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Transit Trade and Maritime Transport Facilitation for the Rehabilitation and Development of the Palestinian Economy*

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EXECUTIVE SUMMARY

Even with the long seacoast of the Gaza Strip, the occupied Palestinian territory is effectively land-locked, with complete dependence on neighbouring transport facilities for participation in international trade. In addition, Israeli control of the main borders and transport routes renders Palestinian trade totally dependent on political and security developments. These are the main factors behind the prohibitive transit transport costs that prevent Palestinian enterprises from increasing participation in international trade and undermine the competitiveness of their exports.

In response to the economic crisis that has engulfed the occupied territory since 2000, the Palestinian Authority (PA) requested the United Nations Conference on Trade and Development (UNCTAD) to provide advisory services on two related issues, namely possibilities for lessening dependence on transport routes through Israel and perspectives and mechanisms for establishing an operational framework for transit transport facilitation. This study consolidates and elaborates the main technical findings of UNCTAD's advisory services on these two issues, in the context of an integrated framework for enhanced trade facilitation.

This technical study 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, the study finds that under certain conditions, re-routing could generate savings and other gains to the Palestinian trading community.

This calls, inter alia, 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, so as to ensure the PA's active participation in regional trade facilitation. Efforts should focus on establishing a legal framework in tune with international standards and best practices, creation of a specialized committee for trade facilitation, development of the transport intermediary sector, harmonizing and streamlining trade-related procedures and developing expertise as well as physical and institutional infrastructures.

The rehabilitation and restructuring of an efficient transport infrastructure and the development of an effective transportation system should rank high on the PA agenda, as an integral part of its overall economic and social development strategy. This will allow for increased participation of Palestinian enterprises in international trade and also provide a basis for coordinating regional efforts and ensuring responsiveness to the economic interests of the future Palestinian state.

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Abbreviations

AASHTO	American Association of State Highway and Transportation Officials
ACIS	Advanced Cargo Information System
AFTA	Arab Free Trade Area
ASYCUDA	Automated System for Customs Data Analysis
CCC	Customs Cooperation Council
CEA	Egypt Customs and Excise Authority
ECE	Economic Commission for Europe
ESCWA	United Nations Economic and Social Commission for Western Asia
GCC	Gulf Cooperation Council
GNI	Gross national income
GNP	Gross national product
ICT	Information and telecommunication technology
IRU	International Road Transport Union
ITSAM	Integrated Transport System in the Arab Mashreq
JEC	Joint Palestinian-Israeli Economic Committee
JD	Jordanian Dinar
LAS	League of Arab States
LDCs	Least developed countries
MENA	Middle East and North Africa
MNE	Ministry of National Economy
MLG	Ministry of Local Government
NIS	New Israeli Shekels
NTBs	Non tariff barriers
NTTFC	National Trade and Transport Facilitation Committees
PA	Palestinian Authority
PCBS	Palestinian Central Bureau of Statistics
PECDAR	Palestinian Economic council for Development and Reconstruction
RCA	Revealed comparative advantage
REDWG	Regional Economic Development Working Group
ROW	rest of the world
SCCT	Suez Canal Container Terminal
SMEs	Small and medium-sized enterprises
TIR	Transports Internationaux Routiers
TPPR	Trade Point Palestine Ramallah
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNSCO	United Nations Office of the Special Coordinator in the Occupied Territories
VAT	Value added tax
WCO	World Customs Organization
WTO	World Trade Organization

Introduction

The continuous reductions in tariff and non-tariff barriers taking place at the international level within the context of the multilateral trade arrangements, and the rapid advances in information and telecommunication technology (ICT) have increased the importance of trade as an engine of growth. Supported by appropriate development strategies, trade can facilitate the structural transformation of developing economies toward higher value-added products, leading to qualitatively large and robust positive impact on income.[1] However, developing countries' efforts to increase their share of global trade are often undermined by prohibitive transport costs, which erodes the competitive edge of their exports and therefore poses trade barriers of greater significance than import tariffs.[2]

This problem is well pronounced in the case of the envisioned State of Palestine[3], especially in view of its land-locked status and, as such, complete dependence on the utilization of neighbouring transport facilities for participation in international trade. However, in contrast to other land-locked states, whereby access to international markets is obstructed by the absence of a sea shore, Palestine's poor market access conditions are dictated by the absence of a national seaport, not the absence of coastal fronts. In addition, Israel control of the main borders and transport routes causes Palestinian trade to be totally dependent on political considerations and developments in the peace process and regionally.

At present, Palestinian enterprises are mainly dependent on Israeli port facilities for export and import activities. In contrast to expected benefits in the form of improved market access conditions, Israeli security measures and cumbersome customs and overland transport procedures at the main borders have rendered trade activities prohibitively expensive. Meanwhile, the protracted crisis in the occupied Palestinian territory since October 2000 has effectively isolated it from the rest of the world, paralyzing Palestinian trade with devastating effects on the economy's growth potential. Hence, the urgent need for considering alternative regional maritime routes for facilitating the flow of Palestinian trade until circumstances permit the construction of a Palestinian seaport in Gaza.

This imperative is further strengthened by the necessity to re-orient Palestinian trade towards more balanced relations with Israel through greater regional and global integration. Already in 1999, well before the crisis erupted, an UNCTAD/United Nations Development Programme (UNDP) technical assistance project in cooperation with the PA, Egypt and Jordan revealed a host of problem areas affecting sub-regional merchandise trade and elaborated a set of integrated trade facilitation measures in the areas of customs operations, land transport and business information for trade. The project partners were in the process of considering modalities for the implementation of these recommendations when the severe deterioration in economic and security conditions forced a halt to any practical follow-up.

Building on the findings of this project, and pursuant to a request of the PA, UNCTAD prepared two technical reports in 2001/2002 to advise PA trade policy-makers in addressing the impact of closure policies and the new impediments to commercial transport. The two separate reports explored alternative maritime routes for Palestinian trade and provided information essential for discussions with concerned governments regarding the necessary arrangements for facilitating the flow of Palestinian trade through regional transport facilities. In particular, the reports ascertained 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 a comprehensive approach to trade facilitation, which also addresses the issues of "simplifying, harmonizing, standardizing and automating international trade and transport procedures".[4]

This technical study builds on the findings of the two technical reports mentioned above, which suggest that under prevailing conditions, and mainly due to the extremely high costs associated with the Israeli imposed security measures at the border with Egypt and Jordan, diverting Palestinian trade through alternative routes will be slightly more costly than the currently utilized routes. 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. To this end, the study aims at contributing to ongoing efforts to enhance regional cooperation in the area of trade facilitation and infrastructure development. At the national level, the study is intended to assist the PA in developing trade-related services, especially for transport facilitation.

The study starts by providing an overview of the main factors influencing transit transport operations in the region and how these inflate trade related transaction costs facing Palestinian traders. Policy and institutional and procedural barriers to trade facilitation are analysed in this context. This is followed by a preliminary economic cost-benefit analysis of re-routing Palestinian non-Israeli imports and exports via Jordanian and Egyptian ports. The case for establishing transit transport agreements between the envisioned State of Palestine and regional partners, especially Egypt, Jordan and Israel is presented, leading to specific proposals regarding the main requisite elements of such agreements.

Chapter I

GEOGRAPHIC LOCATION, INFRASTRUCTURE AND TRADE SECTOR PERFORMANCE

A *de facto* land-locked territory characterized by geographic discontinuity

The occupied Palestinian territory of the West Bank and Gaza Strip lies on the western edge of the Asian continent and the eastern side of the Mediterranean Sea. It is small in area, covering 6,170 square kilometres to constitute about 23 per cent of the area of the pre-1948 British Mandate Palestine and one third of the area of the State of Israel.

The West Bank is 5,800 square kilometres in area, and is located between Israel to the West and Jordan to the East. It is divided into three main regions with eight sub-districts, namely the northern region of Jenin, Tulkarem, and Nablus; the central region of Jerusalem, Jericho, Ramallah and Bethlehem; and the southern region of Hebron. The Gaza Strip covers 365 square kilometres and borders Israel to the north and east, the Egyptian Sinai Peninsula to the south, and the Mediterranean Sea to the West. It is divided into three districts, including Northern Gaza, Central Gaza and Southern Gaza.

Although the Palestinian territory does have a seacoast of its own, the continued delays in the construction of a seaport in Gaza has rendered it a *de facto* land-locked country isolated from global mainstream trade. It is unknown when and under what conditions the seaport development project may resume but operation is five years away under the most optimistic scenario. Meanwhile, the small Gaza International Airport, which operated until 2000, was hardly able to accommodate significant passenger flows, and was not equipped for commercial transport.

Palestinian enterprises' participation in international trade is therefore conducted via the neighbouring territories of Egypt, Jordan and Israel. What further aggravates the land-locked status is Israel's control over all borders and trade routes and its closure policy.[5] Under this policy, Israel seals off the main border crossings and therefore bans the movement of persons and goods across the borders with Israel as well as with the rest of the world. This practice has rendered access to international markets totally dependent on political developments and the (mis)fortunes of the peace process.

Since the outbreak of the conflict, closure has become the common feature of Palestinian daily life. According to the United Nations Office of the Special Coordinator in the Occupied Territories (UNSCO),[6] Israel has come to regulate the pulse and flow of Palestinian travel and trade – not just between the West Bank and Gaza and Israel – but internally, between Palestinian cities and towns. Closure remained the dominant reality preventing movement of goods into, but more commonly out of, the West Bank, where domestic markets were severed for prolonged periods in 2001–2003. On average, military-imposed curfew prevailed for 130 days in the major towns of the West Bank (70 per cent of the time) during the last six months of 2002 alone. Israeli restrictions and closure policy have also had a significant impact on Gaza Strip farmers' market access. The availability of inputs has declined, but more noticeable is the restriction on farmers' ability to get produce into markets outside of Gaza. The PA Ministry of Agriculture estimates losses for the period September 2000 to December 2002 of approximately $130 million.[7] During the periods where the closure policy is not fully implemented, the flow of Palestinian trade is subjected to tightened security measures, as Israeli authorities limit the working hours as well as the number of truckloads allowed to cross the borders.[8]

Over and above the challenges generated by the land-locked status are those stemming from the limited territory under PA jurisdiction. Since 2000, PA civil jurisdiction only extends to 80 per cent of the Gaza Strip and the town of Jericho, and only 3 per cent of the rest of West Bank areas, excluding east Jerusalem.[9] Moreover, the PA areas are characterized by geographic discontinuity, with the Gaza Strip totally isolated from the West Bank by Israeli controlled routes despite the 'safe passage' initiated briefly in 2000 connecting the two areas in accordance with specific measures corresponding to security needs.[10] As such, Palestinians from one area are denied access into the other without obtaining a permit from the Israeli authorities, a process that usually takes several days and often ends with applicants being banned from leaving their region for security reasons. As will be shown later, this situation has undermined trade expansion and hampered the PA's efforts to develop trade-related infrastructures.

Profile of regional transport facilities and trade routes

Road networks

The Palestinian territory's main road network connecting major cities and providing access to main borders runs at 2,500 km in total length, with about 2,206 km of roads in the West Bank and 294 km in the Gaza Strip (see map in Annex 1). The network is in a state of disrepair with inadequate services following long years of occupation, lack of maintenance and under-investment. Around 50 per cent of the roads in the Gaza Strip are unpaved, while 40 per cent of the West Bank road network is below acceptable service levels.[11] Large sections of the network pass through densely populated areas. Therefore problems such as congestion, high accident rate, travel time losses and high vehicle maintenance costs are common to Palestinian traders. Furthermore, the network connecting the Palestinian territory with Egypt and Jordan lacks a unified marking system, with most of the roads only marked according to local systems.

The development of physical infrastructures in general and road networks in particular is high on the PA's development priorities, absorbing 49 per cent of the Palestinian development budget over the period 1999–2003.[12] However, efforts are mainly focused on rehabilitating municipal roads, with a focus on improving accessibility to villages.[13] Infrastructure projects with a wider development focus are limited in number and geographical coverage, owing to Israel's control over large sections of the main road network.

What further complicates those efforts is the lack of clarity regarding the roles and responsibilities of public institutions involved in infrastructure development, coupled with competency shortfalls at the planning and implementation levels. The coordination between the various agencies involved in the maintenance and development of the sector also needs to be strengthened with a cohesive strategy. The development of the transport sector falls under the responsibility of a number of ministries and public agencies including the Ministries of Public Works, Transport, Planning and International Cooperation and Local Government. Each has specific projects for improving different types of roads. In addition, the Palestinian Economic Council for Development and Reconstruction (PECDAR) is involved in managing the implementation of donor-funded projects and coordinating foreign financial and technical assistance in the sector.

Thus far, the World Bank Municipal Infrastructure Development project stands as the only attempt to address the problems mentioned, and its focus is limited to the municipal level. The project seeks to strengthen the PA's ability to plan, manage, finance and maintain road networks through rationalizing the allocation of responsibilities at the central level and between central and local authorities. This entails comprehensive reforms involving: (i) the clarification and coordination of the roles and

responsibility for investment planning, aid coordination and implementation at the national level, particularly the clarification of potential overlapping between the roles of the Ministries of Local Government (MLG), Planning, Public Works, and Transport, and the Palestinian Economic Council for Development and Reconstruction; (ii) the decentralization of functions and responsibilities to local governments (municipalities) and defining the degree of autonomy *vis-à-vis* the MLG; and (iii) training and capacity building activities in the areas of municipal planning, financial and information systems management.[14]

Commercial crossings and re-export points

There are three border crossing points and four re-export points between the Palestinian territory and its immediate neighbours (Egypt and Jordan). They are all in poor shape, lacking storage areas, public utilities and service stations for cargo vehicles, with limited loading capacity and inadequate support facilities.

Commercial crossings and re-export points with Egypt

Rafah is the only Palestinian commercial crossing point with Egypt. It is mainly used for transporting Palestinian imports and exports between Gaza and Egypt. Most imports to the West Bank enter via the Egyptian-Israeli commercial crossing. Re-export points include Cairo airport, Port Said and the Nueba crossing point (sea and overland transport), however, to date Palestinian traders have not used these.

Commercial crossings and re-export points with Jordan

There are two commercial crossings with Jordan, including Karamah bridge, (also referred to as King Hussein Bridge or Allenby) and Damya Bridge (also referred to as Prince Mohammed or Adam Bridge). Importers use the former, while the latter is used for exports from the West Bank and Gaza, especially citrus and fresh products. Palestinian goods destined for transit through Jordan to neighbouring countries are usually re-exported through Al-Shouna in the Jordan Valley.

Only 10 per cent of total Palestinian merchandise trade flows through these commercial crossings. In 1999, nearly 5 per cent of Palestinian trade went through Karamah crossing, 3.2 per cent through Rafah and around 2 per cent through Damya. The bulk of exports flow through Erez crossing, reflecting the trade sector's heavy concentration with Israel.[15]

Port facilities

Israeli ports acquire much importance in facilitating Palestinian trade In 1998 approximately 74 per cent of Palestinian merchandise was transported via the Israeli ports of Haifa, Ashdod and Yafo.[16] The absence of a national seaport aside, Palestine's heavy dependence on Israeli ports is aggravated by the limited capacity of regional port facilities in Egypt and Jordan. It is possible that the Egyptian and Jordanian ports will become more attractive to Palestinian trade after the completion of the significant upgrading currently taking place. Another factor encouraging heavy dependency on Israeli ports is the import clearance facilities available to Israeli importers who handle a significant amount of Palestinian imports under the functioning of the Israeli-Palestinian customs union, adopted in the "Paris Protocol" of 1994.

Port of Aqaba, Jordan

The port of Aqaba is Jordan's only port, and is strategically situated at the Gulf of Aqaba, in southern Jordan. Its present capacity the port is relatively small to serve as a regular destination in international maritime routes. It comprises three distinct facilities with the following specifications:

- The main port, which consists of 11 berths, each running between 150-180 meters in length and 4-14 meter depth, with a total length of 2,050 meters. It is mainly used for handling general cargo, grain, phosphate and bulk cargo and can serve vessels of 40,000 DWT with a low-water draft of up to 13 meters;
- The Container Port, consists of: (i) a floating berth (Mo'th berth) for handling break bulk cargo for accommodates vessels up to 40,000 DWT; (ii) a cement export berth (Mushterak berth), which accommodates vessels up to 70,000 DWT; (iii) a floating berth for passenger ships (Yarmouk), which serves bow and stern-loading vessels of 25,000 DWT; and (iv) a container terminal, 540 meters long and 14-20 meters deep, with 2 x 40 ton gantry cranes, and capable of simultaneously servicing 3 vessels up to 850,000 DWT each;
- The Industrial Zone Area: located 18 kilometres south of the main port, with three jetties used for exporting fertilizers and potash, oil and importing livestock.

Aqaba port is equipped with a range of storage facilities, though with limited capacity, and is managed by an autonomous governmental agency, the Ports Corporation, under the umbrella of the Ministry of Transport.

Port Said, Egypt

Port Said is Egypt's second largest port, located at the northern entry of the Suez Canal between Alexandria to the west and the Israeli port of Ashdod to the north-east, serving as a strategic link between the world east-west marine traffic. In 1998 the port accounted for 9 per cent of Egypt's total traffic volume, accommodating up to 4.5 million tons.[17]

Port Said consists of 13 berths, each running between 163–410 meters in length and 3–13 meter depth, with a total length of around 3,384 meters. The port is mainly used for handling general cargo, grain, phosphate and bulk cargo and can serve vessels of containers and common goods with sinkage point until 42 feet (12.6 meter) and cereal vessels with sinkage of 38 feet (11.4 meter). The port has 16 pavements, a general free zone for storing purposes, in addition to a Ro-Ro berth. The port is presently being upgraded to include a new up-to-date container terminal, which will substantially expand the capacity of handling containers.

At present, the two ports' services are relatively weak, obstructed by poor infrastructure, out-dated handling equipment and cumbersome bureaucracy and regulations. In Egypt, port operations are dominated by state entities and state-owned operating companies that need upgrading in technology and management. In 1998, the Government passed a new law to encourage private sector participation in maritime transport. However, only a few companies were able to meet the Government's requirements and conditions, especially in relation to capital costs.[18] According to some recent studies, ocean freight rates and cargo handling costs at Egyptian ports are significantly higher than other ports in the region.[19]

Another factor contributing to such high trans-shipment rates is the small volume of export trade in the region. In the case of Aqaba, container traffic has grown from 40,000 loaded TEU in 1990 to around 142,000 in 2001. However, container movement is mainly in the inbound direction returning empty in the outbound direction, thus increasing shipping costs and transit time for cargo. The same applies to Port Said of Egypt, where imports exceeded exports by 1.8 million tons in 1998, thus discouraging shipping lines from providing more frequent and high service levels.[20]

As will be shown in Chapter III, the development of the region's port facilities has been receiving increased government attention in Egypt, Jordan and the PA. This includes large-scale plans for upgrading the ports of Aqaba and the construction of a new up-to-date container terminal east of Port

Said (see Annex II for details). As indicated above, these upgrades are already underway and therefore could render the ports of Aqaba and Port Said more cost-effective for transiting Palestinian trade, until circumstances permit the construction of a Palestinian seaport in Gaza.

Intermediary services: Truck fleets and clearing services

Truck fleets

The trucking industry is the main means of conducting overland cross-border transport operations in all three countries. However, the industry is in need of restructuring. It is fragmented, with ownership of trucks concentrated in small private operators who lack the financial resources to modernize their fleets. This has limited the size of shipment that can be carried in transit, and discouraged management practices that could take advantage of the economies of scale and more extensive fleet utilization. Furthermore, the sector in each country is subject to restrictive and, in some cases, distorting regulations. In Jordan, this includes restrictions on axial loads, which prevent the fleets from servicing regional trade routes. Moreover, overland transport rates and tariffs are set by the Ministry of Transport at rates substantially higher than neighbouring countries. The nature of regulation has also contributed to an excess supply of trucks, which led to a queuing system, where a truck can get a turn once every two weeks to load a shipment at the Jordanian borders with the neighbouring countries.[21] In Egypt, truck operators have the freedom to set rates, however, the Government's efforts to encourage the purchase of new trucks through tax holidays is negated by high import tariffs on trucks, which can exceed 70 per cent.[22]

Over and above these limitations are the Israeli authorities' strict vehicle specifications, which further restrict the number of trucks that can service regional trade routes. Furthermore, it appears that the Israeli closure policies have resulted in a substantial contraction in the size of the Palestinian truck fleet operating in the West Bank. According to the Palestinian Central Bureau of Statistics, the number of licensed trailers and semi-trailers in the West Bank dropped from 322 in 1999 to a mere 19 in 2002, and the number of licensed trucks and commercial cars dropped from 15,282 to 10,495. However in Gaza, the number of these types of vehicles increased from 289 to 385 for trailers and semi-trailers and from 8,156 to 8,956 for trucks and commercial cars.

Multi-modal carrier liability regimes

Multi-modal transport regimes are a new concept to the region that is yet to be introduced in the Palestinian territory, and requires substantial development in Egypt and Jordan. In Egypt, insufficient carrier liability insurance poses additional costs when faulty equipment leads to damage or loss of cargo, hence there is no compensation for the exporter. In Jordan, the truck liability regime does not cover more than one mode of transport.[23]

Clearing agents

Thus far, Egypt has the most developed customs clearing sector, comprising a dozen large and experienced freight forwarders specialized in a variety of transport and logistics services, in addition to medium and small sized forwarding companies. Established forwarders are authorized to issue multi-modal transport bills of lading through affiliation with International Federation of Freight Forwarders Associations. Less established forwarders serve as clearing agents, providing services to importers and exporters in the clearance of inbound and outbound cargo through cross-border formalities at the port.[24]

In contrast, the PA does not have a clearing agents industry, and as such Palestinian traders are left with no choice but to rely on Israeli clearing agents. In Jordan, existing regulations limit the activities

of clearing agents and do not allow them to carry out commercial activities or trade-related services, rendering it difficult to meet international standards. In addition, the majority of companies licensed to provide clearing services do not have offices at the main crossing points. Further improvement in this regard is required for the port/customs clearing services in Jordan to assume its role efficiently and meet international standards.

Palestinian trade: Protracted crisis and Israeli separation policies

The protracted Israeli-Palestinian conflict since October 2000 has brought the Palestinian economy to the brink of collapse. According to the most recent estimates, accumulated gross national income (GNI) losses between October 2000 and December 2002 reached $5.4 billion, exceeding the level of income generated in the full year of 1999. By 2002, Palestinian GNI was estimated at $3.1 billion as compared with $4.9 billion in 1999, and GNI per capita declined from $1,633 to an estimated $903.[25] As a result, more than 2 million people were living below the $2-a-day poverty line. Unemployment soared from 10 per cent in September 2000 to 36 per cent by the end of September 2002, leaving at least 251,000 Palestinians of working age jobless. In addition to direct income losses, the physical damage suffered by the Palestinian economy from September 2002 until April 2003 alone was estimated at $370 million, with a cumulative total of $1.1 billion between October 2000 and August 2002.[26] This is involved damage to the private and public infrastructure, establishments, equipment and utilities, and represents a sharp reduction in the existing capital stock and, therefore, a contraction in the economy's domestic supply capacity.

The impact of war is also reflected by the shift experienced in the structure of the economy. The economy has been effectively set on the path of "de-development", with its supply capacity depleted by the massive scaling down of production activities and the destruction of physical infrastructure. This has led to the expansion of the informal economy, as impoverished households are resorting to survival activities to maintain their subsistence.[27]

The manufacturing sector contribution to the economy has declined from 16 per cent in 1999 to an estimated 14 per cent in 2002. Construction lost half of its share in gross domestic product (GDP), down to 6 per cent by 2002. Agriculture, on the other hand, managed to increase its contribution to the smaller economy of 2002; its share in GDP grew from 11 per cent in 1999 to 15 per cent in 2002. Similarly, the share of public administration and other services increased from 42 per cent to 45 per cent. Commerce and tourism contracted at a rate in line with that of the economy and therefore maintained a share around 14 per cent of GDP. This suggests that while the economic and employment impact of the on-going crisis was most severe on the manufacturing and construction sectors, agriculture, public administration and some services were able to withstand the pressures of sustained decline and maintained minimum levels of employment and aggregate demand, thus shielding the economy from complete collapse.[28]

The challenge of overcoming the prevailing widespread economic crisis is compounded by structural weaknesses inherited from the occupation, many of which are common to least developed countries (LDCs). The economy has a fragmented industrial base, with 90 per cent of the establishments employing fewer than five employees. Small and medium-sized enterprises (10–50 employees) constitute less than 10 per cent of total establishments, and are mainly involved in producing labour-intensive manufactured goods, which accounted for 42 per cent of merchandise exports in 1998.[29] This has promoted a troubled trade sector with a persistent and expanding deficit and excessive leakage of economic resources to Israel.[30]

In this context, a widening consensus has emerged among Palestinian policy makers on the need to reconsider existing economic policies, especially the trade regime defined under the terms of the Paris Protocol, which has proven to be inadequate for stimulating sustained growth. The regime encompasses policies that are more responsive to the development interests of the stronger Israeli economy. As shown in previous studies, through incorporating elements of a Customs Union and Free Trade Areas, the regime has provided the PA with limited tools for managing the economy, while subjecting development decisions to the Israeli economic policy parameters and exposing Palestinian industries to the costs of liberalization inherent in World Trade Organization (WTO) membership without access to its benefits.[31]

Imperative towards regional and global integration

The PA has an opportunity to develop a new trade policy with a view to enhance the economy's resilience in the face of crisis, while setting it on the path of sustained growth. Policy options under consideration by the PA aim at re-orienting the economy toward more balanced relations through enhanced regional integration. In particular, regional integration is considered as a stepping-stone towards greater participation in global trade. Among the expected gains are increased inward investment and transfer of technologies, in addition to improved terms of trade, leading to increased investment in higher value-added production processes.

Data on Palestinian trade with the Arab countries shows a mixed performance. Palestinian exports to these countries constituted over 30 per cent of total Palestinian exports until the early 1980s and then assumed a declining trend, especially between 1996–1999, before picking up in 2000. By the end of 1999, Palestinian exports to the Arab countries constitutes less than one per cent of total exports. Although exports to these countries increased by 52 per cent in 2000 in relation to 1996, they remain insignificant at less than $10 million.[32]

Probing into the reasons behind such a performance record is beyond the focus of this study, though in the case of Egypt and Jordan, the signed trade agreements to date have worked against the growth prospects of Palestinian regional trade. These agreements limit the application of preferential treatment accorded to Palestinian exports to specific types of products within limited quantities.[33] Meanwhile, Israeli-Jordanian trade agreements have unexpectedly diverted an unspecific portion of potential Jordanian-Palestinian trade under the prevailing Israeli-Palestinian customs union arrangements. Other obstacles are the absence of a cohesive strategy at the regional level for guiding national development efforts towards greater specialization among the MENA countries, and weak sectoral complementarities within the Middle East and North Africa (MENA) region, as measured by the revealed comparative advantage (RCA) index,[34] and the resulting intense export competition.

In this context, the starting point for integrating Palestine with regional markets is to draw the connection between export potential that arise from trade creation dynamics within the context of existing sectoral complementarities, and given existing or possibly new preferential market arrangements. The ongoing efforts to develop a new Palestinian trade policy that seeks to foster regional trade integration and Palestine's recent accession to the Arab Free Trade Area (AFTA) in September 2002 are important steps towards this end, and also serve as a building block towards accession to the WTO. This is especially true in light of the League of Arab States' (LAS) decision in 1997 to extend the same special and differential treatment to Palestine as was accorded the LDCs and to exempt Palestinian exports from customs tariffs and taxes with similar effect. However, as is discussed below, those efforts are likely to be rendered ineffective by existing non-tariff barriers and poor transport and trade infrastructure services.

The imperative for re-orientating Palestinian trade is further dictated by Israel's new security separation measures, which entails the establishment of an effective security/economic border between Israel and the West Bank and Gaza where goods would be authorized to pass only at certain border checkpoints. This border involves the construction of an 8 meter high wall surrounding the West Bank and some parts of the Gaza strip. In addition, construction of up to 13 km "depth" or secondary barriers further east of the wall is being planned in some areas along the border of the West Bank. If completed as announced, the wall and the "depth" barriers will run at an estimated 700 kilometres in length to encircle Palestinian-populated areas with electric fences, trenches, cameras, sensors and security patrols. It is estimated that the construction of this wall (started in early 2002) will necessitate the confiscation of more than 10 per cent of the West Bank lands, while isolating 30 villages from the remaining West Bank areas. The construction of the secondary "depth" barriers will further cut 13 km into Jenin and Tulkarm Governorates to form four additional Palestinian enclaves. More than half of these communities will be located between the wall and the green line, while the rest will be east of the wall, denied access to markets and agriculture lands to the west.[35]

Chapter II

REGIONAL POLICY FRAMEWORK AND INSTITUTIONAL ARRANGEMENTS

As a full member of the LAS, Palestine has the right of free transit through the territories of regional Arab countries as a contracting party to the Arab Transit Agreement, to which most Arab countries are signatories, including Egypt and Jordan. The agreement, which was established through the LAS in 1977, exempts goods in transit of member countries from customs duties, taxes and other charges except charges for such support services as road maintenance in accordance with domestic legislation.[36] However, thus far, little has been done to capitalize on this agreement. Aside from designating special facilities for trans-shipments and storage Egypt, Jordan and the PA have not put into effect special arrangements for governing transit traffic.

At present, bilateral trade and transport agreements govern Palestinian transit operations with Egypt and Jordan, in addition to Israeli security measures at the main borders. These have resulted in inefficient transport systems and a web of complex procedures involving a multitude of documents; thereby inflating transaction costs facing Palestinian traders. The following sections focus on the policy and institutional framework governing trade and transit transport between Egypt, Jordan and the PA since the trade facilitation and policy framework between the PA and Israel was covered in one of UNCTAD's previous studies.[37]

Trade and transport agreements between Egypt, Jordan and the PA

Palestinian trade with Jordan is governed by the terms of the preferential trade agreement, signed between the two sides in 1995. The agreement establishes a framework for cooperation in the areas of trade, investment and transportation with a view to setting the stage for signing a bilateral free trade agreement in the future.[38] It provides for the eventual elimination of non-tariff trade barriers through streamlining transport and trade procedures and arrangements, especially in the area of transit trade. These procedures are addressed under a separate protocol, which was signed later the same year. The protocol calls for mutual recognition of national standards and specifications for vehicles transporting goods in transit, as well as national regulations governing overland transport operations. Vehicles are also allowed to use different crossing points during transit operations, and are granted a two-week temporary admission, with a possibility to obtain an extension.

The PA and Jordan took further steps to facilitate trade in early 2000, when they signed a transport agreement for facilitating the movement of goods across main borders. The agreement exempts Palestinian and Jordanian trucks from administrative fees, and adopts (in principle) the "door to door" system for governing overland transport. The two sides also signed a customs cooperation agreement in 2001, which calls for the exchange of administrative and technical expertise, the rationalization and harmonization of customs procedures, in addition to curbing fraud and smuggling.

The PA also signed a preferential trade agreement with Egypt in 1998 mainly aimed at allowing greater access of imports from Egypt to the Palestinian territory. According to this accord, the two sides committed themselves to coordinate national customs procedures, including the exchange of customs information and technical expertise, in addition to facilitating transit operations.

Israeli security measures at Palestinian borders

Measures governing Palestinian exports to or through Jordan

Gaza exports travelling to or through Jordan need to first cross the Israeli Eretz crossing and continue through Israeli controlled routes (in Israel and through the West Bank) before reaching the main borders with Jordan. To obtain access to these routes, a permit for the driver and another for the truck are required from the Israeli authorities, and goods should be transported in uncovered trucks, known as "green trucks" originally used to transport agricultural exports and lacking most safety requirements. These trucks should also observe movement restrictions, which limit the number of routes that drivers can use.

After inspection and clearance by Palestinian customs and Israeli security officials, upon leaving Gaza, Palestinian trucks are escorted in convoys of 5–15 trucks by Israeli security patrols up to the commercial crossing with Jordan. Trucks are then subjected to the "back-to-back" procedures, whereby goods are unloaded from the green trucks by Israeli companies and placed on the ground for inspection, and then reloaded onto Jordanian trucks before proceeding to their final destination in Jordan.[39] The back-to-back procedures and the restrictions on Palestinian vehicles are also applicable to exports originating in the West Bank and destined for Jordan. The PA was expecting that back-to-back procedures were to be replaced by the "door-to-door" system as of 2000. However, the outbreak of the crisis and the closure policy rendered this practically impossible.

Palestinian traders can also use regular trucks, known as "sterilized" trucks, for transporting goods through Israel to Israeli ports. These trucks are cleared and granted special two-month permits by the Israeli authorities to transport Palestinian exports and imports the Israeli ports and the borders of the West Bank and Gaza. During the permit period, "sterilized" trucks are not allowed to leave Israel.

Measures governing Palestinian exports to or through Egypt

Products originating in Gaza are transported to the Rafah border crossing in Palestinian trucks where they are inspected by Palestinian customs before entering the Israeli controlled area of Rafah. At this point goods are unloaded for inspection by the Israeli customs and security and then re-loaded onto Egyptian trucks following the back-to-back procedures before proceeding to the Egyptian border for clearance. Goods originating in the West Bank are rarely exported through Rafah since this requires transporting the goods to Gaza via Israel, hence, complying with the convoy system. Instead, Israeli-Egyptian border crossings may be used provided Israeli transport operators handle goods. Although this inland transit can be contracted to Israeli companies, the higher costs involved renders this option an exception.[40]

Measures governing Palestinian imports through Egypt and Jordan

Palestinian traders importing goods from Egypt and Jordan should notify the clearing agents at least 48 hours before the arrival of the shipment and secure the means of transportation for the cargo, including permits for the vehicle and the driver. Imports should be loaded onto Egyptian or Jordanian trucks in special crates,[41] and pass all inspection and customs procedures on the Egyptian or Jordanian side. Once inspected, the cargo is reloaded onto Palestinian trucks following the back-to-back procedure. It is important to note that the number of trucks crossing into the West Bank is subjected to a strict quota. The number of trucks crossing through Allenby – between Jordan and Israel – is limited to 50 per day, while the number of inbound trucks from Egypt is limited to only 25.

Institutional arrangements governing transit traffic operations

PA institutions

PA Ministry of National Economy

The Trade Directorate in the PA Ministry of National Economy (MNE) is mainly responsible for facilitating trade with Israel and assisting Palestinian traders in this respect. The International Relations Directorate of the Ministry has been engaged in designing trade facilitation projects that aim at improving trade efficiency, including the hosting of Trade Point Palestine Ramallah (TPPR) and coordination with neighbouring governments on trade facilitation measures. The MNE is also responsible for making proposals to streamline trade measures and border procedures.

PA Ministry of Finance - General Directorate of Customs and Excises

The General Directorate of Customs and Excises is an integral part of the PA Ministry of Finance, with 24 regional offices throughout the West Bank and the Gaza Strip. The Directorate reports to the Director General of Customs and Excise and cooperates with other PA institutions and agencies involved in customs facilitation, including the Ministries of Civil Affairs and National Economy; the Department of Specifications and Measures; Palestinian Security; and chambers of commerce and industry. The Directorate's ability to carry out its tasks is undermined by a weak management information system. The electronic data processing system consists of several disconnected software applications and solutions that were developed by different Palestinian and Israeli IT companies.[42] These are often used for similar purposes, reflecting the distorting organizational arrangements within the Ministry of Finance, whereby the headquarters of tax administration are located in Ramallah, while the centre for budget, treasury, and expenditure is located in Gaza with limited coordinating mechanisms. Recent organizational reform measures have been taken to begin to address these shortcomings.

The Directorate is completely reliant on Israel for information on customs reports and statistics. The information is usually received in hard copy and sometimes in diskettes. Customs forms for goods with PA destination passing through Israeli controlled checkpoints (e.g. Ashdod seaport and Tel Aviv airport) are given to the Palestinians every two weeks for the West Bank and every week for Gaza. These arrangements have undermined the PA's administrative capacity, rendering it extremely difficult to manage its financial resources or exchange customs data with trade partners. Hence, the proliferation of chronic problems such as revenue losses, fraud smuggling and continuous misunderstandings as regards the classification of tariffs and customs procedures. These problems are compounded by the fragmentation of customs and transport procedures among different PA agencies, and Israel's involvement in the customs clearing process.

Jordan Customs Department

The Jordan Customs Department forms an integral part of the Ministry of Finance, with 16 directorates and 43 sections distributed throughout the Kingdom. The department derives its powers and functions from the new customs law of 1998, which aims at modernizing Jordan's customs administration and enforcing decentralization in line with WTO rules and regulations. The law establishes the principle of invoice-based valuation of goods combined with a post-auditing system, stipulates the adoption of the principle of self-declaration, and allows for voluntary pre-shipment valuation by international companies, as well as a "green channel" for exporters. Nonetheless, some delays are often cited among the major problems facing traders, who have to obtain 14 official approvals for clearing their goods and accrue additional costs since some procedures are processed manually.[43]

Egypt Customs and Excise Authority

Egypt Customs and Excise Authority (CEA) operates through four regional directorates located in Cairo, Alexandria, Suez and Aswan, and works closely with 29 government agencies that are directly involved in the clearing process.[44] The CEA derives its power from the customs bill of 1963 that went through several amendments, the last of which was in 1980, when a new law (No. 202) was passed and then amended to rank the modernization of the CEA high on the government agenda.[45] However, aside from Alexandria – the main revenue generator and the focus of the reform efforts – the majority of outlets are still using manual based systems.[46]

Problems facing the CEA are common to customs authorities in developing countries, including lack of reliable data, complicated procedures and rigorous enforcement of national laws and standards. Furthermore, enforcement of trade regulations by the customs authority requires coordination with a large number of other government agencies, led by Customs, with limited mechanisms to coordinate and harmonize the documentation requirements. A recent study by the Egyptian Centre for Economic Studies identifies delays in cargo delivery times and other associated costs among the main areas requiring immediate intervention in the shipping industry. Customs and other clearing procedures were cited as delaying cargoes by 10 days, as compared with the 3.5 days in comparable ports in other developing countries. In addition, an average of 45 different procedures and 24 separate official approvals are required for customs clearance. Clearing charges are also high, ranging between $100 and $130 per container as compared with $19 in Jordan. Moreover, procedures governing inspection activities are complicated involving 16 central departments to which 90 general departments and 735 specialized departments are affiliated.

Inter-regional coordinating mechanisms

Regional Economic Development Working Group (REDWG)

This group was established in the context of the Middle East Multilateral Peace Process following the signing of Oslo agreements to guide regional integration efforts. It brought together member countries of the sub-region and representatives of the donor community, and was supported by a smaller monitoring committee, based in Amman, Jordan. It has been inactive since the late 1990s when the multilateral peace process was suspended.

The Joint Palestinian-Israeli Economic Committee (JEC)

This committee was established under the Paris Protocol to foster economic co-operation and review implementation of the protocol and its mechanisms. It brought together an equal number of members from the line ministries of each side, and is mainly responsible for assessing and suggesting proposals for introducing changes to customs rates and import procedures, classification, standards and licensing requirements for other imports. By most accounts it was underutilized by the Palestinian side as a mechanism to improve the terms of the Protocol and was a cumbersome forum for resolving pending implementation issues. It has not functioned since 2000, except for sub-committees which meet irregularly.

Higher Jordanian-Palestinian Committee on trade

The Higher Jordanian-Palestinian Committee is in charge of and responsible for the assessment and development of proposals for facilitating and expanding Jordanian-Palestinian trade. However, so far the committee did not actively assume its responsibilities and is effectively non-functional.

Jordanian-Palestinian transport committee

This committee was charged with coordinating and streamlining overland transport procedures, including the modification of existing overland transport arrangements governing the flow of bilateral trade. The committee is supposed to work in close cooperation with Israel, and, as such, serves as a forum for articulating Palestinians interests in the area of trade facilitation. Nonetheless, it never met regularly and its recommendations have not been implemented.

Egyptian-Palestinian trade committee

This committee was charged with the responsibility of following up on the implementation of the 1998 Egyptian-Palestinian preferential trade agreement, including liaising with concerned government agencies as regards to quality control and suggesting appropriate measures for facilitating bilateral trade. Similar to the above-mentioned forum, this committee is inactive and none of its substantial recommendations have been implemented.

Customs clearance

PA customs clearance procedures

The PA does not yet have a customs law of its own, though efforts were underway in 2003 to draft one. Under the Paris Protocol customs clearance procedures are derived from the Israeli customs law, and only Israeli firms are licensed as clearing agents at main commercial borders with Egypt, Jordan and Israel.[47] The PA is responsible for the implementation of clearance procedures at the main crossing points with Egypt and Jordan, including the inspection of goods, customs evaluation and the collection of taxes and other charges. However, the largest portion of the PA import revenue is from imports coming through Israeli ports. These revenues are collected by the Israeli authorities and then transferred to the PA. The share of the latter is determined by the final destination, as stated on the import document. Even if the goods are imported by an Israeli company but destined to a firm registered with the PA and conducting business activity in areas under its jurisdiction. Nevertheless, revenue transfer procedure was suspended from October 2000 to October 2002 as the Israeli authorities withheld all indirect taxation revenues collected on behalf of the PA, (mainly VAT and customs revenue) estimated in the range of $700 million by the end of 2002, most of which were reimbursed in monthly instalments as of 2003. For the small portion of imports that comes from/through Jordan and Egypt, the revenues are transferred directly to the PA treasury via the Bank of Palestine branch at Karamah and Rafah crossing points.

Transit formalities in Jordan

Under the terms of Jordan's Customs Law of 1998, traders can obtain transit status upon submitting copies of customs declarations duly signed by the relevant authority, along with an attested certificate of origin and a packing list. This status allows traders to transport goods through designated routes, within specific periods of time.[48] It also allows traders to store their goods in warehouses at the Port of Aqaba for up to one month. Beyond this period, traders must store the goods in free zones, a service which does not require obtaining an import or export license.[49] Goods in transit are exempted from custom duties and taxes but are subject to substantive charges in return for basic infrastructure services ($3000) in addition to escort and other services charges ($50). Moreover, traders experience delays and accrue additional costs due to the manual processing of many aspects of the transit formalities.[50]

Transit declarations should be settled within a period of three months, starting from the date of departure of goods from the final Jordanian border customs point to the country of destination. Clearing companies are requested to submit the following documents to each customs centre: (i) a

copy of the transit declaration indicating that it is signed at the Jordanian exit centre, along with an exit manifest showing a specific date, time and point of departure; (ii) an insurance policy; (iii) a certificate or an identical manifest from the first customs centre in the country of destination; and (iv) a bank guarantee of at least JD 40,000 covering applicable customs duties and fees and an indefinite court-notarized guarantee covering transit operations. These guarantees do not cover losses or damages and should cover a period of not less than six months, with a possibility of a three months extension.

Transit formalities in Egypt

As in Jordan, transit procedures are processed manually. They are based on the customs law of 1963, which exempts goods in transit from customs duties, taxes and other charges except charges for support services. Traders should submit a financial or a bank guarantee equal to the value of all customs duties, fees and taxes to the customs department, in addition to an insurance policy issued to the benefit of the Egyptian customs authority covering the value of exports and taxes and a certificate from the relevant ministry or government authority.

Delays and associated costs

In the Israeli system of transit, security and permits stand as the major impediments to the smooth flow of Palestinian exports. It is often the case that traders are denied permits into Israel, and when obtained, they are valid for a limited period.[51] Moreover, obtaining a permit takes several weeks in view of the complex procedures, and entails additional costs of around NIS 1500 when arranging for a 15-truck convoy. The costs for so-called "sterilized vehicles" are NIS 500 for obtaining a permit for a sterilized trailer and NIS 400 for smaller trucks, irrespective of the volume of transported cargo.[52]

The journey to main crossing points with Jordan and Egypt is expensive, time consuming and hazardous, and requires the transport of goods through narrow dual carriage ways, winding and unsafe roads. Transporters experience significant delays, particularly during rush hours, and they are left with no option but to overload vehicles to reduce costs. Compounding these delays are the Israeli check-points at the main road networks connecting Palestinian cities and crossing points, with loaded trucks standing in long queues to pass through "security checks". It is common for traders to accrue significant losses in the form of damaged goods as a result of these delays, especially when goods are transported in green trucks.[53]

Under such circumstances, trucks often fail to arrive to the crossing points during the working hours and, as such, are forced to spend the night near the border crossing points. This entails the payment of "overstay fees", which amount to $100 per day at Rafah and $4–$5 per ton per night at Allenby. To circumvent the imposed limitations on the type of vehicles and travel routes, Palestinian traders use Israeli trucking companies to transport the goods to and from their factories at a rental cost significantly higher than that of using their own trucks. Others have chosen to invest in Israeli trucking companies, despite the higher costs resulting from wage discrepancies between the Palestinian territory and Israel.[54]

Clearance procedures add delays, especially since inspection and administrative formalities leave much room for customs officers' discretion. In both Egypt and Jordan, officers stop nearly every shipment for inspection, based on a sampling of 10 to 100 per cent of the goods in the shipment. Virtually all containerized goods are unloaded at the port for inspection and never reloaded into the container for the inland movement, adding to the cost of transit.[55]

Additional costs associated with trade in the opposite direction are mainly generated by Israeli security measures. To avoid accruing additional costs, Palestinian traders are left with no option but to resort to the more expensive Israeli clearing and forwarding companies for handling imports. These costs are compounded when Palestinians imports are transported using green trucks as they are used for inbound traffic only and, as such, leave the West Bank or Gaza empty. Inbound traffic is particularly disrupted by rigorous "technical inspection", whereby all consignments are examined using inadequate equipment which damage the goods. The restrictions imposed on the number of inbound trucks is another factor, causing an average delay of four days as exporters are forced to spend several nights at the crossing. Importing through Allenby is significantly more expensive, entailing high fees for coordination, crossing and packaging requirements, and significant delays due to the lack of support services. For example, charges for handling and clearing services are estimated to be three times as high as Ashdod, at $150 per shipment.[56]

Other factors contributing to the high level of transaction costs are the complex national procedures, administrative formalities and standards and specifications. Egyptian, Jordanian and Israeli customs procedures require additional documentation, over and above those related to export and import operations, which have to be filled out in many copies and require approvals and signatures at various offices in separate locations.[57] Standards and specifications are not mutually recognized, with inbound consignments often delayed because Israeli customs do not recognize Egyptian and Jordanian packing methods and standards.

Moreover, traders are not well informed as regards the different procedures governing trade activities with or through Egypt and Jordan. This is especially true in view of the unpredictability of the constant changes of these procedures, without mechanisms for disseminating up-to-date information to the business community.

Under such circumstances, Palestinian enterprises are faced with prohibitive transaction costs, which are estimated to be at least 30 per cent higher than those accrued by their Israeli counterparts.[58] The most recent estimations put costs associated with imports from Jordan at $494 per shipment, and those associated with imports from Egypt at $550 per shipment. [59] Products originating in Gaza destined for Jordan were shown to face prohibitive costs of $630 per shipment. The following Chapter further discusses the cost elements of transiting Palestinian trade through Egypt and Jordan.

Regional integration and trade facilitation efforts

Regional integration efforts

Economic integration has been on the development agenda of the MENA governments for several decades. Several integration arrangements have been established, including the Arab Common Market (1964), the Gulf Cooperation Council (1981), the Arab Organization for Economic Cooperation (1985), the Arab Maghreb Union (1989), and most recently the agreement for the establishment of AFTA, which is an attempt to establish an Arab Common Market.

However, the results of these efforts have not been uniform and generally less than expected, with interregional merchandise trade comprising less than 10 per cent of total external trade in the MENA region.[60] This is mainly because the above-mentioned arrangements do not provide a coherent framework for addressing the root causes of such a low level of cross-border trade, namely, the lack of sectoral trade complementarities within the region, the lack of well functioning trade and transport infrastructures, and the existing tariff barriers.

In particular, rather than providing the much needed incentives for trade creation, agreements to date have focused mainly on merchandise trade (shallow integration) which, given the lack of sectoral complementarities among the region, cannot serve as an engine for regional integration. The need to extend the scope of these agreements to include the services and factor markets is increasingly recognized throughout the region, especially since liberalizing these markets entails removing tariff and non-tariff barriers to domestic and foreign entry, thereby giving rise to both static and dynamic efficiencies. Research to date on regional integration among MENA countries shows that such an approach would generate gains that exceed those attained through shallow integration.[61]

Except for the efforts of grouping economies with similar structures and interest (e.g. Gulf Cooperation Council (GCC)), the stated policy objectives of most of these initiatives are generic and not supported by the required institutional arrangements and measures for successful implementation. This is reflected in the lack of agreed timetables for the gradual introduction of exemptions of goods from tariff and non-tariff barriers (NTBs), excessive country exceptions or negative lists for product eligibility for preferences and the lack of the required legal framework and networking arrangements to facilitate integration.[62] The absence of "commitment" institutions, particularly of mechanisms to compensate "losers" from increased competition and structural adjustment is another area that has not received the attention it deserves.[63]

Whatever the optimal path and policy mix for ensuring successful integration among MENA countries, it requires first and above all, overcoming the reluctance of member countries to reduce trade barriers, in addition to adopting a holistic approach which allows for addressing macroeconomic, trade and financial interdependencies in a comprehensive manner on a regional, rather than national basis.

There has been a growing optimism in the past few years regarding several very promising developments in the future of regional integration among MENA countries. Most notable, are the governments' rigorous efforts to overcome the aforementioned logistical and infrastructural constraints and to modernize their economies, either within the context of their economic reform programmes or their efforts to accede to the World Trade Organization (WTO). Meanwhile, the continuous advances in information and communication technology (ICT) and the resulting increased importance of e-commerce promises new avenues for regional integration among MENA countries, providing a sound basis for facilitating trade, in addition to enhancing the competitive advantage of traditional key export sectors and stimulating investments in new activities. The development of this sector is accorded priority treatment by member countries, with Egypt and Jordan striving to play a leading role in promoting e-commerce in the region.

Customs reform efforts

The modernization of customs procedures is receiving significant attention in all three countries within the context of comprehensive reform plans aiming at revising existing administrative and commercial practices. In Jordan and the PA, reform efforts involve introducing UNCTAD's Automated System for Customs Data Analysis (ASYCUDA++). This is a computer-based software incorporating international best practices and standards as defined by the Economic Commission for Europe (ECE) and the World Customs Organization (WCO). ASYCUDA is also operational in Lebanon and Yemen. Other countries are also expected to adopt it in the context of trade liberalization and facilitation.

The Jordanian government has made great strides in implementing its customs reform agenda. Preparations are underway for constructing a satellite monitoring and telecommunications network (VSAT), which when completed will link the twenty-five customs sites without leasing circuit lines from "Jordan Telecommunications Corporation". The network includes a data transmission channel

that allows for the transmission of up to 64kb of data per second, in addition to three voice lines and a video system for centralizing the monitoring of all customs activities. The ASYCUDA system has been introduced in four locations in Jordan namely, Aqaba, Amman Centre, Queen Alia International Airport and ZARKA free zone. A risk based selectivity system is used alongside ASYCUDA, and is linked to a computer guarantee system. Moreover, the ASYCUDA transit module has been installed at the 25 customs centres. The Manifest module is in use at Queen Alia International Airport and is being installed at the port of Aqaba. It is anticipated that ASYCUDA will be fully implemented in the remaining three custom sites: Jaber, King Abdullah II Industrial Estate (Sahab) and Al-Hassan Industrial Estate Custom Houses before the end of 2003.[64]

In Palestine, progress to date entailed the development of ASYCUDA++ prototype version – concrete proposals for simplifying customs procedures and adapting the regulatory framework to an automated environment – and the establishment of a core team of IT and functional experts. Preparations are underway to install the prototype at the customs headquarters and establish two pilot sites in 2004 before beginning full system rollout in 2005.

Meanwhile, regional countries with the ASYCUDA system are considering the establishment of a regional support centre in one of the host countries. The centre will aim at enabling the region to maintain and upgrade national systems to meet the increasing IT requirements evolving from international trade in accordance with best customs practices. It would provide member countries with such services as technical support and development, training and quality assurance, while serving as a forum for close cooperation among ASYCUDA project team members.[65]

As for Egypt, aside from implementing the WTO agreement on customs valuation as of July 2001, reform efforts are still in the initial phase. These will be guided by a comprehensive plan that was launched by the government in early 2003 with the intention of automating all customs gateways and modernizing the CES organizational structure, in addition to developing a new customs law by the end of 2003.

Port facilities

Egypt and Jordan are investing heavily in the development of their port facilities with plans to establish regional trans-shipment centres for servicing international shipping, particularly for the Eastern Mediterranean region. In Jordan, construction work is underway for turning the port of Aqaba into a regional trans-shipment hub within the context of a master plan, which also aims at expanding the port's activities to include tourism and enterprise development services. The plan, which will be implemented through "build-operate-transfer" concessional arrangements, involves: (i) developing the container port to handle containerized cargo; (ii) expanding the industrial port to include a new multi-purpose berth jetty and an additional terminal for handling fertilizers, general cargo and livestock, which can serve vessels up to 500,000 DWT; (iii) transferring the main port's facilities to the container port to allow for the establishment of a tourism centre; (iv) turning the inner harbour into a yacht basin with waterfront restaurants, shops and residential facilities; and (v) turning the storage areas into a business incubator complex. Jordan is also considering the establishment of a modern logistics centre to link the port to regional port facilities centres.[66]

For its part, the Egyptian government launched a multi-component project in 2000 for developing Port Said. The project, known as "Port Said East Container Terminal" project, entails establishing an international container terminal complex to the east of the Suez Canal for servicing third generation vessels carrying 2000 to 3000 containers, using modern technologies and multi-mode transport systems.[67] The terminal will be operational by October 2004, and will be able to handle 1.5 million

containers annually (see Annex II). In addition to the pivotal port, around 200 km^2 will be used to establish a huge industrial park, a tourism area and fisheries.

In the case of the PA, the outbreak of the conflict in September 2000 has resulted in the suspension of the Gaza seaport project that was supposed to begin operating in 2004. The port was considered to be an integral part of the peace process, as it is an essential element required for the economic vitality of the Palestinian economy and hence, for the sustainability of peace in the region. The port is also critical for integrating the Palestinian economy in the region and allowing it to take advantage of all possible free trade agreements. The initial construction began in November 1999, and in April 2000 the Gaza Seaport Authority signed a contract with the European Gaza Development Group 2000 to implement the project. Finance required for Phase 1 was estimated to be around $70 million, with funding from the Dutch and French governments, a loan from the European Investment Bank in addition to a contribution from the PA.[68]

The deep-water seaport is planned to be built on a site some 5 kilometres south of Gaza city, around 200 kilometres west of Amman, and to service not only Palestinian traders but also Jordanian traders, providing them with an alternative transit corridor to Europe and North America. Future plans include expanding the port's capacity to handle large vessels of up to 50,000 to 70,000 DWT, and linking its facilities to the neighbouring ports of Port Said in Egypt, Ashdod, Beirut and Cyprus. In addition to the seaport, the project design also included other infrastructure and facilities, such as an electrical substation, communication system, water supply system, surface water drainage system, waste disposal facility, storage facilities, transportation plan and access roads. An industrial zone, including cement and other heavy industries was also contemplated. Given the strategic importance of this project for the Palestinian economy, it will continue to rank high on PA priorities once stability is attained.

Regional initiatives

Under the auspices of the United Nations Economic and Social Commission for Western Asia (ESCWA), preparations are underway to establish an integrated transport system in the MENA region within the context of the "Integrated Transport System in the Arab Mashreq" (ITSAM) project. The project aims at integrating ESCWA member countries' various means of transport, including land, sea and air transport networks, in addition to establishing an integrated information system and an analytical framework for guiding trade infrastructure development efforts at the national and regional levels.

Among the recent developments is the signing of a regional agreement in 2001, known as the "International Roads in the Arab Mashreq", with a view to integrate the region's main road networks and link the region with neighbouring networks serving international and transit commerce. The agreement also provides guidelines for harmonizing the network's technical specifications, developing basic road infrastructures and identifying interregional transit corridors.

Nine of ESCWA's thirteen member countries are signatories to this agreement, including Bahrain, Egypt, Jordan, Lebanon, Palestine, Saudi Arabia, Syria, the United Arab Emirates and Yemen. These countries committed themselves to apply the minimum technical requirements as laid down by the American Association of State Highway and Transportation Officials (AASHTO), the GCC and the Asian Highway Uniform Specifications for the construction and maintenance of road networks. They have also agreed to apply international rules and regulations as stipulated in the European Agreement on Main International Traffic Arteries and to bring existing national networks into conformity with the agreed standards within a period of 15 years.

ITSAM will be supported by targeted efforts to strengthen the institutional capacity of ESCWA member countries in the area of interregional transport infrastructure management within the context of the "Capacity-building through cooperating in developing interregional land and land-cum-sea transport linkages". The project is still in the design phase, and aims at assisting ESCWA member countries in enhancing national capacities to facilitate transport along their interregional overland, land and maritime routes, especially through harmonizing transport-related procedures and promoting the establishment of networks among experts and institutions in support of interregional cooperation.[69]

Chapter III

REGIONAL MARITIME TRANSPORTATION ALTERNATIVES: VOLUME AND COST FACTORS

This Chapter follows up on the previous discussion by quantitatively assessing the financial implications of the possibility of re-routing Palestinian trade from existing routes. The in-depth calculations and analysis, requested by the PA in early 2001 in the wake of the initial impact of the Israeli closure policies, was undertaken by UNCTAD with the technical support of international maritime transport experts.[70] Specifically the Chapter undertakes 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 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.[71]

The following three Sections are devoted to a discussion of the elements involved in these three steps. Section D summarizes the expected impact of re-routing Palestinian trade, and Section E concludes the Chapter by examining some policy implications.

This analysis is relevant and useful to the PA from several angles:

- The availability of official PA volume estimates for all Palestinian imports from ROW permits for the first time the generation of reliable Palestinian trade volume estimates – alongside existing Palestinian Central Bureau of Statistics (PCBS) trade-value data;
- This data-base can be useful for both Gaza port planning purposes and trade-facilitation policy-making;
- It helps to identify broader and some cargo-specific areas of sub-regional complementarity between the PA and its two closest Arab trade partners; and
- It permits PA policy-makers to assess future trade relations with Israel in the context of quantifiable options that might not otherwise seem desirable or feasible.

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 3.1, 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 meagre 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.

Table 3.1 Trade partners of the Palestinian territory by value of trade, 1999

In millions of US$

REGION	Imports		Export		Total Trade	
	$	%	$	%	$	%
Israel	1 853.6	70.5	360.4	96.9	2 214.1	73.8
Jordan	59.8	2.3	8.4	2.3	68.3	2.3
Total Arab countries	73.9	2.8	9.6	2.6	83.5	2.8
European countries	405.9	15.4	1.5	0.4	407.4	13.6
Asian countries	193.9	7.4	0.0	0.0	194.0	6.5
American countries	56.5	2.1	0.4	0.1	56.9	1.9
Total Trade	2 629.0	100.0	372.1	100.0	3 001.1	100.0

Source: PCBS, "Statistical Abstract of Palestine No. 2" November 2001.

Table 3.2 Palestinian trade by commodity, 1999

In millions of US

Commodity by SITC	**Imports**		**Exports**	
	$	**%**	**$**	**%**
Food and live animals	620.6	23.6	60.9	16.4
Beverages and tobacco	81.9	3.1	14.6	3.9
Crude materials, inedible except fuels	66.3	2.5	13.4	3.6
Mineral fuels, lubricants and related materials	388.8	14.8	5.0	1.3
Animal and vegetable oils, fats and waxes	17.6	0.7	4.1	1.1
Chemicals and related products	174.6	6.6	30.3	8.1
Manufactured goods classified by material	543.0	20.7	151.2	40.6
Machinery and transport equipments	474.3	18.0	20.8	5.6
Miscellaneous manufactured articles	253.7	9.7	71.5	19.2
Other commodities and transactions	8.2	0.3	0.4	0.1
Total Trade	2 629.0	100.0	372.1	100.0

Source: PCBS, "Statistical Abstract of Palestine No. 2" November 2001.

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,[72] 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 3.1, the

actual share of all Palestinian imports transiting Israeli ports could be about 54 per cent of the total value of Palestinian imports.

As presented in Table 3.2, the most important Palestinian exports are manufactured goods, especially marble and stone. This group of products accounted for 41 per cent of total exports in 1999. Miscellaneous manufactured articles, and food and live animals products ranked second and third, with shares of 19 and 16 per cent of total exports, respectively. Palestinian exports amounted to $395 million in 1998, representing 14 per cent of total value of trade. However, this ratio declined to 12 per cent in 1999. It should be noted that some Palestinian sources suggest that the value of Palestinian exports is actually higher than what is captured (recorded) by PCBS data. This may be credited to Palestinian SME and sub-contracting enterprises whose actual exports to Israeli-markets are not registered through formal channels.

Asia (mainly Israel) is by far the most important market for Palestinian exports, accounting for 97 per cent of the total value of exports. As for imports, food and live animal products, manufactured goods and machinery and transport equipment are the three most important imports. Their shares in the total value Palestinian imports in 1999 were 24, 21 and 18 per cent, respectively. Together these three commodity groups comprise more than 60 per cent of total imports.

Volume of trade

The trade and cargo analysis in this section derives from a database provided to UNCTAD 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. While PA data for non-Israeli imports were available at the level of individual trade transaction by product (46,815 transactions in 1999), data on exports to the ROW, excluding Israel, were available at a high level of aggregation and only in terms of value. On the basis of standard international volume parameters, the data was transformed type-by-type from their raw form into tons of imports and exports by type of cargo and main geographic orientation, as summarized in Tables 3.3 and 3.4. It should be noted that imports reported in these two tables do not exactly correspond to the value of imports in Tables 3.1 and 3.2, as the former may include few indirect imports from Israel, which are considered as direct imports from Israel in the latter.

Table 3.3 Estimated Palestinian merchandise trade volumes by cargo type and origin*

Volume in 1,000 tons

Type of Shipment	Imports			Exports			Total Trade
	Gaza	West Bank	Total	Gaza	West Bank	Total	
General Cargo	705.6	1 058.3	1 763.9	58.9	333.8	392.7	2 156.6
Containers	185.1	277.7	462.8	8.3	47.0	55.3	518.2
Dry bulk	78.4	117.6	196.0	6.7	37.8	44.5	240.5
Liquid bulk	95.5	143.2	238.7	8.2	46.5	54.7	293.4
Total	1 064.5	1 596.8	2 661.4	82.1	465.2	547.3	3 208.6

* This does not include trade with Israel.

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 3.1), 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 3.4). 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.

As indicated in Table 3.3, 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 3.4 Estimated potential Palestinian merchandise imports by Cargo type and port of arrival*

Volume in 1,000 tons

Type of shipment	Haifa	Ashdod	Yafo	Total	Value per ton ($)
General cargo	4.2	1 754.9	4.8	1 763.9	24.6
Containers	37.7	423.9	1.2	462.8	1 183.7
Dry bulk	24.4	171.4	0.0	196.0	319.9
Liquid bulk	108.2	130.5	0.0	238.7	66.4
Total	174.5	2 480.7	6.0	2 661.4	251.7

* This does not include imports from Israel.

As for the potential for the re-routing of imports, Tables 3.3 and 3.4 indicate 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 (see map in Annex 1).

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. As noted above, a new container terminal on the east bank of the Suez Canal is being constructed and expected to be operational in October 2004 (Annex 2).[73] 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 harbour 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 re-routing via the Port of Aqaba involves trans-shipment of imports destined for the West Bank at Port Said and reloading 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. The cost parameters of trans-shipments and Suez Canal are presented in Tables A3.1 and A3.2 in Annex 3.

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

Tables A3.3 to A3.5 in Annex 3 provides the cost elements related to Israeli ports, Port Said and Aqaba (estimated for 2000–2001). These elements include tonnage dues, quarantine fees, wharfage fees, pilotage fees, light dues, harbour dues and others.

Table 3.5 Cost parameters: port and additional shipping

US$ per ton

Type of shipment	Port costs			Additional shipping costs	
	Port Said	Aqaba	Israel	Port Said to Aqaba	Trans Ship and Suez Canal
General cargo	3.59	2.30	13.34	3.15	4.90
Containers	31.34	4.88	19.01	2.02	7.68
Dry bulk	3.91	5.11	12.94	1.68	4.85
Liquid bulk	4.95	6.66	16.89	3.36	7.25

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 A3.6 to A3.8 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 3.6 Cost parameters: land transport

US$ per ton

Type of shipment	From / To	PS Gaza	PS WB	Aqaba WB	Ashdod Gaza	Yafo Gaza	Haifa Gaza	Ashdod WB	Yafo WB	Haifa WB
General cargo		78.97	95.59	109.92	62.50	66.32	77.78	75.92	74.01	81.02
Containers		76.85	92.42	103.05	58.59	62.17	72.92	71.18	69.39	75.95
Dry bulk		78.97	95.59	109.92	62.50	66.32	77.78	75.92	74.01	81.02
Liquid bulk		78.97	95.59	109.92	62.50	66.32	77.78	75.92	74.01	81.02

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 A3.6 in Annex 3). 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.

Table 3.7 Estimated annual cost of re-routing

Million US$

Type of shipment	Imports		Exports		Total
	Gaza	West Bank	Gaza	West Bank	
With trans-shipment					
General cargo	4.71	26.75	0.40	7.66	39.52
Containers	4.88	5.19	0.23	0.79	11.10
Dry bulk	0.44	3.07	0.05	0.99	4.55
Liquid bulk	-0.23	3.55	0.04	1.11	4.46
Total	9.80	38.57	0.71	10.54	59.63
Without trans-shipment					
General cargo	4.71	9.25	0.40	7.66	22.02
Containers	4.88	1.85	0.23	0.79	7.75
Dry bulk	0.44	1.42	0.05	0.99	2.90
Liquid bulk	-0.23	1.04	0.04	1.11	1.95
Total	9.80	13.55	0.71	10.54	34.61

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 re-routing West Bank import could be reduced to $8.5 per ton from $24.2 per ton.

Table 3.8 – Estimated additional unit cost of re-routing

US $ per ton

Type of shipment	Imports			Exports		
	Gaza	West Bank	Total	Gaza	West Bank	Total
With trans-shipment						
General cargo	6.7	25.3	17.8	6.7	22.9	20.5
Containers	26.4	18.7	21.8	27.8	16.7	18.4
Dry bulk	5.6	26.1	17.9	7.4	26.2	23.4
Liquid bulk	-2.4	24.8	13.9	4.5	23.8	20.9
Total	9.2	24.2	18.2	8.7	22.7	20.6
Without trans-shipment						
General cargo	6.7	8.7	7.9	6.7	22.9	20.5
Containers	26.4	6.7	14.5	27.8	16.7	18.4
Dry bulk	5.6	12.1	9.5	7.4	26.2	23.4
Liquid bulk	-2.4	7.2	3.4	4.5	23.8	20.9
Total	9.2	8.5	8.8	8.7	22.7	20.6

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.[74] Under such assumption, re-routing could be cost-advantageous to the Palestinian trading community.[75] As shown in Scenario I in Table A3.11 (Annex 3), 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 October 2004 would reduce the cost of containers coming via Port Said by 50 per cent, Scenario II in Table A3.11 (Annex 3) 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 (Table A3.12 in Annex 3). The annual savings under scenario I and II could be doubled to reach $38 million and $44 million respectively, if Palestinian importers considered also re-routing their indirect imports from Israel (as estimated in Section A of this Chapter).

It should be emphasized that the results presented in Tables 3.6 and 3.7 and in Tables A3.11 and A3.12 in Annex 3 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, as indicated in Table A3.11 in Annex 3, 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

As soon as possible, the envisioned State of 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 State.[76] 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 in October 2004 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,[77] 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.

Chapter IV

FRAMEWORK FOR GUIDING REGIONAL TRANSIT TRANSPORT AND TRADE FACILITATION EFFORTS

The need for regional transit transport agreements

As elaborated earlier, LAS and ESCWA countries in the region have undertaken several initiatives to facilitate trade. However, it is not likely that these efforts will be translated into concrete results in the near future due to major constraints to increased cross-border trade in the region, such as inadequate infrastructures, weak regulatory frameworks, and unsupportive institutional and managerial environment. These have been undermining the region's ability to take full advantage of existing bilateral trade agreements. Hence, there is a need for regional transit agreements that build on efforts made so far in order to a secure positive response to the aforementioned pressing problems.

This is all the more imperative in light of the absence of a cohesive framework for guiding trade facilitation efforts. Thus far, national and regional initiatives have focused mainly on administrative and physical constraints, with little attention being paid to setting the required standards, systems and procedures for establishing a regional transit regime or to preparing the region to keep up with trade facilitation efforts and advances within the context of the multilateral trading system.

Effective trade facilitation requires simultaneous efforts at three levels. At the highest level, neighbouring 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 neighbouring countries. Finally, at the level of individual transport organizations, there could be arrangements between neighbouring 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 (see annex 5).

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.

Freedom of transit

The Arab Transit Agreement embodies the right of freedom of transit, commits contracting parties to refrain from imposing additional customs duties and taxes on traffic in transit, and recommends the contracting parties to accede to international agreements and conventions governing transit traffic operations. These are of significant relevance for the region since they provide a cohesive framework for ensuring the region's commitment to trade facilitation based on the principle of reciprocal treatment. In particular, the Convention on Transit Trade of Land-Locked States (1965) imposes an obligation to simplify administrative and customs procedures and calls on transit countries and their

land-locked neighbours to conclude special agreements on ports and storage facilities, including the establishment of free zones.

Another important reference framework is the United Nations Convention of the Law of the Sea (1982), which addresses the right of access and free transit of Land-Locked States within the context of a comprehensive approach.[78] Part X of the convention establishes the elements relating to: the right of access to and from the sea and freedom of transit (article 125), exclusion of application of the most favoured-nation clause (article 126), exemption from customs duties, taxes and other charges (article 127), free zones and other customs facilities (article 128), co-operation in the construction and improvement of means of transport (article 129), measures to avoid or eliminate delays or other difficulties of a technical nature in traffic in transit (article 130), equal treatment in maritime ports (article 131), and granting of greater transit facilities (article 132).

Palestinian transit transport agreements with regional partners should be also guided by Article V of GATT (1994), which calls on the contracting parties to provide adequate transport and related infrastructure for transit as well as a conducive regulatory environment in terms of streamlined customs and administrative regulation. It states, "there shall be freedom of transit through the territory of each contracting party, via the routes most convenient for international transit, for traffic in transit to or from the territory of other Contracting Parties". It states further that "except in cases of failure to comply with applicable customs laws and regulations, such traffic coming from or going to the territory of other contracting parties shall not be subject to any unnecessary delays or restrictions". Article V also establishes most-nation-nation treatment for such transit with respect to all charges, regulations and formalities.

Harmonization and streamlining trade-related procedures

To allow for a more comprehensive treatment of trade facilitation, ongoing efforts need to draw on relevant international agreements and conventions, which have assisted land-locked countries and their transit neighbours in formulating their national, bilateral and sub-regional transit regulations and administrative procedures as well as the agreements related to transit facilities and services. Specifically, they provide guidelines and benchmarks for (i) re-designing trade and transport related processes to allow for the elimination of duplicate steps or procedures of little or uncertain value, while streamlining the remaining procedures; (ii) the alignment of domestic laws and regulations with international conventions, recommendations and best practices; and (iii) standardizing trade procedures through the use of internationally accepted documents, data elements and codes, including the use of standard electronic business techniques.

The majority of these conventions and agreements are the fruit of voluntary efforts by governmental or private sectors and are not mandatory. They mainly provide recommendations, rather than impose compulsory measures on contracting parties. However, this may change in the coming years in the light of the declaration of the Fourth Ministerial Conference of the WTO in Doha, Qatar. The declaration has paved the way for a negotiating process to consider the possibility of entrusting trade facilitation rules to the WTO who would ensure their enforcement as part of the multilateral compulsory rules and regulations for the trading system.[79]

As shown in Annex 4, Jordan, Egypt and Israel are signatories to a limited number of international conventions and agreements. Hence, the need for designing and drafting regional transit agreements to prepare member countries for acceding to other relevant conventions, through aligning and reforming national regulations or legislations. Such agreements can also serve as a catalyst for the utilization of modern ICT, and for improving the quality and cost-efficiency of transit transport services. This

includes the replacement of existing security measures with modern technologies, especially in the area of inspection and customs control.

The following section provides a brief overview of major international conventions and agreements that are of particular relevance to the region, as well as the most widely used computerized systems and model procedures in the area of trade facilitation.[80]

Major international conventions related to trade facilitation

The General Agreement on Tariffs and Trade (1994)

Existing rules relating to trade facilitation are established in various articles of the General Agreement on Tariffs and Trade (GATT), including Article VII (Valuation for Customs Purposes), Article VIII (Fees and Formalities Connected with Importation and Exportation), Article IX (Marks of Origin) and Article X (Publication and Administration of Trade Regulations), as well as in WTO Agreements on Customs valuation, pre-shipment inspection, rules of origin, technical barriers to trade, application of sanitary and phytosanitary measures, and import licensing procedures.

The Revised Kyoto Convention (1999)

The most comprehensive guide for modernizing and streamlining customs procedures is the International Convention on the Simplification and Harmonization of Customs Procedures, known as the Kyoto Convention, which was elaborated under the auspices of the Customs Cooperation Council (CCC) in 1973, and revised in 1999 to reflect the advances made in ICT and make it more obligatory for countries to adopt. The Convention comprises a set of principles and annexes that lay down minimum technical standards and facilities and recommends best practices for customs procedures and arrangements. These are meant to provide contracting parties with a cohesive set of guidelines for reforming their customs procedures in a gradual manner.

The 1973 Convention comprised two parts: (i) the Convention body with provisions which were applied to all contracting parties without restrictions; and (ii) 31 annexes, each covering certain customs procedures. Countries have to accept at least one annex at the time of accession and are given the freedom to accept the remaining annexes individually. Thus, each separate annex, along with the Convention body, is enough for an individual country to be a contracting party of Kyoto.

The revised convention comprises the convention body, a "general annex" and 10 specific annexes with 25 chapters referring to specific customs procedures, with a view to provide an international blueprint for modern, efficient and effective customs procedures in the 21st Century. As such, it includes core principles for customs administrations to adopt; obligation for countries to accede to the provisions in the "general annex"; additional binding requirements to the modernize data systems, cooperate with other agencies and implement risk management; creation of a mechanism (management committee) to maintain and update the convention at regular intervals; and detailed guidelines and best practices to assist countries in implementing the convention.

The core principles are defined in the "general annex" and commit governments to:

- Adopt standard and simplified procedures;
- Continuous development and improvement of customs control techniques;
- Ensure maximum use of information technology; and
- Establish a partnership approach between customs and trade.

As regards the key binding requirements to be applied by customs administrations, these include:

- Maximum use of automated systems; risk management techniques (including risk assessment and selectivity of controls);
- Use of pre-arrival information to drive programmes of selectivity;
- Use of electronic funds transfer;
- Coordinated interventions with other agencies;
- Making information on customs requirements, laws, rules and regulations easily available to anyone;
- Providing a system of appeals in Customs matters; and
- Formal consultative relationships with the trade.[81]

Of particular relevance to the region are the convention's Annexes E and F, which focus on the procedures for customs transit and free zones, respectively. They include comprehensive procedures, which, if applied by land-locked countries and their transit neighbours, could eliminate many problems facing transit traffic operations. As for Annex D, it sets out principles, standards and recommendations that provide a reference for guiding agreements between land-locked countries and their transit neighbours on the use of free zones facilities. This annex also facilitates undertaking a broad range of operations outside customs control or intervention. These include traditional activities such as loading, unloading, trans-shipment and storage, in addition to activities that are necessary for the preservation of cargo such as grouping of packages, breaking bulk, sorting, grading and repacking.

Particularly, Annex E recognizes the right of countries to prescribe the itinerary for goods to follow, including the requirement of transport under customs escort, but states that such measures should only be considered when circumstances make their use indispensable. It recommends customs authorities to accept general security measures when there is a need to guarantee obligations arising from customs operations. These measures should be discharged without delay when it has been established to the authorities' satisfaction that the person responsible for the goods in transit has fulfilled his obligations. This annex also recommends customs authorities at the office of departure to accept the seals affixed by the office of loading and accompanying documents when goods are declared for transit, and to limit the extent of examination to ensuring compliance of laws and regulations.

The TIR convention

The most widely applied systems for governing multi-modal transport operations are derived from the Transports Internationaux Routiers (TIR) convention (1975), to which both Jordan and Israel are signatories. The Convention provides a reference framework for establishing a transit regime, which enables a vehicle or container covered by a specific customs document to journey from its point of departure to its point of destination without undergoing any customs examination when crossing intermediate frontiers.

In order to ensure that goods may travel with a minimum interference "en route" and yet offer maximum safeguards to Customs administrations, the TIR regime contains five basic requirements. These constitute the pillars of the TIR Customs transit system, stipulating that: (i) goods should travel in secure vehicles or containers; (ii) duties and taxes at risk should be covered by an internationally valid guarantee throughout the journey; (iii) the goods should be accompanied by an internationally accepted carnet, the TIR Carnet, taken into use in the country of departure and accepted in the countries of transit and destination; and (iv) customs control measures taken in the country of departure should be accepted by the countries of transit and destination.[82] This helps to minimize formalities and delays associated with transit traffic operations and to relieve traders from presenting customs guarantee deposits at transit borders.

TIR carnets are issued by the Geneva-based secretariat of the International Road Transport Union (IRU) and distributed to national associations representing IRU in the countries subscribing to the Convention. To obtain this carnet, the carrier must belong to a national association, and the vehicles and containers used must fulfil technical and other conditions stipulated in the Convention. The associations stand as guarantor, under an agreement with the customs authorities, for the duties and taxes payable on goods carried under cover of the TIR carnet. These associations must also sign an undertaking with IRU, covering the reciprocal rights and liabilities implicit in the operation of the TIR system.

While the TIR Convention was originally drawn up for European transport, the TIR system has gradually been extended to other areas in the world, including the Middle East, North Africa and Latin America (Uruguay and Chile). However, this positive development was faced with difficulties in the application of the TIR system, and was further aggravated by the abuse of the facilities provided by the Convention in some cases. Customs stamps have been falsified, false cargo declarations have been lodged and sometimes whole truck loads of sensitive goods (tobacco, etc.) disappeared and were sold on the black markets.

To confront these challenges the Convention was revised in 1997, leading to the introduction of a large package of amendments, which subsequently entered into force in two phases in 1999 and 2002. Phase I includes measures to ensure a controlled access to the TIR system for transport operators, to national TIR Carnet issuing and guaranteeing associations, and to international organization responsible for the centralized printing and distribution of TIR Carnets. Furthermore, an inter-governmental supervisory organ, the TIR Executive Board (TIRExB), has been established to coordinate the activities of Governments. The Board is also mandated with the tasks of supervising the administration of the TIR Carnet system (currently under the responsibility of a non-governmental organization (International Road Transport Union), in addition to facilitate consultations between the customs authorities, the transport industry and the insurance groups (which provides the indispensable guarantee back-up for the TIR regime).

Phase II provides for additional legal and administrative responsibilities of Customs authorities, transport operators and the international organization. Since 2002, the latter has become responsible for the effective organization and functioning of the international guarantee system. This phase has allowed national customs authorities to control access to the TIR procedure for national transport associations to issue TIR Carnets, and transport companies to utilize TIR Carnets. Phase II also focuses on the computerization of the TIR procedures that are still under discussion.[83]

International Convention on the Harmonization of Frontier Controls of Goods (1982)

This convention aims at reducing the requirements for completing formalities as well as the number and duration of controls, in particular by national and international coordination of control procedures and of their methods of application. It calls on contracting parties to undertake appropriate measures to facilitate the passage of the goods across common inland frontiers and to: (a) arrange for the joint control of goods and documents, through the provision of shared facilities; and (b) ensure that the opening hours of frontier posts and the operating control services correspond. It also recommends the contracting parties use, between themselves and with the competent international bodies, documents aligned with the United Nations Layout Key. Furthermore the convention suggests standards for harmonizing controls related to medico-sanitary, phytosanitary and veterinary inspections.

As for transit operations, the Convention urges the Contracting Parties to provide simple and speedy treatment for goods in transit, especially for those travelling according to an international customs transit procedure, by limiting their inspections to cases where these are warranted by the actual

circumstances or risks. The convention also calls for according special treatment to land-locked countries, including the extension of working hours and the competence of existing customs posts available for customs clearance for goods carried under an international customs transit procedure. Contracting parties are called upon to facilitate to the utmost the transit of goods in containers or other load units affording adequate security.

Conventions on road transport management

Countries in the region can draw on the international conventions on road transport operations, road traffic and vehicles to harmonize highway and traffic legislation in the following areas:

- road safety measures;
- road traffic legislation;
- transit transport charges;
- road financing arrangements;
- road transit transport management and coordination of road traffic activities;
- road markings;
- registration of vehicles;
- issuing of driving licenses; and
- standards and procedures governing the technical inspection of vehicles.

These conventions provide the required elements for:[84]

- Developing common standards and certifications in such areas as road safety, vehicle and driver testing, road permits;
- Harmonizing transit charges at the bilateral and sub-regional levels, while introducing effective enforcement mechanisms;
- Establishing a simplified payment system for effecting transit charges;
- Harmonizing and simplifying cargo inspections, border working hours and other practices that cause unnecessary delays;
- Harmonizing axle-load regulations and road maintenance procedures; and
- Establishing a common integrated third party insurance scheme.

Computerized systems and standard models for modernizing trade and transport procedures

Transport logistics information systems

Among the most widely used systems for developing transport and logistics services is the Advanced Cargo Information System (ACIS), which has been installed in 20 countries in Africa and Asia. The system has been developed by UNCTAD to offer a cost-effective tool for monitoring transport equipment and cargo movements. It comprises four components corresponding to the different modes and interfaces of multi-modal transport operations, with each having standard computer applications in order to link the physical points along the various surface transport routes at which decisions are taken. These applications include the PortTracker, the RailTracker, the Lake/RiverTracker and the RoadTracker, which allow for tracking transport equipment and cargo in and out of ports, within railways, on lakes and on roads within the context of an integrated information network.

ACIS is also designed to serve as a proactive information system. At the operational level, it provides transport operators with reliable and timely statistics to detect problems at an early stage and set long-

term plans for improving transport services. At the regional level, the accumulated data enables governments to coordinate macroeconomic planning, particularly with regard to the optimal allocation of resources and modal distribution patterns.[85]

Single Window Arrangements

Member countries can also establish single-window arrangements for simplifying trade related procedures and improving information flows across concerned government departments. This arrangement provides traders with one entrance, whether physical or electronic, for the submission and handling of all trade related forms and procedures. Documentary requirements of different government agencies are received and checked for validity and consistency by a single administrative department before being dispatched to interested parties within governmental offices. Once procedures have been accomplished, final authorization, clearance or permits may be delivered by the same department. While this simple solution nonetheless requires an organization that is well equipped both in terms of civil servants' managerial skills and in terms of interagency coordination and communication, it also calls for a high degree of private-sector involvement and, particularly, user participation.[86] In the meantime, the essential role of governmental coordination and management of such arrangements remains paramount.

The United Nations Layout Key for trade documents

As shown earlier, the costs associated with the fulfilment of trade-related documentation requirements are substantial, involving numerous parties and requiring several documents which are governed by a multitude of rules. This problem can be addressed by aligning trade documents with the United Nations Layout Key, which allows for simplifying documentation requirements and harmonizing trade procedures to meet best practices.

This does not require extraordinary efforts nor does it require huge budgets. Adopting the standard layout is a simple exercise of compiling the details of the transaction or shipment on a master document, which consists of several boxes corresponding to trade procedures. The trade documents can then be prepared using special software packages, which are designed to generate user friendly standard forms. These make it easier for traders to find and understand the information, even when it is in a foreign language, as each box on the form is used for specific type of information.[87]

Designation of entry points for transit services

The experiences of other land-locked countries and their transit neighbours 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:[88]

- 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.

Coordinating mechanisms

The study suggests that a key problem affecting the PA and its transit neighbours is the lack of a set-up or a framework to effectively integrate and coordinate the regulation, planning and management of the different elements of trade-supporting infrastructure. The need for a specialized institution vested with an overall mandate is evident but, with so many bilateral and sub-regional arrangements already established, it would be inappropriate to propose yet another institution. Rather, efforts should focus on reviving and modifying existing arrangements as needed, with a view to strengthen the institutional machinery to monitor the overall coordination of trade facilitation planning and implementation.

In this respect, the PA and its transit neighbours might consider establishing a coordinating committee at a senior level to meet periodically to review the adequacy of all transit arrangements, taking into account changing transit situations and procedures. At the operational level, representatives of government institutions dealing with transit matters should also have regular consultations to review the day-to-day implementation. Such mechanisms should be supported by agreed upon methods of inspection and enforcement to ensure adherence to the regional agreement.

A similar mechanism of coordination might be established at the national level between the operational executives of the government and the users of the transit facilities. This could be achieved through establishing national Trade Facilitation Committees to act as focal points of reference. Such committees need to bring together highways, customs and border control agencies as well as major trade and shipping associations. The primary objective of such national committees would be to serve as a national forum to discuss, suggest and reach consensus between concerned private and public institutions on trade facilitation measures and legislation, and to act as counterpart to other similar fora in neighbouring countries.[89]

Institutional arrangements for promoting trade facilitation

Member countries of transit transport facilitation agreements may consider the establishment of a regional knowledge institute for promoting trade facilitation, in cooperation with the transport sector and local and international training institutes. Such an institute can be mandated with the task of organizing regional workshops and training courses in the area of trade facilitation, with a view to enrich the pool of regional expertise available locally. It can also be charged with the responsibility of establishing a regional website for disseminating trade and transport laws and procedures to the business community.

Chapter V

CONCLUSIONS AND IMPLICATIONS FOR PALESTINIAN TRADE FACILITATION

As the preceding analysis shows, improving transit transport conditions for 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 PA'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 this Chapter 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. On the regional level, the framework should establish the mechanism and procedures required for the negotiation, review, ratification and implementation of regional and international agreements and conventions related to the sector, with emphasis on those agreements that establish transit transport relations with Egypt, Jordan and Israel. Annex 4 provides a list of the relevant agreements and conventions in the region and their status, and Annex 5 presents an adapted model for transit traffic agreements between Palestine and its neighbours.

The establishment of a specialized committee for trade facilitation

As shown earlier, the PA does not have a specialized entity for handling trade logistics issues, nor is there any coordinated structure between the PA and private service providers (transport operators, banks, insurance companies, etc.). Therefore, the need to establish coordinating mechanisms capable of bringing together representatives of the private sector (service providers and exporters) National Economy, and the Ministries of Transport and Finance (Customs Department) cannot be overemphasized for improving Palestinian trade facilitation conditions. Such mechanisms could be best established within the framework of National Trade and Transport Facilitation Committees (NTTFC), guided by UNCTAD's work and the ESCWA manual for establishing national committees for trade facilitation.

Palestine can opt to forming a NTTFC, however this runs the risk of creating an additional institution at a time when the PA is trying to consolidate and streamline its institutional framework. A more appropriate alternative may be to aim for a "***Forum on trade facilitation***", which brings together all relevant parties in an ad-hoc working group format. The forum could be mandated with the task of modernizing transport and logistics practices, with a view to achieving specific tasks such as:[90]

- Providing a national forum to discuss actions for facilitating formalities, procedures and documentation used in international trade and transport;
- Making submissions to the government, for consideration in the fields of trade and transport-related rules and regulations;
- Making recommendations on future logistics investments in infrastructure, information technologies, etc.;
- Increasing awareness of the methods and benefits of transport and trade facilitation; and
- Representing Palestine at regional and international forums on trade facilitation.

Creation of transport intermediary sector[91]

The PA 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.[92] 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. A case in point is the TIR convention, which was introduced in West Africa in 1982 before the development of road transport associations and financial support services. Consequently, transport operators found it difficult to comply with the requirements of the TIR system, since banks and insurance companies were unable to devise reliable and cost effective guarantee schemes.[93]

Hence, it is important to adjust international standards to cater to the region's unique problems, while allowing for a gradual upgrading of transit services to international best practices. However, this will not necessarily reduce the costs of adhering to these standards. As such, the PA's ability to improve

trade facilitation conditions will depend on financial and technical support from multilateral and financial institutions.

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.[94]

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.

It is noteworthy that in late 2003 when Israeli importers and exporters resorted to using the neighbouring ports of Port Said and Aqaba in an effort to circumvent the impact of port worker strikes in Israel, this provided a vivid demonstration of the technical, if not financial, feasibility of these alternative routes. It should be stressed, however that the use of any alternative maritime transport routes for Palestinian trade for several years should not be considered as a substitute for resuming the construction of a Palestinian harbour in Gaza. On the contrary, the utilization of these alternative routes and the future operation of the Gaza seaport are by nature required complements in integrating the new port into the regional ports system, and the Palestinian economy into the regional and global trading system.

The analysis of Chapter 3 indicates that re-routing Palestinian trade from its existing routes in Israel to Egypt or Jordan could involve some costs. However, almost all of these costs are due to overland transport, more than 50 per cent of which is the result of the Israeli closure policy and the security situation. The analysis also shows that even under the presently prevailing conditions the cost of re-routing Palestinian trade is not substantial. Actually the analysis shows that with a 15 per cent reduction in the cost of land transport in Egypt and Jordan, the Palestinian trading community could achieve a savings from re-routing. In this case, it would be worthwhile considering additional re-routing of Palestinian indirect-imports from Israel. Furthermore, additional saving could be realized through the use of the railway line in northern Sinai in Egypt and the future use of the new Port Said East Container Terminal, which is expected to commence operation in October 2004.

These savings are feasible and achievable, however they require a framework through which all involved parties coordinate their interventions in the field of transit transport and trade facilitation. Specifically, the recommendations presented in this Chapter should be accorded attention within a sub-regional transit transport agreement that provides a framework to guide the efforts aiming at developing port and overland transport facilities in the region, as well as the procedures related to the physical and institutional transport infrastructure and security arrangements. Such a sub-regional agreement should also take into consideration the possible integration of the Gaza Seaport after its construction.

Physical and institutional infrastructure and donor support

The rehabilitation and restructuring of an efficient transport infrastructure and the development of an effective transportation system is a priority for the PA. An efficient road infrastructure is not only a prerequisite for improving trade ties, but also for the overall economic and social development of the country. Therefore, a programme for the development of the regional transit transport physical and institutional infrastructure is required. The emphasis of this program should be on the road network and border crossing points with Egypt and Jordan, as well as passage between Gaza and the West Bank. Given the international nature of the transit transport sector and the present poor status of its infrastructure, setting up such a programme will require the cooperation of national and regional parties, in addition to the donor community. But it is important that the PA takes the leading role in designing this programme and coordinating its activities and projects among all the public agencies concerned with transit transport as well as among donors and financial development institutions involved in the sector.

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.

Donor support

Despite the fact that the Israeli closure policy and control over border crossing points and transport procedures hinder any efforts to create tangible changes or improvement to the existing situation, there are a number of the measures (recommended above) that could be implemented even under the present conditions. In this regard the support of the international and donor community is critical. Besides the political situation, the other major factor that impedes the PA from implementing major transportation-related projects is the limitation of financial resources. Here again the support of the donor community is imperative. As indicated previously, an efficient transit transport sector is not only a requirement for expanding the inter-regional and international trade, but also is essential for the economic well-being and development of all countries in the region.

Notes

[1] See for example Frankel J. A. and David R (1999). Does Trade Cause Growth? American Economic Review. 89 (3): June.

[2] For example, for most Latin American countries, transport costs pose a greater barrier to U.S. markets than import tariffs. See Lakshmanan T.R. and William A (1999). Trade and transport integration: lessons from north American Experience. Paper presented at World Bank/UNESCAP Technical Workshop on Transport and Trade Facilitation. Bangkok, Thailand, 19-21 April.

[3] In accordance with the relevant General Assembly resolutions and decisions, the term "occupied Palestinian territory" refers to the West Bank, including Jerusalem, and the Gaza Strip. The term "Palestine" in this document refers to the Palestine Liberation Organization, which established the Palestinian Authority (PA) following the 1993-1994 accords with Israel. References to the "State of Palestine" are consistent with the vision expressed in Security Council Resolution 1397 (2002).

[4] For a comprehensive overview of the concept of trade facilitation, see Neils R (2003). An introduction to transport and trade facilitation. Beirut, ESCWA.

[5] Under the terms of the Oslo agreements, Israel and the Palestine Liberation Organization (PLO), representing the Palestinian people, agreed to a phased Israeli withdrawal from the occupied territories in the West Bank and Gaza Strip leaving the issues of Jerusalem, the Israeli settlements, the borders and the Palestinian refugees and returnees to a later stage - the final status negotiations.

[6] United Nations Office of the Special Coordinator in the Occupied Territories (UNSCO) (2003). Closure, Palestinian Productive Activities and Short- to Medium-Run Policy Alternatives: Annual Report, 2002. unpublished draft, April.

[7] Palestinian National Authority, Ministry of Agriculture (2003). Palestinian Agricultural Losses, September 2000-December 2002, Ramallah.

[8] For example, the re-opening of Sufa crossing, on March 16, was accompanied by a new set of restrictive measures limiting the working hours between 7:00 a.m. to 12:30 p.m., reducing the area designated for gathering truckloads from 80 dunums to 20 dunums, and preventing Palestinian trucks from entering the green line area to load goods. In the case of Al-Muntar crossing, stringent measures included manual security checking in addition to preventing the passage of Palestinian trucks to the green line area. This resulted in increasing transport costs from $375 to around $875 per truck. In addition, fees paid at the outlet increased from $62.5 to around $ 67.5 for a truck and from $87,5 to $100 per lorry. See Palestinian Center for Human Rights (PCHR) (2001). Closure Update. No. 30 and 34, Gaza.

[9] The Oslo agreements divide the rest of the Palestinian Territory into three distinct areas, defined as Zone "A", "B", and "C". Zone A includes the major populated cities of the West Bank areas but constitutes no more than 3 per cent of the West Bank; Zone B encompasses 450 Palestinian towns and villages representing 27per cent of the West Bank; Zone C constitutes the rest of the West Bank and Gaza including agricultural land, the Jordan Valley, natural reserves, areas with lower population density, Israeli settlements, and military areas. Israel withdrew from the cities of Tulkarem, Qalqilya, Jenin, Nablus, Ramallah, and Bethlehem (together they constitute Zone A) but is yet to withdraw from Zones B and C.

[10] These are defined under the terms of the "Protocol Concerning Safe Passage between the West Bank and the Gaza Strip" that was signed in October 1999.

[11] World Bank (2000). West Bank and Gaza: second municipal infrastructure development project. Project information document. West Bank and Gaza resident Mission. April.

[12] Palestinian National Authority, "Palestinian Development Plan: 1999-2003", PNA, Palestine.

[13] World Bank (2000). West Bank and Gaza: second municipal. West Bank and Gaza resident Mission. April.

[14] Ibid.

[15] Palestinian Central Bureau of Statistics (PCBS) (2002), "Annual Trade Statistics-1999", Palestine.

[16] According to UNSCO's statistics on the value of registered Palestinian aggregate trade, In the first half of 1999, 74 per cent of Palestinian trade transited Israeli ports. See UNSCO (1999). Report on the Palestinian economy. Quarterly Report - Autumn. Gaza.

[17] Nathan Associates Inc. (1999). Reducing transport costs of Egypt's exports. A policy paper prepared for the Government of Egypt, Ministry of Trade and Supply, within the context of Development Economic Policy Reform Analysis Project. http://www.nathanassoc.com. July.

[18] Ibid.

[19] Ibid.

[20] Devlin J. and Peter Y (2002). Global links to regional networks: trade logistics in MENA countries. Paper presented at the fourth annual Mediterranean Development Forum. Amman. 6–9 October.

[21] This system is managed by the Unified Organization Land Transport Company (UOLTC), which is a public shareholding company in charge of organizing the transport of goods from and through Aqaba and Zarqa Free Zones and between these and other areas of Jordan. See Devlin J. and Peter Y (2002). Global links to regional networks. Paper presented at the fourth annual Mediterranean Development Forum. Amman. 6–9 October.

[22] Law number 8 of 1997 grants tax holidays of 10 years for businesses established in the industrial zones and urban communities. Same reference as in end note 20.

[23] Devlin J. and Peter Y (2002). Global links to regional networks. Paper presented at the fourth annual Mediterranean Development Forum. Amman. 6–9 October.

[24] Ibid.

[25] These are UNCTAD estimates for the West Bank and Gaza, excluding Jerusalem, based on the secretariat historical economic database.

[26] Palestinian National Information Centre. www.pnic.gov.ps. The World Bank has reported physical damage for the period October 2000-August 2002 of US$ 728 million. World Bank (2003). Two years of Intifada, closures and Palestinian crisis: an assessment. West Bank and Gaza Resident Mission, March.

[27] UNSCO (2002). Closure, Palestinian productive activities and Short- to Medium-Run Policy Alternatives. Annual Report. Gaza.

[28] UNCTAD (2003). Report on UNCTAD's assistance to the Palestinian people. TD/B/50/4, Geneva, 28 July.

[29] PCBS (2002). Annual Trade Statistics-1999. Palestine. For a discussion of the Palestinian economy's structural weaknesses see "UNCTAD (2002). Report on UNCTAD's assistance to the Palestinian people. TD/B/49/9, Geneva, 26 July" and "UNCTAD (2001). Report on UNCTAD's assistance to the Palestinian people. TD/B/48/9, Geneva, 21 August".

[30] "Leakage" reflects the degree to which economic resources are channeled out of the economy to the rest of the world through the persistence of the current account deficit. The larger the deficit, the higher the degree of leakage and the higher the degree of dependence on imports to satisfy domestic demand. The important issue in the case of Palestine is that a substantial portion of this leakage is concentrated with Israel.

[31] This has been fully covered in previous UNCTAD studies, in particular "UNCTAD (1998). The Palestinian economy and prospects for regional cooperation. UNCTAD/GDS/SEU/2, Geneva, 30 June"; and "UNCTAD (2000). Cooperation between the Palestinian Authority, Egypt and Jordan to enhance sub-regional trade-related services. UNCTAD/GDS/SEU/3, Geneva, 14 February.

[32] PCBS, annual foreign trade statistics, website: http://www.pcbs.org.

[33] UNCTAD (1998). The Palestinian economy and prospects. UNCTAD/GDS/SEU/2, Geneva, 30 June.

[34] MENA countries demonstrate high levels of RCA in mineral fuels and Petroleum, in addition to food, live animals and selected agricultural products such as cereals, rice, vegetables and fruit. See "Nathan Associates Inc. (1998). Egypt: strategy for regional economic integration. Policy paper prepared for the Government of Egypt, Ministry of Trade and Supply within the context of Development Economic Policy Reform Analysis Project. September. http://www.nathanassoc.com"; and "Fawzy S (2002). The economic and politics of Arab economic integration. Egyptian Center For Economic Studies (ECES), Working paper No. 66., Cairo, January".

[35] Palestinian Environmental Non-Governmental organizations Network (PENGON) (2002). The Apartheid Wall. Report No. 1, Palestine, November.

[36] Arab League (1995). Transport Committee, Cairo.

[37] UNCTAD (2000). Cooperation between the Palestinian Authority, Egypt and Jordan to enhance sub-regional trade-related services. UNCTAD/GDS/SEU/3, Geneva, 14 February.

[38] The two countries committed themselves to establish a joint free trade area (FTA) in the Jordan Valley by 2007 under a separate agreement, signed in 2000.

[39] For further details on this issue, see "UNCTAD (2000). Cooperation between the Palestinian Authority, Egypt and Jordan … UNCTAD/GDS/SEU/3, Geneva, 14 February".

[40] Some instances have been cited of West Bank products transported to Gaza, including food products, electrical equipment, pharmaceutical products and plastics, but these are very rare exceptions. See "Vadirieso

RA, et al. (2001). West Bank and Gaza: Economic performance, Prospects, and Policies. IMF, Washington, DC".

[41] According to the requirement of the Israeli security department, clear visibility necessitate a create height of no more than 1.2 meters and approximately 20 centimeters of space between the crates. The main reason, provided by the Israeli security department, for this policy is to facilitate the security inspection.

[42] These were developed by Israeli and Palestinian IT companies, including: the Israeli SHAAM system for tax administration in the West Bank; Al-Bahar PC based computer system for tax administration in Gaza; and the PC based VAT unified invoice system (UIS) for revenue clearance of VAT with Israel, which is used in Gaza and the West Bank.

[43] United Nations Economic and Social Commission for Western Asia (ESCWA) (2001). Facilitation of International Freight Transport Procedures in ESCWA Member Countries - Summary, Results and Recommendations. (Arabic), New York.

[44] These include: Customs Department, Industrial Control, Ministry of Trade (General authority for controlling exports and imports), Ministry of Industry, Quality and Standard Control Agency, Ministry of Agriculture (4 agencies), Ministry of Health (6 agencies), Ministry of Transport and communications, Ministry of Culture (5 agencies), Ministry of Interior (6 agencies) and General Authority for investment and Free Zones. See Nathan Associates Inc. (1999). Reducing transport costs of Egypt's exports. http://www.nathanassoc.com. July.

[45] Customs Bulletin (1993). Customs news. Cairo.

[46] World Bank (2000). Trade policy development in the MENA region. Washington DC.

[47] UNCTAD (2000). Cooperation between the Palestinian Authority, Egypt and Jordan. UNCTAD/GDS/SEU/3, Geneva, 14 February.

[48] Times allowed for transit cargo are as follows: 24-hour period is granted for the trip between the Customs Houses of Ramtha and each of Omari, Zarka Free Zone and Ruwaished. Also the same period is allowed for the trip between Aqaba Customs and Durrah; 72 hours is allowed for the trip between Aqaba and Karamah Customs Houses; 48 hours is allowed for the trip between other customs centers in the Kingdom.

[49] Goods in transit can be also stored at public bonded warehouses, though for a limited period, not exceeding ninety days, and subject to an approval by the Director of customs. If the goods are not withdrawn at the expiry of the ninety days, and the director of customs does not approve an extension, the goods are sold in a public auction. The Director may also approve the release of transit goods for local market consumption after consulting with the concerned authorities. See Nathan Associates Inc. (1999). Reducing transport costs of Egypt's exports… http://www.nathanassoc.com. July.

[50] ESCWA(2001). Facilitation of International Freight Transport. (Arabic), New York.

[51] Usually permits given by the Israeli Authority is limited between one day to three months. As for the border crossing points, the permit should be renewed every month. The time in the day for the permit is normally between 5:00 a.m. and 7:00 p.m.

[52] Vadirieso RA, et al. (2001). West Bank and Gaza: Economic performance, Prospects, and Policies. IMF, Washington, DC.

[53] Ibid.

[54] UNCTAD, "Promoting the Palestinian Authority's cooperation with Egypt and Jordan in improving sub-regional, trade-related services", unpublished technical papers.

[55] Devlin J. and Peter Y (2002). Global links to regional networks: trade logistics in MENA countries. Paper presented at the fourth annual Mediterranean Development Forum. Amman. 6–9 October.

[56] Vadirieso RA, et al. (2001). West Bank and Gaza: Economic performance, Prospects, and Policies. IMF, Washington, DC.

[57] UNCTAD (2000). Cooperation between the Palestinian Authority. UNCTAD/GDS/SEU/3, Geneva, 14 February.

[58] Vadirieso RA, et al. (2001). West Bank and Gaza: Economic performance. IMF, Washington, DC.

[59] UNCTAD (1998). The Palestinian economy and prospects for regional cooperation, UNCTAD/GDS/SEU/2, Geneva, 30 June.

[60] Nathan Associates Inc. (1998). Egypt: strategy for regional economic integration. Policy paper prepared for the Government of Egypt. September. http://www.nathanassoc.com".

[61] Using an economy-wide model for Egypt and Tunisia, it has been demonstrated that deeper integration would generate gains that exceeds those attained through merchandize liberalization by two times in the case of Egypt and by more than three times in the case of Tunisia. See Konan D (2002). Alternative paths to prosperity: economic integration among Arab countries. University of Hawaii.

[62] "Nathan Associates Inc. (1998). Egypt: strategy for regional economic integration. Policy paper prepared for the Government of Egypt. September. http://www.nathanassoc.com".

[63] Fawzy S (2002). The economic and politics of Arab economic integration. Egyptian Center For Economic Studies (ECES), Working paper No. 66., Cairo, January.

[64] UNCTAD (2002). Computerization of customs procedures and data for improved revenue collection. Report of ASYCUDA evaluation mission, Amman, October.

[65] Regional ASYCUDA centres are operating successfully in Asia and Pacific, Western and Southern Africa, and in Latin America.

[66] Jordan Ports Corporation (Aqaba) (2001). Access to Micro Finance and Improved Implementation of Policy reform (AMIR Program), "Customs transit assessment", final report. Jordan, July.

[67] The project also entails the establishment of an industrial park for housing heavy, medium and light industries, a tourism area and fisheries. See "Suez Canal Container Terminal" http://www.scctportsaid.com/

[68] The Palestinian National Authority, Seaports Authority (2000). Gaza Seaport Project: Basic Operational Plan. Gaza, July.

[69] ESCWA (2001). Report to the second session of meeting of the heads of division responsible for transport of the United Nations Regional Economic Commissions. Beirut.

[70] Van Holst & Koppies, Economy and strategy consultants (2002). Regional Maritime Transportation Alternatives – working document. March.

[71] The methodology, volumes of trade, assumptions and re-routing cost parameters are based on a consultant study commissioned by UNCTAD: see the previous end note.

[72] See: World Bank (2002). "Long Term Policy Options for the Palestinian Economy", p. 20. July.

[73] It is expected that this new terminal will substantially reduce the cost of handling containers in Port Said. See Annex 2 and "Suez Canal Container Terminal" http://www.scctportsaid.com

[74] This assumption is realistic and achievable with minor improvement in the road system and truck industries in both Jordan and Egypt. The assumption is even more realistic in the case of Egypt, if Palestinian trade uses the much less costly railway line that reaches Arish, less than 50km away from the border with Gaza. There are plans to extend this line to the border. However, these plans are on hold due to the present difficulties facing the peace process.

[75] The quantitative analysis indicates that a 13 per cent reduction in the land transport in Egypt and Jordan would make the cost of transiting Palestinian trade through the two countries equal to that transiting through Israel.

[76] Arnon A, Spivak A and Sussman O (2000). Incomplete contracts, the port of Gaza and the case of economic sovereignty. Revised draft, Ben-Gurion University and Oxford University., October.

[77] The Palestine National Authority, The Seaports Authority (2000). Gaza Seaport Project - Basic Operational Plan. Gaza, July; and Palestinian Authority Port of Gaza (1996). Economic and Technical Study. January.

[78] Egypt is a signatory to this agreement, while Jordan has acceded it.

[79] UNCTAD (2002). Review of Maritime Transport 2002. New York and Geneva, 2002.

[80] For a comprehensive review of trade facilitation recommendations as stipulated in international conventions and agreements, see "UNCTAD (2002). Compendium of Trade Facilitation Recommendations. New York and Geneva".

[81] World Customs Organization (WCO). The revised Kyoto Convention. www.wcoomd.org.

[82] United Nations Economic Commission for Europe (UNECE) (2002). TIR Handbook. New York and Geneva.

[83] UNECE (2003). United Nations facilitation conventions: Harmonization Convention and TIR Convention. Geneva, July.

[84] UNCTAD (2003). Challenges and opportunities for further improving the transit systems and economic development of landlocked and transit developing countries. TD/B/LDC/AC.1/19, Geneva, 13 May.

[85] UNCTAD (2003). Advanced Cargo Information System (ACIS): Brief Package.

[86] A framework establishing this arrangement is outlined in World Customs Organization (WCO) Data Model.

[87] UNCTAD (2002). Review of Maritime Transport 2002. UNCTAD/RMT/2002, New York and Geneva.

[88] Proceedings of the regional technical workshop on transportation and transit facilitation (1999). Regional Initiative on Transport Integration: South Asia Region. Bangkok, 19-21 April.

[89] UNECE/CEFACT (1999). Recommendation No.4: National Trade Facilitation Bodies. (TRADE/CEFACT/1999/11), March; and its supporting document: "Creating and efficient environment for trade and transport" (TRADE/CEFACT/2000/8), March 2000.

[90] ESCWA (2003). Guide to the creation of national committees in the area of trade facilitation. E/ESCWA/TRANS/2002/3/Rev.1, 16 January.

[91] This section draws on the work of "Devlin J. and Peter Y (2002). Global links to regional networks. Paper presented at the fourth annual Mediterranean Development Forum. Amman. 6–9 October"; and "UNCTAD (2002). Compendium of Trade Facilitation Recommendations. New York and Geneva".

[92] UNCTAD (1999). Preparing for future multi-lateral trade negotiations. UNCTAD/ITCD/TSB/6, Geneva.

[93] WTO (2002). Freedom of transit: obligations and implications of Article V of the General Agreement on Tariffs and Trade. Communication from UNCTAD, Geneva, 8 October.

[94] World Bank and UNCTAD (1996). Trade and Transport Facilitation: Review of Current Issues and Operational Experience. Joint World Bank/UNCTAD publication, June.

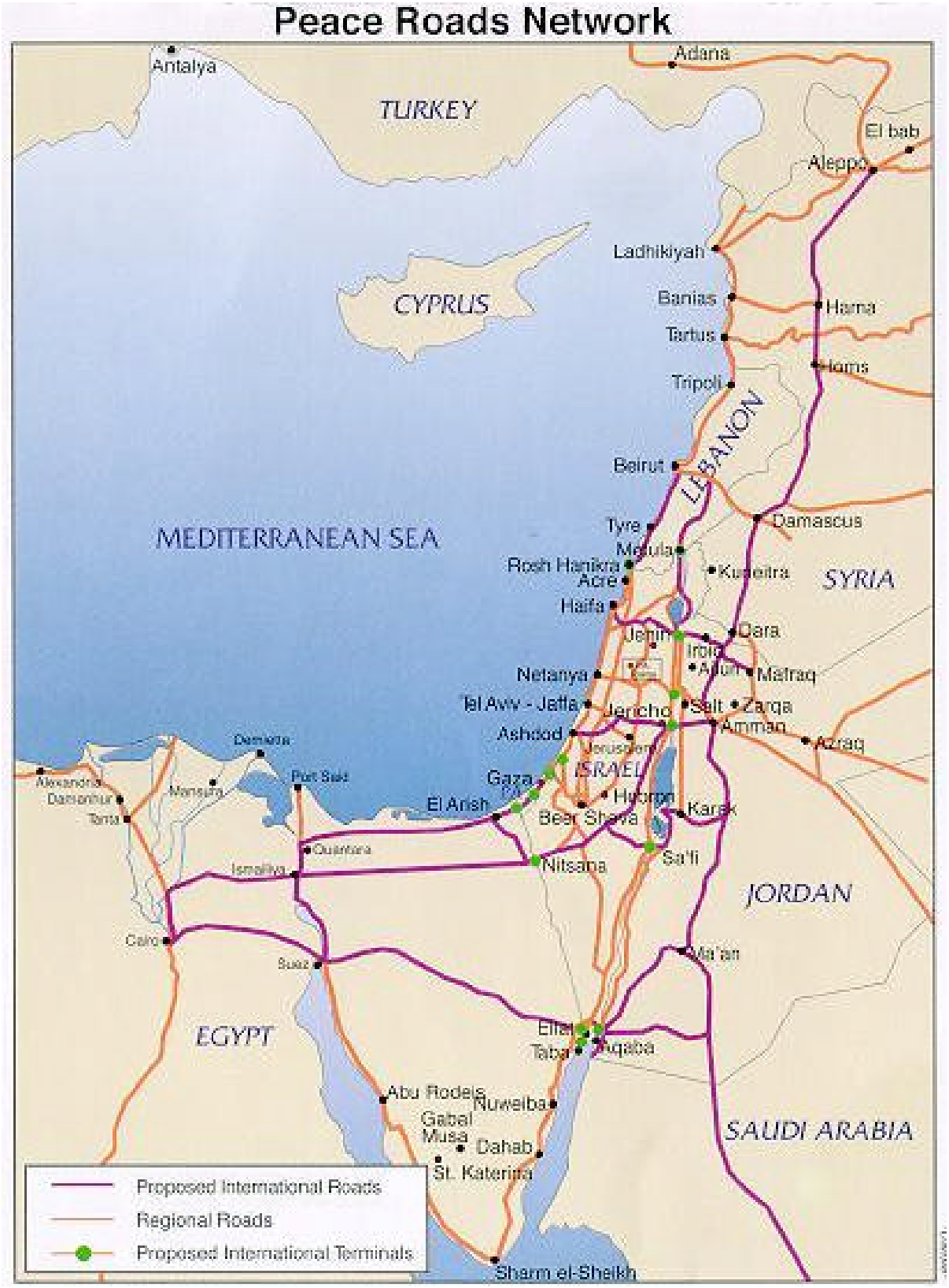
Annex I

MAJOR PROJECTS FOR DEVELOPING PALESTINE'S ROAD NETWORKS[1]

North-South access road link: This road link passes through the West Bank cities of Jenin, Nablus, Ramallah, Jerusalem, Bethlehem, and Hebron, at 136 km in length. At present, this link is in a poor condition, with a two-lane road measuring 9 meters in width. The proposed project includes the construction of an additional lane on each side of the road.

East-West access road link: This road will link the Israeli border passing through the West Bank cities of Tulkarem and Nablus, and continue to Jordan through Prince Mohammed (Damia) Bridge. A feasibility study that includes an environmental assessment and preliminary engineering design is needed to determine technical options and standards, and assess the need, if any, for land acquisition. The expected length of this road is 63 km.

[1] Department of infrastructure, Palestinian Economic Council for Development and Reconstruction PECDAR, 2000.


Peace Roads Network
Antalya
Adana
TURKEY
El bab
Aleppo
Ladhikiyah
CYPRUS
Banias
Hama
Tartus
Homs
Tripoli
LEBANON
Beirut
Damascus
MEDITERRANEAN SEA
Tyre
Metula
Rosh Hanikra
Acre
Kuneitra
SYRIA
Haifa
Jenin
Dara
Irbid
Ajlun
Mafraq
Netanya
Tel Aviv - Jaffa
Jericho
Salt
Zarqa
Ashdod
Amman
Azraq
Damietta
Jerusalem
ISRAEL
Alexandria
Port Said
Gaza
Mansura
Damanhur
Hebron
El Arish
Karak
Tanta
Beer Sheva
Qantara
Sa'fi
Ismailiya
Nitsana
JORDAN
Cairo
Ma'an
Suez
EGYPT
Eilat
Taba
Aqaba
Abu Rodeis
Nuweiba
Gabal Musa
SAUDI ARABIA
Dahab
St. Katerina
Sharm el-Sheikh
Proposed International Roads
Regional Roads
Proposed International Terminals

Annex II

PORT SAID EAST CONTAINER TERMINAL PROJECT

The container terminal will have a quay length of 1,200 meters, accommodating 12 post panamax Ship to Shore Gantry cranes, 36 yard cranes and other handling equipment, with a throughout capacity of 2.6 million TEU, as follows:

Container terminal-size and facilities	
Quay length	1 200 m
Berths	4
Terminal width	500 m
Terminal area	600 000 sq m
Berthing	Port or starboard side alongside
Water depth alongside	16.5m increasable to 17.5m

The concession to build, operate and manage the container terminal has been awarded to Suez Canal Container Terminal (SCCT), a private joint venture company bringing together national and foreign investors, including Europe Combined Terminals of Rotterdam and APM Terminals of Copenhagen. The latter jointly hold sixty per cent of the company's shares. The concession period is 30 years, with an option to extend for additional 35 years, if SCCT opts to extend the terminal to 2,400 meters.[2]

[2] The project also entails the establishment of an industrial park for housing heavy and medium light industries, a tourism area and fisheries. See Suez Canal Container Terminal at http://www.scctportsaid.com/news.htm

Annex III

RE-ROUTING COST PARAMETERS AND ALTERNATIVE SCENARIOS

Table A3.1 Costs of Suez Canal transit

Cargo vessels	**US$**
Up to 5,000 tons S.C.N. tonnage	384
Thereafter, for every additional 1,000 tons S.C.N. tonnage or part thereof	38
Maximum fee per loaded vessel	767
Tankers	
Up to 35,000 S.C.N. tonnage	640
Thereafter, for every additional 10,000 tons S.C.N. tonnage or part thereof	38
Maximum fee per loaded tanker	1 278

Source: Ministry of Transport, Egypt.

Table A3.2 Additional maritime costs for cargo from the West to West Bank

in US$ per ton

Vessel characteristics	**Shipping costs**	**Suez Canal**	**Total**
Containership	3.15	0.26	3.41
General cargo	2.02	0.10	2.12
Dry bulk	1.68	0.05	1.73
Liquid bulk	3.36	0.05	3.41
Small cont. General cargo	5.76	0.37	6.13
Small liquid bulk	4.03	0.43	4.46

Source: Van Holst & Koppies, Economy and strategy consultants, "Regional Maritime Transportation Alternatives – working document", March 2002. A study commissioned by UNCTAD.

Table A3.3 Port Costs: Israel - per vessel

in US$

	Container vessel	**General cargo (GC)**	**Dry bulk (DB)**	**Liquid bulk (LB)**	**GC small**	**LB small**
Handling fees	31 250	60 000	43 750	56 000	15 000	22 400
Light dues	9	9	9	9	2	9
Harbour dues	28	28	28	28	9	28
Berth dues	324	324	324	324	41	40
Other costs	6 250	12 000	8 750	11 200	3 000	4 480
Total	37 861	72 361	52 861	67 561	18 052	26 957
Per ton	7.57	12.06	8.46	13.51	12.03	13.48
Wharfage	11.44	1.28	4.48	3.38	1.28	3.38
Total per ton	19.01	13.34	12.94	16.89	13.32	16.86

Source: same as Table A3.2.

Table A3.4 Port costs: Port Said - Egypt – per vessel

in US$

	Container vessel	General cargo	Dry bulk	Liquid bulk	GC small	LB small
Handling fees	151 523	17 400	15 000	18 750	4 500	5 625
Light dues	480	300	750	600	53	75
Port dues	2 016	1 260	3 150	2 520	221	315
Inner anchorage dues	96	60	150	120	11	15
Berth dues	192	120	300	240	21	30
Tugging assistance	2 000	2 000	2 000	2 000	2 000	2 000
Departure permission	6	6	6	6	6	6
Quarantine charges	48	48	48	48	48	48
Pilotage costs	357	357	457	457	184	184
Total	156 717	21 551	21 861	24 741	7 044	8 298
Per ton	31.34	3.59	3.50	4.95	4.69	4.15
Costs Suez Canal transit per ton	0.26	0.10	0.05	0.05	0.37	0.43
Transhipment cost per ton	7.42	4.80	4.80	7.20	4.80	7.20

Source: same as Table A3.2.

Table A3.5 Port costs: Aqaba – Jordan - per vessel

in US$

	Container vessel	General Cargo	Dry bulk	Liquid bulk	GC small	LB small
Tonnage dues	860	284	714	584	52	69
Quarantine fees	32	27	33	32	15	12
Wharfage fees	214	107	322	214	72	36
Pilotage fees	668	334	668	668	234	335
Tug boats	429	357	357	357	357	428
Mooring/Unmooring fees	90	90	90	90	90	90
Misc. port charges	100	100	100	500	100	500
Customs overtime	88	180	184	166	87	108
Tallying and supervision	352	1 200	1 250	1 000	350	500
Motor car	60	90	90	60	60	30
Communications	60	90	90	60	60	30
Port labour surcharge	194	278	688	550	193	275
Shipping agents association fees	42	105	109	90	42	53
Stevedoring charges	6 794	23 160	24 125	27 020	6 755	13 510
Free out expenses	152	516	538	430	151	215
Agency fees	1 250	2 250	2 500	1 400	1 250	1 100
Miscellaneous agency expenses	100	100	100	100	100	100
Total	11 485	29 268	31 958	33 321	9 968	17 391
Per ton	2.30	4.88	5.11	6.66	6.65	8.70

Source: same as Table A3.2.

Table A3.6 Land transport costs: Israel, per truck
in US$*

Cost item	Between Gaza and:			Between WB and:		
	Ashdod	Yafo	Haifa	Ashdod	Yafo	Haifa
Transport in Israel	61.2	107.0	244.6	122.3	99.4	183.5
Sterilized truck	122.9	122.9	122.9	122.9	122.9	122.9
Transport in Gaza	100.0	100.0	100.0			
Transport in West Bank				200.0	200.0	200.0
Coordination cost	30.0	30.0	30.0	30.0	30.0	30.0
Loading & unloading	80.0	80.0	80.0	80.0	80.0	80.0
Custom clearance	120.0	120.0	120.0	120.0	120.0	120.0
Security check	235.9	235.9	235.9	235.9	235.9	235.9
Total	749.9	795.7	933.3	911.0	888.1	972.2
Per ton	62.5	66.3	77.8	75.9	74.0	81.0

Source: same as Table A3.2.
* Average truck load is 12 tons and that of a container is 12.8 tons.

Table A3.7 Land transport costs: Port Said – Egypt, per container
in US$

Cost item	Costs per container shipment*
Transport Port Said – Rafah	396
Passage fees at Rafah	40
Loading and unloading	36
Security inspection	36
Custom clearance	125
Transport Rafah – Gaza	150
Other fees	200
Bank guarantee	1
Total	984
Per ton	76.85

Source: Among others based on information provided by the PA Ministry of Economy and Trade.
* Average truck load is 12 tons and that of a container is 12.8 tons.

Table A3.8 Land transport costs: Aqaba – Jordan, per container
in US$

Cost item	Costs per container shipment*
Custom clearance	140
Transit guarantee	100
Co-ordination (truck) fees to obtain a pass for the vehicle	105
Entrance (service) fee	33
Average unloading and reloading for security clearance	80
Tax	29
Aqaba-Amman	532
Amman to border	100
Transport in West Bank from border	200
Total	1 319
Per ton	103

Source: Among others based on information provided by the PA Ministry of Economy and Trade.
* Average truck load is 12 tons and that of a container is 12.8 tons.

Table A3.9 Additional costs of re-routing cargo originating from the West
in US$ per ton

To: Gaza Strip	Ashdod-PS	Yafo-PS	Haifa-PS
General Cargo	6.6	2.6	-8.4
Containers	26.6	23.6	12.6
Dry Bulk	7.6	3.6	-7.4
Liquid Bulk	4.6	0.6	-10.4
To: West Bank with trans shipment	Ashdod-Aqaba	Yafo-Aqaba	Haifa-Aqaba
General Cargo	38.3	40.3	33.3
Containers	26.3	28.3	21.3
Dry Bulk	37.3	39.3	32.3
Liquid Bulk	39.3	41.3	34.3
To: West Bank without trans shipment	Ashdod-Aqaba	Yafo-Aqaba	Haifa-Aqaba
General Cargo	26.3	28.3	21.3
Containers	15.3	17.3	11.3
Dry Bulk	28.3	29.3	22.3
Liquid Bulk	27.3	29.3	22.3

Table A3.10 Additional costs of re-routing cargo originating from the East

in US$ per ton

To: Gaza Strip	Ashdod-PS	Yafo-PS	Haifa-PS
General Cargo	6.6	2.6	-8.4
Containers	25.6	22.6	11.6
Dry Bulk	7.6	3.6	-7.4
Liquid Bulk	4.6	0.6	-10.4
To: West Bank	Ashdod-Aqaba	Yafo-Aqaba	Haifa-Aqaba
General Cargo	23.3	25.3	18.3
Containers	12.3	14.3	8.3
Dry Bulk	26.3	28.3	21.3
Liquid Bulk	24.3	25.3	18.3

Table A3.11 Estimated annual cost of re-routing - without trans shipment

Alternative scenarios – in millions of US$

Type of Shipment	Imports		Exports		**Total**
	Gaza	West Bank	Gaza	WB	
Scenario I*					
General Cargo	-6.43	-7.50	-0.53	0.32	**-14.14**
Containers	2.14	-2.62	0.11	-0.18	**-0.55**
Dry bulk	-0.80	-0.42	-0.06	0.16	**-1.12**
Liquid bulk	-1.74	-1.23	-0.09	0.08	**-2.98**
Total	**-6.83**	**-11.77**	**-0.57**	**0.38**	**-18.79**
Scenario II**					
General Cargo	-6.43	-7.50	-0.53	0.32	**-14.14**
Containers	-0.66	-2.62	-0.02	-0.18	**-3.48**
Dry bulk	-0.80	-0.42	-0.06	0.16	**-1.12**
Liquid bulk	-1.74	-1.23	-0.09	0.08	**-2.98**
Total	**-9.63**	**-11.77**	**-0.70**	**0.38**	**-21.72**

* Scenario I assumes 20 per cent reduction in Egypt & Jordan land transport costs.

** Scenario II assumes additional 50 per cent reduction in the cost of Containers coming through Egypt due to the operation of the new Port Said East container terminal.

Table A3.12 Estimated Additional Unit Cost of Re-routing -Scenario II*

in US $ per ton

Type of Shipment	Imports			Exports		
	Gaza	WB	**Total**	Gaza	WB	**Total**
General Cargo	-9.1	-7.1	**-7.9**	-9.1	1.0	**-0.5**
Containers	-3.6	-9.4	**-7.1**	-2.2	-3.9	**-3.6**
Dry bulk	-10.2	-3.6	**-6.2**	-8.3	4.2	**2.3**
Liquid bulk	-18.2	-8.6	**-12.4**	-11.3	1.8	**-0.2**
Total	**-9.0**	**-7.4**	**-8.0**	**-8.5**	**0.8**	**-0.6**

* These additional unit cots relate to the results of Scenario II as reported in Table A3.11.

Annex IV

STATUS IN THE REGION OF ECONOMIC COMMISSION FOR EUROPE TRANSPORT AGREEMENTS AND CONVENTIONS

as at September 2003

Countries		Declarations
	Infrastructure networks	Construction traffic arteries, 1950 E-Road Network (AGR), 1975 E-Rail Network (AGC), 1985 E Comb. Tr. Network (AGTC), 1991 Protocol Int. Nav. to AGTC, 1997 E Inl. Water Network (AGN), 1996
Jordan+, Israel+ and Egypt + Israel+ Egypt+, Israel *	Road Traffic	Road Traffic, 1949 Road Traffic, 1968 Road signs & Signals, 1949 Road signs & Signals, 1968 Suppl. 1968 Convention Road Traffic, 1971 Suppl. 1968 Conv. Road Signs & Signals, 1971 Weights and Dimensions, 1950 Suppl. 1949 Conv. and Protocol, 1950 Road Markings, 1957 Protocol Road Markings, 1973 Driving Permits (APC), 1975
	Vehicles	Construction of vehicles, 1958 Techn. Inspect. Vehicles, 1997 Global Technical Regulations Vehicles, 1998
	Road transport	Work of Crews Int. Road Transport (AETR), 1970 Taxation Priv. Road Vehic., 1956 Taxation Road Passenger Vehic., 1956 Taxation Road Goods Vehic., 1956 Contract Road Goods Transport (CMR), 1956 Protocol to CMR, 1978 Contract Pass. & Lugg. Rd. Transport (CVR), 1973 Protocol to CVR, 1978 Econ. Regular. Road Transp., 1954
	Inland navigation	Collision Inl. Nav., 1960 Registr. Inl. Nav. Vessels, 1965 Measurement Inl. Nav. Vessels, 1966 Liability Vessel Owners (CLN), 1973 Protocol to CLN, 1978 Contract Inl. Nav. Pass. & Lugg. (CVN), 1976 Protocol to CVN, 1978

Countries		Declarations
Egypt+, Israel+ and Jordan+	Border crossing facilitation	Touring Facilities, 1954
Egypt+, Israel+ and Jordan+		Temp. Import, Priv. Road Vehicles, 1954
Israel+ and Jordan+		TIR Convention, 1959
Israel+ and Jordan+		TIR Convention, 1975
		Temp. Import Aircraft & Boats, 1956
		Temp. Import, Commerc. Vehicles, 1956
		Cross. Front. Pass. Bagg. Rail, 1952
		Cross, Front, Goods Rail, 1952
		Spare Parts Europe Wagons, 1958
Israel+		Customs Container Convention, 1956
		Customs Container Convention, 1972
		Customs Treatment Pallets, 1960
		Harmonize Frontier Control Goods, 1982
		Customs Pool Containers, 1994
	Dangerous Goods and Special Cargoes	Dang. Goods by Road (ADR), 1957
		Protocol to ADR, 1993
		Liabil. Dang. Goods (CRTD), 1989
		Perishable Foodstuffs (ATP), 1970

Source: United Nations Economic Commission for Europe, Transport Division, Geneva.

+ : Rectification, accession, definite signature

* : Signature

Annex V

FRAMEWORK TRANSIT TRAFFIC AGREEMENTS BETWEEN PALESTINE AND PARTNERS - SUGGESTED ELEMENTS FOR ARTICLES[3]

CONTENTS

Page

[3] Based on the Economic Cooperation Organization (ECO) "Transit Transport Framework Agreement, that was developed in cooperation with UNCTAD and adopted by the organization in 1998. See ECO at http://www.ecosecretariat.org/Fis t_pag.htm.

Preamble

THE CONTRACTING PARTIES,

ANIMATED by the desire to maintain, further develop and strengthen friendly relations and cooperation between their countries;

BEING AWARE of the growing inter-change between nations, regionally and internationally;

BEING OF THE VIEW that no country, whether land-locked or not should be isolated from the rest of the world;

DESIROUS to develop and maintain a rational, agreed and mutually beneficial system of transport and communications;

RECALLING the " Integrated Transport System in the Arab Mashreq" project on the ESCWA Land Transport Infrastructure Development (ITSAM) as well as,

RECALLING FURTHER the objectives and principles enunciated in the Convention on Transit Trade of Land-locked States (1965), the United Nations Convention of the Law of the Sea (1982), Article V of GATT (1994), other International Conventions on Trade, Customs and Transport, and the Arab Transit Agreement, 1977.

RECOGNIZING the importance of adequate transit traffic arrangements for regional and international trade and for economic progress of land-locked States;

REITERATING their commitment to foster smooth, rapid and efficient movement of goods, passengers and luggage between and among Contracting Parties;

DESIRING to develop further their transit traffic regimes based on the experience gained and on international standards;

The Contracting parties have agreed as follows:

Part I: General Provisions

Article 1

Purposes and Objectives

1. The purpose of this agreement is to provide the most effective arrangement for facilitating transit traffic for Palestine and for other Contracting Parties.

2. The Contracting parties shall take all necessary measures:
   (a) for the expeditious movement of transit traffic, for reducing bureaucracy and for the avoidance of unnecessary delays to transit traffic through their territories;
   (b) to minimize the cost of transit traffic and the incidence of Customs fraud and tax evasion; and
   (c) to bring about simplification and harmonization of customs and administrative documentation and procedures relevant to transit traffic through their territories, in accordance with accepted international standards.

Article 2

Scope of Application

The provisions of this agreement shall apply to transit traffic as defined in Article 3.

Article 3

Use of terms

1. For the purposes of this Agreement:

   (a) "land-locked State" means, a State which has no sea- coast;

   (b) "transit State" means a State, with or without a sea-coast through whose territory traffic in transit passes;

   (c) "traffic in transit" means transit of persons, luggage, goods and means of transport on agreed routes across the territory of one or more Contracting Parties when the passage across such territory, with or without trans- shipment, warehousing, breaking bulk or change in the mode of transport, is only a portion of a complete journey beginning or terminating in a Contracting Party;

   (d) "Permit" means a document issued by a competent authority of a Contracting Party which allows/enables the motor vehicles registered in the other Contracting Parties to entry or exit and transit through the territory of another Contracting Party.

   (e) "internal traffic" means, the carriage of goods or passengers loaded in the territory of a Contracting Party for unloading at a place within the territory of the same Contracting Party.

   (f) "means of transport" means any means used for transportation of passengers, goods and luggage including containers, and other transport equipment.

   (g) "carrier" means legal or natural person who is authorized to perform international transportation of goods or passengers and luggage and by whom or in whose name a contract of carriage of goods or passengers has been concluded with a shipper/consignor or passenger

   (h) "Shipper" means, any person by whom or in whose name or on whose behalf a contract of carriage of goods has been concluded with a carrier, or any person by whom or in whose name or on whose behalf the goods are actually delivered to the carrier in relation to the contract of carriage of goods;

   (i) "Freight forwarder," means a natural or legal person concluding a contract of freight forwarding services with a shipper;

   (j) "Consignee" means, the person entitled to take delivery of the goods.

   (k) "Freight forwarding services" means services of any kind relating to the carriage, consolidation, storage, handling, packing or distribution of the goods as well as ancillary and advisory services in connection therewith, including but not limited to customs and fiscal matters, declaring the goods for official purposes, procuring insurance for the goods and collecting or procuring payment or documents relating to the goods;

   (l) "Goods" means all types of goods and commodities including, live animals. Where the goods are consolidated in a container, pallet or similar article of transport or where they are packed, "goods" include such article of transport or packaging if supplied by the shipper;

   (m) "Contract of carriage," means, any contract whereby the carrier undertakes for reward to carry goods, passengers or luggage from one Contracting Party to another;

(n) “passenger” means, any natural person who, in the performance of a contract of carriage made by him or on his behalf, is carried either for reward or free of charge by a carrier;

(o) “luggage” shall be understood to comprise any article carried under a contract of carriage, including vehicles but not motor coaches and lorries in commercial traffic.

(p) “domestic legislation” means, the entire body of national or local laws and regulations in force in the territory of a Contracting Party;

(q) “customs control” means, the whole range of measures applied by Customs authorities of the Contracting Parties to ensure compliance with domestic legislation relating to Customs and international agreements binding on the Contracting Parties which the Customs are responsible for enforcing;

(r) “import duties and taxes” means Customs duties and all other duties, taxes, fees and other charges which are collected in accordance with domestic legislation on, or in connection with, the importation of goods, but not including cost of services rendered;

(s) “container” means an article of transport equipment;
   (i) fully or partially enclosed to constitute a compartment intended for containing goods;
   (ii) of a permanent character and accordingly strong enough to be suitable for repeated use;
   (iii) specially designed to facilitate the carriage of goods, by one or more modes of transport, without intermediate reloading;
   (iv) designed for ready handling, particularly when being transferred from one mode of transport to another;
   (v) designed to be easy to fill and to empty; and

(t) “Contracting Party” means, the government of the State, which has signed this agreement and acceded to it.

Part II: Transit Traffic

Article 4

Facilities of Transit

1. Each Contracting Party shall grant to the other Contracting Parties the necessary facilities of transit through its territory, under conditions specified in this Agreement, and its Annexes. The Contracting Parties shall provide each other with the facilities and guarantees required for this purpose.

2. Subject to any specific terms of this agreement, no discrimination shall be exercised which is based on the place of origin, departure, entry, exit or destination, or any circumstances relating to the ownership of the goods or the ownership or place of registration of means of transport used in transit traffic.

3. This Agreement does not in any way entail the withdrawal of transit facilities which are greater than those provided for in this Agreement and which are agreed between a Contracting party and other transit States on a bilateral basis or otherwise granted by a transit State. This Agreement also does not preclude the grant of such greater facilities in the future.

Article 5

Designation of transit transport routes

The routes to be developed for transit traffic are specified in Annex… of this Agreement. Transit routes for the purpose of Customs control are specified in Annex… to this Agreement.

Article 6

Customs Duties, Taxes and other Levies and Charges

Traffic in transit shall not be subject to any unnecessary delays or restrictions and shall be exempt from Customs duties, taxes and other charges except charges for the specific services of administration and supervision rendered in accordance with the domestic legislation including toll taxes, road maintenance fee, etc.

Article 7

Combined and Multimodal Transport

1. Contracting Parties undertake to encourage and promote combined and multimodal transport.

2. Multimodal transport operations shall be based on internationally recognized documentation and procedures.

Article 8

Frontier Facilities

The Contracting Parties shall provide adequate facilities and related installations needed for road, rail and inland navigation as well as multimodal transport such as combined transport terminals, border crossing points, gauge interchange stations, ferry-link, ports, navigation aids and common radio frequency.

Article 9

Measures designed to expedite clearance of Transit Traffic

To ensure the smooth and expeditious movement of traffic in transit, the Contracting Parties undertake to make efforts to:

(a) establish posts at designated frontier points with control areas which are physica1ly adjacent and arranged in such a way that means of transport and goods can be examined at the same place, so that repeated unloading and reloading may be avoided;

(b) ascertain that adequate manpower resources are made available for the speedy completion of frontier formalities;

(c) provide warehousing facilities for the storage of goods;

(d) coordinate working hours of adjacent frontier posts;

(e) provide adequate parking space for containers and for trucks and other vehicles awaiting for goods clearance;

(f) provide reliable mail and telecommunication services and

(g) facilitate the quick and efficient transit of goods between the Contracting Parties and to adopt a uniform set of consignment notes/way bills.

Article 10

Safety of Transit Traffic

1. The Contracting Parties shall take all measures necessary for the safety of traffic and ecological protection along the transit routes.

2. The Contracting Parties shall provide all possible assistance in the event of traffic accidents in their territories involving transit vehicles especially when passengers, dangerous and perishable foodstuffs are involved.

Article 11

Establishment of Offices

1. The Contracting Parties shall grant permission to transport companies engaged in transit services on their territories to establish offices for the purpose of operating such traffic.

2. Establishment of such offices shall be in accordance with domestic legislation of the Contracting Party in which the relevant offices are established.

Article 12

Multiple Entry and Transit Visa

1. The Contracting Parties shall grant visas to the drivers of the vehicles and the persons engaged in international transit traffic operations, who are subject to visa requirements, multiple entry and transit visas valid for a period of one year with a right of staying on the territory of each Contracting Party for 15 days in transit for each trip and for up to 5 more days in place of loading and discharge.
2. In case of illness or injury of persons, accident or damage to vehicles, the period of stay shall be extended correspondingly.
3. Procedures for granting of visas mentioned in paragraphs 1 5 2 above shall be in accordance with domestic legislation of the Contracting Parties.

Part III: Maritime Ports and Facilities

Article 13

Maritime Ports and Facilities

The Contracting Parties having sea ports undertake to provide, within their capacities, the necessary port facilities to other Contracting Parties of the present Agreement at ports open to foreign vessels at costs and conditions which shall not exceed the standard tariffs paid by other foreign users of the port facilities.

Part IV: General Conditions for Road Transport

Article 14

Traffic Regulations

1. The Contracting Parties shall take appropriate measures to ensure that road traffic regulations in force in their territories conform in substance to the provisions of the Convention on Road Traffic, 1968 and the Convention on Road Signs and Signals, 1968.

2. Any Contracting Party which is not yet party to these conventions shall undertake to take the necessary steps to accede to those conventions.

Article 15

Road Transport Permits

1. Where road transport permits are prescribed as a condition for carriage of goods, passengers and luggage in transit traffic, such permits shall be issued in accordance with domestic legislation.

2. Contracting Parties shall harmonize and facilitate the requirements necessary for the issuance of road transport permits for carriage of goods, passengers and luggage in transit traffic, without any limitation and quota.

Article 16

Transport Services

1. Each Contracting Party shall allow the use of means of transport registered in another Contracting Party to provide transit services on its territory;

2. Unless specific permission has been obtained from the Contracting Party concerned, means of transport registered in one Contracting Party shall be prohibited from carrying goods, passengers and luggage in internal transport within the territory of another Contracting Party.

Article 17

Temporary Admission of Means of Transport

1. Each Contracting Party shall permit means of transport of other Contracting Parties to remain on its territory in accordance with domestic legislation;

2. A carrier shall not be required to provide a Carnet de Passage or any other collateral document while crossing the border of a Contracting Party if the carrier has a transit "Permit" issued in accordance with the agreement.

Article 18

Technical Requirements of Vehicles

Means of transport used in road transit transport shall conform to the technical requirements regarding vehicle dimensions, maximum total weights with loads, axle load and other parameters as mentioned in Annex ...[4]

[4] To be added to the Bill by the drafting authority.

Article 19

Provision of Fuel and Lubricants

Each Contacting Party agrees that means of transport of other Contracting Parties shall be entitled to the provision of fuel and lubricants, necessary for their operations on their territories, on conditions specified by the Contracting Parties.

Article 20

Mutual Recognition of Driving Licenses

The Contracting Parties shall recognize driving licenses issued by other Contracting Parties which are valid for the category of vehicle used in transit traffic and correspond to the Convention on Road Traffic, 1968. The Contracting parties shall undertake to institute regular inspection of their road vehicles.

Article 21

Mutual Recognition of Certificate of Road Worthiness

The Contracting Parties shall recognize certificates of road worthiness issued by other Contracting Parties and which shall correspond to the Convention on Road Traffic, 1968. The Contracting Parties undertake to institute regular inspection of their road vehicles.

Article 22

Motor Vehicle Third Party Insurance Scheme

1. The contracting Parties shall undertake to establish the international compulsory third party liability insurance scheme for road vehicles as specified in Annex.
2. The international compulsory motor vehicles third party liability insurance scheme shall provide, as a minimum, all the guarantees required by the laws and regulations governing compulsory motor vehicle third party insurance in the country or countries of transit and destination.
3. The Contracting parties shall enforce the requirements of the scheme referred to in paragraph 1 above for insurance of road vehicles registered in their respective territories against third party liability incurred in the course of transit traffic.

Article 23

Charges and other Payments

The Contracting Parties shall apply to the means of transport of the other Contracting Parties charges and other fees in accordance with domestic legislation.

Part V: General Conditions for Rail Transport

Article 24

Transit Services

1. Transit services on railway lines connecting the territories of the Contracting Parties shall be

performed at interchange stations designated by Agreements concluded between continuous Railway Administrations.

2. Border stations and interchange stations shall be those designated in Annex... Basic operational arrangements relating to such matters as, technical inspection of rolling stock and inspection of goods in transit shall be carried out at interchange stations.
3. Contracting Parties shall encourage their Railway Administrations to conclude inter-railway agreements, and arrangements which are consistent with the provisions of this Agreement and its Annexes.
4. Conclusion and performance of the contract of carriage in international rail passenger, luggage and goods traffic shall be carried out in accordance with the provisions specified in Annex ...[5]

Part VI: General Conditions for Inland Transport

Article 25

Inland Water Navigation

1. The Contracting Parties agree that navigation on their inland waterways shall remain free and open to transit traffic for vessels and their crews of other Contracting Parties in accordance with their domestic legislation.
2. 'The Contracting Parties undertake to provide adequate navigation aids and adopt a common radio frequency for al1 vessels engaged in inland waterway navigation in accordance with ITU regulations.
3. The use of navigation aids, radio frequency and other facilities shall be made available on a non-discriminatory basis and the fees, if any, will be charged in accordance with domestic legislations.

Article 26

Ship Papers

The documents shall be carried on board the vessels carrying transit traffic and produced whenever requested by the competent authorities of the Contracting Parties in accordance with Facilitative Convention on international Maritime Traffic.

Part VII: Rules of Carriage by Road Transport

Article 27

Rules of Carriage by Road Transport

The Contracting Parties shall apply the rules of carriage of goods, passengers and luggage by road transport as per Annexes.

[5] To be added to the Bill by the drafting authority.

Part VIII: Customs Control

Article 28

Establishment of Customs Transit System

1. The Contracting Parties shall establish a Customs Transit System for the cargo and means of transport in accordance with the relevant international Customs Conventions for the purpose of facilitating the movement of goods in their territories.

2. The Contracting Parties, which are also parties to the Customs Convention on the International Transportation of Goods under cover of TIR Convention 1975 will apply the provisions of that Convention amongst themselves. The Contracting Parties which are not yet parties to that Convention shall not be required to follow the provisions of that Convention.

3. The Contracting Parties which are not yet parties to this Convention will consider the possibility of acceding to this Convention.

Article 29

Simplification and Harmonization of Customs Procedures

1. The Contracting Parties will take measures to simplify the Customs control means of transport, goods, luggage and passengers passing through their territories using modern information and communication technologies in accordance with the provisions of the Annex...

2. The Contracting Parties shall facilitate joint Customs inspection of transit traffic at their designated frontier posts wherever possible.

Part IX: Documentation and Procedures

Article 30

Consolidation and Alignment of Documentation

l. The Contracting Parties recognize that documentation and procedures represent important cost and time elements affecting the efficiency of transit operations and agree to keep these costs and delays to a minimum

2. The Contracting parties therefore undertake to:
   (a) Limit the number of documents and reduce to the extent possible, procedures and formalities required for their traffic in transit;
   (b) align their documents to the United Nations layout key for trade documents;
   (c) harmonize, as far as possible, commodity codes and descriptions with those commonly used in international trade;
   (d) review periodically the need for and usefulness of all documents and procedures prescribed for transit traffic and
   (e) eliminate any documents and formal requirements which are agreed to be considered superfluous or not serving any particular purpose.

Article 31

Notification of Change in Documentation and Procedures

The Contracting Parties shall give due advance notice to the other Contracting parties of any additional requirement or modification in prescribed documentation and procedures to be introduced in regard to traffic in transit.

Article 32

Basic Documentation and Procedures

The basic documentation and procedures to be applied by the Contracting parties in the implementation of this Agreement shall be specified in Annex ...[6]

Part X: Miscellaneous Provisions

Article 33

Provision of Greater Facilities

This Agreement does not entail in any way the withdrawal of transit facilities which are greater than those provided for in the Agreement provided the terms and conditions for use of such facilities are consistent with the principles embodied in this Agreement. The Agreement also does not preclude such grant of greater facilities in the future.

Article 34

Domestic Legislation

1. Domestic Legislation and regulations relating to transport, shall, in so far as this Agreement, and its Annexes do not lay down, apply equally and without discrimination to transit transport.
2. The Contracting Parties undertake to harmonize and simplify their rules, regulations and administrative procedures relating to transit transport in line with the provisions of this Agreement.

Article 35

International Conventions

This Agreement shall not prevent the mandatory provisions of International Conventions relating to matters dealt with in this Agreement, provided that the dispute arise exclusively between parties to a contract of carriage having their principal place of business in States Parties to such Conventions.

Article 36

Monitoring and Implementation of the Agreement

1. The Contracting Parties agree to set up, within six months of the entry into force of this Agreement, an authority for monitoring, implementation and co-ordination of transit transport issues to be known as the "Transit Transport Co-ordination Council" (TTCC) for monitoring and

[6] To be added to the Bill by the drafting authority.

implementation of the Agreement.

2. All Contracting parties shall ipso facto be members of the Council

3. The nature of the Council including its terms of reference, composition, mandate and sources of its budget are: Annex ...[7]

Article 37

Dispute Settlement

1. Any dispute, controversy or claim between the Contracting Parties arising out of or relating to this Agreement and its Annexes, or the breach, termination or invalidity thereof which cannot be settled by consultation between them may be referred to the TTCC by any of the Contracting Parties in dispute.

2. Any such dispute, controversy or claim which is not settled through consultation or through the intermediary of the TTCC shall, at the request of any Contracting Party involved, be settled by arbitration and shall be referred accordingly to arbitrators selected by agreement between the Contracting Parties.

3. If any of the Contracting Parties in dispute fails to attend the arbitration proceedings provided in this article, or if the TTCC fails to agree on the appointment of arbitrators, any of the Contracting Parties in dispute may request the President of the International Court of Justice to appoint arbitrators who shall not be a national of any of the Contracting Parties and to whom the dispute shall be referred for decision in accordance with the Rules of Arbitration of the United Nations Commission on international Trade Law (UNCITRAL), 1976.

Article 38

Decisions of the Arbitrators

The decision of the arbitrators, appointed under Article 38 shall be final and binding on the Contracting Parties concerned.

Article 39

Report of the Arbitrators

1. The arbitrators, shall notify all the Contracting Parties of the existence and nature of the dispute and of the general terms of the settlement. The notifications shall be sent within a period of one month after the award has been pronounced.

2. The cost of arbitration shall normally be borne in equal part by the Contracting Parties concerned. The arbitrators may, however, decide that a higher proportion, or the total cost shall be borne by one of the Contracting Parties and this award shall be binding on the Contracting party concerned.

[7] To be added by the drafting authority.

Part XI: Final Clauses

Article 40

Status of the Annexes and amendments

The Annexes to this Agreement, as well as valid amendments to them and also new Annexes adopted by the Contracting parties form an integral part of this Agreement. Any reference to this Agreement includes the Annexes and valid amendments thereto.

Article 41

Ratification

This Agreement shall be subject to ratification in accordance with the respective constitutional procedures of the Contracting Parties.

Article 42

Entry into force

This Agreement shall enter into force on the thirtieth day following the date of deposit of instruments of ratification by all the Contracting Parties with the Depository.

Article 43

Accession

States other than the original Contracting Parties may become Contracting Parties to this Agreement by accession, upon approval of all existing Contracting parties for such accession. This Agreement shall enter into force for each State that acceded to it on the thirtieth day following the date of deposit of the instrument of accession with the Depository.

Article 44

Amendment

1. Any Contracting party may propose amendments to this Agreement which shall be incorporated by means of Protocols. If agreed by all Contracting Parties, amendments shall enter into force in accordance with the procedures governing the entry into force of this Agreement.
2. Each party which acceded to this Agreement shall be deemed to have accepted the amendments to this Agreement which were in force at the time of its accession.

Article 45

Registration with the United nations

This Agreement and its Annexes shall be registered at the United Nations pursuant to Article 102 of the Charter of the United Nations.

Article 46

Functions of Depositary

1. This agreement and all instruments of Definitive Signature, Ratification or Accession shall be

deposited with the Depository of the Agreement. The Government/Secretariat of shall act as Depositary of this Agreement.

2. The depositary shall:
   (a) receive and keep custody of the original text of this Agreement;
   (b) prepare certified copies of the original text of this Agreement and transmit them to the Parties and to the States entitled to become Parties to this Agreement;
   (c) receive any signatures to this Agreement and receive and keep custody of any instruments, notifications and communications relating to it;
   (d) examine whether the signature or any instrument, notification or communications relating to this Agreement is in due and proper.

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