

# Promoting Palestinian Trade

Tel Aviv Aug. 14, 2007

## Introduction

DAVID HARDEN (USAID): The “sellability” of Salam Fayyad’s vision is critical, not at the level of the international community, but on the Palestinian street. It should include a strategy to “regain” Gaza. Blair’s mandate should be part of this process.

- DH referred to a “schedule” of events to provide solutions to economic problems:
  - Practical deliverables for the Blair mission at the start of September
  - UNGA meeting in mid-Sept
  - Rice visit sometime afterwards
  - Preparation for the AHLC in the fall

Therefore we are preparing the ground for the next 100 days. The focus should be on deliverables. USAID is interested in an aggressive plan to demonstrate change in environment on the Palestinian street and alter the momentum.

ALAN PIEPER (USAID, director of PAPA project): The Palestinian agricultural sector cannot survive without access to high value markets (Israel, USA, EU, and eventually the Gulf). So, USAID has examined the barriers to exports. Al-Mustaqbal (AMF) and ECF have conducted a review and analysis of the situation will discuss and address their findings today regarding impediments to trade and ways to enhance the flow.

YAIR HIRSCHFELD (ECF): There is a “new breath in the air” – more willingness among Israeli leadership to move forward. So we need to focus attention on the Israeli actors to see where it is possible to change the situation. YH went on to discuss what he perceived to be a “synergy of interests” between Israelis and Palestinians on a number of trade issues.

HIBA HUSSEINI (AMF): Discussed progress on the report on trade relations. She said it will be completed by end of September. The focus will be on agriculture and institutional setup.

## **1<sup>st</sup> SESSION: PROMOTING REGIONAL TRADE**

SAMIR HULEILEH (Portland Trust): The starting point for negotiations should be the Paris Protocol (PP), which sets the ground for the current situation. There are three relevant components to the present situation:

1. The Oslo Agreements did not lay the grounds for eventual borders – dealt simply with the interim arrangements and not between states. So when we looked at different trade regimes back then (including a “shadow border”) but it was not possible to have proper border inspection and management. Therefore it was impossible to conclude a trade agreement. Instead, we kept the status quo with minor modifications (aka the “quasi-customs envelope).

2. The closure system did not start with the occupation. Rather, it started only after the Oslo process began. In effect, it was an Israeli reaction to Oslo (withdrawal from area = closing it off).

3. Change in Israeli decision-making process as between the government and the military command. Especially after 2000, the failure of Camp David and Taba, there was a dramatic change in favour of power moving to the military side.

Regarding the history of the PP, Israel implemented parts that it selected unilaterally and without consultation. The PP was really effective only the first 2 years after the agreements. With the construction of the wall not on the 67 border, and de facto crossings not on the border – unable to use the PP vis-à-vis an party. The best we can do now, short of new negotiations, is to revitalise the PP, for example through the JEC. (Other Oslo committees should also be restarted to implement the agreements). If the JEC finds that the situation has changed and the PP cannot be applied, then it should make the necessary improvements and changes for the benefit of both parties. Obviously it is not up to the level of the JEC to make political decisions amending the agreement, however it is within its mandate to clarify and update it. I am not claiming that the PP is the best or ultimate solution, but from a realistic perspective we can take advantage of it.

We should keep in mind that agriculture is not the only component – the movement of labour is vital as well. Regarding trade with Jordan and Egypt, very little has been done. All parties share the blame for lack of trade relations with Egypt. With Jordan the situation is a little better. However, the reliance on one access point in any trade arrangement is problematic – example being Allenby. Regardless how good it is made, it remains subject to closing (e.g. holidays, strikes ...) so need alternative access points.

DAVID BRODET (ECF): There are a number of permutations and alternatives to the PP that I will present. Then Moti Eilon will present recommendations on “bonded warehouses.”

The 7 alternatives to the PP cover the full spectrum. The choice of alternative is an economic, security, a political decision.

1. The current regime (PP quasi customs envelope)

2. Combined entry points for the envelope (7 in total) ???

These are characterised by free movement of goods “restricted by the political situation.” Looking at trade data based on this model, the peak year was 1999 with \$1.5B in exports from the PA (NB. \$1B was services – i.e. workers). Exports from Israel to the PA in 1999 stood at \$2B. The data for 2005 places PA exports at \$750M (goods remained about the same, but big decline in services), and Israeli exports at \$2.3B.

3. “Bonded warehouses”: this is an option for allowing direct tax collection by the PA (tax collection is related to the trade regime).

4. FTA: This was discussed at Camp David – and was the official position of the GoI. Issues such as rules of origin are very problematic. Also recall that in 2000 there was no physical border / barrier. Now the situation is different with the wall.

5. EPS (economic permanent status): this a combination of FTA and customs union, which would require coordination on sensitive items for customs and tax rates.

6. MFN: Multilateral WTO framework (with the possibility of partial bilateral agreements).

7. No agreement: As with the situation in Gaza at present.

YAIR HIRSCHFELD: The potential role of the JEC is an important point to discuss further. If it is revived this will be a major development.

GABI BAR? (former head of Israeli Customs agency): Regarding the JEC, and some of us here were part of it, back when it convened prior to 2000, I would remind you that the discussions were practical and not at the level of policy. The speaker gave the expectation that JEC will do more than that. However, unless it changes its charter, it can only deal with practical issues.

MAZEN SINUKROT: The PP is still viable, but needs re-evaluation and improvement, as allowed for in the text of the agreement itself. Regarding the JEC, we addressed the issue before with the Israelis and the EU ... we need to activate the technical committees with the objective of solving practical issues on the ground.

SAMIR HULEILEH: Let me rephrase my recommendation regarding the JEC. If we can negotiate a different agreement (than the PP) that is more favourable, for example and FTA, so much the better. However, in the prevailing circumstances where there are no negotiations, we should activate the committees to simply improve the implementation of the agreements – a lot has changed over the last 13 years and frankly, the JEC needs to study the agreement and make improvements until such time as we return to negotiations.

EPHRAIM KLEIMAN: There are many problems that can arise in customs relations. The FTA is not a miracle solution, even though the barrier makes it “possible”. But for rules of origin, given the small economies, problems of documentation etc. it is not practical. PA already has a de facto FTA with the US and EU – practically, most imports to the PA are free of duty.

DAVID BRODET: Regarding the JEC, 2 major decisions were taken by the JEC during the period it operated. In 1994, it made decisions on fuel and purchase tax, matters that were not mentioned in the PP.

Regarding FTA, the great difficulty would be in Jerusalem – it would be the end of the economic situation there. Not only will we need a fence, but terminals and other facilities, simply for customs, regardless of other considerations.

BOAZ KARNI: For the next 100 days, we should renew the work of the joint committees on all issues – this will give good and immediate political signals.

PAL?: The 90s are over. We don't have the leisure to renew the old tracks. All these committees are not effective...

SAMIR HULEILEH: Over the last 10 years we have been discussing different scenarios – which were not serious because no party was talking about negotiating new agreements. However, we can't ignore our immediate responsibilities toward the population, regardless of politics. Some activation of committees has already taken place a few weeks ago (e.g. security coordination). We need the JEC also to activate – why security and not economics? Even if outdated we need something to work with, if only as terms of reference. If the EU can get involved as 3<sup>rd</sup> party that would also be a good development.

MOTI EILON: Presentation on “bonded warehouses”: The concern is to practically solve problems together with the new PA government. The proposed warehouses (2 or 3 straddling the “economic border”) will form a “sterilised space” controlled by customs authority for storage of goods. The warehouses will be connected to the crossings and will operate like somewhat like public bonded warehouses.

BADER ROCK: All this is useless without freedom of movement of goods within the West Bank and actually adds a further layer of delays and procedures.

MOTI EILON: The flow of goods should be immediate toward the warehouses. All current procedures will be done jointly in the bonded. The bonded area is meant to be an infrastructure that can help find solutions.

SAMIR HULEILEH: This idea needs to be further developed, and has its pros and cons. From the PA perspective, having clearance done at Jalameh or Tulkarm instead of Ashdod