UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

UNCTAD

Trade Facilitation in the Occupied Palestinian Territory: Restrictions and Limitations

UNITED NATIONS

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

Trade Facilitation in the Occupied Palestinian Territory: Restrictions and Limitations

Mutasim Elagraa, Randa Jamal and Mahmoud Elkhafif

UNITED NATIONS
New York and Geneva, 2014

Note

UNCTAD/GDS/APP/2014/1

** Special thanks go to Raja Khalidi, former Coordinator of UNCTAD Assistance to the Palestinian People Program, for guidance and substantial comments on this study. Thanks are due also to Nur Arafeh for assistance during the preparation of this study.*

**This study draws on collaborative work done by UNCTAD and the Palestinian Shippers' Council in the context of the UNCTAD project entitled "Capacity Development for Facilitating Palestinian Trade ".*

Executive Summary

Following the Israeli occupation of the West Bank (WB) and the Gaza Strip (GS) in 1967, the economy of the occupied Palestinian territory (OPT) became predominantly dependent on the much larger Israeli economy. The 1994 Paris Protocol, signed between the Palestine Liberation Organization (PLO) and the Government of Israel (GoI), attempted, at least theoretically, to remedy some aspects of the asymmetrical relations between the two economies, and to expand Palestinian external trade. However, the OPT's dependency on Israel further deepened in subsequent years and Israeli ports continued to be the major gateways used by Palestinian shippers (exporters and importers). Two factors explain the OPT's heavy dependency on Israeli ports: a) the limited, or almost no, access of Palestinian trade to regional port facilities in Egypt and Jordan; and b) the easiness of the clearance facilities available to Israeli agents who handle a significant amount of Palestinian imports, since Palestinian clearance agents have no access to Israeli port facilities.

Following the second Palestinian *Intifada* of September 2000, Palestinian shippers were confronted with a myriad of new problems associated with importing and exporting goods. This study identifies the major Israeli procedures and hurdles that face Palestinian shippers at the Israeli ports of Haifa, Ashdod and the King Hussein Bridge (KHB). Many trade impediments are common to the three gateways; including stringent security procedures and physical barriers, unilateral Israeli control over all gateways, movement restrictions imposed on the Palestinian people and goods, the back-to-back system, lack of information and resources, inadequate infrastructure, and limited working hours. The study also highlights the Israeli policies that are specific to each gateway.

As a result of Israeli procedures, Palestinian shippers, who are subjected to discriminatory treatment, bear additional direct and indirect costs; leading to higher transaction costs and thus the final cost of production and distribution (World Bank, 2008c). Ultimately, the competiveness of Palestinian exportable and importable goods in the domestic as well as the global marketplace erodes while the cost of imported inputs and consumer goods escalates.

Despite the fact that Israeli procedures and trade impediments hamper efforts to create tangible changes on the ground, the study argues that a number of measures, if implemented, could boost Palestinian trade and revitalize the economy in the short term. Hence, this paper also identifies and critically examines some of these measures.

One possibility, among many, is to seek and use donor aid to mitigate the constraints of the occupation. For instance, the improvement of trade conditions at KHB, including the need to process containerized shipments, would be a key element in facilitating Palestinian trade. In this regard, the introduction of the gantry scanner that was proposed by the Government of Netherlands (GoN) at KHB could boost Palestinian trade. For Palestinian shippers, the gantry scanner is intended to encourage the efficient movement of goods by eliminating the back-to-back process for moving goods (a costly, tedious process of unloading and reloading pallets for manual inspection), reducing damage to goods, allowing for the effective transportation of refrigerated and perishable items, enabling better packing of shipments in terms of the diversity and quantity of goods, and reducing transportation time and other costs.

Abbreviations

ECF	Economic Cooperation Foundation
GoI	Government of Israel
GoN	Government of the Netherlands
IAA	Israeli Airport Authority
JEC	Joint Economic Committee
KHB	King Hussein (Allenby) Bridge
OCHA	Office for the Coordination of Humanitarian Affairs
OPT	occupied Palestinian territories
OQR	Office of the Quartet Representative
PNA	Palestinian National Authority
PCBS	Palestinian Central Bureau of Statistics
PLO	Palestine Liberation Organization
PSC	Palestinian Shippers' Council
UNCTAD	United Nations Conference on Trade and Development
WB	West Bank

Table of Contents

Tables and Figures

Chapter I
Introduction

The rapid progress of Information and telecommunication technology, the increasing number and scope of multilateral trade agreements, and the decline in tariff and non-tariff barriers to trade reinforce the importance of trade as a tool for growth and development. Economic theory asserts that trade leads to more efficient allocation of resources and allows the dissemination of knowledge and technology. In this context, trade facilitation – the simplification, harmonization and standardization of international trade and transport procedures through fast, reliable and efficient transport and logistical trade-related services is a major goal to be pursued in developing countries. In fact, developing countries' efforts to increase their share in global trade are often undermined by weak infrastructures and high transportation costs that erode the competitive edge of their exports and impose significant barriers to trade and development.

While these problems are acute in the OPT, the relationship between growth and trade should be evaluated considering the restrictive measures imposed by the Israeli occupation, Palestinian economic dependency on Israel, the intensity of the political conflict and its economic ramifications. As argued in UNCTAD (2013), the structural constraints on economic development have worsened due to the prolonged Israeli restrictions on the movement of Palestinian people and goods, the expansion of settlements, the inability of Palestinian producers to access their productive resources, the decline in aid flows and the pervasive political and economic uncertainty. The protracted socioeconomic crisis in the OPT has bred to further problems for Palestinian trade, especially in the context of small and disconnected territories under the control and jurisdiction of the Palestinian National Authority (PNA), and increased Israeli restrictions on Palestinian traders. Furthermore, although the OPT has a seacoast of its own in Gaza, the delays in the construction of a seaport renders the OPT a *de-facto* landlocked territory dependent on the utilization of other countries' transport and port facilities, especially those of Israel, in order to access international markets. The land-locked status is aggravated by Israel's unilateral control of borders and transport facilities, by its closure policy and its elaborate restrictions on the free movement of Palestinian people and goods. As a result, Palestinian traders' access to the global market has grown to be dependent on political and security developments and the patterns of Palestinian trade are largely determined by the limitations imposed by occupation rather than by comparative advantages.

In order to overcome the effectively land-locked status, the OPT needs to have the ability to construct and use its own seaport in Gaza and rehabilitate its national airport to achieve, in part, economic sovereignty and reduce high transport costs borne by shippers, producers and consumers. However, under the current circumstances of the blockade on Gaza and lack of progress on the political front, other short-term solutions should be explored in order to facilitate the flow of Palestinian trade. One of those alternatives was assessed in a study conducted by UNCTAD (2004) which examines alternative maritime routes to redirect Palestinian trade from Israeli ports to Port Said in Egypt and the Port of Aqaba in Jordan. The study found that in most cases the diversion of Palestinian trade through alternative routes was more costly than the original routes, mainly because of the Israeli security measures. Therefore, the study concluded that greater Palestinian control over trade transport routes, within the context of regional transit transport agreements, is vital for Palestinian trade.

In this study, a different angle is considered. The focus is on trade facilitation where Palestinian shippers are compelled to use the Israeli ports of Haifa and Ashdod or the King Hussein Bridge (KHB)[1] under the conditions set by the Israeli occupation. The study has thus two goals: first, it intends to examine the Israeli impediments Palestinian traders face at the abovementioned ports and gateways; and second, guided by the findings, the study seeks to provide policy recommendations for facilitating trade and reducing Palestinian traders' heavy dependency on Israel's ports and economy.

Chapter II presents a brief historical account of Palestinian trade before and after the 1993 Oslo Accords and introduces the main gateways currently used by Palestinian shippers. The study will only focus on the ports of Haifa and Ashdod and the KHB— the Palestinian commercial crossing point with Jordan. Rafah, the commercial crossing point with Egypt, is beyond the scope of this study. Chapter III is devoted to the analysis of Israeli procedures and constraints imposed on Palestinian shippers, followed, in chapter IV, by an examination of the direct and indirect costs of Israeli policies at the ports of Haifa and Ashdod and KHB. Chapter V explores the outcomes and limitations of the introduction of the gantry scanner at KHB as one of the means to enhance Palestinian trade. The paper concludes by providing policy recommendations that can be adopted under current circumstances in order to improve Palestinian trade.

[1] Sometimes called Allenby bridge, it has been under full Israeli control since its occupation in 1967.

Chapter II
Historical overview of Palestinian trade

A. Pre-Oslo Trade regime

Prior to 1948 and for many decades, Palestine was commercially connected to Europe and the Middle East region through the Mediterranean Sea. In fact Yaffa, the hub of the Palestinian economy then, enjoyed global significance related to citrus and orange trade. By the 1930s, Yaffa witnessed the growth of banks, sea-transportation enterprises and export/import firms. Commerce and services were the pillars of Yaffa economy. Likewise, Haifa was another primary port on the Mediterranean and was the main trading center in Northern Palestine, a status that had been enhanced by being the hub of Palestine's railway system (Karsh, 2001).

However, after 1948 the two flourishing urban centers of Yaffa and Haifa were marginalized as peasants and farmers were forced off their lands, and were displaced as refugees. At the same time, both the West Bank, under Jordanian administration, and the Gaza Strip, under Egyptian administration, were cut off from their trade and commercial centers. The West Bank lost its traditional markets in Palestinian cities and villages on top of losing access to Mediterranean ports. As a result, the West Bank local economy, which was reliant on the agricultural and services sectors deteriorated significantly and registered severe trade deficit. Similarly, the local economy of the Gaza Strip deteriorated after 1948 due to its growing isolation and the severance of its trade relations. Citrus production and trade were important income-generating sectors; while smuggling was prevalent because customs duties in Gaza were lower than in neighboring Egypt (Roy, 1987).

On the eve of the Israeli occupation in 1967, the economies of the West Bank, including East Jerusalem, and the Gaza Strip were undeveloped. Furthermore with the onset of occupation, trade relations of the OPT were further disrupted and new links had to be established with Israel, which forcefully became the main trading partner of the OPT. For instance, Israel's share of West Bank trade reached 80 percent in 1984 and imports from Israel increased to about 90 percent of total imports. With the difficulties facing the Palestinian exporters and importers in their trade with the regional Arab countries, and the absence of customs barriers with Israel and low transportation costs as a result of geographical proximity, the OPT has become, and without a choice, a market for Israeli goods.

Several security policies were imposed by Israel in order to maintain a strong trading position and build asymmetrical economic ties with the OPT, including military orders that prohibited many imports from countries other than Israel, stringent control over imports through the Jordan River Bridges, and imposition of higher customs duties on imports that do not use Israeli ports (Mansour, 1988). In addition, the Israeli military rule effectively imposed what could be called a one-way trade regime where Israeli goods had free access to the markets of the OPT, while Palestinian exports to Israel were subjected to many restrictions. For example, Palestinian agricultural goods were not allowed to enter Israeli markets and manufactured exports were subject to strict administrative controls.

Likewise, Israel established unequal trade links with Gaza upon its occupation in 1967. While Gaza exported agricultural products to Europe prior to 1967, Israel undermined such trade after 1967 and thwarted Gaza's competitive positions *vis-a-vis* Israeli farmers. Between 1967 and 1974, the Gaza Strip was only allowed to export citrus products to some European countries indirectly through Israel's Citrus Marketing Board. However, after 1974 it was difficult to export Palestinian products from Gaza to Europe. Palestinian farmers were subject to unequal and discriminatory trade conditions. While most fruits and vegetables from Gaza were not allowed to be marketed in Israel, Israeli producers had unlimited access to the Gaza market along with their politically enhanced competitive position (Abu Amr, 1988). Prior to the Oslo Accords, the Palestinian economic performance was largely determined by its unequal relations with the Israeli economy. This resulted in a distorted economic and trade structures in the OPT that have been deepening over time.

B. Post-Oslo Trade regime: Paris Protocol

The Declaration of Principles, signed on 18 September 1993, launched the Oslo peace process and recognized the importance of economic development in the OPT. Article 6, annex 3, commits Israel and the Palestine Liberation Organization (PLO) to collaborate "*in the field of trade, including studies, and Trade Promotion Programs, which will encourage local, regional and inter-regional trade, as well as a feasibility study of creating free trade zones in the Gaza Strip and Israel, mutual access to these zones, and cooperation in other areas related to trade and commerce*."

More specifically, the Paris Protocol has defined the structure of trade relations between the PLO and Israel. The two parties recognized that the Palestinian economy had a skewed relationship with that of Israel. Therefore the intention of the Protocol was to rectify some of these asymmetrical relations and help Palestinians develop external trade relations. While the Palestinians argued for a free trade area, Israel pushed for a customs union, which, unlike free trade, sidesteps the border issues which were left for final status negotiations. At the end, the two parties reached a compromise that includes elements of both a free trade area and a common market.

A key feature of the protocol was the freedom of movement of goods and labor between Israel and the Palestinian economy; with some exceptions regarding the movement of agricultural products. The goal, in theory, of this arrangement was to eliminate the discrimination suffered by Palestinian traders when exporting and importing goods. Thus, Palestinian shippers expected to have the same access to Israeli trade facilities as Israeli shippers. This was indicated in Article III (13) of the Protocol that states that Palestinian trade operators have full access to Israeli ports of entry and exit, as follows:

> *"In addition to the points of exit and entry designated according to the Article regarding Passages in Annex I of the Agreement for the purpose of export and import of goods, the Palestinian side has the right to use all points of exit and entry in Israel designated for that purpose. The import and export of the Palestinians through the points of exit and entry in Israel will be given equal trade and economic treatment"*.[2]

However, the terms of this agreement were not upheld. On the contrary, Palestinian shippers frequently state that they experience regular discrimination in terms of severe

[2] Paris Protocol 1994, Art III (13), http://www.nad-plo.org/userfiles/file/Document/ParisPro.pdf

security procedures imposed on them at the Israeli ports and West Bank commercial crossings. This leads to delayed shipments and increased costs, rendering Palestinian products uncompetitive in international as well as domestic markets (World Bank, 2008c). Moreover, Israeli measures featured frequent closure of borders and the erection of internal checkpoints that hamper the movement of both people and goods.

Besides the free movement of people and goods, another important element of the Protocol was the creation of a customs union; whereby Palestinians are obliged to use Israel's customs regime and tariff structure, which were set in accordance with the structures, needs and goals of the Israeli economy.

A third feature of the protocol was the establishment of a revenue clearance mechanism by which Israel is obliged to transfer on a monthly basis clearance revenues to the PNA. Clearance revenue is the revenue from the taxes on Palestinian imports coming from or via Israel, which Israel collects on behalf of the PNA. This arrangement, however, has cultivated a permanent PNA fiscal vulnerability, which can be seen from Israel’s politically motivated, repeated withholding of Palestinian clearance revenue, contrary to the provisions of the Paris Protocol. For instance, one of the latest episodes of clearance revenue withholding, of an average of USD 120 million a month, occurred following the successful bid by the PNA for the recognition of Palestine as a non-member observer state by the United Nations in November 2012.

Overall, the Oslo Accords did not live up to expectations. While there was an effort to present the accords as being drawn between two equal parties, this was not the case since one partner was an advanced state and the other still an occupied people denied the right to basic sovereignty and development. Furthermore, most of the goals remained elusive; many articles in the agreement were not fully applied or were unevenly implemented. Consequently, economic conditions deteriorated in the OPT, and dependency of the Palestinian economy on that of Israel further deepened, with Israel increasingly becoming the main source of imports and the major destination of exports. In 2012, Israel accounted for 70 percent of Palestinian imports and absorbed more than 80 percent of Palestinian exports as the Palestinian trade deficit with Israel accounted for 77 percent of the total deficit (UNCTAD, 2013).

C. The Ports of Haifa, Ashdod and the King Hussein Bridge

Subsequent to the signing of the Paris Protocol, the isolation of the Palestinian economy and its dependence on Israel deepened, especially in the aftermath of the second *Intifada* in 2000. The Israeli ports of Haifa and Ashdod became the major gateways used by Palestinian traders. The port of Haifa, which lies along the northern coastline of the city, is Israel's largest and leading port for cargo shipping. The port of Ashdod, 40 kilometers away from Tel Aviv, is also an important gateway. According to the Palestinian Central Bureau of Statistic (PCBS), approximately 75 per cent of Palestinian trade, with countries other than Israel, is transported via the ports of Ashdod and Haifa (PCBS, 2010).

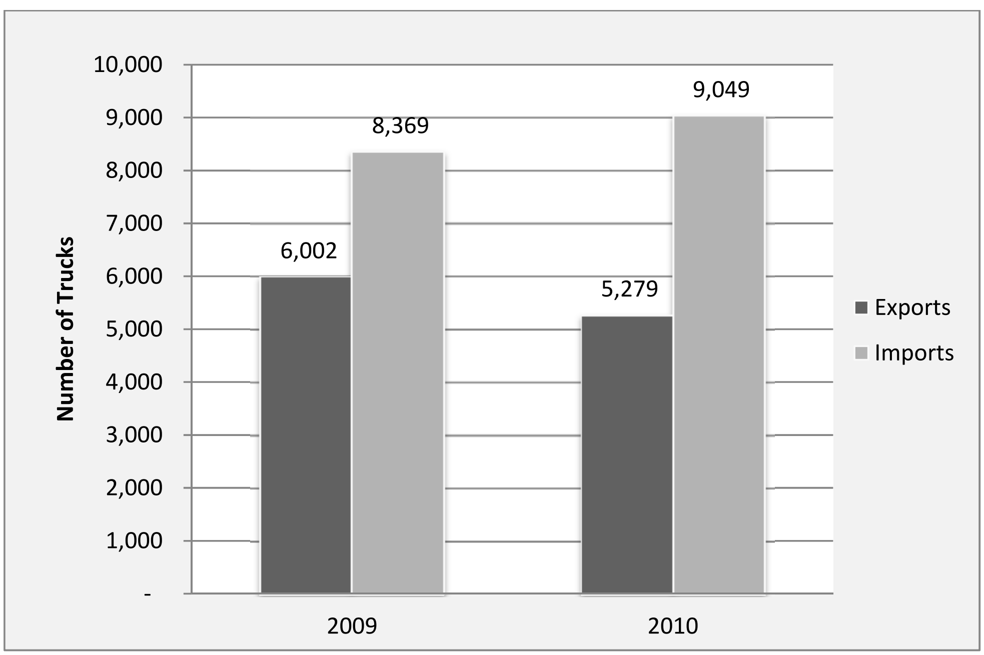
Another international gateway for Palestinian trade is the King Hussein (Allenby) Bridge (KHB). This crossing point is located in the Jordan Valley, five kilometers east of Jericho. It represents the only point open for the movement of goods between the OPT and Jordan, and is currently the only international border crossing in the West Bank for

Palestinian trade with Jordan. However, on the Palestinian side this international crossing point is under the full control of the Israeli authorities.

The KHB provides a great potential for Palestinian foreign trade with regional markets because it offers several options of access to adjacent countries, including Jordan, Lebanon, Iraq, Saudi Arabia, Turkey and other Gulf countries. Nevertheless, the KHB accounts for only 3.6 percent of Palestinian trade (PCBS, 2010). Official Palestinian data shows that the value of total Palestinian trade in 2010 was approximately $4.5 billion ($3.9 billion imports and $0.6 billion in exports), of which trade through KHB was only $166 million. As figure 1 shows roughly more than two-thirds of the trade passing through the KHB is Palestinian imports and the remaining one-third represents exports from the OPT to the rest of the World. On average, the KHB processes only about 60 outgoing trucks and 18 incoming trucks per working day. According to figures from the Israeli Airports Authority, the volume of imports and exports through KHB has grown by 60 per cent between 2004 and 2010. As portrayed in Figure 2, the number of imports and exports through KHB has increased substantially from 8,625 trucks in 2004 to 14,360 trucks in 2010.

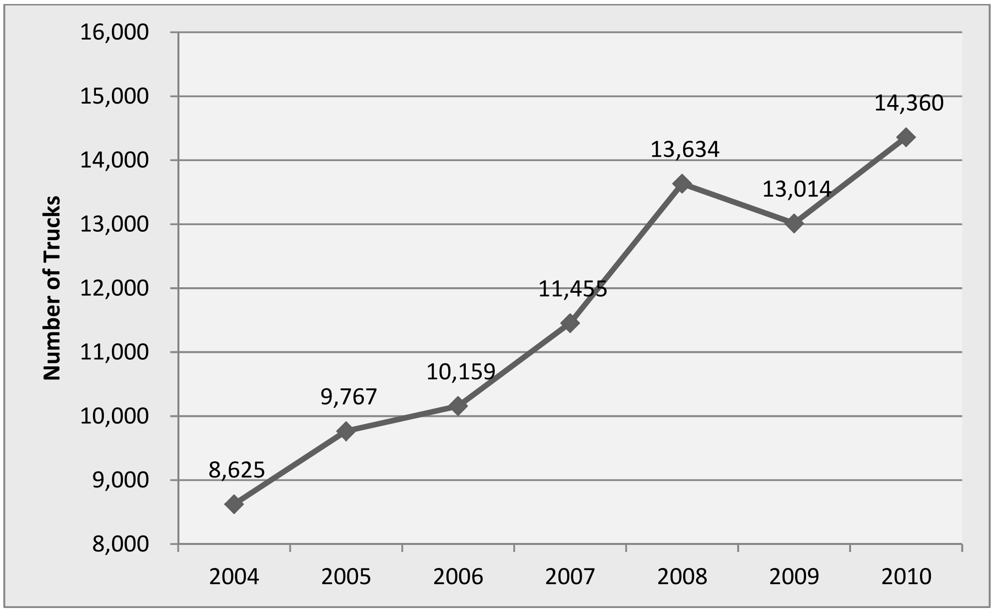
In many cases, restrictive Israeli policies limit the use of the KHB gateway by Palestinian traders by rendering it less attractive compared to the ports of Ashdod and Haifa. Nevertheless, Palestinian shippers are still compelled to deal with a myriad of challenging, obstructive procedures at the Israeli ports of Haifa and Ashdod. The following section of this study will focus on impediments faced by Palestinian shippers at these ports.

Figure 1: Volume of Imports and Exports (2009 – 2010)



Source: Palestinian Central Bureau of Statistics (PCBS).

Figure 2: Trend in the Movement of Trucks through the KHB



Source: Israeli Airports Authority (IAA).

Chapter III
Constraints on the Movement of Palestinian International Trade

Palestinian shippers face a common set of obstacles whether they operate through the Israeli ports of Haifa and Ashdod or the KHB. This Chapter provides a list of restrictive measures that the Palestinian shippers are subjected to at the different ports or crossing points through which they transit their imports and exports from/to regional and international markets.

A. Lack of Palestinian control over all gateways

While the Government of Israel (GoI) has complete sovereign authority over the ports of Haifa and Ashdod, it also has full control over security and operations at KHB since the second Intifada of September 2000. This contradicts the 1993 Oslo Agreements which stipulates that operations and crossings at the KHB should be under joint Palestinian-Israeli control. Furthermore, the Israeli-Palestinian Interim Agreement of 1995 defined the joint structural and procedural arrangements for the crossing; establishing Israeli and Palestinian physical presence at the terminal. Under this agreement, the GoI was to maintain responsibility for the overall security of the bridge and for the role of the Director General, who would have an Israeli Deputy to manage the Israeli side of the facility and a Palestinian Deputy to manage the Palestinian side of the bridge operations.[3] The Palestinian side of the bridge was to be responsible for Palestinian residents and visitors to the West Bank, with police, customs officials and administrators conducting personal and document inspections in the presence of Israeli officials. In addition, the agreement called for the creation of "special arrangements" for the passage of goods, buses, and private vehicles.

After the signing of the agreement, the two parties jointly managed the operation of the KHB crossing, except for the use of Palestinian customs agents, which was never implemented. However, following the outbreak of the second intifada in September 2000, all joint operations at the KHB crossing ceased to function and the GoI assumed sole control of security and operations at and around the terminal. Currently, Israel exercises control over the Palestinian side of the border crossing and the facility itself is managed by the Israeli Airport Authority (IAA). This effectively means that the Israeli Authorities are in full control of all Palestinian borders crossing points, be they land, air, or sea-ports[4].
Movement restrictions on Palestinian people and goods:

B. Movement restrictions on Palestinian people and goods

The Separation Barrier

Although the Israeli restrictions imposed on the movement of Palestinian people and goods to/from/within the OPT existed after the Oslo Accords of 1994, they were intensified following the outbreak of the second Intifada in September 2000. Israel began to impose harsh

[3] For more information, see Annex I of the Israeli-Palestinian Interim Agreement of 1995 http://www.mfa.gov.il/mfa/foreignpolicy/peace/guide/pages/the%20israeli-palestinian%20interim%20agreement.aspx.
[4] http://mfa.gov.il/MFA/ForeignPolicy/Peace/Humanitarian/Pages/Summer-visits-the-at-Allenby-Bridge-2-Jul-2013.aspx

restrictions on the internal movement of people and goods between villages, towns and cities through a complex, stringent system of checkpoints, physical obstacles, closures, fences, and walls. This led to the *cantonization* of the OPT and the fragmentation of the Palestinian economy (World Bank, 2007).

In 2002, Israel began constructing a 708 kilometer long Barrier, which already has had a profound impact on the contiguity of Palestinian communities and traditional market channels in the West Bank. The International Court of Justice (ICJ, 2004), the principal judicial organ of the United Nations, in its advisory opinion, on 9 July 2004, on the Legal Consequences of the Construction of a Wall in the Occupied Palestinian Territory, indicated that the sections of the Barrier route which ran inside the West Bank, including East Jerusalem, together with the associated gate and permit regime, violated Israel's obligations under international law. The ICJ also called on Israel to cease construction of the Barrier and stated that UN member states should not recognize the unlwaful situation created by the Barrier and should ensure Israel's compliance with international law.

More than 10 years after the commencement of the construction of the Barrier, movement and access for Palestinians is increasingly channeled through secondary roads, tunnels and underpasses constructed by the Israeli authorities especially for Palestinians, to force them not use direct routes that pass near existing illegal Israeli settlements and the exclusive roads for Israelis (OCHA, 2009). This combination of movement restrictions has inflicted serious damage on the Palestinian economy, increased transport and transaction costs, blocked access to international and local markets, precipitated massive unemployment, reduced incomes, and cultivated tension and frustration. A concrete example that highlights the impact of the Separation Barrier is the current status of the city of Bir Nabala, which was a key center for wholesale trade and supply to Jerusalem and the West Bank. It has been isolated from other cities and lost many sale dealers as a consequence of the construction of the Separation Barrier and the resulting hike in transportation costs (CCDPRJ, 2008). Trade and exchange of goods between Palestinian cities is severely impacted by the Separation Barrier. Similarly, Palestinian farmers in the Jordan Valley, who are now obliged to use longer roads and pass through check points, face additional transportation cost in the range of $2 million annually, which reduces the competitiveness of Palestinian products (UNCTAD, 2013).

West Bank commercial crossing points

Along the Separation Barrier, the Israeli authorities constructed several commercial crossing points in an attempt to control the flow of civilian and commercial traffic from, into and within the OPT (for more details on these West Bank commercial crossing points, see Annex 1). Despite claims by the GoI that the introduction of the crossing points along the Barrier route will result in reducing the number of roadblocks and barriers within the West Bank, by 2013, approximately 540 internal checkpoints, roadblocks and other physical obstacles continued to impede Palestinian movement within the OPT; separating the Palestinian communities in segregated *Bantustans*, disconnected from domestic and international markets (UNCTAD, 2013). The international community has been actively calling for the removal of these restrictions, noting that they a) increase the cost of transportation, b) raise transaction costs due to time wasted taking less efficient alternative routes and the time for complying with procedures at checkpoints, c) induce low levels of utilization of the current truck fleet which implies higher fixed cost per kilometre, and d) introduce high levels of uncertainty that hamper planning, efficient allocation of resources and in some cases prevent transactions from taking place (IMF, 2009).

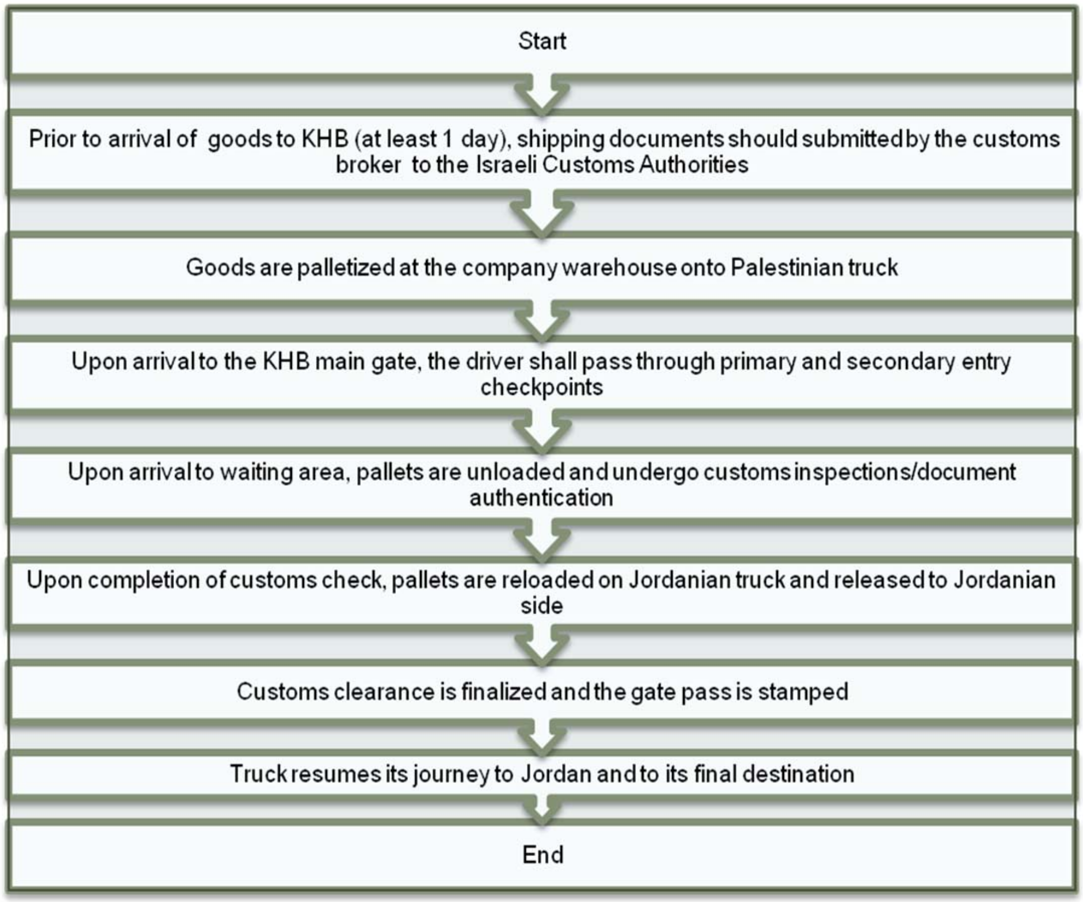
With the construction of the Separation Barrier and the establishment the commercial crossing points, by Israel, in the West Bank, Palestinian traders who use the Israeli ports of Haifa and Ashdod are now forced to transport their goods through these specific crossing points. This has effectively transformed the process of moving goods from/to/within the OPT and restrained Palestinian trade. At these Israeli established commercial crossing points, as well as the KHB, Palestinian traders face many constraints. These obstacles are considered below.

Administrative procedures hindering normal trade flow: the back-to-back system

At the ports of Haifa and Ashdod, Palestinian shipments, including refrigerated items and perishables, must be unloaded and reloaded at the West Bank commercial crossing points for inspection using the back-to-back operations. As a result of this process, Palestinian shippers face long processing and/or waiting times and mishandling of goods, which could result in high transaction, and transportation costs, and/or damage. A recent study on the *Tarqumia* commercial crossing point conducted by the Economic Cooperation Foundation (ECF) found that the average waiting time for Palestinian trucks at *Tarqumia* was 1.5 hours, which according to ECF adds at least 15 percent to the cost of shipping (ECF, 2008). This estimation was done at a time when the *Tarqumia* commercial crossing was handling only a fraction of the traffic, which implies that costs would be much higher when the crossing operates at a full capacity.

For Palestinian exporters at KHB, the first step of the “back-to-back” process is to obtain the required security clearance, which can take a minimum of two working days, but often takes up to five working days. Once the trucks are *en route* to the bridge, the Palestinian exporter would contact his or her counterpart on the Jordanian side to send trucks to receive the goods. Because the cargo terminal opens at 8:30 a.m. and only ten trucks can enter at any given time, drivers wishing to ensure their place in the queue on either side leave for the terminal as early as 4:30 a.m. According to a survey by the PSC (Annex 2), once the trucks arrive at KHB, the average waiting time to enter the commercial crossing is between 30 to 60 minutes. All trucks arriving at the crossing are unloaded into a large, secured holding area, enclosed from direct sunlight, but not refrigerated, which takes around one to two hours to complete. Palestinian goods may thus be damaged or spoiled and incur extra, unnecessary costs. Goods are then subject to security checks on the ground. Truck drivers from the Palestinian and Jordanian sides are not allowed to communicate at the terminal in any way. Only the Palestinian truck driver is allowed to enter the holding area with the goods and communicate with security authorities to certify them. According to Palestinian shippers, the paperwork required to enter the cargo terminal from the Jordanian side can take anywhere between two to six hours to complete. At that point, the Jordanian counterpart will be allowed to enter the holding area from the Jordanian side of the terminal to load the goods. Figure 3 shows the process map of the movement of Palestinian goods to Jordan via KHB.

Figure 3: Shipping-Export Procedures at KHB, including the Back-to-Back system



Source: PALTRADE, Palestinian Trade Facilitation Portal

Lack of information and resources

Palestinian shippers operating through the ports of Haifa and Ashdod are often uncertain about changes in the procedures and requirements at commercial crossing points. In a survey conducted by the PSC in early 2012 (Annex 2), 84 per cent of respondents reported confusion about applicable trade procedures, mainly because of the lack of a reliable source of information. Information is either not available, not updated, or is published only in Hebrew but not in Arabic or English.

Several Palestinian organizations made attempts to post regular updates on their websites regarding procedures at West Bank commercial crossing points. However, this has proved to be a difficult task since the relevant Israeli authorities do not formally announce updates on crossing point measures. Additionally, Palestinian shippers indicate that they do not have an official body or agency to handle their questions or complaints and have no direct face-to-face contact with the relevant individuals at the West Bank commercial crossing points, where the exchange of money and invoices occurs through a tiny slot. It thus becomes difficult to sort out the discrepancies that inevitably arise.

Furthermore, the PSC has limited capacity for collecting adequate information on the standards used by the Israeli port authorities to process Palestinian trade at the ports of Haifa and Ashdod. Palestinian shippers do not receive proper and sufficient advice on *Incoterms*, which is important for any shipper to understand prior to transaction agreements. Similarly, at the KHB, the GoI does not disseminate adequate information regarding relevant trade regulations or information on trade related costs. Instead, information on such issues, and when possible, is provided by Palestinian associations. In the final analysis, the lack of information, miscommunication, and the delay in issuance of the required documents or sending them to the wrong department, results in delays and increased costs. In addition, there is a lack of accurate statistics regarding the Palestinian trade flows through the KHB, which is needed for research, policy and advocacy purposes.

Inadequate infrastructure

All shipments passing through the commercial crossings to the ports of Haifa and Ashdod must be palletized at a maximum height of 1.6 metres. Shippers are thus required to use more trucks to transport their products, resulting in increased time and cost. This creates problems because not all food commodities can be easily palletized and other items such as fruits and vegetables cannot be packed efficiently in pallets. In addition, there are no cold storage facilities for perishable foods at the crossings. As a result of long processing times, extensive security checks and lack of adequate storage facilities, substantial amount of goods gets damaged.

The infrastructure at the KHB is also inadequate. The current scanner in place is incapable of handling goods that are not palletized. In other words, Palestinian shippers cannot use containerized shipments and are compelled to use pallets for all shipments. Consequently, large items must be transported through other Israeli ports or crossing points (such as Sheikh Hussein crossing) for inspection and scanning, which add time and cost to the logistics chain. Moreover, the loading and unloading area at the KHB exposes goods to outdoor conditions such as sun and rain, which may cause damage to perishable goods. Storage or cooling facilities are unavailable, aside from one small and insecure warehouse, which makes it very difficult to keep goods in the right storage conditions until clearance (World Bank, 2008a). Similar to these requirements at the ports of Haifa and Ashdod, the maximum pallet height at the KHB is also restricted to 1.6 meters and only one type of product can be packed in each pallet. Such policies increase the number of pallets that must be used to transport goods, and in turn, raise the transaction costs of Palestinian shipments.

Nonexistence of Palestinian agents

According to the aforementioned PSC survey, 88 per cent of Palestinian shippers interviewed stated that the lack of licensed Palestinian customs brokers at the ports of Haifa and Ashdod is a serious issue that limits their ability to acquire accurate and timely information about shipments. Palestinian shippers get their information from Palestinian customs agents, who get their information from Israeli customs brokers. In many cases, this complicated communication chain leaves Palestinian shippers confused and frustrated. Similarly, due to the lack of licensed Palestinian customs agents at the KHB, Palestinian shippers have no option other than being represented by Israeli customs agents on the Israeli side, Jordanian customs agents on the Jordanian side, or a Palestinian agents who represents one of these sides. Often, this creates a costly communication chain for Palestinian shippers who do not have a point of contact at the bridge for inquiries and coordination on the status of their shipments. Nor do they have point of contact for receiving updates on crossing procedures or investigation about the reason for any cargo refusal by Israeli customs

Limited work hours

For Palestinian shippers using the ports of Haifa and Ashdod, the working hours and days at the West Bank commercial crossings are limited, with consequences to all shipments of goods, including those destined for international markets:

- At most of the West Bank commercial crossings the official working hours are from 8:00 a.m. to 5:00 p.m. Sunday through Thursday. 8:00 a.m. to 2:00 p.m. on Friday, and are closed on Saturday and Jewish holidays.
- Trucks are required to complete the back-to-back process before the commercial crossings are closed, thus trucks do not enter after 3:00 p.m. because they will not have sufficient time to clear goods. This consideration imposes further limits on the working hours at crossing points.
- The operating hours at the commercial crossings and the ports do not match. Often, a shipment destined to the OPT that leaves the port midday will not have enough time to reach the commercial crossing before it closes for the day. Instead, such a shipment must be stored overnight in Israel until the next day to clear the commercial crossing. Israeli authorities charge Palestinian shippers for storing goods even in the cases where the former are responsible for the delay. According to the survey conducted by the PSC, 82 per cent of respondents report that they are charged high storage costs as a result of having to keep shipments for a longer period at Israeli ports.
- Commercial crossings may close when scanners malfunction or certain security issues arise.
- Moreover, Jewish holidays and labor strikes cause frequent delays and thus impact the timely delivery of the Palestinian goods.

Similarly, the limited operating hours at the KHB is a major problem for Palestinian shippers who have to carefully plan the transportation of goods to the crossing, since it can be time consuming to drive to the crossing and having to wait overnight and to queue for clearance.

C. Trade obstacles specific to the ports of Haifa and Ashdod

Israeli security procedures at the ports of Haifa and Ashdod

Palestinian shippers complain that the security measures at the Israeli ports and commercial crossing points are not systematic and are at the discretion of the Israeli personnel. According to the PSC survey, 89 per cent of respondents stated that they undergo lengthy security procedures at the ports, where “lengthy” is used to describe any time longer than one day, to complete security measures at the port. In addition, 83 per cent reported that their shipments were subjected to lengthy and confusing examinations, which sometimes took more than a week. This section examines the security measures that Palestinian imports and exports are subjected to. Practically all Palestinian shipments through the ports of Haifa and Ashdod must undergo security procedures twice: once at the port and one more time at the West Bank commercial crossings. These doubled security procedures do not accord equal treatment to Palestinian exports and imports and cause delays, over-handling of goods, damage and increased transportation and other costs.

Security Procedures related to Palestinian Imports

The following is a summary of the security procedures that all Palestinian imports have to go through at the ports of Haifa and Ashdod:

- Once the container arrives at the port, it must be unloaded in a designated storage area to start the clearing procedures.
- Upon payment of customs and duties, a security check appointment is made, which can take from one to seven days; depending on the workload at the port and based on the experience of Palestinian shippers. However, on average it usually takes three to four days to get a security check appointment.
- Officials of Israeli Customs Authority at the port review the shipment documents, which specify the shipper, destination, and type of goods and accordingly classify the security procedures to be carried out. There are three security inspection classifications:
    - Exit without scanning: Shipments given this treatment can leave the port without security inspections or scanning. Palestinian shipments are seldom accorded this classification.
    - Scanning only: Shipments given this status must undergo a security inspection through electronic detectors (x-ray scanning). According to Israeli authorities, 70 per cent of all Palestinian shipments at the port are treated as such.
    - Scanning and manual inspection: Shipments given this status must undergo scanning and manual inspection. Palestinian shippers report that too often they are subjected to this treatment.

- Once the clearing procedures are completed, the container is opened, all merchandise are unloaded, and boxes packed may be opened. The goods are then reloaded into the container. Palestinian shippers report that the goods are never repacked in their original state, which frequently causes severe damage to goods. This process may take between one to 24 hours to complete.
- Containers are then loaded onto trucks and given a gate pass to leave the port.
- The truck must travel to the relevant West Bank commercial crossing point. It is worth noting that often the cargo may not complete all of the security procedures at the port on time to reach the West Bank commercial crossing before it closes for the day. In these cases, the cargo must be stored inside Israel at the shipper’s expense until the following day, when it can be processed at the West Bank commercial crossing.
- Once the truck enters the West Bank commercial crossing point, it may undergo another set of security procedures, which may include scanning and manual search. It is important to note that security procedures at the West Bank commercial crossing points are neither consistent, nor standardized. Imports coming from Ashdod and Haifa are sometimes permitted to pass without scanning and manual inspection but all goods must be offloaded from the Israeli truck and reloaded into a truck with Palestinian registration, a procedure known as "the back-to-back system".

Security procedures applied to Palestinian exports

Below is a summary of the procedures applied to Palestinian export shipments:

- Palestinian goods must first pass through the relevant West Bank commercial crossing points and go through the inspection process.
- Goods are then transported to the relevant Israeli port. The goods are required to arrive at least 48 to 72 hours before the expected departure date to undergo proper stuffing in containers.
- Goods are then delivered and stored at the "Overseas Bonded Area" until the shipment is called for embankment to the dock area for loading on the ship.
- The goods are transported to the port of embarkation where a "Dock Receipt" is issued to confirm the arrival and the reservation of the space for the shipment.
- Security procedures for exports are less stringent than security procedures for imports. However, in many cases, the security procedures depend upon the requests of the importing country.
- Once the goods are loaded on board, the clearing agent prepares the Export Declaration Form, a document that states that goods have been exported, describes the products, states their value and weight, specifies the country of destination, ports of embarkation and arrival, name of the exporter, and specifies the carrier. The Form is submitted to the Customs Authorities when presenting the documents for shipment.

D. Restrictive trade measures specific to the King Hussein Bridge

In addition to the common obstacles faced by Palestinian traders at the Israeli ports of Haifa and Ashdod and at the KHB, some restrictions are specific to KHB, which further complicate Palestinian shippers' use of the bridge.

Closure of Damya Bridge

The closure of Damya Bridge is one of the main impediments to Palestinian trade with Jordan. In the past, the bridge was designated for Palestinian exports (mainly agricultural goods as well as stone and marble). However, the Israeli army declared the bridge a 'closed military zone' and claimed that the bridge itself required maintenance and re-construction. Therefore, and since its closure in 2005, Palestinian exporters have been forced to transit their trade through the KHB. This created an overload on the KHB, which already has limited capacity for handling imports and exports (PSC-PALTRADE, 2009).

Inability to utilize containerized shipments

Some of the impediments that Palestinian shippers face at the KHB are a direct result of the inability to use containerized shipments to export and import merchandise to and from regional and international markets. According to the PSC survey (Annex 2), Palestinian shippers report that the inability to utilize containerized shipments at the KHB leads to increased packaging and transportation costs, increased processing fees, increased damages to goods, limited packaging options and the type of products that can be transported through the KHB. All of these lead to exacerbated transaction and transportation costs for each shipment, and consequently raise the cost of merchandise to the end consumer, and undermines Palestinian products competitiveness in regional and international markets.

Unrecognized trade agreements

The GoI does not recognize many of the trade agreements signed by the PNA with other countries. An example of this is the Interim Association Agreement between the PNA and the European Community, which provides for zero tariffs on Palestinian imports from Europe. Yet, Palestinian importers from Europe are still required by Israel to pay tariffs at the bridge even when the imports are in conformity with the Interim Association Agreement. This increases the prices of these goods for the Palestinian consumers, and directly impacts the Palestinian economy as a whole.

Barriers on agricultural exports and restrictions on imported inputs

Since Israeli security checks can be time-consuming and the Jordan Valley is hot in the summertime, it can be difficult to export agricultural goods via the KHB during that season. Sometimes only few trucks with part of a shipment can make it through the border before it closes at 2:00 p.m. Palestinian shippers indicate that when this happens, the Israeli border crossing management at times refuses to process the second half of the shipment the following day, on the grounds that it does not comply with the certificates of origin. They demand new documents and sometimes impose fines. Moreover, the Israeli security ban on imported fertilizers has deleterious effects on Palestinian agriculture. It leads farmers to use unsuitable alternatives, which reduce the soil quality and result in lower productivity and profitability. Thus it is estimated that the enforcement of the ban on importation of fertilizers resulted in the decline of agricultural productivity by 20-30 per cent (UNCTAD, 2012).

Permits are difficult to obtain

Before a shipment can be sent to the KHB crossing, the shipper must obtain permits for both the vehicle and the driver from the Israeli Civil Administration Office. These permits are only issued to duly incorporated transportation companies/organizations and are usually valid for one year. Drivers and transport entities must ensure that they and the vehicles conform to PNA regulations, which means having a valid driver's ID, driving license, vehicle license, and tax clearance for vehicle and driver. The date of the cargo movement should be clearly specified because if the shipment is not allowed to pass for any reason, it will be returned to the Palestinian firm and the procedures for obtaining the permit must be repeated. This requires the shipper to pay again for the permit and transportation costs.

As a consequence of all these Israeli measures at the KHB, many Palestinian shippers resort to using the ports of Haifa and Ashdod. Another reason for the high dependency on Israeli ports is that Palestinian shippers can benefit from the import clearance facilities that are available to Israeli importers, who handle a significant portion of Palestinian imports based on the customs union established under the Paris Protocol. However, Palestinian shippers complain that discrimination is exercised on their shipments and they do not receive the same treatment accorded to Israeli shippers.

E. Common restrictive trade measures

Restrictions on dual use items

While dual use goods – imported items classified by Israeli as having potential military application – are subject to controls in many countries, Israeli control on dual use goods destined to the OPT are extremely rigid and severe, and consequently lead to the scarcity of a large number of intermediate goods in the OPT. This in turn leads to difficult business conditions and reduce the productivity of, the Palestinian private sector, particularly farmers who are not able to obtain the proper inputs for their production processes. As a result of the rigid Israeli restrictions on the importation of items categorized as "dual use", Palestinian businesses find it hard to invest in certain areas such as the information and communications technology (ICT) sector, which is one of most heavily affected by restrictions on imports of dual-use goods. Another area is the inclusion of a large range of fertilizers and other agricultural inputs in the Israeli “dual use” list. This has a direct negative impact on the productivity of Palestinian agriculture. The underlying concerns of Palestinian shippers regarding dual use goods are as follows:

- *Excessive bureaucratic controls:* To control the importation of dual use goods into the OPT, Israel has established a system of bureaucratic controls that require Israeli authorization for the transfer of such items into the OPT. Under this system, a Palestinian shipper must repeat the permit issuance process for each shipment of a dual-use item, even for the same type of good.
- *Lack of transparency and predictability:* Although a system for clearance of dual use items has been in place, there is no transparency or predictability about this system. The latest dual use list is not always easily obtainable, items can be added to the list without notice and the speed of permit issuance is unpredictable.

Inability to claim damage caused by manual inspection

Many shippers lack awareness of how to claim the damage on consignments caused by manual inspection. Only a few shippers confirmed that insurance companies cover the total cost of damaged products. Because the ports do not take responsibility for damaged goods, Palestinian shippers must insure goods from the point of departure to destination, which escalates the cost dramatically.

In spite of these Israeli restrictive procedures, the Palestinians, with no seaport or airport of their own, have no alternatives or choice but to channel about 75 per cent of Palestinian trade through the ports of Haifa and Ashdod.

Chapter IV
Assessment of the direct and indirect costs of Israeli restrictions on Palestinian trade

For any international shipment there are direct cost that could be quantified and measured with relatively high degree of predictability and indirect costs that are more difficult to predict. While the first type of costs usually includes the fees and expenses to acquire the services of the shipping companies, insurance, trade forwarders, customs duties and customs brokers, the second type is related to delays in the expected time of the shipment and un-insured damages to the contents of the shipments. In the case of Palestine the two types of costs are significantly inflated, over and above the normal costs that are borne by any shipper in the world. Palestinian shippers face additional direct and indirect cost related to the Israeli security measures (World Bank, 2008c).

A. Assessment of the direct costs at the ports of Haifa and Ashdod

At the ports of Haifa and Ashdod, Palestinian shippers incur additional costs as a result of Israeli imposed measures. While all Palestinian shipments have to be scanned, some containers are subject to additional manual inspection. However, it is the usual practice that if a shipment consists of more than one container, at least one container is taken as a sample for manual inspection. An average Palestinian shipper may pay between $175 (NIS 650) and $500 (NIS 1850) per container at Israeli ports, depending on whether or not his/her shipment is required to go through manual inspection. However, security related scanning usually accounts for more than half of this cost. Table 1 summarizes the average direct security fees per Palestinian container at the Israeli ports, which includes scanning, transportation from overseas, storage, and manual inspection. It is important to note that these costs apply for the first hour of waiting for the scanner, beyond that the shipper will be charged $40 (NIS 150) per every additional hour.

Table 1: **Direct costs at the Ports of Haifa and Ashdod**

Container size	Port of Ashdod		Port of Haifa	
	Scanning	Scanning and manual inspection	Scanning	Scanning and manual inspection
20'	$210-226 (NIS 788-848)*	$425-495 (NIS 1594-1856)	$175-188 (NIS 656-705)	$390-457 (NIS 1463-1714)
40'	$242-258 (NIS 908-968)	$457-527 (NIS 1714-1976)	$202-215 (NIS758-806)	$417-484 (NIS1564-1815)

* NIS is the Israeli currency – New Israeli shekel

Another possible source of direct cost at the Israeli ports, according to Palestinian shippers, emanates from the conditions that force Palestinian Importers to keep containers (not returning it to the shipping company) for a period longer than the agreed free demurrage days. The main reason for this is the lengthy security procedures, delay at the West Bank commercial crossings, and the difficulties in obtaining Israeli permits.

According to the staff of the PSC, when the container is destined to the Palestinian market, most shipping companies require a deposit to guarantee that the shipper will return the empty container (i) on time and (ii) without damage. However, the deposit is not required when the shipment is destined to the Israeli market. The shipping companies require this deposit because they are aware of the delay when the container passes through the Israeli controlled commercial crossing points if the final destination is the OPT.

The deposit is paid through the customs broker by depositing the value of the guarantee to the shipping company's bank account. Once the container is back to the shipping company's storage without delay or damage, the shipping company should process the full refund of the deposit amount to the customs broker who in turn should return the money back to the shipper. If there is a delay, the shipping companies will deduct a certain sum from the deposit. However, in many cases the brokers do not return the money because usually the shipping companies do not return the money immediately but it takes months and sometimes years to return the value of the guarantee. As a result, many Palestinian shippers forget to claim back the deposit and do not follow up with the customs broker. The value of the deposit ranges between $300 and $700 per container, depending on the shipping company, the container size and type.

In normal cases, the demurrage term refers for the overstayed period, it means that shipping companies give the shipper a free of charge period during which the shipper has to return the empty container; this period can range from 7 to 21 days. Afterwards the shipper has to pay for holding the container for every extra day.

But in normal Palestinian cases shipments often exceed their free demurrage days due to the delays at the commercial crossing points, in addition to the Israeli imposed procedures at ports, including Israeli Standards Institute approvals (TAKEN), sanitary and phyto-sanitary approvals, and health certificates. Palestinian shippers also bear the costs of delays caused by Jewish holidays (about 15 days per year), port strikes, customs strikes, and railway strikes. Palestinian shippers are required to pay storage fees and costs for these additional storage days.

According to the survey conducted by the PSC, 87 per cent of respondents report that they incur high demurrage rates at the ports of Haifa and Ashdod. Table 2 lists the storage fees at Israeli ports for the days that exceed the free demurrage period.

Table 2: Storage fees at Israeli ports

Period	No. of Days	20' Container	40' Container
From day 1 to 4	4	Free	Free
From day 5 to 7	3	$28 (NIS 105)	$42 (NIS 158)
From day 8 to 14	7	$35 (NIS 131)	$53(NIS 199)
From day 15 to 21	7	$42 (NIS 158)	$64 (NIS 238)
Every additional 7 days	7	$49 (NIS 184)	$74(NIS 278)

B. Indirect costs at the ports of Haifa and Ashdod

In addition to the direct costs discussed above, Palestinian shippers are subjected to other delays in the processing of their shipments at the ports of Haifa and Ashdod. These include:

- *Multiple security checks* – Shipments destined to the OPT are required to pass security inspections at seaport of entry and then again at the relevant OPT commercial crossing points. In many cases, the operating hours at the ports and commercial crossing points are not compatible thus resulting in delays for Palestinian shippers. For example, a Palestinian shipment that completes security inspection at either Ashdod or Haifa at 2:00 p.m. will not be able to pass through the West Bank commercial crossing point on the same day because it closes at 5:00 p.m. and it may take the shipment approximately two hours to travel from the port to the crossing point, where the shipment has to be lined up for inspection and processing. Often the driver must wait with the shipment to be processed the following day. Palestinian shipping companies report that this problem occurs too frequently and can increase shipping costs by an average of $270-400 (NIS 1000-1510) per shipment.

- *Security inspections* – It can take between one to seven days to get an appointment for security inspection, and hence, Palestinian shipments usually pay extra storage and demurrage fees. Several factors affect the timing of the appointment; where priority is accorded to Israeli shipments and delays may occur frequently due to weather conditions. The lengthy wait for security inspections can increase costs by an average of $540 (NIS 2020) per shipment.

- *Clearance of car imports* – Palestinian car imports do not receive the same equal treatment accorded to Israeli imports at ports. Upon off-loading from the vessel, Israeli car importers are allowed to transport their shipments to their showrooms and then complete the required approvals and customs payments. However, Palestinian car importers must first pay customs fees and provide all required documents before they can move their shipment from the port. This implies delays, which represent an additional financial burden.

- *Cost of manual inspection* – During the scanning inspection of the container, Israeli authorities may decide to send the container for manual inspection with no clear, transparent rules or indicators for the basis upon which containers may be subjected to such inspection. Customs brokers contend that, on average, Palestinian shippers incur approximately $115-270 (NIS 430-1010) for each manual inspection.

- *Risk of damage to products during manual inspection* – Upon completion of manual inspection, goods are not returned to their original state inside the container and therefore products are frequently damaged during transportation from the port to their final destination.

C. Assessment of the costs at the KHB

Similarly, Palestinian traders incur additional costs at the KHB. As mentioned earlier, the GoI enforces a back-to-back system for the movement of goods through the KHB, which involves excessive handling of goods (unloading and reloading at the crossing). The back-to-back system complicates trading procedures at the KHB, and results in excessive additional transaction cost stemming from the significant hike in transportation costs from the OPT to the KHB and Aqaba port in Jordan. In addition, palletized shipping requirements lead to limitations on packing capacity, excessive costs, and damage to goods. The exportation of olive oil offers an illustrative example. A typical food processing company in the West Bank exports olive oil to the Far East through the KHB has to pack its products on pallets, which have to undergo back-to-back transfer at the crossing. This costs the company an additional charge of $6 (NIS 25) per pallet, or $120 (NIS 450) per truckload. Upon completion of the security inspection, the pallets are reloaded into a Jordanian truck to be transported to Aqaba, where the company must upload and repack the pallets into a container. The additional handling fees for this step are about $217 (NIS 814) resulting in a total additional cost associated with the procedure of $337 (NIS 1,264).

Based on PSC assessments of some representatives of the Palestinian private sector and transportation companies, table 3 was compiled to provide an example of the cost incurred in relation to the complexity of importing and exporting through the KHB.

Table 3: **Costs associated with procedures for palletized products at the KHB***

Activity	Cost	
	$	**NIS**
Queue for entrance		
Idle time**	400	1500
Transportations costs		
Transportation from West Bank to the KHB-Palestinian truck	400	1500
Transportation from the KHB to Aqaba by Jordanian truck	499	1870
Processing fees		
Off-loading/re-loading charges (cost per pallet)		
Exports	6	25
Imports	8	30
Large consignment (diverted to Sheikh Hussein crossing)***	2,666	10,000
Other fees		
Entry fees at the KHB (Israeli side)	60	225
Clearance fees at Jordanian side	106	400
Transit fees at Jordanian side	214 - 242	802 - 908
Handling and repacking at Aqaba	171 - 257	641 - 964
Service fees		
Fee for Jordanian customs broker	57 – 71	215 - 266
Fee for Israeli customs broker	133	500
Fees for Palestinian customs broker	Commission	Commission

* Costs/fees are according to various shipping companies and customs brokers, April 2012.
** Idle time represents time spent waiting overnight to reserve a place in the queue.
*** Cost includes customs escort and transportation.

Box 1: Costly back-to-back system for exporting olive oil

A Palestinian food processing company in the West Bank exports olive oil to the Far East through KHB. The company packs its products on pallets, which undergo a back-to-back transfer at the crossing, costing the company an additional charge of $6 (NIS 25) per pallet or about $120 (NIS 450) per truckload. Upon completion of the security inspection, the pallets are reloaded into a Jordanian truck and transported to Aqaba, where the company must upload and repack the pallets into a container. The additional handling cost of these steps adds up to about $217 (NIS 814).

Source: Palestinian Shippers' Council

Other costs arising from the complex procedures at the KHB are hard to quantify. Such costs arise from the risk of damage that may occur during the handling of pallets (back-to-back process) and during the security inspection. Damages may also occur due to the lack of refrigerated storage facilities for perishable products, in which case the product may be exposed to sun and high temperatures, or left without proper refrigeration and storage conditions, which impact the quality of the product. The complexity of the process is compounded by other factors including the lack of Palestinian customs clearing, lack of testing facilities, and the absence of a customs dry port/hub, or container depot. In addition, there is the cost of diverting trade which cannot be palletized from the KHB to Sheikh Hussein crossing for scanning and security inspection, since the former handles only palletized trade. This leads to lengthening the delivery time and a substantial increase in total cost. All of these restrictive measures collectively increase the Palestinian transaction cost substantially. This in turn increases the cost to the Palestinian consumer and producer and reduces the competitiveness of Palestinian products.

Despite the presence of multiple occupation-related barriers to efforts to create a normal trading environment, there are still a number of measures that could be implemented in order to boost Palestinian trade and revitalize the Palestinian economy under the prevailing political conditions. Efforts have been exerted to explore ways to end the isolation of the Palestinian economy by re-routing Palestinian trade via the establishment of transit transport agreements with neighboring Arab countries and the establishment of trade corridors between the OPT and immediate neighbors such as Jordan and Egypt (UNCTAD, 2007). Foreign aid could also be directed in a way as to mitigate the constraints imposed by occupation on Palestinian trade. For instance, the improvement of trade conditions at the KHB, including the need to process containerized shipments, is a key element to facilitate Palestinian trade. In this regard, the Government of the Netherlands (GoN) has donated to the Palestinian people two scanners to be installed at the borders with Jordan. The following Chapter will shed some light on the potential benefits and possible drawbacks of the proposed mode of operations for the scanners.

Box 2: Restrictions on importing oversized shipments

Petra Engineering is a Jordanian company specializing in air conditioning equipment. It has a branch in Ramallah, which regularly imports big chillers and air conditioning units from Jordan. Due to their size, these products cannot be palletized and scanned at KHB. Instead, they must be diverted to Sheikh Hussein crossing (a travel time of at least three hours) for security inspection and scanning with the escort of the Israeli customs. Once all inspections have been completed, the shipment must then be transported to the West Bank through one of the West Bank commercial crossing points. The additional costs to the company are as follows:

- Transportation (KHB to Sheikh Hussein crossing) = $676 (NIS 2,535)
- Customs escort = $810 (NIS 3,038)
- Storage and security inspection fees = $540 – 810 (NIS 2,025 – 3,038)
- Transportation (Sheikh Hussein crossing to WB) = $676 (NIS 2,535)

Total additional costs for diverting this shipment from the KHB to Sheikh Hussein crossing for containerized scanning ranges between $2,702 and $2,970 (NIS 10,133- 11,138).

Source: Palestinian Shippers Council

Chapter V
Gantry X-Ray container scanner at the King Hussein Bridge Crossing

The PNA and the Palestinian private sector complain about the delays in processing Palestinian international trade at the KHB. Certainly the optimal solution to this problem is handing over control of the KHB from the Israeli authority to the PNA. The Palestinian side argues that, while political efforts proceed towards a just solution that ends occupation, Palestinian trade in the meantime could be processed at a faster rate with the introduction of a container scanner at the KHB. The scanner could also allow for dealing with an increasing volume of trade, with and via Jordan. Having said this, it has to be stressed that the scanner will not fully resolve the delays that directly result from the Israeli restrictive security and other measures discussed in the previous chapters.

In 2012, the donor community responded positively to the Palestinian efforts, with the Government of the Netherlands donating two mobile container scanners to the PNA. According to the Office of the Quartet Representative (OQR, 2014), the first scanner was expected to be installed at the KHB, and is expected to start operating towards the end of 2014 or early 2015. A second scanner is installed in Gaza at Karm Abu Salem (Kerem Shalom) Crossing.

While the scanner is donated to the PNA and is therefore a Palestinian property, the Israeli authorities, which control all Palestinian borders with Jordan, will continue to exert full control over the KHB crossing and will operate the scanner. Therefore, as revealed in the OQR report of September 2014, Israel and Jordan have already started the process of laying the foundations for operating the scanners donated by the Netherlands, at the cost of about $8 to 9 million. On the Jordanian side of the KHB, the OQR is working to support the efforts of Jordanian agencies and ministries to simultaneously enhance capacity on their side of the border crossing (OQR, 2014).

A. The container scanner and facilitating Palestinian trade at KHB

The practice at the KHB crossing has so far been as follows: exports from the West Bank are first loaded into boxes on pallets and then loaded on trucks to the KHB crossing. There each pallet is off-loaded to be scanned by a pallet scanner, and then re-loaded into Jordanian trucks waiting on the other side of the border. Afterward the pallets are transported to the Jordanian port of Aqaba where they are unloaded again; the boxes are taken out and then repacked into containers for export. Obviously, this process adds to the cost and transit times. However, it is hoped that when the container scanners are installed at the KHB, it would allow for the loading of products into containers at factories and transporting them to the ship without further manual inspection. Thus it should, if no other Israeli security measures are imposed, reduce damage, theft and exposure to bad weather conditions. It is estimated that the container scanners would increase trade flows through the KHB by approximately 33 per cent. According to some estimates announced by the Quartet Envoy, the scanner could increase Palestinian trade by $35 million a year, which would yield more than $10 million a year to the PNA in taxes.[5] The technical features of the scanner as well as a comparative analysis are highlighted in Annex 3.

[5] http://www.port2port.com/article/Industry-Trade/Customs/New-quality-container-scanner-to-be-installed-at-Allenby-Bridge/. Checked 20 March 2014.

The installation of the gantry scanner at the KHB would give the Palestinian shippers the opportunity to choose between using pallets or containers for transporting their goods through the KHB. The scanners would allow shippers to make the best choice for each shipment based on product, price, and customer preference. Improving operations at the KHB could reduce inland transportation costs, improve the cost effectiveness of using the Aqaba port as an alternative to the Israeli ports, and increase the competitiveness of Palestinian products in Arab and other markets. Improved handling facilities could also encourage a greater use of Queen Alia Airport for certain products as well as for time sensitive shipments. In addition, better processes and facilities at the KHB would lower the cost of imported goods, especially inputs and thus reduce the cost of Palestinian producers by providing them more options including whether or not to use Israeli middlemen.

Table 4 outlines what is needed for the gantry scanner so that it could reduce the cost of Palestinian trade and increase the efficiency for shippers while channeling their trade through the KHB. The table shows the roles and responsibilities of each party involved, and the expected result of each action. While the items listed in the top half of the table are mainly related to the physical activities currently being implemented, the items in the bottom half focus on institutional, partnership and coordination issues. And these are the items that require the cooperation of the GoI, if the scanner is allowed to have any chance of success with tangible benefits to the Palestinian shippers and economy. Therefore efforts are needed to help facilitate partnerships between the Palestinian, Jordanian, and Israeli sides at the KHB.

Potential cost reduction from using containerized shipments via sea transportation

Containerized shipping provides Palestinian shippers with cost savings on imports and exports using sea transportation. The savings are mainly due to the elimination of the need to unload and reload pallets for security inspection in a palletized scanner and the stuffing and un-stuffing of pallets at the Aqaba port. If realized, such cost savings will reduce the price of goods to Palestinian consumers and render Palestinian products more competitive in global markets.

Table 4: Proposed implementation plan at the KHB

Type of Support	Action	Expected Results	Parties Involved
Physical Support	Prequalification of major scanning manufacturers.	Companies Short listed	GoN.
	Consult PNA and GoI regarding the requirements of the scanner.	Scanner selected	PNA, GoI, GoN and Quartet.
	Procurement of the scanner.	Scanner purchased	GoN.
	Prepare KHB for scanner installation (hard area, operating room, scanner shield).	Infrastructure is being developed	GoI - IAA.
	Installation and operation of the new scanner.	Scanner operational	GoI and GoN.
	Obtain required equipment (forklifts, etc.).	Suitable equipment available.	GoI, IAA.
Partnerships (Securing Resources)	Compile and disseminate information on the new policies and procedures for containerized shipments at the KHB (administrative, operational, and security procedures).	Raise awareness of Palestinian shippers	GoI, PNA.
	Address/advocate the concerns of the Palestinian private sector.	Reduce impediments and obstacles, and facilitate trade	PNA and priv. sector
	Coordinate between the Jordanian and Israeli governments to ensure complementary working hours and policies.	Optimize working hour	PNA, Jordan, GoI
	Facilitate the return of empty container to major shipping lines in Israel and Jordan	Efficient handling of containers	PNA, Jordan, GoI
	Acceptance of trade agreement between PA and third party countries	Eliminate duties, cost savings	PNA, GoI
	Apply Palestinian customs system at border crossing	Efficient customs clearance, save time, costs, efforts	PNA, GoI
	Allow for containers imported/exported by Palestinians to enter Jordan	Efficient movement of goods	PNA, Jordan
	Establish Palestinian-Jordanian transit agreement	Eliminate transit fees	PNA, Jordan.

Table 5 provides an assessment for the potential savings per pallet that might arise from the operation of the container scanner at the KHB. The analysis compares the cost of palletized shipments with that of containerized shipments (sea transportation). The table compares demo import and export shipments to and from Aqaba, the only seaport in Jordan equipped to handle containers. It is assumed that the palletized shipment consists of a maximum of 22 pallets and the containerized shipment (40 foot container) is packed at a maximum of 44 pallets (double layer). However, table 5 does not include other related costs such as cargo insurance, delivery order, customs duties, which vary by product type, and services, fees for Palestinian, Jordanian and Israeli customs brokers. The analysis indicates that for Palestinian export shipments, cost could be reduced by $38 per pallet, or by 48 per cent of the cost elements listed in the table. As for import shipments, cost could be reduced by $35 per pallet, or by 49 per cent of the cost elements listed in the table.

Table 5: Average cost per pallet: palletized and containerized shipments (40’ container)

Type of trade	Type of cost*	Palletized Scanner		Container Scanner	
		$	**NIS**	**$**	**NIS**
Export	Empty container from Ashdod	0	0	320	1,200
	Truck transportation (to KHB)	347	1,300	347	1,300
	Security check (unload/reload pallets)	132	495	48	180
	Truck transportation (KHB to Aqaba)	499	1,870	499	1,870
	Transit fees.	238	893	238	893
	Packing and stuffing into containers	208	780	0	0
	Terminal handling charges (THC)– loading on vessel	300	1,125	300	1,125
	Total	1,724	6,465	1752	6,570
	Estimated cost per pallet	***78***	***293***	***40***	***150***
		48 per cent Cost Savings			
Import	THC (Unloading from the vessel)	300	1,125	300	1,125
	Unstuffing from containers	208	780	0	0
	Truck transportation (Aqaba to KHB)	499	1,870	499	1,870
	Security check (unload/reload pallet)	176	660	48	180
	From KHB to West Bank company	400	1,500	400	1,500
	Return empty container to Ashdod	0	0	347	1,300
	Total	1,583	5,936	1594	5,978
	Estimated cost per pallet	***71***	***266***	***36***	***135***
		49 per cent Cost Savings			

Source: estimates are based on the Palestinian Shippers Council (PSC) calculations.

* There are other related costs that Palestinian shippers incur which are not included in the tables. These include cargo insurance, delivery order, customs duties which vary by product, and services fees to Palestinian, Jordanian and Israeli customs brokers.

However, the savings from the use of containerized shipping through the KHB might be realized when using sea transportation, but not land, since the costs associated with using pallets or containers through the KHB are the same. However, some benefits could be obtained from faster processing and safer handling of goods in containers in addition to potential reduction in insurance cost. Yet, pallets are the cheaper option in most overland transportation over shorter routes. For instance, currently, when exporting goods to Dubai, each pallet must be unloaded off the Palestinian truck, put through the pallet scanner, and then reloaded into a Jordanian truck. A similar process will be required for palletized shipments using inland transportation, in which the palletized load will be put through the gantry scanner while still on the truck, and then each pallet would be unloaded from the Palestinian truck and reloaded into the Jordanian truck. With regards to inland transportation, Palestinian shippers are compelled to use palletized shipments for two reasons. First, shipping lines do not provide empty containers for the use of inland transportation. Second, even if the Palestinian shipper has access to containers for inland transportation, the high costs associated with renting and returning the empty containers offset its benefits.

__Easier access to international markets__

The scanner at the KHB would provide the Palestinian shipping community with a more efficient and effective international gateway, with less dependency on Israeli seaports. However, in order to maximize the benefit, it must be ensured that the operational, administrative, and security procedures enforced by the Israeli authorities at the crossing should be conducive and in line with international practices.

__Increased flexibility in packing containerized shipments for exports__

Installing the scanner raises the possibility that the GoI will allow for more flexibility in packing containerized exports. The Palestinian export sub-sectors that are most likely to benefit from using containerized shipping through the KHB are:

- *The agricultural sector* – Currently, the packing of agricultural products on each pallet is limited to a height of 1.6 meters and only one type of product. This limits the quantity of goods packed in each pallet and compels the Palestinian shipper to use more pallets to pack the same quantity of goods. This in turn leads to increased shipping and handling cost. Palestinian agricultural exports can be packed more efficiently by using containerized shipments.

- *Processed foods and perishables* – Pallets of processed foods and perishables exported through the KHB are unloaded at the crossing where they get exposed, sometimes for hours, to harsh weather conditions, such as heat and extreme temperature. The current crossing infrastructure does not accommodate refrigerated shipments, and as such, perishable goods are exposed to damage. With the introduction of the scanners, containerized shipments can be refrigerated and protected from harsh weather conditions.

- *Stone and marble products* – The Palestinian stone and marble industry is currently limited to using palletized shipments for exports through the KHB. This limits the size and weight of shipments. By using containerized shipments, the stone and marble industry will be able to export large slabs through the KHB.

__Improved large shipments procedures__

Palestinian importers of large, specialized items, such as air-conditioning units consignments, may experience improved trade conditions if the scanners at the KHB are properly managed with traders' interests in mind. Currently, very large cargo that cannot be processed through the pallet scanner at the KHB is diverted for scanning, three hours away, at the Sheikh Hussein crossing (at the shipper's expense). The installation of the scanner at the KHB will eliminate the need for such costly diversion. Instead, such shipments can be scanned at the KHB thus reducing transportation time and associated cost. In addition, a wider range of goods packed in barrels, such as paint, can be processed through the scanner at the KHB.

B. Continued restrictions with the container scanner at the KHB

As discussed in the previous section, the introduction of the container scanner at the KHB should have tangible benefits to the Palestinian economy in general and the Palestinian shippers in particular. However, it is possible that these benefits may not materialize at all, if, as frequently occurred in the past decade, the Israeli authority tightened its mobility restrictions not only at the KHB but throughout the OPT. In this case, the issue of the scanner and its benefit is no longer a technical or an economic matter. For realizing the full benefits of the scanner, it is essential that Israel fully cooperate, not only by lifting restrictions on mobility, but also, to lift all the other restrictive measures on Palestinian trade. The following sheds light on some of the measures that may reduce and neutralize the potential benefits of the container scanner.

Unilateral control by Israel and lack of PNA presence

While the scanner will be owned by the PNA, the discussion indicates that it will be managed and operated by the Israeli Customs Department. The security of the KHB terminal itself is managed by the Israeli Airport Authority (IAA), and the perimeter of the terminal is managed by the Israeli Forces. As such, the GoI will have unilateral control over all operational, administrative and security matters related to the scanner. The GoI will have total control over all aspects such as working hours, packing procedures, inspection procedures, and the process of moving of goods (back-to-back or door-to-door). Lack of meaningful PNA's presence at the border has serious implications for the expected positive impact of the KHB as a gateway for Palestinian trade. There is a concern among Palestinian shippers that the impact of the new scanner may end up like the impact of other scanners already in place at West Bank commercial crossings.

Continuation of the back-to-back system

Once the scanner is installed at the KHB, the GoI may continue to impose the back-to-back system on Palestinian imports and exports. Optimists expect that Israeli customs will allow 70 per cent of containers cleared to pass the KHB directly upon scanning, while the remaining 30 per cent would need additional manual inspection. However, many Palestinian shippers expect that manual inspections will be at a much higher level than the 30 per cent; based on the existing experience of inspecting Palestinian containers at Israeli port facilities.

Unchanged operating hours

Operating hours for the commercial cargo terminal are expected to remain the same. Palestinian shippers must coordinate with Israeli officials at the KHB at least 24 hours in advance of the expected arrival of the shipment. The terminal is open for commercial traffic on Sunday through Thursday from 8:00 a.m. to 8:00 p.m. (PSC-PALTRADE, 2009), and is closed on Friday, Saturday and on Israeli holidays. However, as indicated by many Palestinian shippers it is possible that without proper or advance announcement, the terminal could be closed at any point of time regardless of the traffic flow and the official working hours.

Absence of a transit agreement with Jordan

One of the benefits of the scanner at the KHB is the diversification of Palestinian trade away from its over-dependence on Israeli ports, thus providing an outlet for Palestinian products into global markets through Jordanian ports. However, currently there is no transit agreement between the PNA and Jordan, which may create another set of obstacles to Palestinian traders. A transit agreement, consistent with the revised Kyoto Convention on the simplification and harmonization of customs procedures, would incorporate a simple guarantee system to cover liability for duty on goods if they fail to exit the country.

Chapter VI

Conclusion and Recommendations for Facilitating Palestinian Trade

In previous studies, UNCTAD made several policy recommendations for facilitating Palestinian trade. One of these called for the re-orientation of Palestinian trade towards balanced relations with Israel through better regional and international integration with the Arab countries (UNCTAD, 2004). This calls for a coherent framework that addresses the main factors behind the low-level of cross-border trade and the lack of well-functioning trade and transport infrastructures. Furthermore, the study calls for a set of trade facilitation measures in the areas of customs operations, land transport and business information for trade. However, the deterioration in the economic and security conditions in the OPT, as well as the Palestinian economic policy framework enshrined on the Paris Protocol, among other things, precluded required follow-up.

UNCTAD also recommended the exploration of alternative maritime routes for Palestinian trade by re-routing Palestinian imports and exports which transit through Israeli ports via Port Said in Egypt and Aqaba in Jordan. However, UNCTAD's study found that due to the imposed Israeli security measures, the diversion of most of the cargo types of Palestinian trade through alternative routes would be more costly than the currently used routes. In conclusion, the study stresses that greater Palestinian control over trade transport routes, within the context of regional transit transport agreements, is important for re-routing Palestinian trade.

This section explores additional policies that, if implemented, would facilitate Palestinian trade and mitigate dependence on Israel, even under conditions of occupation and lack of a seaport under the control of the PNA.

A. Measures to enhance efficiency and capacity of Palestinian shippers

The first set should target building the knowledge and institutional capacities of Palestinian shippers by measures that:

- Promote increased awareness amongst Palestinian shippers regarding the services provided by freight forwarders and customs brokers.
- Enhance Palestinian shippers’ efficiency and professionalism through participation in training programs that promote awareness of best practices in international trade facilitation, shipping procedures, rules and regulations.
- Carry out study tours to Ashdod, Haifa, Aqaba and the KHB to familiarize Palestinian shippers with the rules, regulations, procedures, and services.
- Building secure supply chains taking into consideration the weakest links in the trade logistics chain. A strong supply chain can ensure secure flow of Palestinian trade and help to avoid unexpected obstacles and impediments, leading to smooth and efficient flow of goods in terms of cost and time.
- Improve negotiation skills to enable them to obtain improved contract terms and shipping rates, and to negotiate charges imposed by the custom brokers.
- Manage product stocks efficiently to avoid business disruption, and efficiently manage inventory to avoid disruption to business due to delayed shipments.

- Obtain price quotations from the freight forwarders in order to avoid unexpected costs. The price quotation should provide information related to total transportation and security costs, customs duties, and any special documentation that may be needed.
- Promote efforts to introduce risk management to mitigate uncertainty and help shippers anticipate trade related impediments - be they operational, security, political, financial, legal or environmental.
- Build the capacity of shippers to conduct cost-benefit analysis to identify the optimal and most profitable mode of transportation for each shipment.

Presence of Palestinian officials and customs brokers

The fact that the OPT has no sovereign control over seaports or airports makes it critical for the PNA to have presence of its officials at the Israeli ports to provide support to Palestinian shippers. This will help resolve any trade related issues that may come up at the ports, such as customs valuation and rejected consignments. The presence of Palestinian customs authority representatives may help in the dissemination of up-to-date information, which can improve predictability and awareness of any changes in export and import procedures. Such presence could also help in the compilation of accurate trade statistics, which is essential for planning and policy making by the government and the private sector.

The Israeli-Palestinian Interim Agreement of 1995[6] indicates that the operation of the KHB crossing should be shared by the Palestinian and Israeli parties. The GoI and PNA should share the structural and procedural arrangements for the crossing, as well as establishing Israeli and Palestinian wings at the terminal. The GoI would maintain the responsibility for the overall security of the bridge and for the role of the Director General, who would have an Israeli Deputy to manage the Israeli wing and a Palestinian Deputy to manage the Palestinian side. The Palestinian part of the bridge operation would provide Palestinian shippers with an accessible point of contact for inquiries and coordination on the status of their shipments, investigating the reason for any cargo refused by Israeli customs, and receiving updates on crossing procedures.

Abolition of the back-to-back system

There are options that the GoI could consider as alternative to the costly back-to-back system. One option involves trailers exchange, where Palestinian trucks can detach the trailers to be attached to Jordanian trucks and proceed to its destination. Another option is the door-to-door system, in which the cargo truck travels from its point of departure to the point of destination without unloading and reloading. Both options would imply additional costs such as insurance, vehicle safety requirements and vehicle registration in two jurisdictions, but the main advantage would be the elimination of the need to move the container or pallets from one truck to another. In such a situation, the trailer or truck can be scanned for security at the same time that the shipment is being scanned.

Awareness, availability of information and clear procedures

All trade procedures and regulations need to be clarified and widely disseminated. Shippers should have easy access to all up-to-date information on the administrative,

[6] http://www.mfa.gov.il/mfa/foreignpolicy/peace/guide/pages/the%20israeli-palestinian%20interim%20agreement%20-%20annex%20i.aspx

operational, security procedures and fees at the Israeli ports, crossing points and the KHB. Such information should be available in Arabic, and possibly in English, rather than only in Hebrew as is the case at present. The establishment of an official body to represent the interests of Palestinian shippers is thus vital for the provision of Palestinian traders with the information they need. This information should cover the following:

- Rules and regulations at border crossings.
- All relevant laws, regulations, and procedures applicable to Palestinian imports and exports.
- Maritime and other conditions affecting merchandise trade.
- Customs rules, regulations and rates.
- Operating hours and potential change in schedule.

As early as 2004, UNCTAD proposed the establishment of an Advanced Cargo Information System (ACIS) in order to develop transport and logistics services as a cost-effective tool to monitor transport equipment and cargo movements (UNCTAD, 2004). The establishment of such an information system would provide shippers with reliable information to foresee problems and changes at an early stage. However, the ACIS cannot be implemented as long as the Palestinian –Israeli border issues remain unresolved.

Lifting the restrictions on imported fertilizers and agricultural exports

The PNA needs to negotiate with the GoI for the removal of constraints on Palestinian producers, especially farmers, access to domestic and external markets to sell their products and buy inputs of production. Negotiations should also aim to put an end to the discrimination applied on Palestinian shippers in general and farmers in particular.

B. Recommendations related to the KHB crossing and the container scanner

- The KHB is an international border crossing and should therefore be operated according to international standards. It needs to be operated 24 hours a day, seven days a week; with on-site offices for health and agricultural standards.

- The PNA should consider establishing a dry ports/hubs or container depots to overcome the problems associated with territorial fragmentation and poor transport and trade-related infrastructures. Such hubs could include specialized facilities and services, bonded warehouses and customs clearance facilities for processing imports and exports, and storage of empty containers.

- The current infrastructure and terminal layout need to be expanded to provide sufficient space for additional access routes and designated routes through the crossing, as well as further cargo processing and inspection areas and equipment. Furthermore, the commercial terminal should have enough space for storage of containers and empty containers.

- The Damya Bridge should be restored to reduce the overload on the KHB. This will also require rebuilding 10 km of road, repairs of the existing buildings on each side, and reinforcing the existing bridge, which has a maximum capacity of only 25 tons.

- The time consuming manual inspections should be kept to a necessary minimum.

- Palestinian shippers should have the full choice of packaging their goods in containers or pallets, whichever best suits their product or point of destination. The installation of a scanner should expand, not limit, shippers' options regarding the use of containers.

- There is a need to enable Palestinian shippers to have the full options of using containers, including obtaining and returning empty containers in a timely and cost effective manner. This would allow them to obtain empty containers from their shipping lines in Ashdod or Amman to pack their products for export. The empty containers can then be packed at the company facility in the West Bank and transported to the port of Aqaba. In the case of importing, the company should be able to return empty containers to either Ashdod or Amman (the nearest container yard of the shipping company). In the absence of empty containers in the West Bank, a system must be put in place to help shippers obtain and return containers with ease.

- The bilateral and multilateral trade agreements signed between the PNA and other countries need to be recognized by Israel. For instance, the agreements that provide for zero tariffs on Palestinian imports would diversify the OPT's trading partners and enables access to markets with prices that are more competitive than those of Israeli markets. This would mitigate the very high degree of concentration of Palestinian trade with Israel and the dependency and vulnerability to shocks it entails.

- The efficiency of trade can be enhanced by synchronization of procedures, equipment and technologies with the Jordanian side at the KHB to minimize cost and redundancies.

- The protocol on transit issues, between the Palestinian Ministry of Transportation and Jordan, falls short of a transit agreement. There is, therefore, a need for a full Palestinian-Jordanian transit agreement to facilitate Palestinian trade via Jordan. Ideally such an agreement would include provisions for (a) infrastructure upgrades along the core corridors (road, rail and ports) and border crossing areas; (b) improved efficiency and effectiveness of border control agencies and government transport-related agencies; (c) building the capacities of the private sector to provide logistic services. Moreover, as argued in UNCTAD (2004), the PNA and Jordan should designate in the transit agreement specific corridors/routes for transit traffic and agree on technical standards.

C. Recommendations for the Private Sector and the PNA

Recommendations for the private sector

- So far Palestinian shippers do not have an established complaint mechanism to help resolve issues that they face when clearing shipments, such as identifying and claiming damages throughout the logistics chain. There is a need to establish some kind of a formal complaint mechanism.

- There is a need for licensing Palestinian customs brokers. Currently there are no licensed Palestinian customs brokers, only agents working with Israeli customs brokers. The existence of licensed Palestinian customs brokers would provide more efficient clearing services to Palestinian shippers.

- Legal action by the Palestinian shippers could be considered to facilitate the travel of Palestinian shippers and their access to Israeli ports to follow up on clearing their shipments effectively without having to depend on a third party to conduct costly clearance on their behalf.

- Legal action could also be considered to address the cost of additional storage days that Palestinian shippers are forced to endure due to strikes at Israeli ports.

- Palestinian shippers and their representatives should consider negotiating with major shipping lines for additional free demurrage days. Palestinian shippers are currently compelled to pay extra storage fees mainly because of insufficient free demurrage days in the context of delays in security inspection and Israeli labour strikes.

Recommendations for the PNA

Below are some recommendations for consideration by the PNA, especially the Ministry of National Economy and the Ministry of Transportation, as well as the Palestinian Negotiation Support Unit:

- With the help of the international community, the PNA may advocate for reforming the management of border gateways; with the goal of improving working hours, information dissemination, speedy processing, and longer free demurrage periods and reduced cost associated with storage days.

- The PNA may negotiate with the GoI for the following:
  - Establishing enhanced infrastructure and cold storage facilities for agricultural and other exports at the commercial crossings.
  - Reducing time and cost of processing Palestinian shipments passing through the commercial crossings to the ports of Haifa and Ashdod and ending the condition that palletized shipments should not exceed 1.6 metres in height.
  - Establishing a bonded area for Palestinian imports held before customs clearance. Reconsidering the Paris Protocol as the bilateral framework governing the Palestinian-Israeli economic and trade relations. However, until a new policy framework is negotiated, and despite the drawback of the Paris Protocol, the international community should support the PNA in its negotiations with Israel to abide by the terms of the Protocol under which Palestinian and Israeli goods are supposed to receive equal treatment at Israeli ports. In line with this, there is a need for the effective resumption of the meetings of the established Joint Economic Committee as per the stipulations of the Paris Protocol, which could be a venue for raising and addressing the problems Palestinian shippers face at Israeli ports and border crossings[7].
  - Monitoring border crossings to compile statistics and data on the movement of Palestinian goods through Ashdod and Haifa. The information obtained from such monitoring may be used for planning, tax collection and advocacy to overcome some of the problems facing Palestinian shippers.
  - Providing support to the Palestinian shippers in their efforts to obtain better rates and longer free demurrage days from shipping and insurance companies, in their negotiations with different Israeli agencies and port facilities, and in their efforts in pursuing their rights under Israel.

[7] In July 2013, the NPA and Israel agreed to form joint committees to discuss economic issues every two weeks.

References

Abu-Amr, Z. (1988), The Gaza Economy: 1948-1984, in George T. Abed (ed.), The Palestinian Economy: Studies in Development under Prolonged Occupation, London, Routledge, 1988.

Civic Coalition for Defending the Palestinians' Rights in Jerusalem (CCDPRJ) (2008). Effects of the Separation Wall on the Economy in Arab Jerusalem.

ECF (2008). A Survey of Freight Traffic Between Israel and the Southern West Bank and the Tarqumia Crossing in Particular. March.

ICJ (2004), Legal Consequences of the Construction of a Wall in the Occupied Palestinian Territory, Advisory Opinion of 9 July 2004. http://www.icj-cij.org/docket/index.php?p1=3&p2=4&k=5a&case=131&code=mwp&p3=4

IMF (2009). Macroeconomic and fiscal framework. September.

Karsh E (2001). "Nakbat Haifa: Collapse and Dispersion of a Major Palestinian Community." *Middle Eastern Studies*. October.

Mansour, Antoine, 'The West Bank Economy: 1948-1984' in George T. Abed (ed.), The Palestinian Economy: Studies in Development under Prolonged Occupation, London, Routledge, 1988. http://isites.harvard.edu/fs/docs/icb.topic572311.files/Wed%20July%201/Mansour.pdf

OCHA (2009). West Bank Movement and Access Update.

Office of the Quartet Representative (OQR) (2014). Report to the meetings of the ad-hic liaison committee on actions in support of Palestinian State-building. New York. 22 September.

Paris Protocol 1994, Art III (13), http://www.nad-plo.org/userfiles/file/Document/ParisPro.pdf

Palestinian Central Bureau of Statistics (PCBS) (2010). Registered Foreign Trade Statistics Goods and Services.

PSC-PALTRADE (2009) "Prerequisites for King Hussein Bridge as a Gateway to the World, Trade Corridors' Project", October http://www.paltrade.org/cms/images/enpublications/Paltrade%20En%20.pdf.

Roy S (1987). "The Gaza Strip: A Case of Economic De-Development." *Journal of Palestine Studies*.

UNCTAD (2004). Transit Trade and Maritime Transport Facilitation for the Rehabilitation and Development of the Palestinian Economy. UNCTAD/GDS/APP/2003/1. New York and Geneva.

________ (2007). Report on UNCTAD assistance to the Palestinian people. July.

_________ (2012). The Palestinian economy: Macroeconomic and trade policymaking under occupation. UNCTAD/GDS/APP/2011/1. New York and Geneva.

_________ (2013). Report on UNCTAD assistance to the Palestinian people: developments in the economy of the Occupied Palestinian Territory.

World Bank (2007). Movement and Access Restrictions in the West Bank: Uncertainty and Inefficiency in the Palestinian Economy.

_________ (2008a). Palestinian Trade: West Bank Routes.

_________ (2008b). West Bank and Gaza update. October.

_________ (2008c). The economic effects of restricted access to land in the West Bank. October.

Annex 1: West Bank Commercial Crossings

Table A- 1: Specifications and Procedures: West Bank Commercial Crossing Points

Location/arrival direction	Crossing procedure	Crossing terminals	Security inspection	Conveying method	Authority in charge	Prohibited items
Al Jalameh Crossing						
Route 6010 north of Jenin, near Al Jalameh Village.	Back-to-back system: 1. Upon arrival at the crossing, the Palestinian truck driver is required to register his name at the entrance, and is requested to wait until the Israeli driver is available on the other side of the crossing. Perform the VAT-customs check, and security inspection. 2. For Palestinian import into the West Bank: the driver is subjected to physical security check at the crossing entrance gate, which normally takes at least 15 minutes. In some cases this may include strip search. The truck is also thoroughly searched. 3. Following inspection, the truck is allowed to enter the exchange area and the shipment is transferred from the Israeli truck and allowed to resume its journey to West Bank (OPT import) or through Israel (OPT export).	Cargo terminal. Velhice terminal. Passenger terminal.	Mobile X-ray inspection unit.	Bulk & Pallet.	Israeli Crossing Point Authority. Office representatives at the crossing: Customs, Israeli military district coordination offices (DCO), Israeli Police, Agricultural office.	Shipment containers and dual use items.
Taybeh (Sha'ar Ephraim)						
West of Tulkarm (2 km from city center).	Back-to-back system. Similar to the procedures at Al Jalameh Crossing.	Cargo terminal. Passenger terminal.	X-ray scanning machine, with capacity for 5 trucks simultaneously.	Pallets, bulk, containers (only for imports).	Crossing Point Authority. Customs, DCO, Agricultural office.	Outgoing containers, iron bulk and dual use items.

Location/arrival direction	Crossing procedure	Crossing terminals	Security inspection	Conveying method	Authority in charge	Prohibited items
Betunia						
Through the town of Betunia (South-West Ramallah). From Israeli side: Road 433.	Back-to-back system for Palestinian Trucks. All cargo is subject to manual inspection by soldiers and, in some cases, by sniffing dogs. Door-to-door delivery for Israeli Trucks.	Cargo terminal.	Manual inspection and sniffing dogs. 2 filter (for Israeli trucks) chambers, Back-to-back ramp. Aggregate platform. Silo.	Pallets, Bulk, Containers.	Israeli Police Customs, Agricultural office, DCO, Border Patrol, dog trainers, porters.	Pallets above 1.6 mtr high and dual use items.
Tarqumia						
Road 60 and then to road 35.	Back-to-back system. Similar to the procedures at Al Jalameh Crossing.	Cargo terminal. Velhice terminal. Passenger terminal.	Two X-ray scanning machines, with capacity for 5 trucks simultaneously.	Pallets, bulk, containers (only for stone shipment).	Crossing Point Authority, Customs, DCO, Agricultural Office, Environment Protection & Israeli Police.	Iron waste and dual use items.
Bisan						
Route 90, near Bardala. Open only seasonally (October- April).	Back-to-back system. Similar to the procedures at Al Jalameh Crossing.	Cargo terminal for agricultural exports and imports, except dual use fertilizers. Passenger terminal.	Manual Inspection.	Pallets.	Crossing Point Authority, Customs, DCO, Agricultural Office, Israeli Police	Dual use items.

Source: *PALTRADE - Palestinian Trade Facilitation Portal, http://www.ptfp.ps/etemplate.php?id=216*

Figure A- 1: OPT Commercial Crossing Points

Source: PALTRADE - Palestinian Trade Facilitation Portal, http*://www.ptfp.ps/atemplate.php?id=99*

Annex 2: Survey conducted by the Palestinian Shippers' Council

In the survey, which was conducted by the PSC during the period January-April 2012, participants were selected to ensure a balanced geographical and sectoral representation among the Palestinian shippers. The survey focused on shippers with experience in using Ashdod and Haifa seaports for importing and exporting goods. The criteria used to select companies to participate in the survey were as follows:

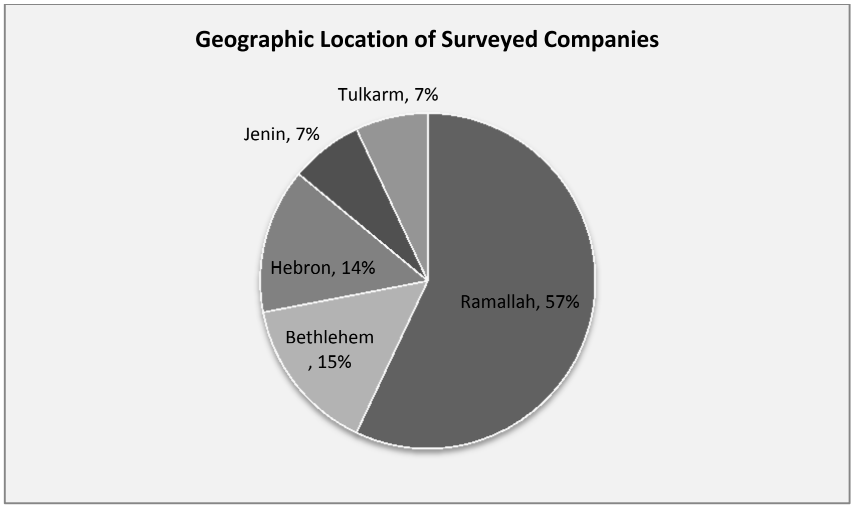
- *Coverage of major sectors*: Survey participants, with their main operations in the WEST Bank, were selected to ensure a fair representation of the different Palestinian manufacturing, export and import sectors. Major sectors surveyed were pharmaceuticals, food processing, vehicles, metal and engineering. Five companies from each sector were selected to ensure fair representation.
- *Experience using ports:* The companies selected were required to have records of exporting or importing through Haifa or Ashdod ports, and preferably the KHB as well. Official company records regarding the volume of imports and exports through the KHB, Ashdod and Haifa were reviewed and taken into account in the participants selection process. The preferred companies were those ones that used one of the ports and the KHB.
- *Adequate trade record:* Survey participants were required to have a trade record (export or import) of at least one year.
- *Valid license and registration:* Survey participants were required to have a valid license and registration with the Palestinian National Authority.

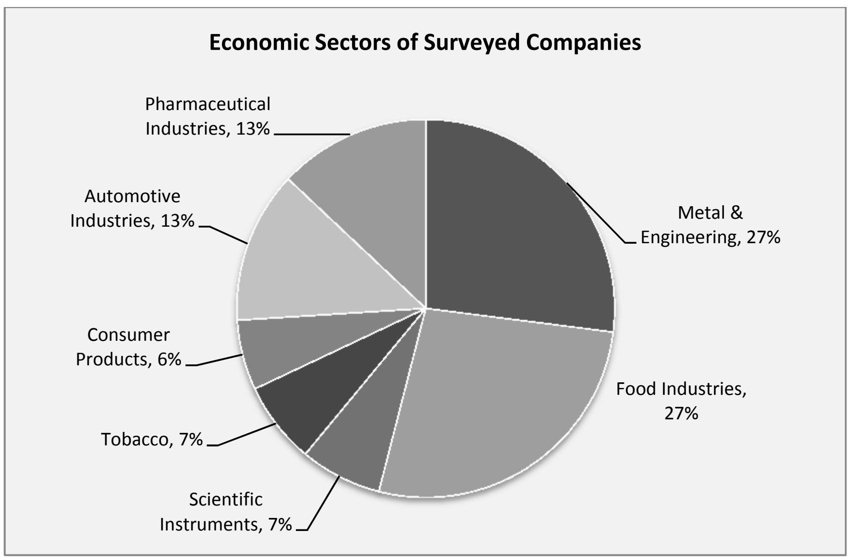
Upon careful review of leading Palestinian importers and exporters who met the criteria listed above, a group of 30 companies were included in the survey.

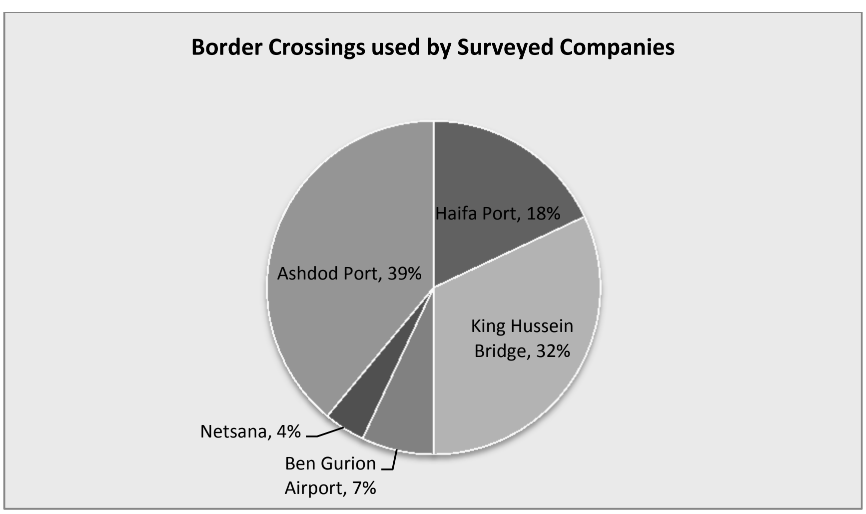
At the outset, the PSC conducted a series of extensive meetings with Palestinian freight forwarders, customs agents, and relevant public and private sector representatives in order to collect initial data for this study and to assist in the development of an effective survey that would capture the experience and problems of Palestinian shippers at the ports of Ashdod and Haifa. The questionnaire, comprising 70 questions, was distributed to the selected 30 West Bank companies. The questionnaire was completed by the general manager or senior staff of selected companies in charge of imports, exports, and clearance of goods.

Figure A2 summarizes the geographic location and the sector of, and border crossing/port used by, the surveyed companies/shippers.

Figure A- 2: Surveyed companies - Location, economic sector and crossing/port used







Annex 3: Gantry X-ray container scanner: specifications and terms of reference

As indicated in chapter 5, the container scanner at the KHB crossing is supposed to start operation in late 2014 or early 2015. The technical specifications and requirements for the gantry X-ray container scanning system was set, and the tender process was launched by the United Nations Office for Project Services (UNOPS).[8] The key technical features of the scanner are:

- Completely self-contained X-ray inspection system.
- Flexible scanning heights, offset scanning angle and a variety of scanning modes for the best operational mobility and efficiency.
- Adopts a linear accelerator with power of 6MeV allowing for high penetration and resolution. A steel penetration performance of 400mm steel with 2 per cent resolution.
- High throughput of 20-25 trucks/hour (20 trucks with 40 foot containers), Designed to function well in harsh weather conditions such as extreme heat.
- Imaging technology for material discrimination such as organic/inorganic.

Comparative gap analysis

This analysis focuses on the difference between the status quo or the condition at the KHB before installing the scanner and the conditions after its operation. However the analysis assumes that the operation of the scanner will follow the best-practice approach which will meet the needs of the Palestinian shippers. Upon the introduction of the scanner, it is expected that the handling efficiency of different transport modes, including containers, will improve. Standardization of cargo handling requires highly specialized facilities and designated mode of goods transfer, whether it is back-to-back or door-to-door. The crossing assets can be classified into four different categories: basic crossing infrastructure, operational infrastructure, superstructure, and equipment. The question here is about the interplay between the new mode of operation, embodied in the gantry scanner, and those four categories.

[8] http://www.unops.org/ApplyBO/File.aspx/Annex1%20-%20UNOPS-JMPC-00083029-ITB-2012-001.pdf?AttachmentID=33d32e40-c6a1-4aa1-b04a-1739aa91b4bf

Table A- 2: Comparison of the status quo with the container scanner and best practice at the KHB

Facility	Subcategory	Current situation (palletized)	Scanner situation (Containerized)	Best Practices
Basic Infrastructure	Land road	Access through road 90	Same	N/A
	Entrance	One entrance for passengers/commercial traffic	Same	Separate entrance for commercial crossing
	Storage area	No storage area	Same	Dry port/hub (bonded area)
Operational Infrastructure	Agricultural office	Exists	Same	Include testing labs
	Palestinian presence	None	Same	Should allow
Crossing operations/procedures	Security/inspection responsibility	Israeli	Same	Should be joint, reasonable, known and transparent.
	Coordination mechanism	1 day ahead[9]	Same	No Appointment
	Working hours Closures	08:00-18:00, Sun. - Thur. Jewish holidays	Same	Similar to other international border crossings
	Packaging	Pallets (160 cm height)	Containers and palletized trucks	According to customer needs
	Stuffing	Pallets limited to one product	Mixed packaging	According to customer needs
	Processing time	6-8 hours per shipment[10]	2-3 hours per shipment	
	Processing fees for handling of goods	$6/pallet for imports $8/pallet for exports	$48 for containers[11], unchanged for palletized shipping	Eliminate handling fees
Crossing Facilities	Cooling storage	None	No expectation	Provide cooling and refrigerated storage
	Availability of empty containers	None	Will be developed	Provide empty container yard
Equipment Goods Handling	Lifting equipment	Pallet forklifts	A container forklift and pallet forklifts	Provide adequate handling equipment
	Special equipment	None	No expectation	Provide handling and lifting equipment for special products (glass, pipes …) and for manual inspection.

[9] Truck drivers wait overnight to be first in line in the morning.
[10] Estimate is based on the PSC survey (Annex 2).
[11] Estimate is based on the fees for a container at crossings between Israel and West Bank.