that going into issues like the milk products is not efficient – internally it took us one and a half years to open the market at all to some of these products. I would be pleased to have you pressure us to open this market, but it's not efficient and it's not prudent. It will cause long debates. We should not introduce many changes in the transitional period. Instead, let's make it shorter. Milk products can be dealt with through Moti Allon – through changes to the list.

Of course, this may create problems with your idea from last time of making changes the "day after the FAPS is signed."

MM: That was Saeb's question.

TG: I still say that in order to lower the anxiety on the part of our sectors, let's concentrate on the main issue – not side issues or symbolic issues, such as who has control at the external borders. After all, the day after the FAPS is concluded we should start negotiating the CAPS.

AB: I agree with Tsippi. The point is not just practical. It's also an issue of principle. We can't change the regime until we have a border. Let's just try to keep this transitional period short.

MM: First, the trade regime will be governed by the envelope – basic to that is the tariff book of Israel. The changes we're seeking are not going to be too numerous.

Regarding the collection of taxes with Jordan and Egypt – we're collecting them now.

What's very important is to have an agreement about the economic border. We only seek changes that don't change the existing trade regime during the transitional period.

OD: Building on the Professor's point, I think that there are a few ways in which we can ensure that the transitional period will be as short as possible. As I see it, we can shorten the transitional period by (1) shortening the amount of time it takes to negotiate the CAPS and (2) shortening the amount of time it takes to create mutually acceptable conditions at the border for the transition to the FTA.

In order to accomplish the first goal, we should do two things. First, I think we should postpone discussion of the changes to the interim agreement for the transitional period until we know what we're making a transition to. I think it is very difficult to describe the transitional period without knowing what the permanent status situation will be. Let's address that first, then it may be easier to discuss the transition. Second, I think that the surest guarantee that the CAPS negotiations will proceed quickly is if we set out concrete, detailed provisions in the FAPS to guide subsequent negotiations. As Tsippi said, CAPS negotiations will start the day after the FAPS is signed. Let's save the CAPS negotiators – who may or may not be us – let's save them some trouble and tackle the tough questions now.

As for the second goal, I think we need to figure out exactly what are differences are now, not later. It seems to me that the dispute is really about how much enforcement of the border each side envisages.

MM: Well, let's be precise. Do we have any disagreement on the goods routes – that these will be the only routes for goods?

AB: Right.

MM: All other routes are only for passengers, etc.

BB: I think our focus here is only on the commercial routes.

MM: Yes. So all we have to decide is the in-between – those areas that are open and that could be used for trucks, etc. I'll return to this point.

First, the customs stations on goods routes

TN: We have to build the stations.

MM: Well, they may be caravans, as far as I'm concerned. I don't think that's a problem.

On passenger routes, there will be some supervision to ensure that no goods are passing through them. For the perimeter, we need to deal with nitty-gritty issues. Even in the preparatory stage, though, you'll be working on your side, and we'll be working on ours. Maybe in areas where we only have mobile units – for financial reasons, for instance – you'll want to erect a wall. That's your choice.

AB: We do agree, don't we, that passengers may be able to pass through the commercial routes.

MM: Yes, of course.

AB: If one of the sides wants more of a fence for non-economic reasons that's fine. Maybe those measures will also suffice for economic purposes. But there should be coordination with security on this point. We need to work with experts to figure out the minimum requirement for economic purposes in each place – whether it's barriers, cement blocks, or patrols. We should define a small team to address this.

But we don't need many commercial routes. Cost is the main criterion.

Let's return to the issue of routes next week. We don't have time to visualize it in the next two days. For this Thursday

MM: How about labor.

BB: Since the borders are an issue for experts, let's create a forum for it – to deal with customs, security, etc. Plus someone from our teams.

OD: I think that's a good idea.

MM: Yes.

AB: OK, we'll discuss labor on Thursday. For next week, we'll bring the team together to discuss the characteristics of the border. Let's devote the second half of next week to the characteristics of the FTA for the permanent status.

I would like to bring some other people, too. On Thursday, I intend to bring someone from the Ministry of Labor and next week someone from the Ministry of Industry and Trade.

BB: We need to address the transitional period.

MM: Let's do that later.

AB: How about the beginning of the following week. Do we agree that the changes will be minimal?

MM: We don't envisage any major changes; I've given you the key topics. We'll discuss them further.

NOTE:

Subsequent to the meeting with the Israeli delegation, BB called OD and informed him that the Israeli technical team to address borders issues will be comprised of the following members: (1) Brig. Gen. Mike Herzog, (2) Moti Allon, (3) Dudi Cohen (Israel Police) and (4) Avi Costalit (Director General of the Israel Airport Authority).

Because Avi Costalit will not be back in the country until August 24th, BB requested that the schedule be altered accordingly.

After consultation with MM, OD and BB confirmed the following schedule:

Thursday, 17 August 2000	Labor
Week of 21 August 2000	Characteristics of the FTA, plus related

issues, such as double taxation, investment, etc. and additional discussion regarding labor, as necessary. (Two meetings.)

Week of 28 August 2000

Economic Border (with technical team in attendance)

Changes to the Interim Agreement