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Israeli Movement Restrictions and Impediments:
An Assessment of the Impact on Palestinian Industry

I. Introduction

The Gaza disengagement implemented by Israel in September, 2005 and all its ramifications have proven to be detrimental to Palestinian industrial capacity, trade and economic activity. Israel's continued control of Palestinian border crossings to Jordan and Egypt, as well as the unpredictable and poorly managed crossings between Israel and the Palestinian territory (initially in the Gaza Strip and more currently being applied to the West Bank as a result of the Separation Wall) have proven to be detrimental to the competitive capacity of the Palestinian economy, as a whole, and to Palestinian industry, specifically. This has materialized in the tremendous increase in transaction costs both in obtaining production inputs, as well as, in movement of products out of the factory and into targeted markets. “With the ability to guarantee delivery dates a vital part of securing export markets, speed and reliability are mandatory, particularly for agricultural products. As things stand, today’s regime represents an overwhelming obstacle to investment and growth…”

The forced separation between the West Bank and the Gaza markets, as well as, the chaotic state of West Bank movement have steadily reduced the Palestinian market size and minimized the competitive edge of Palestinian products in the local market. Thus, the only outlet for Palestinian industry became external markets. These, however were also constrained due to the lack of Palestinian access to alternative trade routes independent of Israel. For instance, the closure of the Karni commercial border crossing between Gaza and Israel for nearly 60% of the first quarter of 2006, served to severely curtail the potential of exporting goods out of the Gaza Strip to European Markets via Israeli ports and airport.

It is quite evident the extents to which opening the Rafah border crossing with Egypt and the Alenby and Damiah Bridges to Jordan are critical. In so doing, the needed alternative trade routes to the outside world would be afforded to Palestinian industries. However, such efforts should not detract from the parallel importance of eliminating internal closures with the West Bank and opening the West Bank and Gaza Strip to each other.

The following study will assess the impact of Israeli closures and movement impediments/restrictions on the competitive capacity of Palestinian industries.

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1 World Bank Technical Team Report, August 15, 2006, An Update on Palestinian Movement, Access and Trade in the West Bank and Gaza
both locally and in external markets. It will also quantify the potential benefits of functional alternative trade routes.

II. Background

The last few years, and especially the year 2005 has seen some serious changes in the terms of trade arrangements and Palestinian channels of trade. After the success of Kadima in the recent Israeli elections, the spirit of unilateralism, which was the main reason for the changes that took place in 2005, will continue. Thus, unilateral disengagement will be transferred to the West Bank. Coupled with the separation wall and the existing closure regime within the West Bank, this will ultimately lead to further deterioration in the potential for any type of economic recovery. " The Bank estimates that internal closures accounted for approximately half of the decline in real GDP (perhaps some 15 percent) observed between 2000 and 2002."2

The 2004 World Bank Report to the AHLC, the Roadmap and all international parties and observers without exception have been calling on Israel to ease and eliminate the countless restrictions on internal Palestinian movement, which not only make the banalities of everyday life a challenging experience but also make economic recovery an impossible task, adding prohibitive transaction costs to all but the most localized economic activities. Israel, in turn has consistently not reduced but increased these obstacles. According to the World Bank, “there are now more than 540 checkpoints and fixed impediments compared to 376 in August 2005” within the West Bank. 3

Palestinian industries have suffered the most as a result of these restrictions on movement. The negative effect of the current situation is seen in three layers: (1) impact on attaining the required production inputs (2) inability of workers to get to their workplaces and (3) the difficulties arising from the current situation, which negatively affect the distribution and marketing of products both in the internal and export markets. “The combined impact of these impediments, coupled with complex permit restrictions, has been a fragmentation of the socio-economic space in the West Bank into a northern, a central and a southern economic zone, bounded on three sides by the separation barrier and to the west by a Jordan Valley that is increasingly difficult for Palestinians to access. As a result of this fracturing process, transportation costs have increased by 67- times along some routes.” 4

The following is a description of the movement restrictions, which had dire effects on the Palestinian industrial sector:

The Closure System:

The closure system is a primary cause of poverty and the humanitarian crisis in the West Bank and the Gaza Strip5 and restricts Palestinian access to

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3 Ibid
4 Ibid
5 West Bank Closure Count and Analysis, OCHA, February, 2006
health and education services, employment, markets and social and religious networks. The types of obstacles include permanent and partially manned checkpoints, roadblocks (consisting of rows of 1-meter concrete blocks), metal gates, earth mounds, earth walls (a long series of earth mounds), trenches, road barriers and permit restrictions.\textsuperscript{6}

The West Bank Closure System:

The Closure system in the West Bank comprises 540 physical obstacles placed by the Israeli Occupation Forces on roads to control and restrict Palestinian vehicle traffic, compared to 376 physical obstacles, in August 2005 – an increase of 164 closure obstacles or a 30% increase.

The number of manned checkpoints reached 68 permanently-manned and eight partially-manned checkpoints around the West Bank. The increase has occurred in unmanned physical obstacles.

Physical Obstacles:

The addition of physical obstacles was most noticeable in Hebron governorate\textsuperscript{7} and in the northern West Bank around Nablus governorate, Salfit governorate and Tulkarm governorate.

The number of physical obstacles in the central region has remained stable. However, the internationally illegal separation wall is increasingly causing access problems around Ramallah governorate and East Jerusalem. Approximately 299 km (45% of the Barrier’s total length)\textsuperscript{8} has been constructed. Of this, 53 km have been constructed since October 2005. A further 124 km is under construction (19% of the Barrier’s total length).

There has been an increase in road barriers – consisting of long stretches of fencing or concrete barriers along road verges – on main West Bank roads. Some obstacles that were imposed immediately prior to Israeli disengagement have remained in place and are hampering Palestinian access.

Prior to disengagement, north-south traffic was able to bypass Nablus city because the Shave Shomeron checkpoint was removed. However, during disengagement (from 15 August 2005) this section of road was completely blocked and it remains closed until today.\textsuperscript{9} The result is that the northern West Bank is closed off from the central and southern regions and travelers need to pass through Nablus.

Two gates originally installed to secure the evacuation of two settlements remain in place and now hamper movement for Palestinians between Jenin and Tulkarm governorates, specifically on Road 585.

\textsuperscript{6} The Agreement on Movement and Access reached between the Government of Israel and the Palestinian Authority on 15 November 2005 states that: “Consistent with Israel’s security needs, to facilitate the movement of people and goods within the West Bank and to minimize disruption to Palestinian lives, the ongoing work between Israel and the U.S. to establish an agreed list of obstacles to movement and develop a plan to reduce them to the maximum extent possible will be accelerated so that the work can be completed by December 31”.

\textsuperscript{7} This was confirmed in a meeting with Israeli DCL in Hebron on 17 January 2006

\textsuperscript{8} OCHA, March 2006

\textsuperscript{9} West Bank Closure Count and Analysis, OCHA, February, 2006
The IDF\textsuperscript{10} states the reason for the rise in the number of physical obstacles is an increase in Palestinian violence. At the same time, they acknowledge that some of the physical obstacles and restrictions are unrelated to security needs.\textsuperscript{11}

**Road Barriers:**

Road Barriers are a more common feature within the West Bank. The Israeli Occupation Force states that they have two functions: to protect Israeli settlers traveling in roads bordered by Palestinian communities and road safety. Nevertheless, these obstacles block access for Palestinian communities onto and across main West Bank roads and cause problems for residents to access emergency and other services, markets and jobs. Palestinians are required to travel longer distances to reach openings in the road barrier, where movement is often controlled by an IDF gate or flying checkpoint.

**Tunnels and Bridges:**

As of January 2006, there were 27 tunnels and bridges constructed and 19 planned or under construction\textsuperscript{12}. These tunnels link Palestinian Areas A and B to each other, most commonly under roads that are limited for Israeli use that run through Area C and the Barrier. The trend is that Palestinian traffic is funneled onto fewer roads that lead to and from the tunnels. These roads may not have the capacity to absorb a greater traffic load\textsuperscript{13}.

The network of tunnels together with the roads leading to and from them which remain separate from Israeli restricted roads makes it difficult to envision any possible return to the situation pre-2000 as laid out in the Road map. The Roadmap requires that: “Israel withdraws from Palestinian areas occupied from September 28, 2000 and the two sides restore the status quo that existed at that time, as security performance and cooperation progress.”

This increase in obstacles, coupled with the election of a Hamas dominated Palestinian Legislative Council and therefore government has not only eliminated any potential for Palestinian - Israeli official contacts, but has also minimized the potential for donor assistance in the process of the badly needed economic recovery. Currently, Palestinian unemployment has increased dramatically, and donor assistance to cover the Palestinian Authority’s salary bill, which formulated an important component in maintaining the running wheels of the economy, has stopped. Israeli transfers of VAT and Import taxes have also stopped, thereby closing any potential for operations of the Palestinian Authority.

The starting point in creating the makings for economic recovery, is to recognize that economic recovery can only start with increasing potential for Palestinian trade, both internally and externally\textsuperscript{14}. Hence, dealing with

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\textsuperscript{10} A pseudonym for the Israeli Occupation Army
\textsuperscript{11} Interview with OCHA, May 2006
\textsuperscript{12} West Bank Closure Count and Analysis, OCHA, February, 2006
\textsuperscript{13} Due to the Barrier’s meandering route, once completed, residents of Biddu enclave in Ramallah governorate, using a series of bridges and tunnels, will be required to pass through the Barrier four times to reach Ramallah
\textsuperscript{14} The World Bank Group, Israeli Disengagement and Palestinian Economic Prospects, December, 2005.
structural unemployment, poverty and economic degeneration is dependent on the creation of a systemized, efficient and secure border regime which would be conducive to trade and movement of goods. According to the World Bank, “It has been widely acknowledged that the future economic viability of the Palestinian economy depends on the creation of a trade logistics system which permits the safe, reliable and competitively-priced movement of people and cargo”\textsuperscript{15}

As a result of the closure system, which includes, but is not limited to blocks, checkpoints, permits, restricted roads and the Barrier, the following trends have been observed:

1. Interregional movement in hampered by the east – west lines, which split the West Bank. The effect of these is a trisection of the area.
2. The West Bank has been narrowed due to tight access restrictions on movement:
   3. On the east side, to the Jordan Valley;
   4. On the west Side due to “closed areas’ between the Green Line and the Wall, including East Jerusalem.

Israel has stated that the closure system is a security measure to protect Israeli citizens from Palestinian attacks. This justification does not always appear consistent with developments on the ground. For example, the new road barriers on Roads 317 and 60 in southern Hebron governorate are explained by the Israelis as a traffic safety measure instituted by the civilian (rather than military) authorities.\textsuperscript{5} In the Jordan Valley, which has witnessed the recent tightening of access restrictions, the reason remains unclear given the absence of Palestinian attacks emanating from the area in the past several years.

**The Wall:**

The West Bank Wall, fast moving towards completion, is the most obstructive hindrance to this movement. The Wall, built mainly not on the Green Line but right through the West Bank, cuts Palestinian life, and Palestinian economic activity, into bits and pieces. Once the Wall is completed and operational, a viable and territorially contiguous Palestinian economy, and thereby a viable Palestinian state, will be impossible. According to the World Bank’s August 2006 report, “The Separation Barrier adds a particular set of movement and access difficulties, and has been estimated by the Bank to cost the Palestinian economy some 23- percentage points of GDP per annum.”

The wall is not only a major impediment to any economic recovery; it is also an insuperable obstacle to the perspective of a Palestinian state. An estimated 8.9% of the population has been separated from their cultivated lands by the wall. A total of 9.5% of the WB had been trapped between the green line and

the wall, all of which is either inaccessible or restricted and faces the direct threat of annexation.

The separation of Israeli and Palestinian traffic
Palestinian traffic is being separated from West Bank roads that are limited for Israeli use through a combination of physical obstacles, movement permits and road barriers. Palestinian traffic is channeled onto a reduced number of alternative roads where movement is regulated by an obstacle that can be opened or closed by the IDF, such as a flying or permanently manned checkpoint or gate. A series of tunnels and bridges allows Palestinians using these alternative roads to traverse Area C and Israeli restricted roads, while keeping separate from them. Many tunnels have a gate inside them or a flying checkpoint is positioned at their entrance – in this way they can act as a barrier as much as a passage for access.

**Horizontal Trisection of the West Bank:**
A picture is emerging of the West Bank divided into three distinct areas – north, central and south. Movement is easier inside these areas but travel between them is hampered by a combination of checkpoints and other physical obstacles and permits which act as bottlenecks to interregional movement within the West Bank.

**Lack of a Territorial Link:**
The Agreement on Movement and Access (AMA) clearly spells out phases for the establishment of a convoy system which would facilitate the movement of both people and goods from the West Bank to the Gaza Strip and vice versa. These phases will start with the movement of people, to be followed soon by the movement of goods under an Israeli military convoy system which would escort the vehicles carrying Palestinians and Palestinian goods between the West Bank and the Gaza Strip. This part of the agreement, as in all other areas was never implemented. The lack of free flow of goods between the West Bank and the Gaza Strip is a major issue which affects Palestinian Industry by making the movement of goods from one part of the Palestinian economy to the other practically untenable.

**III. Research Methodology**

**Report Objectives:**
The objective of this report is to analyze data collected through an independent survey conducted in June of 2006, which mainly focus on production activities. The analysis of this data will help in better understanding the related difficulties faced by Palestinian businesses in both the West Bank and the Gaza Strip, it will also provide statistics on export activity specifics and examine the outlook of the business community in the Palestinian territory based on their current business environment and expectations in the near and intermediate future.
Sources of Information: Sample Frame & Scope:

The information analyzed in this report henceforth is based on one source of primary data:

I - A survey conducted by The Palestinian Federation of Industries, in June of 2006. The goal of the survey was to identify the problems faced by producers/exporters/companies in reaching markets, as well as in obtaining production inputs.

1. The target group was producers/industries with external ties (either exporters or importers of raw materials). The target person at the establishment was the general manager. In addition establishments were chosen based on criteria relevant to size and market position.

2. The sample size was 48 producers/industries (24 in the West Bank and 14 in the Gaza Strip). Four out of this sample were considered irrelevant to our study, so the base for our analysis are 44 only.

Most of the establishments surveyed (48%) are medium and large enterprises with more than 50 workers.

II- visits by a team from PFI to specific crossing points in West Bank and Gaza Strip.
Findings & Analysis:

Sales distribution for the sampled establishments indicates that the Israeli market is the main export market representing about 55% of total sales. Only 9% of total sales are directed towards external markets with the exception of Israel. Although trade with Israel is indeed significant, this percentage does not reflect re-exporting activities; i.e. products sold to Israel, and then exported to other external markets through Israel. 31.9% of total sales are to the West Bank and 4.3% to the Gaza strip.

Trade between the West Bank and the Gaza strip is weak, the percentage of sales to the Gaza strip of establishments operating in the West Bank is only about 6%, whereas sales of establishments operating in Gaza Strip to the West Bank is about 25%.

Findings on channels of distribution and access used by establishments when exporting reveal a notable difference in the methods used when exporting to or by way of Israel and exporting to other external markets. A vast majority (79%) of establishments exporting to (or by way of) Israel use their company’s agency inside the Israeli market to export, the second most used method is direct selling, 31% of exporting establishments use direct selling in the Israeli market.

The most common method of access to external markets excluding the Israeli market is through direct selling, as survey results show, about 48% of exporting establishments use direct selling in external markets excluding Israel. The second most common method is by using an agent in the export market.

Table 1: Responses of Companies Interviewed

<table>
<thead>
<tr>
<th>Responses of companies interviewed</th>
<th>Number of companies of the 44 interviewed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase price of imports</td>
<td>15</td>
</tr>
<tr>
<td>Increase in taxes and tariffs</td>
<td>2</td>
</tr>
<tr>
<td>Difficulty importing due to Israeli measures</td>
<td>28</td>
</tr>
<tr>
<td>Difficulties in contacting importers</td>
<td>11</td>
</tr>
<tr>
<td>Difficulties in financing imports</td>
<td>25</td>
</tr>
<tr>
<td>The high cost of transport and storage</td>
<td>28</td>
</tr>
<tr>
<td>Other</td>
<td>3</td>
</tr>
</tbody>
</table>
Survey results on methods of access also reveal an important figure which will help understand and evaluate the re-exporting of products produced by Palestinian establishments in the West Bank and the Gaza strip to Israel and then exported to other external markets. The survey shows that about 13% of total exports to external markets are processed through the use of an Israeli agency as a local seller or exporter.

7.6% of total exports targeting the Israeli market are processed through using an Israeli agency as a local seller or exporter.

Before an exporting company chooses its methods of market access, it should identify the prospective for business in any potential export market, and methods of reaching its target audience. The survey results show that companies use various methods for reaching customers in external markets, the most popular method to do so, is through the use of personal relationships and contacts, about 96% of surveyed companies indicated that they use this method in identifying and reaching their target customers in external markets. 84% stated that they found customers when customers initiated contact. 69% reached customers by company organized visits / trade missions to the target export markets. 40% indicated using market research, 36% used non-self organized participation in exhibitions and trade missions to potential target markets. 27% used information provided by trade associations and trade support organization in identifying possible target markets, 20% used the internet as a source of information in reaching customers in external markets.

Import of Raw Materials (not from Israel):

On problems faced by companies in importing raw materials for production, the companies were asked of the impact of Israeli port procedures on imports of raw materials, 29% of those interviewed indicated that there was a significant impact, while 23% indicated there was a major impact, 25% said there was a moderate impact, 14% said there was a minor impact, and 9% said there was no effect. The illustration below demonstrates this impact.
When asked of the impact delays at the port in import of raw materials on the quality and usability of the imported goods, the following were the replies:

<table>
<thead>
<tr>
<th>No effect</th>
<th>Minor effect</th>
<th>Moderate effect</th>
<th>Major effect</th>
<th>Significant effect</th>
</tr>
</thead>
<tbody>
<tr>
<td>20</td>
<td>3</td>
<td>4</td>
<td>8</td>
<td>9</td>
</tr>
</tbody>
</table>

When companies were asked about the impact of delays in transport and at checkpoints, the response was as follows:

<table>
<thead>
<tr>
<th>No effect</th>
<th>Minor effect</th>
<th>Moderate effect</th>
<th>Major effect</th>
<th>Significant effect</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>4</td>
<td>18</td>
<td>19</td>
</tr>
</tbody>
</table>

In order to gauge the impact of back to back transportation used by Israeli security as the method of handling the movement of goods through checkpoints, the companies interviewed responded as follows:

When asked about Impact of time needed to acquire required documentation for movement of goods imported as raw materials, 23% indicated that there was no effect, while 37% indicated that there was either a major or a significant effect, while 38% said that there was a minor to moderate effect. Hence, although a significant number of companies interviewed stated that time needed for acquiring documentation has an impact on their access to production inputs, another equivalent number stated that it had minor or no effect.
Import of Raw Materials from Israel:

In order to identify if there are any problems related to import of raw materials for production from Israel, participating companies were asked to state if they had any problems in this area, 91% replied that they did have problems, and 9% stated that they did not. Of the 91%, the majority identified specific issues which they had problems with, the illustration below clearly identifies these problems.

43 out of the 44 companies interviewed stated that the main impediments to their imports of raw materials from Israel is Israeli security and closure procedures. Of those who stated that they face impediments, the following is a listing of the details of impediments they faced:
From the outbreak of violence and the Israeli invasions and re-occupation of the West Bank and Parts of the Gaza Strip, businesses have had to undertake changes in the operations of their companies. In the survey undertaken, the following is a citation of these changes as identified by participating companies:

### Difficulties Faced by Exporters (other than Israel):

The survey results answer question about the difficulties faced by companies engaged in exporting or attempting to export and the particular obstacles / impediments companies face.

Ability to meet deadlines and regularity of exports: the majority (50%) of surveyed companies identified this as a major to moderate impediment to exporting, 12% viewed this factor as only a minor obstacle.

### Attainability of Raw Materials:

57% indicated that this in fact is a major to moderate impediment to exporting, 26% identified this factor as representing only a minor issue.
Customer Payment Guarantee:
30% of the companies interviewed indicated that this in fact is a major- moderate impediment to exporting, 20% identified this factor as representing only a minor obstacle and 25% said it was no obstacle at all.

Traveling Problems Imposed on Entering Foreign Markets:
49% of the companies interviewed indicated that this is in fact is a major-moderate impediment to exporting, 32% identified this factor as representing only a minor obstacle and 18% said it was no obstacle at all.

Import Regulation in the Foreign Market:
26% of the companies interviewed indicated that this is a medium-large obstacle in the efforts to export, 21% of companies indicated that this factor represents only a minor obstacle to exporting, 46% indicated that this factor did not represent an obstacle at all.

Export Financing:
About 42% of the companies interviewed indicated that this factor is a major-moderate impediment in their efforts to export.15% said this factor represents only a minor obstacle to exporting, and the vast majority of surveyed companies 43% indicated it was not an obstacle at all.

Price Competition in the Export Market:
29% the companies interviewed indicated that this is a medium-large obstacle in the efforts to export, 22% of companies indicated that this factor represents only a minor obstacle to exporting, 43% indicated that this factor did not represent an obstacle at all.

Compliance to Quantity Demanded and Delivery Time:
About 68% of the companies indicated that this factor was a moderate-significant impediment to exporting, 17% indicated that it represented a minor impediment, however some companies 15%indicated that this factor was not an obstacle.

Palestinian Export Regulation and License:
About 76% of the companies indicated that this factor not an impediment to exporting.

Information Access to the Foreign Market:
Only about 53% of the companies viewed this factor as a major- moderate obstacle.
On Competition:
The overwhelming majority of surveyed companies indicate the existence of strong competition to their main product lines of production (90%). Competition is stronger in the Gaza strip where about 96% of companies indicate strong competition while this percentage is about 88% in the West Bank.

Expectations of Owners / Managers & their Future Business Outlook:
The data provided by the survey gives an understanding of the outlook of persons engaged in business in the West Bank and the Gaza strip, and reflects the overall mode of business which is applied not only to local but also to external trade and export. The data provides an understanding of the change in mood in the very short future (between the months of June 2006 and May 2006) in addition to an intermediate time frame stretching no more than 6 months. The survey examines managers / owners perception of several business environment aspects including production, Employment levels, and sales, it also examines the reasons behind perceptions of these factors, and the influences which create these moods.

Production:
Establishments’ Production during June 2006 Compared With May 2006: the vast majority of managers/ owners 42% felt that production of their business establishments were “somewhat worse” in June of 2006 if compared to production levels one month ago- May 2006. 33% felt that there was little change from May to June.
When examining perception on production when taking a longer term span into view (6 months) 49% felt that production of their business establishments were “somewhat worse” 29% felt that there was little change.

This indicates that there is not much change in perception when extending the period of time from one month to 6, this maybe largely to the continued difficult political and economic situation which has lasted years now and shows no signs of major improvement.

Employment Levels:
Employment levels at surveyed establishments during June 2006 indicated that the majority of managers/ owners 54% felt that employment at their business establishments was ”about the same”. This percentage is exactly the same when examining perception of employment over a 6 month period.

Sales Volume:
Sales levels at surveyed establishments during June 2006 indicated that the majority of managers/ owners 51% felt that employment at their business establishments was ”somewhat lower”. This percentage is a little lower (46%) when examining perception of sales over a 6 month period.
The vast majority (68%) of surveyed business persons indicate that the main reason for the perceived decline in sales in June 2006 compared to sales in May is the decline in consumer purchasing power.

**Reasons for Outlook:**

The most prominent reasons identified by business persons as problems facing businesses in the West Bank and the Gaza Strip and the underlying reasons effecting production costs and the mood in the business community are the following:

- About 93% felt that the current political situation affected strongly and relatively strongly production costs.
- About 88% felt that the increasing costs of raw material affected strongly and relatively strongly production costs.
- About 80% felt that transportation costs affected strongly and relatively strongly production costs.
- About 33% felt that foreign competition affected strongly and relatively strongly market share.
- About 39% felt that local competition affected strongly and relatively strongly market share.

**IV. Alternative Trade Routes**

This section of the paper ascertains the costs of re-routing Palestinian imports and exports, which are currently transiting Israeli ports, via Port Said in Egypt and Aqaba Port in Jordan. It shows that under prevailing conditions, re-routing Palestinian trade through alternative routes will be slightly more costly than currently utilized routes. This is mainly due to high costs associated with Israeli security measures, the absence of adequate physical infrastructures, institutions and regulations and an adverse political and economic situation. However, we find that under certain conditions, re-routing could generate savings and other gains to the Palestinian trading community.

This calls expressly for greater Palestinian control over trade transport routes within the context of regional transit transport agreements and adherence to international conventions and standards, which target non-tariff obstacles to the smooth flow of cross-border trade. “This also requires developing a cohesive Palestinian action plan for facilitating trade, including integration into the regional trade networks and active participation in regional trade facilitation”.

In particular, the report ascertains the costs of re-routing Palestinian non-Israeli imports and exports which currently transit the Israeli ports, via Port Said in Egypt and the Port of Aqaba in Jordan. This is done within the context of

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16 The DPR Monthly Bulletin, Vol.XXVII, No.1
a comprehensive approach to trade facilitation, which also addresses the issues of “simplifying, harmonizing, standardizing and automating international trade and transport procedures”.

“To avoid the adverse cost implications, re-routing needs to be conducted under conditions of greater Palestinian control over trade transport routes, and within the context of regional transit transport agreements, which target prevailing non-tariff obstacles to the smooth flow of cross-border trade”.

This section of the study follows up on the previous discussion, whereby Palestinian industrialists and producers admitted to facing difficulties in accessing products and production inputs, as well as external markets for their products. Herein, we aim at quantitatively assessing the financial implications of the possibility of re-routing Palestinian trade from existing routes. Specifically, we hereby undertake a quantitative analysis of the costs of diversion of Palestinian imports and exports with the rest of the world (ROW), which currently transit Israeli ports. Utilization of other regional ports capable of serving as equally suitable routes for Palestinian trade with non-Israeli partners are naturally considered as temporary alternatives until the Gaza Seaport is operational.

The analysis considers Port Said in Egypt as a suitable alternative transit point for trade destined to, or originating from Gaza, and the Port of Aqaba in Jordan as an alternative route for West Bank imports and exports. The methodology applied to estimate the additional costs of re-routing cargo flows from Israeli ports to the alternative specified ports consists of three steps:

(i) Assessment of likely cargo volumes in tons to be re-routed by main geographical orientation;
(ii) Choosing possible trade re-routing alternatives; and
(iii) Estimation of the costs of re-routing per ton by route and by main geographical orientation.

Orientation, Components and Volume of Palestinian Trade:

Orientation and Components of Trade:

According to external trade data published by the PCBS, Israel is the most important source of Palestinian imports and the largest market for its exports. As indicated in Table 1, Israel accounted for 71 per cent of total Palestinian imports and 97 per cent of total exports, or almost 74 per cent of the total value of Palestinian trade transactions in 1999. By comparison Jordan, the second most important trade partner, had a meager share of 2.3 per cent, while other markets accounted for insignificant shares. On the regional level, however Europe is the most important source of non-Israeli Palestinian imports, with more than 15 per cent of the total value of Palestinian imports in 1999.

19 Ibid.
With regard to reported Palestinian imports from Israel, it should be recalled that the origin of some of these imports is from countries other than Israel. This flow can be considered as “indirect-imports” from Israel, whose destination at the source are declared as Israel but are subsequently exported to the West Bank and Gaza. In other words, indirect-imports are imports by Israeli firms, which are then either re-exported to the Palestinian territory or purchased by Palestinians such as those working in Israel and transported to the West Bank and Gaza. According to the World Bank, it is estimated that this type of imports accounts for one third of imports from Israel, or 24 per cent of the total value of Palestinian imports. If we add this to the imports from non-Israeli sources reported in Table 1, the actual share of all Palestinian imports transiting Israeli ports could be about 54 per cent of the total value of Palestinian imports.

Volume of Trade:

The trade and cargo analysis in this section derives from a database provided by the PA Ministry of Finance on the volume and value of trade with the rest of the world (ROW) (excluding Israel) in 1999 and 2000. However, the analysis uses 1999 data only, since 2000 trade data reflects the deterioration observed in the last quarter of the year and the increased tendency to import via airports, owing to the difficulty of importing through Israeli seaports.

According to the PA database, the value of 1999 Palestinian imports from the ROW (excluding Israel) was $780 million (as compared to $775 million reported by PCBS in Table 1), of which $670 million were imported through Israeli seaports. This implies an average value of $250 per ton of Palestinian imports from the ROW (Table 3). If this average is assumed for all Palestinian external trade, the total volume of the $3 billion of Palestinian trade (in 1999) could be in the range of 10–12 million tons.
It is estimated by the PCBS (table 3) that the share of registered Palestinian trade with countries other than Israel is about 27 per cent, or 3.2 million tons. The Table shows that among the four types of shipment, general cargo is the most frequently used to transport ROW Palestinian trade, where it accounted for almost 67 per cent of the total volume of ROW trade in 1999. Containerized cargo comes second with 16 per cent of the volume. The analysis for potential exports re-routing estimates the volume of Palestine exports to non-Israeli markets to have been around 0.55 million tons in 1999. The analysis also indicates that 72 per cent of the volume of Palestinian exports to countries other than Israel is shipped as general cargo and 10 per cent is shipped in containers.

<table>
<thead>
<tr>
<th>Type of shipment</th>
<th>Haifa</th>
<th>Ashdod</th>
<th>Yafo</th>
<th>Total</th>
<th>Value per ton ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>General cargo</td>
<td>4.2</td>
<td>1754.9</td>
<td>4.8</td>
<td>1763.9</td>
<td>24.6</td>
</tr>
<tr>
<td>Containers</td>
<td>37.7</td>
<td>423.9</td>
<td>1.2</td>
<td>462.8</td>
<td>1183.7</td>
</tr>
<tr>
<td>Dry bulk</td>
<td>24.4</td>
<td>171.4</td>
<td>0.0</td>
<td>196.0</td>
<td>319.9</td>
</tr>
<tr>
<td>Liquid bulk</td>
<td>108.2</td>
<td>130.5</td>
<td>0.0</td>
<td>238.7</td>
<td>66.4</td>
</tr>
<tr>
<td>Total</td>
<td>174.5</td>
<td>2480.7</td>
<td>6.0</td>
<td>2661.4</td>
<td>251.7</td>
</tr>
</tbody>
</table>

* This does not include imports from Israel.

As for the potential for the re-routing of imports, Tables 3 indicates that 80 per cent of the volume of Palestinian non-Israeli imports in 1999 came through Israeli ports. Ashdod is by far the most important Israeli port for Palestinian ROW imports, with a share of 76 per cent in total import volume. Germany, Romania and Turkey are the main sources of Palestinian imports that arrive through Israeli ports. Together these countries accounted for 78 per cent of the import volume via Israeli ports, while in value terms this share is slightly above 30 per cent. Iron and steel (mainly from Romania) dominate the imported products via Israeli ports, with their share representing two-thirds in terms of volume.

Additional potential for re-routing is found in the indirect-imports from Israel, i.e. goods recorded as imports from Israel, while in fact originating from other countries. As indicated above, this could represent one third of the Palestinian imports from Israel. Based on the estimation of the average value of Palestinian imports of $250 per ton, indirect imports from Israel could be around 2.6 million tons. This potential could provide additional saving to Palestinian importers when transiting imports through more cost effective routes. Accordingly, for maritime transport trade planning purposes, the total volume of Palestinian trade with ROW, including all exports and the 35 per cent of imports registered as being from Israel, may be as much as 6 million tons.
Trade Re-routing Alternatives:
The analysis then examines two alternatives for Palestinian (non-Israeli) sources of imports and exports. Instead of transporting goods via Israeli harbours, Palestinian trade could be transited through Egypt or Jordan. The port that could be used when importing from the east is the Port of Aqaba, situated at the northern tip of the Gulf of Aqaba and the south of Jordan. This sea route is less attractive compared to the import routes via the Israeli ports, as shipment coming from or going to the Europe/North America has to cross the Suez Canal and travel through the Gulf of Suez as well as the Gulf of Aqaba.

In Egypt, Port Said could be used as an alternative. The port is situated on the western shore of the Suez Canal at the northeast corner of Egypt, approximately 250 km southwest of the border with Gaza. It is best equipped to handle general cargo, dry bulk and liquid bulk, but has a limited capability to deal with containers. A new container terminal on the east bank of the Suez Canal is being constructed and expected to be operational in October 2006. In the case of using Port Said, transport by sea is not very different from using harbours on the Israeli coast. For example, Port Said and Ashdod are situated at an equal distance from Italian ports, and therefore either harbor has the same maritime transport cost for Palestinian trade.

The re-routing analysis undertaken here starts by assuming that goods destined for or coming from the Gaza Strip will be re-routed from the Israeli ports, Ashdod, Haifa, and Yafo to Port Said in Egypt, while those destined to or coming from the West Bank will be re-routed to the Port of Aqaba in Jordan. For all west-bound trade (coming from or heading to Europe/North America), the latter route could involve trans-shipment in Port Said (offloading and reloading to smaller vessels) before crossing the Suez Canal towards the Gulf of Aqaba.

Re-routing Cost Parameters:
The re-routing exercise involves calculating three cost components: (i) maritime transport costs; (ii) port costs; and (iii) land transport and border crossing costs.

Maritime Transport Costs:
Trade analysis shows that a large number of transactions reflect a relatively small volume. These small volumes will be part of larger shipments on the international routes from America and Europe, and the Far East. This is not a factor that could affect the re-routing from Israeli ports to Port Said, but it could be relevant in the case of using the Port of Aqaba. Considering the size of the Ports of Ashdod and that of Port Said, it is assumed that the re-routing from Ashdod to Port Said takes place with the same type of vessel and therefore there is no maritime transport cost difference between the two ports. The Port of Aqaba is smaller and not yet a regular stop or a regular destination in international maritime routes. For
this reason, it could be required that rerouting via the Port of Aqaba involves trans-shipment of imports destined for the West Bank at Port Said and re-loading goods to smaller vessels for the transport via the Suez Canal to the Port of Aqaba. Cargo flows of certain maximum volume or bulk might also go directly to the Port of Aqaba without trans-shipment in Port Said. Both cases have been taken into account in the calculation of the costs of re-routing.

Another cost factor is the time lost due to re-routing. As mentioned, re-routing from Israeli ports to Port Said is expected not to involve additional sailing time, while the re-routing to the Port of Aqaba could include the extra time for trans-shipment to/from Port Said. The distance from Port Said to the Port of Aqaba amounts to 387 nautical miles. With a speed of 10 nautical miles per hour, the sailing time would amount to 1 day and 14 hours. Including the time needed for unloading and loading in Port Said and traversing the Suez Canal, the total additional transit time of maritime transport to Port of Aqaba can be estimated at three days. Table 3.5 lists the additional shipping cost of re-routing per ton for each type of shipment.

**Port Costs:**

In calculating post costs, the cost elements related to Israeli ports, Port Said and Aqaba (estimated for 2000–2001) include tonnage dues, quarantine fees, wharfage fees, pilotage fees, light dues, harbour dues and others.

**Land Transport Costs:**

Land transport and border crossing cost factors include truck costs, border crossing, security check, transport in the West Bank and Gaza, custom clearance and others. Tables 3.6 to 3.8 present all the cost factors affecting the land transport from Israel, Egypt and Jordan to the West Bank and Gaza. Table 3.6 lists costs per ton for all the different distances.

<table>
<thead>
<tr>
<th>Table 4</th>
<th>Cost parameters: port and additional shipping</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Type of shipment</strong></td>
<td><strong>Port costs</strong></td>
</tr>
<tr>
<td>General cargo</td>
<td>3.59</td>
</tr>
<tr>
<td>Containers</td>
<td>31.34</td>
</tr>
<tr>
<td>Dry bulk</td>
<td>3.91</td>
</tr>
<tr>
<td>Liquid bulk</td>
<td>4.95</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Table 5</th>
<th>Cost parameters: land transport</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Type of shipment</strong></td>
<td><strong>From To</strong></td>
</tr>
<tr>
<td>General cargo</td>
<td>78.97</td>
</tr>
<tr>
<td>Containers</td>
<td>76.85</td>
</tr>
<tr>
<td>Dry bulk</td>
<td>78.97</td>
</tr>
<tr>
<td>Liquid bulk</td>
<td>78.97</td>
</tr>
</tbody>
</table>
It should be stressed at this stage that land transport is the most significant of all the three components of re-routing costs, and therefore it is the determining factor in choosing the optimal Palestinian trade routes. Furthermore, about 50 to 60 per cent of land transport cost is directly related to the security situation and the Israeli closure policy. In the case of Israel, cost of truck transport represents a very small portion of total land transport costs between the Israeli ports and West Bank and Gaza (between 8 and 20 per cent; see Table 3.6). Another important factor is the poor transport infrastructure in the West Bank and Gaza, which is also affected by the present crisis and the conditions imposed by the occupation.

**Cost of Trade Re-routing:**

Gaza Strip trade re-routing analysis shows that there are more ‘additional’ costs for re-routing cargo from Ashdod than from other Israeli ports, considering Ashdod’s proximity to Gaza. In contrast, there is less cost difference amongst Israeli ports for West Bank trade since the difference in distances from these ports to the West Bank are insignificant. Furthermore, re-routing west-bound cargo (which constitutes the bulk of volume trade flows) to the Port of Aqaba results in much smaller cost differences as compared to those associated with Israeli ports, but is more expensive than re-routing to Port Said because of the greater road distance from Aqaba to the West Bank. However, costs associated with re-routing west-bound cargo to the Port of Aqaba without trans-shipment are lower than those associated with trans-shipment in Port Said. The analysis also demonstrates that except for containers, the costs of re-routing freight from Ashdod to Port Said are the same for both west-bound and east-bound cargos (i.e., with Asia). In addition, re-routing east-bound cargo to Port of Aqaba is less expensive than trans-shipment through Port Said, because of scale benefits in shipping costs.

The financial impact of the re-routing exercise is presented in Tables 3.7 and 3.8. The results suggest that the total annual costs of re-routing Palestinian trade with non-Israeli partners including maritime transport, port and overland transport costs, could reach $59 million, of which $48 million for imports and $11 million for exports. This figure exceeds the present costs associated with transporting Palestinian trade via Israeli ports and corresponds with an average $18.6 per ton, at $18.2 per ton for imports and $20.6 per ton for exports.
However, re-routing West Bank imports from Europe/North America via Port Said instead of Aqaba, for entry via Gaza and transit through Israel, will eliminate the costs of crossing the Suez Canal and trans-shipping these imports, but in the meantime this will augment the land transport cost to cover the expenses required for the transit between Gaza and the West Bank through Israel. The overall impact of this exercise on the cost of re-routing West Bank imports would be a 65 per cent ($25 million) drop to reach $14 million only (bottom half of Table 3.7). In this case the total bill of re-routing Palestinian trade could be $36 million per year and cost per ton could be reduced to $11 million. The cost of rerouting West Bank import could be reduced to $8.5 per ton from $24.2 per ton.

<table>
<thead>
<tr>
<th>Table 6</th>
<th>Estimated annual cost of re-routing</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Million US$</td>
</tr>
<tr>
<td>Type of shipment</td>
<td>Imports</td>
</tr>
<tr>
<td></td>
<td>Gaza</td>
</tr>
<tr>
<td>With trans-shipment</td>
<td></td>
</tr>
<tr>
<td>General cargo</td>
<td>4.71</td>
</tr>
<tr>
<td>Containers</td>
<td>4.88</td>
</tr>
<tr>
<td>Dry bulk</td>
<td>0.44</td>
</tr>
<tr>
<td>Liquid bulk</td>
<td>-0.23</td>
</tr>
<tr>
<td>Total</td>
<td>9.80</td>
</tr>
<tr>
<td>Without trans-shipment</td>
<td></td>
</tr>
<tr>
<td>General cargo</td>
<td>4.71</td>
</tr>
<tr>
<td>Containers</td>
<td>4.88</td>
</tr>
<tr>
<td>Dry bulk</td>
<td>0.44</td>
</tr>
<tr>
<td>Liquid bulk</td>
<td>-0.23</td>
</tr>
<tr>
<td>Total</td>
<td>9.80</td>
</tr>
</tbody>
</table>

Table 7

<table>
<thead>
<tr>
<th>Table 7</th>
<th>Estimated additional unit cost of re-routing</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>US $ per ton</td>
</tr>
<tr>
<td>Type of shipment</td>
<td>Imports</td>
</tr>
<tr>
<td></td>
<td>Gaza</td>
</tr>
<tr>
<td>With trans-shipment</td>
<td></td>
</tr>
<tr>
<td>General cargo</td>
<td>6.7</td>
</tr>
<tr>
<td>Containers</td>
<td>26.4</td>
</tr>
<tr>
<td>Dry bulk</td>
<td>5.6</td>
</tr>
<tr>
<td>Liquid bulk</td>
<td>-2.4</td>
</tr>
<tr>
<td>Total</td>
<td>9.2</td>
</tr>
<tr>
<td>Without trans-shipment</td>
<td></td>
</tr>
<tr>
<td>General cargo</td>
<td>6.7</td>
</tr>
<tr>
<td>Containers</td>
<td>26.4</td>
</tr>
<tr>
<td>Dry bulk</td>
<td>5.6</td>
</tr>
<tr>
<td>Liquid bulk</td>
<td>-2.4</td>
</tr>
<tr>
<td>Total</td>
<td>9.2</td>
</tr>
</tbody>
</table>
Conversely, the analytical framework produces a substantially and qualitatively different result if a 20 per cent reduction in the land transport of Egypt and Jordan is assumed. Under such assumption, rerouting could be cost-advantageous to the Palestinian trading community. Total annual cost of re-routing Palestinian trade would be reduced by $19 million from its level in 1999, with all of this saving coming from re-routing imports of the West Bank and Gaza. If it is further assumed that the expected operation of Port Said East Container Terminal in would reduce the cost of containers coming via Port Said by 50 per cent, this suggests additional saving of $3 million per year.

Accordingly, the total annual saving arising from re-routing Palestinian trade could reach more than $22 million. This scenario suggests a $6.7 saving per ton, at $8.0 saving per ton for imports and $0.2 saving per ton for exports. The annual savings could be doubled to reach $38 million and $44 million respectively, if Palestinian importers considered also re-routing their indirect imports from Israel.

It should be emphasized that the results presented in Tables 3.6 and 3.7 are the outcomes of specific re-routing exercises. However, what is clear from the previous analysis is that while the port costs in Egypt and Jordan (except for the cost of container in Port Said) are less than in Israel, land transport costs in Egypt and Jordan are higher than in Israel. Hence, the cost/benefit of re-routing differs from one cargo type to another and from one port to another. Therefore it is important that the Palestinian trading community consider the re-routing option that allows taking full advantage of the least expensive/most beneficial trading route for specific goods or cargo types that might be most amenable to re-routing. For example, even under the present circumstances and cost parameters, re-routing Gaza liquid bulk imports to Port Said would reduce the total transport cost of this type of imports by $240 thousand (Table 3.7), saving of $2.4 per ton (Table 3.8). On the other hand, transiting containers through Port Said is still more costly than using Israeli ports, even with a 20 per cent reduction in Egypt’s over land transport. This option would be beneficial only if the new container terminal in Port Said reduced costs by 40 per cent or more from present levels.

**Policy Implications, Conclusions and Recommendations:**

As soon as possible, Palestine needs to have its own seaport in Gaza in order to overcome its imposed landlocked status, to be able to significantly reduce the abnormally and unacceptable high transport costs of its trade, and therefore, to expand trade with the ROW in a sustainable manner. The most recent economic cost-benefit analysis of the Gaza port project in its wider regional developmental context has convincingly demonstrated that even as a second-best economic option, a strategic project such as this is actually a first-best option for the future. However, the lack of political stability means that the construction of this port is likely to be subject to further delays. At
best, it could be operational four years after commencing construction, a step that for the moment remains elusive. Hence, the necessity of exploring alternative maritime and overland transport routes for facilitating the flow of Palestinian trade until Gaza Seaport is operational.

In this regard, the previous analysis illuminates the fact that land transport is the most important cost factor in the transport of non-Israeli Palestinian trade from and to the rest of the world, and that more than 50 per cent of the expenses related to this factor emanates from the Israeli closure policy and the security situation. The analysis also shows that even under the present circumstances, re-routing Palestinian trade to Egypt or Jordan could achieve saving to the Palestinian trading community with a 15 per cent reduction, or more, in the cost of land transport of these two countries. Under these conditions, additional re-routing of Palestinian indirect imports from Israel would double the expected savings.

This can be realized with various improvements in the transport infrastructure and private sector investment in a transport/truck fleet serving Gaza, West Bank, Egypt and Jordan. The option of using the railway system in northern Sinai in Egypt could further reduce the land transport between Egypt and Gaza. Furthermore, the expected operation of Port Said East Container Terminal could provide Palestinian trading community with a new cost-effective route to transport container cargos.

Nonetheless, taking advantage of any re-routing option would require a context of a sub-regional transit transport agreement that also provide a framework for guiding efforts to developing port and overland transport facilities (fleet, physical and institutional transport infrastructure) in the region. This means that re-routing Palestinian trade via Jordan and Egypt could be feasible if accorded priority treatment by the concerned contracting parties to a sub-regional transit transport agreement or at least bilateral accords that stand a chance of being implemented. This has implications for a number of steps in the transit transport chain, especially enhanced border passage, commercial transit facilities, including appropriate and reasonable security arrangements as well as guarantees to permit convoys and other safe commercial transit passage through Israel from Gaza to West Bank.

Furthermore, in the context of strategic trade and development policy planning, increased use of Arab regional ports by the Palestinian trading community could have indirect benefits in terms of generating space for PA policy autonomy. Indeed, just as the Gaza Seaport project has been analyzed as a situation where second-best is the first-best option, so selective or more extensive re-routing of Palestinian trade flows could be considered as optimal as compared to the current absolute dependency on routes through Israel.
Effective trade facilitation requires simultaneous efforts at three levels. At the highest level, neighboring countries could subscribe to multilateral agreements and international conventions, which guarantee observance of standard procedures for customs clearance and movement of freight consignments across borders. At the middle-level, these procedures could be embodied in bilateral agreements between neighboring countries. Finally, at the level of individual transport organizations, there could be arrangements between neighboring organizations for joint operations and associated facilities designed in harmony with global standards and regional specifications. It is essential that proposed transit agreements motivate the region’s countries to operate each of these levels.

Moreover, establishing transit transport agreements at the sub-regional level would provide the necessary elements for ensuring the government’s commitment to modify existing laws and regulations based on the principle of reciprocal treatment. This would pave the way for the treatment of trade facilitation as a regional competitive advantage that supports the region’s development efforts, and not simply as an administrative tool with an impact limited to border-crossing trade operations. At the national level, such agreements would help policy makers prioritize and address transit transport issues domestically, while providing a reference framework and a baseline for obtaining better terms and access conditions in future negotiations with other countries and regions.

In order to realize the efficient mobilization of trade facilitation on the regional level to the benefit of the Palestinian economy and Palestinian alternate trade routes, the following must be realized:

1. **Harmonization and streamlining trade-related procedures**
2. **Designation of entry points for transit services**

The experiences of other land-locked countries and their transit neighbors show that minimizing costs associated with transit operations cannot be achieved without designating specific corridors/routes for transit traffic. This makes it easier for governments to agree on common technical standards required for eliminating logistical constraints, and developing uniform transit procedures, in addition to linking the region with other regional and international transit routes. This issue is of strategic importance in the Palestinian case, given the need to provide secure and efficient transit transport (through Israel) between the southern West Bank and the north-eastern border of Gaza Strip.

Prior to the 2000 crisis, the Palestinian and Israeli parties agreed to a ‘safe passage’ route for Palestinian passenger vehicles but for commercial traffic. This passage operated for a brief period prior to September 2000.

Notwithstanding that the choice of transit corridors is influenced by national priorities, the following list provides a generic set of selection criteria that are
relevant in designing future transit routes for Palestinian commercial traffic:

- Cost-effective access to the sea/final destination;
- Fostering economic activities;
- Realization of development potential;
- Potential for lower transit costs based on present and expected traffic flows;
- Environmental sustainability and public health;
- Spatial development;
- Population and social development considerations; and
- Flexibility of choice: alternative routes.

Conclusions and Implications for Palestinian Trade Facilitation:

As the preceding analysis shows, there is a need for creating alternative trade routes for Palestinian traders in order to reduce the dependence on Israeli ports and airport, as well as in reducing transaction costs and movement restrictions. Hence, improving transit transport conditions for the economy in the short term, as well as the envisioned Palestinian state and the region poses serious challenges, not only in view of the absence of adequate physical infrastructures, institutions, regulations and laws but also in view of the adverse political and economic situation. Further aggravating the problem of trade facilitation are Israel’s restrictive overland and transport measures affecting trade through Palestinian borders, which inflate transit transport costs and undermine efforts to facilitate cross-border merchandise trade. Such conditions raise an urgent need for establishing cohesive national action plans for facilitating trade, especially since many of the factors responsible for inflating transit transport costs fall within the realm of national governments’ policy-making prerogatives.

In the Palestinian case, such a plan is critical for the Palestinian government’s active participation in regional trade facilitation initiatives, providing the basis for coordinating efforts and ensuring responsiveness to the economic interests of the emerging Palestinian State. As such, the trade facilitation plan should form an integral part of the PA’s development strategy, and focus on a number of areas.

Legal Framework: National and Sub-regional:

For the recommendations and policy implications presented in herein to be effective and operational, there is a need to develop a legal framework for the Palestinian trade facilitation and transit transport industry. On the national level, this framework should outline the institutional set up required for the development of the sector, and assign the responsibilities regarding policy making, regulation and implementation, as well as relevant national legislations for transit and maritime transport trade facilitation.
Creation of Transport Intermediary Sector:

Palestine needs to design sectoral policies for creating transport intermediary services. The starting point would be the modification of existing laws to encourage the entry of competent operators into the market, along with national transport policies for guiding the development of the freight and port services, and enhancing the competitiveness of service providers. Such policies should seek to:

- Modernize the trucking industry through adopting new regulations that encourage market entry of competent and financially capable operators. This includes reconsidering the minimum size company in terms of fleet size and/or capitalization and standards for vehicle safety;
- Facilitate the formation of shipper and trucking councils to strengthen the operators' bargaining power, expose them to modern management systems and encourage the consolidation of small operators;
- Enhance the competitiveness of freight-forwarding and clearing industry, particularly small and medium-sized enterprises, through comprehensive training programmes in cooperation with specialized international development and training institutions;
- Encourage the establishment of international trading companies on a joint venture basis between domestic and international companies. Such companies could play an important role in overcoming the problem of small shipments faced by local exporters; and
- Establish carrier liability regimes for protecting Palestinian exporters and importers in international markets.

Harmonization and Streamlining of Trade-Related Procedures:

The PA should also seek to harmonize as much as possible its regulatory regime and reforms with the multilateral disciplines and criteria of relevant international agreements and conventions. While doing so, it needs to consider the fact that international technical regulations and standards were designed to respond to the problems of the much stronger and more advanced industrial countries. Developing countries often argue that these regulations are beyond their technical competence and do not take into account their development needs. Moreover, the costs associated with adhering to these standards are substantially high. Indeed, typical failure of project design in this area arises from the attempts to introduce complex transit facilitation schemes, which end up as “white elephants” projects.

Human Resource Development:

The continuous advances in information technology and communications have turned the process of trade facilitation and customs management into both “knowledge and human capital intensive”. The workforce is expected to play a proactive role, detecting implementation failures and suggesting solutions for improving performance and maximizing efficiency.
In the case of the PA, as well as in Jordan and Egypt, there is a need to familiarize public and private institutions involved in the provision of transit transport services with international best practices, and develop their competency to implement advanced systems. This requires training in the following areas:

- International conventions and agreements governing trade and transit operations and their practical implications on the region;
- The application of computerized systems for cargo and customs administration;
- Transport logistics management and administration, with a special emphasis on risk analysis, supply chain management, cost-benefit analysis, provision of efficient transport operations, and insurance and banking operations related to the movement of goods; and
- Specific training courses which should be designed to improve commercial banks and insurance companies’ experience in the various payment and insurance systems associated with transit transport.

Local training institutions should also be heavily involved in these training activities, and assisted in designing the required training modules so as to assume the responsibility of providing follow-up training services.

**Alternative Maritime Transport Routes:**

Despite the 60 km long shore of the Gaza Strip on the Mediterranean Sea, the Palestinian economy is effectively landlocked. Defeating this imposed status is essential for any real reduction in the extremely high transport costs of Palestinian trade. Having a seaport in Gaza is the only solution capable of independently integrating the Palestinian economy with the region and the rest of the world, and therefore expanding its trade in a long-lasting and sustainable manner. The continuation of the conflict and political instability means further delays in the construction of the port. For this reason, it is important to consider alternative maritime and overland transport routes for facilitating the flow of Palestinian trade until the Gaza Seaport is operational.

**Transport Infrastructure:**

The PA, with the help from the international community, should exert more effort to improve and develop the transport infrastructure – particularly road networks – on the basis of creating a transportation system consistent with the regional developments. Particularly, more attention should be given to (i) the development of road marking and numbering in line with international standards as well as the system applied in ESCWA member countries; (ii) the road links and nodes, especially signage, direction, and lighting; and (iii) the multi-modal transport potential and container systems. In this regard, Gaza airport and seaport will present new challenges to the PA in terms of how to deal with multi-modal transport.
Border Procedures:

Administrative procedures need to be improved in order to facilitate border crossings with a view to streamlining procedures and simplifying documentation. In addition the following measures need to be considered:

- Upgrading the truck fleet, especially “green trucks”;
- Introduction of more efficient and practical inspection procedures with the help of technologically advanced instruments;
- Implementing the “safe passage” between Gaza and the West Bank, in line with international transit transport principles and standards;
- Improving and introducing facilities at or near the border crossings, such as warehouses, quality control laboratories, insurance companies, banks, post offices, parking and rest houses;
- Extending the working hours at the border crossings;
- Replacing the back-to-back system with the more efficient point-to-point method;
- Creating locations away from the crossing points with Egypt and Jordan where all customs and security inspections (including that of Israel) could take place; and
- Establishing bonded houses at the border crossings to help facilitate procedures and reduce the risks and costs emanating from missing documents, strikes or any political reasons.