

# **Implementation of Package of Measures to facilitate trade of Palestinian products with other Euro-Mediterranean partners**

## **Technical Progress Report November 2020**

*The Package of measures to facilitate trade of Palestinian products with other Euro-Mediterranean partners on a bilateral and regional basis from 2010 was adopted at the Union for Mediterranean's Ministerial Conference in 2010 in Brussels. The below Technical Progress Report quotes the commitments and follow-up actions in this Package and describes the state of play (in boxes) in each of the three areas (i) Facilitating access for Palestinian exports to Euro-Mediterranean markets (including also imports), (ii) Integration of the Palestinian economy in the multilateral trading system and (iii) Strengthening the administrative capacity to enhance trade of Palestinian products to Euro-Mediterranean markets. This report is not aimed to be exhaustive. It aims to provide an overview of the main actions undertaken to facilitate Palestinian trade and make some recommendations for further work.*

Package of measures to facilitate trade of Palestinian products with other Euro-Mediterranean partners on a bilateral and regional basis from 2010
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Palestinian trade in the Euro-Mediterranean region shall be facilitated in a comprehensive way, through removal of restrictions on access to markets and enhanced technical support. This should involve the implementation of a package of measures to facilitate trade of Palestinian products with other Euro-Mediterranean partners on a bilateral, regional and multilateral basis.

This package of measures would support Palestinian government's plan for state building, as reflected in the Palestinian Authority's two-year plan presented to the international community in August 2009.

In the light of this, Trade Ministers of the Union for the Mediterranean endorsed the following action plan.

### **1. Facilitating access for Palestinian exports to Euro-Mediterranean markets**

Promoting Palestinian export capacity and reducing current obstacles to exports are crucial to Palestinian economic revival. Palestinian exports have remained at a very low level in recent years, at about €400 million in 2009. There is untapped potential in trade with Euro-Mediterranean markets and other countries. Given the small size of the Palestinian economy and its limited resource base, fostering exports cannot be dissociated from the facilitation of imports of production inputs.

Trade facilitation should seek to promote the geographical diversification of Palestinian trade, notably towards regional markets. South-South trade and economic integration are key objectives of the Euro-Mediterranean trade partnership and of the European Neighbourhood Policy. Palestinian exports already benefit from preferential market access conditions, including to other Arab countries and Turkey. Besides the need to ensure the correct functioning of existing

international trade agreements and arrangements with a view to taking full advantage of existing opportunities, the following actions will be undertaken:

-All Euromed partners will take all necessary measures to facilitate Palestinian exports and imports of both goods and services, including through the implementation of existing bilateral, regional, and other international agreements and arrangements, and removal of restrictions to Palestinian trade;

-The European Union (EU) intends to adopt the necessary measures in early 2011 to grant duty free and quota free access for all those Palestinian products that do not already have such treatment under the EC-PLO Interim Association Agreement and its subsequent amendments;

-Parties to the Agadir Agreement intend to conclude procedures for the accession of the Palestinian Authority (PA) to the agreement by early 2011. The EU and other EuroMed partners will support PA's efforts to join the Agadir Agreement and will support, as needed, its implementation by the PA;

-The PA will explore with neighbouring countries to consider and conclude agreements to facilitate regional transit and transportation of Palestinian products (both exports and imports) and the EU would support, as necessary, these efforts;

-The PA will continue to review its trade and investment regime both as regards goods and services with a view to facilitate investment and exports of Palestinian products and services. The EU and other EuroMed partners will support the PA efforts as highlighted in Section 3 of this document.

-Israel and the Palestinian Authority intend to enhance cooperation within the framework of the Joint Economic Committee, with a view to developing a comprehensive approach for the facilitation of Palestinian trade with the support of the international community.

#### **State of play – November 2020**

##### **Evolution of trade and investment:**

The World Bank's 2017 report *Unlocking the Trade Potential of the Palestinian Economy* states that: "*under the strain of pervasive restrictions on the movement of people and goods, high trade logistics costs, and without many of the instruments and freedom to conduct an independent economic policy, the Palestinian small and trade-reliant economy is falling behind that of its regional peers. The Palestinian economy is failing to provide rising living standards and sufficient jobs adequately and sustainably for its people, and has not established a sound financial base for the provision of public services and for the purchase of essential imports from abroad. The Palestinian economy's exports of goods and nonfactor services as a share of GDP are less than half those of a comparable group of countries, and its trade deficit as a share of GDP is more than double those of comparable countries; at 41% it is one of the highest, or the highest, in the world.*"

Since 2010, the total volume of Palestinian trade grew from € 3.4 billion to € 5.6 billion in 2016, and € 5.8 billion in 2019, but the trade deficit continuously worsened, growing from € 2.6 billion in 2010 to € 4.0 billion in 2016, afterwards stabilising at around € 4.0 billion up until 2019.

The expansion of Palestinian trade is largely influenced by its relationship with Israel. Several reports have identified a number of key trade barriers, including Israeli control over Palestinian trade routes, internal restrictions on the movement of people and goods by physical barriers, such as checkpoints, and the cost of bureaucratic process – including transaction costs imposed at Israeli checkpoints, fiscal leakages due to customs evasion, indirect imports that enter PA designated as Israeli but originate from elsewhere or transaction fees charged by Israeli customs at 3% and are deducted from the clearance revenues for purposes of handling costs. According to UNCTAD 2020 report, some 600 permanent obstacles, such as military checkpoints, gates and roadblocks within the West Bank restrict Palestinian movement. These barriers increase the average trade cost per container for Palestinian businesses

by a factor of 3 as compared to their Israeli counterparts. These restrictions are of much greater negative significance for Palestine than tariff barriers. It is to be noted, however, that the number of such permanent obstacles has decreased from 705 as regards the previous reporting period. Due to the COVID19 crisis, in 2020, the Palestinian foreign trade witnessed a decline as a result of the closure of factories, global negative demand shock, increasing costs of freight as well as restrictions to movement of Palestinian goods internationally. At the onset of the crisis, Israel has temporarily suspended the door-to-door system of Palestinian exports into Israel. While official data is not yet available, it is projected that Palestinian imports and exports as share of the GDP will decline by some 22% and 17% respectively.

The value of EU-Palestinian trade has increased seven-fold since the Euro-Mediterranean Interim Association Agreement on trade and cooperation between the Palestinian Authority and the EU (including a Free Trade Agreement) came into force. Since 2002, the first year for which data is available, there has been an overall growth in trade in goods in both directions. In 2002, the value of trade in goods was € 41 million, then € 115 million in 2010, € 271 million in 2016 and in 2019 it was € 284 million.

It should be noted that the value of EU exports to Palestine has increased more than in the other direction. This has deepened Palestine's trade deficit with the EU over the same period. Palestinian exports remained largely at that same level despite full preferential market access to the EU market. This is largely due to restrictions facing Palestinian trade, as well as competitiveness issues and the difficulties on the Palestinian side to meet EU standards, in particular SPS and technical standards.

**Agreements and arrangements:** The Palestinian Authority had concluded, before deciding on the package of measures in 2009, different preferential access agreements. These include:

- The Protocol of Economic Relations (Paris Protocol) with Israel (April 1994)
- Trade Agreement with Jordan (January 1995)
- Presidential Declaration by the United States of America (November 19, 96)
- Interim Association Agreement with European Communities EC (February 1997)
- Trade Agreement with Egypt (February 1997)
- Joint Canadian-Palestinian Framework for Economic Cooperation and Trade (June 1998)
- Economic and Trade Cooperation with EFTA Countries (November 1998)
- Great Arab Free Trade Area (GAFTA) (April 2000)
- Free Trade Agreement with the Republic of Turkey (February 2004)

**The Palestinian Authority and the EU concluded an Interim Association Agreement on Trade and Cooperation** in 1997. The agreement provides for duty-free access to EU markets for Palestinian industrial goods, and a phase-out of tariffs on EU exports over five years.

After deciding on the package of measures in 2009, an amendment to the **Interim Association Agreement on Trade and Cooperation** bringing further liberalisation of agricultural products, processed agricultural products and fish and fishery products entered into force on 1 January 2012. It provides for duty-free and quota-free access for all agricultural, processed agricultural and fishery products from Palestinian exporters to the EU for a renewable period of 10 years.

Concerning **the accession to the Agadir Agreement**, in March 2017, Foreign Ministers approved the accession of Palestine to the Agadir Agreement. In March 2020, the Foreign Ministers of the Agadir Member States have signed the accession documents formally expanding the agreement to Palestine and Lebanon. This marks the culmination of the strong political commitment of Agadir Member States and the European Union to expand the agreement geographically. It also represents an important step towards establishment of the Euro-Mediterranean Free Trade Area, associated with the Barcelona Declaration.

Concerning the application of the **Regional Convention on pan-Euro-Mediterranean (PEM)** preferential rules of origin between the Contracting Parties to this Convention, the Palestinian Authority signed in September 2013, it entered into force in July 2014 and the link to the Convention was made in March 2016. In 2011-2012, negotiations started for the modernisation of the PEM Convention aiming to introduce a number of improvements that will facilitate trade and the rules more adapted to the current needs of regional value chains. Most PEM members have supported the compromise proposal by the secretariat with few exceptions, notably Algeria, Morocco and Tunisia (along with North Macedonia and Turkey), as they felt the flexibilities did not go as far as they wished for in some sectors, in particular on textiles. On the other hand, some countries such as Lebanon, Israel, and Egypt (together with EFTA and CEFTA countries, Georgia Ukraine and Republic of Moldova) have expressed their interest to adopt these

rules on a transitional and bilateral basis with the EU, pending the adoption and entry into force of the revised PEM Convention.

The EU supported Palestinian efforts to review its **trade and investment regime with a view to facilitate investment and exports** (for more details related to relevant support programs, see under point 3).

In terms of regulatory and policy reforms which have a link with trade and investment, in the last years, the Palestinian competent authorities have worked on various laws, regulations and policies. At the time of writing of the reports, here is the status of the most relevant ones:

#### **Recently passed Laws and Regulations**

- The Industry Law was passed in 2011
- The Leasing law was issued in 2014
- The Secured Transactions Law came into force on May 2016 and the Secured Transactions Regulations/By-Laws were issued in May 2016.

#### **Current draft Laws and Policy documents:**

- Company Law
- Industrial Estates and Industrial Free Zones Law
- Competition Law
- Industrial Property Law
- Commercial Agents Law
- Quality Infrastructure Law/By-Laws, Amendments on Standards and Specifications
- Law on Customs
- Consumer Protection Law
- Trade Policy
- SME Policy / SME Definition

It is important to underline that some drafts may still not have been properly discussed and reviewed. Further many laws once passed need support in terms of implementation from the international community.

- Company Law: The proposed law adopts an electronic registration mechanism for companies, improved protection of minority investors and addresses debt settlement issues. Passing of the law would enhance Palestine rating on Doing Business. Ministry of National Economy expects the law to be approved in early 2021.
- Competition Law: The law aims to prevent monopolisation and introduces new rules on transparency and accountability. The draft law has been introduced to the Cabinet of Ministers and passed a first review. The Ministry of National Economy has shared the law with the cabinet.
- Commercial Agents Law: The law intends to improve the process of agency registration and remove current ambiguities in the existing law. Preliminary draft law is being prepared.
- Quality Infrastructure related Law / Bylaws, Amendments on Standards and Specifications: The related laws refer to standardisation, technical regulations, conformity assessment, metrology and accreditation. The Ministry of National Economy together with stakeholders work on the implementation plan to achieve international accreditation and internationally recognised standards certification.
- Development and Free Zones Law: The draft law defines different types development zones including industrial estates: government-owned, private, and the free zones. It sees to enable the private sector to develop, run, and own industrial states. It allocates more incentives to foreign investors, Palestinian investors from the Diaspora, foreign developers, and small enterprises. The draft was sent to the Cabinet of Ministers and passed a second review.
- Consumer Protection Law: The law reviews and amends rules regarding transparency and accountability. Final draft is ready and needs to be passed by the Cabinet of Ministers.

- Customs Law: Palestine became member of the World Customs Organization in March 2015, but the accompanying Law on Customs is not yet finalised and adopted. Work started in specific areas, such as post clearance audit, risk management and analysis. A committee of technical and legal experts has been established at the Ministry of Finance in early 2020 to develop policy guidance on future customs regulation and to advise on legal changes to address gaps or shortcomings in the existing framework. An initial draft of the amendments has been produced with a focus on customs formalities, valuation, classification, origin, bonded warehouses, customs brokers, customs court and penalties.
- Trade Policy: In September 2020, the Ministry of National Economy passed an updated Strategy for National Economic Development 2021-2023. The strategy puts an emphasis on the expansion of Palestinian exports to reduce the current deficit in the trade balance and on diversification of Palestine's trade partners, whether in terms of exports or imports, in addition to the development of the industrial cluster in Hebron and Nablus.

The Ministry of National Economy will upgrade the National Export Strategy and solidify action plans to implement it in line with the new Economic Development Strategy. The National Export Strategy was endorsed in 2014, but was not implemented nor allocated a corresponding budget.

The Prime Minister's Office has re-launched an initiative to post Palestinian commercial attachés to a number of priority countries. In the past, the EU along with the UK has supported the deployment of Palestinian commercial trade representatives to six countries (DE, UK, RU, NL, USA, KWT). This initiative was terminated after financing ended in 2018. Under the new programme commercial attachés will be posted to the Palestinian Embassies, while reporting to a new technical unit at the Ministry of National Economy. A committee was formed to implement the initiative along with a budget. The number of commercial attachés is expected to be around 10 staff.

- SME Policy / SME Definition: The PA has an official SME definition introduced by the Ministry of National Economy and approved by the Cabinet in 2011. However, the definition is not consistently used by different institutions and economic operators. The Ministry of national Economy is currently working to update the SME definition in a consultative process with all engaged stakeholders, which better focus support to MSMEs, by unifying definition, and support to formalisation and provision of dedicated development schemes.

Concerning the **Joint Economic Committee (JEC)**, which was established under the Paris Protocol as the body overseeing the implementation of the Protocol and deciding on problems related to it, no meetings took place since the adoption of the package of measures. The Palestinian side has expressed that they are ready to convene the JEC but both sides have not yet reached agreement on modalities or dates of such a meeting.

**Bilateral discussions between Israeli and Palestinian** officials, especially at the level of Ministries of Finance, were taking place regularly, but the intensity of this exchange has been affected by the decisions of May 2020 (as described below).

Towards the end of 2019 trade relations with Israel deteriorated turning into a mutual escalation of restrictive measures. Over the years, Palestinians have not been allowed to directly import calves from third countries. Consequently, a trade conflict started in September 2019 by a PA measure to ban the import of Israeli calves to the West Bank, which has led to an imposition by Israel of a ban in early February 2020 on all Palestinian exports of agricultural products to international markets both via Israeli ports and through Jordan, in retaliation. The ban has directly affected the interests of EU companies importing from Palestine and resulted in temporary shortages of Palestinian products abroad. At the end of February 2020, both sides lifted their respective trade restrictions.

Since May 2020, the Palestinians halted all economic and security coordination with the Israeli authorities and stated that it was no longer bound by any agreements with Israel. The decision has come as a response to the Israeli plans to start the annexation process of certain parts of the West Bank. The measure has had a profound impact on Palestinian trade with the world, most notably concerning licencing of international imports. It is estimated that around 30% of the overall import value into Palestine require prior coordination with Israeli authorities and are affected by the halt to the cooperation between the parties. Coordination for issuance of import licences has been required in areas where the PA follows

Israeli tariff book and is subject to Israeli quota allocation under its FTAs' as well as where PA benefits from certain autonomy to define its tariff and customs regime subject to quantitative restrictions.

As a result, operators in a number of Palestinian business sectors have not been able to obtain or renew their import licences for products sourced from international markets. Several EU companies have been affected by the cooperation halt, not being able to export to Palestine. Sectors concerned the most so far include agricultural products, vehicles and car parts as well as stone and marble.

At this point in time, the Palestinian decision of May 2020 remains unchanged and therefore bilateral discussions between both sides are currently not conducted or planned.

Before May 2020 **informal discussions including the EU** have taken place to discuss a number of trade related issues with relevance for facilitating trade and investment in the Palestinian economy:

- **Paris Protocol lists (A1, A2, B):** these lists, which introduce exceptions to the joint "customs envelope" for Israel and the Palestine Authority, include specific products originating in Jordan, Egypt, Arab and other states, where the Palestinian Authority can set its own tariffs for these imports and for list A1 and A2 also its own standards, technical regulations and sanitary and phyto-sanitary requirements. These lists have not been revised since the entry into force of the Paris Protocol and as such are outdated and not reflecting anymore the needs of Palestinian consumers and industry. Israel has indicated its readiness to discuss an update of the lists. The Palestinian Authority has prepared a proposal to modernise those lists that it intends to present upon the next convening of the JEC. The PA Ministry of National Economy had previously prepared together with Jordan modification proposals for lists A1 and A2, which Jordan then transmitted to Israel. Currently there are no ongoing discussions between PA and Israel.

There had also been bilateral talks between Israel and Jordan in the context of their binational commission on trade with an impact on the Paris Protocol. However, no meetings have been organised recently nor are planned to be organised in near future.

- **Trade facilitation:** To date, the movement of Palestinian goods into Israel remains restricted to a costly and cumbersome back-to-back system, entailing that goods are unloaded, palletised for checking and reloaded into separate vehicles. A pilot for a containerised and door-to-door system using scanners started in March 2018. It allows Palestinian factories to transport shipments from their production sites to recipients in Israel without undergoing the back-to-back transfer of shipments at Tarqumiya crossing in the southern West Bank. The door-to-door program continues to generate significant savings and cost reductions for participating companies. Since the program's initiation in March 2018, around 20,000 truckloads were delivered using the door-to-door system, resulting in direct cost savings of around 2.55 million EUR. As of October 2019, door-to-door shipments have also been facilitated at the Jbara crossing in the northern West Bank. Currently 15 Palestinian companies participate in the programme. The exclusive road between Jericho Agro-Industrial Park (JAIP) and Shuneh in Jordan is one of the tools that will enhance movement of trade and promote further development in the region. The progress of discussions among Japan, Palestine, Jordan and Israel on the construction of this exclusive road will eventually overcome obstacles obstructing door-to-door of trade movement between Palestine and the international markets via Jordan. In addition, the use of Mazmorria or Kilo checkpoints to facilitate goods access and movements for Bethlehem Industrial Estate is essential for the sustainability of the industrial estate of Bethlehem.

The economic benefit from a more efficient import and export process in Palestinian trade with and via Jordan at Allenby/King Hussein Bridge is increasingly important, in particular for the Palestinian industrial sector, which is dependent on raw materials imported via Jordan. A door-to-door type procedure at Allenby/King Hussein Bridge, especially for bulk material such as cement and plastics, will significantly increase the Palestinian competitiveness and export potential to third markets.

The Kingdom of Netherlands has financed the purchase of a scanner on the Palestinian side, which is now fully operational, while a scanner is installed on the Jordanian side. A Memorandum of Understanding for door-to-door system to operate for West Bank exports to Jordan has been signed between the PA and Jordanian Government. Israel has not yet given its approval for the launch of

the door-to-door system at Allenby/King Hussein Bridge, although this is an international border crossing and should therefore be operated according to international standards.

- **Bonded warehouses:** Israeli and Palestinian authorities are considering the possibility of establishing 'bonded warehouses', i.e. areas where the Palestinian Authority would exert customs responsibilities for imports. This would include customs clearing and collection of customs revenues for goods directly imported into the Palestinian market as well as checking compliance with standards, including technical regulations and Sanitary and Phytosanitary requirements. Israel will continue undertaking the security checks. The concept foresees a Public-Private partnership to be set up and operate the facilities. The operating modalities of bonded warehouses are under discussion and it is expected that, once the facilities will be operational, this will entail a need to support the capacity building of the Palestinian customs authorities as well as staff of the Palestinian Standards Institute.

Disagreements between the parties emerged over a number of issues including the transfer of customs functions for high value goods (tobacco, cigarettes, alcohol), with Israel wanting to maintain control of clearance functions for these goods, and the PA wanting a transfer of functions inclusive of all goods. The PA reported that Israel wants to retain all checks, including standards, at its facilities. The PA has submitted a proposal to Israel for five "logistics zones" but has not received a response.

In September 2019, Israel renewed its commitment to the transfer of customs authority to the PA. January 2020 saw the parties re-starting discussions, focusing on the nature and scope of the transferred authority, the type of goods, security inspection, standards checks, intellectual property rights examinations, and electronic exchange of information. To enable the transfer of customs authority, efforts have intensified to develop the capacity of the PA to assume new customs-related responsibilities. These efforts include upgrading the current PA legal framework on customs. Since May 2020, discussions on the subject matter have been halted.

- **Dual use lists:** There are dual use lists of items applied by Israel for security reasons on imports into the West Bank and, with additional limitations, to Gaza, that contain broad categories of products going beyond internationally established practices on import. These lists are publically available<sup>1</sup>, however there is no consolidated up-to-date dual-use list available and the Palestinian side has raised questions on transparency especially concerning authorisations and inclusion of new products. The PA has requested predictable and clear administrative procedures, including a specific timeline in which the dual-use screening system would need to issue a response to a licensing request. Several of the products on the dual list have important civilian uses such as fertilisers, chemicals, pharmaceutical products, IT and communications equipment, textiles, furniture. Some of these are important input materials needed in order to further develop the Palestinian industry and agriculture and as such are key for economic development. According to World Bank 2019 report, the list contains 56 items requiring special approval to enter Gaza and the West Bank and an additional 61 items that only apply to Gaza. It estimates that relaxing the dual-use list alone would allow GDP to expand by 6% in the West Bank and 11% in Gaza by 2025.
- **Standards, including technical regulation and Sanitary and Phyto-sanitary rules:** For the majority of imports, the goods have to comply with Israeli standards (Palestinian and Israeli standards are similar or compatible in most cases). . Currently this is checked by Israeli authorities and goods can only be moved out from the Israeli ports once inspected which adds certain costs to imports for warehousing. Also, under the Paris Protocol, Israel is to notify the Palestinian authorities of any changes in import policies, regulations or procedures, which includes standards, technical and SPS rules, but in practice this has not been the case.

Delays and complications associated with the release of Palestinian-bound imports at Israeli gateways is a challenge for many Palestinian importers and producers. This results in substantial costs and reduced competitiveness. Palestinian private sector claims to be subject to different procedures which add significant cost compared to what Israeli importers face to clear similar goods.

Addressing cost increases and time delays incurred during the import process at Israeli gateways arising from standards-related issues is increasingly urgent. Such costs are affecting the competitiveness, and in some cases the viability, of Palestinian traders, especially producers. The

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<http://www.cogat.mod.gov.il/en/services/Documents/List%20of%20Dual%20Use%20Items%20Requiring%20a%20Transfer%20License.pdf>

PA, has placed significant attention on improving the capacity of the Palestinian Standards Institute to carry out relevant inspection and testing functions. This is creating potential for improved collaboration between the parties on addressing standards-related issues and reducing costs to Palestinian importers. A Memorandum of Understanding (MoU) was under discussion on measures to facilitate the checking of compliance with Israeli standards. However, the proposed MoU does not call for complete transferring of responsibility to the Palestinian side, but rather deals with one specific aspect of allowing the Palestinian importers to store the goods in their warehouses until the checks are completed by the Israeli Standard Institute. Since May 2020, discussions on the subject matter have been halted.

- **Gaza Trade:** Due to the Israeli closure of Gaza, exports are restricted to Israel and selected sectors. Agricultural products make up some 80% of all Gazan exports and are thus under particular distress. In December 2019, Israel allowed export of a limited number of strawberry shipments from Gaza to the EU market.

In 2018, the PA identified Gazan processed foods as the sector with a high potential for trade and job creation during discussions conducted as part of the Dutch-led Trilateral forum. The Netherlands received a pilot shipments of processed food from two ISO 22000 approved Gazan companies in early 2020, notably shipments of potato chips. Israel has committed to allowing the transfer of a pilot shipment of these goods from Gaza to the West Bank as soon as the PA Ministry of Health officially approves the entry into the West Bank.

In 2020, Israel and Palestine agreed to proceed with the upgrading of the Karm Abu Salem commercial crossing in Gaza. With the support of Netherlands and two other donors construction is to start on the first phase of this project in Q1 of 2021, establishing a shaded area at the crossing point, which is estimated to result in a 10% reduction in damage to perishable goods. The EU supports this initiative and considers dedicating financial resources to a second phase of the project, which will include the establishment of a built-in refrigerated area, which could help incentivise exports of perishable goods.

## 2. Integration of the Palestinian economy in the multilateral trading system

As indicated above, there is untapped potential in trade of Palestinian products in Euro-Mediterranean markets and other countries. It is therefore necessary to facilitate the integration of the Palestinian economy into both the world and regional economy. In this connection, the following actions will be undertaken:

-The EU and Southern Mediterranean countries have already indicated their support to the PG request for observer status in the WTO. Israel is ready to positively consider this request.

-Support the integration of the Palestinian economy in the multilateral trading system. In this context, the EU will support PA's actions required to ensure compliance with WTO requirements.

### State of play – November 2020

The EU and southern Mediterranean countries have confirmed their support to the development and the integration of Palestinian economy at the **International Conference on the role of trade in promoting economic development of Palestine**, which took place on 24 October 2013 in Istanbul. The Conclusions of the Chairs of the Conference are attached to this Technical Progress Report.

Palestine has been approved as an ad-hoc observer to several ministerial WTO conferences since 2005. No decision has yet been taken on the Palestinian request for observer status to the WTO General Council, which would need consensus in WTO. The main purpose for such observership would be to prepare its future WTO accession negotiations and see how the WTO is functioning. Observing WTO activities can give impetus to ongoing domestic reforms within the Palestinian Authority that can help develop the Palestinian economy.

The EU continues to be engaged in this process. The EU funded between 2015 and 2017 a project on "*EU Support to the Ministry of National Economy for trade policy formulation and WTO accession*". The project supported Palestinian WTO accession Agenda with the provision of technical assistance to align policies, legislation and trade agreements with WTO requirements. Activities of the project involved relevant Ministries, especially the Ministry of National Economy, and related WTO stakeholders through on the job training with an aim to build or strengthen their capacity in the trade policy and regulation formulation. The project helped the Palestinian Authority forging a comprehensive strategy for WTO accession, drafted all technical documents needed for WTO accession and offered reflections on the Palestinian economy's long-term perspective as a trade player in a multilateral context. The project which ended in June 2017 helped to prepare the Palestinian authorities to be technically ready to make its application. However, no progress has been recorded since.

The EU stands ready to support Palestine in its endeavour to join the WTO. Under a new programme for trade-assistance, to be approved and launched in 2021/2022, support to the Ministry of National Economy on trade policy aspects will be a key intervention measure.

### **3. Strengthening the administrative capacity to enhance trade of Palestinian products to Euro-Mediterranean markets**

Ministers agree on the need to provide technical cooperation to the PA on areas which are important to enhance trade of Palestinian products and services.

The EU is ready to continue to support the strengthening of administrative capacity of the Palestinian Authority. In the immediate future, this is foreseen in particular in the areas of trade in services and investment, industrial standards and technical regulations, and on WTO regulatory areas, with a focus on the PA's Ministry of National Economy, the Palestine Standards Institution and the Ministry of Agriculture with regard to SPS and food safety issues. Initiatives for all three agencies will commence in the final quarter of 2010. Moreover the EU will assist the Palestinian Customs Administration by further supporting the PA's long term customs strategy (Al Siyadeh).

In addition, some cooperation already exists between Israeli and Palestinian bodies in trade-related areas.

The following actions will be undertaken:

-The Israeli and the Palestinian custom authorities have agreed to enhance cooperation and exchange of information with a view, inter alia, to prevent customs fraud, and to contribute to develop a trade facilitating approach to the management of crossings, to build Palestinian capacity for customs control and to introduce a single window approach to border management. The EU will support these efforts.

-The Israeli Standard Institute and the Palestinian certifying agencies have agreed to enhance cooperation by increasing the transparency and exchange of information on applied standards. Cooperation should also be developed between the PA and other EuroMed partners in the field of standards and certifications, with a view to support PA's efforts to get closer to international standards. In this context, the EU would support the strengthening of the capabilities of the Palestinian administration in the area of conformity assessments of industrial products.-Further targeted assistance to foster the development of the private sector, to help develop a coherent legal and regulatory framework for firms and to strengthen private sector organisations, in line with recent EU upgraded support for Palestinian private sector development, such as the funds allocated to the European Palestinian Credit Guarantee Fund and the private sector recovery programme in the Gaza Strip.

-Further cooperation between the Palestinian Authority and neighbouring Arab countries will also be explored.

#### **State of play – November 2020**

For the EU, private sector development and trade have been at the forefront of cooperation efforts and led to a substantial amount of investment in these areas. To date, EU support for the private sector and trade has translated into a broad range of projects tackling different areas, from institutional development, direct grant support and blended finance to the private sector, from agribusiness to cultural tourism and green economy, from support to trade policies and strategies to strengthening the capacities of the Palestinian Standards Institute as well as supporting the SME fabric and industrial zones and clusters.

**The European Joint Strategy in support of Palestine** "Towards a democratic and accountable Palestinian State" is the EU's own strategic framework and constitutes the multi-annual strategic umbrella under which EU programming takes place. The EU along with the European Development Partners is currently working on an update of the strategy for the period of 2021-2023, which will largely maintain its priority pillars and update the joint context analysis. The European Joint Strategy brings together the development work of EU Member States as well as Norway, Switzerland and the United Kingdom, as like-minded partners. It is aligned to the Palestinian National Policy Agenda 2017-2022 and its associated sector strategies. The implementation of the European Joint Strategy is underpinned by a local division of labour where different European Development Partners take the lead in different sectors. The EU has decided to fully substitute its multi-annual programming document with the European Joint Strategy rather than develop a separate programming document. The Strategy sets out the EU's priorities in five pillars: 1) Governance reform, fiscal consolidation and policy reform; 2) Rule of law, justice citizen safety and human rights; 3) Sustainable service delivery; 4) Self-sufficient water and energy services; and 5) Sustainable economic development.

As regards **trade policy**, the previous section of this Technical Progress Report illustrates the scope and achievement of the Project "EU Support to the Ministry of National Economy for trade policy formulation and WTO accession (2015-2017)". Before that, another project "*Technical Assistance to the Ministry of National Economy for Institutional capacity building and trade policy formulation (2011-2012)*" strengthened the institutional and organisational capacity of the Ministry of National Economy in terms of policy formulation, with emphasis in the Palestinian Authority's WTO accession agenda.

The EU is currently preparing a future trade-assistance programme under its 2021 budget. The overall objective of the action will be to support the expansion and diversification of Palestinian trade with international and in particular EU markets, building Palestine's economic independence and leading to sustainable economic growth, job generation and welfare. The programme will focus on i) enhancing the formulation and implementation of trade policy and delivery of trade-related public services by the PA helping to expand trade with international and EU markets; ii) increasing Palestine's private sector presence abroad and better supporting Palestinian exports to achieve an increase in trade volumes with international and EU markets; iii) strengthening the quality infrastructure in Palestine, improving PA quality-related services, enhancing the standards of Palestinian products and their acceptance and presence on international and EU markets.

The EU is currently discussing with the Ministry of National Economy and private stakeholders on specific areas to work on, which on the policy level may include support to the review of the National Export Strategy; creation of a one-stop-shop focal point for export certification and coordination of import certification and licencing; establishment of Palestinian commercial representation abroad; adoption and implementation of the Strategy for Branding of Palestinian Exports; implementation of the new Quality Infrastructure Law and reinforcement of the National Accreditation System.

In terms of **trade facilitation and export promotion**, through the project "*Trade Diversification / Competitiveness Enhancement Program (2011-2014)*" the EU supported the development of the National Export Strategy, the analysis of the use of more effective routes for export as well as supported competitiveness in four service subsectors (tourism, business related and professional services, financial services and ICT).

Under the Palestinian Market Development Programme PMDP (2013-2018), specific support has been provided to a) the implementation of the National Export Strategy, b) support the posting of Commercial

Trade Representatives in various EU countries to enhance trade and investment and c) the support of B2B and trade fairs in various countries.

The EU in partnership with PalTrade (2016-2021) also supports Palestinian businesses in developing capacities for green value-added production for export to global markets as well as works to improve the policy environment for a green export-driven economy in Palestine.

In 2020, the EU launched a new 'IMPACT' (2020-2023) programme aiming to increase trust, mutual understanding and confidence between Palestinians and Israelis in the area of agricultural trade. The programme is supported under the EU Peace-building Initiative and is implemented in collaboration with a Palestinian NGO (PCARD) and an Israeli research institute (GIMI).

Under its planned trade-assistance programme, the EU will provide further support to Palestinian exporters, notably with regard to increased entry of SMEs into export markets; consolidation of SMEs' presence in foreign markets and improved physical presence in international markets through hubs for stock keeping, warehousing and commercial activities. The EU also considers supporting development of physical trade infrastructure in Palestine through logistics centres and/or service centres for trade-related services such as packaging.

The EU is also currently working to deliver a trade and competitiveness blended finance programme to complement the above-mentioned policy dialogue on trade and direct trade-related assistance to private enterprises with investment in form of loans coming from the EBRD.

With regard to **investment-related support**, the EU deploys financial instruments leveraging investment into Palestine under its ambitious EU External Investment Plan.

The EU has been attracting investment from private capital and financing from European Financial Institutions in Palestine thus far through three flagship interventions. First, through the 'SUNREF' programme with ADF where EU incentive grants leverage loans from AFD reaching Palestinian private sector via local banks and targeting investments in renewables, energy efficiency and environmentally-friendly technology. Second, through previous EU investment in the European-Palestinian Credit Guarantee Fund, which works to de-risk capital in the Palestinian financial sector and thereby improve access to finance for MSMEs, many of which seek financing for trade purposes as well. Third, through the 'Advice to Small Business' programme with the EUBRD that provides services to SMEs on matters ranging from investment, access to finance, market performance, quality management and more.

Responding to the COVID19 pandemic and as part of the overall efforts of Team Europe, the EU has put together a comprehensive package of economic assistance for Palestine. The package amounts to some EUR 85 million through a contribution in financial instruments and grants, that will allow to mobilise over EUR 400 million in soft loans and investment for the private sector. The package will be delivered in form of four main instruments: i) loan guarantees; ii) liquidity injection; iii) risk capital; iv) incentive grants. Individual operations with financial instruments include: new funding for the European Palestinian Credit Guarantee Fund to respond to COVID19 and work in Gaza via KfW; new credit facilities under the second phase of the SUNREF programme with the AFD/PROPARGO; new loans for women and youth-led businesses under the 'Financial Inclusion Programme' with EBRD; fresh liquidity for SMEs and loan guarantees for the benefit of vulnerable groups through the EIB's 'Private Sector COVID19 Response'; financing for micro enterprises under the EU-EIB 'Risk Capital Facility'; equity investment in the National Agriculture Investment Company via EIB; and risk capital in the SANAD Fund through KfW.

Regarding **customs**, through a Project 'Palestinian Customs Modernization Programme: ASYCUDA-Phase III' (2007-2011), the EU supported the implementation of the Asycuda customs management information system in cooperation with UNCTAD, and reinforced PA readiness for border management.

The EU has rolled out the first Twinning programme in Palestine in 2019 in the field of customs. The twinning project "Strengthening the Capacity of the PA to improve customs revenue collection and borders crossings control" amounts to EUR 2 million and is implemented by the Lithuania; the Customs Department under the Ministry of Finance and the State Border Guard Service at the Ministry of Interior. The Twinning project cooperates with two Palestinian Public Administrations, the General Directorate of Customs, Excises and VAT under the Ministry of Finance and the General Administration of Borders and Crossings. The main objective of the twinning project is to improve the PA fiscal position through improving collection of customs revenues and improving control of goods at the borders. The project

focuses on developing legislations and improving working methodologies benefiting from EU standards and policies. Since March 2020 and due to the COVID19, the project has been suspended.

In 2019, the project has produced needs assessments in the areas of Customs Law, post clearance audit and inter-agency cooperation for border crossing control, Also, priority areas for a PA Customs legal framework were identified and relevant draft amendments of the old Customs Law were prepared. In addition, a feasibility analysis was introduced to set up a One Stop Service for coordination and simplification of border control processes related to import and export procedures.

A USD 3.75 million Multi-donor Trust Fund, administered by the World Bank, complements the above efforts by supporting the implementation of PA's Public Financial Management reform agenda (PFM), with contributions from the EU and Denmark. It has been operational in helping the PA in implementation of reform measures supporting the fiscal consolidation and resilience (wages payroll system, commitment controls, public procurement, financial controls and external audit etc.) as well as facilitating the policy dialogue between the PA and key development partners active in PFM area. A UK GBP 7.5 million Service Stability and Reform Programme complements other donors' efforts to support the PA in implementation of various PFM systems reform (medium-term fiscal and budgetary frameworks, revenue administration etc.).

The PFM Strategy 2017–2022 was set to provide the PA with a framework for reforms contributing to enhanced fiscal discipline, improved allocative function of the government and efficiency in the provision of essential public services. A revised PFM Strategy has been adopted by the Cabinet of Ministers in September 2020 building on the key constraints and weaknesses identified in the Public Expenditure and Financial Accountability assessment, carried out in 2018-19 and disseminated in January 2020. The revised PFM Strategy is gender-responsive recognising the different needs of men and women and promoting gender equality. The revised PFM Strategy intends to raise the level of competitiveness of the Palestinian economy by improving the investment environment, raise and generate sector transformations through improvement to tax system with focus on technology sector, land and real estate development, e-Commerce, tourism and drugs sectors.

The EU Border Agency Cooperation (EUBAM) mission is the main EU partner supporting the Palestinian General Administration of Borders and Crossings in its capacity building process, providing technical assistance in a number of sectors dealing with border controls and Integrated Border Management.

On **technical regulation and standards**, through the Project "*EU Modernization Programme for the Palestinian Quality Infrastructure (2014-2016)*" and through various supply contracts (still ongoing), the EU provided a capacity building programme to the Palestinian Standards Institute, provided laboratory equipment and strengthened Quality Infrastructure. Furthermore, PTB (Physikalisch-Technische Bundesanstalt) supports also currently quality infrastructure in general especially in the fields of metrology and market surveillance. PTB also supports awareness rising in the private sector for quality and conformity of shoes (leather) and furniture and specific market requirements for these sectors through a regional cooperation project. Furthermore, at the end of 2017 the EU financed an expert mission of EU Member States' experts on assisting Palestinian exports meet EU technical requirements on exports of construction materials.

On **agriculture and Sanitary and Phytosanitary rules**, the new Palestinian Agro-business project 'Reform and Development of Markets, Value Chains and Producers' Organizations (2017-2021) implemented by FAO and funded by the EU, Netherlands, Switzerland, Denmark and Spain, includes a component on facilitating compliance with SPS rules through a value chain approach and includes among many other actions, the support of laboratory testing capabilities. Furthermore, FAO prepared a follow-up intervention 'Capacity building programme in support of the Palestinian National Authority – Sanitary and Phyto-Sanitary (SPS) measures (2014-2017)' funded by the Netherlands, Switzerland and Spain in the fields of Plant Health, Food Safety and Animal Health, as a priority under the National Investment Plan (2020-2022) for food and nutrition security and sustainable agriculture.

**Private sector development** the "*Palestinian Market Development Program (PMDP) (2013-2018)*", funded by the EU and the UK (DFID), supported the improvement of the business environment, supports the Palestinian Investment Promotion Agency and aims at enhancing the competitiveness of Palestinian companies, through technical assistance and matching grants. In addition, the EU funded programs "**Start-ups & Business Incubators**" (Enabel 2014-2019) and "Venture in Palestine" (ongoing - Birzeit University), aim at building the capacities of incubators and supported start-ups.

The EU also supports **Industrial development** through a program on Jericho Agro Industrial Park and Gaza Industrial Estate, which provides incentive packages to SMEs as well as technical assistance and rehabilitation of physical infrastructures to the industrial parks. With EU support, the PA aims to provide incentives to companies currently located in industrial estates or interested in relocating into the concerned industrial estates aiming to diversify, transform, expand or repurpose their production processes. The EU works on provision of innovation and entrepreneurship support to utilise and develop locally-driven RE solutions in industrial businesses through a programme called 'Moustadama' with UNIDO).

Interventions along the **humanitarian-development nexus and resilience in Gaza**, will start in 2020 working with NGOs and Enabel. Targeted intervention in the **ICT sector** (Gaza Gateway) and **business environment sector** (Company Law Reform, Business Registry, Licensing Reform, Inspections Reform) will start in 2020 through funding to the World Bank.

Apart from other on-going initiatives under the EU umbrella, **Member States** individually have been actively implementing support programs, in different trade-related sectors.

- Germany funded the 'Private Sector Promotion Programme', which supported the private sector with regular trade missions to Europe, in the sectors of IT, Tourism and Fair Trade. The results contributed to a measurable increase in total sales of Palestinian products most, with an additional 100 thousand USD in sales in 2016, the majority of which were destined to the EU.
- Germany through its metrology institute PTB has funded two programmes in Palestine first supporting establishment of quality-assuring services and then strengthen these services in line with international good practices.
- The French Development Agency along with Germany have funded a certification project in Gaza with a few pilot companies and products, starting with garlic, receiving ISO 22000 certification to improve standards in the food processing sector. In parallel, the Palestinian Standards Institute is supported raising its standards, notably by setting up new laboratories in Gaza. While raising the standards can strengthen the market position of these Gazan companies, it can potentially also help specific companies to access markets outside Gaza.
- The Netherlands, in cooperation with the above programme funded by France and Germany, has supported a pilot initiative to import products of two Gazan companies in early 2020 with the ultimate aim to facilitate market access to the West Bank and Israel in 2021.
- The Netherlands also supports a dialogue between Jordanian and Palestinian authorities on crossing, financing of scanners and conduct of studies for agricultural trade opportunities in the region through involvement with the Office of the Quartet.

### Next steps:

Since the adoption in 2010 of the Package of Measures, only limited progress has been achieved in the facilitation of trade of Palestinian products with other Euro-Mediterranean Partners. Restrictions on Palestinian trade continue to represent a key obstacle for the development of the economy. As discussed in this report, discussions are ongoing between Israeli and Palestinian side on a number of means to facilitate Palestinian trade. Rapid and substantial progress in the implementation of the package of measures is essential to enhance the prospects of Palestinian economic development.

The European Union will continue its efforts to help remove the obstacles to Palestinian trade and to promote the implementation of the Package. The EU shall prepare updates of this Technical Progress Report working for concrete actions taken to facilitate Palestinian trade to be presented at the next UfM Trade Ministerial Conference.

## ANNEX

### **International Conference on the role of trade in promoting economic development of Palestine**

24 October 2013, Istanbul

#### **Conclusions of the Chairs**

The participants underlined that trade can serve as the engine for the growth of economy in Palestine and a strong private sector would be a driving force in this respect.

A number of immediate actions were highlighted that could be taken by Israel in order to facilitate and expand Palestinian trade such as: (i) removing restrictions in trade across all commercial crossings between Palestine and Israel; (ii) allowing the sale of Palestinian products throughout the Palestinian territory and Israel; (iii) permitting greater Palestinian investment in tourism sector, (iv) recognizing the free trade agreements negotiated by the Palestinian Government, and (v) facilitating investment and access to resources in Area C.

Palestine also needs to further develop its own trade and investment policy across the board for goods, services, investment, public procurement, and regulatory issues, such as industrial standards, sanitary and phytosanitary measures, competition or trade facilitation. This will involve not only policy making but also an effort in building and reinforcing the necessary institutions. The EU and other members of the international community have been asked to reinforce support for capacity building in a number of areas, such as standards, sanitary and phytosanitary measures or the services sector.

The importance of moving from the current situation to a separate customs territory with full trade policy autonomy, with the agreement of interested parties as soon as possible, has been recognized. In terms of framework for Palestinian trade, the main change should be from the current Paris Protocol to a fully-fledged deep FTA with Israel, which is by far Palestine's main trading partner. The FTA should comprehensively cover all aspects of trade between the two partners including goods, services, transit arrangements, labour movement and non-tariff measures such as standards and SPS measures. In order to achieve this aim a transitional period will be needed to ensure that the necessary instruments and administrative capacity are put in place.

Palestine's future trade regime should continue to be open: Today, Palestine has FTAs in place with the EU, EFTA and Turkey and benefits from duty-free and quota-free with the US and Arab League members. These arrangements should be completed with the accession of Palestine to the Agadir Agreement and at a later stage, to the WTO. The importance of support for Palestine's accession to WTO has been recognized. In parallel, Palestine will need to further develop and deepen existing agreements and arrangements.

Industrial growth was defined as a key factor to maintain sustainable growth and competitiveness of Palestinian economy and participants underlined the importance of industrial zones as well as the need for production of high-tech goods. Also, the participants underlined the primary role of SMEs in increasing production and championing economic growth and expressed the need to consolidate the institutional capacity of SMEs in Palestine.

The EU, Turkey and other Southern Mediterranean partners are ready to support efforts by Palestine to strengthen its administrative capacity and to further develop its trade policy framework.

A package of measures aiming at facilitating trade of Palestinian products to Euro-Mediterranean and international markets was agreed in November 2010. The package is being implemented in certain areas, but progress is still needed in many areas. The conference highlighted the importance of reviewing the implementation of the package of measures to facilitate Palestinian trade. It is expected that trade ministers will identify at their meeting next year areas where progress need to be strengthened and a mechanism to periodically review implementation.