4

מדינת ישראל

משרדי הממשלה

משרד

מס' תיק

שיתוף פעולה מסחרי בין ישראל למדינות

ערב והפלסטינים

כרך א'

31/12/1995 - 1/5/1989

שם תיק : שיתוף פעולה מסחרי בין ישראל למדינות ערב והפלסטינים -כרך א'

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מס' תיק מקורי

מחלקה

מלי"ץ
MELITZ

מידע על מפגשי "הידברות"

1. מטרות המפגש : הכרות אישית, תרבותית ומקצועית ובחינת דרכים לשיתוף פעולה מקצועי בעתיד.
2. המשתתפים יעסקו במשימות מקצועיות משותפות.
3. המפגשים יתנהלו באנגלית, לכן יכולת דיבור אנגלית חובה.
4. המפגשים יתקיימו בישראל וברשות הפלשתינאית, בבתי מלון ומסעדות.
5. ינחו כל מפגש 2 קו-מנחים (פלשתינאי וישראלי) שעברו הכשרה מטעם מלי"ץ ו-PPIC-Palestinan Peace Information Center - הארגון המשותף הפלשתינאי שלנו לפרוייקט זה.
6. הוצאות תחבורה אל הפגישות, ארוחות ולינה - על חשבון מלי"ץ.
7. המשתתפים מתבקשים להתחייב מראש להיות נוכחים <u>בכל</u> הפגישות במחזור למען הצלחת המפגש.
8. מלי"ץ מקיים את הפגישות בתאום עם גורמים ביטחוניים ישראלים וכמו כן השותפים הפלשתינאים עם הגורמים הרלוונטים ברשות הפלשתינאית. ישנן הסעות מאורגנות בכלי-רכב מוגנים לפעילויות בצד הפלשתינאי.
9. יימסר לכל משתתף דף מספרי טלפונים רלוונטיים בפגישת ההכנה.
10. בפגישות ברשות הפלשתינאית יוגש אוכל צמחוני לשומרי כשרות וצמחונים.
11. תיאור מועדי ושעות המפגשים מצורף לדף זה.

ניתן להפנות כל שאלה אל לי פרלמן רכז הפרוייקט מטעם מלי"ץ בעבודה: 02-6734441 שלוחה 447
פלאפון: 050-931333
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או להשאיר הודעות אצל מיכל או דיאן במלי"ץ שלוחות 440,449

מלי"ץ - מכונים לחינוך יהודי-ציוני, רח' ישי 19, אבו תור, ירושלים 93544 טל: 02-6734441 פקס: 02-6733447
אינטרנט: http://www.jajz-ed.org.il/melitz דואר אלקטרוני: melitz@netmedia.net.il

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2 מפגשי מחנכים של פרוייקט "הידברות"

מחנכים A

<u>פגישת הכנה למשתתפים ישראלים</u> - יום ב' 23.2 , 17:00-22:00 במליי"ץ - כולל ארוחת ערב.

<u>פגישה משותפת # 1</u> - יום ו' 27.2 , 09:00-13:30 ברשות הפלשתינאית. (יציאה ממליי"ץ ב- 08:00)

<u>פגישה משותפת # 2</u> - יום ה' 5.3 ב- 16:00 עד יום ו' 6.3 בשעה 13:00 (בתנאי לינה) - מלון בתל-אביב.

<u>פגישה משותפת # 3</u> - יום ה' 19.3 ב- 16:00 עד יום ו' 20.3 ב- 13:00 (תנאי לינה) - ברשות פלשתינאית.
(יציאה ממליי"ץ ב- 15:00)

<u>פגישה משותפת # 4</u> - יום ו' 27.3 בין השעות 09:00-13:30 בתל-אביב.

<u>פגישת סיכום למשתתפים הישראלים</u> - יום א' 29.3 בין השעות 17:00-22:00 במליי"ץ.

מחנכים B

<u>פגישת הכנה למשתתפים ישראלים</u> - יום ב' 16.2, 17:00-22:00 במליי"ץ - כולל ארוחת ערב.

<u>פגישה משותפת # 1</u> - יום ו' 20.2 , 09:00-13:30 ברשות הפלשתינאית (יציאה ממליי"ץ ב- 08:00)

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(יציאה ממליי"ץ ב- 15:00)

<u>פגישה משותפת # 4</u> - יום ו' 27.3 בין השעות 09:00-13:30 בתל-אביב.

<u>פגישת סיכום למשתתפים הישראלים</u> - יום ב' 30.3 בין השעות 17:00-22:00 במליי"ץ.

* בנסיעות הלוך וחזור לרשות הפלשתינאית, תיקבע במידת הצורך תחנה במלון הייאט

2 מפגשי מחנכים של פרוייקט "הידברות"

מחנכים A

<u>פגישת הכנה למשתתפים ישראלים</u> - יום ב' 23.2 , 17:00-22:00 במליי"ץ - כולל ארוחת ערב.

<u>פגישה משותפת # 1</u> - יום ו' 27.2 , 09:00-13:30 ברשות הפלשתינאית. (יציאה ממליי"ץ ב- 08:00)

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<u>פגישת סיכום למשתתפים הישראלים</u> - יום א' 29.3 בין השעות 17:00-22:00 במליי"ץ.

מחנכים B

<u>פגישת הכנה למשתתפים ישראלים</u> - יום ב' 16.2, 17:00-22:00 במליי"ץ - כולל ארוחת ערב.

<u>פגישה משותפת # 1</u> - יום ו' 20.2 , 09:00-13:30 ברשות הפלשתינאית (יציאה ממליי"ץ ב- 08:00)

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* בנסיעות הלוך וחזור לרשות הפלשתינאית, תיקבע במידת הצורך תחנה במלון הייאט

REGIONAL ECONOMIC DEVELOPMENT WORKING GROUP (REDWG)

TRADE COMMITTEE

Annotated Agenda

1. ADOPTION OF AGENDA

The Committee is invited to adopt the draft Agenda (Annex A).

2. AMMAN SUMMIT

The Committee is invited to express their satisfaction at the outcome of the Amman Summit and to congratulated the Government of Jordan on the excellent arrangements for the Conference.

The Committee is invited to note the *Statement* signed by the Ministers from the Core Parties announcing the establishment of the Regional Business Council. The Committee is also invited to note the *Basic Model* for the RBC which was attached to that statement (Annex B).

The Committee is invited to note that, at the general session on REDWG, Israel made a presentation on the work of the Trade Committee. The text of that presentation appears as Annex C.

3. REGIONAL BUSINESS COUNCIL

The Committee is invited to note that the Ministerial Statement signed at the Amman Summit calls on the regional Trade Committee to "continue to work with the private sector to ensure that the Council becomes operational within six months". To achieve this deadline the RBC must be operational in April 1996.

3.1. Establishment of National Mechanisms for Membership

The first priority should be to establish national Contact Points within the private sector of in each of the Core parties. These Contact Points, supported by a local task force, should be responsible for mobilising the interest and involvement of the private sector in the Council. The local task force, working on the basis of guidelines agreed by the Trade Committee, should draw-up arrangements for establishing national mechanism for membership.

It is essential, for the success of this initiative, that there is small core of senior business people who are will to play an active role in bring the RBC into operation. It is proposed that the Chair, supported by the Executive Secretary and the Facilitator, should meet with each of these national structures to discus this process and to encourage rapid moves to put such mechanisms in place.

3.2. **Charter and Bylaws**

It is the responsibility of the Committee, with the full involvement of the private sector representatives, to prepare a draft of the Charter and Bylaws of the Council.

It is proposed that a working group, supported by the Executive Secretary and the Facilitator, should be established to prepare a draft for consideration by the Committee.

3.3. **Interim Board of Governors**

The RBC will have a Board of Governors consisting an equal number of representatives from each regional member.

It is proposed that an interim Board of Governors should be established once the national mechanism for membership have been established and the draft Charter and Bylaws agreed by the Committee.

3.4. **Location of Headquarters**

In order to become operational, the RBC will need a location (or a provisional location) for its headquarters.

3.5. **Appointment of Executive Director**

The RBC will have an Executive Director. The Committee should agree a draft job description, terms and conditions of service and appointment arrangements for this post.

It is proposed that the first Executive Director should be appointed by the interim Board of Governors.

3.6. Programme

In order to attract members, the RBC will need a more detailed programme of work.

The Executive Director, once appointed, should be responsible for proposing such a work programme for approval by the interim Board of Directors.

3.7. **Initial Budget**

The implementation of that work programme will necessitate the establishment of an office and the appointment of staff.

The Executive Director should draw-up such a budget and submitted to the interim Board of Directors for approval.

3.8. **First Annual Meeting or General Assembly**

One of the early tasks of the Executive Director, which should be included in the work programme, is the convening of the first Annual Meeting of the Council. The meeting might take place in March 1996.

3.9. **Mobilisation of Resources**

The Committee is invited to recall that the United States government has agreed to provide US$200,000 towards the costs of the Council's first year of operations.

Resources are also still available within the US financed contract for a facilitator to assist in the establishment of the RBC.

The Committee is also invited to note that resources are available for studies and short-term technicial assistance from the Secretariat's Consultancy Fund.

The Committee is invited to note that it is necessary decided who should be the depository for the Ministerial Statement and the Basic Model.

4. TRADE ROUND TABLE

The Committee is invited to note the programme for the *Round Table* (Annex D). The purpose of the meeting is to provide an opportunity to review the various trade studies which have recently been completed and to exchange views with the others and sponsors on these studies on practical measures for their implementation.

5. PROGRAMME OF ACTIVITIES FOR 1996

The Committee is invited to note that it is important to develop a programme for work for the next year.

A major responsibility of the Committee will continue to relate to facilitating the establishment of the Regional Business Council. The second important priority relates to the follow-up of the various trade studies. It is anticipated that the

Round Table will be important in helping to identify the main area requiring follow-up by the Committee.

Such a programme might encompass:

- the identification of specific recommendations to national administrations on how to reduce the impediments to trade;
- agreement on mechanism to monitor the implementation of such recommendations;
- need to review bilateral and multilateral trade agreements within the region, with a view to achieving gradual harmonisation;
- proposals on how best to reduce non-tariff barriers to intra-regional trade;
- proposals on how the Core Parties might co-operate, as a region, to secure improved trade access to their major international markets; and
- desirability of agreeing on what further studies, seminars or other initiatives might be undertaken during 1996 to further the work of the Committee.

In developing this programme it will be important to agree on how to coordinate the activities undertaken within the framework of the Taba initiative and those sponsored by REDWG.

The Committee is invited to note that the Secretariat now has a Consultancy Fund available through which it will be possible to finance studies, short-term consultancies, meeting and conferences designed to further the work of the four Sectoral Committees.

6. ANY OTHER BUSINESS

6.1. UK Initiative to promote Inward Investment

The Committee is invited to note that the UK has been for some time been in touch with the REDWG Finance Committee concerning the launching of an initiative to encourage inward investment in the region. This initiative was announced at the Barcelona Conference. It is proposed that a study will be undertaking and major conference be sponsored designed to enhance the flow of investment capital to the region. The Committee is invited to note the draft Terms of Reference for this work.

Ladies and gentlemen

The reason for today's meeting is to discuss the results of the various recently published studies on cooperation and trade in the Middle East, whereby special attention should be given to practical proposals to enhance trade in the region and to arrive at some kind of an policy oriented action plan. As you might know, the ifo study is of a somewhat different nature. We concentrated on the hopefully realizable potentials for cooperation and trade and not so much on practical proposals of how to overcome the still existing physical and psychological barriers which still exist in the region. As regards the physical barriers, those are especially dealt with by the German-Arab Chamber of Commerce in Cairo, whose results we will discuss next.

The ifo study consists mainly of three distinctive parts. In the first part, dealing with the economic situation and potentials of the different countries in the region, we tried to assess the economic structures and potentials in the region, being the background for all further considerations. In the second part, we focused on the present intra- and extraregional trade and cooperation agreements and intentions of the individual countries, outlining the status quo situation as well as the already visible signs of closer cooperation compared with the past. The third part aims at providing a realistic estimate of the goods trade potential including Israel and under the assumption that the still existing trade restrictions are removed. Finally, we gave a rather short outlook of how these theoretical considerations can eventually be put into practice.

Regarding the individual economic potentials, it is well known that Israel surpasses all other countries in the region by far. With a population share of only six percent of the ninety million peoples in the Middle East, Israel accounts for more than half of the region's GDP and its external trade volume also exceeds

that of all its neighbours combined. The Israeli per capita income is twelve times the average of the other countries and more than twenty times that of Egypt alone. Among the Arab countries, Egypt has the most differentiated production and export structure and thus also the best prospects for further expansion, especially in cooperation with Israel.

Israel, because of its regional isolation, was forced to pursue an externally oriented development strategy and established strong economic ties with the industrial countries. It's Arab neighbours, in contrast, had not experienced a similar pressure to concentrate on export oriented industrialization, partly because of their traditionally service oriented economies, as was the case in Jordan, Lebanon and the Palestinian territories since the Israeli occupation, and partly because of their oil and gas reserves, namely of Egypt and Syria. This resulted in strongly diverging economic structures with on first sight only a weak complementarity of the individual economies.

Physical barriers and similar production structures of the Arab states permitted so far only a limited amount of bilateral trade; potential agricultural exports face strong competitive pressures and many products of the extractive industries can only be sold on the world market. The manufacturing industry is either not yet internationally competitive or - as in the case of textiles and clothing - it has already achieved a technological standard and national importance that protection from regional and international competition has become an important issue. For Israel's sophisticated industrial products, on the other hand, the absorptive capacity of its neighbouring markets is still limited.

But these structural differences do not mean that prospects for regional trade will remain subdued. In the initial phase of a global regional opening it can be

expected that the exchange and mutual use of services will probably expand much more rapidly than goods trade. But the combined availability of technical know-how, capital and a variety of important raw materials is ideally suited to base regional development on the further processing of natural resources to high-value intermediate and final products. In addition, trade especially between Israel and its neighbours as well as the overall acceleration of economic growth - which presently looks rather promising for most countries of the region - will certainly contribute to higher trade volumes in the future.

It is not only politically desirable, but also an economic necessity that cooperation gets off the ground. As you well know, the trade balance of all Middle Eastern countries is strongly in deficit. These deficits could not be financed were it not for a wide variety of international transfer payments. A stimulation of regional trade to reduce the enormous trade deficits with the rest of the world is thus in the direct interest of all countries in the region.

In any case, trade agreements already exist in sufficient numbers. Extraregionally, all Middle East countries have preferential agreements with the EU, which are the farthest reaching in the case of Israel with reciprocal free trade for industrial goods. Sensitive areas are agricultural products and certain textiles and clothing, for which limitations exist. Current renegotiations focus among other items on expanded market access in Europe. Trade between the Arab countries has in the past primarily been in the context of compensation deals and trade protocols based on a predetermined list of goods for which reduced or zero tariff rates applied.

A stimulation of regional merchandise trade did not take place until after the peace process began and affected in particular Israel's cooperation with the Palestinian areas, Jordan and Egypt as well as the cooperation of Syria with Lebanon and of Jordan and Egypt with Palestine. Positive for future trade

development is the fact that all countries in the region have for some years already pursued a policy of gradual trade liberalization to which they have obligated themselves either within the framework of GATT or as part of economic restructuring programmes.

As regards cooperation in the field of production, quite a number of projects are already in preparation or at least discussed especially between Israel and Egypt in the field of petro- and agro-chemicals, food processing, textiles and clothing. Joint ventures between Israel and Jordan will in a first phase primarily concentrate on the Dead Sea mineral extraction and processing as well as cooperation in the textiles field. Regarding the Westbank and Gaza, a full exploitation of the existing cooperation potential is currently curtailed by political strains, which will hopefully be overcome in the foreseeable future. In addition, there are numerous large-scale cross-border projects under discussion, which can only be realized in the long-term and with international finance. To date, especially Israel seems to have profited from regional détente as direct and indirect trade boycotts are increasingly lifted or not being followed any more, which is above all true for the Moslem countries of the Far East.

In the next section of our analysis, we tried to estimate the medium-term regional trade potentials in case that the still existing barriers are successively removed. Of the Arab countries in the Middle East, Egypt has not only the by far most diversified production and export structure, but also the strongest ties with the region in regard to exports, which are far greater than its import needs from the region.

Jordan, in contrast, has always been a relatively weak trading partner both regionally and internationally. Its potential advantages lie primarily in its function as intermediary between the Mediterranean, Israel and the Gulf, between the Red Sea and Iraq and also Syria. But of course, in cooperation with Israeli

and other foreign capital, there are certainly prospects of developing new products and export possibilities.

Syria, with its 1994 free-trade agreement, has secured itself a reliable market in Lebanon for its crude oil, refinery and agricultural products, as well as for textiles and clothing. The last two product groups are also the only ones that have a growing regional trade potential. Syria's other industries do not seem to have immediate prospects to compete successfully on the regional or world markets. In the case of Lebanon, it is presently primarily in agricultural products that exports to the region and to the Gulf can be expanded. Otherwise, Lebanon's reconstruction programme calls more for the substitution of consumer goods imports (which so far come mainly from extraregional sources) and less for the creation of new export potentials.

Israel had until recently no direct trade relations with its neighbours, except for some oil imports from and very little additional trade with Egypt and, of course, very strong ties with the Palestinian territories. The inclusion of Israel, which is industrially highly developed but lacks raw material resources, into regional cooperation certainly signals a new dimension in Middle East trade if exploited to the full. When calculating Israel's regional export and import potential, we had to rely on the present extraregional trade structures of the individual countries, reflecting their export possibilities and import necessities. Unfortunately, respective data were available for 1993 and on a SITC 3-digit basis only. To arrive at the maximum theoretical trade potential, Israel's respective exports were related to the Middle East imports of the same product group and whichever figure was lower was divided by three to make allowance for product differentiation within the 3-digit product groups as well as for production capacity restraints. The same procedure was followed regarding Israel's imports. This rather rough method is widely applied in

cases where for political reasons trade relations are as yet more or less non-existent.

As a result, Israel's export potential to the region of finished goods and high-value intermediate products would presently be around one billion $ a year with Egypt - as was to be expected - the largest and most promising market with some 600 to 700 million $, while Syria, Lebanon and Jordan are far behind with possible export values of between 100 and 130 m $ each. On the other hand, Israel's regional import potential of raw materials, semi-finished goods and especially labour-intensive finished products added up to somewhat less than 900 m $, which leaves a relatively small surplus of some 100 to 150 m $ for Israel. Again, Egypt will be the main supplier with around 700 m $, equalizing its imports from Israel, the rest being divided between Jordan and Syria. This implies, of course, that Israel's import needs of raw materials and intermediates are supplied locally in as far as possible. Moreover, this relative small surplus of Israel is more likely to turn into a deficit in the course of time than to increase - not only due to higher raw material imports, but also because much of the trade potential of Israel's neighbours will only become operative over time. Again this development will mainly be in Egypt's favour due to future export prospects of oil, coal and petrochemicals to Israel. In as far as possible, these estimates have been counterchecked with available calculations from other institutes, mainly from Israel, but these didn't cover all the countries concerned. A separate calculation of the Bank of Israel exists as to the possible trade volume of Israel with the Palestinian territories. In this case, trade within the framework of a free trade arrangement would actually be lower than present volumes, as direct exports and imports would be much higher than is actually the case. But with exports to Palestine of some 450 m $ and imports of 200 m $, there will still be a sizeable surplus for Israel. The same would probably be the case with Jordan, Syria and Lebanon. In the

medium term, only Egypt seems to have the chance to develop a considerable regional export surplus.

There is, however, an important factor which relativizes Israel's regional export potential. As already stated, except for Egypt and Palestine there have been no direct regional trade relations in the past. But it is well known that quite a number of Israeli goods reached Arab markets via third countries and indirect channels, without being officially recognized as being of Israeli origin. A number of estimates exist as to the volume of this indirect trade, which range between 500 million and one billion $ a year, including the Gulf states and North Africa. Of course, these invisible exports of Israel will become visible once official trade relations are established - which means that Israel's real export gains will be much less than the above mentioned figure of some 1 bn $ a year.

Regarding the individual product groups which, in our view, could be traded regionally, please have a look at the paper I distributed which will give you the necessary details.

To close with, I would like to present a few ideas of how to promote fruitful cooperation in the region and how to enhance trade by way of regional as well as international initiatives and support, with the removal of all existing barriers as a prerequisite.

First of all, the establishment of a customs union or even a common market in the region is considered by all potential participants to be premature for the time being. A first step in this direction should thus be the granting of preferential conditions of the stronger economy to the weaker ones in order to reduce or even equalize possible trade gain differentials. This proposal means, of course, Israel and as far as I know such a policy is already being

followed regarding Jordan and the Palestinian economy. Such a policy would correspond with the EU's stand of granting Israel preferential trade terms for a number of years, while later bilateral relations were based on an equal footing.

Private entrepreneurs in the region demanded first of all a more active participation of private sector institutions and organizations in regional trade promotion, as in the past government institutions often acted without taking private interests and advice into account. In addition, an improvement of trade information possibilities and, above all, of the trade supporting financial infrastructure is considered to be of high priority. One main problem lies in the absence of an appropriate and effective export guarantee scheme that can encourage the flow of goods within the region and beyond.

The international community is mainly addressed in regard to debt relief, local content regulations and market access. As regards debt relief several countries in the region are so highly indebted internationally, that their repayment obligations leave little scope for investment and thus development. It is true that Egypt profited much from its participation in the last Gulf war. Presently, especially Jordan and Syria feel still very much the strait-jacket of external debt, as already granted debt rescheduling and limited debt cancellations have not yet created sufficient leeway for urgently needed investments.

In as far as preferential access to the EU market for industrial goods is concerned, the admission of cumulative regional certificates of origin has already been proposed by different countries in the region. Such an agreement would considerably enhance regional joint ventures and, later, industrial export possibilities to the EU and, may be, also the United States. The production structure of the countries in the region would become more complementary, the individual trade potential will increase and a general acceleration of devel-

opment will set in. Another demand raised in the region called for guaranteed markets for regional joint venture products in Europe, which might be a little bit less realistic. A general claim of all Middle East countries is better EU market access for locally produced goods. Our analysis has shown that - with the exception of Israel's much broader spectrum - practically all countries of the Middle East are competitive in Europe in two product areas, for which they demand higher export quotas: agricultural products and textiles as well as clothing. These product areas, however, are particularly sensitive within the EU and enjoy specific protection. May be that Mr. Rhein will elaborate more in detail on this subject. From a global point of view, I would like to argue that it is certainly more reasonable to improve market access in general for products from the region than the launching of new development assistance programs.

Product Groups With Regional Trade Potentials

SITC	Product category	Potential regional exports of Israel	Potential regional imports of Israel	Regional trade potential among Arab states
0	Food and live animals	- Live animals for breeding - Dairy products, eggs - Fresh fruit and vegetables - Chocolate products - Prepared foodstuffs (high quality)	- Live animals (Jordan) - Fresh fruit and vegetables - Processed food (simple preparations)	- Live animals for food - Fresh fruit and vegetables - Spices - Food preparations - Sugar candy
1	Beverages and tobacco	- Some alcoholic beverages (small volumes)	- Some alcoholic beverages (small volumes from Jordan and Lebanon)	none
2	Crude materials, inedible, except fuels	- Some crude minerals and crude vegetable materials - Wool - Seeds for soft fixed oil	- Cotton (Egypt) - Some crude minerals and crude vegetable materials - Building materials	- Cotton - Some crude minerals and crude vegetable materials - Building materials - Seeds for soft fixed oil
3	Mineral fuels	none	- Crude oil (Egypt, Syria) - Natural gas (Egypt) - Coal (Egypt) - Oil refinery products	- Oil refinery products - Crude oil - Natural gas
4	Animal and vegetable oils	none	none	none
5	Chemicals and related products	- Anorganic chemicals and raw materials - Agrochemicals in general - Medicines - Pharmaceutical products - Pesticides, disinfectants - Hydrocarbones, alcohols, phenols, acids - Polymerization products - Plastic materials	- Detergents (WBG, Jordan) - Petrochemicals (Jordan, Egypt) - Potash, phosphate fertilizers (Jordan) - Pharmaceuticals, cosmetics (Jordan, Egypt) - Inorganic chemicals (Jordan)	- Perfumery, cosmetics - Medicinal, pharmaceutical products - Soaps, cleaning preparations - Plastic materials - Petrochemicals

SITC	Product category	Potential regional exports of Israel	Potential regional imports of Israel	Regional trade potential among Arab states
6	Manufactures classified chiefly by material	- Iron and steel castings - Rubber tyres - Synthetic yarn and other raw materials for textile industry - High quality textile fabrics - Cardboard and allied products, packaging material - Some metal manufactures - Tools and cutlery	- Cement, lime - Textile fabrics - Cotton yarn - Leather and leather articles - Agroindustrial products - Iron and steel structures - Aluminium - Some metal manufactures - Handicrafts	- Cement, lime, building products - Leather manufactures - Metal manufactures - Textile yarn - Cotton fabrics - Iron and steel structures - Aluminium
7	Machinery and transport equipment	- Agro-technology (e.g. irrigation systems) - Environmental technology (e.g. solar energy) - Printing and binding machinery - Food processing machinery - Other machinery for special industries - Office machinery (computer and computer software) - Telecommunication equipment - Electro-medicinal, x-ray equipment - Heating, cooling equipment - Industrial tools	none	- Electrical distributing equipment - Buses and passenger cars (Egypt)
8	Miscellaneous manufactured articles	- High-quality clothing - Medical instruments - Measuring and controlling instruments - Security devices (detectors, alarm systems) - Office furniture - Articles of plastic	- Articles of plastic - Clothing and footwear - Travel goods	- Plumbing, heating, lighting equipment - Clothing and footwear

Trade Agreements Middle East/Rest of World

Country	Israel	WBG	Jordan	Egypt	Syria	Lebanon	Other Arab States	European Union	Eastern Europe	USA	Other
Israel	x	PFTA/CU 1994	PFTA 1995	MFN-A 1981	-	-	-	Reciprocal FTA 1977 renewal negotiations	Negotiations with Poland, Hungary, Russia, CIS	Reciprocal FTA	TA Turkey, India, Canada
WBG	PFTA/CU 1994	x	FTA 1994	MFN-A 1994	-	-	MFN Tunisia 1994	Unilateral FTA 1986	-	-	-
Jordan	PFTA 1995	FTA 1994	x	PTA	PTA	TA 1992	PTA	Unilateral FTA 1977 renewal neg.	-	-	•
Egypt	MFN-A 1981	MFN-A 1994	PTA	x	PTA	TA 1992	PTA	Unilateral FTA 1977 renewal neg.	PTA	-	•
Syria	-	-	PTA	PTA	x	FTA/CU 1993	PTA	Unilateral FTA 1977	PTA	-	•
Lebanon	-	-	TA 1992	TA 1992	FTA/CU 1993	x	PTA	Unilateral FTA 1977	TA Poland, Tchech Rep.(93) Romania(95)	-	•
Other Arab States	-	MFN-A 1994	PTA	PTA	PTA	PTA	x	Unilateral FTA	•	-	•
European Union	Reciprocal FTA 1977/89 renewal negotiations	Unilateral FTA 1986	Unilateral FTA 1977 renewal negotiations	Unilateral FTA 1977 renewal negotiations	Unilateral FTA 1977	Unilateral FTA 1977	Unilateral FTA	x	-	-	•
Eastern Europe	Negotiations with Poland, Hungary, Russia, CIS	-	-	PTA	PTA	TA Poland, Tchech Rep.(93) Romania(95)	•	-	x	-	•
USA	Reciprocal FTA	-	-	-	-	-	-	-	-	x	-
Other	TA Turkey, India, Canada	-	•	•	•	•	•	•	•	-	x

Abbreviations: PFTA = Preferential Free Trade Agreement; FTA = Free Trade Agreement; MFN-A = Multi Favoured Nation Agreement; PTA = Protocol Trade Agreement; TA = Trade Agreement; CU = Customs Union

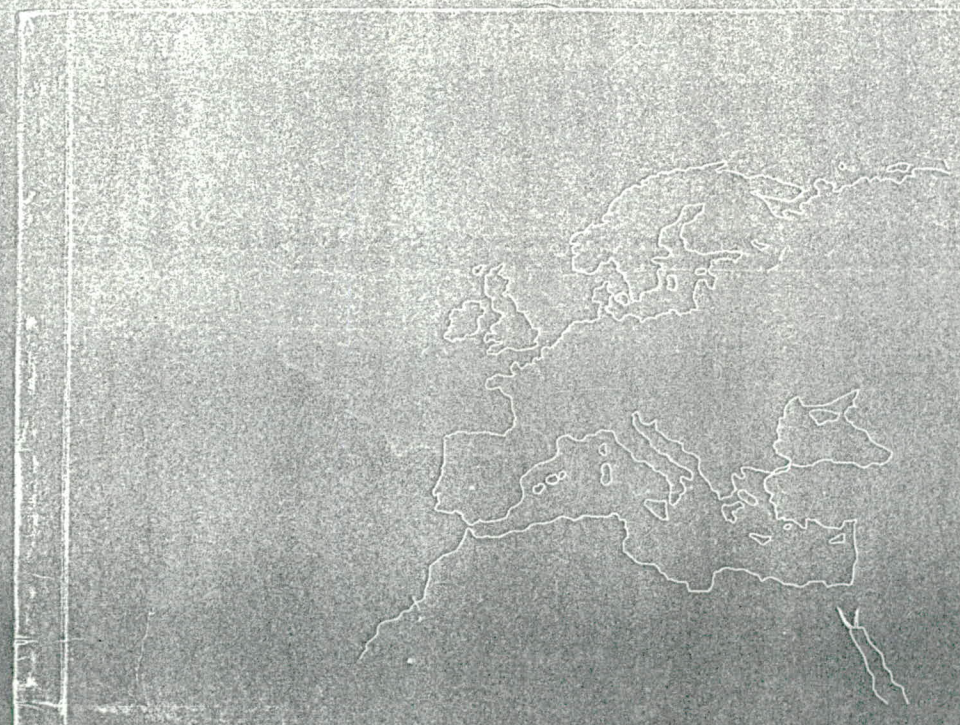
The Middle East in Economic Comparison

(Figures relate to 1994 unless otherwise stated)

Subject	Israel	WBG	Jordan	Egypt	Syria	Lebanon	Sum/ average	Israel/ share Israel (%)
Area (sq.km.)	21,946	6,047	91,860	1,004,000	185,180	10,700	1,319,733	1.7
Population (million)	5.46	1.90	4.67	60.60	13.84	3.97	90.44	6.0
GDP (mill. US$, current prices)	74,000	2,593[a]	5.870	41.000	16.200	4.300	143.963	51.4
GDP per capita (US$)	13,550	1,440[a]	1,257	676	1,170	1,084	1,125[e]	13,550
GDP real growth (%)	6.8	-0.5[a]	5.7	1.5	5.5	9.0	4.2[e]	6.8
GDP average growth rate 1990-94 (%)	5.8	9.5[b]	5.3	2.7	7.3	9.1	6.8[e]	5.8
Rate of inflation (%)	14.5	•	5.0	8.2	13.2[a]	6.8	8.3[e]	14.5
GDP structure: share of (1993)								
- Agriculture (%)	2.4	28.2	8.6	16.6	30.8	10.0	18.8[e]	2.4
- Manufacturing/mining (%)	21.5	8.2	16.2	28.5	14.1	18.0	17.0[e]	21.5
- Building industry (%)	8.9	15.0	9.4	4.4	4.2	14.1	9.4[e]	8.9
External trade:								
- Exports (mill. US$)	16,881	270[a]	1,437	3,400	3,370	562	25,920	65.1
- Imports (mill. US$)	23,450	1,094[a]	3,543	10,700	4,500	5,946	49,233	47.6
- Trade balance (mill. US$)	-6,569	-824[a]	-2,106	-7,300	-1,130	-5,384	-23,313	28.2
- Exports in % of imports	72.0	24.7[a]	40.6	31.8	74.9	9.5	36.3[e]	72.0
- Balance of current account (US$)	-3,000	-278[a]	-550	1,300	-980	•	•	•
Regional structure of external trade (1993):								
- Export share of EU, USA	60.9	76.3[c]	•	50.5	62.6	18.6	•	•
- Export share of Middle East, GCC	•	•	25.8	15.9[d]	21.2	57.9	•	•
- Import share of EU, USA	66.7	90.5[c]	44.0	68.9	43.2	56.3	•	•
- Import share of Middle East, GCC	•	•	6.5	2.5[d]	4.8	8.5	•	•

[a] 1993. - [b] 1990 - 93. - [c] Israel. - [d] All Arab countries. - [e] Excluding Israel.

Source: See tables in the individual country chapters.



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Measures to Enhance Trade between Egypt, Israel, Jordan and the Palestinian Territories

A Study Conducted by the German-Arab Chamber of Commerce, Cairo
under contract to the Commission of the European Communities

October 1995



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AHK

October 1995

Table of Contents

LIST OF TABLES 4

INTRODUCTION 6

EXECUTIVE SUMMARY 7

MEASURES TO ENHANCE TRADE 9

TRAVEL, TRANSPORTATION & BORDER CROSSING 9
CUSTOMS 10
STANDARDS 11
MONOPOLY 11
LICENSING 11
PROHIBITIONS & QUANTITATIVE RESTRICTIONS 11
BUSINESS DEVELOPMENT 12
EXPORT DEVELOPMENT 12
FINANCE 12
FREE TRADE AREA 13
GENERAL 13
INFORMATION 13
INVESTMENT 13
LABELLING 14
LEGAL 14
TAXATION 14
TRADE PROMOTION 14
TRAINING 15

DEVELOPING REGIONAL TRADE 16

IMPEDIMENTS TO REGIONAL TRADE 18

TRAVEL, TRANSPORTATION & BORDER CROSSING 18
Travel *18*
Transportation & Border Crossing *19*
The Roads and Trucking 19
Israel 19
Egypt 20
Jordan 20
The Palestinian Territories 20
Border Crossing 21
Nizana & Rafah 22
Allenby 23
Nuweiba -Aqaba 24
Air & Sea Freight 25
Cost Determinants 27
TARIFFS & THE CUSTOMS REGIME 27
Procedures and Valuation *28*
Valuation 29
Re-exporting 30
Jordan 30
Egypt 31

STANDARDS & THEIR APPLICATION 31
The Standards Organisations *32*
Egypt 32
Multiple Agencies 32

Israel 33
Jordan 33
The Palestinian National Autonomy 34
The Variance in Standards 35
Labelling Requirements 36
The Kosher requirement 36
MONOPOLY VS COMPETITION 37
LICENSING & AGENCY REQUIREMENTS 38
Agency Regulations 38
Product Registration Requirements 40
PROHIBITIONS AND QUANTITATIVE RESTRICTIONS 40
GENERAL PROCEDURAL ISSUES 40
PEACE AND THE REGIONAL ECONOMY 42
THE ECONOMIES 44
EGYPT 44
Foreign Currency Earners 45
Sentiment 46
ISRAEL 46
Sentiment 46
JORDAN 47
Sentiment 47
THE PALESTINIANS 48
Sentiment 49
BUSINESS & COMMERCIAL RELATIONSHIPS 50
GENERAL 52
REGIONAL TRADE AND THE AGREEMENTS 53
Egypt-Israel 53
Jordan - Israel 54
Jordan - Egypt 54
The Palestinian National Autonomy 55
Israel 56
Free Trade Area Versus Customs Union 57
Jordan 57
Egypt 59
MULTILATERAL AGREEMENTS 61
INVESTMENT, JOINT VENTURES & PRODUCTION 63
Sectoral Examples 64
Agriculture 65
Construction and Contracting 67
Textiles & Garments 67
Israel 68
Egypt 68
Jordan 69
The Palestinian Territories 70
The Overall Picture 71
Tourism 73
Egypt 73
Israel 75
Jordan 76
The Palestinian Territories 77
Intra Regional Travel 77
Collaboration Potential 77
The Manufacturing Environment 78
PROMOTING TRADE 79
Egypt 79
The Export Promotion Centre 81
The Commercial Representation 81
The Trade Development Centre 82
The Chambers of Commerce 82
82

Israel 83
The Israel Export Institute 83
Jordan 83
The Jordan Trade Association 83
The Jordan Export Development and Commercial Centres Corporation 83
The Palestinian National Autonomy 84
The European Palestinian Chamber of Commerce 84
The Palestinian Trade Promotion Organisation 84
Trading Companies 85
A Regional Trade Body 85
FOREIGN AID 85

THE FINANCIAL REGIME 87

BANKING IN THE REGION 87
Egypt 87
Israel 88
Jordan 88
The Palestinian National Autonomy 89
A Palestinian Currency? 91
THE FOREIGN EXCHANGE REGIME & RESTRICTIONS 91
Egypt 91
Israel 92
Jordan 92
The Palestinian National Autonomy 93
TRADE FINANCE 93
Egypt 93
Israel 93
Jordan 94
The Palestinian National Autonomy 94
PRICE CONTROLS 94
Price Controls 94
EXPORT SUBSIDIES 95
TAXATION ISSUES 95

THE LEGAL ENVIRONMENT 97

COMPARATIVE INVESTMENT LAWS 97
Egypt 97
Israel 98
Jordan 99
The Palestinian National Autonomy 100
The Investment Law 100
Reform 102

TABLES 103

MEETINGS HELD DURING THE FIELD RESEARCH 135

EGYPT 135
ISRAEL 136
JORDAN 140
THE PALESTINIAN NATIONAL AUTHORITY AND TERRITORIES 143

BIBLIOGRAPHY 147

EGYPT 147
ISRAEL 150
JORDAN 152
THE PALESTINIAN NATIONAL AUTHORITY AND TERRITORIES 154
GENERAL 157

List of Tables

Table 1 Trade Via the Nizana Crossing, 1993 - 1994 22
Table 2: The Price Impact of Border Duties and Taxes in Israel -- 1993. 29
Table 3 Egypt: Prohibited Imports - 1995. 41
Table 4 The New Middle East -- Basic Economic Indicators 44
Table 5 Egypt's Principal Foreign Currency Earners 46
Table 6 Egyptian Israeli Trade 1981-1995 55
Table 7 Trade between Jordan and Egypt (JD Thousand) 56
Table 8 Palestinian Trade with Israel (US $ Million) 57
Table 9 Palestinian Jordanian Trade, 1973-93 (US$ Million) 62
Table 10 Output Composition of Israel's Textile Industry 69
Table 11 Egypt: Relative Importance of the Textile Industry 70
Table 12 Egypt & Israel: The textile Industry Compared 71
Table 13 Jordanian Textiles & Garments Imports from Egypt -- 1993 72
Table 14 Arrivals to the Region 1989 - 1994. 75
Table 15 Regional Tourism Revenues. 1989 - 1993 76
Table 16 Jordan: Foreign Aid 86
Table 17 Egypt's Recent Legal Reforms 98
Table 18 Tax Incentives for Investors in Israel 99
Table 19 Investment Incentives under the Palestinian Investment Law 101
Table 20 Palestinian Imports Authorised Only From Egypt & Jordan 104
Table 21 Imports Authorised from Any Arab Country 107
Table 22 Imports Authorised from Any International Source 108
Table 23 Jordanian Exports Exempt from Duty in the PNA --Jordanian Standards 110
Table 24 Jordanian Duty Free Exports to the PNA -- PNA Standards 112
Table 25 Palestinian Products Exempt only from Jordanian Tariff 114
Table 26 Palestinian Products Exempt from Jordanian Tariff and similar Duties Except those applied to Domestic Production 115
Table 27 Gaza Trade with Egypt -- June 1995. 118
Table 28 Egypt: Foreign Trade (By Degree of Processing & Use) 119
Table 29 Egypt: Petroleum & Raw Material Exports 120
Table 30 Israeli Exports to Egypt in 1994 121
Table 31 Egyptian Exports to Israel in 1994 123
Table 32 Egyptian Product Exempt from Jordanian Tariff 127
Table 33 Jordanian Product Exempt from Egyptian Tariff 128
Table 34 Jordanian Imports from Egypt -- 1993 129
Table 35 Jordanian Exports to Egypt -- 1993 133
Table 36 Jordanian Textiles & Garments Exports -- 1993 134

INTRODUCTION

The German-Arab Chamber of Commerce in Cairo was commissioned in May 1995 by the European Commission (DG I) to carry out detailed research and recommendations on dismantling trade barriers between the four main parties to the peace process, namely Egypt, Israel, Jordan and the Palestinian Territories. The parameters of the study assignment were defined in the context of the broader research mandate of the German Ifo Institute, which looks at the problems and prospects for regional economic integration as a whole. The terms of reference were also discussed with the REDWG Trade Subcommittee prior to commencing the work.

Accordingly, the report identifies both broad and specific impediments to enhanced intra-regional flows of goods and services and recommends a series of 60 short and longer term measures to eliminate them. These are by no means exhaustive, and represent a prioritization of the most important, immediate and feasible steps toward enhancing regional trade. The field research confirmed that many of the most serious prevailing barriers to enhanced trade ties within the region are emotional and largely intangible. The study acknowledges these barriers where relevant, but focuses on concrete recommendations to address specific, tangible impediments as a short-term step in a meaningful direction. While predicated on the desirability of ultimately complete trade liberalization, the measures proposed reflect certain constraints imposed by the realities of the prevailing situation. These are explained in the following material.

The 60 measures are itemized by subject heading at the start of the book, followed by description, analysis and identification of the impediments pertaining to that subject heading. By its mandate, the study is based heavily on extensive field research and interviews in the four target markets. All cases and examples cited in the text are done so anonymously to avoid personalizing of the issues, however, a complete listing of all interviews conducted is provided from page 136. Desk research and reference materials used are indexed at the back of the book.

The project team was comprised of specialized experts in each of the four markets led by the project manager in Cairo, Ms. Anahid Harrison of the German-Arab Chamber of Commerce. The chief researcher, economic analyst and author was **Mr. Shireen Farrag**, assisted in Cairo by Ms. Alia Soliman. In Israel, Ms. Rachella Weinstock coordinated the field work on behalf of the Israel Export Institute, with special expertise provided by Mr. Itzhak Bendor; in Jordan, Mr. Riad al Khouri of MEBA Ltd. provided in-depth expertise and support; and in Jerusalem, Ms. Nayelah Hedayah of the European-Palestinian Chamber of Commerce handled the logistics of the field research phase around the Territories. The project team thanks all those who lent their generous assistance to the project during the course of the desk or field research work.

German-Arab Chamber of Commerce
Cairo
15 October 1995

EXECUTIVE SUMMARY

Trade impediments are generic in nature and affect regional as well as international trade. The single most important impediment that impacts regional trade to the exclusion (in most cases) of international trade with the region is the security element. This is, to one degree or another, characteristic in Egypt, Israel and Jordan alike. It affects transportation and customs clearing as well as inhibiting personal initiative towards developing commercial relations between companies in the new Middle East.

Whether or not the disparity in income levels affects the ability of countries in the region to trade one with the other is a moot point: the tremendous potential that can be realized by a more liberal trade regime in the area justifies a constructive approach to overcoming the seemingly insurmountable obstacles which exist. There are disparities in marketing and manufacturing, but most of these may be readily bridged. Tariff regimes differ significantly between Israel and its neighbours, but overall policy is heading in the same direction as the region's nations strive to integrate their economies into the global economy. Most bureaucratic or administrative impediments related to clearing goods have been in place long before the peace process -- their existence is not explicitly designed to inhibit trade. Rather, it constitutes an outdated modus operandi that can be modernised. Standards requirements, however, essentially reflect the economic disparities and can be flagged as a regional impediment. These issues are individually explored in the following pages, but there is one underlying impediment, that although repeatedly highlighted throughout, is worth noting. Unless Palestinians are better able and free to integrate their economic activity into the regional economy and into the world beyond the region, political disturbances will persist as the overriding impediment to trade.

Trade can evolve under any number of different scenarios. Trade redirection adds nothing to the regional economies. Removing discriminatory practices towards regional producers may enable trade, but substituting efficient foreign suppliers with inefficient, highly protected regional producers will not work no matter how strong the political will. Equal attention must be paid in the initial phases to improving and harmonizing the operational environment within the respective countries as to facilitating goods and services flows.

The export creation potential for the new Middle East will increase considerably as governments systematically remove any and all discrimination against non local suppliers, be they either regional or foreign to the region. Both trade and export creation are imperative for the long term growth stability of the region. Patterns of production will thus have to change and the infrastructure for increased production must be provided. Existing trade and production are therefore no yardstick for the future.

Intra-regional trade is currently limited. The single largest flow--between Israel and the Palestinian Territories--is constrained by security measures. Security concerns and actions associated therewith have directly impacted manufacturing, employment, and transportation. Today, as Palestinian employment in Israel has virtually ceased,

unemployment in the Territories has reached a staggering estimated 60 percent. Purchasing power has concurrently declined and the overall economy is stagnant.

The second largest intra-regional trade volume is between Egypt and Israel. Since 1993, trade has doubled annually -- from $ 20 million in two-way trade (excluding oil) to $ 40 million in 1994 and to near $ 40 million in the first half of 1995. Israel has become Egypt's fourth largest export market as of end-1994, despite earlier pessimistic projections by both Israeli and Egyptian businesses as to the future of commercial relations between the two countries. True, the bulk of trade (90 percent) is comprised of oil, but yarn, food products and agricultural exports are growing significantly.

It is too early to comment on potential trade between Israel and Jordan as none has yet been recorded, but Egyptian-Jordanian trade has not in the past been significant, never exceeding between one and two percent of Jordan's overall trade in recent years.

National sentiment plays a major role in the current environment and has evolved from nearly half a century of open warfare and belligerence. Much will have to be achieved to overcome these intangible impediments. Yet business is tapping into opportunities in investment and joint ventures at the same time as it takes advantage of commercial opportunities. A dynamic regional organisation to provide an added boost to a trend toward intensified trade and investment would be invaluable at this juncture.

Transportation is a key problem area. Within the Palestinian Territories, the entire road network and trucking fleet require major overhaul. Egyptian roads require varying degrees of upgrading and maintenance, while both Jordan and Israel enjoy a road system well adapted to the requirements of regional trade. Yet, border crossing and customs procedures will have to undergo significant transformation. Israel's "on-line" system serves as a model for clearing goods that would benefit all in the region and remove some serious bureaucratic aggravations. Support in design, installation and training in these areas is essential for the successful implementation of a new system. There is also a need to facilitate security checks on people, and goods crossing--both overland and by sea (particularly with regard to the Palestinians)--must be facilitated. If the high costs of electronic security equipment is not justified at this juncture, a long term concessionary loan would be a small price to pay for improving a system rife with frustration and discontent.

Legal reform is necessary in Jordan and in the Territories. Jordan's package of new commercial and business legislation is in the making and completion is anticipated before year-end. However, the Palestinian legal system would benefit from foreign donor assistance in design and implementation of business and trade related laws and regulations. The Palestinian National Authority could also benefit from continued support in institution building and trading during the early years of administering its economy.

The Association Agreement negotiated between the EU and Israel, and those being negotiated between the EU, Egypt and Jordan, will provide much-needed ease of market access for these countries. An important consideration in this regard is regionalising rules of origin requirements. If deemed too difficult to apply across the board, it might be worthwhile exploring the possibility of creating a free trade area for a single sector. One such sector could be the textiles and garments industry which is well entrenched in all of the regional economies.

MEASURES TO ENHANCE TRADE

TRAVEL, TRANSPORTATION & BORDER CROSSING

• Egypt	Facilitate visa criteria and entry procedures for Israelis, Palestinians and Jordanians. A one-time security clearance yielding a multiple entry visa will do much to enhance trade.
• Egypt	Permit Palestinian access to Al Arish airport for shipping agricultural produce from Gaza to the Gulf states until such time as a Palestinian airport can accommodate this trade. (Experts state that two daily shipments on board Hercules aircraft could handle some 30,000 tonnes annually).
• Egypt	Develop trucking specifications compatible with those in Israel to enable consignments to be palletized and/or containerized, thus expediting the back-to-back process as long as it remains in place.
• Egypt	Extend opening hours for the customs units at Nizana and Rafah to match Israeli customs hours.
• Egypt and Israel	Erect border warehousing facilities to facilitate back-to-back transport while this system prevails.
• Donor and Region	Provide funding for electronic security equipment at the crossing points of Rafah, Nizana and Allenby
• Donor and Region	Consider a road connecting the Sinai network to Aqaba via Eilat. This would relieve congestion on the Nuweiba-Aqaba ferry and facilitate movement of goods and people overall.
• Israel	Relax stringent travel limitations on Palestinians upon meeting specified security clearance standards.
• Israel	Relax restrictions on Palestinian trucks crossing the Allenby bridge to Jordan. The 15.00 deadline for re-crossing is a significant barrier to trade.
• Israel	Alleviate the limit on the number of trucks that may cross the Allenby bridge daily.
• Israel	Alleviate the security measures applied to Palestinian products at the port of entry. Security is an important consideration, but it should be limited to just that. One manner of overcoming time delays and increased costs is to ship goods directly into a warehouse on the border with the Territories and undertake a rapid security check there.
• Israel and PNA	Consider the joint operation of a civilian airport at Qalandia. Upgrading the existing airport would give Palestinians direct access to an airport until such time as another is built.

• Israel and PNA	Secure a transportation corridor between Gaza and the West Bank.
• Jordan	Erect the Allenby bridge terminal
• Jordan and Israel	Repeal the requirement that only trucks registered prior to 1987 may cross from the West Bank to Jordan.
• PNA	Expedite plans and action toward rehabilitating the road network -- particularly those arteries that lead to existing and planned border crossing points.
• Donor and PNA	Expedite port and airport construction to serve the Palestinian National Autonomy.
• Region	Point-to-point solutions must ultimately be devised to replace back-to-back in the border crossing process. One solution would be to deliver goods to an accredited local warehouse facility where security checks can be undertaken by the representatives of the relevant authorities. Transport would then be containerised from one warehouse to the next and the security problem is relieved by sealing the container. Border officials would have only to check that the seal is intact.
• Region	Private transportation joint ventures could provide a collective solution to a complicated overland transport system. Governments should openly encourage and/or sponsor formation of such joint ventures.

CUSTOMS

• **Egypt and Jordan**	Simplify and streamline procedures and paperwork for temporary admission and duty drawback.
• **Egypt and Jordan**	Automate the customs clearance procedure. Israeli customs have developed a model worth emulating and adapting.
• **Egypt, Israel and Jordan**	Simplify, refine and give greater transparency to customs assessment in intra-regional trade in order to facilitate movement of goods between the parties. (should ideally apply to all imports)
• **Donor and PNA**	Provide training for automation and administrative procedures to Palestinian National Authority customs department.

STANDARDS

• Egypt	Update Egyptian standards to approximate international standards
• Donor and Egypt	Provide technical assistance and financial support to the General Authority for Import and Export Control in Egypt for testing, upgrading and expanding laboratory facilities and training.
• Region	Create a regional "Standards Committee" to look into variances in standards and attempt to unify these as and when trade opportunities avail themselves. This should be undertaken with a view towards eventually establishing a regional (or Mediterranean Basin) standards organisation.

MONOPOLY

• **Region**	Establish a regional monopoly committee. This could ideally be housed with the Regional Economic Development Working Group (REDWG) as a transitional entity. Its purpose would be to resolve restrictions on trade resulting from monopolistic practice in any one jurisdiction.

LICENSING

• **Israel and PNA**	Automate the import licensing process to minimise paperwork. A computer link-up would facilitate a frustrating process.

PROHIBITIONS & QUANTITATIVE RESTRICTIONS

• **Israel**	Eliminate quotas on Palestinian imports as set forth in the Paris Economic Agreement.
• **Region**	Expedite repeal of Arab boycott legislation to facilitate trade with Israel by those involved in trade with the Arab world

BUSINESS DEVELOPMENT

• Israel	Exempt regional firms from the necessity of establishing a legal presence in Israel in order to do business in Israel.
• European Union	Intensify activities like the Partenariat EU-ME held in Cairo in 1994: such programs which allow regional firms to get together under the banner of international business development and under the auspices of an international entity dilute political and emotional hesitations. These programs are more effective in dismantling intangible barriers than a formalized business promotion body (like the proposed "Business Council,") because they concentrate on the small and medium sector -- generally the most reluctant to normalize relations -- and not those large and well-established firms inevitably recruited as founders of such councils.

EXPORT DEVELOPMENT

• Donor and PNA	Assist the Palestinian National Authority to establish a countertrade company for trade with Eastern Europe. While organized trade of this nature is not in and of itself desirable, the compatibility and level of the two markets vis-a-vis supply and demand justify an artificial flow structure which will stimulate Palestinian production and export capability
• European Commission and Region	Initiate discussions on rules of origin to permit a regional rather than specific country rule requirement. This will also provide a boost to intra-regional investment.
• Jordan	Encourage creation of a private sector agricultural marketing company. This could be done in joint venture with private Israeli companies.

FINANCE

• Donor and PNA	Provide long-term credit for truckers to renew their fleets in the Palestinian Autonomy. This could complement commercial credit.
• European Commission and PNA	Conduct expert analysis and a symposium on the desirability of a Palestinian currency

FREE TRADE AREA

• European Commission, Israel and PNA	Initiate discussions on a Free Trade Area between the PNA and Israel. Toward the long term goal of a Free Trade Area between Israel, the PNA and Jordan, this could be an appropriate starting point.
• European Commission and Region	Initiate discussions and negotiations towards an intra-regional Free Trade Area. One possible means of gradually achieving this would be to take a specific sector and liberalise trade therein. The textiles and garments sector could be a place to start

GENERAL

• Donor and Region	Assist in creating a regional research and development fund. This would help to further level the industrial playing field between Israel and its neighbours.

INFORMATION

• Egypt , Jordan and PNA	Automate the business registration process to more readily provide information on potential trading/joint venture partners.
• Donor and Region	Provide technical assistance and project funding for preparing comprehensive guides to doing business in the region.
• Region	Prepare information booklets on standards, import procedures, labelling requirements, customs regulations, etc...

INVESTMENT

• Egypt	Address intangible, predjudicial barriers to direct Israeli investment in Egypt. Although the law does not explicitly preclude Israeli investment, there are no known Israeli projects which are not implemented via third party entities.
• Donor	Establish an investment fund along the lines of a venture capital fund in the Palestinian National Autonomy.
• Donor	Create a funding facility through the banking system for regional joint ventures -- including a facility for medium to long-term loans.
• Donor and Region	Create a Middle East Development Fund with private regional and international investors and possible EIB support. The Fund would invest in projects of regional interest (such as those presently being identified by multiple studies) that would optimally unite regional know-how and resources.

• Region	Consider a regional investment law with harmonised provisions providing for varying incentives based on regional investment and development priorities.

LABELLING

• Israel	Relax Israeli labelling requirements for products destined only for sale/consumption in the Palestinian Territories
• Region	Consider a "Made in the Middle East" label as a means of overcoming domestic resistance to products manufactured in one or the other of the parties involved.

LEGAL

• Donor and PNA	Provide technical assistance to the Palestinian National Authority in legislative reform. Almost all legislation needs to be rewritten including the companies law, labour law, property rights law, and banking law. Additional regulations affecting trade directly and indirectly that must be updated include traffic regulations and procedures and customs procedures, at a minimum.
• PNA	Establish commercial arbitration recognition and procedures.

TAXATION

• Region	Negotiate double taxation agreements in order to facilitate investment flows.

TRADE PROMOTION

• Donor	Provide funding and technical assistance to the Palestine Trade Promotion Organisation to enable it to work
• Donor and Region	Establish a regional trade promotion office with branches in the major commercial centres to identify trade and investment opportunities and assist importers and exporters with procedures, information, rules, laws and regulations. Essentially the idea is to provide dynamic support to business unfamiliar with the other countries of the region in their efforts. The lack of transparency in procedures has become a serious impediment to regional trade.
• Region	Set up showrooms for regionally produced goods in each of the different countries.

- Donor and Region — Create regional sectoral trade associations with the aim of promoting business for membership within the region and abroad. There is already a tourism association, and others could be established in electronics, textiles and garments, agriculture, etc... This will also enhance joint venture development potential. These associations could also hold periodic meetings and seminars on business opportunities in other regional centres, thus normalizing business perspectives on a sectoral level.

TRAINING

- Donor — Provide training in export management for the region as a whole -- seminars could be held in different locations. This would encourage businessmen and mangers to participate jointly in such programmes and improve intra-regional contact.
- Donor and Region — Provide technical assistance and funding for management training programmes provided in the form of a regional programme.
- Donor and Region — Provide technical assistance and training in trade and export finance. Again, this should be a regionally oriented programme.

DEVELOPING REGIONAL TRADE

"Regional integration" has become the watchword for the future of Middle East peace. Whether by natural conviction, or at the persuasive hand of third parties, the four nations of the Mashreq region outwardly and publicly declare consensus on the need for rapid and comprehensive integration of their respective economies toward genuine symbiosis. The region's political and economic partners are unequivocally and nearly unanimously in favour of this collective endeavour, with financial support, technical assistance, ideas and advice.

Trade is one--if not the--key element in the integration process: it is the most tangible and public medium through which successful economic integration on a broader level will stand or fall. However, to develop intra-regionally, trade depends on the absolute collective growth of the economies of the parties if it is to make a genuine contribution toward greater prosperity. Regional trade enhancement based on a zero-sum outcome is a futile mission, thus, trade development must be approached concurrently with inevitably different approaches to national economic growth in the respective countries.

The peace process is fragile. While regional rhetoric echoes the mainstream developed world's reverence for the principles and attributes of free trade, in fact, it is unlikely to evolve naturally between the four parties in question. The overwhelming political constraints entrenched in over half a century of belligerence and outright warfare in this region inherently militate against early and effective agreement on commercial integration at the government level. The ensuing cultural and political inhibitions of business people themselves similarly constrain the prospects for real normalisation of trade relations any time soon, without a firm push. Since integration will not be a natural, demand-pull process pioneered by business, achieving it calls for coherent and effective long-term strategies on the part of individual governments.

The fundamental question underlying the issue of intra-regional trade strategies is: does it make economic sense? Not only for national economies but for immediate business realisation? Under present circumstances, the answer is probably: no. Existing trade patterns, established production capacities, and prevailing structures for manufacturing in the region today all suggest that increased trade within the region will only displace trade with extra-regional partners. If so, none involved are likely to be willing to jeopardise existing trade relations unless the tangible advantages of engaging in regional trade considerably exceed those currently in place.

Official reluctance will be reinforced by the potential trading partners within the region--business itself, since it makes no entrepreneurial sense to redirect exports from traditional markets in order to facilitate creation of the much-vaunted "regional marketplace." Realistically, it is unlikely that trade redirection not tangibly offering substantial marginal returns over and above existing commercial links will work. Any form of increased co-operation in the Middle East region--particularly trade--must make a net added contribution to the prosperity of the people.

But it is unfair to judge longer-term growth potential by today's standards. Rather, potential should be measured in the context of new exports generated by conditions

emerging in a new market. These exports may be intra-regional or extra-regional: they may emerge on the strength of trade sensitive to distance, to manufacturing scale, or to the availability of new inputs.[1] They may be stimulated by increases in efficiency and productivity generating higher output, by installing additional capacities, and by maximising presently idle capacities. In all cases, the growth of regional trade can only develop from the growth of regional productivity and not on existing patterns of production.

The single most important factor in achieving increased, sustainable intra-regional trade is creating a synergetic environment within which intra-regional trade pays higher dividends than its alternatives. Furthermore, to create a framework within which goods, services and capital flows are trouble-free, then to leave decision-making to the individual entrepreneur. As things stand today--apart from a limited trade volume between Egypt and Israel--there is little experience with trade within the region. This is partly rooted in intangible conditions such as the inhibitions mentioned above. But in other respects, the direct, tangible barriers to trade remain in peace as impermeable as they were in war.

[1] Seev Hirsch, Igal Ayal and Gideon Fishelson, *The Arab Israeli Trade Potential: Methodological Considerations and Examples*, The Israel Institute of Business Research, Tel Aviv University, 1995.

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35

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NEW POTENTIALS FOR COOPERATION AND TRADE IN THE MIDDLE EAST

An empirical analysis

Weltforum Verlag



6.2	Regional structure and product composition of external trade	48
6.3	Barriers to trade	49
7.	*Regional overview and summary*	50
III.	REGIONAL COOPERATION AGREEMENTS AND INTENTIONS	57
1.	*Israel*	57
1.1	Trade agreements at government level	57
1.1.1	Trade agreement with the European Union	57
1.1.2	Trade agreements and negotiations with Arab/Islamic/ other countries	63
1.2	Trade-related public and private projects and cooperation intentions	66
2.	*West Bank and Gaza (WBG)*	68
2.1	Trade agreements at government level	68
2.1.1	Trade agreement with Israel	69
2.1.2	Trade agreement with Jordan	71
2.1.3	Trade agreements with Egypt and other Arab/Islamic states	72
2.1.4	Cooperation of the EU with the WBG	73
2.2	Other trade-relevant public and private investment projects and cooperation intentions	75
3.	*Jordan*	77
3.1	Trade agreements at government level	77
3.1.1	Trade agreement with the Palestinian National Authority (PNA)	78
3.1.2	Trade agreement with Israel	78
3.1.3	Trade agreement with the European Union (EU)	79
3.2	Other trade-relevant public and private investment projects and intentions	81

Page

4.	*Egypt*	83
4.1	Trade agreements at government level	83
4.1.1	Trade agreement with the European Union	84
4.1.2	Trade agreement with Israel	85
4.2	Other trade-relevant ppublic and private investment projects and intentions	86
5.	*Syria*	89
5.1	Trade agreements at government level	89
5.2	Trade-related public and private projects and cooperation intentions	91
6.	*Lebanon*	92
6.1	Trade agreements at government level	92
6.1.1	Trade agreement with the European Union	92
6.1.2	Trade agreements with Arab and other states	93
6.2	Trade-related public and private projects and cooperation intentions	94
7.	*Regional Overview and Summary*	95
7.1	Trade agreements with the European Union	95
7.2	Trade agreements within the Middle East region	99
7.3	Trade agreements of the Middle East with the rest of the world	100
7.4	Public and private regional cooperation	100
IV.	PROSPECTS OF ECONOMIC COOPERATION IN THE MIDDLE EAST: A PALESTINIAN PERSPECTIVE	102
1.	The resource base	102
2.	Macroeconomic indicators	104
3.	Present trade structure	105
4.	Composition of external trade	106
5.	Commodity trade, by trading partner	107
6.	Restrictions and constraints	108

		Page
6.1	Restrictions and obstacles relating to Israel	109
6.2	Restrictions relating to the Jordanian side	111
7.	Developments following the Paris Economic Accord	112
8.	Palestinian-Israeli Economic Relations - one year after the Paris Accord	113
9.	Cooperation prospects - An overall assessment	116
9.1	Prospects of cooperation with Israel	116
9.2	Economic orientation towards the Arab countries	117
10.	Economic relations and trade with Europe	118
11.	Joint ventures - prospects and obstacles	119
12.	Investment in peace - a look at the record	122
V.	EXPORT GROWTH POTENTIALS ARISING FROM REGIONAL TRADE LIBERALIZATION	125
1.	*Alternatives for regional integration*	125
1.1	Regional integration - an introduction	125
1.2	The option of different trade regimes	127
1.2.1	General considerations	127
1.2.2	Economic cooperation of Israel, the WBG, and Jordan	128
2.	*Alternative assessments of export growth potentials*	131
2.1	General remarks	131
2.2	Revealed comparative advantages and future export potentials	133
2.2.1	The RCA-Index as indicator for competitiveness	133
2.2.2	Calculation of the historically revealed comparative advantages	135
2.2.3	Product groups with regional export potentials for individual countries	151
2.2.4	Product groups with potential regional export competition	154
2.3	The regional trade potential - a statistical analysis	156
2.3.1	Present structure of regional trade	156

		Page
2.3.1.1	Israel and the region	156
2.3.1.2	Egypt's trade relations with the Middle East	157
2.3.1.3	Jordan's trade relations with the Middle East	163
2.3.1.4	Syria's trade relations with the Middle East	168
2.3.1.5	Lebanon's trade relations with the Middle East	172
2.3.2	Perspectives of regional trade	174
2.3.2.1	Trade among Egypt, Jordan, Syria and Lebanon	176
2.3.2.2	Regional trade potential including Israel	178
2.3.2.2.1	Regional export potential of Israel	179
2.3.2.2.2	Regional import potential of Israel	183
2.3.2.2.3	Summary	186
2.4	Results of two Israeli studies	187
2.4.1	Methodological considerations	187
2.4.2	Categories of "New Trade" induced by regional trade liberalization	187
2.4.3	Calculations of the Central Bank of Israel	189
2.5	Local assessments and expectations of regional trade patterns	193
2.5.1	Israel and the WBG	193
2.5.2	The WBG and Jordan	194
2.5.3	Israel and Jordan	195
2.5.4	Jordan and the region	197
2.5.5	Israel and Egypt	198
2.5.6	Israel, Syria and Lebanon	200
2.6	Overall summary and critical assessment	201
VI.	EXTRA-REGIONAL EXPORT POTENTIALS - THE EUROPEAN UNION AND THE GCC	208
1.	*Trade with the European Union (EU)*	208
1.1	Level and development of commodity trade between the EU and the Middle East	208
1.2	Structure of EU exports to the Middle East	209

		Page
1.2.1	Export structure according to commodity groups	209
1.2.2	Regional structure of exports	211
1.2.3	Main EU exports to the Middle East	212
1.3	Structure of EU imports from the Middle East	213
1.3.1	Import structure according to commodity groups	213
1.3.2	Regional structure of EU imports	215
1.3.3	Main EU imports from the Middle East	216
1.4	Growing and declining Middle Eastern export flows in trade with the EU	217
1.5	Summary	220
2.	*Trade expansion potentials with the GCC*	221
2.1	Egypt and the GCC	221
2.2	Jordan and the GCC	225
2.3	Syria and the GCC	229
2.4	Lebanon and the GCC	230
2.5	Egypt, Jordan, Syria, Lebanon and the Gulf - a summary	235
2.6	Israel and the Gulf	236
3.	*Summary*	240
VII.	GERMAN COOPERATION WITH THE MIDDLE EAST - PRESENT LEVEL AND INTENTIONS	241
1.	The business survey of the ifo Institute	241
2.	Assessment of data of the IHK Informationsgesellschaft	246
3.	The ifo Institute telephone survey	250
VIII.	LONG-TERM PERSPECTIVES: THE CHANCE OF INTRAREGIONAL SPECIALIZATION - COPYING THE ASIAN DEVELOPMENT SCHEME?	255
IX.	CONCLUSIONS AND RECOMMENDATIONS	260
ANNEX TABLES		269
SELECTED LITERATURE		291

Page

II.20 Regional Structure of External Trade (Syria) 42

II.21 Population Indicators (Lebanon) 44

II.22 Gross Domestic Product: Development and Structure (Lebanon) 45

II.23 Development of External Trade (Lebanon) 47

II.24 Regional Structure of External Trade (Lebanon) 49

II.25 The Middle East in Economic Comparison 51

Chapter III: Regional Cooperation Agreements and Intentions

III.1 Present EU import quotas for fresh and processed agricultural products from Israel, actual exports of Israel to the EU and requests for improvement 60

III.2 Other requests of Israel of fresh and processed agricultural products and fish products not yet covered by the agreement . 61

III.3 Bilateral Trade EU - Israel 62

III.4 Quotas on agricultural produce traded between the WBG and Israel 70

III.5 EU import quotas of agricultural products from the WBG 73

III.6 Bilateral trade EU - Jordan 80

III.7 Bilateral trade EU - Egypt 85

III.8 Development of Israel-Egypt trade 1990 - 94 86

III.9 Bilateral trade EU - Syria 90

III.10 Bilateral trade EU - Lebanon 92

III.11 Trade Agreements Middle East/Rest of World 98

Page

Chapter IV: Prospects of Economic Cooperation in the Middle East - a Palestinian Perspective

IV.1 Basic resource indicators (1993) 103

IV.2 Comparative macroeconomic indicators 1993 104

IV.3 Palestinian foreign trade 106

IV.4 Composition of exports by major sector (average 1980 - 86) . 107

IV.5 External trade by trading partner 108

Chapter V: Export Growth Potentials Arising From Regional Trade Liberalization

V.1 Revealed comparative advantages 137

V.2 Product groups for which the competitive advantage has improved/deteriorated during 1984 to 1993 145

V.3 Product groups for which export potentials into the region are most evident 153

V.4 Product groups with potential regional competition 155

V.5 Regional trade of Israel 1993 158

V.6 External trade of Egypt with the Middle East 159

V.7 Egypt's trade relations with the Middle East, 1990 and 1993 . 160

V.8 External trade of Jordan with the Middle East 164

V.9 Jordan's trade relations with the Middle East, 1990 and 1993 . 165

V.10 External trade of Syria with the Middle East 169

V.11 Syria's trade relations with the Middle East, 1989 and 1992 . . 170

V.12 External trade of Lebanon with the Middle East 173

Page

V.13 Lebanon's trade relations with the Middle East, 1990 and 1993 175

V.14 Medium-term regional export potential of Israel 182

V.15 Medium-term regional import potential of Israel 186

V.16 Forecast of annual bilateral trade flows 192

V.17 Product groups with regional trade potential 202

V.18 Assessments of the regional export potential of Israel 205

V.19 Assessments of the regional import potential of Israel 206

Chapter VI: Extra-Regional Export Potentials - The European Union and the GCC

VI.1 Trade of the EU with the Middle East region, 1990 - 1993 209

VI.2 Exports of the EU to the Middle East region, by commodity groups, 1990 - 1993 210

VI.3 Exports of the EU to the Middle East region, by country of destination, 1990 - 1993 211

VI.4 Important commodities, exports of the EU to the Middle East region, 1993 212

VI.5 Imports of the EU from the Middle East region, by commodity groups, 1990 - 1993 214

VI.6 Imports of the EU from Israel, Syria and Egypt, by commodity groups, 1993 215

VI.7 Imports of the EU, by country of origin, 1990 - 1993 215

VI.8 Important commodities, imports of the EU from the Middle East region, 1993 216

VI.9 Changes of exports of the Middle East region to the EU (1993 versus 1990), by country and important commodity groups 218

Page

VI.10 Fruit imports of the EU from Israel, 1990 - 1993 219

VI.11 External trade Egypt - GCC: exports 223

VI.12 External trade Egypt - GCC: imports 224

VI.13 External trade Jordan - GCC: exports 226

VI.14 External trade Jordan - GCC: imports 228

VI.15 External trade Syria - GCC: exports 231

VI.16 External trade Syria - GCC: imports 232

VI.17 External trade Lebanon - GCC: exports 234

VI.18 Export potential of Israel to the GCC 239

Chapter VII: German Cooperation with the Middle East - Present Level and Intentions

VII.1 German firms co-operating with the Middle East region, by industrial group and sector 243

VII.2 German firms co-operating with the Middle East region, by plant size 243

VII.3 German firms co-operating with the Middle East region, by type of cooperation 244

VII.4 German firms co-operating with the Middle East region, by host country 245

VII.5 German firms co-operating with the Middle East region, by industrial sector 247

VII.6 German firms co-operating with the Middle East region, by type of cooperation 249

VII.7 German industrial firms planning economic co-operation with the Middle East region, by industrial sector 251

Page

VII.8 German industrial firms planning economic co-operation with the Middle East region, by country 252

VII.9 German industrial firms planning economic co-operation with the Middle East region, by type of cooperation 253

Chapter VIII: Long-term Perspectives: The Chance of Intraregional Specialization

VIII.1 Comparative advantages and industrial development 256

Annex Tables

A 1 Historical revealed comparative advantages (arithmetic averages) and export volumes in comparison 270

A 2 Potential exports of Israel towards its neighbours 275

A 3 Potential imports of Israel from its neighbours 279

A 4 Exports of the EU to the Middle East region, by country of destination and commodity group, 1993 283

A 5 Imports of the EU from the Middle East region, by country of destination and commodity group, 1993 285

A 6 Potential exports of Israel to the GCC-countries 287

1. INTRODUCTION

Compared to similar economic regions of the world, the Middle East has lagged behind in its economic development despite the rich oil resources in some of its countries. This situation has its cause not only in the regional isolation of Israel and the costs of a nearly permanent state of war, but also by the differences and mistrust among the Arab countries themselves which have strongly hindered an exchange of goods and further-reaching cooperation.

With the financial assistance of Western countries, Israel has become a regional economic power with trade relations to the United States and Western Europe in particular. The Arab countries have attempted to achieve stronger cooperation with each other within the framework of several agreements, but with only limited success. Measures to protect domestic industries, a sluggish bureaucracy, insufficient transport links to each other, and differences in economic systems help explain why the intra-regional exchange of goods and services has remained far below its potential level.

After decades of virulent conflict, the first signs of a new development have emerged after the signing of the Gaza-Jericho Agreement on 13 September 1993 that has already drastically altered the external appearance of the Middle East. No longer is the situation characterized by two antagonistic parties; instead, on both sides forces are gaining significance for whom the desire for cooperation stands in the foreground.

In autumn 1993, the Federal Ministry of Economics commissioned the Ifo Institute with a first stock-taking examination of regional cooperation in the Middle East.[1] The present follow-up study, which was commissioned at the end of 1994 takes into account the recent developments that have occurred since in

[1] A. Halbach und Mitarbeiter, Perspektiven regionaler Wirtschaftskooperation im Nahen Osten. Empirische Analyse der Wirtschaftsbeziehungen vor dem Hintergrund einer umfassenden Friedensregelung. - Dto., Regional Economic Development in the Middle East. Potential of intra-regional trade in goods and services against the background of a peace settlement, München/Köln 1994/1995.

the Middle East and focuses on the economic prospects of regional cooperation.

The political process in the Middle East needs the support of economic and development cooperation. The European Union's vision is to create a Euro-Mediterranean economic region by the year 2010. The German government is supporting this development in the context of the Regional Economic Development Working Group (REDWG); German industry is assisting by expanding its network of chambers of commerce and economic representations in the region.

This study focuses on the goods trade potential of the Middle East, which includes Israel and its neighbouring countries Egypt, Jordan, the Palestinian territories, Syria and Lebanon. In addition to trade and economic cooperation in the region, the foreign trade relations to the European Union and the Gulf Cooperation Council (GCC) are examined with the goal of achieving a realistic assessment of the region's trade potential with the inclusion of Israel, under the assumption that existing trade barriers are removed. Since some Arab states fear the economic dominance of Israel, special attention is given to the question of possible risks and how to avert these.

The investigation of existing trade barriers is subject of a separate study carried out for the European Union by the German-Arab Chamber of Commerce in Cairo. The results of this study are not yet available but are scheduled for publication. Our study thus only makes passing reference to existing trade barriers.

This study was carried out under the coordination of **A. Halbach.** Other contributors include **H. Awartani, D. Brand, C. Gassner, H. Heimschrott and D. Strack.** Important statistical analyses were carried out in cooperation with the United Nations in New York and Geneva.

During the course of several trips in the region, many interview partners expressed great interest in the study and supported it in every way possible. Particular thanks are expressed to the German embassies in the region, the Chamber of Commerce and Industry Israel - Germany in Tel Aviv and the Ger-

man-Arab-Chamber of Commerce in Cairo; their untiring support contributed decisively to the smooth organization and fruitful results of information and research in the region. Many others have contributed to this research project by freely offering information and material; to all of them our gratitude is also extended.

PROTOCOL ON ECONOMIC RELATIONS

between

THE GOVERNMENT OF THE STATE OF ISRAEL

and

THE P.L.O.

REPRESENTING THE PALESTINIAN PEOPLE

Paris, April 29, 1994

Article I

FRAMEWORK AND SCOPE OF THIS PROTOCOL

1. This protocol establishes the contractual agreement that will govern the economic relations between the two sides and will cover the West Bank and the Gaza Strip during the interim period. The implementation will be according to the stages envisaged in the Declaration of Principles on Interim Self Government Arrangements signed in Washington D.C. on September 13, 1993 and the Agreed Minutes thereto. It will therefore begin in the Gaza Strip and the Jericho Area and at a later stage will also apply to the rest of the West Bank, according to the provisions of the Interim Agreement and to any other agreed arrangements between the two sides.

2. This Protocol, including its Appendixes, will be incorporated into the Agreement on the Gaza Strip and the Jericho Area (in this Protocol - the Agreement), will be an integral part thereof and interpreted accordingly. This paragraph refers solely to the Gaza Strip and the Jericho Area.

3. This Protocol will come into force upon the signing of the Agreement.

4. For the purpose of this Protocol, the term "Areas" means the areas under the jurisdiction of the Palestinian Authority, according to the provisions of the Agreement regarding territorial jurisdiction.
The Palestinian jurisdiction in the subsequent agreements could cover areas, spheres or functions according to the Interim Agreement. Therefore, for the purpose of this Protocol, whenever applied, the term "Areas" shall be interpreted to mean functions and spheres also, as the case may be, with the necessary adjustments.

Article II

THE JOINT ECONOMIC COMMITTEE

1. Both parties will establish a Palestinian-Israeli Joint Economic Committee (hereinafter- the JEC) to follow up the implementation of this Protocol and to decide on problems related to it that may arise from time to time. Each side may request the review of any issue related to this Agreement by the JEC.

2. The JEC will serve as the continuing committee for economic co-operation envisaged in Annex III of the Declaration of Principles.

3. The JEC will consist of an equal number of members from each side and may establish sub-committees as it deems necessary, in addition to the sub-committees specified in this Protocol.
   A sub-committee may include experts as necessary.

4. The JEC and its sub-committees shall reach their decisions by agreement and shall determine their rules of procedure and operation, including the frequency and place or places of their meetings.

Article III

IMPORT TAXES AND IMPORT POLICY

1. The import and customs policies of both sides will be according to the principles and arrangements detailed in this Article.

2. a. The Palestinian Authority will have all powers and responsibilities in the sphere of import and customs policy and procedures with regard to the following:

   (1) Goods on List A1, attached hereto as Appendix I, locally-produced in Jordan and in Egypt particularly and in the other Arab countries, which the Palestinians will be able to import in quantities agreed upon by the two sides up to the Palestinian market needs as estimated according to para 3 below.

   (2) Goods on List A2, attached hereto as Appendix II, from the Arab, Islamic and other countries, which the Palestinians will be able to import in quantities agreed upon by the two sides up to the Palestinian market needs as estimated according to para 3 below.

   b. The import policy of the Palestinian Authority for Lists A1 and A2 will include independently determining and changing from time to time the rates of customs, purchase tax, levies, excises and other charges, the regulation of licensing requirements and procedures and of standard requirements. The valuation for custom purposes will be based upon the GATT 1994 agreement as of the date it will be introduced in Israel, and until then - on the Brussels Definition of Valuation (BDV) system. The classification of goods will be based on the principles of "the Harmonized Commodity Description and Coding System". Concerning imports referred to in Article VII of this Protocol (Agriculture), the provisions of that Article will apply.

3. For the purposes of para 2(a) above, the Palestinian market needs for 1994 will be estimated by a sub-committee of experts. These estimates will be based on the best available data regarding past consumption, production, investment and external trade of the Areas. The sub-committee will submit its estimate within three months from the signing of the Agreement. These estimates will be reviewed and updated every six months by the sub-committee, on the basis of the best data available regarding the latest period for which relevant data are available, taking into consideration all relevant economic and social indicators.
   Pending an agreement on the Palestinian market needs, the previous period's estimates adjusted for population growth and rise in per-capita GNP in the previous period, will serve as provisional estimates

4. The Palestinian Authority will have all powers and responsibilities to independently determine and change from time to time the rates of customs, purchase taxes, levies, excises and other charges on the goods on List B, attached hereto as Appendix III, of basic food items and other goods for the Palestinian economic development program, imported by the Palestinians to the Areas.

5. a. With respect to all goods not specified in Lists A1, A2 and B, and with respect to quantities exceeding those determined in accordance with paras 2(a) & 3 above (hereinafter - the Quantities), the Israeli rates of customs, purchase tax, levies, excises and other charges, prevailing at the date of signing of the Agreement , as changed from time to time, shall serve as the minimum basis for the Palestinian Authority. The Palestinian Authority may decide on any upward changes in the rates on these goods and exceeding quantities when imported by the Palestinians to the Areas.

   b. With respect to all goods not specified in Lists A1 and A2, and with respect to quantities exceeding the Quantities, Israel and the Palestinian Authority will employ for all imports the same system of importation, as stipulated in para 10 below, including inter alia standards, licensing, country of origin, valuation for customs purposes etc.

6. Each side will notify the other side immediately of changes made in rates and in other matters of import policy, regulations and procedures, determined by it within its respective powers and responsibilities as detailed in this Article. With regard to changes which do not require immediate application upon decision, there will be a process of advance notifications and mutual consultations which will take into consideration all aspects and economic implications.

7. The Palestinian Authority will levy VAT at one rate on both locally produced goods and services and on imports by the Palestinians (whether covered by the three Lists mentioned above or not), and may fix it at the level of 15% to 16%.

8. Goods imported from Jordan, Egypt and other Arab countries according to para 2(a)(1) above (List A1) will comply with rules of origin agreed upon by a joint sub-committee within three months of the date of the signing of the Agreement. Pending an agreement, goods will be considered to have been "locally produced" in any of those countries if they conform with all the following:

   a. (i) They have been wholly grown, produced, or manufactured in that country, or have been substantially transformed there into new or different goods, having a new name, character, or use, distinct from the goods or materials from which they were so transformed;

      (ii) They have been imported directly from the said country;

      (iii) The value or the costs of the materials produced in that country, plus the direct processing costs in it, do not fall short of 30 percent of the export value of the goods. This rate may be reviewed by the joint committee mentioned in para 16 a year after the signing of the Agreement.

(iv) The goods are accompanied by an internationally recognized certificate of origin;

(v) No goods will be deemed as substantially new or different goods, and no material will be eligible for inclusion as domestic content, by virtue of having merely undergone simple combining or packaging, or dilution with water or other substances, which do not materially alter the characteristics of the said goods.

9. Each side will issue import licences to its own importers, subject to the principles of this Article and will be responsible for the implementation of the licensing requirements and procedures prevailing at the time of the issuance of the licenses.
Mutual arrangements will be made for the exchange of information relevant to licensing matters.

10. Except for the goods on Lists A1 and A2 and their Quantities - in which the Palestinian Authority has all powers and responsibilities, both sides will maintain the same import policy (except for rates of import taxes and other charges for goods in List B) and regulations including classification, valuation and other customs procedures, which are based on the principles governing international codes, and the same policies of import licensing and of standards for imported goods, all as applied by Israel with respect to its importation. Israel may from time to time introduce changes in any of the above, provided that changes in standard requirements will not constitute a non-tariff- barrier and will be based on considerations of health, safety and the protection of the environment in conformity with Article 2.2. of the Agreement on Technical Barriers to trade of the Final Act of the Uruguay Round of Trade Negotiations.
Israel will give the Palestinian Authority prior notice of any such changes, and the provisions of para 6 above will apply.

11. a. The Palestinian Authority will determine its own rates of customs and purchase tax on motor vehicles imported as such, to be registered with the Palestinian Authority.
The vehicle standards will be those applied at the date of the signing of the Agreement as changed according to para 10 above.
However, the Palestinian Authority may request, through the sub-committee on transportation, that in special cases different standards will apply.
Used motor vehicles will be imported only if they are passenger cars or dual-purpose passenger cars of a model of no more than three years prior to the importation year. The sub-committee on transportation will determine the procedures for testing and confirming that such used cars comply with the standards' requirements for that model year.
The issue of importing commercial vehicles of a model prior to the importation year will be discussed in the joint sub-committee mentioned in para 16 below.

7

b. Each side may determine the terms and conditions for the transfer of motor vehicles registered in the other side to the ownership or use of a resident of its own side, including the payment of the difference of import taxes, if any, and the vehicle having been tested and found compatible with the standards required at that time by its own registration administration, and may prohibit transfer of vehicles.

12. a. Jordanian standards, as specified in the attached Appendix I, will be acceptable in importing petroleum products into the Areas, once they meet the average of the standards existing in the European Union countries, or the USA standards, which parameters have been set at the values prescribed for the geographical conditions of Israel, the Gaza Strip and the West Bank.

Cases of petroleum products which do not meet these specifications will be referred to a joint experts' committee for a suitable solution. The committee may mutually decide to accept different standards for the importation of gasoline which meet the Jordanian standards even though, in some of their parameters, they do not meet the European Community or USA standards. The committee will give its decision within six months.

Pending the committee's decision, and for not longer than six months of the signing of the Agreement, the Palestinian Authority may import to the Areas, gasoline for the Palestinian market in the Areas, according to the needs of this market, provided that:

(1) this gasoline is marked in a distinctive colour to differentiate it from the gasoline marketed in Israel ; and

(2) the Palestinian Authority will take all the necessary steps to ensure that this gasoline is not marketed in Israel.

b. The difference in the final price of gasoline to consumers in Israel and to consumers in the Areas, will not exceed 15% of the official final consumer price in Israel. The Palestinian Authority has the right to determine the prices of petroleum products other than gasoline, for consumption in the Areas .

c. If Egyptian gasoline standards will comply with the conditions of sub-para (a) above, the importation of Egyptian gasoline will also be allowed.

13. 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.

14. In the entry points of the Jordan River and the Gaza Strip:

a. Freight shipment

The Palestinian Authority will have full responsibility and powers in the Palestinian customs points (freight-area) for the implementation of the agreed upon customs and importation policy as specified in this protocol, including the inspection and the collection of taxes and other charges, when due.

Israeli customs officials will be present and will receive from the Palestinian customs officials a copy of the necessary relevant documents related to the specific shipment and will be entitled to ask for inspection in their presence of both goods and tax collection.

The Palestinian customs officials will be responsible for the handling of the customs procedure including the inspection and collection of due taxes.

In case of disagreement on the clearance of any shipment according to this Article, the shipment will be delayed for inspection for a maximum period of 48 hours during which a joint sub-committee will resolve the issue on the basis of the relevant provisions of this Article. The shipment will be released only upon the sub-committee's decision.

b. Passengers customs lane

Each side will administer its own passengers customs procedures, including inspection and tax collection. The inspection and collection of taxes due in the Palestinian customs lane will be conducted by customs officials of the Palestinian Authority.

Article IV

MONETARY AND FINANCIAL ISSUES

1. The Palestinian Authority will establish a Monetary Authority (PMA) in the Areas. The PMA will have the powers and responsibilities for the regulation and implementation of the monetary policies within the functions described in this Article.

2. The PMA will act as the Palestinian Authority's official economic and financial advisor.

3. The PMA will act as the Palestinian Authority's and the public sector entities' sole financial agent, locally and internationally.

4. The foreign currency reserves (including gold) of the Palestinian Authority and all Palestinian public sector entities will be deposited solely with the PMA and managed by it.

5. The PMA will act as the lender of last resort for the banking system in the Areas.

6. The PMA will authorize foreign exchange dealers in the Areas and will exercise control (regulation and supervision) over foreign exchange transactions within the Areas and with the rest of the world.

7. a. The PMA will have a banking supervision department that will be responsible for the proper functioning, stability, solvency and liquidity of the banks operating in the Areas.

   b. The banking supervision department will predicate its supervision on the international principles and standards reflected in international conventions and especially on the principles of the "Basle Committee".

   c. The supervision department will be charged with the general supervision of every such bank, including:
   - The regulation of all kinds of banking activities, including their foreign activities ;
   - The licensing of banks formed locally and of branches, subsidiaries, joint ventures and representative offices of foreign banks and the approval of controlling shareholders ;
   - The supervision and inspection of banks.

8. The PMA will relicense each of the five branches of the Israeli banks operating at present in the Gaza Strip and the West Bank, as soon as its location or the authorities regarding it come under the jurisdiction of the Palestinian Authority. These branches will be required to comply with the general rules and regulations of the PMA concerning foreign banks, based on the "Basle Concordat". Para 10 d, e, and f below will apply to these branches.

9. a. Any other Israeli bank wishing to open a branch or a subsidiary in the Areas will apply for a license to the PMA and will be treated equally to other foreign banks, provided that the same will apply to the Palestinian banks wishing to open a branch or a subsidiary in Israel.

b. Granting of a license by both authorities will be subject to the following arrangements based on the "Basle Concordat" valid on the date of signing of the Agreement and to the host authority's prevailing general rules and regulations concerning opening of branches and subsidiaries of foreign banks.

In this para 10 "host authority" and "home authority" apply only to the Bank of Israel (BOI) and the PMA.

c. A bank wishing to open a branch or establish a subsidiary will apply to the host authority, having first obtained the approval of its home authority. The host authority will notify the home authority of the terms of the license, and will give its final approval unless the home authority objects.

d. The home authority will be responsible for the consolidated and comprehensive supervision of banks, inclusive of branches and subsidiaries in the area under the jurisdiction of the host authority. However, the distribution of supervision responsibilities between the home and the host authorities concerning subsidiaries will be according to the "Basle Concordat".

e. The host authority will regularly examine the activities of branches and subsidiaries in the area under its jurisdiction. The home authority will have the right to conduct on site examinations in the branches and subsidiaries in the host area. However, the supervision responsibilities of the home authority concerning subsidiaries will be according to the "Basle Concordat".
Accordingly, each authority will transfer to the other authority copies of its examination reports and any information relevant to the solvency, stability and soundness of the banks, their branches and subsidiaries.

f. The BOI and the PMA will establish a mechanism for co-operation and for the exchange of information on issues of mutual interest.

10.a. The New Israeli Sheqel (NIS) will be one of the circulating currencies in the Areas and will legally serve there as means of payment for all purposes including official transactions. Any circulating currency, including the NIS, will be accepted by the Palestinian Authority and by all its institutions, local authorities and banks, when offered as a means of payment for any transaction.

b. Both sides will continue to discuss, through the JEC, the possibility of introducing mutually agreed Palestinian currency or temporary alternative currency arrangements for the Palestinian Authority.

11.a. The liquidity requirements on all deposits in banks operating in the Areas will be determined and announced by the PMA.

b. Banks in the Areas will accept NIS deposits. The liquidity requirements on the various kinds of NIS deposits (or deposit linked to the NIS) in banks operating in the Areas will not be less than 4% to 8%, according to the type of deposits. Changes of over 1% in the liquidity requirements on NIS deposits (or deposits linked to the NIS) in Israel will call for corresponding changes in the above mentioned rates.

c. The supervision and inspection of the implementation of all liquidity requirements will be carried out by the PMA.

d. The reserves and the liquid assets required according to this paragraph will be deposited at the PMA according to rules and regulations determined by it. Penalties for non compliance with the liquidity requirements will be determined by the PMA.

12. The PMA will regulate and administer a discount window system and the supply of temporary finance for banks operating in the Areas.

13. a. The PMA will establish or license a clearing house in order to clear money orders between the banks operating in the Areas, and with other clearing houses.

b. The clearing of money orders and transactions between banks operating in the Areas and banks operating in Israel will be done between the Israeli and the Palestinian clearing houses on same working day basis, according to agreed arrangements.

14. Both sides will allow correspondential relations between each others' banks.

15. The PMA will have the right to convert at the BOI excess NIS received from banks operating in the Areas into foreign currency, in which the BOI trades in the domestic inter-bank market, up to the amounts determined per period, according to the arrangements detailed in para 16 below.

16. a. The excess amount of NIS, due to balance of payments flows, that the PMA will have the right to convert into foreign currency, will be equal to:

(1) Estimates of all Israeli "imports" of goods and services from the Areas, valued at market prices (inclusive of taxes), which were paid for in NIS, less:
(i) the taxes collected by the Palestinian Authority on all Israeli "imports" from the Areas and rebated to Israel in NIS, and
(ii) the taxes collected by Israel on all Israeli "imports" from the Areas and included in their market value, and not rebated to the Palestinian Authority,

minus

(2) Estimates of all Israeli "exports" of goods and services to the Areas, valued at market prices (inclusive of taxes), which were paid for in NIS, less :
(i) the taxes collected by Israel on such "exports" and rebated to the Palestinian Authority, and
(ii) the taxes collected by the Palestinian Authority on such "exports" and included in their market value, and not rebated to Israel ;

plus

(3) The accumulated net amounts of foreign currency converted previously into NIS by the PMA, as recorded in the BOI Dealing Room.

b. The said flows and amounts will be calculated as of the date of the signing of the Agreement.

Notes to para 16:

(i) The estimates of the said "exports and imports" of goods and services will include inter alia labor services, NIS expenditure of tourists and Israelis in the Areas and NIS expenditure of Palestinians of the Areas in Israel.

(ii) Taxes and pension contributions on "imports" of labor services, paid to the "importing" side and rebated to the "exporting" one, will not be included in the estimates of the sums to be converted, as the "exports'" earnings of labor services are recorded in the statistics inclusive of them, although they do not accrue to the individuals supplying them.

17. The PMA and the BOI will meet annually to discuss and determine the annual amount of convertible NIS during the following calendar year and will meet semi-annually to adjust the said amount. The amounts determined annually and adjusted semi-annually will be based on data and estimates regarding the past and on forecasts for the following period, according to the formula mentioned in para 16. The first meeting will be as soon as possible within three months after the date of the signing of the Agreement.

18. a. The exchange of foreign currency for NIS and vice-versa by the PMA will be carried out through the BOI Dealing Room, at the market exchange rates.

b. The BOI will not be obliged to convert in any single month more than 1/5 of the semi-annual amount, as mentioned in para 17.

19. There will be no ceiling on the annual foreign currency conversions by the PMA into NIS. However, in order to avoid undesirable fluctuations in the foreign exchange market, monthly ceilings of such conversions will be agreed upon in the annual and semi-annual meetings referred to in para 17.

20. Banks in the Areas will convert NIS into other circulating currencies and vice-versa.

21. The Palestinian Authority will have the authorities, powers and responsibilities regarding the regulation and supervision of capital activities in the Areas, including the licensing of capital market institutions, finance companies and investment funds.

The Palestinian customs officials will be responsible for the handling of the customs procedure including the inspection and collection of due taxes.

In case of disagreement on the clearance of any shipment according to this Article, the shipment will be delayed for inspection for a maximum period of 48 hours during which a joint sub-committee will resolve the issue on the basis of the relevant provisions of this Article. The shipment will be released only upon the sub-committee's decision.

b. Passengers customs lane

Each side will administer its own passengers customs procedures, including inspection and tax collection. The inspection and collection of taxes due in the Palestinian customs lane will be conducted by customs officials of the Palestinian Authority.

Israeli customs officials will be invisibly present in the Palestinian customs lane and entitled to request inspection of goods and collection of taxes when due. In the case of suspicion, the inspection will be carried out by the Palestinian official in a separate room in the presence of the Israeli customs official.

15. The clearance of revenues from all import taxes and levies, between Israel and the Palestinian Authority, will be based on the principle of the place of final destination. In addition, these tax revenues will be allocated to the Palestinian Authority even if the importation was carried out by Israeli importers when the final destination explicitly stated in the import documentation is a corporation registered by the Palestinian Authority and conducting business activity in the Areas. This revenue clearance will be effected within six working days from the day of collection of the said taxes and levies.

16. The Joint Economic Committee or a sub-committee established by it for the purposes of this Article will deal inter alia with the following:

(1) Palestinian proposals for addition of items to Lists A1, A2 and B. Proposals for changes in rates and in import procedures, classification, standards and licensing requirements for all other imports;

(2) Estimate the Palestinian market needs, as mentioned in para 3 above;

(3) Receive notifications of changes and conduct consultations, as mentioned in para 6 above;

(4) Agree upon the rules of origin as mentioned in para 8 above, and review their implementation;

(5) Co-ordinate the exchange of information relevant to licensing matters as mentioned in para 9 above.

(6) Discuss and review any other matters concerning the implementation of this Article and resolve problems arising therefrom.

17. The Palestinian Authority will have the right to exempt the Palestinian returnees who will be granted permanent residency in the Areas from import taxes on personal belongings including house appliances and passenger cars as long as they are for personal use.

18. The Palestinian Authority will develop its system for temporary entry of needed machines and vehicles used for the Palestinian Authority and the Palestinian economic development plan.

Concerning other machines and equipment, not included in Lists A1, A2 and B, the temporary entry will be part of the import policy as agreed in para 10 above, until the joint sub-committee mentioned in para 16 decides upon a new system proposed by the Palestinian Authority. The temporary entry will be co-ordinated through the joint sub-committee.

19. Donations in kind to the Palestinian Authority will be exempted from customs and other import taxes if destined and used for defined development projects or non-commercial humanitarian purposes.
The Palestinian Authority will be responsible exclusively for planning and management of the donors' assistance to the Palestinian people. The Joint Economic Committee will discuss issues pertaining to the relations between the provisions in this Article and the implementation of the principles in the above paragraph.

Article V

DIRECT TAXATION

1. Israel and the Palestinian Authority will each determine and regulate independently its own tax policy in matters of direct taxation, including income tax on individuals and corporations, property taxes, municipal taxes and fees.

2. Each tax administration will have the right to levy the direct taxes generated by economic activities within its area.

3. Each tax administration may impose additional taxes on residents within its area on (individuals and corporations) who conduct economic activities in the other side's area.

4. Israel will transfer to the Palestinian Authority a sum equal to:

   a. 75% of the income taxes collected from Palestinians from the Gaza Strip and the Jericho Area employed in Israel.

   b. The full amount of income taxes collected from Palestinians from the Gaza Strip and Jericho Area employed in the settlements.

5. The two sides will agree on a set of procedures that will address all issues concerning double taxation.

Article VI

INDIRECT TAXES ON LOCAL PRODUCTION

1. The Israel and the Palestinian tax administrations will levy and collect VAT and purchase taxes on local production, as well as any other indirect taxes, in their respective areas.

2. The purchase tax rates within the jurisdiction of each tax administration will be identical as regards locally produced and imported goods.

3. The present Israeli VAT rate is 17%. The Palestinian VAT rate will be 15% to 16%.

4. The Palestinian Authority will decide on the maximum annual turnover for businesses under its jurisdiction to be exempt from VAT, within an upper limit of 12,000 US $.

5. The VAT on purchases by businesses registered for VAT purposes will accrue to the tax administration with which the respective business is registered.

   Businesses will register for VAT purposes with the tax administration of the side of their residence, or on the side of their ongoing operation.

   There will be clearance of VAT revenues between the Israeli and Palestinian VAT administrations on the following conditions :

   a. The VAT clearance will apply to VAT on transactions between businesses registered with the VAT administration of the side in which they reside.

   b. The following procedures will apply to clearance of VAT revenues accruing from transactions by businesses registered for VAT purposes :

      (1) To be acceptable for clearance purposes, special invoices, clearly marked for this purpose, will be used for transactions between businesses registered with the different sides.

      (2) The invoices will be worded either in both Hebrew and Arabic or in English and will be filled out in any of these three languages, provided that the figures are written in "Arabic" (not Hindi) numerals.

      (3) For the purpose of tax rebates, such invoices will be valid for six months from their date of issue.

(4) Representatives of the two sides will meet once a month, on the 20th day of the month, to present each other with a list of invoices submitted to them for tax rebate, for VAT clearance. This list will include the following details regarding each invoice :
(a) The number of the registered business issuing it ;
(b) The name of the registered business issuing it ;
(c) The number of the invoice ;
(d) The date of issue ;
(e) The amount of the invoice ;
(f) The name of the recipient of the invoice.

(5) The clearance claims will be settled within 6 days from the meeting, through a payment by the side with the net balance of claims against it, to the other side.

(6) Each side will provide the other side, upon demand, with invoices for verification purposes. Each tax adminsitration will be responsible for providing invoices for verification purposes for 6 months after receiving them.

(7) Each side will take the necessary measure to verify the authenticity of the invoices presented to it for clearance by the other side.

(8) Claims for VAT clearance which will not be found valid will be deducted from the next clearance payment.

(9) Once an inter-connected computer system for tax rebates to businesses and for VAT clearance between the two sides is operational, it will replace the clearance procedures specified in sub-paras (4) - (8).

(10) The two tax administrations will exchange lists of the businesses registered with them and will provide each other with the necessary documentation, if required, for the verification of transactions.

(11) The two sides will establish a sub-committee which will deal with the implementation arrangements regarding the clearance of VAT revenues set above.

6. VAT paid by not-for-profit Palestinian organizations and institutions, registered by the Palestinian Authority, on transactions in Israel, will accrue to the Palestinian tax administration. The clearance system set out in para 5 will apply to these organizations and institutions.

Article VII

LABOR

1. Both sides will attempt to maintain the normality of movement of labor between them, subject to each side's right to determine from time to time the extent and conditions of the labor movement into its area. If the normal movement is suspended temporarily by either side, it will give the other side immediate notification, and the other side may request that the matter be discussed in the Joint Economic Committee.

   The placement and employment of workers from one side in the area of the other side will be through the employment service of the other side and in accordance with the other sides' legislation. The Palestinian side has the right to regulate the employment of Palestinian labor in Israel through the Palestinian employment service, and the Israeli Employment Service will cooperate and coordinate in this regard.

2. a. Palestinians employed in Israel will be insured in the Israeli social insurance system according to the National Insurance Law for employment injuries that occur in Israel, bankruptcy of employers and maternity leave allowance.

   b. The National Insurance fees deducted from the wages for maternity insurance will be reduced according to the reduced scope of maternity insurance, and the equalization deductions transferred to the Palestinian Authority, if levied, will be increased accordingly.

   c. Implementation procedures relating thereto will be agreed upon between the Israeli National Insurance Institute and the Palestinian Authority or the appropriate Palestinian social insurance institution.

3. a. Israel will transfer to the Palestinian Authority, on a monthly basis, the equalization deductions as defined by Israeli legislation, if imposed and to the extent levied by Israel The sums so transferred will be used for social benefits and health services, decided upon by the Palestinian Authority, for Palestinians employed in Israel and for their families.

   The equalization deductions to be so transferred will be those collected after the date of the signing of the Agreement from wages of Palestinians employed in Israel and from their employers.

   These sums will not include :

   (1) Payments for health services in places of employment.

   (2) 2/3 of the actual administrative costs in handling the matters related to the Palestinians employed in Israel by the Payments Section of the Israeli Employment Service.

4. Israel will transfer, on a monthly basis, to a relevant pension insurance institution to be established by the Palestinian Authority, pension insurance deductions collected after the establishment of the above institution and the completion of the documents mentioned in para 6.

   These deductions will be collected from wages of Palestinians employed in Israel and their employers, according to the relevant rates set out in the applicable Israeli collective agreements. 2/3 of the actual administrative costs in handling these deductions by the Israeli Employment Service will be deducted from the sums transferred. The sums so transferred will be used for providing pension insurance for these workers.
   Israel will continue to be liable for pension rights of the Palestinian employees in Israel, to the extent accumulated by Israel before the entry into force of this para 4.

5. Upon the receipt of the deductions, the Palestinian Authority and its relevant social institutions will assume full responsibility in accordance with the Palestinian legislation and arrangements, for pension rights and other social benefits of Palestinians employed in Israel, that accrue from the transferred deductions related to these rights and benefits. Consequently, Israel and its relevant social institutions and the Israeli employers will be released from, and will not be held liable for any obligations and responsibilities concerning personal claims, rights and benefits arising from these transferred deductions, or from the provisions of paras 2-4 above.

6. Prior to the said transfers, the Palestinian Authority or its relevant institutions, as the case may be, will provide Israel with the documents required to give legal effect to their aforesaid obligations, including mutually agreed implementation procedures of the principles agreed upon in paras 3-5 above.

7. The above arrangements concerning equalization deductions and/or pension deductions may be reviewed and changed by Israel if an authorized court in Israel will determine that the deductions or any part thereof must be paid to individuals, or used for individual social benefits or insurance in Israel, or that it is otherwise unlawful. In such a case the liability of the Palestinian side will not exceed the actual transferred deductions related to the case.

8. Israel will respect any agreement reached between the Palestinian Authority, or an organization or trade-union representing the Palestinians employed in Israel, and a representative organization of employees or employers in Israel, concerning contributions to such organization according to any collective agreement.

9. a. The Palestinian Authority may integrate the existing health insurance scheme for Palestinians employed in Israel and their families in its health insurance services. As long as this scheme continues, whether integrated or separately, Israel will deduct from their wages the health insurance fees ("health stamp") and will transfer them to the Palestinian Authority for this purpose.

   b. The Palestinian Authority may integrate the existing health insurance scheme for Palestinians who were employed in Israel and are receiving pension payments through the Israeli Employment Service, in its health insurance services. As long as this scheme continues, whether integrated or separately, Israel will deduct the necessary sum of health insurance fees ("health stamp") from the equalization payments and will transfer them to the Palestinian Authority for this purpose.

10. The JEC will meet upon the request of either side and review the implementation of this Article and other issues concerning labor, social insurance and social rights.

11. Other deductions not mentioned above, if any, will be jointly reviewed by the JEC. Any agreement between the two sides concerning these deductions will be in addition to the above provisions.

12. Palestinians employed in Israel will have the right to bring disputes arising out of employee - employer relationships and other issues before the Israeli Labor Courts, within these courts' jurisdiction.

13. This Article governs the future labor relations between the two sides and will not impair any labor rights prior to the date of signing of the Agreement.

Article VIII

AGRICULTURE

1. There will be free movement of agricultural produce, free of customs and import taxes, between the two sides, subject to the following exceptions and arrangements.

2. The official veterinary and plant protection services of each side will be responsible, within the limits of their respective jurisdiction, for controlling animal health, animal products and biological products, and plants and parts thereof, as well as their importation and exportation.

3. The relations between the official veterinary and plant protection services of both sides will be based on mutuality in accordance with the following principles, which will be applied in all the areas under their respective jurisdiction:

   a. Israel and the Palestinian Authority will do their utmost to preserve and improve the veterinary standards.

   b. Israel and the Palestinian Authority will take all measures to reach equivalent and compatible standards regarding animal disease control, including mass vaccination of animals and avians, quarantines, "stamping out" measures and residue control standards.

   c. Mutual arrangements will be made to prevent the introduction and spread of plant pests and diseases, for their eradication and concerning residue control standards in plant products.

   d. The official veterinary and plant protection services of Israel and the Palestinian Authority will co-ordinate and regularly exchange information regarding animal diseases, as well as plant pests and diseases, and will establish a mechanism for immediate notification of the outbreak of such diseases.

4. Trade between the two sides in animals, animal products and biological products will be in keeping with the principles and definitions set out in the current edition of the OIE National Animal Health Code as updated from time to time (hereinafter - I.A.H.C.)

5. Transit of livestock, animal products and biological products from one side through the area under the jurisdiction of the other side, should be conducted in a manner aimed at the prevention of diseases spreading to or from the consignment during its movement. For such a transit to be permitted, it is a prerequisite that the veterinary conditions agreed upon by both sides will be met in regard to importation of animals, their products and biological products from external markets. Therefore the parties agree to the following arrangements.

The official veterinary services of each side have the authority to issue veterinary import permits for import of animals, animal products and biological products to the areas under its jurisdiction. In order to prevent the introduction of animal diseases from third parties, the following procedures will be adopted:

a. The import permits will strictly follow the professional veterinary conditions for similar imports to Israel as prevailing at the time of their issuance. The permits will specify the country of origin and the required conditions to be included in the official veterinary certificates which should be issued by the veterinary authorities in the countries of origin and which should accompany each consignment.

Each side may propose a change in these conditions. The change will come into force 10 days after notice to the other side, unless the other side requested that the matter be brought before the Veterinary Sub-Committee specified in para 14 (hereinafter - VSC). If it is more stringent than the prevailing conditions - it will come into force 20 days after the request, unless both sides decide otherwise through the VSC, and if more lenient - it will come into force only if agreed upon by both sides through the VSC.
However, if the change is urgent and needed for the protection of animal and public health, it will come into force immediately after notice by the other side and will remain in force unless and until both sides agree otherwise through the VSC.

b. The official veterinary certificates will include the provisions regarding OIE Lists A & B Diseases as specified in the I.A.H.C. When the I.A.H.C. allows alternative requirements regarding the same disease, the most stringent one will be adopted unless otherwise agreed upon by the VSC.

c. When infectious diseases which are not included in Lists A & B of the I.A.H.C. exist or are suspected, on scientific grounds, to exist in the exporting country, the necessary veterinary import conditions that will be required and included in the official veterinary certificates, will be discussed in the VSC, and in the case of different professional opinions, the most stringent ones will be adopted.

d. The import of live vaccines will be permitted only if so decided by the VSC.

e. Both sides will exchange, through the VSC, information pertaining to import licensing, including the evaluation of the disease situation and zoosanitary capability of exporting countries, which will be based upon official information as well as upon other available data.

f. Consignments which do not conform with the above mentioned requirements will not be permitted to enter the areas under the jurisdiction of either side.

7. Transportation of livestock and poultry and of animal products and biological products between areas under the jurisdiction of one side through areas under the jurisdiction of the other side, will be subject to the following technical rules:

a. The transportation will be by vehicles which will be sealed with a seal of the official veterinary services of the place of origin and marked with a visible sign "Animal Transportation" or "Products of Animal Origin" in Arabic and Hebrew, in coloured and clearly visible letters on white background.;

b. Each consignment will be accompanied by a veterinary certificate issued by the official veterinary services of the place of origin, certifying that the animals or their products were examined and are free of infectious diseases and originate from a place which is not under quarantine or under animal movement restrictions.

8. Transportation of livestock and poultry, animal products and biological products destined for Israel from the Areas and vice versa will be subject to veterinary permits issued by the official veterinary services of the recipient side, in keeping with the OIE standards used in international traffic in this field. Each such consignment will be transported by a suitable and marked vehicle, accompanied by a veterinary certificate in the form agreed upon between the official veterinary services of both sides. Such certificates will be issued only if permits of the recipient side are presented.

9. In order to prevent the introduction of plant pests and diseases to the region, the following procedures will be adopted :

a. The transportation between the Areas and Israel, of plants and parts thereof (including fruits and vegetables), the control of pesticide residues in them and the transportation of plant propagation material and of animal feed, may be inspected without delay or damage by the plant protection services of the recipient side.

b. The transportation between the Areas through Israel of plants and parts thereof (including fruits and vegetables) as well as of pesticides, may be required to pass a phytosanitary inspection without delay or damage.

c. The official Palestinian plant protection services have the authority to issue permits for the import of plants and parts thereof as well as of pesticides from external markets. The permits will be based on the prevailing standards and requirements.

The permits will specify the required conditions to be included in the official Phytosanitary Certificates (hence P.C.) based upon the standards and the requirements of the International Plant Protection Convention (I.P.P.C.)and those of the European and Mediterranean Plant Protection Organization (E.P.P.O.) which should accompany each consignment.
The P.C.'s will be issued by the plant protection services in the countries of origin. Dubious or controversial cases will be brought before the sub-committee on plant protection.

10. The agricultural produce of both sides will have free and unrestricted access to each others' markets, with the temporary exception of sales from one side to the other side of the following items only: poultry, eggs, potatoes, cucumbers, tomatoes and melons. The temporary restrictions on these items will be gradually removed on an increasing scale until they are finally eliminated by 1998, as listed below:

Year	Poultry (In tons)	Eggs (In millions)	Potatoes (In tons)	Cucumbers (In tons)	Tomatoes (In tons)	Melons (In tons)
1994	5,000	30	10,000	10,000	13,000	10,000
1995	6,000	40	13,000	13,000	16,000	13,000
1996	7,000	50	15,000	15,000	19,000	15,000
1997	8,000	60	17,000	17,000	22,000	17,000
1998	unlimited	unlimited	unlimited	unlimited	unlimited	unlimited

Note: The above figures refer to the combined quantities marketed from the West Bank and Gaza Strip to Israel and vice-versa. The Palestinian Authority will notify Israel the apportioning of these quantities between these areas concerning the quantities pertaining to the Palestinian produce.

11. The Palestinians will have the right to export their agricultural produce to external markets without restrictions, on the basis of certificates of origin issued by the Palestinian Authority.

12. Without prejudice to obligations arising out of existing international agreements, the two sides will refrain from importing agricultural products from third parties which may adversely affect the interests of each other's farmers.

13 Each side will take the necessary measures in the area under its jurisdiction to prevent damage which may be caused by its agriculture to the environment of the other side.

14 The two sides will establish sub-committees of their respective official veterinary and plant protection services, which will update the information and review issues, policies and procedures in these fields. Any changes in the provisions of this Article will be agreed upon by both sides.

15 The two sides will establish a sub-committee of experts in the dairy sector in order to exchange information, discuss and co-ordinate their production in this sector so as to protect the interests of both sides. In principle, each side will produce according to its domestic consumption.

Article IX

INDUSTRY

1 There will be free movement of industrial goods free of any restrictions including customs and import taxes between the two sides, subject to each side's legislation.

2 a. The Palestinian side has the right to employ various methods in encouraging and promoting the development of the Palestinian industry by way of providing grants, loans, research and development assistance and direct-tax benefits. The Palestinian side has also the right to employ other methods of encouraging industry resorted to in Israel.

b. Both sides will exchange information about the methods employed by them in the encouragement of their respective industries.

c. Indirect tax rebates or benefits and other subsidies to sales shall not be allowed in trade between the two sides.

3 Each side will do its best to avoid damage to the industry of the other side and will take into consideration the concerns of the other side in its industrial policy.

4. Both sides will cooperate in the prevention of deceptive practices, trade in goods which may endanger health, safety and the environment and in goods of expired validity.

5. Each side will take the necessary measures in the area under its jurisdiction to prevent damage which may be caused by its industry to the environment of the other side.

6. The Palestinians will have the right to export their industrial produce to external markets without restrictions, on the basis of certificates of origin issued by the Palestinian Authority.

7. The JEC will meet and review issues pertaining to this Article.

Article X

TOURISM

1. The Palestinian Authority will establish a Palestinian Tourism Authority which will exercise, inter alia, the following powers in the Areas.

   a. Regulating, licensing, classifying and supervising tourist services, sites and industries.

   b. Promoting foreign and domestic tourism and developing the Palestinian tourist resources and sites.

   c. Supervising the marketing, promotion and information activities related to foreign and domestic tourism .

2. Each side shall, under its respective jurisdiction, protect, guard and ensure the maintenance and good upkeep of historical, archaeological, cultural and religious sites and all other tourist sites, to fit their status as well as their purpose as a destination for visitors.

3. Each side will determine reasonable visiting hours and days for all tourist sites in order to facilitate visits at a wide variety of days and hours, taking into consideration religious and national holidays. Each side shall publicize such opening times. Meaningful changes in the opening times will take into consideration tourist programs already committed to.

4. Tourist buses or any other form of tourist transport authorized by either side, and operated by companies registered and licensed by it, will be allowed to enter and proceed on their tour within the area under the jurisdiction of the other side, provided that such buses or other vehicles conform with the EEC technical specifications [I. currently adopted.] All such vehicles will be clearly marked as tourist vehicles.

5. Each side will protect the environment and the ecology around the tourist sites under its jurisdiction. In view of the importance of beaches and maritime activities for tourism, each side will do its best efforts to ensure that development and construction on the Mediterranean coast, and especially at ports (such as Ashqelon or Gaza), will be planned and carried out in a manner that will not adversely affect the ecology, environment or the functions of the coastline and beaches of the other side.

6. Tourism companies and agencies licensed by either side shall enjoy equal access to tourism - related facilities and amenities in border points of exit and entry according to the regulations of the authority operating them.

7 a. Each side will license, according to its own rules and regulations, travel agents, tour companies, tour guides and other tourism businesses (hereinafter - tourism entities) within its jurisdiction

b. Tourism entities authorized by either side, will be allowed to conduct tours that include the area under the jurisdiction of the other side, provided that their authorization as well as their operation will be in accordance with rules, professional requirements and standards agreed upon by both sides in the sub-committee mentioned in para 9.

Pending that agreement, existing tourism entities in the Areas which are currently allowed to conduct tours that include Israel, will be allowed to continue to do so, and Israeli authorized tourism entities will continue to be allowed to conduct tours that include the Areas.

In addition, any tourism entity of one side that the tourism authorities of the other side will certify as fulfilling all its rules, professional requirements and standards, will be allowed to conduct tours that include that other side.

8. Each side will make its own arrangement for compensation of tourists for bodily injury and property damages caused by political violence in the areas under its respective jurisdiction.

9. The JEC or a tourism sub-committee established by it shall meet upon the request of either side in order to discuss the implementation of the provisions of this Article and resolve problems that may arise.
The sub-committee will also discuss and consider tourist issues of benefit to both sides, and will promote educational programs for tourism entities of both sides in order to further their professional standards and their ethics. Complaints of one side against the behaviour of tourism entities of the other side will be channelled through the committee.

Note: It is agreed that the final wording in the last sentence in para 4 will be adopted according to the final wording in the relevant provisions of the Agreement.

Article XI

INSURANCE ISSUES

1. The authorities, powers and responsibilities in the insurance sphere in the Areas, including inter alia the licensing of insurers, insurance agents and the supervision of their activities, will be transferred to the Palestinian Authority.

2. a. The Palestinian Authority will maintain a compulsory absolute liability system for road accident victims with a ceiling on the amount of compensation based upon the following principles:

   (1) Absolute liability for death or bodily injury to road accident victims, it being immaterial whether or not there was fault on the part of the driver and whether or not there was fault or contributory fault on the part of others, each driver being responsible for persons travelling in his vehicle and for pedestrians hit by his vehicle.

   (2) Compulsory insurance for all motor vehicles, covering death or bodily injury to all road accident victims, including drivers.

   (3) No cause of action in tort for death or bodily injury resulting from road accidents.

   (4) The maintenance of a statutory fund (hereinafter - the Fund) for compensation of road accident victims who are unable to claim compensation from an insurer for the following reasons.
   (i) the driver liable for compensation is unknown;
   (ii) the driver is not insured or his insurance does not cover the liability involved; or
   (iii) the insurer is unable to meet his liabilities.

   b. Terms in this Article will have the same meaning as in the legislation prevailing at the date of signing of the Agreement concerning compulsory motor vehicle insurance and compensation of road accident victims.

   c. Any change by either side in the rules and regulations regarding the implementation of the above mentioned principles will require prior notice to the other side. A change which might substantially affect the other side will require prior notice of at least three months.

3. a. Upon the signing of the Agreement the Palestinian Authority will establish a Fund for the Areas (hereinafter - the Palestinian Fund) for the purposes detailed in para 2(a)(4) above and for the purposes detailed below. The Palestinian Fund will assume the responsibilities of the statutory Road Accident Victims Compensation Fund in the West Bank and the Gaza Strip (hereinafter - the Existing Fund) regarding the Areas, according to the prevailing law at that time.
Accordingly, the Existing Fund will cease to be responsible for any liability regarding accidents occurring in the Areas from the date of signing of the Agreement.

b. The Existing Fund will transfer to the Palestinian Fund, after the assumption of the above mentioned responsibilities by it, the premiums paid to the Existing Fund by the insurers for vehicles registered in the Areas, pro-rata to the unexpired period of each insurance policy.

4. a. Compulsory motor vehicle insurance policies issued by insurers licensed by either side will be valid in the territories of both sides. Accordingly, a vehicle registered in one side covered by such a policy will not be required to have an additional insurance coverage for travel in the areas under the other side's jurisdiction.
These insurance policies will cover all the liabilities according to the legislation of the place of the accident.

b. In order to cover part of the liabilities which may incur due to road accidents in Israel by uninsured vehicles registered in the Palestinian Authority, the Palestinian Fund will transfer to the Israeli Fund, on a monthly basis, for each insured vehicle, an amount equal to 30% of the amount paid to the Israeli Fund by an insurer registered in Israel, for the same type of vehicle, for the same period of insurance (which will not be less than 90 days).

5. In cases where a victim of a road accident wishes to claim compensation from an insurer registered by the other side or from the Fund of the other side or in cases where a driver or an owner of a car is sued by a victim, by an insurer or by the Fund of the other side, he may nominate the Fund of his side as his proxy for this purpose.
The Fund so nominated may address any relevant party from the other side directly or through the other sides' Fund.

6. In the case of a road accident in which neither the registration number of the vehicle nor the identity of the driver are known, the Fund of the side which has jurisdiction over the place of the accident will compensate the victim, according to its own legislation.

7. The Fund of each side will be responsible towards the victims of the other side for any liability of the insurers of its side regarding the compulsory insurance and will guarantee their liabilities.

8. Each side will guarantee its Fund's liabilities according to this Article.

9. The two sides will negotiate within three months from the date of the signing of the Agreement a cut-off agreement between the Existing Fund and the Palestinian Fund concerning accidents which occurred in the Areas prior to the date of the signing of the Agreement, whether claims have been reported or not.
The cut-off agreement will not include compensation for Israeli victims involved in accidents which occurred in the Areas prior to the date of the signing of the Agreement.

10. a. The two sides will establish immediately upon the signing of the Agreement, a sub-committee of experts (hereinafter - the Sub-Committee) which will deal with issues regarding the implementation of this Article, including :

(1) Procedures concerning the handling of claims of victims of the one side from insurers or from the Fund of the other side;

(2) Procedures concerning the transfer of the amounts between the Funds of both sides as mentioned in para 4(b) above;

(3) The details of the cut-off agreement between the Existing Fund and the Palestinian Fund, as set out in para 9 above;

(4) Any other relevant issue raised by either side.

b. The Sub-Committee will act as a continuous committee for issues regarding this Article.

c. The two sides will exchange, through the Sub-Committee, the relevant information regarding the implementation of this Article, including police reports, medical information, relevant statistics, premiums, etc..
The two sides will provide each other with any other assistance required in this regard.

11. Each side may require the re-examination of the arrangements set out in this Article a year after the date of the signing of the Agreement.

12. Insurers from both sides may apply for a license to the relevant authorities of the other side, according to the rules and regulations regarding foreign insurers in the latter side. The two sides agree not to discriminate against such applicants.

Done in Paris, this twenty ninth day of April, 1994

For the Government of Israel

For the P.L.O.

PROTOCOL ON ECONOMIC RELATIONS

between

the Government of the State of Israel

and

the P.L.O., representing the Palestinian people

PREAMBLE

The two parties view the economic domain as one of the cornerstone in their mutual relations with a view to enhance their interest in the achievement of a just, lasting and comprehensive peace Both parties shall cooperate in this field in order to establish a sound economic base for these relations, which will be governed in various economic spheres by the principles of mutual respect of each other's economic interests, reciprocity, equity and fairness.

This protocol lays the groundwork for strengthening the economic base of the Palestinian side and for exercising its right of economic decision making in accordance with its own development plan and priorities. The two parties recognise each other's economic ties with other markets and the need to create a better economic environment for their peoples and individuals.

Protocol on Economic Relations Between Israel and the PNA

Here following are the relevant clauses of the Economic Protocol of the Israeli-Palestinian Interim Agreement on the West Bank and the Gaza Strip.

Preamble

The protocol on economic relations was signed in Paris by the Ministers of Finance of the two entities, and was later annexed to the Cairo agreement and to the Interim agreement. It lays the groundwork for strengthening the economic base of the Palestinian side and for exercising its right of economic decision making. This agreement governs the Israeli-Palestinian economic relations during the interim period.

The Joint Economic Committee - Article 2

1. Both parties will establish a Palestinian-Israeli Joint Economic Committee (hereinafter- the JEC) to follow up the implementation of this Protocol and to decide on problems related to it .. Each side may request the review of any issue related to this Agreement by the JEC.
2. The JEC will serve as the continuing committee for economic cooperation envisaged in Annex III of the Declaration of Principles.
3. The JEC will consist of an equal number of members from each side and may establish subcommittees as it deems necessary, in addition to the sub-committee specified in this Protocol.

   A sub-committee may include experts as necessary.
4. The JEC and its sub-committees shall reach their decisions by agreement and shall determine their rules of procedure and operation, including the frequency and place or places of their meetings.

Import Taxes and Import Policy - Article 3

2. a. The PA will have all powers and responsibilities in the sphere of import and customs policy and procedures with regard to the following:

   (1) Goods, locally-produced in Jordan and in Egypt particularly and in the other Arab countries, which the Palestinians will be able to import in quantities agreed upon by the two sides up to the Palestinian market needs as estimated according to par. 3 below. (list A1).

(2) Goods from the Arab, Islamic and other countries, which the Palestinians will be able to import in quantities agreed upon by the two sides up to the Palestinian market needs. (list A2).

b. The import policy of the PA for Lists A1 and A2 will include independently determining and changing from time to time the rates of customs, purchase tax, levies, excises and other charges, the regulation of licensing requirements and procedures of standard requirements. The valuation for custom purposes will be based upon the GATT 1994 agreement as of the date it will be introduced in Israel, and until then - on the Brussels Definition of Valuation (BDV) system. The classification of goods will be based on the principles of "the Harmonized Commodity Description and Coding System", Concerning imports referred to in Article VII of this Protocol (Agriculture), the provisions of that Article will apply.

3. For the purposes of par 2(a) above, the Palestinian market needs for 1994 will be estimated by a sub-committee of experts .. These estimates will be reviewed and updated every six months...

4. PA will have all powers and responsibilities to independently determine and change from time to time the rates of customs, purchase taxes, levies, excises and other charges on the goods on List B, attached hereto as Appendix III, of basic food items and other goods for the Palestinian economic development program, imported by the Palestinians to the Areas.

5. a. With respect to all goods not specified in Lists Al, A2 and B, and with respect to quantities exceeding those determined in accordance with paragraphs 2(a) & 3 above (hereinafter - the Quantities), the Israeli rates of customs, purchase tax, levies, excises and other charges, prevailing at the date of signing of the Agreement, as changed from time to time, shall serve as the minimum basis for the PA. The PA may decide on any upward changes in the rates on these goods and exceeding quantities when imported by the Palestinians to the Areas.

b. With respect to all goods not specified in Lists AI and A2, and with respect to quantities exceeding the Quantities, Israel and the PA will employ for all imports the same system of importation, as stipulated in par 10 below, including inter alia standards, licensing, country of origin, valuation for customs purposes etc.

7. The PA will levy <u>VAT</u> at one rate on both locally produced goods and services and or imports by the Palestinians (whether covered by the three Lists mentioned above or not), and may fix it at the level of 15% to 16%.

8. <u>Goods imported from Jordan, Egypt and other Arab countries</u> according to para 2(a)(1) above (List A1) will comply with rules of origin agreed upon by joint sub-committee .. Pending an agreement, goods will be considered to have been "locally produced" in any of those countries if they conform with all the following:

a. (I) They have been wholly grown, produced, or manufactured in that country, or have been substantially transformed there into new or

different goods, having a new name, character, or use, distinct from the goods or materials from which they were so transformed;

(ii) They have been imported directly from the said country;

(iii) The value or the costs of the materials produced in that country, plus the direct processing costs in it, do not fall short of 30 percent of the export value of the goods. This *rare* may be reviewed by the joint committee mentioned in par. 16 a year after the signing of this Agreement.

(iv) The goods are accompanied by an internationally recognized certificate of origin;

(v) No goods will be deemed as substantially new or different goods, and no material will be eligible for inclusion as domestic content, by virtue of having merely undergone simple combining or packaging, or dilution with water or other substances, which do not materially alter the characteristics of the said goods.

9. Each side will issue import licenses to its own importers, subject to the principles of this Article and will be responsible for the implementation of the licensing requirements and procedures prevailing at the time of the insurance of the licenses....

10. Except for the goods on Lists A1 and A2 and their Quantities - in which the PA has all powers and responsibilities. both sides will maintain the same import policy (except for rates of import taxes and other charges for goods in List B) and regulations including .. and the same policies of import licensing and of standards for imported goods, all as applied by Israel with respect to its importation. Israel may from time to time introduce changes in any of the above, provided that the changes .. will not constitute a non-tariff barrier and will be based on considerations of health, safety and the protection of the environment in conformity with Art. 2.2. of the Agreement on Technical Barriers to trade of the Final Act of the Uruguay Round of Trade Negotiations.

11. Motor Vehicles

a. The PA will determine its own rates of customs and purchase tax on motor vehicles imported as such, to be registered with the PA. The vehicle standards will be those applied at the date of the signing of the Agreement as changed according to par 10 above.

However, the PA may request, through the sub-committee on transportation, that in special cases different standards will apply.

Used motor vehicles will be imported only if they are passenger cars or dual purpose passenger cars of a model of no more than three years prior to the importation year. The sub-committee on transportation will determine the procedures for testing and confirming that such used cars comply with the standards' requirements for that model year.

The issue of importing commercial vehicles of a model prior to the importation year will be discussed in the joint sub-committee mentioned in par 16 below.

b. Each side may determine the terms and conditions for the transfer of motor vehicles registered in the other side to the ownership or use of a resident of its own side, including the payment of the difference of import taxes, if any, and the vehicle leaving been tested and found compatible will the standards required at that time by its own registration administration, and may prohibit transfer of vehicles.

12. Petroleum Products

a. Jordanian standards, as specified in the attached Appendix I, will be acceptable in importing petroleum products into the Areas, once they meet the average of the standards existing in the European Union countries, or the USA standards, which parameters have been set at the values prescribed for the geographical conditions of Israel, the Gaza Strip and the West Bank.

Cases of petroleum products which do not meet these specifications will be referred to a joint experts' committee for a suitable solution. The committee may mutually decide to accept different standards for the importation of gasoline which meet the Jordanian standards even though in some of their parameters, they do not meet the European Community or USA standards. The committee will give its decision within six months.

Pending the committee's decision, and for not longer than six months of the signing of the agreement, the PA may import to the Areas, gasoline for the Palestinian market in the Areas, according to the needs of this market, provided that:

(l) this gasoline is marked in a distinctive color to differentiate it from the gasoline marketed in Israel ; and

(2) the PA will take all the necessary steps to ensure that this gasoline is not marketed in Israel.

b. The difference in the final price of gasoline to consumers in Israel and to consumers in the Areas, will not exceed 15% of the official final consumer price in Israel. The PA has the right to determine the prices of petroleum products, other than gasoline, for consumption in the Areas .

c. If Egyptian gasoline standards will comply with the conditions of sub-para (a) above, the importation of Egyptian gasoline will also be allowed.

13. In addition to the points of exit and entry .. 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.

14. In the entry points of the Jordan River and the Gaza Strip:

a. Freight shipment

The PA will have full responsibility and powers in the Palestinian customs points (freight-area) for the implementation .. of the customs and importation policy .. including the inspection and the collection of taxes and other charges, when due.

Israeli customs officials will be present .. and will be entitled to ask for inspection .. of both goods and tax collection. The Palestinian customs officials will be responsible for the handling of the customs procedure .. In case of disagreement .. the shipment will be delayed for inspection for a maximum period of 48 hours during which a joint sub-committee will resolve the issue..

b. Passengers customs lane

Each side will administer its own passengers customs procedures, including inspection and tax collection. The inspection and collection of taxes due in the Palestinian customs lane will be conducted by customs officials of the PA.

Israeli customs officials will be invisibly present in the Palestinian customs lane and entitled to request inspection of goods and collection of taxes when due. In the case of suspicion, the inspection will be carried out by the Palestinian official in a separate room in the presence of the Israeli customs officer

15. The clearance of revenues from all import taxes and levies, between Israel and the PA, will be based on the principle of the place of final destination.

In addition, these tax revenues will be allocated to the PA even if the importation was carried out by Israeli importers when the final destination explicitly stated in the import documentation is a corporation registered by the PA and conducting business activity in the Areas This revenue clearance will be effected within six working days from the day of collection of the said taxes and levies

16. The JEC or a sub-committee established by it for the purposes of this Article will deal inter alia with the following:

(1) Palestinian proposals for addition of items to Lists Al, A2 and B. Proposals for changes in rates and in import procedures, classification, standards and licensing requirements for all other imports;

(2) Estimate the Palestinian market needs, as mentioned in para 3 above;

(3) Receive notifications of changes and conduct consultations, as mentioned in para 6 above;

(4) Agree upon the rules of origin as mentioned in para 8 above, and review their implementation;

(5) Co-ordinate the exchange of information relevant to licensing matters as mentioned in para 9 above.

(6) Discuss and review any other matters concerning the implementation of this Auricle and resolve problems arising therefrom.

18. Concerning machines and equipment, not included in Lists A l, A2 and B, the temporary entry will be part of the impost policy as agreed in para 10 above, until the joint sub-committee mentioned in para 16 decides upon a new system proposed by the PA. The temporary entry will be coordinated through the joint subcommittee.

19. Donations in kind to the PA will be exempted from customs and other import taxes if destined and used for defined development projects or non-commercial humanitarian purposes.

The PA will be responsible exclusively for planning and management of the donors' assistance to the Palestinian people. The JEC will discuss issues pertaining to the relations between the provisions in this Article and the implementation of the principles in the above paragraph.

Monetary and Financial Issues - Article 4

1. The PA will establish a Monetary Authority (PMA) in the Areas. The PMA will have the powers and responsibilities for the regulation and implementation of the monetary policies within the functions described in this Article.
2. The PMA will act as the PA's official economic and financial advisor.
3. The PMA will act as the PA's and the public sector entities' sole financial agent, locally and internationally.
4. The foreign currency reserves (including gold) of the PA and all Palestinian public sector entities will be deposited solely with the PMA and managed by it.
5. The PMA will act as the lender of last resort for the banking system in the Areas.
6. The PMA will authorize foreign exchange dealers in the Areas and will exercise control (regulation and supervision) over foreign exchange transactions within the Areas and with the rest of the world.
7. a. The PMA will have a banking supervision department that will be responsible for the proper functioning, stability, solvency and liquidity of the banks operating in the Areas.

   b. The banking supervision department will predicate its supervision on the international principles and standards reflected in international conventions and especially on the principles of the "Basle Committee".

   c. The supervision department will be charged with the general supervision of every such bank, including:

      - The regulation of all kinds of banking activities, including their foreign activities;
      - The licensing of banks formed locally and of branches, subsidiaries, joint ventures and representative offices of foreign banks and the approval of controlling shareholders ;
      - The supervision and inspection of banks.

8. The PMA will relicense each of the five branches of the Israeli banks operating at present in the Gaza Strip and the West Bank, as soon as its location or the authorities regarding it come under the jurisdiction of the PA. These branches will be required to comply with the general rules and regulations of the PMA concerning foreign banks,

based on the "Basle Concordat". Para 10 (d, e, and f below will apply to these branches.

9. a. Any other Israeli bank wishing to open a branch or a subsidiary in the Areas will apply for a license to the PMA and will be treated equally to other foreign banks, provided that the same will apply to the Palestinian banks wishing to open a branch or a subsidiary in Israel.

b. Granting of a license by both authorities will be subject to the following arrangements based on the "Basle Concordat" valid on the date of signing of the Agreement and to the host authority's prevailing general rules and regulations concerning opening of branches and subsidiaries of foreign banks.

In this para 10 "host authority" and "home authority" apply only to the Bank of Israel (BOI) and the PMA.

c. A bank wishing to open a branch or establish a subsidiary will apply to the host authority, leaving first obtained the approval of its home authority. The host authority will notify the home authority of the terms of title license, and will give its final approval unless the home authority objects.

d. The home authority will be responsible for the consolidated and comprehensive supervision of banks, inclusive of branches and subsidiaries in the area under the jurisdiction of the host authority. However, the distribution of supervision responsibilities between the home and the host authorities concerning subsidiaries will be according to the "Basle Concordat".

e. The host authority will regularly examine the activities of branches and subsidiaries in the area under its jurisdiction. The home authority will have the right to conduct on site examinations in the branches and subsidiaries in the host area. However, the supervision responsibilities of the home authority concerning subsidiaries will be according to the "Basle Concordat".

Accordingly, each authority will transfer to the other authority copies of its examination reports and any information relevant to the solvency, stability and soundness of the banks, their branches and subsidiaries.

f. The BOI and the PMA will establish a mechanism for co-operation and for the exchange of information on issues of mutual interest.

10. a. The New Israeli Shekel (NIS) will be one of the circulating currencies in the Areas and will legally serve there as means of payment for all purposes including official transactions. Any circulating currency, including the NIS, will be accepted by the PA and by all its institutions, local authorities and banks, when offered as a means of payment for any transaction.

b. Both sides will continue to discuss, through the JEC, the possibility of introducing mutually agreed Palestinian currency or temporary alternative currency arrangements for the PA.

11. a. The liquidity requirements on all deposits in banks operating in the Areas will be determined and announced by the PMA.

b. Banks in the Areas will accept NIS deposits, The liquidity requirements on the various kinds of NIS deposits (or deposit linked to the NIS) in banks operating in the Areas will not be less titan 4% to 8%, according to the type of deposits.

Changes of over I % in the liquidity requirements on NIS deposits (or deposits linked to the NIS) in Israel will call for corresponding changes in the above mentioned rates.

c. The supervision and inspection of the implementation of all liquidity requirements will be carried out by the PMA.

d. The reserves and the liquid assets required according to this paragraph will be deposited at the PMA according to rules and regulations determined by it.

Penalties for non compliance with the liquidity requirements will be determined by the PMA.

12. The PMA will regulate and administer a discount window system and the supply of temporary finance for banks operating in the Areas

13. a. The PMA will establish or license a clearing house in order to clear money orders between the banks operating in the Areas, and with other clearing houses.

b. The clearing of money orders and transactions between banks operating in the Areas and banks operating in Israel will be done between the Israeli and the Palestinian clearing houses on same working day basis, according to agreed arrangements.

14. Both sides will allow correspondential relations between each others' banks.

15. The PMA will have the right to convert at the BOI excess NIS received from banks operating in the Areas into foreign currency, in which the BOI trades in the domestic inter-bank market, up to the amounts determined per period, according to the arrangements detailed in para 16 below.

16. a. The excess amount of NIS, due to balance of payments flows, that the PMA will have the right to convert into foreign currency, will be equal to:

(1) Estimates of all Israeli "imports" of goods and services from the Areas, valued at market prices (inclusive of taxes), which were paid for in NIS, less:

(I) the taxes collected by the PA on all Israeli "imports" from the Areas and rebated to Israel in NIS, and

(ii) the taxes collected by Israel on all Israeli "imports" from the Areas and included in their market value, and not rebated to the PA, minus

(2) Estimates of all Israeli "exports" of goods all services to the Areas, valued at market prices (inclusive of taxes, which were paid for in NIS, less :

(i) the taxes collected by Israel on such "exports" and rebated to the PA, and

(ii) the taxes collected by the PA on such "exports" and included in their market value, and not rebated to Israel ;

plus

(3) The accumulated net accounts of foreign currency converted previously into NIS by the PMA, as recorded in the BOI Dealing Room.

b. The said flows and amounts will be calculated as or the date of the signing of the Agreement.

Notes to para 16:

(i) The estimates of the said "exports and imports" of goods and services will include inter alia labor services, NIS expenditure of tourists and Israelis in the Areas, and NIS expenditures of Palestinians in Israel

(ii) Taxes and pension contributions on "imports" of labor services, paid to the "importing" side and rebated to the "exporting" one, will not be included in the estimates of the to be converted, as the "exports" earnings of labor services are recorded in the statistics inclusive of them, although they do not accrue to the individuals supplying them.

17. The PMA and the BOI will meet annually to discuss and determine the annual amount of convertible NIS during the following calendar year and will meet semi-annually to adjust the said amount. The amounts determined annually and adjusted semi-annually will be based on data and estimates regarding the past and on forecasts for the following period, according to the formula mentioned in para 16. The first meeting will be as soon as possible within three months after the date or the signing of the Agreement .

18. a. The exchange of foreign currency for NIS and vice-versa by the PMA will be carried out through the BOI Dealing Room, at the market exchange rates.

b. The BOI will not be obliged to convert in any single month more than 1/5 of the semi-annual amount, as mentioned in para 17.

19. There will be no ceiling on the annual foreign currency conversions by the PMA into NIS. However, in order to avoid undesirable fluctuations in the foreign exchange market, monthly ceilings on such conversions will be agreed upon in the annual and semi-annual meetings referred to in para 17.

20. Banks in the Areas will convert NIS into other circulating currencies and vice-versa.

21. The PA will have the authorities, powers and responsibilities regarding the regulation and supervision of capital activities in the Areas, including the licensing of capital market institutions, Seance companies and investment funds.

Direct Taxation - Article 5

1. Israel and the PA will each determine and regulate independently its own tax policy in matters of direct taxation, including income tax on individuals and corporations, property taxes, municipal taxes and fees

2. Each tax administration will have the right to levy the direct taxes generated by economic activities within its area.
3. Each tax administration may impose additional taxes on residents within its area on (individuals and corporations) who conduct economic activities in the other co side's area,
4. Israel will transfer to the PA a sum equal to:
   a. 75% of the income taxes collected from Palestinians from the Gaza Strip and the Jericho Area employed in Israel.
   b. The full amount of income taxes collected from Palestinians from the Gaza Strip and Jericho Area employed in the settlements.
5. The two sides will agree on a set of procedures that will address all issues concerning double taxation.

Indirect Taxes on Local Production - Article 6

1. The Israel and the PA tax administrations will levy and collect VAT and purchase taxes on local production, as well as any other indirect taxes, in their respective areas.
2. The purchase tax rates within the jurisdiction of each tax administration will be identical as regards locally produced and imported goods.
3. The present Israeli VAT rate is 17%. The Palestinian VAT rate will be 15% to 16%.
4. The PA will decide on the maximum annual turnover for businesses under its jurisdiction to be exempt from VAT, within an upper limit of 12,000 US $

   Businesses will register for VAT purposes with the tax administration of the side of their residence, or on the side of their ongoing operation.

   There will be clearance of VAT revenues between the Israeli and Palestinian VAT administrations on the following conditions: (follows is a list of technical conditions on this subject matter).

Labor - Article 7

1. Both sides will attempt to maintain the normality of movement of labor between them, subject to each side's right to determine from time to time the extent and conditions of the labor movement into its area.

   If the normal movement is suspended temporarily by either side, it will give the other side immediate notification, and the other side may request that the matter be discussed in the Joint Economic Committee.

   The placement and employment of workers from one side in the area of the other side will be through the employment service of the other side and in accordance with the other sides' legislation. The Palestinian side has the right to regulate the employment of Palestinian labor in Israel through the Palestinian employment service, and the Israeli Employment Service will cooperate and coordinate in this regard.

2. a. Palestinians employed in Israel will be insured in the Israeli social insurance system according to the National Insurance Law for employment injuries that occur in Israel, bankruptcy of employers and maternity leave allowance.

b. The National Insurance fees deducted from the wages for maternity insurance will be introduced according to the reduced scope of maternity insurance, and the equalization; deductions transferred to the PA, if levied, will be increased accordingly.

c. Implementation procedures relating thereto will be agreed upon between the Israeli National Insurance Institute and the PA or the appropriate Palestinian social insurance institution.

3. Israel will transfer to the PA, on a monthly basis, the equalization deductions as defined by Israeli legislation, if imposed and to the extent levied by Israel. The sums so transferred will be used for social benefits and health services, decided upon by the PA, for Palestinians employed in Israel and for their families.

The equalization deductions to be so transferred will be those collected after the date of the signing of the Agreement from wages of Palestinians employed in Israel and from their employers.

These sums will not include :

(1) Payments for health services in places of employment.

(2) 2/3 of the actual administrative costs in handling the matters related to the Palestinians employed in Israel by the Payments Section of the Israeli Employment Service.

4. Israel will transfer, on a monthly basis, to a relevant pension insurance institution to be established by the PA, pension insurance deductions collected alder the establishment of the above institution and the completion of the documents mentioned in para 6.

These deductions will be collected from wages of Palestinians employed in Israel and their employers, according to the relevant rates set out in the applicable Israeli collective agreements. 2/3 of the actual administrative costs in handling these deductions by the Israeli Employment Service will be deducted from the sums transferred. The Mums so transferred will be used for providing pension insurance for these workers.

Israel will continue to be liable for pension rights of the Palestinian employees in Israel, to the extent accumulated by Israel before the entry into force of this para 4.

5. Upon the receipt of the deductions, the PA and its relevant social institutions will assume full responsibility in accordance with the Palestinian legislation and arrangements, for pension rights and other social benefits of Palestinians employed in Israel, that accrue from the transferred deductions related to these rights and benefits.

Consequently, Israel and its relevant social institutions and the Israeli employers will be released from, and will not be held liable for any obligations and responsibilities concerning personal claims, rights and benefits arising from these transferred deductions, or from the provisions of paras 2-4 above.

6. Prior to the said transfers, the PA or its relevant institutions, as the case may be, will provide Israel with the documents required to give legal effect to their aforesaid obligations, including mutually agreed implementation procedures of the principles agreed upon in paras 3-5 above.

7. The above arrangements concerning equalization deductions and/or pension deductions may be reviewed and changed by Israel if an authorized court in Israel will determine that the deductions or any part thereof must be paid to individuals, or used for individual social benefits or insurance in Israel, or that it is otherwise unlawful. In such a case the liability of the Palestinian side will not exceed the actual transferred deductions related to the case.

8. Israel will respect any agreement reached between the PA, or an organization or trade-union representing the Palestinians employed in Israel, and a representative organization of employees or employers in Israel, concerning contributions to such organization according to any collective agreement.

9. a. The PA may integrate the existing health insurance scheme for Palestinians employed in Israel and their families in its health insurance services. As long as this scheme continues, whether integrated or separately, Israel will deduct from their wages the health insurance fees ("health stamp") and will transfer them to the PA for this purpose.

   b. The PA may integrate the existing health insurance scheme for Palestinians who were employed in Israel and are receiving pension payments through the Israeli Employment Service, in its health insurance services. As long as this scheme continues, whether integrated or separately, Israel will deduct the necessary sum of health insurance fees ("health stamp") from the equalization payments and will transfer them to the PA for this purpose.

10. The JEC will meet upon the request of either side and review the implementation of this Article and other issues concerning labor, social insurance and social rights.

11. Other deductions not mentioned above, if any, will be jointly reviewed by the JEC. Any agreement between the two sides. concerning these deductions will be in addition to the above provisions.

12. Palestinians employed in Israel will have the right to bring disputes arising out of employee - employer relationships and other issues before the Israeli Labor Courts, within these courts' jurisdiction.

13. This Article governs the future labor relations between the two sides and will not impair any labor rights prior to the date of signing of the Agreement.

Agriculture - Article 8

The article establishes the free movement of agricultural produce, free of customs and import taxes between the two sides, subject to the restrictions of the veterinary and plant protection services of each side and restrictions concerning transportation of agricultural goods.

Para. 11 establishes the Palestinian right to export their agricultural produce to external markets without restrictions, on the basis of certificates of origin issued by the PA.

Para 12 established that without prejudice to obligations arising out of existing international agreements, the two sides will refrain from importing agricultural products from third parties which may adversely affect the interests of each other's farmers.

Para 13 established that both sides will take the necessary measures in the area under its jurisdiction to prevent damage which may be caused by its agriculture to the environment of the other side.

Industry - Article 9

1. There will be free movement of industrial goods free of any restrictions including customs and import taxes .. subject to each side's legislation.
2. a. The Palestinian side has the right to employ various methods in encouraging and promoting the development of the Palestinian industry..
   b. Both sides will exchange information about the methods employed by them in the encouragement of their respective industries.
   c. Indirect tax rebates or benefits and other subsidies to sales shall not be allowed in trade between the two sides.
3. Each side will do its best to avoid damage to the industry of the other side and will take into consideration the concerns of the other side in its industrial policy.
4. Both sides will cooperate in the prevention of deceptive practices, trade in goods which may endanger health, safety and the environment and in goods of expired validity.
5. Each side will take the necessary measures in the area under its jurisdiction to prevent damage which may be caused by its industry to the environment of the other side.
6. The Palestinians will have the right to export their industrial produce to external markets without restrictions, on the basis of certificates of origin issued by the PA.
7. The JEC will meet and review issues pertaining to this Article.

Tourism - Article 10

....

Insurance Issues - Article 11

1. The authorities powers and responsibilities in the insurance sphere in the Areas, including inter alia the licensing of insurers, insurance agents and the supervision of their activities, will be transferred to the PA.

2. a. The PA will maintain a compulsory absolute liability system for road accident victims with a ceiling on the amount of compensation based upon the following principles:

(1) Absolute liability for death or bodily injury to road accident victims...

(2) Compulsory insurance for all motor vehicles, covering death or bodily injury - to all road accident victims, including drivers.

(3) No cause of action in tort for death or bodily injury resulting from road accidents.

4) The maintenance of a statutory fund (hereinafter - the Fund) for compensation of road accident victims who are unable to claim compensation from an insurer for the following reasons:...

3. a. Upon the signing of the Agreement the PA will establish a Fund for the Areas (hereinafter - the Palestinian Fund) for the purposes detailed in para 2(a)(4) above and for the purposes detailed below. The Palestinian Fund will assume the responsibilities of the statutory Road Accident Victims Compensation Fund in the West Bank and the Gaza Strip (hereinafter - the Existing Fund) regarding the Areas, according to the prevailing law at that time...

4. a. Compulsory motor vehicle insurance policies issued by insurers licensed by either side will be valid in the territories of both sides... Accordingly, a vehicle registered in one side covered by such a policy will not be required to have an additional insurance coverage for travel in the areas under the other side's jurisdiction.

These insurance policies will cover all the liabilities according to the legislation of the place of the accident.

b. In order to cover part of the liabilities which may incur due to road accidents in Israel lay uninsured vehicles registered in the PA, the Palestinian Fund will transfer to the Israeli Fund, on a monthly basis, for each insured vehicle, an amount equal to 30% of the amount paid to the Israeli Fund by an insurer registered in Israel, for the same type of vehicle, for the same period of insurance (which will not be less than 90 days).

Protocol on Economic Relations Between Israel and the PNA

Here following are the relevant clauses of the Economic Protocol of the Israeli-Palestinian Interim Agreement on the West Bank and the Gaza Strip.

Preamble

The protocol on economic relations was signed in Paris by the Ministers of Finance of the two entities, and was later annexed to the Cairo agreement and to the Interim agreement. It lays the groundwork for strengthening the economic base of the Palestinian side and for exercising its right of economic decision making. This agreement governs the Israeli-Palestinian economic relations during the interim period.

The Joint Economic Committee - Article 2

1. Both parties will establish a Palestinian-Israeli Joint Economic Committee (hereinafter- the JEC) to follow up the implementation of this Protocol and to decide on problems related to it .. Each side may request the review of any issue related to this Agreement by the JEC.
2. The JEC will serve as the continuing committee for economic cooperation envisaged in Annex III of the Declaration of Principles.
3. The JEC will consist of an equal number of members from each side and may establish subcommittees as it deems necessary, in addition to the sub-committee specified in this Protocol.

   A sub-committee may include experts as necessary.
4. The JEC and its sub-committees shall reach their decisions by agreement and shall determine their rules of procedure and operation, including the frequency and place or places of their meetings.

Import Taxes and Import Policy - Article 3

2. a. The PA will have all powers and responsibilities in the sphere of import and customs policy and procedures with regard to the following:

   (1) Goods, locally-produced in Jordan and in Egypt particularly and in the other Arab countries, which the Palestinians will be able to import in quantities agreed upon by the two sides up to the Palestinian market needs as estimated according to par. 3 below. (list A1).

(2) Goods from the Arab, Islamic and other countries, which the Palestinians will be able to import in quantities agreed upon by the two sides up to the Palestinian market needs. (list A2).

b. The import policy of the PA for Lists A1 and A2 will include independently determining and changing from time to time the rates of customs, purchase tax, levies, excises and other charges, the regulation of licensing requirements and procedures of standard requirements. The valuation for custom purposes will be based upon the GATT 1994 agreement as of the date it will be introduced in Israel, and until then - on the Brussels Definition of Valuation (BDV) system. The classification of goods will be based on the principles of "the Harmonized Commodity Description and Coding System", Concerning imports referred to in Article VII of this Protocol (Agriculture), the provisions of that Article will apply.

3. For the purposes of par 2(a) above, the Palestinian market needs for 1994 will be estimated by a sub-committee of experts .. These estimates will be reviewed and updated every six months...

4. PA will have all powers and responsibilities to independently determine and change from time to time the rates of customs, purchase taxes, levies, excises and other charges on the goods on List B, attached hereto as Appendix III, of basic food items and other goods for the Palestinian economic development program, imported by the Palestinians to the Areas.

5. a. With respect to all goods not specified in Lists Al, A2 and B, and with respect to quantities exceeding those determined in accordance with paragraphs 2(a) & 3 above (hereinafter - the Quantities), the Israeli rates of customs, purchase tax, levies, excises and other charges, prevailing at the date of signing of the Agreement, as changed from time to time, shall serve as the minimum basis for the PA. The PA may decide on any upward changes in the rates on these goods and exceeding quantities when imported by the Palestinians to the Areas.

b. With respect to all goods not specified in Lists AI and A2, and with respect to quantities exceeding the Quantities, Israel and the PA will employ for all imports the same system of importation, as stipulated in par 10 below, including inter alia standards, licensing, country of origin, valuation for customs purposes etc.

7. The PA will levy <u>VAT</u> at one rate on both locally produced goods and services and or imports by the Palestinians (whether covered by the three Lists mentioned above or not), and may fix it at the level of 15% to 16%.

8. <u>Goods imported from Jordan, Egypt and other Arab countries</u> according to para 2(a)(1) above (List A1) will comply with rules of origin agreed upon by joint sub-committee .. Pending an agreement, goods will be considered to have been "locally produced" in any of those countries if they conform with all the following:

a. (I) They have been wholly grown, produced, or manufactured in that country, or have been substantially transformed there into new or

different goods, having a new name, character, or use, distinct from the goods or materials from which they were so transformed;

(ii) They have been imported directly from the said country;

(iii) The value or the costs of the materials produced in that country, plus the direct processing costs in it, do not fall short of 30 percent of the export value of the goods. This *rare* may be reviewed by the joint committee mentioned in par. 16 a year after the signing of this Agreement.

(iv) The goods are accompanied by an internationally recognized certificate of origin;

(v) No goods will be deemed as substantially new or different goods, and no material will be eligible for inclusion as domestic content, by virtue of having merely undergone simple combining or packaging, or dilution with water or other substances, which do not materially alter the characteristics of the said goods.

9. Each side will issue import licenses to its own importers, subject to the principles of this Article and will be responsible for the implementation of the licensing requirements and procedures prevailing at the time of the insurance of the licenses....

10. Except for the goods on Lists A1 and A2 and their Quantities - in which the PA has all powers and responsibilities. both sides will maintain the same import policy (except for rates of import taxes and other charges for goods in List B) and regulations including .. and the same policies of import licensing and of standards for imported goods, all as applied by Israel with respect to its importation. Israel may from time to time introduce changes in any of the above, provided that the changes .. will not constitute a non-tariff barrier and will be based on considerations of health, safety and the protection of the environment in conformity with Art. 2.2. of the Agreement on Technical Barriers to trade of the Final Act of the Uruguay Round of Trade Negotiations.

11. Motor Vehicles

a. The PA will determine its own rates of customs and purchase tax on motor vehicles imported as such, to be registered with the PA. The vehicle standards will be those applied at the date of the signing of the Agreement as changed according to par 10 above.

However, the PA may request, through the sub-committee on transportation, that in special cases different standards will apply.

Used motor vehicles will be imported only if they are passenger cars or dual purpose passenger cars of a model of no more than three years prior to the importation year. The sub-committee on transportation will determine the procedures for testing and confirming that such used cars comply with the standards' requirements for that model year.

The issue of importing commercial vehicles of a model prior to the importation year will be discussed in the joint sub-committee mentioned in par 16 below.

b. Each side may determine the terms and conditions for the transfer of motor vehicles registered in the other side to the ownership or use of a resident of its own side, including the payment of the difference of import taxes, if any, and the vehicle leaving been tested and found compatible will the standards required at that time by its own registration administration, and may prohibit transfer of vehicles.

12. Petroleum Products

a. Jordanian standards, as specified in the attached Appendix I, will be acceptable in importing petroleum products into the Areas, once they meet the average of the standards existing in the European Union countries, or the USA standards, which parameters have been set at the values prescribed for the geographical conditions of Israel, the Gaza Strip and the West Bank.

Cases of petroleum products which do not meet these specifications will be referred to a joint experts' committee for a suitable solution. The committee may mutually decide to accept different standards for the importation of gasoline which meet the Jordanian standards even though in some of their parameters, they do not meet the European Community or USA standards. The committee will give its decision within six months.

Pending the committee's decision, and for not longer than six months of the signing of the agreement, the PA may import to the Areas, gasoline for the Palestinian market in the Areas, according to the needs of this market, provided that:

(1) this gasoline is marked in a distinctive color to differentiate it from the gasoline marketed in Israel ; and

(2) the PA will take all the necessary steps to ensure that this gasoline is not marketed in Israel.

b. The difference in the final price of gasoline to consumers in Israel and to consumers in the Areas, will not exceed 15% of the official final consumer price in Israel. The PA has the right to determine the prices of petroleum products, other than gasoline, for consumption in the Areas .

c. If Egyptian gasoline standards will comply with the conditions of sub-para (a) above, the importation of Egyptian gasoline will also be allowed.

13. In addition to the points of exit and entry .. 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.

14. In the entry points of the Jordan River and the Gaza Strip:

a. Freight shipment

The PA will have full responsibility and powers in the Palestinian customs points (freight-area) for the implementation .. of the customs and importation policy .. including the inspection and the collection of taxes and other charges, when due.

Israeli customs officials will be present .. and will be entitled to ask for inspection .. of both goods and tax collection. The Palestinian customs officials will be responsible for the handling of the customs procedure .. In case of disagreement .. the shipment will be delayed for inspection for a maximum period of 48 hours during which a joint sub-committee will resolve the issue..

b. Passengers customs lane

Each side will administer its own passengers customs procedures, including inspection and tax collection. The inspection and collection of taxes due in the Palestinian customs lane will be conducted by customs officials of the PA.

Israeli customs officials will be invisibly present in the Palestinian customs lane and entitled to request inspection of goods and collection of taxes when due. In the case of suspicion, the inspection will be carried out by the Palestinian official in a separate room in the presence of the Israeli customs officer

15. The clearance of revenues from all import taxes and levies, between Israel and the PA, will be based on the principle of the place of final destination.

In addition, these tax revenues will be allocated to the PA even if the importation was carried out by Israeli importers when the final destination explicitly stated in the import documentation is a corporation registered by the PA and conducting business activity in the Areas This revenue clearance will be effected within six working days from the day of collection of the said taxes and levies

16. The JEC or a sub-committee established by it for the purposes of this Article will deal inter alia with the following:

(1) Palestinian proposals for addition of items to Lists Al, A2 and B. Proposals for changes in rates and in import procedures, classification, standards and licensing requirements for all other imports;

(2) Estimate the Palestinian market needs, as mentioned in para 3 above;

(3) Receive notifications of changes and conduct consultations, as mentioned in para 6 above;

(4) Agree upon the rules of origin as mentioned in para 8 above, and review their implementation;

(5) Co-ordinate the exchange of information relevant to licensing matters as mentioned in para 9 above.

(6) Discuss and review any other matters concerning the implementation of this Auricle and resolve problems arising therefrom.

18. Concerning machines and equipment, not included in Lists A l, A2 and B, the temporary entry will be part of the impost policy as agreed in para 10 above, until the joint sub-committee mentioned in para 16 decides upon a new system proposed by the PA. The temporary entry will be coordinated through the joint subcommittee.

19. Donations in kind to the PA will be exempted from customs and other import taxes if destined and used for defined development projects or non-commercial humanitarian purposes.

The PA will be responsible exclusively for planning and management of the donors' assistance to the Palestinian people. The JEC will discuss issues pertaining to the relations between the provisions in this Article and the implementation of the principles in the above paragraph.

Monetary and Financial Issues - Article 4

1. The PA will establish a Monetary Authority (PMA) in the Areas. The PMA will have the powers and responsibilities for the regulation and implementation of the monetary policies within the functions described in this Article.
2. The PMA will act as the PA's official economic and financial advisor.
3. The PMA will act as the PA's and the public sector entities' sole financial agent, locally and internationally.
4. The foreign currency reserves (including gold) of the PA and all Palestinian public sector entities will be deposited solely with the PMA and managed by it.
5. The PMA will act as the lender of last resort for the banking system in the Areas.
6. The PMA will authorize foreign exchange dealers in the Areas and will exercise control (regulation and supervision) over foreign exchange transactions within the Areas and with the rest of the world.
7. a. The PMA will have a banking supervision department that will be responsible for the proper functioning, stability, solvency and liquidity of the banks operating in the Areas.

   b. The banking supervision department will predicate its supervision on the international principles and standards reflected in international conventions and especially on the principles of the "Basle Committee".

   c. The supervision department will be charged with the general supervision of every such bank, including:

      - The regulation of all kinds of banking activities, including their foreign activities;
      - The licensing of banks formed locally and of branches, subsidiaries, joint ventures and representative offices of foreign banks and the approval of controlling shareholders ;
      - The supervision and inspection of banks.

8. The PMA will relicense each of the five branches of the Israeli banks operating at present in the Gaza Strip and the West Bank, as soon as its location or the authorities regarding it come under the jurisdiction of the PA. These branches will be required to comply with the general rules and regulations of the PMA concerning foreign banks,

based on the "Basle Concordat". Para 10 (d, e, and f below will apply to these branches.

9. a. Any other Israeli bank wishing to open a branch or a subsidiary in the Areas will apply for a license to the PMA and will be treated equally to other foreign banks, provided that the same will apply to the Palestinian banks wishing to open a branch or a subsidiary in Israel.

   b. Granting of a license by both authorities will be subject to the following arrangements based on the "Basle Concordat" valid on the date of signing of the Agreement and to the host authority's prevailing general rules and regulations concerning opening of branches and subsidiaries of foreign banks.

   In this para 10 "host authority" and "home authority" apply only to the Bank of Israel (BOI) and the PMA.

   c. A bank wishing to open a branch or establish a subsidiary will apply to the host authority, leaving first obtained the approval of its home authority. The host authority will notify the home authority of the terms of title license, and will give its final approval unless the home authority objects.

   d. The home authority will be responsible for the consolidated and comprehensive supervision of banks, inclusive of branches and subsidiaries in the area under the jurisdiction of the host authority. However, the distribution of supervision responsibilities between the home and the host authorities concerning subsidiaries will be according to the "Basle Concordat".

   e. The host authority will regularly examine the activities of branches and subsidiaries in the area under its jurisdiction. The home authority will have the right to conduct on site examinations in the branches and subsidiaries in the host area. However, the supervision responsibilities of the home authority concerning subsidiaries will be according to the "Basle Concordat".

   Accordingly, each authority will transfer to the other authority copies of its examination reports and any information relevant to the solvency, stability and soundness of the banks, their branches and subsidiaries.

   f. The BOI and the PMA will establish a mechanism for co-operation and for the exchange of information on issues of mutual interest.

10. a. The New Israeli Shekel (NIS) will be one of the circulating currencies in the Areas and will legally serve there as means of payment for all purposes including official transactions. Any circulating currency, including the NIS, will be accepted by the PA and by all its institutions, local authorities and banks, when offered as a means of payment for any transaction.

    b. Both sides will continue to discuss, through the JEC, the possibility of introducing mutually agreed Palestinian currency or temporary alternative currency arrangements for the PA.

11. a. The liquidity requirements on all deposits in banks operating in the Areas will be determined and announced by the PMA.

b. Banks in the Areas will accept NIS deposits, The liquidity requirements on the various kinds of NIS deposits (or deposit linked to the NIS) in banks operating in the Areas will not be less titan 4% to 8%, according to the type of deposits.

Changes of over I % in the liquidity requirements on NIS deposits (or deposits linked to the NIS) in Israel will call for corresponding changes in the above mentioned rates.

c. The supervision and inspection of the implementation of all liquidity requirements will be carried out by the PMA.

d. The reserves and the liquid assets required according to this paragraph will be deposited at the PMA according to rules and regulations determined by it.

Penalties for non compliance with the liquidity requirements will be determined by the PMA.

12. The PMA will regulate and administer a discount window system and the supply of temporary finance for banks operating in the Areas

13. a. The PMA will establish or license a clearing house in order to clear money orders between the banks operating in the Areas, and with other clearing houses.

b. The clearing of money orders and transactions between banks operating in the Areas and banks operating in Israel will be done between the Israeli and the Palestinian clearing houses on same working day basis, according to agreed arrangements.

14. Both sides will allow correspondential relations between each others' banks.

15. The PMA will have the right to convert at the BOI excess NIS received from banks operating in the Areas into foreign currency, in which the BOI trades in the domestic inter-bank market, up to the amounts determined per period, according to the arrangements detailed in para 16 below.

16. a. The excess amount of NIS, due to balance of payments flows, that the PMA will have the right to convert into foreign currency, will be equal to:

(1) Estimates of all Israeli "imports" of goods and services from the Areas, valued at market prices (inclusive of taxes), which were paid for in NIS, less:

(I) the taxes collected by the PA on all Israeli "imports" from the Areas and rebated to Israel in NIS, and

(ii) the taxes collected by Israel on all Israeli "imports" from the Areas and included in their market value, and not rebated to the PA, minus

(2) Estimates of all Israeli "exports" of goods all services to the Areas, valued at market prices (inclusive of taxes, which were paid for in NIS, less :

(i) the taxes collected by Israel on such "exports" and rebated to the PA, and

(ii) the taxes collected by the PA on such "exports" and included in their market value, and not rebated to Israel ;

plus

(3) The accumulated net accounts of foreign currency converted previously into NIS by the PMA, as recorded in the BOI Dealing Room.

b. The said flows and amounts will be calculated as or the date of the signing of the Agreement.

Notes to para 16:

(i) The estimates of the said "exports and imports" of goods and services will include inter alia labor services, NIS expenditure of tourists and Israelis in the Areas, and NIS expenditures of Palestinians in Israel

(ii) Taxes and pension contributions on "imports" of labor services, paid to the "importing" side and rebated to the "exporting" one, will not be included in the estimates of the to be converted, as the "exports" earnings of labor services are recorded in the statistics inclusive of them, although they do not accrue to the individuals supplying them.

17. The PMA and the BOI will meet annually to discuss and determine the annual amount of convertible NIS during the following calendar year and will meet semi-annually to adjust the said amount. The amounts determined annually and adjusted semi-annually will be based on data and estimates regarding the past and on forecasts for the following period, according to the formula mentioned in para 16. The first meeting will be as soon as possible within three months after the date or the signing of the Agreement .

18. a. The exchange of foreign currency for NIS and vice-versa by the PMA will be carried out through the BOI Dealing Room, at the market exchange rates.

b. The BOI will not be obliged to convert in any single month more than 1/5 of the semi-annual amount, as mentioned in para 17.

19. There will be no ceiling on the annual foreign currency conversions by the PMA into NIS. However, in order to avoid undesirable fluctuations in the foreign exchange market, monthly ceilings on such conversions will be agreed upon in the annual and semi-annual meetings referred to in para 17.

20. Banks in the Areas will convert NIS into other circulating currencies and vice-versa.

21. The PA will have the authorities, powers and responsibilities regarding the regulation and supervision of capital activities in the Areas, including the licensing of capital market institutions, Seance companies and investment funds.

Direct Taxation - Article 5

1. Israel and the PA will each determine and regulate independently its own tax policy in matters of direct taxation, including income tax on individuals and corporations, property taxes, municipal taxes and fees

2. Each tax administration will have the right to levy the direct taxes generated by economic activities within its area.
3. Each tax administration may impose additional taxes on residents within its area on (individuals and corporations) who conduct economic activities in the other co side's area,
4. Israel will transfer to the PA a sum equal to:
   a. 75% of the income taxes collected from Palestinians from the Gaza Strip and the Jericho Area employed in Israel.
   b. The full amount of income taxes collected from Palestinians from the Gaza Strip and Jericho Area employed in the settlements.
5. The two sides will agree on a set of procedures that will address all issues concerning double taxation.

Indirect Taxes on Local Production - Article 6

1. The Israel and the PA tax administrations will levy and collect VAT and purchase taxes on local production, as well as any other indirect taxes, in their respective areas.
2. The purchase tax rates within the jurisdiction of each tax administration will be identical as regards locally produced and imported goods.
3. The present Israeli VAT rate is 17%. The Palestinian VAT rate will be 15% to 16%.
4. The PA will decide on the maximum annual turnover for businesses under its jurisdiction to be exempt from VAT, within an upper limit of 12,000 US $

   Businesses will register for VAT purposes with the tax administration of the side of their residence, or on the side of their ongoing operation.

   There will be clearance of VAT revenues between the Israeli and Palestinian VAT administrations on the following conditions: (follows is a list of technical conditions on this subject matter).

Labor - Article 7

1. Both sides will attempt to maintain the normality of movement of labor between them, subject to each side's right to determine from time to time the extent and conditions of the labor movement into its area.

   If the normal movement is suspended temporarily by either side, it will give the other side immediate notification, and the other side may request that the matter be discussed in the Joint Economic Committee.

   The placement and employment of workers from one side in the area of the other side will be through the employment service of the other side and in accordance with the other sides' legislation. The Palestinian side has the right to regulate the employment of Palestinian labor in Israel through the Palestinian employment service, and the Israeli Employment Service will cooperate and coordinate in this regard.

2. a. Palestinians employed in Israel will be insured in the Israeli social insurance system according to the National Insurance Law for employment injuries that occur in Israel, bankruptcy of employers and maternity leave allowance.

   b. The National Insurance fees deducted from the wages for maternity insurance will be introduced according to the reduced scope of maternity insurance, and the equalization; deductions transferred to the PA, if levied, will be increased accordingly.

   c. Implementation procedures relating thereto will be agreed upon between the Israeli National Insurance Institute and the PA or the appropriate Palestinian social insurance institution.

3. Israel will transfer to the PA, on a monthly basis, the equalization deductions as defined by Israeli legislation, if imposed and to the extent levied by Israel. The sums so transferred will be used for social benefits and health services, decided upon by the PA, for Palestinians employed in Israel and for their families.

   The equalization deductions to be so transferred will be those collected after the date of the signing of the Agreement from wages of Palestinians employed in Israel and from their employers.

   These sums will not include :

   (1) Payments for health services in places of employment.

   (2) 2/3 of the actual administrative costs in handling the matters related to the Palestinians employed in Israel by the Payments Section of the Israeli Employment Service.

4. Israel will transfer, on a monthly basis, to a relevant pension insurance institution to be established by the PA, pension insurance deductions collected alder the establishment of the above institution and the completion of the documents mentioned in para 6.

   These deductions will be collected from wages of Palestinians employed in Israel and their employers, according to the relevant rates set out in the applicable Israeli collective agreements. 2/3 of the actual administrative costs in handling these deductions by the Israeli Employment Service will be deducted from the sums transferred. The Mums so transferred will be used for providing pension insurance for these workers.

   Israel will continue to be liable for pension rights of the Palestinian employees in Israel, to the extent accumulated by Israel before the entry into force of this para 4.

5. Upon the receipt of the deductions, the PA and its relevant social institutions will assume full responsibility in accordance with the Palestinian legislation and arrangements, for pension rights and other social benefits of Palestinians employed in Israel, that accrue from the transferred deductions related to these rights and benefits.

   Consequently, Israel and its relevant social institutions and the Israeli employers will be released from, and will not be held liable for any obligations and responsibilities concerning personal claims, rights and benefits arising from these transferred deductions, or from the provisions of paras 2-4 above.

6. Prior to the said transfers, the PA or its relevant institutions, as the case may be, will provide Israel with the documents required to give legal effect to their aforesaid obligations, including mutually agreed implementation procedures of the principles agreed upon in paras 3-5 above.

7. The above arrangements concerning equalization deductions and/or pension deductions may be reviewed and changed by Israel if an authorized court in Israel will determine that the deductions or any part thereof must be paid to individuals, or used for individual social benefits or insurance in Israel, or that it is otherwise unlawful. In such a case the liability of the Palestinian side will not exceed the actual transferred deductions related to the case.

8. Israel will respect any agreement reached between the PA, or an organization or trade-union representing the Palestinians employed in Israel, and a representative organization of employees or employers in Israel, concerning contributions to such organization according to any collective agreement.

9. a. The PA may integrate the existing health insurance scheme for Palestinians employed in Israel and their families in its health insurance services. As long as this scheme continues, whether integrated or separately, Israel will deduct from their wages the health insurance fees ("health stamp") and will transfer them to the PA for this purpose.

   b. The PA may integrate the existing health insurance scheme for Palestinians who were employed in Israel and are receiving pension payments through the Israeli Employment Service, in its health insurance services. As long as this scheme continues, whether integrated or separately, Israel will deduct the necessary sum of health insurance fees ("health stamp") from the equalization payments and will transfer them to the PA for this purpose.

10. The JEC will meet upon the request of either side and review the implementation of this Article and other issues concerning labor, social insurance and social rights.

11. Other deductions not mentioned above, if any, will be jointly reviewed by the JEC. Any agreement between the two sides. concerning these deductions will be in addition to the above provisions.

12. Palestinians employed in Israel will have the right to bring disputes arising out of employee - employer relationships and other issues before the Israeli Labor Courts, within these courts' jurisdiction.

13. This Article governs the future labor relations between the two sides and will not impair any labor rights prior to the date of signing of the Agreement.

Agriculture - Article 8

The article establishes the free movement of agricultural produce, free of customs and import taxes between the two sides, subject to the restrictions of the veterinary and plant protection services of each side and restrictions concerning transportation of agricultural goods.

Para. 11 establishes the Palestinian right to export their agricultural produce to external markets without restrictions, on the basis of certificates of origin issued by the PA.

Para 12 established that without prejudice to obligations arising out of existing international agreements, the two sides will refrain from importing agricultural products from third parties which may adversely affect the interests of each other's farmers.

Para 13 established that both sides will take the necessary measures in the area under its jurisdiction to prevent damage which may be caused by its agriculture to the environment of the other side.

Industry - Article 9

1. There will be free movement of industrial goods free of any restrictions including customs and import taxes .. subject to each side's legislation.
2. a. The Palestinian side has the right to employ various methods in encouraging and promoting the development of the Palestinian industry..
   b. Both sides will exchange information about the methods employed by them in the encouragement of their respective industries.
   c. Indirect tax rebates or benefits and other subsidies to sales shall not be allowed in trade between the two sides.
3. Each side will do its best to avoid damage to the industry of the other side and will take into consideration the concerns of the other side in its industrial policy.
4. Both sides will cooperate in the prevention of deceptive practices, trade in goods which may endanger health, safety and the environment and in goods of expired validity.
5. Each side will take the necessary measures in the area under its jurisdiction to prevent damage which may be caused by its industry to the environment of the other side.
6. The Palestinians will have the right to export their industrial produce to external markets without restrictions, on the basis of certificates of origin issued by the PA.
7. The JEC will meet and review issues pertaining to this Article.

Tourism - Article 10

....

Insurance Issues - Article 11

1. The authorities powers and responsibilities in the insurance sphere in the Areas, including inter alia the licensing of insurers, insurance agents and the supervision of their activities, will be transferred to the PA.

2. a. The PA will maintain a compulsory absolute liability system for road accident victims with a ceiling on the amount of compensation based upon the following principles:

(1) Absolute liability for death or bodily injury to road accident victims...

(2) Compulsory insurance for all motor vehicles, covering death or bodily injury - to all road accident victims, including drivers.

(3) No cause of action in tort for death or bodily injury resulting from road accidents.

4) The maintenance of a statutory fund (hereinafter - the Fund) for compensation of road accident victims who are unable to claim compensation from an insurer for the following reasons:...

3. a. Upon the signing of the Agreement the PA will establish a Fund for the Areas (hereinafter - the Palestinian Fund) for the purposes detailed in para 2(a)(4) above and for the purposes detailed below. The Palestinian Fund will assume the responsibilities of the statutory Road Accident Victims Compensation Fund in the West Bank and the Gaza Strip (hereinafter - the Existing Fund) regarding the Areas, according to the prevailing law at that time...

4. a. Compulsory motor vehicle insurance policies issued by insurers licensed by either side will be valid in the territories of both sides... Accordingly, a vehicle registered in one side covered by such a policy will not be required to have an additional insurance coverage for travel in the areas under the other side's jurisdiction.

These insurance policies will cover all the liabilities according to the legislation of the place of the accident.

b. In order to cover part of the liabilities which may incur due to road accidents in Israel lay uninsured vehicles registered in the PA, the Palestinian Fund will transfer to the Israeli Fund, on a monthly basis, for each insured vehicle, an amount equal to 30% of the amount paid to the Israeli Fund by an insurer registered in Israel, for the same type of vehicle, for the same period of insurance (which will not be less than 90 days).

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REGIONAL COOPERATION :

PROSPECTS AND PROBLEMS

Private Sector Contribution to Economic Cooperation

Keynote Speach

Mr. William G. Tyler

Cairo

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Private Sector Development and Contribution to Economic Cooperation in the Middle East

by

William G. Tyler[1]

I. Introduction

The private sector is critical for the future growth and development of all countries in the Middle East. In addition, a number of the smaller entities and countries especially, e.g., Jordan, Israel, Lebanon, and the Occupied Territories, have their overall economic prospects importantly tied to their mutual, as well as general, international economic relations, interactions and cooperation. In such interactions, the private sector possesses an important potential. Strengthening the private sector would therefore seem to be an important imperative both for development and for economic cooperation. While all countries in the region possess private sectors, in differing degrees, many of the problems faced by the private sector have a common thread. This paper presents an overview of the central economic ingredients for private sector development (PSD), a discussion of such a framework in the context of Middle Eastern countries, and an outlook for the overall prospects for private sector development and cooperation for the region.

II. The Relevance and Need for Private Sector Development (PSD)

While economists have always had an important regard for private sector economic agents and markets, events over the past decade have brought to much greater prominence market-based notions. The failures of heavy market intervention by governments and central planning have become more widely recognized. The body of analytical evidence of such failures in developing countries has become increasingly well documented.[2] This evidence has been dramatized by the events in Eastern Europe and the former Soviet Union. In addition, other developments over recent years in the world economy have provided further reasons to emphasize the role of the private sector to be played in development. These reasons include: (a) the increasing

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1/ Lead Economist, Middle East Department, World Bank. The views expressed in this paper are personal and should not be interpreted as those of the World Bank. The author acknowledges the use of some World Bank materials and is also grateful for the comments of his colleague Vinay Bhargava.

2/ For a survey, see World Bank, World Development Report, 1991: The Challenge of Development (Washington: World Bank, 1991).

globalization of industries and markets, facilitated by a veritable communications and informatics revolution; (b) the acceleration of the pace of technological change and associated shifting market requirements, reflecting not only the informatics revolution but shortened product life cycles as well; and (c) greater uncertainty and complexity in the economic environment than was the case in the growth era of the 1950s and 60s. From an individual firm standpoint, these reasons make it important that companies, worldwide, achieve and maintain international competitiveness, in order to succeed. There is now a much higher premium on being flexible and able to respond quickly to product-market shifts and to adapt to new technologies. The recent difficulties at IBM are but one example of failure to adapt. Also, companies, in order to meet these requirements, must be able to rely on high-quality infrastructure (physical and services) and, critically, on a high-quality human resource base.

These developments are reflected in some basic rethinking, in many governments, of the relative roles of the state and the private sector. Following basic Musgravian public finance principles, governments have begun to refocus their often scarce capacities by restricting public sector functions: (i) to offer traditional government services, (ii) to provide public goods, (iii) to intervene in markets on allocational grounds only to correct market failures, and (iv) to deal with distributional questions. Such a focus emphasizes the provision of basic economic and social infrastructure and the establishment of a conducive environment for the private sector. For its part, the private sector is seen to play the central, if not sole, role in the production and distribution of goods and services.

Accordingly, most countries, in line with the above paradigm, are thus looking to the enhanced role of the private sector and a corresponding cut-back in the role of the state in productive activities. This shift, including in the stance of the World Bank, has not occurred overnight but rather has followed extensive debate and accumulated experience. In some former socialist countries, such as Hungary, it followed the failure of experiments with the "third" way of "market socialism." For years there existed widely held beliefs, including in international financial institutions, that appropriately structured state-owned enterprises (SOEs) could provide the same economic benefits as private companies, i.e., that ownership per se did not matter. There is mounting evidence that ownership does matter and that private entities are more flexible and better able to maintain competitiveness, particularly in the current global environment. The model of a predominantly private market economy is now widely seen as proving superior to the alternatives of central planning and of an SOE-dominated economy. The system of rewards and penalties that characterizes private ownership has proven more successful in stimulating efficiency than the bureaucratic controls that are typically associated with SOEs. This is reflected in the increased emphasis on privatization and the broader development of the private sector.

III. Economic Ingredients for a Framework for Private Sector Development

Private sector development is a comprehensive matter and objective. Indeed, understanding such development as a process is as complex as understanding the nature of development itself. There are, however, certain

themes and basic guidelines for government policy-makers that emerge from the analysis of private sector development. Central elements of a public policy strategy to foster private sector development would include the following elements: (i) establishment of an enabling overall policy environment conducive to attracting (domestic and foreign) investment and promoting PSD; (ii) development of an efficient financial system to support PSD; and (iii) restructuring and privatization of state-owned enterprises.

The framework thus extends well beyond privatization, which is often erroneously equated with PSD. Even in Central and Eastern Europe and the former Soviet Union, where privatization is of course critical, much of the early gains in increasing the role of the private sector have come predominantly from the creation and growth of new private enterprise. A similar potential exists in a number of Middle Eastern countries. Privatization, nevertheless, is important to varying degree in the different countries and does merit immediate attention. Several countries (Algeria, Egypt, Iran) continue to rely on large public sectors and SOEs which often dominate their sector and "crowd out" private activity. Movement toward privatization has been very recent (Iran) or cautious and slow (Egypt). It is also the area where there has been remarkable progress worldwide in the past decade.

A. Establishment of an Overall Enabling Policy Environment

The existence of an overall policy environment conducive to private sector development is dependent upon a number of factors. First and foremost, reasonable macroeconomic stability is critical for minimizing risk and uncertainty for private investors. While there are a few instances where there has been rapid private sector growth in the midst of macroeconomic imbalance and instability, these may have been exceptions; one can certainly hypothesize that growth would have been faster with greater stability and less macroeconomic uncertainty. The common view is that macroeconomic stability is a prerequisite for the emergence of a vigorous private sector.[3]

A second category of elements comprising an overall policy environment conducive to private sector development relates to the legal framework existing in the country. Are property rights well established and respected? Similarly, the enforcement of contracts is a critical element to carrying out economic transactions. In the case of contract disputes there needs to be some recourse with clearly understood, nonarbitrary and transparent rules. Bankruptcy procedures and rules need to be evident, and the private sector needs reasonable assurances that it has legal recourse and some protection from capricious acts and/or seizure on the part of the state. In this an adequate legal system and framework is an essential ingredient; more generally, what of course is called for is good governance.

Third, an additional number of elements conducive to private sector development can be grouped together under the rubric of the microeconomic policy environment. Included here would be: the domestic regulatory environment; specific policies affecting goods prices (such as price controls, trade policies and other government market interventions creating price

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3/ For a discussion of the analytical issues, see Serven and Solimano (1992).

distortions); policies and regulations affecting the prices and functioning of factor markets (e.g., labor legislation, interest rate controls); competition policies, including controls over market entry and exit; and tax policies and administration. While no country has a completely undistorted pricing policy and regulatory environment, there are wide variations in country experience. The microeconomic policy environment in some countries is stifling, while others are relatively "market friendly." In addition, a tolerant public attitude toward private profit making also helps.

Related to the three major elements indicated above is the framework for direct foreign investment. While the success of PSD must rely in large measure on domestic investment, foreign investment is likely to be critical in most Middle Eastern countries. Besides needed capital, it can bring into it the important benefits of up-to-date technology, management know-how, access to world markets and the like. Promoting and encouraging direct foreign investment is consistent with most of the same elements mentioned above. In addition, the ability to repatriate profits, consistent with capital account openness, is also desirable. As will be demonstrated below, the track record of countries in the region in attracting foreign investment has, with very few exceptions, been relatively poor.

An additional element of promoting the creation of private enterprises, from the grass roots up, and of nurturing their growth poses a very significant challenge. The role of governments within this element is clear in some areas, through: upgrading the human resource base; promoting availability of information and services, such as standards/testing, through a wide range of market-supporting institutions; opening up, to private sector entry, areas and sectors such as provision of public services (water supply, road maintenance, etc.) as well as social services (health care and education); and providing infrastructure.

B. Development of an Efficient Financial System

The role of financial systems in mobilizing savings, managing risk, allocating resources from savers to investors, and facilitating financial transactions means that a well-functioning financial sector is central to expanding investment and enhancing productivity, hence to PSD. In the 1980s many governments placed increasing emphasis on the need to accompany reform and restructuring of financial institutions with appropriate reforms in financial policy, e.g, interest rates. In the last few years, as more countries have liberalized and have encountered new problems, increasing attention has been devoted to a second generation of reform focused on creating appropriate legal, regulatory and supervisory structures to realize the full benefits of financial sector reform. Prudential regulation -- including reserve requirements, monitoring of bank loan portfolios and maturity matching of assets and liabilities -- is vital to ensure that the finance system does not undertake excessive risk. Supervision and regulation need to be comprehensive, covering all of the activities in which financial intermediaries are involved, including non-loan activities. A new set of regulatory concerns lies in achieving a careful balance between, on the one hand, promoting competition and contestibility to ensure efficiency and, on the other hand, avoiding excessive competition that can undermine the stability of the banking system. Greater emphasis is also being devoted to promoting safe and competitive nonbank financial markets. Furthermore,

financial sector reform forms part of an integrated sequence of reforms required in many countries to achieve efficient PSD, led by macro-policy reforms to encourage productivity and efficient investment.

Underscoring the potential positive effects of properly designed financial sector reform, growing empirical evidence from multi-country studies is showing links between financial sector development and economic growth and improvements in economic efficiency. The evidence also suggests that the level of financial development predicts future growth and efficiency advances. Financial sector reform also appears to ease constraints on private investment by motivating the return of flight capital. The reversal of capital flight in the late 1980s and early 1990s was particularly noteworthy in Latin American countries that had completed successful adjustment programs. Large black market exchange rate premiums, substantial spreads between domestic and international interest rates, poorly developed domestic financial markets and domestic taxes on the financial system that are not harmonized with those prevailing in other counties are financial sector issues often found to be correlated with capital flight.

The return of flight capital makes stock market development an increasingly important financial sector issue. Private portfolio flows -- equity and bonds -- to developing countries ballooned from US$8 billion in 1989 to an estimated US$34 billion in 1992. Growth was initially led by bond financing, but since 1991 the use of international share offerings by several middle-income countries to privatize state-owned enterprises and the opening of many emerging stock markets to direct foreign participation have boosted equity flows. Experience is showing that key factors hindering inflows of equity portfolio capital, apart from lack of host country creditworthiness, include: (i) regulatory impediments to the purchase of stocks and repatriation of income and capital; (ii) underdeveloped accounting standards and disclosure rules; (iii) inadequate investor protection and securities laws; (iv) inefficient settlement procedures; and (v) the "thinness" and concentration of many developing country stock markets. Progress in alleviating these constraints has been most notable on the regulatory side: Argentina, Brazil, Colombia, Malaysia, and Pakistan have removed many restrictive registration procedures, and foreign investors can now freely purchase listed stocks.

C. Public Sector Restructuring and Privatization

Promotion of PSD through public sector restructuring has tended to focus on trimming overextended public sectors. The emergence, especially since the early 1970s, of bloated, inefficient public agencies in many developing countries discouraged private investment and had a negative effect on economic growth. The reaction to this trend, in the wake of the debt crisis of the early 1980s, was typically to support measures such as privatization of state-owned enterprises and private-sector delivery of public services. But more recently the balance has been shifting to a view that restructuring the public sector through privatization is not a sufficient strategy for supporting PSD. Rather, privatization must be complemented by emphasis on refocusing and upgrading public administrative capacities that have the potential to profoundly affect the growth and efficiency of the private sector, in areas such as tax and customs administration, regulation, trade and investment promotion, enterprise support services, court administration and infrastructure planning and provision. Moreover, evidence from high-

performing economies points to the critical role of public promotion of an educated, trained and health workforce, and of an environment conducive to learning and the spread of innovative ideas and technologies. To an important extent, renewed interest in the role of the state in PSD has been sparked by the outstanding performance of a number of the East Asian economies, where governments have been active in managing and promoting PSD.

Upgrading Public Administration Capacity. A number of governments, in order to better meet the needs of a market economy, are focusing on reforming core functions of public administration in such areas as the tax and judicial systems. In Bangladesh, for example, courts used to take up to 15 years to process suits brought by financial institutions against defaulting borrowers. With assistance from the World Bank Group, Bangladesh enacted legislation establishing special commercial courts to handle expeditiously actions brought by financial institutions against defaulting borrowers. Similarly, in Cote d'Ivoire, reforms are underway to speed up judicial decision making and ensure rapid execution of judgments. Confusion and inefficiency arising from tax administration often surface in firm surveys as significant obstacles to entrepreneurs. In Argentina, where modifications to tax codes have occurred with bewildering frequency, firms have found it difficult to keep up-to-date with their obligations. A total of 413 laws, decrees or resolutions affecting tax administration were passed in Argentina between 1986 and mid-1991; 45 were passed in the first six months of 1991 alone. The Argentine Government's tax administration reform program includes a component to simplify tax procedures and to upgrade taxpayer services in areas such as information on tax obligations, improved service in local offices, and direct access by taxpayers to their account data.

Privatization: Recent Developments. According to a a recent World Bank study,[4] privatization has become widespread and is growing. Since the early 1980s, over 10,000 state-owned enterprises have been privatized; close to half of these have been in developing countries. Major initiatives have been launched and are being pursued all over the world -- in Mexico, Chile, Bangladesh, the former Soviet Union, and in many other countries. The early thinking of privatization strategy suggested that privatization would focus on small and medium SOEs and larger "strategic" SOEs would be excluded, at least in the beginning. This has been quickly disproved in many countries. While small and medium SOEs in the competitive sector have been quickest to be privatized, many major SOES, including in monopolistic sectors (telecom, power, airlines, transportation), have been put on the block and successfully privatized based on establishing an appropriate regulatory framework. Substantial progress is also being made in privatizing banks and other parts of the financial system. Mexico recently privatized successfully most of its state-owned banks, with proceeds totaling about US$7 billion.

In some countries, including in the Middle East, there is considerable skepticism regarding the benefits of privatization. Early results confirm that benefits do accrue and that ownership does matter. A World Bank in-depth study of major privatization in 4 countries (Britain, Chile, Malaysia and Mexico) shows that in 11 of 12 cases, privatization resulted in improved productivity and growth. Another study of 41 privatizations across 15

4/ See Kikeri et al. (1992).

countries also showed improved financial and economic returns. In a number of cases, there was also an increase in employment.

Privatization: Some Early Lessons from Experience. As the experience with privatizing SOEs has accumulated, considerable attention has been given to studying that experience. A main purpose of the still-ongoing analytical work is to distill lessons for governments beginning privatization. Some key lessons can tentatively be drawn.[5] First, privatization works best when it is part of a larger program of reforms promoting efficiency. Chile, Mexico, New Zealand, and the United Kingdom are all successful privatizers. Their privatizations were accompanied by reforms to open markets, remove price and exchange rate distortions, and encourage the development of the private sector through free entry. Revenue maximization should not be the primary goal of privatization. It would be far better to eliminate monopoly power and unleash potentially competitive activities than to boost the sales price by divesting into protected markets. It would also be better to create regulations to protect consumer welfare than to maximize price by selling into an unregulated market.

Second, regulation is critical to the successful privatization of monopolies. In the sale of Chile Telecom, everybody won -- consumers, labor, government, buyers -- and the productive efficiency of the company increased as a result of a well-developed, well-administered regulatory framework.

Third, countries can benefit from privatizing management without privatizing the ownership of assets. Management contracts, leases, and concessions have been successfully used the world over, particularly in sectors where it is difficult to attract private investors. In Cote d'Ivoire, the leased water company improved technical efficiency, increased new connections, became more efficient in billing and collection of receivables -- and reduced the number of expatriate employees by 70 percent. But because a change in ownership is usually needed to lock in performance gains, private management arrangements are likely to work best when they are a step toward full privatization.

Fourth, the sale of large enterprises requires considerable preparation. Successful privatizations of large enterprises have entailed breaking them into competitive and marketable units (in Argentina, east Germany, and Mexico), bringing in dynamic private sector managers (in many telecom and airline sales around the world), settling past liabilities, and shedding excess labor (in steel and railways in Argentina). Successful privatizing governments also assiduously have avoided large new investments for plant modernization and equipment, since getting the private sector to finance and manage these investments was itself a major reason for privatization.

Fifth, transparency is critical for economic and political success. Mexico and the Philippines made the sale of enterprises transparent by adopting competitive bidding procedures, developing objective criteria for

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5/ This section relies on work conducted by the World Bank. See Sunita Kikeri, John Nellis, and Mary Shirley, Privatization: The Lessons of Experience, 1992 and "Privatization: Eight Lessons of Experience," World Bank Policy Research Bulletin, Vol. 3, No. 4 (August 1992).

selecting bids, and creating a clear focal point with minimal bureaucracies to monitor the overall program. A lack of transparency can result in political backlash, as in the early days of Poland, or even bring the process to a halt, as in Guinea.

Sixth, governments must pay special attention to developing a social safety net. In Tunisia, generous severance packages encouraged voluntary departures and reduced the need for outright dismissals. In many countries -- most recently in Eastern Europe and Central Asia -- employee ownership schemes, unemployment benefits, and retraining-redeployment programs are being developed to ease the social costs of privatization.

Seventh, the formerly socialist countries should privatize in all possible ways that encourage competition, and they should experiment with all available methods that go beyond a case-by-case approach to privatization. Since the economic and social importance of state-owned enterprises is far greater there than in the rest of the world, flexibility is in order -- not because privatization is less necessary, but because it is more so. Rampant institutional and policy deficiencies require experimentation with a wide set of privatization tactics. These include share give-aways (or mass privatization schemes), state-assisted financing methods, free or low-cost shares to employees in privatized firms, and new types of investment/management companies to run groups of companies and diversify risk.

Eight, in changing the public/private mix in any type of economy, privatization will sometimes be less important than the emergence of new private businesses. Countries can freeze or restrain the expansion of public enterprises and encourage the growth of a dynamic private sector through free entry, as happened in Korea and appears to be happening in China.

IV. Economic Reform and Private Sector Development in the Middle East

In examining the economic policies and economic performance of Middle Eastern countries in the light of the essential ingredients for private sector development, it is clear that there is considerable room for improvement. In many countries overall macroeconomic performance has been lackluster. (Table 1) Growth for most countries has been low, frequently less than population growth, and some countries have been characterized by very large macroeconomic imbalances. In 1990, Egypt, Jordan, Lebanon and Yemen all had budget deficits amounting to over 18% of GDP. In the past these deficits, reflected in current account deficits, have been financed in great part by external grants and borrowing. One result has been a substantial build-up in external debt and an undermining of the capacity to contract further loans.

These adverse macroeconomic imbalances and market distortions have added to the inefficiencies in resource allocation attributable to an inappropriate system of government incentives and controls inherited from the 1960s and 1970s and have further reduced productivity and growth. In some countries, the incentive system has become highly distorted, with a multitude of price, foreign exchange and trade controls. Factor and goods markets have been subject to heavy state intervention, and competition has been restricted. In Egypt, for example, agriculture was until recently strictly regulated and,

Table 1: Key Macroeconomic Indicators in Selected Middle Eastern Countries

	Real GDP Growth Rate % 1985-90	Current Account Surplus, 1990 (as % of GDP)	Budget Deficit 1990 (as % of GDP)	External Debt, 1990	
				US$ billion	% of GDP
Egypt	2.5	-10.5	-18.5	39.9[a/]	113.1
Jordan	1.7	-29.0	-18.7	7.7	196.2
Lebanon	n.a	-24.0	-38.1	1.9	75.5
Syria	3.4	7.8	2.5	16.4	67.2
Yemen	n.a	1.0	-20.9	6.2	87.8
Iran	-2.1	0.3	-1.3	9.0	7.6
Israel	3.6	1.3	-4.2	20.1	44.0

Note: [a/]Egypt's debt is net of US$9.5 billion of debt relief received in 1990 from the Gulf States and the U.S.

despite the emergence of a private sector in the mid-1970s, rigidly controlled public enterprises still produce 75 percent of manufacturing output and half of GDP. Overall, the public sector's share of total investment is high by international standards, especially in Algeria, Egypt, Morocco, Jordan and Syria. The regional oil boom of the late 1970s and early 1980s had masked the more fundamental development problems that precipitated an economic decline as soon as the oil boom subsided in the mid-1980s. These structural problems are related to a set of policies that have inhibited the growth of private entrepreneurship in favor of a structure of production dominated by the public sector, shunned the use of markets and encouraged instead government control, and led to highly protected trade regimes. As a result, the rate of efficiency of investment is totally inadequate to deliver the growth in GDP necessary to provide productive employment and rising standards of living for the region's expanding population.

Over the past ten years there has been a dramatic increase in the levels worldwide of foreign direct investment. (Table 2) While it is clear that a great deal of such investment has gone to developed countries, developing countries as a whole have increased their net inflows by nearly a factor of two over the period 1981-90. East Asia has done particularly well. The Middle East and North Africa unfortunately have not been able to take advantage of the increased availability of foreign investment; not only has the region's share fallen but the absolute inflow amount has slightly declined as well. Political uncertainty and unattractive policy environments seem to be responsible for this poor performance in attracting foreign investment. While governments are hard pressed to reduce political uncertainty and the peace process may be quite problematic; governments can however address the question of economic policy reform.

Table 2: Net Foreign Direct Investment Inflows
(US$ billions)

	1981	1986	1990
Developed Countries	48.1	64.3	147.7
Developing Countries	13.0	10.0	24.8
of which:			
Middle East/North Africa	1.5	1.6	1.2
East Asia/Pacific	2.1	3.5	11.5
Sub-Saharan Africa[a/]	1.0	0.5	0.8
Latin America/Caribbean	8.4	4.4	11.6
World Total	61.1	74.3	172.5

Note: [a/]excludes South Africa.

Source: IMF, Balance of Payments Yearbook

Table 3: State of Economic Reforms in Selected Middle Eastern Countries

Country	Macro Economic Stabilization	Public Sector Management	Price Liberalization	Tax and Regulatory Reforms	Trade Reforms
Egypt	I	I	I	I	I
Jordan	I	I	A	I	I
Lebanon	I	N	I	N	N
Syria	N	N	N	N	N
Yemen	N	N	N	N	N
Iran	I	I	I	I	I
Israel	A	I	I	I	A

A: reforms at an advanced stage I: reforms have been initiated N: reforms have not yet started

Table 3 summarizes the state of reform in a number of critical areas.[6] Overall, there is both the need and the potential for much bolder actions, especially in countries with multiple macroeconomic and microeconomic distortions. The success of a number of reforming countries outside the region has encouraged countries in the region to initiate or to accelerate the pace of their programs. Egypt has recently initiated bold and far-reaching reforms. But fiscal stabilization remains fragile and the micro reforms have been piecemeal; major policy actions on all fronts are still needed to convince the private sector of the irreversibility of the program. Jordan has initiated successfully microeconomic reforms in the areas of trade and financial markets. But its finances -- both external and internal -- remain fragile after the Gulf Crisis. It needs major increases in investment to employ its labor force effectively and become less dependant on external transfers, and, since the public sector faces enormous fiscal constraints, the private sector will have to lead the way. In its own way, Iran has embarked on a rather ambitious economic reform program designed to liberalize the economy, reduce price distortions, and promote private sector development. Lebanon, beset with a stabilization crisis, is confronted by the dual need to stabilize the economy and begin its reconstruction. For their part, Syria and Yemen are both plagued with serious macroeconomic and microeconomic problems, some of which originated with previous attempts to implement central planning systems. In all countries in the region, even where reform is not well advanced, governments are now giving serious consideration to the elimination of macroeconomic imbalances, reducing policy-induced price distortions, and improving the management of public resources.

The ongoing peace process has an important role to play in enhancing the reform scenario. The returns to a more liberal trade and investment code would be greater in a peaceful environment; peace would allow the same degree of national security to be achieved at lower cost thereby releasing resources for other purposes; and the political and social difficulties inevitably associated with stabilization and economic restructuring would be more manageable. In addition, concerns with security would carry less weight in economic decision-making; governments will become more inclined to encourage private sector development in sectors that were considered strategic during the war years; and, as the goal of strategic self-sufficiency fades away, governments will also be more eager to integrate their economy with global markets and cut subsidies to industries that are not competitive. Finally, the opportunity cost of not undertaking reform will increase as access to funds provided for strategic reasons will diminish.

V. The Prospects for Private Sector Development and Collaboration

To a very great extent the prospects for economic growth in the region will depend upon the success of the individual country private sectors in further developing. In addition to the appropriate overall policy environment and the success of country governments in implementing economic reform programs, there are a number of less tangible and less economic factors which will critically affect economic outcomes, including the development of the private sector. These include, most centrally, the unfolding peace process and the prospects for lasting peace in the region.

6/ The table is based upon the subjective judgements of World Bank economists working on the relevant countries.

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Contents

Preface ..... i-ii

I. Introduction 1

The Context 1
A Synopsis 3

II. Past Developments and Current Constraints 5

Overall Economic Trends 6
Structural Imbalances and Distortions 7
Labor Markets 7
Production Structure 8
Trade 10
Public Infrastructure and Services 11

III. Prospects and A Strategy for the Future 15

Future Prospects 15
Elements of A Strategy for Economic Development 16
Some Scenarios for the Future 20

IV. Policy and Institutional Imperatives 23

Legal and Regulatory Framework 23
Management of Public Finances 23
Management of Public Infrastructure 25
Financial Sector Development 26
Management of Natural Resources 26
Provision of Social Services 27
Local Government and Public Administration 28
Phasing the Policy and Institutional Agenda 28

V. Investment and Technical Assistance Needs 31

Investment Needs 32
Technical Assistance Needs 33
Next Steps 35

Boxes

1.1 Occupied Territories–A Brief Profile 2
1.2 Population Data on the Occupied Territories 3
2.1 Occupied Territories–Key Socioeconomic Indicators 5
2.2 Income Levels in the Occupied Territories–A Comparative Perspective 6
2.3 Differences Between the West Bank and Gaza 9
2.4 Occupied Territories–Selected Comparative Data (1991) 12
2.5 Israeli Settlements in the West Bank and Gaza 13
3.1 The Issue of Jerusalem 17

Tables

4.1 Phasing of Institutional and Policy Reforms 29
5.1 Public Sector Investment Needs in the OT 32
5.2 Technical Assistance Needs in the OT 34

Map

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Preface

1. At the request of the sponsors and organizers of the Middle East Peace Talks, the World Bank has been supporting the work of the Multilateral Working Group on Economic Development by providing analyses of the key economic issues and developmental challenges facing the Middle East region. At its second meeting in Paris in October 1992, the Working Group requested the Bank to expand its contribution to include, *inter alia*, an assessment of the development needs and prospects of the economies of the West Bank and the Gaza Strip (commonly referred to as the Occupied Territories). In response to this request, a Bank mission visited the Occupied Territories during the period January 21-February 24, 1993. The mission comprised five teams focusing on the following areas: Agriculture, Human Resources, Infrastructure, Macroeconomics and Private Sector Development. Each team was in the field for about two weeks. The mission was led by Prem Garg who, together with Samir El-Khouri, stayed in the field throughout to provide continuity and guidance to the five teams. The staffing of the five teams was as follows:

Agriculture:	Gert van Santen (Team Leader) Ulrich Kuffner (Water Resource Engineer) Merle Jensen[1] (Horticulture Specialist)
Human Resources:	Fredrick Golladay (Team Leader) Maureen Field[1] (Education Specialist) Radwan Ali Shaban[1] (Human Resource Economist)
Infrastructure:	Alastair McKechnie (Team Leader) Ulrich Kuffner (Water Resource Engineer) Lawrence Hannah (Urban Specialist) Nail Cengiz Yucel (Transport Sector Specialist) Ted Moore[1] (Power Engineer)
Macroeconomics:	Michael Walton (Team Leader) Samir El-Khouri (Fiscal Analyst) Ishac Diwan (Macroeconomist)
Private Sector Development:	Albert Martinez (Team Leader) Robert Mertz (Financial Sector Specialist) Joseph Saba (Legal Specialist) Dileep Hurry[1] (Regulatory Environment and Tourism Specialist)

2. Mission members travelled extensively in the West Bank and Gaza, visiting municipalities, farms, businesses, industries, academic institutions, refugee camps and NGO-run facilities. Mission members also travelled in Israel, as needed, and paid several visits to Amman. The representatives of the key bilateral and multilateral donors in Jerusalem, Tel Aviv and Amman responsible for the Occupied Territories were kept briefed about the work of the mission. Close contact was also maintained with the field staff of UN agencies.

1/ Bank consultant.

3. The Bank mission was received warmly by all sides, who took keen interest in the work of the mission and provided superb logistical and counterpart support for the field work. The main counterparts on the Israeli side were the Bank of Israel and the Civil Administration in charge of the Occupied Territories. On the Palestinian side, the main counterparts were the Technical Committees of the Palestinian Team to the Peace Conference, consisting mainly of Palestinians who are members of the bilateral or multilateral peace teams. The Ministry of Planning was the main contact on the Jordanian side. The Bank would like to thank all concerned parties, especially the Israeli, Jordanian and Palestinian hosts, for the excellent support and cooperation that the Bank mission received for this field work.

4. This report is based on the findings of the above mission. Besides the mission members, the following also contributed significantly to the preparation of the report: Ahmed El-Hamri (Macroeconomic Database), Rita Hilton (Local Government and Solid Waste), Suhail J.S. Jme'An (Infrastructure), Srish Kumar (Agriculture), Anat Levy (Labor Markets), Raed Safadi (Trade), Maurice Schiff (Trade Policy) and Marc Stephens (Macroeconomic Analysis). Jo Bischoff helped with the editing of the report, and the secretarial assistance was provided by N. Perez, F. Willie, B. Williams, D. Judkins, T. North, I. Sevilla, C. Parsons, N. Cherbaka and B. Lundquist.

5. At various stages of its work, the mission benefitted greatly from comments and advice from many Bank staff, including Shawki Barghouti, Sue Berryman, Vinay Bhargava, Yousef Choucair, Gershon Feder, David Ferreira, Mike Garn, John Hayward, Magdi Iskander, Sarshan Khan, Odin Knudsen, Pierre Landel-Mills, Ira Lieberman, Slobodan Mitric, Herbert Morais, Ngozi Okonjo-Iweala, Toni Pellegrini, Klaus Schmidt-Hebbel, K. Sheorey, Vinod Thomas, William Tyler, and Arvil van Adams and Chris Ward. The mission would also like to thank Caio Koch-Weser, Ram Chopra, Harinder Kohli, Anil Sood, Lyn Squire and Abdallah Bouhabib for their guidance, advice and encouragement.

6. An earlier draft of this report was discussed with the Israeli, Jordanian and Palestinian authorities by a Bank mission to the region during July 12-26, 1993. Where appropriate, the report has been revised to incorporate the comments received by the mission during the July discussions.

7. Funding for this work was provided as grants by the European Community, Sweden and the US; their financial support is gratefully acknowledged.

I. INTRODUCTION

The Context

1.1 The economy of the Occupied Territories (OT) is currently in turmoil. Income levels have stagnated over the past decade; unemployment and underemployment are rising rapidly; public infrastructure and social services are grossly overstretched; and the fragile natural resource base is threatened with irreversible damage. Above all, the economy remains highly vulnerable to external developments, as shown vividly by the economic hardship being experienced in the aftermath of the recent border closure with Israel. The resulting sense of despair and dependency, juxtaposed against high expectations derived from exposure to Israeli living standards within the OT and in Israel, is clearly a major impediment to achieving peace and stability in the region. While Israelis and Palestinians disagree, and disagree often passionately, on many issues concerning the future of the OT, they agree on one issue: the urgent need for stimulating economic development in the OT. Building upon this shared objective, this study aims to assess prospects for sustainable development in the OT, as well as outline a priority agenda of policy reforms, institutional development and investments needed to promote such growth.

1.2 It is worth highlighting two limitations of this study right at the outset. First, a number of key issues bearing upon the future development of the OT (e.g., the allocation of land and water resources, the disposition of Israeli settlements in the OT, the future status of expatriate Palestinians, the territorial issues surrounding Jerusalem and, most importantly, the nature of the proposed "self-governing" arrangements for the OT) are the subject of ongoing bilateral negotiations between the Israelis and the Palestinians. The resolution of these issues is likely to be based primarily on political and security considerations. As the Bank mission to the OT was a *technical mission*, with neither the mandate nor the expertise to deal with political or security aspects, this study does not take any position on issues that are on the agenda for bilateral negotiations. The focus instead is on policies, institutions and investments--where optimal choices are largely invariant to the eventual political arrangements that may emerge from the bilateral negotiations. Thus, for example, while analysing, where appropriate, the economic links between East Jerusalem on the one hand and the West Bank and Gaza on the other, the report avoids making any judgements regarding the future status of East Jerusalem.

1.3 Second, the study has had to cope with very serious *data gaps and inconsistencies*. Much of the data on the OT are, directly or indirectly, from official Israeli sources. There are, however, serious gaps in the OT data base. A population census has not been carried out in the OT for more than 25 years. As a result, most of the demographic and labor force data are based on extrapolations and on sample surveys, the reliability of which are undermined by problems of nonresponse, especially since the onset of the *Intifada* (popular uprising) in 1987. Data on East Jerusalem and on Israeli settlements in the OT, both of which are treated as part of Israel by the official Israeli sources, are mostly unavailable. Data available on trade between the OT and Israel and on the profitability and competitiveness of the agricultural, industrial and service enterprises are also very limited. Data on the OT from Palestinian and Israeli nonofficial sources are sparse and selective. Also, Palestinian data, when they exist, are often based on *ad hoc* surveys that do not lend themselves easily to cross-sectional or longitudinal comparisons. In many instances, data differ between sources, and, even when the same source is used, there are gaps and apparent inconsistencies. Given these data problems, the report uses estimates that appear most plausible in light of the mission's field observations. In cases where the data differences among various sources are particularly sharp (e.g., population, unemployment and social indicators), the report attempts, where possible, to examine the reasons for these differences and to indicate the implications of alternative estimates for the results of the analysis.

Box 1.1: Occupied Territories—A Brief Profile

The Occupied Territories (OT) consist of the West Bank and the Gaza Strip.[1/] Together with what are now Israel and Jordan, the OT were among the areas ruled by the Ottoman Empire prior to 1917. Towards the end of World War I, Britain gained control of Palestine, and in 1922, the areas were entrusted to Britain by a mandate of the League of Nations.

Escalating strife and unsuccessful British attempts to mediate between Jewish and Palestinian nationalisms caused Britain to return its mandate to the UN in 1947. The UN suggested Palestinian and Jewish independence on a partition basis. The Palestinians and Arabs rejected the suggestion, and the State of Israel was proclaimed in 1948. In the aftermath of the ensuing military conflict, the Gaza Strip came under Egyptian control and the West Bank, under Jordanian control. During the 1967 Arab-Israeli war, the West Bank and Gaza were occupied by Israel. Since then, Israel has administered the areas as the occupying power, except that Eastern Jerusalem has been formally annexed by Israel and is considered part of Israel by the Israeli authorities. Israel's annexation of East Jerusalem has not been recognized by the United Nations.

The West Bank and Gaza have a combined area of about 6,000 sq kms; a 1991 population of about 1.7 million; a GNP of about US$2.9 billion; and a GNP per capita of US$1,715. The population of East Jerusalem is about 300,000, including about 150,000 Jews, mostly settled there since 1967. In addition, there are about 135,000 Israeli settlers residing in some 150 settlements that have been built in the OT over the past 25 years.

It is estimated that currently about 3.5 million Palestinians live outside of the OT. Some have maintained residency rights in the OT and are, in principle, free to return, while the return of others will be subject to negotiation between Israel and the Palestinians. How many Palestinians might actually return would also depend upon their perceptions of future economic opportunities in the OT.

The economy of the OT is mainly service-oriented with agriculture accounting for about 30 percent of GDP in 1991, industry about 8 percent, construction about 12 percent and services the remaining 50 percent. Private sector activity dominates the economy of the OT, accounting for about 85 percent of GDP. A striking feature of the OT economy is its heavy dependence on the Israeli economy. Until the recent border closure with Israel, about one third of the OT labor force worked in Israel (mostly on a daily commute basis), and earnings from these workers accounted for more than one quarter of the GNP of the OT. Over 90 percent of the OT trade is also with Israel. Remittances from Palestinians working in the Gulf countries have been another important component of the disposable OT income.

All powers of government concerning the OT are currently vested in the two Area Commanders (one each for the West Bank and Gaza) appointed by the Israeli authorities. The Civil Administration (CA), working on behalf of the Area Commanders, is responsible for administering all economic matters including, *inter alia*, granting licenses and permits, regulating trade, collecting taxes, organizing public infrastructure and services and supervising the operations of local governments. Currently, the CA has about 22,000 employees, of which approximately 95 percent are Palestinians. Most policy-making and senior administrative positions in the CA are, however, staffed by the Israelis.

Local-level governments in the OT consist of 29 municipalities and 96 village councils. In addition, there are 27 refugee camps run by the United Nations Relief and Works Agency (UNRWA). Generally, local governments are responsible for operating power, water, solid waste and local road services within their jurisdictions; the CA, on the other hand, has direct responsibility for delivering education, health and inter-city road services. The provision of services in the refugee camps is mostly the responsibility of UNRWA.

Except in the case of three municipalities (Bethlehem, Tulkarm and Rafah) where mayors elected in 1976 are still in place, all local government bodies are run by Israeli-appointed officials.

1/ In addition, a small parcel of land (Al-Himma) near the Sea of Galilee is part of the OT.

Box 1.2: Population Data on the Occupied Territories

The only comprehensive data set on the population of the OT is from the Israeli Central Bureau of Statistics (CBS). According to the CBS, the population of the West Bank (excluding East Jerusalem) totalled 1.0 million at the end of 1991 and that of Gaza, 0.68 million, for a combined total of 1.68 million. The estimates are based on a census conducted in September 1967 and updated annually by adding reported births, subtracting estimated deaths and adjusting for the number of net migrants.

Several attempts to verify the population figures, mostly by Palestinian but also by some Israeli researchers, have concluded that the CBS figures underestimate the population of the West Bank and the Gaza Strip by anywhere from 10 to 15 percent. One possible reason advanced for the underestimation is that the base figure from the 1967 census might be flawed; the census, conducted only three months after the occupation, was conducted under a military curfew using Israeli enumerators. Another possible reason cited for the underestimation is that both births and infant deaths are underreported. While the CBS corrects for the underreporting of infant deaths, it does not carry out a similar correction for the underreporting of births. The CBS disputes the validity of these arguments and believes that the official data represent the best estimate of the OT population.

To the extent that the CBS figures may underestimate the size of the population, the per capita economic and social indicators for the OT derived from the CBS estimates would need to be interpreted with care. The possible error in the population size would also have a bearing on the social and physical infrastructural needs for the future. The continuing controversy on this issue underlines the urgent need for improving the statistical data base for the OT. In particular, organizing a new population census should be accorded high priority by the authorities.

1.4 In view of the limitations on the mission mandate, the data difficulties and the time and resource constraints, this study can only be considered a beginning. The analysis in the study, especially for the longer term, is necessarily incomplete; as, and when, progress is made in the bilateral negotiations, the study will need to be updated and expanded to take account of the agreements reached. Also, notwithstanding the care exercised in locating and interpreting the data from various sources, the empirical underpinnings of this study leave something to be desired, and, therefore, the conclusions of the study should be treated only as indicative of broad trends and priorities. Further, in-depth studies and project feasibility work will be required before the findings of this report could be used to make operational decisions.

A SYNOPSIS

1.5 The report is in six volumes; this synthesis volume is complemented by five other volumes detailing the analysis and recommendations of the five teams dealing, respectively, with macroeconomic issues, private sector development, agriculture, infrastructure and human resources. A brief synopsis of the six volumes follows.

- **Volume I** provides a summary ***overview*** of the key findings and recommendations of the study. After commenting selectively on the current socioeconomic situation in the OT and its evolution over time, it discusses prospects for sustainable development in the future and outlines the priority agenda of policies and programs needed to promote such development.

- **Volume II** explores the strategic choices at the ***macro*** level that will be faced by the OT in the future and their implications for economic relations between the OT and the rest of the region. The study looks at the current economic situation and its evolution over the past 25 years. The study then examines several policy choices for the future affecting the structure of development in the OT. Finally, it outlines some illustrative scenarios for the future, focussing on the consequences of current developments in the region.

- **Volume III** reviews the performance of the ***private sector*** (including, in particular, the industry and tourism sectors) in the OT. It assesses the environment in which the private sector operates and makes recommendations for accelerating private sector development in the future.

- **Volume IV** reviews the evolution and structure of the ***agricultural*** sector in the OT; analyzes its current characteristics; assesses OT competitiveness in the immediate and longer term; outlines the main policy options and their implications; and provides a preliminary assessment of sectoral financial and technical assistance (TA) needs.

- **Volume V** assesses the current situation in the ***infrastructure*** sectors (electricity, water supply and sanitation, transport, housing and solid waste services) in the OT; identifies the major issues confronting these sectors; and outlines priorities for TA and investment needs. As local authorities are major institutions in the delivery of public services in these sectors, the study also includes a review of their current situation and makes recommendations for improving the functioning of municipalities.

- **Volume VI** reviews the current status as regards ***human resource*** development; analyzes options for enhancing individual welfare and labor productivity in the OT; and outlines investment and TA priorities for strengthening existing programs and for laying the foundation for later reforms.

II. PAST DEVELOPMENTS AND CURRENT CONSTRAINTS

2.1 At the risk of some oversimplification, the economic performance of the OT over the past 25 years can be characterized as *rapid growth, but with serious imbalances*. Specifically, while the current per capita income levels in the OT are about thrice the level that prevailed in the early years of the occupation, this growth has been highly uneven over time and has been accompanied by the emergence of major distortions in labor markets, in sectoral production structure, in the structure of trade and in the balance between public and private consumption.

Box 2.1: Occupied Territories–Key Socioeconomic Indicators

	1970	1980	1987	1991
Population (000)	980	1,181	1,434	1,682
GNP per Capita (1991 US$)	780	1,700	1,880	1,715
GDP per capita (1991 US$)	670	1,310	1,280	1,275
Wage Income from Israel (% of GNP)	12	24	28	24
Share of Industry (% of GDP)	5	7	9	8
Exports (% of GNP)	22	23	15	9
Imports (% of GNP)	47	46	43	40
Employment (000s) in OT	160	141	169	190
Employment (000s) in Israel	21	75	109	97
Primary Enrollment (000s)	179	259	295	321
Secondary Enrollment (000s)	26	53	56	70
Tertiary Enrollment (000s)	(?)	(?)	(?)	16
Hospital Beds (per 1,000 pop.)	-	1.9	1.6	1.4
Birth Rate (per 1,000 pop.)	42	48	48	51
Daily per Capita Calorie Consumption	2,300	2,650	2,750	2,800
Life Expectancy (years)	56	61	65	66
Infant Mortality (per 1,000 live births)	95	65	50	42
Households with Electricity (%)	30	66	75	90
Households with Safe Water (%)	15	47	67	95
Households with Refrigerators (%)	11	57	71	85
Households with Washing Machines (%)	-	23	38	61
Households with Automobiles (%)	2	-	-	16

Sources: Statistical Abstracts of Israel, Central Bureau of Statistics, Various Issues.
Mission Estimates

OVERALL ECONOMIC TRENDS

2.2 The economy of the OT grew rapidly between 1968 and 1980 (average annual increase of 7% and 9 percent in real per capita GDP and GNP, respectively), triggered by a number of factors, including the rapid integration with Israel and the regional economic boom. In the early years of the occupation, there was a sharp expansion in the employment of unskilled Palestinian labor in Israel and a rise in incomes, which in turn spurred domestic economic activity, especially in the construction sector. Earnings of Palestinian workers in Israel rose from negligible levels in 1968 to almost one quarter of GNP in 1975. The increased monetization of the economy following the occupation could have also contributed to the reported growth in the early years.

2.3 The rapid growth in the economy of the OT continued even after economic growth in Israel slowed in the mid-1970s following the first oil crisis, as skilled Palestinians from the OT increasingly found employment in the Gulf. As oil prices increased, so did the remittances of Palestinian workers and transfers from oil-rich Arab countries, offsetting weaker opportunities in oil-dependent Israel. Since unskilled labor played a central role in the growth, the poor shared in this growth, and as a result, in all likelihood, there was a significant reduction in poverty in this period. Household conditions also improved substantially, with a several-fold rise in the possession of consumer durables and significant increases in access to municipal water and electricity connections. Life expectancy increased by a decade, and there was significant progress in reducing infant mortality. School enrollments also rose during this time. These advances mirrored substantial improvements in income levels and in living conditions all through the region during the 1970s.

Box 2.2: Income Levels in the Occupied Territories--A Comparative Perspective

On the basis of the official statistics, the OT had a GNP per capita of US$1,715 in 1991. This GNP is similar to that of Tunisia (US$1,500) and Turkey (US$1,780) and substantially ahead of Jordan (US$1,050), Morocco (US$1,030) and Egypt (US$610). However, this probably overstates the relative position of the OT, possibly by a substantial margin, for two reasons. First, some adjustment would be necessary to the extent that official estimates of the population may be underestimated. More important in quantitative terms, comparisons at official exchange rates often fail to reflect relative incomes in terms of real purchasing power because of differences in the prices of goods and services across countries. In general, the poorer the country, the cheaper the average price level is since non-tradeable factors of production are paid less (e.g., wages and land rents are lower) and, consequently, the non-traded goods are cheaper. The International Comparisons Project attempts to adjust for this by directly comparing the prices of goods in different countries. In terms of "international" purchasing power (using prices in the United States as a base), the GNP per capita for Morocco is estimated at US$3,300; for Tunisia it is US$4,700; for Turkey, US$4,800; and for Egypt, US$3,600. There is no direct data for Jordan, though on the basis of adjustments made in other countries, its GNP per capita would also be expected to be increased by three to four times. The OT, for which there is also no direct information, will be affected by the high degree of openness to Israeli prices: the ICP estimate for Israel's GNP per capita in "international" purchasing power terms is only 10 percent more than the figure at official exchange rates. The adjustment for the OT will be higher than this since wages and land rents are lower than in Israel, but it is probable that it will be substantially less than that for the other lower-middle income economies in the region. Accordingly, the OT income levels could well be below those in Jordan, Morocco and Tunisia and not above them, as the estimates at official exchange rates indicate. In the absence of firm statistical underpinning, this conclusion remains, of course, highly conjectural.

2.4 Growth started slowing down with the end of the regional boom in the early 1980s, and decline set in after 1987. Between 1980/81 and 1986/87, real GNP per capita increased by 12 percent, and the real GDP per capita increased by only 5 percent. Export growth also stagnated during that period. The situation was exacerbated after 1987 with the *Intifada* and the Gulf war, which caused disruptions in economic relations with Israel. Periodic border closures and strikes adversely affected employment and trading activity. Exports fell sharply after 1987 and never fully recovered. In 1991, merchandise exports were estimated at US$248 million, compared with US$395 million in 1987. The border was effectively closed for several weeks in 1991 during the Gulf war, causing large income losses. There was also a large decline in the number of hours worked; in 1991, the number of hours worked in Israel was about 75 percent of the 1987 level. In the aftermath of the Gulf war, many Palestinians also lost employment in the Gulf countries, leading to a significant decline in remittances from abroad; in turn, the reduced purchasing power adversely affected domestic economic activities. The impact of adverse external shocks was further amplified by a tightening up of the regulatory regime bearing on private sector activities, including restrictions on the movement of goods and people, prolonged delays in the granting of business licenses and permits and stringent tax administration measures. A subordination of OT economic interests to those of Israel may have also played a role in this respect. As a result, the per capita income levels hardly increased during the 1980s[2]--a major turnaround from the exceptionally rapid growth of the 1970s. While there was a substantial rebound of economic activity in 1992, fueled partly by expectations of peace, a sharp downturn is expected in 1993 mainly as a result of the (partial) closure of Israel to the OT economy in March.

2.5 With income levels stagnating or declining in many parts of the world, the 1980s were indeed a difficult period for the world economy as a whole. Clearly, some of the economic difficulties experienced in the OT during the 1980s were simply a manifestation of the general malaise that affected the world economy and the economy of the Middle East region in particular. They also reflect, however, serious structural problems in the OT economy, which have emerged over time and which, if left unattended, will seriously handicap the future economic prospects of the OT.

STRUCTURAL IMBALANCES AND DISTORTIONS

2.6 The structural imbalances of the OT economy are manifested in several areas: (i) heavy dependence on outside sources of employment for the OT labor force; (ii) an unusually low degree of industrialization; (iii) a trade structure heavily dominated by trading links with Israel and with a large trade deficit; and (iv) inadequacies in the provision of public infrastructure and services.

Labor Markets

2.7 In the aftermath of the 1967 war, some 300,000 Palestinians migrated out, mostly to Jordan. Significant emigration also continued afterwards (at an average rate of 1 percent per annum). Nevertheless, the Palestinian labor force in the OT more than doubled over the past quarter century. In contrast, the domestic employment opportunities grew by less than 25 percent. Instead, Palestinian

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2/ Even this was only possible due to an unusually high growth reported in the OT agriculture sector following the *Intifada*, apparently stimulated by Palestinian resistance to consuming imported produce. Per capita non-agriculture GDP declined by 12 percent between 1987 and 1991.

employment grew mostly in two areas: unskilled work in Israel and higher-skill services throughout the world, but particularly in the Gulf countries. Prior to the 1967 war, the West Bank and Gaza had no economic relations with Israel. That changed rapidly after the occupation, and the number of Palestinians working in Israel rose to 75,000 in 1980 and to 109,000 by 1987; these workers accounted for 35 percent of the employed population in the West Bank and 45 percent in Gaza. This source of growth accounted for essentially the entire growth in the labor force until the *Intifada*. Employment was overwhelmingly in unskilled and semi-skilled work; construction employed the most workers; and wages were around the Israeli minimum wage. Only 2 percent of the Palestinians working in Israel were engaged in professional, technical and clerical occupations.

2.8 The pattern of employment of Palestinians in the Gulf states was quite different. The highest demand in the Gulf states was for skilled Palestinian labor; and the wages earned there were substantially higher than those in the West Bank and Gaza. It is estimated that about 40,000 Palestinians from the OT went to work in the Gulf states during the 1973-1982 period. With the decline in oil prices and the regional recession, demand dropped considerably after 1982, and there was probably very little net outflow of labor to the Gulf during the rest of the decade. This is reflected in the relative price of skilled labor in the OT over time: the premium to a university education appears to have vanished by the end of the 1980s.

2.9 Direct contribution to GNP from wage income from abroad, mainly in Israel, rose from negligible levels at the start of the occupation to about US$350 million in 1980 and to about US$675 million in 1987, before stabilizing around that level in nominal terms. Although reliable data are lacking, remittances from long-term Palestinian workers in Gulf countries, and elsewhere, have also constituted an important source of disposable income. Adding the indirect economic stimulus provided by this large resource infusion, it is clear that external labor markets have played an important role in the economic growth of the OT over the past 25 years.

2.10 The future prospects for these labor markets, however, do not look promising; most Gulf demand for Palestinian labor has dried up in the wake of the Gulf war. The deteriorating security situation, and the increasing restrictions on the movement of people since the onset of the *Intifada* in 1987, are threatening the continuing access to the Israeli labor market. The Israeli labor demand would have fallen sharply in any case after the current construction boom fades in Israel. Prospects in nontraditional labor markets in Europe and other Arab countries also do not appear good. Meanwhile, given the rapid population growth of the past, and the unusually low current labor force participation rate (especially for women), the labor force is set to double before 2010, even without considering the return of any Palestinian expatriates to the OT in the wake of a peace agreement.

Production Structure

2.11 Related to the heavy dependence on outside employment is the lack of dynamism in domestic economic activities in the OT, particularly in the industrial and service sectors. At less than 8 percent of the GDP, the share of industrial production in the OT is much below that in other economies with similar income levels. Mauritius, for example, like the OT, is a small, open economy with a significant agriculture sector and about the same income level; the share of industry in GNP in Mauritius is, however, three times as high as in the OT. The tourism sector, potentially a flagship industry in the OT, has also remained stunted with stagnation, or even actual decline, in supporting infrastructure such as hotels, travel agencies and tourist guides.

Box 2,3: Differences Between the West Bank and Gaza

As many of the structural problems and strategic choices affecting the West Bank and Gaza are quite similar, to avoid repetition and unnecessary detail, much of the discussion in this report treats the two territories together. There are, however, notable differences that must be kept in mind:

- The population density in Gaza (1,870 persons per sq km) is almost 10 times that of the West Bank.
- GNP per capita in Gaza amounted to US$1,230 in 1991, compared to US$2,000 in the West Bank.
- Investment per capita in Gaza is less than half of that in the West Bank, and the physical infrastructure is much worse in Gaza than in the West Bank.
- The water demand/supply balance is much more precarious in Gaza than in the West Bank.
- Refugees make up over two thirds of the population of Gaza, compared to about 40 percent for the West Bank.
- Dependence on the Israeli market for employment is significantly higher for Gaza than for the West Bank; about 39 percent of the Gaza labor force in 1991 was employed in Israel, compared with 31 percent for the West Bank.

The report attempts to address, as much as possible, the problems arising from the differences between the West Bank and Gaza, especially in relation to investment needs.

2.12 Small, underdeveloped enterprises dominate the production and service sectors. While individual and firm-level entrepreneurial initiative and innovation are abundantly evident in the OT, this has not resulted in strong sectoral performance. Instead, the economy remains predominantly based on small cottage industries and sole proprietorships. In the industrial sector, only 5 percent of enterprises employ more than 20 persons, with almost two thirds employing fewer than 4 staff. The normal consolidation and rationalization of the industrial sector has not occurred, impeding the realization of economies of scale. The combination of the small size of the enterprises, the undeveloped state of marketing services and the lack of infrastructure and distribution systems constrains producers to sell directly to customers within a small geographical area (often a single town or village). This decreases competition, severely impedes the efficiency of factor utilization and militates against integrated markets. The lack of clear zoning regulations and public land use policy have acted to distort urban/industrial land prices, becoming a barrier to industrial expansion. Finally, business support services and institutions, both public and private, have yet to develop to a stage where they can cater to the needs of a dynamic private sector. These include, *inter alia*, information services to promote the diffusion of technology and the more efficient functioning of markets; training facilities for skill upgrading; and accounting and auditing services to meet the needs of larger business operations.

2.13 Investment by the private sector in productive assets has remained extremely low. While total gross fixed capital formation (GFCF) averaged a robust 27 percent of GDP during the period 1968 to 1991, construction (mainly in housing) accounted for more than 80 percent of GFCF. Investment in industry has often not even kept pace with the depreciation of capital stock. The low investment level reflects a combination of factors, including political uncertainty, tenuous property rights, entry barriers,

a restrictive regulatory and taxation environment and the lack of a supportive financial system. Formal financial intermediation remains at an exceptionally low level. There is no institutional capacity for mobilizing and allocating medium- to long-term funds. Private sector investments are, therefore, limited to individual savings and internal cash generation. A perceived lack of effective recourse against arbitrary actions by the OT administration has also discouraged entrepreneurial activity. Following the relaxation of some of the regulatory and administrative impediments over the past couple of years, there have been some signs of increased investment activity in recent months. However, lacking a fundamental change in perceptions about the business environment which appears possible only in the context of a peace agreement, the private sector response to these reform measures is likely to remain half-hearted and fragile.

2.14 The growth potential of the agricultural sector, rather modest in any case, has remained constrained by a stagnating or shrinking land and water resource base and by asymmetric trade relations with Israel which limits OT agricultural exports to Israel, where they are generally quite competitive. Annually renewable groundwater resources in the West Bank and Gaza amount to about 750 million cubic meters. Although this aquifer, shared between Israel and the OT, is now fully exploited, annual use by the Palestinians has remained capped at about 200 million cubic meters--the pre-1967 level. Current restrictions on access to water, including administrative limitations on surface water harvesting and the high costs of water caused by difficulties in renewing inefficient and worn-out wells, have meant the stagnation of the irrigated area under Palestinian cultivation. In selected areas, notably in parts of Gaza, increasing salinity levels caused by excessive extraction have virtually halted agricultural production. Loss of access to traditional grazing lands in the West Bank, due to security considerations and the increase in nature reserves, has affected animal husbandry operations, forcing pastoralists to keep their flocks in confined areas. Security-related restrictions affecting the fishing areas in which Gaza fishermen can operate have limited fish production to a fraction of the pre-1967 levels.

Trade

2.15 The two most striking developments in OT trade during the past 25 years are: a major redirection of trade towards Israel and the emergence of a large trade deficit. From no trading relations before the occupation, Israel has become practically the sole trading partner of the OT. The share of Jordan in total OT trade declined drastically over this period: exports to Jordan as a share of total OT exports declined from 45 percent in 1968 to 15 percent in 1991. Exports to Jordan are constrained by regulatory and security restrictions imposed by Israel, as well as by requirements regarding proof of origin and seasonal quotas on agricultural products imposed by Jordan, especially since the mid-1980s. However, Jordan does not impose any customs duties on goods imported from the OT. Furthermore, as a result of the security restrictions imposed by Israel, the OT can import virtually nothing from Jordan, even though in a number of cases (agricultural inputs, construction materials and households durables) Jordanian products could be highly competitive in the OT.

2.16 The Arab boycott of Israel as it relates to the OT, as well as various impediments to trade with the rest of the world, have also acted to distort the overall pattern of trade. A preliminary analysis of trading patterns based on the size of the economies, the geographical proximity and cultural similarities suggests that, in the absence of the above restrictions, Israel's share in OT trade would have been much lower; and Egypt, Jordan and the Gulf and OECD countries would have been significant trading partners. The disproportionate dependence on Israel for trading relations is in part linked to relatively better treatment received by the OT industry when subcontracting for Israeli firms, rather than directly exporting to non-Israeli markets. On the import side, the heavy dependence on Israel sometimes leads to inefficient sourcing of inputs for the OT enterprises, undermining their overall competitiveness.

2.17 The above trade patterns were accompanied by a sizeable OT trade deficit, which reached US$675 million in 1987, or 28 percent of GNP. The trade deficit was mainly with Israel while the OT enjoyed a trade surplus with Jordan. Although the trade deficit has been largely offset by incomes of Palestinian laborers in Israel, the resulting dependence on a single market makes the OT economy highly vulnerable to shocks, especially because labor flows are subject to political developments in the region. A collapse in labor income from Israel, as happened recently, would lead to a sharp decline in imports and have a depressive effect on domestic economic activity.

Public Infrastructure and Services

2.18 In contrast to impressive gains in private incomes and consumption, the provision of public services and physical infrastructure in the OT is highly inadequate. Although the coverage of services, particularly in the major urban areas, is fairly high, the quality of services often leaves much to be desired. The average urban water supply, for example, is only about 60 liters per capita per day (compared to 115 for Tunisia, 137 for Jordan and 230 for Egypt); a consequence of limited access to water resources and inadequate investment. Water actually consumed is much less due to deficient distribution systems with high losses (40-60 percent) in most municipalities. The inadequate supplies force many water departments to rotate water supplies to parts of their networks. The intermittent supply leads to the contamination of water from the intrusion of polluted water into the networks.

2.19 Due to supply constraints and network deficiencies, current electricity consumption of about 680 kwh/capita/year is also low compared to Egypt (815) and Jordan (1,055). Some 138 Palestinian villages have no electricity supply or only a part-time supply from isolated diesels. Suppressed peak demand is estimated at 30-50 percent. Load shedding and power interruptions are a frequent occurrence. Regulatory constraints on network expansion and on supplies from the Israeli system have forced many industrial users to resort to expensive captive supplies. Distribution losses are high at 20 percent, reflecting the need for major rehabilitation and upgrading. Because of these problems, and due to inadequate consumer tariffs and overdue accounts, all electric utilities in the OT are in poor financial condition.

2.20 Solid waste collection and disposal is grossly inadequate, raising serious health and environmental concerns. There are no modern sanitary landfills in the OT. Refuse, if and when collected, is simply dumped outside municipal boundaries and often burned to reduce volume, leading to air pollution. None of the municipalities has a satisfactory wastewater collection or treatment system. Generally, wastewater is discharged into seasonal streams or *wadis*. Where wastewater treatment plants exist, they appear to be poorly designed and operated. The poor management of wastewater is contributing to the contamination of groundwater, particularly in Gaza.

2.21 While the length of road networks per capita is typical of a country with similar per capita GDP, the physical condition of the roads serving the Palestinian population has deteriorated to the point where, without immediate rehabilitation, past investments may be completely lost. Most of the network needs to be improved through pavement strengthening. Many sections of the system need to be upgraded through improved vertical and horizontal alignments. The condition of the urban networks is also very poor. Roads in all municipalities lack adequate markings, lighting and the capacity to serve the needs of the population. The inadequate road network, especially rural roads, has served to increase the cost of transporting goods to markets dramatically, particularly for perishable agricultural products.

Box 2.4: Occupied Territories–Selected Comparative Data (1991)

	Occupied Territories	Middle East & North Africa 1/	Jordan
GNP per Capita (US$)	1,715	1,940	1,050
GDP per Capita (US$)	1,275	..	1,130
Gross Enrollment Ratios			
Primary (% school age pop.)	102	97	94
Secondary (% school age pop.)	80	60	65
Pupil-Teacher Ratio (primary schools)	30	26	17
Repeater Rate:Primary (% of total enrollment)	7 2/	11	5
Illiteracy (% of pop. age 15+)	40	45	20
Persons per Physician	847	1,668	767
Persons per Hospital Bed	658	635	519
Age Dependency Ratio 3/	1.08	0.87	0.92
Total Fertility Rate (births per woman)	7.3	5.3	5.3
Infant Mortality (per 1,000 live births)	42	60	29
Life Expectancy (years)	66	64	69
Households with Safe Water (%)	95	83	96
Urban Water Supply (liters per capita)	60	..	137
Households with Electricity (%)	90	..	98
Electricity Consumption (kwh/capita)	680	..	1,130
Telephone Subscribers (per '000 pop.)	22	..	67

1/ Includes 18 countries extending from Algeria to Iran.
2/ Data for UNRWA Schools only.
3/ Defined as the ratio of dependent pop. (under 15 and over 64) to the working age pop. (15-64).

2.22 The ratio of telephone subscribers to total population in the West Bank and Gaza is about 1:46, as compared to 1:15 in Jordan and 1:34 in Egypt. There is a large suppressed demand with the backlog for new connections in the West Bank alone exceeding 12,500, or about one third the number of lines currently in use. Of 400 villages in the West Bank, only 80 had telephone service as of end-1991. Of these, most had usually only one connection, and it was frequently out of service. The lack of adequate telecommunications capabilities has had a particularly deleterious impact on the service industry, a sector heavily dependent on good telecommunications.

2.23 Educational facilities are also in poor condition. Many school buildings require major repairs. Libraries and laboratories are generally inadequate, as are supplies of textbooks and materials. The curricula require modernization, and the qualifications of educational personnel in almost all positions need to be upgraded through pre-service and in-service training. Vocational schools are seriously underfunded and have inadequate facilities and obsolete equipment. Universities are too small to be able to provide the facilities required for advanced study, particularly in the physical sciences. The fragmentation of the educational system--the Egyptian system is used in Gaza and the Jordanian system in the West Bank--is an added handicap. The frequent school closings since the beginning of the *Intifada* have reportedly led to an increase in dropout rates, a breakdown in discipline and a deterioration in student achievement. Widespread violence has also produced an alarming growth in the population that is physically or mentally disabled.

2.24 The health infrastructure is less in need of repair. However, the OT devote a relatively large share of their output (7 percent of GNP) to the health sector and do not obtain the health impact that should be expected from this expenditure. Several reasons for the poor performance are apparent. First, most health care resources are being used to provide costly, high technology, hospital-based care for the benefit of the relatively well to do. Second, very small, inefficient hospitals have been allowed to proliferate (over two thirds of all hospitals have fewer than 100 beds). Third, highly specialized procedures are being carried out by units that are too small either to exploit economies of scale or to provide physicians and staff with enough practice to maintain skills. Finally, too little attention is being given to reaching out to underserved groups, especially women.

Box 2.5: Israeli Settlements in the West Bank and Gaza

Israeli settlement of the West Bank and Gaza, while beginning immediately after the 1967 war, intensified during the 1980s. According to unofficial Israeli sources, in 1992 there were about 136 settlements in the West Bank with 130,000 inhabitants and 17 settlements in Gaza with a population of 4,000 to 5,000.

Israelis argue that land for settlements has been acquired through legal means; Ottoman, British mandate, Jordanian and Israeli legislation have been used to obtain former state land, land left by Palestinian refugees and land where Palestinian occupants have been unable to prove their title. Palestinians have the right to appeal acquisition of land by the Israeli authorities through the Israeli legal system, but few cases have been successful. Palestinians point out that such settlements are prohibited under international law and are, therefore, illegal. The UN has taken the position that Israeli settlements in the OT have no legal validity and should be dismantled.

In order to attract settlers, the Israeli Government offers a number of incentives including: direct housing subsidies; land at discounted prices; mortgages at reduced rates; free hookups to utilities and municipal services; and higher schooling subsidies than in Israel. Israeli budgetary allocations for building settlements are not clear, but several sources report that they have been very large–perhaps as much as US$20 billion over the past 25 years.

Infrastructure for the settlements is fully integrated into the Israeli national systems. Water, telecommunications and electricity grids function as integral parts of the Israeli systems and are operated by the national Israeli agencies. Transport systems built during the past 25 years have also been designed primarily to meet the needs of settlements, linking them to metropolitan areas in Israel.

A striking feature of the infrastructure in the OT is its bifurcated nature. For all infrastructure systems, there is an obvious difference in quality between facilities for Israelis and Palestinians. In contrast to the generally inadequate and poorly maintained infrastructure for the Palestinian population, there is well-designed and well-maintained infrastructure catering to the needs of the Israeli settlements. For example, the electric service to Israeli settlements, supplied by dedicated supply lines, is markedly superior, with annual per capita consumption more than double that of the Palestinian population. Similarly, most residences and businesses in Israeli settlements enjoy individual telephone connections, and the waiting period for new connections is one of weeks rather than of months or years, as in the case of Palestinians. Integrating the two separate systems into a rational, single system should offer significant cost savings and overall improvements in service standards.

2.25 The inadequacies in the provision of public services have to be seen in light of OT public finances. Expenditures by the Civil Administration (CA) and the municipalities (including the public utilities) have been confined to the revenues collected by them: i.e., taxes, fees and utility tariffs. Public sector capital expenditures amounted to about 3.5 percent of GDP over the 1970-90 period, which is significantly below the average for developing countries. In Jordan, for example, the central government capital expenditure/GDP ratio has averaged about 9 percent in recent years. Three reasons seem to account for the "underinvestment" in infrastructure in the OT. First, the CA and the local bodies have inadequate resources because the tax effort is relatively low and because not all the taxes paid by the residents of the OT accrue to the budgets of the CA or the municipalities. The foregone revenues mainly relate to tariffs on trade with and through Israel. The shortfall between the revenues collected by the CA and the amount of taxes that are actually paid by the Palestinians leads to an element of "fiscal compression" and an underfinancing of public sector investment needs. Other agencies, both official and private, have tried to fill the gap left by inadequate availability of resources to the CA. Foremost amongst these is UNRWA which provides basic services to almost half the OT population at an annual cost of about US$100 million. Jordan has been the other major contributor until the 1988 "disengagement", providing some US$750 million of assistance during 1967-1988, mostly as salaries and renumeration for the West Bank civil servants. OECD donors, UNDP and NGOs have also provided significant resources. Nevertheless, the overall availability remains much below the need.

2.26 Second, neither the CA nor the utilities borrow to finance investment expenditure, while such financing is a common feature in many of the developing countries. Public utilities have been forced to finance most investments from current revenues after part of the revenue has been siphoned off to cover non-fee-earning municipal services.

2.27 Lastly, the poor state of physical infrastructure and the inadequacies of the services provided reflect the lack of coherence in sectoral policies and programs. This incoherence is due to the lack of mechanisms and institutions for policy and program development responsive to the preferences and priorities of the population to be served. The fragmentation of institutional responsibilities for program implementation and operation contributes to diffused accountabilities, indifferent service standards and, sometimes, duplication of effort. The programs of the CA, for example, are poorly coordinated with those of UNRWA or with those of the numerous NGOs operating in the OT.

2.28 To **sum up**, the economy of the OT grew very rapidly in the 1970s. Growth slowed down considerably in the 1980s but was still not out of line with performance in the rest of the region. This relatively respectable growth has been accompanied, however, by a skewed pattern of development and a serious underprovision of public services. High dependence on sources of employment that are now drying up combined with limited internal opportunities is perhaps the most serious structural problem facing the OT. Providing productive employment to the new entrants, as well as to those who may no longer be able to find employment outside the OT, will be among the most important challenges facing the OT in coming years. Stimulating growth in the productive sectors and services, particularly the latter, will be essential for coping with this challenge. As the OT economy tries to reduce its future dependence on labor flows to Israel, it also needs to improve its trade position by promoting exports, developing efficient import substitution and diversifying its trading relations. Significant improvements in public infrastructure and services are needed not only to improve living conditions directly, but also to support private business activities and to avoid environmental degradation. Past distortions and a series of adverse shocks, especially in areas critical to past sources of growth, are leading to economic stagnation, putting at risk the past gains in living standards. This, in turn, threatens the prospects for lasting peace in the region. Addressing these weaknesses is, therefore, essential for the future peace and prosperity in the region.

III. PROSPECTS AND A STRATEGY FOR THE FUTURE

Future Prospects

3.1 Although the OT suffer from serious structural problems and imbalances and have a very limited natural resource base, they also have substantial assets:

- First, the OT are blessed with a high quality human resource base. The Palestinians have the largest proportion of their population completing higher education of any Arab group (18 college graduates per thousand population). Despite significant outmigration, there is no shortage of either entrepreneurial talent or professional skills. The private sector in the OT is highly resourceful with a demonstrated ability to operate under rather challenging conditions. The removal of regulatory constraints and the establishment of supporting institutions and infrastructure should, therefore, help generate a significant supply response.

- Second, given the right climate, there could be significant private capital flows to the OT from the large and relatively prosperous expatriate Palestinian community in the Arab world and elsewhere. Many of the successful businessmen in the Arab world are of Palestinian origin. Surveys conducted in the early 1980s indicated that about one half of the Palestinians working in the Gulf states held what were classified as "professional and technical" jobs, the highest ranking category in terms of pay scale. Prior to the Gulf crisis, annual remittances from Palestinians working abroad (other than in Israel) exceeded US$300 million, about a third of which came from Kuwait. It is estimated that currently there are some 200,000 Palestinian workers and businessmen living in the Gulf states and the OECD countries. Given the strong community ties among the Palestinians, it is likely that, in the wake of a peace agreement, a good fraction of these businessmen and professionals would wish to strengthen their links with the OT through increased remittances, as well as direct investment in productive ventures. In addition, Palestinian financial resources abroad could be tapped to support public sector investment through, for example, subscription to a Palestinian bond scheme.

- Third, because of their unique religious and cultural heritage, the OT have the potential for developing into an important tourism centre. The tourism industry was the mainstay of the economy of the West Bank before 1967, but it has suffered serious setbacks since then because of the unsettled political and security situation. With peace and the normalization of relations in the region, tourism and related industries can become a major source of foreign exchange earnings for the OT economy, especially if cooperative arrangements can be developed with neighboring countries to promote tourism on a regional basis. The geographic location of the OT, and the fact that the Palestinians now have experience in trading with both the Israeli and Arab economies, should also make the OT important transit points for future trade within the region.

- Fourth, unlike most developing countries, the OT do not have to deal with the burden of crushing external debt. Public finances are also close to balance, and there is neither a bloated bureaucracy nor any loss-making public enterprise. Free from these legacies, public policy can, therefore, focus on structural reform. It also means that the OT economy can sustain a certain amount of external borrowing, especially for upgrading essential public infrastructure. Sound macroeconomic conditions can, however, be swiftly lost by imprudent policies, especially in the public sector.

- o Finally, given the strategic location of the area and the problems that the OT have experienced, there are good prospects for attracting international official assistance to help overcome infrastructural bottlenecks and deficiencies.

3.2 A prerequisite for transforming the above potential into sustainable development for the future is the resolution of the long-standing political, security and governance issues affecting the region. That should release for socioeconomic development major resources, both financial and human, now being spent to cope with the actual or perceived administrative obstacles, security threats and inequities. More importantly, by removing the strategic uncertainty and the perception of risk, the political settlement should unleash the financial and entrepreneurial resources of the private sector, both domestic and expatriate, for long-term investments in the OT. Lastly, access to external markets in the Arab world, likely to be normalized only with progress in the peace process, would provide additional impetus to development.

Elements of A Strategy for Economic Development

3.3 Political settlement and peace is a necessary, but not a sufficient, condition for economic development in the OT. Much will also depend upon the *quality of economic management* in the post-peace period and the strategic choices made in managing the OT economy. Choices on two issues will be particularly critical: the balance between the *roles of the public and the private sectors* in the OT; and the nature of *OT economic links to the rest of the world*, particularly neighboring countries.

3.4 Because of the existing economic imbalances and the unmet social needs, the public sector would clearly have an important role to play in economic development, particularly during the transition period. The upgrading of physical and social infrastructure, a key priority for improving living standards of the population and for stimulating private sector development, would have to be undertaken mostly by the public sector as private sector interest in financing such investments is likely to be limited, at least for some time. Even where private sector initiative may be forthcoming (e.g., in some segments of health services), a sound sectoral policy framework to safeguard the interests of both the providers and users of such services needs to be established. An even more crucial function for the public sector would be to provide a supportive business environment within which the private sector could flourish while, at the same time, protecting public interests in areas such as health, safety and the environment. There will be a need for a substantial strengthening of public action in many areas, including macroeconomic management, tax administration, the regulatory framework and the supervision of the banking system. In addition, this would mean relaxing some of the supply-side constraints (e.g., increasing the availability of land for new industries and businesses through an overhaul of the municipal zoning laws) currently affecting private sector performance. Providing an affordable social "safety net" through targeted programs would be another important function for the public sector.

3.5 While recognizing these imperatives, it is essential that the public sector role be not overstretched. In particular, any involvement by the public sector in directly productive ventures or interference in the marketplace by propping up unviable private sector activities (e.g., through price controls and by limiting competition) would retard economic development and, therefore, should be resisted. International experience indicates that differentiated patterns of protection, activist industrial policy or public channelling of money into unviable enterprises via the financial system too frequently lead to economic disaster. Economies that have prospered in the past have relied primarily on the private sector, working in undistorted markets, as the primary engine of economic growth. Relying on the private sector would be particularly prudent in the OT because, first, as noted above, the private sector in the OT is dynamic and capable; and, second, public sector resources, financial as well as administrative, are likely to be very scarce, at least for some time to come.

Box 3.1: The Issue of Jerusalem

The city of Jerusalem has occupied a central place in the history of three great religions - Judaism, Christianity and Islam. It has also played a major role in shaping the economic, social and political lives of the Middle East Region for over three thousand years. Therefore, an important aspect of the current conflict in the Region centers on the control of Jerusalem.

The 1948 war led to partition of Jerusalem with Eastern and Western parts coming under Jordanian and Israeli control respectively. At the end of the 1967 War, East Jerusalem was occupied by Israeli forces. Following the occupation, the Jerusalem city limits were expanded by Israel to include East Jerusalem, as well as some other parts of the West Bank. The expanded city was annexed by Israel on July 30, 1980. Arab residents of Jerusalem have been given the option of obtaining Israeli citizenship although very few have chosen to do so. Israel views Jerusalem as its historic capital and maintains that Jerusalem must never again be a divided city.

Actions taken by Israel were considered invalid by the United Nations, which called upon Israel to refrain from taking any action that would alter the status of Jerusalem. Although the international community has not recognized the Israeli annexation of East Jerusalem, Israel continues to exercise authority over the area and considers it an integral part of Israel and not subject to further negotiations. The Palestinians insist that East Jerusalem is part of the West Bank as per the pre-1967 borders and that Israel should withdraw from all areas occupied during the 1967 war as per the United Nations resolutions.

There are important economic links between the West Bank and Gaza Strip and Jerusalem. Decisions concerning Jerusalem would, therefore, have important implications for future economic prospects and priorities for the OT. The following are among the most important of these links:

- The tourist potential of the West Bank is critically dependent on the ancient religious sites of Jerusalem.
- Major north-south transportation links in the West Bank pass through Jerusalem.
- The only tertiary care hospital and some of the best secondary care hospitals available to the West Bank population are located in East Jerusalem.
- East Jerusalem houses much of the Palestinian financial services, marketing facilities, and social and cultural infrastructure.
- Qalandia airport, a potential outlet for linking the West Bank with regional airports, is within annexed Jerusalem.
- Parts of East Jerusalem are an integral part of the power network covering the area from Ramallah to Bethlehem.

Considering that the question of Jerusalem is essentially a political matter, this report should not be construed as taking any position on this issue. Therefore, while analyzing the links where appropriate, this report has endeavored to avoid making any recommendations that might imply prejudging the status of Jerusalem.

3.6 Regarding links to the outside world, in economic terms, the option of turning inwards would clearly be very costly for a small economy such as that of the West Bank and Gaza. It would mean major efficiency losses and a sharp decline in living standards. The opening up of external markets to exports from the OT is important if the economy is to achieve sustainable development. However, the external economic relations would need to be shifted from almost complete dependence on Israel, as at present, to interdependence with a range of economies, including Israel.

3.7 Given the close economic relations with Israel that have evolved over the past 25 years, the economies of the OT and Israel are bound to be inextricably interwoven for the foreseeable future. While a major reorientation in trade -- to the region and to the rest of the world -- should occur over the medium term, any sharp cut in trade in goods to Israel could have large short-run costs, because of Israel's predominance as a trading partner. This implies the desirability of mutually beneficial arrangements between Israeli and OT authorities regarding the flow of goods, services, financial resources, labor and visitors in the post-peace period. Even if the loss of substantial labor access to Israel is permanent, it would make sense for the West Bank and Gaza to not only maintain, but expand trade access to the Israeli market. The key issue in the Israeli market is agriculture. The opening of the Israeli market to agricultural products from the West Bank and Gaza, where they are highly competitive, would have a significant positive impact on OT agriculture by both increasing production and eliminating rents from illegal trade. Israeli consumers would also benefit significantly from easier access to OT produce.

3.8 Equally important, for export diversification by product and by destination, trade links to Israel should be complemented by increased access to both the traditional Arab markets and to nontraditional markets in Europe and North America. As noted earlier, the various restrictions on trade with and via Jordan have significantly reduced trade with the Arab countries. The removal of these restrictions should lead to increased production and exports, particularly of manufactured goods, as well as the importation of certain inputs--such as fertilizers and construction materials--at significantly reduced prices. An important issue for OECD markets concerns how far the OT can participate in the current free trade agreements which Israel has with the EC and the US. (The EC agreement is already applicable to the OT).

3.9 From the perspective of the West Bank and Gaza, a strategy that attempted to open up opportunities elsewhere, especially with Jordan, Egypt and the Gulf countries while maintaining open trade relations with Israel, would make sense. A possible approach to consider would be a free trade area with Israel, linked with a significant opening of trade to Jordan and Egypt. This would differ from the present (partial) customs union in allowing the OT to have different tariffs from Israel for trade with rest of the world. It would maintain open trading relations with Israel, but would potentially avoid protectionist aspects of Israel's trade regime that may not be suited to the economic structure of the OT. The opening of trade to Jordan, Egypt and the rest of the Arab world would allow the OT to diversify its export base, thus reducing its vulnerability to external shocks. However, while a free trade area, perhaps involving Jordan, is attractive in principle, there may be problems in practice linked to the establishment of customs borders and the "leakiness" of such borders. Equitable distribution of gains from free trade among the various partners may also require some transitional arrangements to enable the infant OT enterprises to compete on an equal footing.

3.10 Promoting regional infrastructural networks in electricity, transport, telecommunication, petroleum and gas pipelines and water would offer other opportunities for strengthening interdependence and benefitting from complementarities and economies of scale, which may not be available to the OT in the absence of such cooperation. Because of the poor endowment of natural resources, the landlocked location of the West Bank and the small size of the economy, many infrastructure services in the OT are likely to be lower cost if regional solutions are adopted. Regional power interconnection would be of high priority to the OT because of the lower cost sources of supply in Israel, Egypt and, perhaps, Jordan and the improved reliability of supply to all participating parties. Similar economies of scale and the utilization of existing capacity are possible with highways and ports. Since water resources are common to both the OT and Israel, an attractive long-term solution would be the joint management of the shared resource.

3.11 Choices concerning the respective roles of the public and private sectors would be entirely up to the decision-makers in the OT, however, the choices concerning economic links would necessarily involve other parties and would depend upon negotiations between the OT, Israel, Jordan and other regional and non-regional parties. The international community and particularly the OT's neighbors could make an important contribution to economic growth in the OT by providing improved market access to OT exports and by supporting economically viable regional infrastructural investments.

3.12 Other strategic choices, dependent upon the outcome of the ongoing bilateral negotiations, concern the feasibility and desirability of an independent macroeconomic policy for the OT, including a separate currency. *Prima facie*, there are a number of reasons why an independent policy would make sense: it would allow the OT to deal better with real and nominal shocks, gain seignorage revenues and facilitate financial intermediation through financial sector development. Preliminary analysis suggests, however, that:

- o In some areas, the pursuit of an independent macroeconomic policy is likely to be fruitless, e.g., attempts to have independent interest rates, given the degree of capital mobility in the region.

- o In a second set of areas (e.g., managing "excessive" capital inflows, borrowing at home and abroad and supervising/providing liquidity to banks), independent policy is desirable but does not necessarily require a separate currency.

- o Seignorage is traditionally important in the region but is unlikely to be so for the OT because of the likely initial low level of credibility of a new currency and the high capital mobility.

- o Finally, there are areas for which a domestic currency is necessary, e.g., avoiding imported nominal shocks from other members of a currency union and facilitating real wage declines.

3.13 The above must be seen in the context of credibility, something that is hard to earn but that can be obtained by being in a currency union(s) with a disciplined core or by establishing a track record of prudent macroeconomic, and especially, fiscal management. The OT do not have such a history, and new institutions of macroeconomic management are likely to be both fragile and under pressure. If a domestic currency is chosen, it might be desirable to start with a relatively restricted version, as in a Currency Board, that could gradually evolve to a fully fledged currency once discipline, and the associated demand for the currency, was well established. Decisions concerning an independent OT currency may have significant repercussions for both Israel and Jordan, particularly the latter since the JD currently in circulation in the OT may be a significant fraction of the total money supply in Jordan. Accordingly, retiring the Israeli and Jordanian currencies from the OT, may have to be done in a phased manner in consultation with the Israeli and the Jordanian authorities. The international community may also have a role to play in that respect.

Some Scenarios for the Future

3.14 Forecasting the pattern of growth is a highly uncertain business. However, assuming sound economic management, it would be reasonable to expect a relative expansion of domestic over external employment. Over time, a substantial diversification in economic relations would also be probable, with greater interdependence among economies in the region and an expansion in trading relations outside the region, notably with Europe. As regards the likely changes in the production structure of the economy, undoubtedly there is some room for expansion in agricultural and industrial production, once the present constraints on private sector development are removed, including access to outside markets. However, this point should not be overemphasized. Diminishing water resources throughout the region will constrain the development of the agricultural sector, with future growth limited to high-value export crops catering to niche markets. Given the paucity of industrial raw materials and the small market size, heavy industry is unlikely to be a major contributor to future growth. Instead, skill-based, light- and medium-sized industries would appear to be more promising. Above all, the economy of the West Bank and Gaza is likely to remain mainly a service-oriented economy with an important contribution made by the tourism sector.

3.15 A range of scenarios was developed to explore the potential trajectory of the economy in the future. These are illustrative only since little is known about either future conditions or economic responses. A critical factor in the scenarios is the overall "policy," encompassing a range of likely influences on future development. "Good policy" would include, *inter alia*, a peace agreement that resolves strategic uncertainty sufficiently to provide the basis for private capital inflows and investment in productive activities; a relaxation of supply-side constraints, including deregulation and improvements in the supply of economic infrastructure and industrial land; trade arrangements that allow substantial trade expansion (in the region and elsewhere); a strong public finance framework with substantially expanded revenues (including taxes now accruing to the Israeli treasury); a major strengthening of the administrative and policy-formulating capability of the emerging, interim self-governing authority; and a strengthening of the human resource base both by stepped-up training programs and by access to entrepreneurial and professional skills of the Palestinians living abroad.

3.16 Preliminary analysis suggests that, assuming a "good policy," a growth rate in excess of 3 percent in per capita incomes is sustainable, with a total rise in incomes on the order of 40 percent in a decade, provided the phaseout from the Israeli labor market is managed in a "smooth" fashion and provided there are adequate external public and private capital inflows (about $2,500 million during the five-year transition period). [3] In case there is a "sharp" reduction in employment in Israel--for example, if employment does not rise above the 45,000 prevailing in June 1993--the short-run situation is likely to be much worse, with potentially large rises in unemployment and falls in wages and incomes. That would require short-run action, in terms of additional external inflows (a total of about US$350 million over the five-year period) and poverty-related spending by the public sector to moderate welfare declines. [4]

3/ To the extent there is any net immigration into the OT following a peace agreement, the need for external inflows would be higher and depend, in part, on the asset base of the returnees.

4/ The external inflows stipulated in these scenarios do not include labor income earnings in Israel, which are assumed to decline over time in both scenarios--but from a much lower level in the "sharp" reduction scenario.

However, with "good policies," the income levels would recover to the pre-cutoff period after about three years, and the economy could then again be on a steady growth path, with GNP per capita exceeding US$2,300 after 10 years (compared to US$1,715 in 1991).

3.17 By contrast, if policies are not sound, the outlook would appear to be grim. There could easily be declines in income per capita--on the order of 20 percent in a decade--even with a "smooth" labor decline. The outlook would be worse, especially in the short run, in case of a "sharp" reduction. Such growth scenarios would undoubtedly be associated with rising poverty, worsening social conditions and, potentially, rising violence. "Poor policy" could be offset by official capital inflows, but only for a while, since private capital is unlikely to flow in while the political uncertainties remain unresolved, and policy conditions are not perceived to be investor friendly.

3.18 An attempt has also been made to estimate the public sector financing requirements assuming "good policy". The analysis also assumes that:

- The new self-governing entity would reach agreement with Israel on a mechanism to ensure that the budget of the new entity receives all the taxes paid by the OT residents.
- The UNRWA operations would continue to function alongside the new entity during a five-year transition period.
- Of the public sector investment needs identified in Chapter V for the medium-term, 85 percent would, in fact, be implemented in that period.
- The revenue effort would be enhanced by 2 percentage points of GNP in the first five years, rising from 18 percent in the base year to 20 percent in year five as tax administration capabilities are improved and as cost recovery mechanisms are put in place.
- The current expenditures would also rise by about 2.5 percentage points of GNP in the five years, from 16.5 percent to 19 percent to support the gradual expansion and improvement in service and maintenance levels.

3.19 Under these assumptions, the external financing requirements of the public sector (including UNRWA) in nominal terms for the five-year transition period would be about US$1,500 million under the "smooth" scenario and US$1,750 million if the labor reduction is "sharp." The latter scenario would, furthermore, require some front-loading of the external assistance. It should be noted that external donors, including UNRWA, currently spend about US$175 million annually in the OT. Thus, external aid flows would have to be roughly doubled from present levels to meet the financing needs of the public sector. As regards external private inflows, the requirements would be about US$200-250 million per annum. With about 200,000 Palestinian workers in the Gulf states and the OECD countries, the implied remittances per worker would be about US$1,000 annually, a very plausible amount.

3.20 The above discussion raises the issue of the terms on which the external aid to the OT would be extended during the transitional period. Currently, all official aid to the OT--whether through UNRWA or from other sources--is in the form of grants, as the aid is mostly of a humanitarian nature, and there is no legal entity to lend to. In view of the large uncertainties involved at this stage, the study has not analyzed the external borrowing capacity of the OT in the transitional period and beyond. As the OT does not currently have any external debt, there is clearly some scope for borrowing in the period ahead. Care should be taken, however, not to overburden the economy and strain future growth, nor to use funds for unproductive purposes. Given the likely fragility of the public sector revenues and of exports during the transition period, it would be prudent if the external assistance to the OT over the medium term included some element of concessionality. Tentatively, it is estimated that if UNRWA financing was to continue in the form of grants and if there was a 20 percent grant element in the remaining external flows to the public sector, the debt services burden would remain manageable over the medium to long term.

3.21 The above scenarios should be treated as indicative. However, they do help illustrate the main implication of much of the analysis in these volumes: the OT have the potential to recover from both the loss in past sources of growth and from distortions in the pattern of development, and to become a viable, growing economy, provided that the policy and structural conditions are right. In the absence of a sound domestic policy, continuing strategic uncertainty and inadequate donor support, the OT could enter instead into a period of sustained decline in incomes, employment and welfare. Also, the initial recession caused by the "sharp" reduction in employment in Israel could generate internal social instability and rising violence, deterring private foreign investors. The faltering private investment could further accentuate social tensions leading to a vicious cycle of low growth, low revenues and inadequate public spending.

3.22 It should also be remembered that the OT economy has a number of limitations which leave policy makers with little room for maneuver. The limited natural resource base, the high degree of vulnerability to external shocks, and the fragility of the political situation following years of conflict, make the management of the transitional period a very delicate and difficult undertaking. Policy slippages could impose a heavy toll on an already fragile economy; a careful stewardship of the economy would, therefore, be necessary--a task which would be greatly facilitated by internal consensus among the Palestinians on a vision for the future OT economy.

3.23 To **sum up**, the OT economy appears capable of generating sustainable economic growth provided there is peace and stability in the region and provided the economy is soundly managed with a mix of prudent macroeconomic policies, expanded public services, support for private sector expansion and an expansion of trade to the region and the rest of the world. Significant external capital flows will be needed during the take-off period--partly to help overcome the existing deficiencies in public infrastructure and services and partly to augment the production base for private sector activities. It should be noted, however, that there are many downside risks which if not guarded against could easily trap the OT economy into a low level equilibrium.

IV. POLICY AND INSTITUTIONAL IMPERATIVES

4.1 There are seven key institutional and policy areas where adjustments are needed in order to create a climate conducive to sustainable economic and social development: (i) the legal and regulatory framework; (ii) the management of public finances; (iii) the management of public infrastructure; (iv) financial sector development; (v) the management of natural resources; (vi) the provision of social services; and (vii) local government and public administration. These are considered below.

Legal and Regulatory Framework

4.2 As noted earlier, future economic growth and development in the OT is critically dependent upon the performance of the private sector. Unleashing this potential requires the creation of a legal and regulatory environment that supports private sector initiative. The legal system should provide a set of rules that govern property rights, their exchange and the settlement of disputes. More importantly, the rules should be perceived as transparent, stable and enforceable, through mechanisms that are seen to be fair and efficient. Despite some improvements in the recent past, there remains a widespread perception among OT entrepreneurs that the current business environment is ambiguous, complex and unpredictable. Trust in the ability of the legal system to provide an expeditious and effective appeals process also remains low. Particularly constraining to entrepreneurial activities are perceived barriers to entry, restrictions on the conduct of import and export activities, restrictions on the movement of people and goods and the perceived insecurity of property rights. These perceptions make investments in long-term fixed assets risky and unattractive, especially in high technology areas with a high probability of rapid obsolescence.

4.3 Progress in the current peace negotiations and agreements on self-governing arrangements should make possible a thorough review and overhaul of the existing legal and regulatory framework to provide the private sector with a sounder legal basis for commercial transactions. Some of the priority areas for review and revision include the commercial code, joint-stock company law, bankruptcy law, collateral law, municipal zoning laws, business licenses, export/import licenses and regulations concerning the movement of people and goods. A strengthening of the appeals process would be another priority. The implementation of a supportive legal and regulatory framework requires credible institutions, the development of which is as much of a priority as the restructuring of current laws and regulations.

Management of Public Finances

4.4 International experience suggests that establishing a sound system of public finances in the West Bank and Gaza will be necessary in creating an environment conducive to private sector development and in attracting external assistance. Establishing such a system will mean ensuring that adequate revenues are collected/received by future authorities in the West Bank and Gaza and that the resources, including those that might be obtained from external sources, are managed properly.

4.5 On the revenue side, five key issues need to be addressed:

- *The Legitimacy of the Tax System*. Currently, there is a widespread perception among the Palestinian population that the existing system of taxation lacks transparency and due process and is administered in an arbitrary fashion. These negative perceptions materially reinforce tendencies for tax evasion and noncompliance, which exist, at least latently, in all societies. To a large extent, the negative perceptions are directly related to the current military occupation; and the emergence of a self-governing authority as

part of the peace settlement should help change the situation significantly. That would, however, in no way obviate the need for creating an efficient tax administration system that is perceived to be fair by the population. The current tax administration system would need to be completely overhauled, including the establishment of transparent rules and enforcement mechanisms for tax assessments; the rationalization of advance payments of income taxes; and the introduction of a credible and efficient institutional mechanism for the settlement of tax disputes. The role of accounting and auditing professionals would also need to be clarified in this context.

- *Fiscal Transfers Between Israel and the OT.* Under the current tax and trade arrangements between Israel and the OT, some OT taxes (primarily, the value-added tax (VAT) and other taxes on net OT imports from Israel and custom duties on imports through Israel) are accruing to the Israeli treasury. Given the absence of customs borders between the OT and Israel, the "origin principle" of indirect taxation is applied with respect to trade between the two, whereby taxes are collected where the goods are produced rather than consumed. Since the OT have a large trade deficit with Israel, there is a net revenue loss to the OT. Conversely, Israel also incurs expenditures in the territories from its own budget that are of benefit to the Palestinians (e.g., the subsidization of essential food items; Palestinian use of subsidized infrastructure and services in Israel). The Israeli and the OT authorities would need to agree on methodologies for estimating such transfers, as well as to devise suitable mechanisms for offsetting payments. Several alternative solutions appear feasible but would need to be considered in the context of the overall future economic relations between Israel and the OT. In any event, what is important is that all the revenues and expenditures and their financing are stated explicitly in the budget for the new OT entity.

- *The Appropriateness of the Domestic Tax Effort.* Despite perceptions of high tax rates among many Palestinians, the economy of the OT does not appear to be highly taxed. Even when all taxes paid by Palestinians are counted (including those currently accruing to the Israeli treasury), the tax effort is about 22 percent of GDP, compared with 27 percent in Jordan and 39 percent in Israel. In view of the need to strengthen public administration and expand public services, mobilization of additional domestic resources would be essential. It is true that the effective personal income tax rates are currently higher in the OT than in either Israel or Jordan. However, the tax effort in relation to the GDP is lower for several reasons, including the exemption of agricultural income from the tax net and probably a high incidence of tax evasion. The question of the tax effort, therefore, will have to be examined in relation to the ability of the emerging entity to expand the tax base to protect its overall fiscal position, as well as its ability to harmonize tax policies with neighboring countries. This brings to the fore the importance of providing a very strong system of tax administration that can help widen the tax base and improve tax collection.

- *Cost Recovery.* An important aspect of domestic resource mobilization mentioned above concerns the establishment of mechanisms for cost recovery for the expanded public sector operations. User fees would be an important instrument to help cover the operations and maintenance costs and the debt servicing associated with new public sector investments in the transport, communications and solid waste disposal areas. Similarly, it would be important for the electric and water utilities that are being recommended to operate as commercially oriented autonomous entities, i.e., to charge tariffs that would make their operations financially viable without the need for any budgetary support.

- *Management of External Assistance*. To get the maximum benefit from the international assistance that might become available in the wake of a peace agreement, an efficient mechanism for directing and coordinating this assistance will be needed, balancing, in particular, donor interests and preferences with the developmental priorities of the OT. A careful monitoring of external borrowing will also be necessary to avoid any debt service problems in the future.

4.6 On the expenditure side, the key issues to be addressed are:

- *The Balance Between Current and Capital Expenditures*. A significant increase in the investment program during the transitional period would necessitate a commensurate increase in current expenditures on operations and maintenance to ensure that the capital stock would be adequately maintained. The budgeting process and the estimation of the financing requirements should, therefore, take into account the need for such expenditures. Experience suggests that this is often an overlooked item, with undesirable consequences.

- *The Sustainability of Expenditures*. As has been noted earlier, the direct role of the public sector should be mainly to provide basic infrastructural and social services, including a limited and well-targeted safety net for the poorest segments of the population. Care should be taken not to enlarge the bureaucracy of the public sector unduly, and the public sector must not act as the residual employer. The post-peace period could see large pressures for expanded public spending, both in areas that are well justified (roads) and some that are not (excessive civil service growth). The likely temporary easing of financing constraints following a peace agreement could mask imprudent spending and borrowing policies for some years. Strong, conservative control will, therefore, be important for avoiding unsustainable level of expenditures, which would be difficult to reverse in the future.

Management of Public Infrastructure

4.7 Well-functioning public utilities will be essential to plan, implement and operate infrastructural investments on the scale needed in the OT. An early priority for the emerging self-governing entity in the OT would be to decide on how the ownership of utilities is to be structured and how the regulatory and policy-making roles are to be organized. The legal framework for these arrangements will also need to be established, taking into account the special circumstances involved.

4.8 To provide a sound basis for autonomy, accountability and efficiency, it is recommended that commercially oriented utility companies be established. Municipal governments should disengage from the direct role of provider of water and electricity, to the indirect role of owner. Since the legal framework covering the transitional period is not yet clear, the simplest legal basis for the new, reconstituted utilities would be the prevailing companies law, with the shares held in the public sector. This would not only provide a framework for enterprise autonomy and commercial orientation, but would also facilitate partial or total privatization in the future. It is also recommended that: (a) the roles of policy-making, ownership and regulation be separated among different institutions; and (b) the ownership (shareholdings) be spread as widely as possible among different municipalities, pension funds and other public or private agencies. The new entity should also try to define the regulatory system for the public utilities. Some of the key issues that need to be addressed are : (a) one multisectoral regulatory agency *vis-a-vis* several sector specific regulatory bodies; and (b) the basis for utility price setting.

Financial Sector Development

4.9 The present legal and regulatory framework, a patchwork of Jordanian, Egyptian, Palestinian mandate and Israeli legislation, is not conducive to the expansion of existing financial institutions or the establishment of new ones. This framework needs to be replaced with transparent, coherent legislation covering the West Bank and Gaza that: (i) sets clear criteria for licensing banks, insurance companies and other regulated financial intermediaries and establishes uniform standards as to capital requirements, liquidity and solvency; and (ii) establishes a new regulatory framework, consistent with international standards, for the supervision of financial intermediaries.

4.10 Within the above context, several steps are needed to strengthen the process of financial intermediation. First, entry barriers should be eliminated and existing banks in Gaza and the West Bank should be allowed to expand in either region to facilitate the economic integration of the two territories. Second, mechanisms should be devised to enhance or supplement the collateral of local investors by tapping the value of unmortgaged real estate. Third, the multiplicity of inefficient, small-scale, subsidized credit programs with unsustainable recovery rates need to be reformed and moved towards regular financial operations at market interest rates. Lastly, given the need for strengthening medium and long-term financial intermediation, establishment of an investment bank, preferably with foreign participation should be encouraged. Considering the strong financial and skill base of the Palestinians in the OT and abroad, every effort should be made to keep the ownership and management of such an institution entirely in the private sector. However, in case this is not feasible, as a last resort, some limited equity participation by the public sector may also be considered for the initial years.

Management of Natural Resources

4.11 While the question of access to natural resources ultimately depends on the outcome of the political negotiations, there are some measures that can be taken to ensure conservation and a better utilization of natural resources. Of special importance is the preparation of an environmental action plan underpinned by a comprehensive framework for environmentally sustainable development in the post-peace period. Other areas for priority attention include:

- Establishing, initially, a coordinating mechanism and, later, a management agency to oversee the development of the region's water resources in cooperation with the other riparians. Sharing data on the region's land and water resources would be a good beginning.
- Relaxing regulations governing the rehabilitation of irrigation wells.
- Addressing the severe quality problems of the municipal water supply in Gaza.
- Relaxing constraints in the use of grazing lands.
- Relaxing constraints on the harvesting of marine fisheries resources.
- Reforming the regulatory framework (land use planning, building standards, minimum lot sizes, the taxation of vacant land, rent controls, etc.) regarding the use and development of urban lands.

- Providing adequate infrastructure to, first, encourage the use of vacant urban land and, second, to extend municipal boundaries to provide adequate, affordable, serviced land for residential and commercial purposes.

- Establishing adequate arrangements for the collection and disposal of solid waste to prevent ground water pollution and an unhealthy and unsightly urban environment.

- Establishing institutions and a regulatory framework for the protection of antiquities and cultural property.

Provision of Social Services

4.12 The broad outlines of a sound social policy for the OT are clear. Basic health services should be made more accessible and hospital services and high technology health care should be deemphasized. Education and training should be strengthened in areas, such as curriculum development and teacher training, to enable the system to improve the quality of instruction and, thus, to improve the productivity and employability of Palestinian labor. The social security systems now operated by the CA, Israeli employers and UNRWA should be harmonized and unified; the system of private transfers should be supported through the development of appropriate financial institutions.

4.13 Present inefficiencies in the health sector are rooted in the fragmentation of responsibility, not only for the delivery of health care, but also for the management of subsidies to the sector from the government budget and external donors. A responsible body must be created to develop a sound health policy and to coordinate activities in the sector. Policies should, at the same time, seek to interrupt the link between refugee or employment status and entitlement to subsidized health care; instead, such care should be targeted to the needy. In assembling a set of policies, issues of health care finance, service standards, investment in technology and quality assurance should be addressed.

4.14 An extensive education planning process should be initiated to consider the goals, possibilities and resources for a unified education system for the Gaza Strip and West Bank. Planners, administrators and curriculum experts should be given training in carrying out these tasks. A revised curriculum should be developed that can be adopted on both the West Bank and the Gaza Strip. It should not only give attention to the modernization of content and teaching methods, but should also link curricula to broad economic, social and cultural objectives. As the development of curricula is time-consuming and costly, in the short term, consideration should be given to adapting materials from other countries, especially in the sciences and mathematics. Personnel exchanges across institutions could prove useful in this endeavor.

4.15 Resources to support a comprehensive social welfare program are unlikely to become available to the OT entity within the foreseeable future. Nonetheless, in time, the OT authorities would be called upon to replace the benefits provided to the very needy by UNRWA and the CA. The targeting of the programs would, therefore, be essential. The OT would have to develop a basic program of social protections and ensure that this program received broad political endorsement. The program should provide for the handicapped, elderly, orphaned and widowed, but it should not seek to replace reliance on private transfers and personal savings. The OT should also encourage the development of private institutions that supply financial services, including health and life insurance companies and pension schemes.

Local Government and Public Administration

4.16 The policy and program agenda that the new OT entity will face in the coming years would constitute a big challenge to any public sector apparatus. The OT entity, emerging in a period of transition with little experience in self-government, will be especially challenged. Institutional strengthening would, therefore, be critical both at the local level and at the territory-wide level.

4.17 Local governments in the OT are generally weak and ineffective. The legal environment in which they operate is complex, overregulated and nontransparent. Moreover, local public finances are largely controlled by the CA; local governments have little authority over taxes and fees and, as a result, are unable to finance recurrent expenditures adequately. Allocations of funds for capital investments, mostly financed with transfers from the CA, are also nontransparent. Improving the effectiveness of local governments would require, *inter alia*:

- The introduction of a rational legal foundation that clearly assigns an appropriate degree of local discretion over issues of local interest.
- The provision of greater local autonomy over user charges and local taxes.
- The introduction of more systematic and transparent criteria for the allocation of capital transfers.
- Technical assistance and staff training to promote institutional change and facilitate policy development relating to local government issues.

4.18 In addition to the strengthened role of the local government bodies, institutions would have to be developed to formulate, coordinate and implement policies at the territory-wide level. To develop these capabilities, the emerging self-governing authority needs a strong and efficient system of public administration responsive to the needs of the local population. Suitable mechanisms would also have to be devised to ensure the accountability of the public administration. The 20,000 Palestinians currently employed by the CA could become the nucleus of the administrative structure for the emerging self-governing authority. However, the likely difficulties in molding the current CA establishment into an administrative structure suited to the needs of the self-governing authority should not be under-estimated. For the longer term, integrating the UNRWA establishment into the normal administrative structure of the OT would be another major challenge.

Phasing the Policy and Institutional Agenda

4.19 The above agenda of institutional and policy reform is clearly extensive and complex, and some phasing of the various reform measures would be necessary. A preliminary outline for such a phasing is shown in the Table 4.1 below. The definition of short and medium term is linked to the peace process, as explained in Chapter V. Basically, the short term covers the period up to end-1993, and the medium term covers the period 1994-98. It should be noted that the implementation of some of the actions for the short term is already underway. For example, business licensing procedures have been significantly liberalized recently, and impediments to exports to Jordan have been reduced. Tax changes to encourage investment in the OT have also been initiated. Areas open to Palestinian fishermen have been expanded. Some training and TA programs to strengthen institutional capabilities have also been initiated by several donors as part of the ongoing peace process.

Table 4.1: Phasing of Institutional and Policy Reforms

Area of Reform	Short-Term	Medium-Term
Regulatory and Legal Framework	o Publish all regulations in Arabic o Review all commercial laws with a view to harmonize and modernize o Relax licensing requirements for foreign trade and for businesses o Simplify procedures for trade with Jordan	o Develop market-friendly commercial laws o Ease restrictions on movement of goods and people
Fiscal System	o Relax advance income tax requirements o Reform income tax reporting and compliance provisions o Reform tax assessment practices	o Develop a budgetary framework o Agree on mechanisms for fiscal transfers with Israel o Establish mechanism for management of external assistance o Design new taxation structure and develop tax administration capability o Establish cost-recovery mechanisms for public services
Public Utilities	o Study issues concerning ownership and regulation of utilities o Initiate training programs for utilities	o Establish financially autonomous, commercially-oriented utilities
Financial Sector	o Eliminate barriers to entry and expansion o Establish payment clearing system	o Create an enabling legal framework for financial system o Establish a single regulatory authority o Encourage establishment of an investment bank

(continued to next page)

Area of Reform	Short-Term	Medium-Term
Natural Resources	o Relax regulations governing rehab of irrigation wells o Study alternative to address drinking water quality problems in Gaza o Relax constraints to grazing lands use o Develop environment action plan o Share data on natural resources	o Establish agency to coordinate and oversee water resource development o Reform regulatory framework for development of urban lands o Establish mechanisms for protection of antiquities and cultural property o Establish an environment management organization
Social Services	o Articulate sectoral policy framework o Launch socioeconomic studies	o Adopt coherent policies for social sectors o Create health sector coordinating body o Start preparation for a census o Modernize educational curriculum
Local Government and Public Administration	o Review laws and regulations affecting local government operations o Launch studies on trade, monetary and fiscal issues o Initiate training programs	o Revise legal framework governing local governments o Provide greater financial autonomy to local governments o Prepare strategies for regularizing UNRWA establishment over the longer term o Establish a development policy institute

depend upon resolution of political uncertainty might need to be spread over a longer period, thus spilling into Phase III.

- All feasibility studies and project preparation work for investments during the first 2-3 years of the "self-governing" arrangements are taken up in the short-term while those concerning the rest are included for financing in the medium-term.

- To lay the foundation for sustainable development, TA and training to support institution-building, manpower development, improvements in the OT database and analytical work to sharpen policy choices facing the OT should be launched as early as possible.

Investment Needs

5.5 Based on the above framework, the public sector investments (in constant 1993 prices) are estimated at US$1,350 million for the medium term and US$1,600 million for the long term (Table 5.1). The focus during the medium term will be on the rehabilitation and upgrading of the local level public infrastructure and services in water supply, sewerage, solid waste, road transport, electricity, education and health. In addition, some support would be needed for strengthening agricultural support services and for improving natural resource management through erosion control measures and forestry development. The tentative priorities for the long term include, besides the completion of the rehabilitation works started in Phase II, power generation facilities (preferably as part of a regional power grid), selective capacity expansion in the main road network, capacity expansion in health and education systems, the design of a modern education curriculum, the strengthening of university education and the improvement/construction of airport facilities.

Table 5.1: Public Sector Investment Needs in the OT[1/]
(US$ million, constant 1993 prices)

Item	Medium Term [2/] (7/94-6/99)	Long Term (7/99-6/04)
Water & Wastewater	280	200
Transport	330	500
Power	350	600
Solid Wastes	100	
Education	190	160
Health	60	90
Agric. Supp. Services	20	10
Nat. Res. Management	20	40
TOTAL	1,350	1,600

1/ Figures shown are for commitments during the indicated period. Actual disbursements may lag commitments by up to three years.

2/ About US$70M of these investments could be launched as soon as financing is available.

V. INVESTMENT AND TECHNICAL ASSISTANCE NEEDS

5.1 A critical element of the strategy for achieving sustained economic and social development in the OT is the major upgrading of physical and social infrastructural services. This is a function to be undertaken mainly by the public sector and is important not only for improving the quality of life in the OT, but also for providing an enabling environment that supports the growth of a dynamic private sector. Since private sector investment will be the result of decisions by many individual entrepreneurs, using primarily private capital flows, the focus here is only on public sector investments. Thus, private sector investment needs in areas such as agriculture, industry, tourism and housing are not included in the following estimates. Investments in telecommunications and petroleum and gas pipelines are also expected to be through the private sector and, hence, not considered here.

5.2 In assessing the future investment and TA needs of the OT, three main phases have been distinguished linked to the likely time frame of the ongoing peace negotiations: Phase I, the *short term*, extends to the time when an agreement is reached in the bilateral peace talks on interim self-government arrangements. Phase II, the *medium term*, covers the period from the end of Phase I until the time when final political arrangements regarding the OT are in place. Phase III, the *long-term*, refers to the post-peace period, following agreement on the final political arrangements. The duration of these phases will depend upon progress in the peace talks. However, for the purposes of this report, it is assumed that the short term will not extend beyond mid-1994 and that the medium term will last for a period of five years thereafter.

5.3 The analysis of investment and TA needs is based on the assumption that there would be no large population movements in the periods under consideration. The investment requirements would be larger to the extent that the Palestinians living abroad are allowed to return and choose to do so. The requirements indicated below may need to be modified in the future after agreement is reached between the concerned parties on this issue.

5.4 The following framework forms the basis for the prioritizing and phasing of various investment and TA programs being considered for the OT:

- Public sector investments should support rather than preempt private initiative. Accordingly, only those investments where the private sector is unlikely to be interested for sometime to come would be undertaken by the public sector. Even then, where possible, the investments should be designed in a manner so as to facilitate privatization at a later date.

- Because of the relatively short time-horizon for Phase I, it is unlikely that significant new external assistance for financing investments in the OT would be available during this phase, and, hence, no investments have been proposed for this period. It should be noted that some of the rehabilitation works in water supply, sewerage, education, transport and electricity could be taken up without additional technical studies. Accordingly, the implementation of such investments could be launched as soon as the financing is mobilized.

- It would not be feasible during the medium term to implement investments whose design and viability depend upon agreement on the eventual political arrangements; accordingly, such investments are considered for implementation only in Phase III.

- The investment program for the medium term would also need to recognize the limited institutional capacity, especially during the early years. In some cases, therefore, even investments that do not

5.6 The above investment estimates are, in most cases, based on very limited data. Systematic assessments of the current conditions of the existing infrastructure or their rehabilitation needs are generally unavailable. Accurate unit cost data is also lacking in most cases, and the available figures often require adjustments to reflect experience in neighboring countries. Finally, very few of the proposed investments have been subjected to rigorous financial and economic viability tests. Accordingly, the estimates here are merely indicative of the broad investment priorities and the likely investment magnitudes. The picture is particularly cloudy in this respect for long-term investments where the usual data limitations are further compounded by design uncertainties related to the outcome of the ongoing bilateral negotiations.

5.7 Preliminary analysis indicates that the investments proposed for the medium term should directly generate about 70,000 man-years of employment in construction works, i.e., the equivalent of about 14,000 full time jobs for the 5-year period of Phase II . Considering that many of the Palestinians employed in Israel have been construction workers, the implementation of the proposed program should, thus, help reduce significantly the adverse effects of the shrinking employment opportunities in Israel.

Technical Assistance Needs

5.8 To ensure that the scarce aid resources make the greatest possible contribution to improved living standards in the area, detailed project feasibility studies are needed in most cases. In addition, there are technical assistance and training are needed to foster institutional development and enhance implementation capacity. The cost of the preparatory studies, technical assistance and training proposed for launching in the short term is estimated at US$35 million. A further US$50 million of TA would be needed over the medium term (Table 5.2). Much of the second phase TA could perhaps be "piggybacked" to investment operations resulting from the TA proposed for the short term.

5.9 Slightly over half of the TA would be for project preparation and feasibility studies, done in sufficient detail so that the resulting projects and programs would be ready for appraisals by the donor community. The rest would be used for institutional development activities including, *inter alia*, the following:

- Studies and training to strengthen local governments and public administration in the OT.
- Studies on trade, monetary and fiscal choices facing the OT in the medium-term.
- Studies to decide on the future organizational structure of the electric and water utilities in the OT.
- Training programs for the Palestinian staff in the electric, water, highways and sanitary sectors.
- The review and revision of the legal and regulatory environment affecting private sector activities.
- Studies to modernize and strengthen the financial sector.
- Studies to help develop housing sector policies and institutions.
- The development of an action plan and building capacity for environmental management.
- Socioeconomic surveys and the preparation for a population census.
- The strengthening of the agriculture database.

Table 5.2: Technical Assistance Needs in the OT[1/]
(US$ million, constant 1993 prices)

Item	Short Term [2/,3/] (to 6/94)	Medium Term [3/] (7/94-6/99)
Water & Wastewater	8.0 (6.5)	10.0 (8.5)
Transport	6.0 (4.5)	12.0 (8.5)
Power	7.0 (3.0)	7.0 (5.0)
Solid Wastes	1.5 (1.0)	
Education	4.0 (3.5)	1.5 (1.5)
Health	1.0 (1.0)	1.0 (1.0)
Agriculture	1.5 (0.5)	2.5 (0.5)
Local Govt. & Public Administration	1.0	3.0
Housing	0.5	2.0
Monetary, Fiscal and Trade Issues	0.5	0.5
Inst. Framework for Public Utilities	1.0	1.5
Env. Action Plan and Management	0.5	5.0
Socioeconomic Studies and Surveys	2.0	2.5
Business Support Services	0.5	1.5
TOTAL	35.0 (20.0)	50.0 (25.0)

1/ Figures shown are for commitments during the indicated period. Actual disbursements may lag commitments by up to two years.

2/ Some of this TA may have been initiated recently with support from bilateral and multilateral donors.

3/ Figures in parenthesis are the respective TA amounts required for project feasibility studies and project preparation work.

Next Steps

5.10 To have a shelf of priority projects ready for implementation as soon as adequate progress is made in the bilateral negotiations, and to strengthen institutional capacity, it is important that the preparatory studies and institutional development activities be initiated without delay. Provided there is a broad agreement among the concerned parties on the analysis and findings of this report, the next step would be for the donor community to mobilize funds to the tune of US$35 million to help launch the TA activities proposed for the short term.

5.11 Because of the relatively large size of the proposed TA program and the lack of experience in the OT in managing such programs, careful attention would need to be paid to the implementation arrangements. For the TA to be relevant and useful, clearly the Palestinians would need to have a major decision-making role in the design and administration. Equally important, the success of the TA program, for the short term, would require significant support from the CA; the implementation arrangements would, therefore, also need to be developed in close cooperation with the CA. Ensuring accountability in the use of TA funds would be another important consideration in designing the implementation arrangements.

OCCUPIED TERRITORIES
WEST BANK AND GAZA STRIP
TRANSPORTATION NETWORK

- AIRPORTS / AIRFIELDS
- MAJOR HIGHWAYS
- TWO OR MORE LANES, HARD SURFACED ROADS
- RAILROADS
- BUILT-UP AREAS
- UNRWA REFUGEE CAMPS
- ISRAELI SETTLEMENTS
- ARMISTICE DEMARCATION LINES, 1949
- NO-MAN'S LAND AREAS, ARMISTICE DEMARCATION LINE, 1949
- JERUSALEM CITY LIMIT, UNILATERALLY EXPANDED BY ISRAEL JUNE 1967; THEN ANNEXED JULY 30 1980
- INTERNATIONAL BOUNDARIES

MEDITERRANEAN SEA
DEAD SEA
Jordan R.
JORDAN
ISRAEL
WEST BANK
GAZA STRIP
Jenin
Ya'bad
Tulkarm
Tubas
Tammun
Nablus
Qalqilyah
TEL AVIV-YAFO
Lod International Airport
Ramallah
Al Birah
Jericho
JERUSALEM
Mount Scopus
Old City
Bethlehem
Hebron
Yattah
Zohar
Gaza
Khan Yunus
A.R. OF EGYPT
Nazareth
Afula
Hadera
Netanya
Irbid
Amman
Ashdod
Ashqelon
Beersheba
Dimona
Arad
Ein Gedi
Masada
Sodom
Negev
Sinai
To Haifa
To Gevat Karmel
To Yoqua'am
To Kefar Gid'on
To Afula
To Geshur
To Kefar Aroel
To Tel Aviv-Yafo
To Ramat Hasharon
To Ben Shemen
To Qiryat Gat
To Ashdod
To Ashqelon
To Ramat Hanegev
To Ze'elim
To Ziqim
To Nir Am
To Sederot
To Netivot
To Ashkelon
To Amman
To Al Mazra'ah
To Ha'ir Sharo' (Beersheba)
To Agur
To Zofim
Area of main map
Area of inset below
SELECTED CITIES
KILOMETERS 0 5 10 15
MILES 0 5 10

The denominations used and the boundaries shown on this map do not imply, on the part of The World Bank Group, any judgement on the legal status of any territory or any endorsement or acceptance of such boundaries.

AUGUST 1993

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TEL AVIV UNIVERSITY

THE ARMAND HAMMER
FUND FOR ECONOMIC COOPERATION
IN THE MIDDLE EAST

A FREE ECONOMIC ZONE AND PORT

FOR THE

GAZA REGION

SEEV HIRSCH
SHAULI KATZNELSON
DAVID M. SASSOON

TEL AVIV UNIVERSITY

1991

FUND FOR ECONOMIC COOPERATION IN THE MIDDLE EAST

The objective of the Armand Hammer Fund for Economic Cooperation in the Middle East is to foster economic cooperation between Israel and her neighbours. Mutual economic relations can offer effective leverage in the political negotiations towards peace and—once it is attained—they can contribute to stabilizing it so that the countries concerned may become partners in prosperity. To this end the Fund seeks to identify areas of mutual economic interest and recommend specific joint economic projects.

The programme of the Armand Hammer Fund for Economic Cooperation in the Middle East was conceived and formulated in a series of meetings held during 1980 between the late Dr. Armand Hammer, Chaiman of Occidental Petroleum Corporation, and Professor Haim Ben–Shahar, then President of Tel–Aviv University. The project was made possible by a grant provided by the late Dr. Armand Hammer and with the help of his friends, colleagues and community leaders in Los Angeles.

The future will undoubtedly prove the great and important value of the visionary and historical vision represented by the Armand Hammer Fund for Economic Cooperation in the Middle East.

President Chaim Herzog at the Opening Ceremony of the Armand Hammer Conference, June 1986

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The Armand Hammer Fund for Economic Cooperation in the Middle East

A FREE ECONOMIC ZONE AND PORT

FOR THE

GAZA REGION

SEEV HIRSCH
SHAULI KATZNELSON
DAVID M. SASSOON

Tel Aviv University, November 1991

A FREE ECONOMIC ZONE AND PORT

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The Hammer Fund for Economic Cooperation in the Middle East
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FOREWARD

Issues related to the economics of the Territories are frequently discussed in various forums. The economic structure of the Gaza region has unique and specific characteristics, the most outstanding of which is its strong dependence upon Israel as an outlet for its labor force. Recently, even the military authorities became concerned about the consequences of this extreme employment imbalance. In cases where the movement of people and goods is stopped, the region becomes paralyzed, its unemployment rate rises above 50%, and many families are left with no income. In the present study Professor S. Hirsch, Mr. S. Katzenelson and Professor D. M. Sasson, examine the possibility of loosening the currently enforced ties between the Gaza Region and Israel, especially the ultimate dependence on the Israeli labor market by building a deep water port in the region and by declaring an area around the port to be a free economic zone.

At the outset it should be clarified that, from the Arab point of view, the initial motivation for the port is a political one. There is excess capacity in the Israeli ports, and they can be further expanded at relatively low costs and gain benefit from economics of scale. Also, in terms of optimal allocation of limited investment funds, it is questionable whether the investment should be in a port or in what might be more profitable activities in the Gaza region.

The study by Hirsch is the first investigation that either an economic entity or an international financing organization would ask for when considering the financing of a deep water port. They are likely to do the same calculations and have the same doubts about the same questions. They might, however, assume different assumptions regarding the costs and the benefits. Since the study is very detailed, if one does not agree with an assumption or a cost figure he can introduce his own data and re-do the calculations with only marginal effort.

The analysis of the free economic zone would serve other countries which debate this issue. Israel, as one of them, has already partially applied the principle of a port as a separate economic zone to the Eilat area (Jordan did the same in Aqaba). Hence the study, although concentrating on a single specific issue, provides the framework for the analysis of similar projects elsewhere in the world. The explicit figures that are used for the analysis can be substituted by others that correspond for other cases. Thus,the evaluation of the study should be both in terms of its general contribution as well as of its specific analysis.

By financing this research the Armand Hammer Fund again showed its devotion to original thinking, to academic freedom and to willingness to support studies that would contribute to the process of peace in the Middle East. I would like to thank its steering committee and especially its chairperson, Professor Haim Ben Shahar, for their continuous support of the study.

Professor Gideon Fishelson

Introduction

Free economic zones (FEZs) are administrative devices intended to facilitate desirable economic transactions which are normally hampered by the government of the country where the zone is being established. This study explores the application of the free zone concept to the Middle East peace process. It develops the concept in a specific context - a free economic zone and a port in the Gaza region.

The idea of establishing a FEZ in a part of Judea, Samaria and the Gaza region, (hereinafter referred to as the Territories) appears at first glance to be totally out of place, at a time when the Gulf War has barely ended, and its effects on the long and bitter Arab-Israeli conflict have yet to be understood. It may indeed be argued that this is not the right time to discuss economic arrangements in the Territories, and that a political settlement must precede the establishment of any such arrangement.

While we accept the thesis that political considerations predominate economic ones, we maintain that a discussion of the establishment of a FEZ in the Territories at this time is not out of place, precisely because of its political implications. One of its major merits is that it is consistent with the various possible outcomes of the political process. It can coexist with an independent Palestinian state, with a federation between Jordan and the Territories, with a wider federation between Israel, Jordan and the Territories, with a long interim "autonomy" period, and even with the continuation of the status quo. The logic is simple - if a FEZ offers economic benefits without causing political damage and without predetermining the outcome of the political process, it is worth considering.

A FEZ should be acceptable to the Palestinians, because it can contribute to their economic well-being without prejudicing their political claims. Moreover, it may allow them to develop an economic basis which they control, and which facilitates interaction with the outside world, including the Arab countries.

A FEZ should be acceptable to the Israelis because it does not in itself alter the political status quo, and does not predetermine the outcome of the political process. It allows the Palestinians control of their economic affairs, in line with the political platform of all major parties in Israel. It provides for a controlled experiment in economic coexistence, and possibly even cooperation between Israel and its Arab

neighbors. It gives Palestinians a stake in the the peace process. And most important, while the economic success of a FEZ will depend on the active cooperation of the international community, its establishment and continued existence depend on unilateral decisions by Israel.

These characteristics make it worthwhile to explore the concept of a FEZ when Arabs and Israelis alike are beginning to accept the idea that it is high time to take a fresh look at the peace process.

Chapter 1 contains a short survey of literature on the FEZ concept, and examines in some detail its application in China, where it has been used by the communist government to attract business from capitalist countries.

The remaining chapters focus on a specific application of the FEZ concept: a free zone and a port in the Gaza region.

Chapter 2 examines the political dimensions of the Gaza free zone. It identifies the interested parties, potential customers, competitors, investors, etc., and analyzes the political and economic interests likely to determine their attitude to the port.

Chapters 3 looks at potential customers in more detail, and estimates some of the benefits they may derive from use of the port.

Exploration of the port's potential sources of income continues in chapter 4, which analyzes potential demand and estimates its volume and composition.

Capital requirements for two versions of the port are examined in chapter 5. The small version serves the Territories only, and the large one the Territories plus Jordan.

Chapter 6 presents a cost/benefit analysis which brings together the different elements associated with the port, and combines them within a single economic framework.

Chapter 7 rounds off with a proposal of the institutional and legal arrangements for the practical implementation of a free economic zone and port in the Gaza region.

1. FREE ECONOMIC ZONES - THE CONCEPT AND ITS APPLICATIONS

What Are Free Zones?

Free economic zones are administrative devices intended to facilitate economic transactions which are normally hampered by the host country's government. They are often established to attract foreign investment for the purpose of accelerating industrial development in general, or some sectorial development in particular. They provide the investors with environmental, institutional and legal conditions which, for political or economic reasons, cannot be provided throughout the host country.

Grubel (1983) defines an FEZ as an area into which goods can be imported freely "... without quota, exchange restrictions, or the payment of tariffs, and without being subjected to exchange controls, and to the majority of statistical reporting requirements and regulations aimed at protection of consumers. Goods can be stored, used in manufacture, exhibited, assembled, sorted, and sold in such zones. But these processes are subject to the host country's normal laws governing environmental protection, workers' safety and employment conditions.... Goods can be exported as freely as they are imported. However, when goods are brought into the host country they are subject to the normal import quotas, duties and excise taxes."[1]

Grubel describes a large variety of FEZs, including free trade zones, free banking zones, free insurance zones, free gambling zones, free investment zones, and free enterprise zones. [2]

To successfully attract international investments in free zones, host countries may offer potential investors both natural and man-made economic advantages. Natural

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1 H. Grubel(1983) Free Market Zones: Deregulating Canadian Enterprise (Vancouver, The Fraser Institute)

2 Loc. cit., p.33.

advantages include a good climate, plentiful arable land, raw materials, and abundant supplies of labor. To these must be added the services and environmental conditions provided by the government and/or the business sector. They include the infrastructure - roads, railways, harbors, telecommunication facilities; financial services; the legal system; the tax system; and administrative rules and regulations of different kinds. Finally, there are the incentives; tax concessions, price concessions and subsidies of different kinds. All the above are factors which constitute the business environment and which, in combination with the naturally available factors, determine the ability of individual enterprises to become internationally competitive.

In their OECD study, Basile and Gemindis (1984) outline the characteristics of free trade zones : "... designated area, usually next to a port area, to and from which unrestricted trade is permitted with the rest of the world. Merchandise may be moved in and out of free trade zones free of customs, stored in warehouses for varying periods and repackaged as needed. Goods imported from the free trade zone warehouses into the host country pay the requisite duty; their prior storage in the free trade zone permits rapid delivery to order, meanwhile saving interest on customs payments."[1]

A relatively large number of FEZs specializing in exports were established during the late 'sixties and 'seventies in countries such as Ireland, Taiwan, Malaysia, the Philippines and Korea. Several export processing zones were also established in Middle Eastern countries, among them four in Egypt, five in Syria, and one in Jordan.

Basile and Germindis suggest that the growing interest shown by multinational enterprises in free economic zones can be explained by a number of factors. Industrial operations in industrialized countries have become increasingly constrained by rising wage costs and environmental measures adopted by the governments of these countries . Technological developments have made it easier to break up the production processes into skill and raw material and labor-intensive sub-processes. Transfer of technology between industrialized and developing

[1] A. Basile and D. Germindis (1984) Investing in Free Export Processing Zones (Paris, Development Centre Studies, OECD).

countries has been made easier. The cost of physical transportation has declined, making distances less costly to cover. Development of telecommunication and data transmission techniques have facilitated inter-country communications and control.

The economic advantage of transferring production from industrialized to developing countries is illustrated by Basile and Germindis, who cite examples of comparative employment costs in Japan and Taiwan. Denoting costs in Taiwan by 100, comparable pay rates for different categories of labor in Japan are as follows: engineers - 443; accountants - 315; foremen - 406; skilled laborers - 695; unskilled laborers - 750; semi-skilled laborers - 819.

Note that while Japanese pay rates are, as expected, considerably higher than Taiwanese rates, the discrepancy is largest in the semi-skilled and unskilled group, and is smallest in the engineering group. These figures suggest that if Japanese productivity, i.e., output per man-hour is on average five times as high as in Taiwan, and does not vary much between different categories, then products which have a high semi-skilled or unskilled labor component will be more competitively produced in countries like Taiwan, and in other countries with a similar wage structure. On the other hand, high-technology products, i.e., products with a high engineering and professional work component, would be more competitively produced in Japan. It is hardly surprising therefore that FEZs tend to be located in developing countries with low labour costs, especially of unskilled and semi-skilled workers, in relation to the industrialized countries.

Free zones tend to attract "footloose" industries which are not bound to specific locations. They tend to belong to the light industries group. In addition to being labor-intensive, the industries are characterized by production processes which can be easily divided into fairly independent sub-processes. Industries typically found in FEZs include textiles, clothing, footwear, furniture, ceramics, table ware, electrical products and electronics.

Empirical investigations cited by the OECD study, and based on the experience of clothing, textiles and electronics industries in diverse countries such as Mexico and India, as well as several Asian countries, have shown that productivity in FEZs in general, and in free export processing zones in particular, tends to be relatively

high, and that unit labor costs tend to be substantially lower than in other sectors of the host countries.

In a more recent study of FEZs, Warr (1988) offers a less sanguine view of their achievements.[1] Analyzing empirical data from various free zones, including the Philippines, Indonesia, Korea, and Malaysia, Warr concludes that imported materials account for a high percentage of sales, while the share of local materials and local labor is comparatively low. Value added typically produced in FEZs tends to be low and interaction with the rest of the economy is minimal. FEZs tend to be isolated, and they contribute little to taxes. He concludes that most of the benefits which they offer can be obtained by less costly means.

Adding a time dimension to his analysis, Warr hypothesizes the FEZs are most useful in the early stages of industrialization when supply of unemployed labor is very large. He goes on to say: "Taiwan and Korea, having been pioneers in the establishment of the Economic Free Zones in the late 1960s and early 1970s, have more recently become considerably less interested in this type of enclave development."

Lütkenhorst (1988) is also rather skeptical of the prospects of the traditional FEZs. He argues that the main attractions for past investments in such zones had disappeared by the mid-'eighties. [2] The bulk of recent foreign direct investments were motivated by factors which the FEZs in the developing countries cannot address. Investments have been directed to industrialized areas - to anticipate the completion of the unification of the European Economic Community in 1992, to overcome trade restrictions against Japanese automotive manufacturers in the US, etc.

Moreover, cheap labor has ceased to be a major economic factor. With modern microelectronic-based technology, labor accounts for a small and diminishing share of total costs. By contrast infrastructure, including advanced telecommunications

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[1] P.G. Warr (April 1988)" Export Processing Zones; The Economics of Enclave Manufacturing", Working Paper no.88/5, (Canberra, The Australian National University)

[2] W. Lütkenhorst (September/October 1988) "Challenges from New Trends in Foreign Direct Investment", Intereconomics.

and computing services, assumes an increasingly important role in the list of requirements of foreign investors. It is not sufficient for the free zone to offer attractive terms; the zone must be integrated into an advanced economy with a modern infrastructure and services.

Lütkenhorst advises the governments which control FEZs to modify their rules concerning export requirements. They should adopt more flexible rules concerning exporting, they should allow more local sales, they should allow local firms to invest in the zones, they should allow joint ventures and close business relations between firms operating in the FEZs and outside firms - subcontracting, for example. Governments should, in other words, break down the barriers between FEZs and the rest of the economy, despite the technical and administrative difficulties involved in controlling and policing the interactions between the economic entities operating inside the free zones and those operating outside them .[1]

Shenzhen Special Economic Zone in the People's Republic of China

This section contains a fairly detailed description of the Shenzhen Special Economic Zone in the People's Republic of China as reported in a study published in 1985 by V.F. Sit.[2] As the story unfolds it will become clear to the reader why the zone, its goals, administration and modes of operation are of particular relevance to our study.

Shenzhen is the first, largest and probably the most advanced special economic zone, the term used by the authorities of the Peoples Republic of China to describe the free economic zone model used in that country.

Special economic zones in China as elsewhere are set up to provide an environment which foreign firms find acceptable for their operations. The area covered by the Shenzhen special economic zone, which is geographically adjacent to Hong Kong, is

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[1] For a recent study of the role of free economic zones in the changing Eastern European economies, see United Nations Centre on Transnational Corporations (March 1990) "The Role of Free Economic Zones in the USSR and Eastern Europe" UNTC Current Studies Series A No 14.

[2] See V.F. Sit (March 1985) "The Special Economic Zones of China: A New Type of Export Processing Zone?" The Developing Economies, vol.23, no.1.

physically shut off from the rest of the country. Chinese and foreigners alike require special permission to enter the areas covered by the special economic zone and to work there.

Foreign investors are offered numerous and varied incentives:

1. Investors are free to choose the institutional mode they prefer, which means they may own and control their operations. Contrary to the requirement in several other socialist countries, they are not obliged to enter into any kind of partnership with local organizations, though some choose to do so on a voluntary basis.
2. Investors are entitled to employ foreign managers, engineers, and technical personnel. These employees are entitled to special entry and exit arrangements.
3. Machinery, equipment, spare parts and materials needed for current production may be imported freely, and are exempted from import duties and import regulations.
4. Investors enjoy special tax treatment, including partial exemption from income and other taxes. Reinvested profits are tax exempt.
5. Profits may be repatriated in foreign currency without limitations.

Some investors have been offered additional incentives, especially in the form of access to the huge domestic market. Others have been obliged to export their entire output, and thus generate directly the foreign exchange needed to "service" their investments.

The incentives offered by Shenzhen have attracted investments by numerous foreign firms, especially from neighboring Hong Kong.The sectorial distribution is quite wide and includes textiles, clothing, electrical and electronic appliances (including color TV and telephones), plastics, food and beverages, metals and machinery, furniture, pottery, ceramics, air conditioning, and tableware industries.

Shenzhen is regarded by the government of the People's Republic of China as a laboratory for social, administrative, and economic experiments. The internal administration is entrusted to the Zone Authority, a joint venture between a local firm, owned and controlled by the government, and a capitalist firm from Hong Kong. The Authority provides many of the essential services, including

transportation, telecommunications, banking and other infrastructure services . It also takes care of housing, training, and medical services.

Enterprises can choose their employees from a list compiled in cooperation with the Zone Authority. Wage rates are established by negotiations between the Zone Authority and representatives of the government. A certain percentage of the wages is paid to the Authority, which uses these proceeds to provide pensions, and to subsidize housing and other public amenities. Employees of firms operating in the Zone may be hired and fired at the employer's discretion.

Next,we consider the relevance of the Shenzhen Special Economic Zone to the situation in the Gaza region, recalling that the Zone was set up by the Chinese government to provide an environment for the interaction of the socialist economic system of the People's Republic of China and the capitalist system under which the foreign investors normally operate.

Note that the economic regime governing the special economic zone is capitalist, but the political control is exercised by the government. The special zones constitute, in the words of Sit, "a joint venture between socialism and capitalism where socialism is in control." The Zone operates under the political sovereignty of the People's Republic of China, which has the legal right and the actual ability to withdraw at any time the "concessions" it had voluntarily made to the capitalist firms. However, it is generally expected that unless extreme and unforeseen conditions develop, the right will not be exercised. This expectation, moreover, is based on the knowledge that unilateral revocation of the special economic zone status will be against the economic interests of the People's Republic of China. The price to be paid for such a decision is so high that it will be taken only in extreme circumstances..

It may be assumed that by setting up the Shenzhen Special Economic Zone on the border of Hong Kong, the Chinese government had another goal in mind: to provide a mechanism which will ease the forthcoming political unification between the People's Republic of China and Hong Kong scheduled for 1997. The Zone demonstrates to the residents of Hong Kong that the People's Republic of China intends to keep its obligation under the 1982 agreement with the United Kingdom which stipulates that the capitalist system will be retained in Hong Kong after 1987. The fact that the Chinese government unilaterally has decided to establish and

maintain special economic zones constitutes a signal that it regards the existence of the zones to be consistent with China's interests. If capitalist enclaves are tolerated elsewhere in China, there is no reason to expect that they will be wiped out in Hong Kong, where the economic price of such an action will be extremely high.

The special zones, which are essentially economic mechanisms, thus fulfil an important political function. They serve to reassure the population of Hong Kong that the Chinese government intends to keep its treaty obligations by unilaterally raising the economic price which China would have to pay, should it decide to renege on its 1982 treaty with the United Kingdom. However, while going to great lengths to reassure its future Hong Kong subjects about its intentions, the government of the People's Republic of China insists on retaining formal sovereignty, thus serving notice to the outside world that the status of Hong Kong could be unilaterally revoked at any time[1].

A free economic zone in the Gaza region could perform a similar function.[2]

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[1] The events leading up to and following the Tienenman Square riots and massacre also serve as a grim reminder to the world of the price which the regime is prepared to pay to preserve the system.

[2] For a similar approach, see M. Frazier (undated) "A Free Zone for the West Bank", A Ripon Policy Proposal (Washington, The Ripon Society).

2.THE POLITICAL DIMENSION

Why Gaza?

With a population of over 600,000 inhabitants the Gaza region is facing serious economic problems, requiring urgent attention. A high proportion of its income is derived from the earnings of workers employed in Israel, where they perform mostly menial jobs in agriculture, services, construction, food processing, and the textile and clothing industries. Employment opportunities in the Gaza region itself are scarce because of the shortage of arable land, the dwindling supply of sweet water, the low level of the infrastructure and the near absence of indigenous industry.

If the region is to support its relatively large and fast-growing population, its economy must be totally restructured. Economic development cannot be based on traditional agriculture because of the shortage of arable land and the dwindling supplies of sweet water. The orientation must be on industry in general, and export-oriented industries in particular.

Industrialization in turn will depend on the development of an infrastructure, including roads, harbors, and telecommunications services. While the task is enormous it is not beyond the realm of possibility, as has been demonstrated in recent decades by small, island-like enclaves, such as Hong Kong and Singapore. Like Hong Kong and Singapore, Gaza has a major economic asset in its labor force, which is fairly well educated, and has had some industrial experience in Israel. If capital resources can be mobilized, and access to markets assured, the task of building an industry-oriented economic base in Gaza might prove to be feasible. However, its realization is bound to take years, even if substantial external resources are mobilized to support the effort and to accelerate the pace of economic development. Time, therefore, is of the essence and every effort should be made to get on with the job as soon as possible. It is in this context that the idea of a FEZ in the Gaza region should be examined.

A FEZ owned and controlled by the residents for their own benefit provides visible evidence of economic independence and could, under the right circumstances, offer both political and economic dividends.

Why a Port?

Given the scarcity of land and water, and the relative abundance of labor in the Gaza region, it appears that industrialization offers the most promising avenue for economic development. The FEZ should therefore seek to attract investments in industrial enterprises. These, in turn, will have to produce goods intended for external markets, since local demand will be insufficient to support more than a handful industrial enterprises of minimum efficient scale. To attain such a scale most enterprises will have to export a high proportion of their output.

Identification of products which might be competitively produced in the FEZ requires a detailed feasibility study which is clearly beyond the scope of the present essay. Here we intend to focus on a specific project which could become one of the FEZ's cornerstones - a deep sea port.

Let it be said at the outset that if economic factors alone were to determine the selection of projects undertaken in the FEZ, a port would not necessarily be viable. As long as Israel's existing ports of Ashdod and Haifa have spare capacity, potential customers would be better served by them. Scarce capital which could be allocated to alternative projects could thus be saved and put to more profitable use.[1]

While this argument has some merits, it overlooks an important point. The economic prosperity of the FEZ and its hinterland will depend on international transactions. A FEZ may be able to trade and engage in other forms of economic transactions with at least some Arab countries, even before comprehensive peace between Israel and its Arab neighbors is established. A port located in the Gaza region and operated as part of the FEZ will facilitate such transactions. Access to a

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[1] Moreover, even if the capacity of the existing ports is fully utilized, it is less costly to expand an existing port than to build a new port from scratch.

For a comparison of the economic merits of serving Jordan and a number of Gulf states from Gaza and Ashdod, see A. Tal, H. Wolpert and S. Bahiri (June 1988) Regional Cooperation in the Development of Transportation Infrastructure in the Middle East. (Tel Aviv University, The Armand Hammer Fund for Economic Cooperation in the Middle East.

port owned and controlled by the residents of Gaza and managed for their benefit would therefore greatly enhance the FEZ's economic and political attractiveness.

This does not mean that the the Gaza port would or should be built regardless of economic considerations . Bearing in mind that resources such as capital are scarce, building the port means that other, possibly more profitable projects have to given up. Consequently, even if the port project is technically feasible, it may not be built if it will be regarded as a poor investment. Only if expected net benefits, discounted at the appropriate cost of capital, exceed capital outlays, does construction of a new port make economic sense.

In the following chapters we develop an analytical framework based on more or less orthodox cost/benefit analysis methods for assessing the port's economic feasibility .

There are, however, additional political dimensions to the port. These must be dealt with before proceeding with the economic analysis proper. They pertain to two issues of major importance: the clientele which the port can be expected to serve, and the division of net benefits between the entities which have a stake in the port. The two issues are of course related as will be presently demonstrated.

The Port's Clients.

If use of the port were to depend on economic considerations alone, then potential clients would be easily identified. This could be done by with the help of location models which take into account factors such as overland distance between the customers and competing ports, maritime distance between the ports of origin and destination, availability and cost of existing and projected modes of transportation, distribution of imports and exports, and density of the population, as well as the facilities and prices of the services offered by the different ports.

A look at the map suggests that potential clients can be drawn from among the residents of adjacent areas, namely the Territories, Israel, Egypt (especially Sinai), Jordan, and possibly, Iraq or other Gulf states. However, economic criteria are unlikely to be the only determinants of the clientele which the port can expect to serve. Nation states have traditionally sought to protect domestic enterprises by

imposing tariff and non-tariff barriers to ensure their survival against foreign competition. In the case under consideration, traditional mercantile sentiments may well be reinforced by political concerns which may prevent the use of the port by some of its potential customers. Residents of Egypt and Israel might belong to this category.

Consider Egypt first. Egypt had always made it clear, even when it occupied the Gaza region between 1948 and 1967, that it regarded Gaza as foreign territory. Consequently, Egypt is unlikely to accept any responsibility for the welfare of Gaza or the rest of the Territories. A port in Gaza would compete with Egypt's own ports of Port Said, Alexandria, and the smaller ports of the Red Sea. In addition, Egypt would lose some of the revenues it is getting from ships using the Suez Canal, if the Gaza port were to serve Jordan and some of the Gulf states. Consequently, Egypt appears to have neither political nor economic motives to support the port. We therefore assume that the port will not serve Egyptian clients.

The position of Israel is more complex. To see why this is so let us focus on the economic issues first, and then examine their political implications.

Suppose that Israel and the Territories formed an economic union. In that case, would it make sense, from Israel's point of view, to be served by a port in Gaza? The answer might be positive if we bear in mind the potential benefits offered by the port's location to customers in southern Israel, who are at present served by the more distant port of Ashdod. In fact, if such an economic union were formed, the northern part of Israel and theTerritories would best be served by the port of Haifa, the central parts by the port of Ashdod, and the southern part by the port of Gaza.[1]

Timing is of course also a factor, since the port of Ashdod already exists, whereas the Gaza port does not. Hence, as long as the port of Ashdod has excess capacity, its services can be provided without requiring additional capital outlays. Moreover, if expansion of the port of Ashdod requires only modest capital expenditures, it may still compete effectively with the Gaza port which will require massive capital investments. Only in the longer run will the combination of shorter distance to the

[1]Elath would continue to serve as the gateway to ports of origin or destination east of the Suez Canal.

investments. Only in the longer run will the combination of shorter distance to the customers with their expanding demand outweigh the negative effects of the larger capital requirements, and thereby justify the establishment of a separate port. When this time comes, and it might well be close at hand, due to the large scale immigration into Israel which increases the demand for port services, a new port located in the Gaza area may well make economic sense from Israel's point of view.

An alternative view to the one described above advocates the expansion of the port of Ashdod, and the construction of an appropriate road network to take care of Israel's growing requirements for port services. Overall capital outlays associated with this alternative are likely to be modest, when compared with the investment requirements of a new port. Moreover, expansion of the Ashdod port obviates the need to face the complex political implications of depending on a port located in the Territories.

Which of these views is correct? Clearly the answer requires an analysis which goes way beyond the scope of this study. Where does all this lead us to when we consider the sources of demand for the port's services? Should we, or should we not consider Green Line Israel as a potential customer of the Gaza port? As in the case of Egypt, we opted for the conservative approach. This approach calls for the examination of the economic feasibility of a port serving only the Territories, and possibly other Arab customers. If such a port passes the feasibility test, it may well serve additional customers. If it fails the test, its dependence on Israeli customers may in any case make it less attractive to the Palestinians.

This line of reasoning is in full agreement with the view that economic integration between Israel and the Territories is consistent with very different political arrangements. Moreover, there is no denying that it can bring very substantial economic gains to both sides. Economic integration could serve as an important instrument of enhancing the peace process, and, more importantly, of cementing a peace agreement, as the history of post-World War II western Europe has so convincingly demonstrated.[1] Economic integration, however, is not a **necessary**

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[1] For a conceptual approach to the integration of the political and economic aspects of the Middle East Peace process see R. Arad, S. Hirsch and A. Tovias The Economics of Peacemaking.- Focus on the Egytian-Israeli Situation (London,Macmillan for the Trade Policy Research Centre, 1983).

pre-condition for peace, and it may be objected to, or at least viewed with suspicion by either side for political reasons. It is for these reasons that we decided to base our analysis on the following assumptions regarding the policy of the Israeli government towards the Gaza port:

1. Construction of the port will be permitted.
2. The port will be part of the Gaza economic zone.
3. The port will not be permitted to serve the Israeli market.[1]
4. The port will be permitted to serve the Territories.
5. The port will be permitted to serve Jordan and other Arab countries even before formal Arab-Israeli peace treaties are signed.

Turning to Jordan, we note that it has no direct access to the Mediterranean Sea. Goods imported from North African, European and North American ports or goods destined for them are at present shipped via the Suez Canal, and loaded or unloaded at the port of Aqaba which is located on the Red Sea, over 300 kilometers south of Amman, the country's capital.[2]

A glance at the map shows that access to the Mediterranean via Gaza, which lies about 200 kilometers west of Amman, offers potential cost savings. Both the sea journey and the journey over land can be shortened, thus saving time and money. Moreover, Jordan, whose inhabitants include a high proportion of Palestinians, presumably has an interest in a political settlement of the conflict between Israel and the Palestinians. This positive attitude could, under the right circumstances, be translated into an agreement to allow Jordanians access to the port's services.

The Jordanian attitude towards the port project will, however, undoubtedly also be influenced by the fact that use of the port would divert business away from the port

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For a detailed analysis of the potential for economic cooperation between Israel and its Arab neighbors see, H. Ben-Shahar, G. Fishelson and S. Hirsch,with M.Merhav (editor) Economic Cooperation and Middle East Peace (London, Weidenfeld and Nicholson,1989).

[1] A more logical arrangement is for the Israel Port Authority and the Autonomy to agree on a quota of shipments which will be based on estimated demand of the Autonomy's residents for port services. Such an arrangement can reduce overall costs of using the ports since customers in the Negev may prefer to use the port of Gaza, and customers from Samaria may prefer to use the port of Haifa.

[2] Unless otherwise stated, we assume that the capital of a country is its economic center of gravity, which is the source of all exports, and the destination of all imports.

of Aqaba, the country's only outlet to the sea. Moreover, the Jordanian government may be reluctant to do business with a port controlled by Israel. Since we are unable to foretell how these issues will be resolved, we present two sets of calculations, one which takes into account Jordanian clients, and the other which excludes them.

Finally there are Iraq and possibly other Gulf states. During the eight-year war with Iran, Iraq used the Red Sea port of Aqaba as a substitute for its own port of Basra which was blockaded. Would Iraq be interested in using the services of the Gaza port? Fortunately, perhaps, we do not have to speculate about the answer to this question. Our calculations, discussed in the following chapter, show that use of the port by Iraq is ruled out on the basis of economic considerations. Under these circumstances there is no point in proceeding with fruitless political speculations.

In conclusion, two sets of calculations are presented in this study: The first is based on the assumption that the port will serve two areas - the Territories and Jordan, and the second, that the port will serve only the Territories.

After dealing with the political framework we turn to the pure economic aspects of the project. The analysis is broken down into the following stages:

1. Estimate of the potential savings which the port may generate.
2. Estimate of the demand for the port's services, given the political constraints and the economic conditions under which the port is expected to operate.
3. Estimate of the capital requirements and of the operating costs.
4. Estimate of the cost/benefit relationships.

3. POTENTIAL SAVINGS

The political considerations discussed in the last chapter constitute constraints which define the territories from which demand for the port's services is expected to originate - they prescribe, in other words, maximum **potential** demand. For this potential to be translated into actual demand, it is necessary for the port to offer potential customers services which can in some sense be superior to those offered by competing ports. Distance is such a factor. To evaluate the effect of distance properly, it is necessary to take into account the volume and composition of the cargo likely to handled by the port. We therefore start with an analysis of these issues.

Types of Cargo, Types of Vessels and Prices[1]

The composition of the cargo which the Gaza port can expect to handle determines the type of the ships used, the level of investments in the port and its operating costs, as well as the prices of the services which different users will be charged. These, in turn, will determine the potential competitiveness of the port.

Three types of cargo were considered: bulk, containerized and general.

Bulk cargo is usually transported in specialized ships specifically designed and equipped. Handling of bulk cargo requires special equipment and storage facilities at the ports of origin and destination. Oil, grain, phosphates, and potash are examples of commodities typically transported as bulk cargo.

Containers are used to transport a large variety of goods. The containers, in standard sizes, are conveyed by specialized equipment and are stacked on specialized container vessels, carrying a large number of them. Loading and unloading is fast and efficient, storage can be away from congested port areas, and the containers themselves can be loaded and unloaded on the premises of the customers.

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[1]We gratefully acknowledge the help of the Wydra Institute for the Study of Shipping and Aviation Research, at Haifa University for supplying us with the information and data on which this section is based.

General cargo is the term used to describe the remaining types of cargo, which is individually packaged, and loaded by conventional methods onto the hold of general purpose ships. These are typically smaller than the bulk and container carriers discussed above.

The economics of transporting the three cargo types are of course different. Container and bulk cargoes require large investments in specialized ships, port facilities, equipment and storage areas. These investments facilitate substantial cost savings which can be realized if the rate of capacity utilization is sufficiently high. By comparison handling of general cargo requires smaller investments in non-specialized ships, port facilities and equipment. While the fixed costs associated with general cargo are typically low in relation to bulk and container cargo, variable costs tend to be much higher, due to the slower pace of loading and unloading. Total unit costs will depend on the utilization rate of port facilities at both ends, and on the utilization rate of the ships, which is highly influenced by their success in obtaining return cargo.

The price charged for sea transportation varies not only with distance and type of cargo carried, but also with the type of service used. Shipping services are provided by regular lines, by charter companies (tramps), and by ships which are owned or leased by the user. Let us consider these options briefly.

Regular lines provide reliable and predictable services similar to those provided by scheduled airlines, railways or bus companies. Rates, type and frequency of service are determined periodically by the providers of the service or by the conference of the shipping companies which operate the service. They are rarely negotiable and are altered infrequently. Regular lines are sometimes operated by individual companies. Frequently they are operated by shipping conferences, formed by independent shipping companies which cooperate in establishing routes, ports of call, sailing schedules, and of course, fixing prices.

Charters operate on an irregular basis, as and when the demand for their services arises. Rates are typically negotiated on an ad hoc basis, depending on supply and demand conditions prevailing at the major maritime transportation centers, such as

London and New York.They tend to vary over time and by location, as conditions of supply and demand fluctuate.

The use of captive fleets by large companies which have a regular and substantial demand for shipping services is less common. However, oil producers and other suppliers of bulky natural-resource-based products, sometimes prefer to use their own vessels, or long-term charters to transport their products from the country of origin to their destinations.

We were advised by the Wydra Institute that for the purpose at hand, charter rates are probably the most appropriate. We accordingly requested the Institute to provide us with their estimates of charter rates and these were used as the basis of our calculations. The estimates of rates for container and for bulk cargo based on 1988 costs and prices are detailed below.[1]

Container services:

ship's capacity - 900 containers of 20 feet
speed - 14.4 knots per hour
charter rates per day - $ 7,500
cost of fuel - $ 73 per ton
charge for one-way use of the Suez Canal - $ 9.1 per containerized ton
average weight per container - 13 tons

Bulk carrier services:

ship's theoretical capacity - 60,000 tons
actual capacity - 57,000 tons of cargo
charter rates - $ 5.5 per ton of theoretical capacity per month
speed - 13 knots per hour.
cost of fuel - $ 73 per ton.
charge for two-way use of the Suez Canal - $ 130,000[2]

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[1] Specific estimates of the volume of the three types of cargo handled by the port of Aqaba, our reference port, suggest that total unit costs of general and containerized cargo is likely to be of a similar order of magnitude. Consequently, at the suggestion of the Wydra Institute, we did not distiguish between general and containerized cargo .

[2] The calculations are based on the assumption that ships carrying containerized and general cargo are able to obtain cargo for the return voyage while bulk carriers have no return cargo

The above figures are used to calculate the costs of transporting cargo to potential customers of the Gaza port. To perform these calculations it is necessary to take into account the effect of distance, which is considered next.

Distance and the Modes of Transportation

If, other things being equal, the overall distance which cargoes have to be conveyed between the point of origin and the final users can be shortened by using the port of Gaza, then the project can be said to offer potential savings which serve as the basis for evaluating its economic worth.

To evaluate the effect of distance, it must be broken down into two elements: distance by sea and distance over land. Typically, cost of land transportation per kilometer is higher than the cost of sea transport; hence the two elements must be considered separately.

For reasons discussed in chapter 2, distance is of no relevance to the Territories, Egypt and Israel. Our analysis therefore assumes that the Territories' entire requirements for port services will be provided by the Gaza port, and that Egyptian and Israeli customers will be denied access to the port by their respective governments. Distance, in the case under consideration, is a relevant factor only to Jordan and Iraq.

Considering Jordan first, we assume that with certain important exceptions, to be noted later, Amman, the country's capital, is both the origin and destination of all internationally traded goods. Presently, goods coming from European and North American ports, or Jordanian goods intended for these destinations, are shipped via the Suez Canal, to be loaded or unloaded at the port of Aqaba .

The distance between Amman and Gaza is 187 kilometers, whereas the distance between Amman and Aqaba is 336 kilometers. Use of the Gaza port thus generates potential savings due to the shorter sea route, and the shorter overland route. Considering the sea route first, we note that use of the Gaza port rather than Aqaba makes it possible to save both time and the Suez Canal dues. These savings are

conservatively estimated at $10.65 per ton.[1] Comparisons of land transportation costs must, however, take into account the fact that goods hauled between Amman and Gaza will be transported by road, while goods hauled between Amman and Aqaba may be transported by rail. Rail transportation is of course considerably cheaper, saving about 2.5 cents per ton/kilometer.[2] Overall, transportation via Gaza makes it possible to save on land transportation about $1 per ton of containerized or general cargo.

Adding this figure to the savings obtained from use of the shorter sea route, we arrive at a figure of $11.65 per ton of containerized and general cargo. This last figure then forms the basis for the remaining calculations.[3]

The calculation for bulk cargo is somewhat more complicated. Jordan's bulk cargo consists mostly of chemicals: phosphates, fertilizers and potash exports, where the point of origin is Es-Safi near the Dead Sea, and not Amman. The distance between Es-Safi and Aqaba is 198 kilometers. Cost of transporting bulk cargo by road via Gaza exceeds the cost of transportation by rail to Aqaba by $10 per ton. Deducting these extra costs from the savings of $3.20 made possible by the shorter sea route via Gaza, we conclude that the net savings on transportation of bulk cargo are negative. Needless to say, the same conclusion applies to transportation of cargo between Es - Safi and ports east of Suez, in which case use of Aqaba shortens overall distance, and saves the Suez Canal dues.

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[1] If vessels are unable to obtain return cargo, savings generated by the use of the port will increase further.

[2] Cost of transporting containerized or general cargo by rail between Aqaba and Amman - 2,5 cents per ton/kilometer. Cost of transporting similar goods by road - 5.0 cents per ton/kilometer. Costs of transporting bulk cargo - 4.3 cents per ton/kilometer.

[3] Estimated savings generated by the use of the Gaza port as reported in the Tal, Wolpert and Bahiri study mentioned in chapter 2 are somewhat higher. The difference is attributed to the following: Tal, Wolpert and Bahiri do not distinguish between different kinds of cargo. They disregard the effect of the 37 kilometers distance between Gaza and Ashdod. The extra distance increases the cost of road transportation by about $1.90 per ton of general cargo. Finally Tal Wolpert and Bahiri estimated the cost of road transportation at 3 cent per kilometer, 2 cents less than the figure used by us. For more details see chapter 5.

In the case of Iraq the analysis is more complicated. The calculations are again based on the assumption that all goods shipped to the the country are destined for Baghdad, the capital, and that Baghdad is likewise the source of all the goods exported from Iraq. The sea route between European, North African or American ports and Baghdad extends across the Mediterranean, the Suez Canal, the Persian Gulf, the Hormuz Straits and the Shatt El Arab. Goods are loaded or unloaded in the port of Basra, and transported overland, over a distance of four hundred kilometers, to or from Baghdad. Goods between these points can be transported by road, by rail and by river, the first alternative being the most costly.

The overland distance between Baghdad and Gaza is 1085 kilometers. Goods transported between these two points will have to be shipped by trucks, using the roads which connect Iraq to Jordan , and Jordan to Gaza via Israel.

Using these figures we calculated the net costs of transporting goods between Baghdad and Gaza by road (net costs equal the costs of transportation by road between Baghdad and Gaza less the cost of transportation by road between Baghdad and Basra).[1] The figures are $34.3 per ton of containerized goods and $29.5 per ton of bulk cargo. These costs, which represent the additional outlay on overland transportation between Gaza and Baghdad, must be deducted from the savings on sea transportation which the use of the Gaza port makes possible. The conclusion is straightforward - the use of the Gaza port for transportation of goods to Iraq does not make economic sense, This option is therefore not considered further in the analyses which follow.

Table 3.1 summarizes the differences between the costs of the different modes of transportation and the different points of origin and destinations discussed in this chapter.

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[1] This method of calculation is biased in favor of the Gaza port. Note that net costs for transportation by river or rail would be higher since road transportation is the most costly form of transportation between Baghdad and Basra. A higher net cost makes the use of the Gaza-Baghdad route less desirable since the economic feasibility of the route is determined by deducting the net costs of overland transportation from the savings generated by the use of the shorter sea route via Gaza.

Table 3.1

GAZA PORT - POTENTIAL SAVINGS FOR CUSTOMERS IN IRAQ AND JORDAN

Difference in cost of transportation

($ per ton)

	by sea		overland		total	
Route	bulk	container	bulk	container	bulk	container
Baghdad/Gaza	n.a.	17.6*	(29.5)	(34.3)	n.a.	(16.7) *
Amman/Gaza	3.2	10.7	(0.4)	1.0	2.8	11.7
Es-Safi/Gaza	3.2	n.r.	(10.0)	n.r.	(6.8)	n.r.

n.a. data not available

* Assuming use of road transportation between Baghdad and Basra. Use of rail transportation would increase the difference to $26.7

n.r. not relevant

Summary

The port of Gaza cannot provide a competitive alternative to the port of Basra under normal conditions. Savings of $17.6 per ton of containerized or general cargo, by using the shorter sea route which Gaza facilitates will be insufficient to pay for the extra costs of overland transportation between Gaza and Basra. The extra costs of using the Gaza port for containerized cargo would be at least $16.7 per ton. We do not have the data needed for calculating the costs and savings associated with bulk cargo. There is, however, little doubt that the outcome will be even less favorable to the Gaza port.

The Gaza port can provide a competitive service to Jordan in containerized in general, and in bulk cargo. The savings on the last category are, however, marginal. Moreover, bearing in mind that a high proportion of trade in this category consists of exports of potash, fertilizers and phosphates, this conclusion is of little significance since the port of Aqaba is in any case preferable to Gaza for cargoes which originate near Es-Safi. Imports via Gaza of bulk cargo for destinations in the vicinity of Amman appear to be economically feasible.

Following these findings we limit the remaining analysis to two alternative scenarios regarding the customers of the port:

1. The port will serve only the residents of the Territories.
2. The port will serve both the Territories and Jordan

4. DEMAND

Introduction

Demand for the services of the Gaza port will depend, as was noted in the previous chapters, on a complex combination of political and economic considerations. Having concluded the Territories and possibly Jordan are likely to be the only initial customers of the port, we proceed in this chapter to estimate the composition and volume of demand which can be expected from these entities.

The cost/benefit analysis developed in the following chapters has a time horizon of up to thirty years, starting in 1995 and extending to 2025. Estimates of demand which constitutes the basis for forecasting revenues, costs, investment requirements, etc., are based on the above time frame. This obliges us to take into account medium-term population trends and expected changes in national income. In addition we consider the distribution of imports and exports, by commodity type and by geographic origin and destination.

For reasons which will be clarified later the analysis starts with Jordan.

Jordan's Economic Interest in the Port

The economic basis for Jordanian demand for services of the Gaza port was demonstrated in the last chapter, which showed that use of the Gaza port by Jordan for cargo shipped to and from Europe and America is expected to generate cost savings of over $11 per ton of containerized cargo, and close to $3 per ton of bulk cargo. These gross savings will presumably be divided among the different interested parties: the Territories, Jordan and Israel. Given the permission to choose, Jordanian customers will presumably use the services of the Gaza port if they can benefit from some of the savings listed above. Assuming that this will indeed be the case, we proceed with estimates of Jordanian demand.

The Jordanian census of November 1979 (the first taken since 1961) estimates the country's population to be 2.1 million, including over 100 thousand foreigners

residing in Jordan, but excluding Jordanians living abroad. The Department of Statistics estimated that by 1985 the population had grown to 2.7 million, suggesting a growth rate of 3.8% per annum, between 1979 and 1985. It is estimated that growth of the indigenous population accounted for 3.4% of the total and immigration for the rest. We assume that the population will continue to grow at an annual rate of 3.4% in the foreseeble future.[1]

Between 1971 and 1981 imports, measured in constant prices, rose by 17% per annum. More moderate increases characterized the 1982-88 period, when imports rose by only 3% per annum . The decline in import growth rate is explained by the economic downturn caused by the decline in transactions with the Gulf states, which was accompanied by imposition of higher tariffs to conserve scarce foreign exchange, and a sharp downturn in investment (see Table 4.1).[2]

Imports from the Arab countries were of minor importance, except of course for oil imported from Saudi-Arabia and, more recently, from Iraq. Western Europe, North America and Japan have been Jordan's major suppliers of both consumer and capital goods, accounting for 65 to 70% of total commodity imports, excluding oil.

Our estimates of Jordanian demand for Gaza port services assume that the geographic distribution of imports will not change in the foreseeble future. Specifically, we assumed that 60% of Jordan's imports, excluding oil,will originate in North America, Europe and North Africa. As noted earlier, Gaza enjoys a potential competitive advantage over Aqaba in the supply of port services for goods originating in these regions.

It is assumed that demand for imports will grow at 3% per annum until 1995 and that it will accelerate to 3.5 percent per annum thereafter (in line with the growth

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[1] For more details about Jordan's economy, see, E. Kanovsky (May 1989) "Jordan's Economy: From Prosperity to Crisis", Occasional Papers no.106 (Tel Aviv, The Shiloah Institute). See also, Central Bank of Jordan, Twenty Fifth Annual Report - 1988 (Amman) and the Economist Intelligence Unit (1990) Jordan - Country Profile 1989 -90 (London).

[2] The effects of the Gulf War, which will undoubtedly be negative, will further reduce the volume of Jordan's international trade. These effects are not considered in this study.

rate of the population). We used average import figures for the 1986-88 period (2.6 million tons) as the basis for extrapolation into the future.

Since 1960, the composition of exports has changed substantially. Phosphates, potash, fertilizers and other chemicals accounted in 1988 for almost three quarters of Jordan's commodity exports, and a wide variety of manufactured goods for the remainder. The latter include light industry products such as cigarettes, wood products, soap and detergents, pharmaceuticals, textiles, batteries, ceramics, plastics, furniture and various household items, as well as building materials.

With the exception of potash , fertilizers and phosphates which were exported mostly to India and other Asian as well as East European countries, most exports are destined to Jordan's Arab neighbors. Between 1984 and 1988 they accounted for 40-50% of the country's commodity exports, with Iraq and Saudi Arabia accounting for about 70% of the total. India accounted for 15-17%, and Japan for another 2-3%. During 1986-1988, the European Community accounted for 7-8% of Jordan's commodity exports.

The Port of Aqaba.

The bulk of Jordan's overseas trade has been shipped through Aqaba, the country's only outlet to the sea . Utilization of the port increased substantially through most of the 'eighties when, due to the escalating Iran-Iraq war, the port was used increasingly by Iraq as a substitute for the besieged port of Basra.

The distribution of shipments loaded and unloaded at Aqaba during the 1984-1988 period is shown in Table 4.1. The volume of shipments increased from 13.5 million tons in 1984 to about 20 million tons in 1988. Of the total increase, transit shipments, mostly for Iraq, increased from about 4 million tons in 1984 to nearly 10 million tons in 1988. Exports of phosphates increased during the same period from 4.7 million tons in 1984 to 5.8 million tons in 1988.

Average volume of exports from the port of Aqaba for the 1986-88 period reached 348,000 tons per annum, after deducting phosphates, potash and fertilisers from the total. To be on the conservative side, we assumed that of this amount, one half is

destined for Europe and North America, and that the volume of exports will remain unchanged until 1995. Thereafter it is assumed that exports (like imports) will increase at the rate of 3.5 percent per annum.

Table 4.1
FREIGHT PASSING THROUGH THE PORT OF AQABA, 1984-1988
(in thousand tons)

Year	1984	1985	1986	1987	1988
LOADED	7,158	8,178	9,696	11,272	10,953
Exports	5,684	6,082	6,959	8,045	7,935
phosphates	4,715	4,609	5,198	5,543	5,811
fertilizers	638	519	552	575	600
potash	295	898	1,125	1,205	1,285
other	36	55	84	722	238
Re-exports	59	49	36	49	19
Transit etc.	1,415	2,046	2,701	3,178	2,999
UNLOADED	6,448	6,370	7,153	8,744	9,143
Imports	3,228	2,362	2,691	2,802	2,213
Transit	3,220	4,008	4,463	5,941	6,930

Source : 1988 Annual Report - Central Bank of Jordan ,Table 46

Since the end of the Iran-Iraq war in 1988, demand for the port's services has declined and Aqaba has been suffering from substantial under-utilization of capacity.This factor will undoubtedly influence the willingness of the Jordanian government to allow its citizens to avail themselves of the services offered by the Gaza port.

Jordanian Demand

As noted in chapter 2, Aqaba is closer to Jordan's phosphate mines and to Es-Safi on the Dead Sea where the potash is produced, than Gaza. Moreover, a high proportion of Jordan's natural resource exports are shipped to India and the Far East, destinations which are closer to Aqaba. Our estimate of Jordan's demand for the services of the Gaza port therefore excludes exports of natural-resource-based materials.

Next, we examine the distribution of Jordan's international commodity trade by type of cargo, distiguishing between general, containerized and bulk cargo. This information provides a basis for calculating the port's revenues, as well as investments in the port's capacity, facilities and handling equipment. Information provided by the Wydra Institute suggests that the differences between the net benefits derived from a ton of containerized and general cargo are marginal. The distinction between these different kinds of cargo is therefore important mainly for the purpose of estimating outlays on cranes and other types of equipment used by the port.

The figures in Table 4.2 provide the basis for our estimates of the potential demand for bulk cargo services. Columns 2 to 5 show imports of the commodities normally transported in bulk, in the 1983-86 period.[1] To minimize the effect of random changes, the 1983-86 figures were averaged, as shown in column 6. Next the share of imports originating west of Suez, i.e., in North America , Europe and North Africa was calculated, in percent of the total (see column 7) .[2] This was the basis for the estimates of Jordan's imports from the above areas of commodities transported in bulk (column 8). Assuming that demand will grow at an annual rate of 3% and that geographic distribution will remain unchanged, we estimate Jordanian demand for bulk cargo to reach 1.14 million tons by 1995, the year in

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[1]Source: United Nations, Yearbook of International Trade Statistics for the years, 1983,1984, 1985, 1986.

[2]Regrettably we had to use 1983 figures as the basis for the geographic distribution of imports since we could not gain access to more uptodate figures. See United Nations, Commodity Trade Statistics - 1983. Statistical Papers. Series D. Vol.XXXIII No.1 - 21.

which the port is expected to commence operations. If geographic distribution remains stable, these cargoes will be competitively handled by the Gaza port.

Table 4.2
IMPORT OF BULK COMMODITIES INTO JORDAN
Totals, and Share of Western Trade
(in thousands of tons, 1983 - 1986)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
						Share of Western	
Commodity	1983	1984	1985	1986	83-86	Trade	
					average	in %	'000 tons
fodder	23	53	55	78	52	100	52
wheat	319	450	377	271	354	100	354
barley	17	180	75	144	104	95	99
maize /sorghum	170	132	205	234	185	67	124
oil cake	51	38	53	76	55	85	47
sulphur	113	126	169	128	134	0	0
fertilizers	29	25	24	-	26	65	17
rice	32	55	51	72	53	83	44
metals	182	145	153	174	164	70	115
TOTAL	**936**	**1,204**	**1,162**	**1,174**	**1,127**	**665**	**852**

Sources: See footnotes 1 and 2, p. 30.

As for Jordan's exports of bulk cargo, let us recall that a high proportion of the commodities belonging to this category originate in the vicinity of Es- Safi, which is competitively served by Aqaba.

Based on the above analysis, we estimate that Jordanian demand for the services of the Gaza port in 1995 will be as follows: general cargo - 0.7 million tons, bulk cargo - 1.3 million tons, containerized cargo - 0.6 million tons.

Demand of the Territories

Data on the international trade of the Territories is published by Israel's Central Bureau of Statistics.[1] Appendix Table IV.1 shows imports and exports of the Territories for 1986, the last year before the start of the Intifada. The figures indicate that trade with Israel accounts for a high proportion of both exports and imports. Exports of goods from the Territories in 1986 reached $378 million. Of the total $275 million were exported to Israel, about $100 million where shipped over the Abdulla Bridge to Jordan, and a mere $ 3 million were shipped via Israel to overseas customers. These figures undoubtedly understate the Territories' total exports since they exclude indirect exports, i.e., intermediate goods shipped to Israel and incorporated into final products which were subsequently exported overseas.

Exports to Jordan rose from an average of $17 million during the 1967-70 period to $115 million in the 1981-82 . Subsequently exports to Jordan declined to $93 million in the 1983-86 period, following the economic recession in the Gulf states which spread to Jordan.

These figures do not , however, provide an adequate basis for estimating potential demand of the Territories for the services of the Gaza port because of the distorting effects of trade with Israel.

Israel, accounts, as the table shows, for a high proportion of the Territories' total trade since 1967. Exports to Israel contain goods intended for final consumption or intermediate inputs to be processed further into finished goods. These in turn may be intended for consumption in Israel, or for exports to third countries. Imports pose similar problems. Reported imports from Israel may be either manufactured in Israel, or imported indirectly via Israel from third countries. Moreover, some of the imports consist of inputs used by different manufacturers some of which are

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[1] See: Israel Central Bureau of Statistics (1988) National Accounts of Judea, Samaria and Gaza Area 1968-1986, (Special Series no. 818). See also D. Zakai (August 1988) Economic Development in Judea, Samaria and Gaza Strip 1985-1986 (Bank of Israel).

intended for reexporting to Israel. The data at our disposal do not make it possible to distinguish between these different elements. Without this information , however, we are unable to base our estimates of the Territories' demand for port services which the port of Gaza may expect to capture on the Territories' trade figures.

Instead, the estimates are based on the assumption that the volume and composition of the Territories' demand for port services will resemble the pattern exhibited by Jordan, subject to certain modifications which take into account the fact that the Territories do not possess the natural resouces which constitute a high proportion of Jordan's exports.

The projection of the Territories' population for 1995 provides the basis for the demand estimates. A forecast published by the Central Bureau of Statistics in 1989 predicts that the population of the Territories will reach 1.5 to 1.7 million by 1992. Extrapolating these figures to 1995, we base our estimates on a population of 1.9 million . We further assume that by 1995 average income in the Territories will reach the per capita income level attained by Jordan in the late 'eighties, when total imports reached 2.6 million tons or about 0.6 tons per person .

Assuming , as was noted above, that Jordan and the Territories will exhibit similar demand patterns for port services, we estimate that the Territories' demand in 1995 will reach 1.9 million tons, divided into 0.7 million tons of bulk cargo, 0.6 million tons of general cargo, and 0.6 million tons of containerized cargo .

The figures are summarized in Table 4.3, which shows estimate of potential demand for the services of the Gaza port by residents of the Territories and of Jordan in 1995.

Table 4.3 shows expected demand for the the port's services in 1995, the year in which it is expected to start operations. The capital outlays estimates in the following chapter, and the revenues estimates in chapter 6 assume a life span of thirty years, starting in 1995, and terminating in 2025. During this period operating capacity will have to be increased to take care of growing demand, which is expected to increase at a fairly low rate of 3.5 percent per annum. This rate barely keeps up with recent

trends in population growth. It ignores possible increase in per capita income which is commonly associated with a rise in imports and in exports.[1]

Table 4.3
POTENTIAL FREIGHT MOVEMENT THROUGH THE GAZA PORT, 1995
(in millions of tons)

	Cargo Type			
Origin/destination	Bulk	General	Container	Total
TERRITORIES	0.7	0.6	0.6	1.9
Unloading	0.7	0.5	0.5	1.7
Loading	0.0	0.1	0.1	0.2
JORDAN	1.1	0.8	0.7	2.6
Unloading	1.1	0.7	0.6	2.4
Loading	0.0	0.1	0.1	0.2
TOTAL	1.8	1.4	1.3	4.5
Unloading	1.8	1.2	1.1	4.1
Loading	0.0	0.2	0.2	0.4

[1]For an illustration of these trends, see Hirsch S. (1977) Rich Man's Poor Man's and Every Man's Goods (Tubingen, J.C..B. Mohr)

Table 4.4

EXPECTED FREIGHT VOLUME TO BE HANDLED BY THE GAZA PORT

in the 1995 - 2025 period

Alternative Estimates

(in millions of tons)

Year	Alternative A	Alternative B
1995	2.0 [1]	4.5
2000	2.3	5.4
2005	2.8	6.4
2010	3.3	7.6
2015	3.9	9.0
2020	4.6	10.7
2025	5.4	12.7

Based on these conservative assumptions the expected volume of freight which the Gaza port will handle in the 1995-2025 period is shown in Table 4.4. Two alternatives are shown: Alternative B - a port serving the Territories plus Jordan, Alternative A - a port serving the Territories only.

These figures provide the basis for the cost/benefit analysis which is discussed in the following chapters.

[1] The difference between the figures in Tables 4.4 and 4.3 is due to rounding.

5. CAPITAL EXPENDITURES

Introduction

In this chapter we consider capital expenditures associated with the Gaza port. These include construction of breakwaters and quays, building of wharves, warehouses, offices and other onshore structures, as well as acquisition and installation of cranes and other handling equipment for containers, bulk and general cargo. Capital expenditures also include indirect outlays on road construction.

Table 5.1 shows estimates of capital requirements, which obviously vary with the cargo handling capacity of the port. Three capacity levels were considered: 2 to 4 , 4 to 7 and 7 to 12 million tons per annum. They are consistent with the demand estimates discussed in chapter 3.[1]

The lower estimate (shown in column 2), pertains to the case where the port will serve only the Territories. In that case, initial handling capacity of the port is estimated to be barely two million tons per annum. It is expected to reach four million tons only twenty years after the port starts operating. The higher figures reflect the possibility that the port will serve Jordan as well as the Territories.[2]

Investment levels vary of course with the size of the port. However, note that while handling capacity between the largest and smallest option increases by a factor of up to six (2 million tons compared with 12 million tons) total outlays, setting

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[1]Estimates of the offshore construction costs are based on information provided by Littoral Consulting Engineers, a firm specializing in the design of ports and offshore projects. Estimates of onshore investment requirements are based on the following figures obtained from the Israel Ports Authority: warehouses - cost per square meter $300; other buildings - cost per square meter $830. Building area was estimated on the basis of information pertaining to the port of Ashdod, which has an annual handling capacity of about nine million tons, and an area of 8000 square meters of office space and 34,000 square meters of warehouses. For details see Israel Port Authority (January 1988) Yearbook of Ports Statistics 1985/86- 1986/87 (No,22). See also Israel Port Authority (March 1988) Monthly Statistical Bulletin.

[2]For more details of the capital expenditures on equipment see Appendix TableIV.I

investments in roads aside for the moment, vary by 62% ($314 million compared with $194 million).

Table 5.1
ESTIMATES OF CAPITAL EXPENDITURES
(in millions of US $)

	Annual operating capacity in million tons		
	2 - 4	4 - 7	7 - 12
Port infrastructure	139	153	181
Cranes	37	53	83
Handling equipment	8	15	30
Shore facilities	4	7	14
Access road	6	6	6
Total, excl. trunk roads	194	234	314
Trunk road construction	60	220	220
Total, incl. trunk roads	254	454	534

Source: See Appendix tables.

Infrastructure, Port Facilities, and Equipment

As expected, investments in the port's infrastructure, which includes breakwaters and quays, do not vary in direct proportion with the port's handling capacity. The relationship between investments in the port's infrastructure and the port's cargo handling capacity is shown in greater detail in Appendix Table V.I.

Investments in equipment such as cranes are more closely related to capacity. Handling equipment, which consists of mobile , bridge and ordinary cranes, as well as tractors, fork lifts, etc., varies more or less in direct proportion to capacity. The type of equipment required and the number of units are listed in Appendix Table V.II

Shore structures include office buildings, warehouses and other buildings. Estimates of capital outlays are based on data pertaining to the port of Ashdod, which has been handling close to 9 million tons per annum in recent years.[1]

An access road costing about $6 million will connect the port with the Ashkelon - Ashdod highway.

Trunk Roads

Next we turn to outlays on trunk road construction and expansion, which appear to be a major category. This reflects our assumption that it will be necessary to expand the existing road networks in Israel, the Territories and Jordan, so as to accommodate the additional traffic generated by the port.

Estimation of investments in road construction raises methodological as well as empirical difficulties. These derive from the fact that roads represent an indirect investment in an asset which produces "joint products". We need criteria for attributing the "right share" of total outlays on road construction to a specific project, when the road serves multiple users. The difficulty in this case is compounded by the fact that some of the traffic generated by the port will represent so-called "trade diversion". The term refers to imports and exports of the Territories diverted from Israel's ports of Haifa, Ashdod and Elath to Gaza. Calculations are complicated further by the fact that some sections of Israel's existing road network will continue to be used for the haulage of goods originating

[1] The port has office space of 8,000 square meters and the area of its warehouses is 34,800 square meters. According to the Israel Port Authority the cost per square meter of office space is $830 and the cost per square meter of warehouse is $300.

in or destined for the Territories, regardless of whether the Gaza port is built. Strictly speaking it is appropriate to attribute to the Gaza port only that portion of outlays on road construction which would be unnecessary if cargoes to and from the Territories continue to be handled by the Israeli ports.

We resolved the methodological problem discussed above by assigning the entire cost of the road construction program to the port. Since the amounts are far from trivial, the approach adversely affects the economic attractiveness of the port. While acknowledging that our approach may overburden the port with capital outlays , we prefer to err on the conservative side.

If Jordan is served by the port, the distance of about 200 kilometers between Gaza and Amman is expected to be covered by a road which will follow the route Gaza - Erez - Ashkelon - Ashdod - Re-em - Latroun - Jerusalem - Abdulla Bridge - Amman. Several sections of the road which already exist will have to be upgraded and widened so as to be able to handle the extra traffic. Total costs are estimated at $220 million. [1]

Outlays on road construction associated with a port serving only the Territories are considerably smaller. In addition to the access road mentioned above it will be necessary to add two lanes to the Gaza-Ashkelon highway, and to the Re-em - Latroun section of the road connecting Ashdod with Jerusalem. Outlays on road construction for this alternative were estimated at $60 million.

The road construction program will be entirely different if the port has access to the Israeli market. In that case, which was briefly discussed in chapter 2, a large proportion of the port's business will come from southern Israel. To facilitate the traffic to and from the port, it will be necessary to construct or widen the road network connecting the port with the West Bank, via Hebron in the north, and Beer Sheva, as well as some of the chemical enterprises currently served by Ashdod, in the south.

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[1]Estimates on the cost of roads are based on Tal, Wolpert and Bahiri, pp.5-7 and 27, and on verbal communications with Abraham Tal from the Interdisciplinary Center for Technological Forecasting and Analysis. For further details see Appendix V.

We mention this possibility here despite the fact that we decided to consider in this study only the more conservative alternatives. The reason is as follows. Even if the Israeli government decides, as assumed in this study, to prevent net diversion of business from Green Line Israel to the Gaza port, it could achieve this goal more efficiently by granting the Gaza port a trading quota equal to the estimated business generated by the residents of the Territories. In that case, as mentioned above, a high proportion of the port's Israeli business would come from the south. The road building program associated with the port should, of course, take this possibility into account. We assume that if the port is unable to serve Green Line Israel, or if it is restricted to the business volume generated by the Territories, a $60 million road construction budget should suffice to accommodate the extra traffic.

To summarize, capital requirements for a port possessing a cargo handling capacity of 2 to 4 million tons per annum, serving the Territories alone are expected to be about $250 million. A port with a capacity of up to 7 million tons with access to Jordan will require investments of about $450 million. The figures in both cases include substantial indirect investments in roads, which have to be either constructed or expanded, to take care of additional traffic generated by the project.

Discounting Capital Expenditure Flows

Table 5.2 shows the discounted value of the capital expenditures listed in Table 5.1. To perform the calculations, we had to decide on the appropriate cost of capital. Instead of using a single figure we opted for two alternatives - 6% and 8% - figures which are commonly used in the evaluation of public projects.

The calculations take into account a construction period of four years, assuming that outlays are spaced as follows:

Offshore and onshore construction - spaced evenly over the entire period.
Warehouses and other buildings - spaced evenly over years 2, 3 and 4.
Construction of access road, and widening of trunk roads - spaced evenly over the entire period.

Reconstruction of the Abdulla Bridge - year 4.

Figures in the second and fifth columns represent current outlays. Compound interest charges reflecting the cost of capital are added to the current outlays in columns 3 to 6. Columns 3 and 5 show future values capitalized at 6%, and columns 4 and 6 future values capitalized at 8% . The bottom row shows future value of capital outlays brought forward to 1995, the year in which it is assumed the port will start operating.

Table 5.2
CAPITAL EXPENDITURES SPREAD OVER FOUR YEARS
(in $ US millions)

AREA	TERRITORIES & JORDAN			TERRITORIES ONLY		
	current	capitalized		current	capitalized	
rate		6%	8%		6%	8%
1992	93.3	111.1	117.5	49.8	59.3	62.7
1993	95.6	107.4	111.5	51.1	57.4	59.6
1994	129.6	137.4	140.0	73.5	77.9	79.4
1995	138.6	138.6	138.6	79.5	79.5	79.5
Total	457.0	494.4	507.5	253.9	274.1	281.2

Note, moreover, that the figures in Table 5.1 represent **initial** investments, i.e., investment levels required to enable the Port to commence operations in 1995, and to take care of projected demand in in the following ten years up to the end of 2004. By 2005 the Port's capacity will have to be expanded to take care of increasing

demand. Subsequent increases in capacity will require expenditures on the replacement of depreciated equipment and expenditures on the expansion of the port to satisfy future demand which, as noted above, is expected to grow at an annual average rate of 3.5%. Our calculations are made on the assumption that future investments in the expansion of the port's capacity will be undertaken in intervals of ten years.[1] Appendix Tables IV.II and IV.III provide detailed information about the relationship between the port's capacity and investments in construction and in cargo handling equipment.

So much for the outlays associated with the port project. In the following chapter we consider the benefits.

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[1] Distribution of future investments in the Port is assumed to be as follows:
In a port serving the Territories - $44.9 million in 2005 and $60.8 million in 2015.
In a port serving the Territories pus Jordan - $148.4 million in 2005 and $113.0 million in 2015.

6. A COST/BENEFIT ANALYSIS

Political Considerations - Once Again.

Yet another political problem must be addressed before we can turn to the benefit side of our analysis. It concerns the complex issue of dividing the net gains generated by the port between the interested parties or stakeholders. The parties in question are the Territories, Jordan and Israel. We consider the nature of and potential bargaining power associated with the claims which each might have on the benefits, bearing in mind that in this case too, economic and political factors are not easily separable, as will be presently demonstrated.

The case of the Territories is conceptually the easiest to dispose of. If built, the port will presumably be owned and controlled by an authority based on the Territories. The Territories' share of these benefits is analogous to that of the shareholders in a business concern. Shareholders, it will be recalled, are entitled to the residual cash flows, i.e., that portion of the revenues remaining after suppliers, employees, the tax men, banks and other creditors' claims are satisfied. In an analogous fashion the Territories can expect to retain that portion of the benefits generated by the port, which the other stakeholders will be unable to appropriate, or willing to forego. Let us therefore consider the position and bargaining power of the other claimants first.

Consider Jordan first: If political restrictions are removed, Jordanian customers can be expected to use the Gaza port in preference to the port of Aqaba, if they pay less for identical services, or if they receive better services (i.e., shorter delivery time) for a similar price. The data in chapter 3 confirms that use of the Gaza port does indeed offer potential users the kind of savings described above. How will these savings be divided between the different parties?

If port handling charges, shipping rates and overland transportation rates were competitively determined, the end user would be the main beneficiary. This, however, is most clearly not the case. If economic calculations show that use of the Gaza port offers Jordanian customers substantial savings, some of these might be appropriated by whoever is in charge of the port, in the form of higher handling

charges. Jordanian customers may be expected to continue using the port's services, even in such a case, as long as they are marginally better off.

Jordan, however, can gain a larger share of the net benefits. The Jordanian government's bargaining power is buttressed by its ability to deny its citizens the right to use the port's services. This bargaining power may be used to exact better terms for the port's Jordanian customers.The Jordanian position may also be influenced by the the fact that the Gaza port will willy- nilly compete with the port of Aqaba. The government might use this factor as a reason for insisting on financial compensation as a condition for allowing its citizens to use the port.

Then there is Israel. Like the port of Aqaba, Israel's ports of Haifa and Ashdod will lose some of their business to the Territories. Moreover, traffic between Gaza and the West Bank on the one hand, and Jordan on the other, will have to pass through Israeli territory, using Israeli roads. These factors suggest that Israel, like Jordan, may be expected to claim some of the port's net benefits.

These conflicting claims to the potential benefits of the Gaza port will eventually be discussed, and hopefully settled around the conference table. Our role at present is to establish whether the port offers net benefits, and their magnitude. Their division between the parties is of lesser importance at this stage of the analysis. In certain cases however, the issue cannot be altogether avoided, and explicit assumptions regarding the division of costs and benefits among the interested parties have to be made as part of the assessment of the port's economic worth. The following section addresses some of these.

Integrating Political and Economic Factors.

The economic variables which determine the feasibility of the port project include capital expenditures on the cost side, and net additions to economic welfare on the benefit side. Welfare gains are represented by net revenues i.e., gross revenues less operating costs, generated by the port. Additional welfare gains include the savings in transportation costs of the port's Jordanian customers. On the cost side we ought, as was noted above, to deduct from the the gross benefits, the decline in the income of the port of Aqaba in Jordan and of the ports of Haifa, Ashdod and Elath, in Israel.

In fact, a somewhat different approach was adopted. In the case of Jordan we assumed that the gains to the Gaza port from the Jordanian business exactly equal the losses suffered by the port of Aqaba, due to trade diversion. Consequently, only the savings on transportation costs, amounting to $7.7 per ton are counted as welfare gains generated by Jordanian use of the port.[1]

Regarding Israel, a different line of reasoning was followed. In this case it was assumed the country's port capacity will have to be expanded over the next few years, to take care of increased demand generated by the large influx of new immigrants. Diversion of some business to Gaza would reduce the need for new capacity, and for capital expenditures. Under these assumptions it is unnecessary to count losses incurred by the diversion of business from the Israeli ports in the cost/benefit calculus.[2]

The Gaza port may bring about additional indirect benefits in the form of added employment and income of enterprises depending on the port or at least related to it. Shipbuilding and repairs are obvious examples. Others include overland transportation businesses, new hotels, shipping agencies, and new industries based on imported raw materials and attracted by the availability of competitive labor, tax holidays and other amenities. These and other indirect benefits may indeed be quite substantial. They are, however, excluded from our calculations for two reasons. First, in line with the arguments listed above, the loss of net revenues suffered by the Israeli businesses which have been serving the Territories since 1967 should theoretically be deducted from the gains attributed to the Gaza port. Second, it is extremely difficult to estimate the value of the indirect gains, and of their ripple effects throughout the economies of the Territories and of Israel. We therefore assume that the indirect effects cancel each other out, i.e., that the secondary welfare losses of Israel more or less equal the welfare gains of the Territories.

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[1]The figure of $7.7 per ton represents a weighted average of $2.8 per ton of bulk cargo and $11.7 per ton of general and containerized cargo.

[2]Note, however, that capital outlays in Israel and in Jordan on road construction are considered as part of the outlays associated with the port. See chapter 4.

Returning to the direct effects, another issue must be confronted. Ordinarily a project such as the Gaza port is considered to be economically beneficial if revenues exceed operating costs by a sufficiently large margin to more than cover, on a present value basis, capital expenditures. In this case, however, additional benefits must be taken into account. If for example, unemployment in Gaza continues to be substantial, and if the persons to be employed by the port have no alternative employment, then at least part of the operating costs associated with employment should be added to the net cash flows or benefits. The calculations take these possibilities into account.

Calculating the Benefits

We are finally ready to consider the economic worth of the port's two versions. Details of the cost/benefit analysis are given in Appendix Tables VI.I and VI.II. A summary version of Alternative A, a Territories Only port, is reproduced in Table 6.1 which shows figures calculated for 1995, the first year of the port's operations, and for the years 2000, 2005, 2010, 2015, 2020, and 2025.[1] The second column shows the expected volume of cargo handled by the port. Initial volume of 2 million tons per annum will increase to 2.3 million tons in the year 2000, to 2.8 million tons in 2005, etc.

Column 3 shows the number of employees directly employed by the port . Their number will increase from 341 initially to 473 in the final year. This figure, which appears to be disappointingly small, is based on a crucial assumption regarding the productivity of the employees - namely that it will be similar to the productivity of Israeli ports. [2]

Specifically, we assume that when the port commences operations, output per employee will be lower than average productivity in Israel's ports by 10%. Benefiting from positive learning effects, productivity will increase by 5% in 1996, 4% in 1997 and 1998, 3% in 1998 and 1999, and by 2% in subsequent years.

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[1] 2024 rather than 2025 was chosen as the final year so as not to burden the port with capital expenditures, which according to our assumptions have to be made every ten years.

[2] Average output per employee in Israeli ports (excluding coal) reached 6.29 tons in 1988.

Consequently, the number of employees will increase by a smaller proportion than the volume of cargo. [1]

Table 6.1
GAZA PORT - ALTERNATIVE A
Serving Territories Only
Gross and Net Benefits

(1) year	(2) cargo million tons	(3) employees number	(4) gross benefits million $	(5) alternative wages million $	(6) net benefits million $
1995	2.0	341	20.9	2.4	18.5
2000	2.3	333	24.8	2.6	22.2
2005	2.8	358	29.5	3.1	26.4
2010	3.3	385	35.0	3.7	31.3
2015	3.9	414	41.5	4.3	38.2
2020	4.6	446	49.3	5.2	44.1
2024	5.3	473	56.6	5.9	50.7

Revenues generated by the port, less costs of purchased materials and supplies, constitute the main source of the gross benefits shown in column 5. Following the line of reasoning suggested earlier, gross benefit figures are based on the assumption

[1] Bearing in mind that average productivity and average wages in the Territories are lower than in Israel it may be decided to increase the number of employees in the port by substituting labor for capital, thus reducing the capital/labor ratio and capital investments in the port.

that the employees of the port have no alternative employment. Employment costs were therefore not deducted from the value added estimates.

Gross benefits per ton were estimated at $10.70 The figure is derived from data supplied by the Israel Port Authority pertaining to the operations of the ports of Haifa and Ashdod. It takes into account the "product mix" discussed in chapter 3, and the assumptions regarding the productivity of the employees discussed above.

Following the line of reasoning suggested earlier, the gross benefit figures shown in column 4 are based on the assumption that the employees of the port have no alternative employment. Employment costs were therefore not deducted from the net revenue estimates. Total gross benefits are calculated by multiplying $10.70 by the number of tons handled annually by the port.

A second set of calculations takes a more conservative view. It assumes that alternative employment is available to the employees of the port. Net benefits therefore do not include total employment costs, but only the excess of wages paid to the port's employees over average employment costs (estimated at $6,149). Net benefits, shown in column 6 are arrived at by deducting the alternative costs of employment (in column 5) from the gross benefit figures.

Gross and net benefits for Alternative B, a port serving the Territories and Jordan, are shown in Appendix Table VI.I and summarized in Table 6.2. Volume of cargo (column 2), and number of port employees (column 3), are of course larger than the comparable figures in Table 5.1. Gross benefits in this case, (column 4), include net revenues obtained from the Territories, plus savings on transportation costs incurred by the port's Jordanian customers. It is important to recall , however, that revenues originating in Jordan do not count as benefits attributable to the port.

Table 6.2
GAZA PORT - ALTERNATIVE B
Serving Territories plus Jordan
Gross and Net Benefits

(1) year	(2) cargo million tons	(3) employees number	(4) gross benefits million $	(5) alternative wages million $	(6) net benefits million $
1995	4.5	792	40.9	5.6	35.3
2000	5.4	774	48.6	6.0	42.6
2005	6.4	832	57.8	7.2	50.6
2010	7.6	895	68.6	8.5	60.1
2015	9.0	963	81.5	10.1	71.4
2020	10.7	1036	96.8	12.0	84.8
2025	12.3	1098	111.0	13.8	97.2

This follows from our assumption that these revenues equal the value of the business lost by the port of Aqaba as a result of trade diversion. Net benefits, obtained after deducting alternative employment costs from gross benefits, are shown in column 6.

The bottom line, i. e., net worth of the two versions of the Gaza port is shown in Table 6.3. The figures in the table are obtained by summing the positive and negative annual flows, after applying the appropriate discount rates (of 6% and 8% respectively) to them.

Table 6.3
NET WORTH OF THE GAZA PORT

	GROSS VALUE		NET VALUE	
discount \ years	20	30	20	30
	Territories Only			
6%	28.0	117.5	- 5.6	72.3
8%	-13.7	41.0	-42.1	5.5
	Territories plus Jordan			
6%	64.7	247.3	-13.5	142.2
8%	-12.1	100.1	-77.5	17.6

The table contains 16 figures, each showing the present value of the port calculated for different combinations of the following factors - size of the project, time frame and and cost of capital. In addition, distinction is made between gross and net values, which correspond to gross and net benefits discussed above.

Looking at gross and net values first, we note that while the latter are inevitably lower, only in two cases does a positive net value become negative. In the remaining twelve cases, net values have the same sign as the gross values.

Two time frames were considered - 20 and 30 years. Use of the shorter period has a strong negative effect on the outcome - reducing the net present value by a substantial margin and transforming it, in several cases, from positive to negative. This outcome is hardly surprising, bearing in mind that the model implicitly assumes

that revenues are terminated after 20 years, and that capital expenditures, which amount to several hundred million dollars have a residual value of zero. Interestingly, gross and net value of both projects are positive when the time frame of thirty years is investigated, regardless of the cost of capital. It would appear that the length of the time frame is the single most important determinant of the project's economic viability.

Finally we examine the effect of the cost of capital. Obviously, when revenues are being earned only some time after large capital expenditures are made, high cost of capital will reduce the present value of a project. In the present case however, it is noteworthy that while the cost of capital has a significant effect on **profitability** it does not appear to affect the projects' **viability** as powerfully as their lifespan. Note for example that all the eight cells with a 30-year lifespan have a positive present value, regardless of whether they are discounted at 6% or 8%. By the same token, the four cells with a 20-year lifespan have a negative net value, regardless of the discount rate. Only in two out of eight cases, where the lifespan of the project is 20 years, is a high discount rate associated with a negative present value, and a low discount rate with a positive value.

Note, also, in all cases where the present value is positive that the smaller port serving only the Territories turns out to be less profitable than the larger project serving the Territories plus Jordan. This is to be expected, bearing in mind the relationship between changes in capital expenditure levels and revenues, as the capacity of the port is increased.

The outcomes are influenced by the combined effects of the conservative assumptions introduced into the cost/benefit model. These include the short time horizon of the first option (20 years); the zero salvage value credited to assets, even after a relatively short period; the high discount rate; the elimination of Jordanian net revenues from the benefits; and the assignment of the entire cost of expanding the road from Gaza to Jerusalem, and from Jerusalem to Amman, to the account of the port.

Clearly, a time horizon extending to more than 20 years makes sense when evaluating the economic worth a port. Alternatively, if such a short lifespan appears reasonable,

it makes little sense to ignore the terminal value of the port's assets, which suggests that the investment in construction (including roads costing hundreds of millions), in structures and in costly equipment have a zero value at the end of the period. The figures indeed confirm that when the time horizon is extended to 30 years the large alternative has a positive net worth marginally higher than the Territories Only version, when the discount rate is eight percent. The relative profitability of the large alternative is, as expected, considerably higher when the discount rate is reduced to six percent.

Concluding Remarks

Some of the assumptions which we made will be either confirmed or proved false by the time the decision is made whether to go ahead with the project and, if so, which alternative to build. The cost of capital will be known, and so will the attitude of the Jordanian government. Our study indicates that the port is likely to be economically viable even if it has to rely only on the business generated by the Territories, and even if some (but not all) of the more pessimistic assumptions materialize simultaneously. This is not to say that the port is necessarily the most profitable project for the Territories. Other projects might well yield higher returns, even when the indirect benefits from projects involving commercial and industrial enterprises related to the port are taken into account.

Let us recall, however, that the Gaza port can be politically attractive to both Israelis and Palestinians, because its economic viability does not depend on a specific outcome of the peace process. To the Palestinians , moreover, it opens a direct channel owned and operated by them to the outside world. These reasons impel us to argue that the idea of a port for Gaza and the Territories deserves a sympathetic hearing.

7. Implementation

A free economic zone in the Gaza region is compatible with a wide range of political arrangements and therefore its establishment need not await the outcome of the long and arduous peace negotiations. A FEZ in the Gaza region is consistent with the idea that economic autonomy, as part of a political autonomy for the Territories, can precede a comprehensive peace settlement between Israel the Arab countries and the Palestinians. A unilateral decision by the Israeli government might suffice to start the process. Consequently, the concept of the Gaza FEZ may well be acceptable to all parties, independently of progress in the political process since realization of the concept can help to enhance economic welfare without prejudicing the outcome of the peace process.

Given the political will to see a FEZ in Gaza come into being, it will be necessary to establish the rules and regulations which will govern economic transactions between the FEZ and the Territories on the one hand, and between the FEZ and Israel, on the other. Arrangements regarding the supply of labor, capital, materials and services to the FEZ will have to be worked out. The arrangements will have to cover issues such as customs duties, currency regulations, taxation, physical communication with the FEZ, access to and use of roads connecting the FEZ with sources of supply, and markets, etc. Most important, it will be necessary to establish an institutional framework which will enhance the chances of the FEZ's success.

Too little is known at present to recommend the most appropriate type of FEZ for Gaza; this would depend on a variety of factors. However, a few general remarks seem appropriate. In order for a FEZ to stimulate growth and succeed, it is vital to identify at an early stage the activities (e.g., manufacturing, trade, transportation, etc.) that would make the FEZ economically viable. Such viability in turn depends on the availability of local skills (e.g., plentiful labor) and on the capital and other resources that are required and that investors are willing to commit.

The absence of any meaningful local infrastructure and capital may prove an inhibiting factor to any proposed FEZ in Gaza, and would clearly have

to be addressed by any implementing agency. Nevertheless, in light of the success that several FEZs have made in generating employment and foreign exchange earnings in several developing countries in recent decades, and the overall political benefits (for peace and stability in the region) that would clearly be associated with a Gaza FEZ, it would appear that a prima facie case for promoting a Gaza FEZ clearly exists. If this were done in conjunction with the establishment of a deep-sea port, and in cooperation (overt or covert) with Jordan, Egypt and other Arab states (with whom the possibility of transporting goods in bond to and from such a FEZ would have to be explored), it would clearly enhance its potential attraction.

Experience gained in China and elsewhere indicates that FEZs can be established as free market enclaves irrespective of the surrounding economic or political environment. In the case of Gaza, the problem is compounded since the current administrative, legislative and juridical framework may be regarded as unpromising to potential investors. One way of ameliorating this problem would be for the Government of Israel to formally announce its readiness to renounce such regulations and controls as it presently exercises in relation to customs, taxation, exchange and currency transfers, etc., in the event a FEZ is established in Gaza. The Government of Israel would also have to define the geographic area of the FEZ (which in turn would inter alia depend on the location of an appropriate tract of publicly owned land that would probably have to be transferred to the custody of the FEZ managing board), the scope of concessions, if any, that it (for its part) would be willing to concede to FEZ enterprises and to products and services originating therein in relation to the Gaza Strip and Israel proper and, as aforesaid, its willingness to cooperate with interested Arab countries to alleviate the socioeconomic problems of the local inhabitants.

Clearly, none of the foregoing are easy or simple matters to resolve. On the contrary, they are extremely complex and would require considerable bureaucratic flexibility, quite aside from the serious security and law enforcement problems that an FEZ would pose (such as control of smuggling). Detailed studies would therefore be required to assess the possible implications for all concerned and to weigh the various costs (assuming the political benefits are accepted) of any such project materializing.

The government of Israel should, it is recommended, announce its readiness to assist in establishing a FEZ in the Gaza Region, in light of its beneficial impact on the socioeconomic fabric of the area. The announcement might be coupled with an invitation to local and international interested parties to prepare proposals that would receive its careful and sympathetic consideration.

Were a local promoter to be found (e.g., the Gaza Chamber of Commerce or Municipal Council) it would have to obtain expert advice to ensure the viability of the proposed FEZ, and to indicate the pitfalls that should be avoided in light of the disappointing results of some existing FEZs. Experience elsewhere appears to indicate that the management of the FEZ as well as the early identification of the types of operations that are most likely to attract investments are key questions. For example, would or could a Gaza FEZ serve as a free-trading and banking center for the area, and, if so, how?

Experience and circumstances appear to require a privately managed FEZ. Indeed, a public-sector FEZ could not be effectively isolated from Israeli involvement, which must be reduced to a minimum to gain Arab acceptance. A privately managed FEZ would raise far less politically sensitive issues and would avoid the thorny issues of sovereignty and status that would be bound to arise from a public-sector approach. A possible solution would be a privately managed FEZ (a local body corporate) to whose custody Israel would transfer such resources (e.g., public land) and delegate such powers (e.g., the right to develop the FEZ infrastructure and to levy fees from enterprises located in the FEZ; the right to approve investments and the terms thereof; the right to enter into financial and other commitments, etc.) as would be necessary to create a viable FEZ.

For illustrative purposes only, the government of Israel might formally ratify a charter incorporating the constitution and powers of the FEZ management corporation as well as any assets (e.g., public land) it would transfer to it, and embodying the preferential treatment it would be empowered to grant investors, or the government of Israel could grant the FEZ management corporation a concession embodying the foregoing. In either case, some form of dispute-settling mechanism between the FEZ

management corporation and the government of Israel, and possibly between the former and private investors, and also (perhaps) between the latter and the government of Israel (in the event the government of Israel interferes in contractual relations they have entered into with the FEZ management corporation) would probably be necessary.

In addition, a Free Economic Zone Authority might be created to oversee, to coordinate and to establish policy guidelines such as, for example, the extent to which enterprises operating in the FEZ would be exempt from local laws and administrative regulations that might be required in order to legitimize the liberal regime that would govern the FEZ. The Authority would consist of representatives of the Government of Israel, the local inhabitants and, possibly, third parties. However, the operational management and functions would be vested in the former and not in the latter body. It would serve no useful purpose to spell out the precise legal underpinnings at this time.

As aforesaid, it is unnecessary to spell out the precise form of the legal and institutional framework that would be required. This could be done in a variety of ways. By virtue of its powers, the government of Israel could effectively (i) remove itself from the administration of the FEZ, and (ii) insulate it from the surrounding legal administrative and juridical environment, two preconditions that would probably be necessary to attract sufficient local and foreign interest to permit implementation of a Gaza FEZ.

So much for the FEZ generally. As to the establishment of the port, assuming the economic, social and political benefits associated with the establishment of a deep-sea port in Gaza are recognized to outweigh the security and political risks and disadvantages for all concerned, the following could serve as an outline for the institutional and legal framework of the project.

The government of Israel would in the first place (and subsequent to the necessary preparatory stages that might include certain understandings with Jordan) publicly announce its formal commitment to cooperate in or facilitate the construction and operation of the port, free from Israeli interference (except for reasonable and acceptable security safeguards),

under the sole jurisdiction of a semi-public and autonomous Gaza Port Authority that would be established as a body corporate.

Such a formal Israeli pledge would also have to contain details concerning the free and unencumbered passage of goods to and from the port (whether overland or by water) and should, to the extent that this is feasible from a security point of view, be as far removed from Israeli control and supervision as possible. Israel would also have to announce in advance the currency control and customs regulations governing operations of the port (which may or may not be identical with those applying in the FEZ generally) and the rules governing the passage of goods, ships and vehicles to and from it.

The initiative for the establishment of the Port Authority should be left to the local inhabitants themselves. This could be entrusted, for example, to the Gaza Municipality or Chamber of Commerce. It may be assumed, however, that if the project secures the necessary local, Arab or international support, there should be little difficulty in solving the legal problems associated with the creation of a body corporate empowered to construct and operate such a port. The Authority, whose shareholders could and indeed probably would have to include foreigners (though probably not governments of states that maintain a state of war with Israel), would operate under a charter or articles of incorporation that would define its structure, the allocation of capital among the shareholders, the division between paid-up and callable capital, etc., all of which should be left to the sponsors to determine. A possible structure could include a board of directors representing the shareholders, and a chief executive officer or general manager responsible to the board, who would head the management and staff of the Authority. A detailed feasibility study and raising the necessary funds would be the first orders of priority for the Authority.

Clearly, the funding would not be an easy task, inter alia, in light of the political ambiguity surrounding sovereignty of the Gaza Strip. Part of it may have to be obtained on a grant basis under the aegis of a special fund, which could be administered by, for instance, the World Bank, in order to ensure the efficient use of funds, as well as the required technical supervision of construction and operation of the port. The World Bank is

not unfamiliar with politically sensitive projects, as its experience with the Indus Basin and the Mekong Delta, for example, demonstrate. The Bank could therefore assume a very useful function, provided the port project's major shareholders succeed in persuading it to undertake an active role in assisting the project. Clearly, the funds for a detailed feasibility study, as well as final engineering and design would have to be secured with as little delay as possible, in order to create the necessary dynamics and momentum while the actual investment funds were being sought.

It would of course be desirable for a joint Israeli-Jordanian commission to be set up to provide immediate solutions to operational problems that might arise. However, in light of the attendant political difficulties this might create for Jordan, it is felt the project need not be conditioned upon the creation of such a commission and that Israel should announce its readiness to cooperate in the smooth operation of the port via any other functionally acceptable means. In short, the basic problem is judged to be political rather than legal or financial.

There is no reason why such a project could not materialize, provided it received the necessary Israeli, local, Arab and international support. If Israel were willing to endorse the project, direct or indirect exploratory talks with all concerned (and primarily with representatives of the local inhabitants) should commence immediately. Assuming the talks elicited sufficient positive interest, the stage would be set to move into the operational or implementation phase, at which time the precise details of the port's underlying regime and interaction with the various interested governments and the FEZ management corporation would be elaborated. While not minimizing the practical difficulties that would no doubt arise in implementing such a project, there is little doubt that they could be worked out and should not be permitted to abort the project.

The foregoing is a mere illustration of a possible institutional framework, namely, a privately managed FEZ management corporation, a semi-public port authority with adequate powers, and a public FEZ authority. No doubt alternative implementation options can be devised, but it does not appear necessary to examine them in detail at this stage. Suffice it to say that in order to attract sufficient local and international support and interest to permit implementation of a Gaza FEZ and port, the government of Israel

must announce its support and be willing to effectively remove itself from the administration and operations of the FEZ and port, insulate them from the existing and surrounding legal, administrative and probably also judicial environment, and irrevocably delegate to them such resources and powers as may be required to operate and maintain them efficiently and successfully.

APPENDIX
to Chapter 4

Appendix Table IV.1

Imports and Exports of Goods
The Territories - 1986

		Judea & Samaria millions $	%	Gaza Area millions $	%	Total millions $	%
1.	Imports Total	512.0	100	378.0	100	890.0	100
1.1	From Israel	451.0	88	346.8	22	797.8	90
1.1.1	Agriculture Prod.	73.0	14	34.2	12	118.2	13
1.1.2	Manufactured Prod.	378.9	74	301.6	80	680.5	77
1.2	From Jordan	10.9	2	0	0	10.9	1
1.2.1	Agriculture Prod.	0	0	0	0	0	0
1.2.2	Manufactured Prod.	10.9	2	0	0	10.9	1
1.3	From other countries	50.1	10	31.2	8	81.3	9
1.3.1	Agriculture Prod.	10.0	2	7.8	2	17.8	2
1.3.2	Manufactured Prod.	40.1	8	23.4	6	63.5	7
2.	Exports - Total	238.6	100	139.7	100	378.3	100
2.1	To Israel	155.9	65	118.7	85	274.6	73
2.1.1	Agriculture Prod.	20.1	8	12.6	9	32.7	9
2.1.2	Manufactured Prod.	135.8	57	106.1	76	241.9	64
2.2	To Jordan	81.8	34	188.0	13	100.6	26
2.2.1	Agriculture Prod.	32.3	13	18.8	13	51.1	13
2.2.2	Manufactured Prod.	49.5	21	0	0	49.5	13
2.3	To other countries	0.9	0.4	2.2	2	3.1	1
2.3.1	Agriculture Prod.	0	0	2.2	2	2.2	0.7
2.3.2	Manufactured Prod.	0.9	0.4	0.4	0	0.9	0.3

APPENDIX
to chapter 5

Both Israel and Jordan have relatively well-developed road systems.[1] In Jordan, the system consists primarily of two parallel north-south roads. The more important of the two, the King's Highway, extends from the Syrian border via Amman to Aqaba and has been upgraded. The other road runs along the Jordan Valley. Several east-west roads connect the two routes.

Israel's network is more complex, consisting of four main north-south roads and many east-west routes.

The main highway of the Gaza Strip runs along the entire length of the area, from the Erez checkpoint in the north to Rafah in the south, from where it continues into Sinai. The shortest and most convenient route to the centers of the West Bank and Jordan would be Gaza - Ashkelon - Jerusalem - Abdallah Bridge (crossing the Jordan River near Jericho) - Amman. The total length of this route is approximately 200 km.

The Gaza - Erez section of the present road would have to be widened from its present two lanes to a four-lane highway. The total length of the stretch that would need to be widened is 12 km. The Erez - Ashkelon highway has two lanes and is heavily used at present. The Ashdod - Ashkelon road has just been upgraded to four lanes. The estimated cost of upgrading the Gaza - Ashkelon section is $30 million. A new four-lane road linking the port with the Gaza Strip's main highway will be needed, with a total length of 5-6 km, and an estimated cost of $6 million.

The Ashdod - Jerusalem - Amman route is approximately 170 km long, and includes roads in good to excellent condition. The main problems are sections which would need to be expanded to cope with the expected growth in the volume of traffic once Jordan starts using the Gaza port. Three sections, totalling 110 km, would need to be widened: Re-em - Latrun, Jerusalem - Abdallah Bridge, and Abdallah Bridge - Amman, at a total cost of some $140 million. Another $3 million will be needed for upgrading the Abdallah Bridge itself, to service the predicted movement of traffic.

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[1] Most of the data included in this section were taken from A. Tal, W. Silver and S. Bahiri, pp. 5-7 and p. 26, Other information was obtained from A. Tal.

Appendix Table V.I

Changes in Investments in Infrastructure
Required by Increase in Port Capacity

Port Capacity	1-2	2-4	4-7	7-13
Breakwaters	55.0	35.0	-	-
Quays	12.0	5.0	10.0	20.0
Dredging and filling	3.0	2.0	1.0	2.0
Design and supervision	3.0	1.5	1.0	1.0
Soil investigation	2.0	0.5	0.5	0.5
Hydraulic models	1.0	-	-	-
Unforeseen 15%	12.0	7.0	2.5	3.5
TOTAL	88.0	52.0	14.0	27.0

Source: Littoral Consulting Engineers.

Appendix Table V.II

Handling Equipment Requirements for The Gaza Port
(in units)

Type of Equipment	Port Capacity (in million tons)		
	2 - 4	4 - 7	7 - 12
Bridge cranes for containers	2	2	3
Gate Cranes for Containers	3	4	6
15 tons general purpose cranes	1	3	5
25 tons general purpose cranes	5	10	15

Source: The Port Authority of Israel

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THE INTERDISCIPLINARY CENTER FOR
ECONOMIC ANALYSIS AND FORECASTING

TEL AVIV UNIVERSITY

THE ARMAND HAMMER
FUND FOR ECONOMIC COOPERATION
IN THE MIDDLE EAST

ECONOMIC DEVELOPMENT IN THE WEST BANK AND GAZA STRIP: ILLUSION, OR VISION

by
Joyce R. Starr, Ph.D.

TEL AVIV UNIVERSITY

THE TAIF ACCORDS
OCTOBER 22 1989

On October 22 1989 the Lebanese National Assembly meeting in Taif Saudi Arabia endorsed an accord for national reconciliation.

The Taif accord restructured the political system in Lebanon by transferring power away from the traditionally Maronite presidency to a Cabinet divided equally between Muslims and Christians.

The Taif accord also maps out a security plan for extending government sovereignty over all Lebanese territory. The accord calls for disbanding militias and strengthening of Lebanese government forces. It also calls for a withdrawal of Syrian forces inside Lebanon and the establishment of a joint Syrian-Lebanese mechanism for making future decisions about the positioning and functions of the Syrian troops. The accord contains a Syria-Lebanese security agreement and calls for taking steps to bring about a withdrawal of Israeli forces from Lebanese territory. The security-related parts of the accord are here translated.

The accord was rejected by General Michel Aoun but was accepted by other Maronite leaders. While Syria voiced support for the accord some Syrian-backed militia leaders such as Walid Jumblatt and Nabi Berri expressed disappointment over the accord which they considered superficial and overly favorable to the Sunni Muslim minority.

The following are excerpts from the Taif Accords Oct. 22 1989

PART II: IMPOSING THE SOVEREIGNTY OF THE LEBANESE GOVERNMENT OVER ALL LEBANESE LAND

Given the agreement among the Lebanese parties on the existence of a strong and able state based on national reconciliation the national accord government shall outline a detailed security plan for a one-year period whose aim shall be: the gradual extension of the sovereignty of the Lebanese government over all Lebanese lands through the State's intrinsic resources. The general elements of the plan are as follows:

1. Declaration of the disbanding of the Lebanese and non-Lebanese militias and the transfer of weapons in their possession to the Lebanese government within six months of the rectification of the document of national reconciliation the election of a president the establishment of a national accord government and the constitutional ratification of the political reforms.

2. The strengthening of the internal security forces through the following measures:

a. The opening of recruitment to all people of Lebanon without exception the training of recruits and their dispersal among the district units. Concurrently they will undergo regular and organized courses.

b. The strengthening of the security apparatus in order to control border entries and exits by air sea and land.

3. The strengthening of the armed forces

a. The major task of the armed forces is to defend the motherland and when necessary to maintain public order when threatened when the internal security forces are unable to handle the situation alone.

6. Lehren. Prüfe
für die Reinheit der Lehre.

---

6 Punkt Programm:

Modern Protestantismus.

Freie Kirche – Staat (nicht Lehre
weder bindet noch hindert
einzelne daß Menschen zu Christus kommen oder sich
trennen –

Person: a) Anspruch auf Freiheit des Gewissens
Glaubens

b) Erfüllung der Aufgabe zu arbeiten für Frieden und
Solidarität – zum Wohl unseres Landes und
seiner Leben.

c) Konsultativ Ehe mit ein – alle Anhänger
des Kellogg Agreement.

d) Recht [illegible] Person schützen in Krieg,
in Spiritualität und Gewissen – Glauben;

e) Person hier vor Gott Person

b. The armed forces shall be used to help the internal security forces in maintaining security in circumstances to be decided by the government.

c. The armed forces shall be united trained and drilled to enable them to bear national responsibility against Israeli aggression.

d. When the internal security forces shall be fit to carry out their security missions the armed forces shall be returned to their bases.

e. The intelligence system of the armed forces shall be reorganized for sole military purposes.

4. The solution of the problem of Lebanese displaced persons

Every Lebanese national who has left his home since 1975 shall have the right to return to his point of departure. Laws will be passed to ensure this right and means of rehabilitation will be provided.

Given the aim of the Lebanese government to impose its control over all of Lebanese land through its own resources first and foremost by means of the internal security forces and on the basis of the ties of legitimate Lebanese forces in extending the sovereignty of the Lebanese government during a period of time not exceeding two years after the ratification to the national reconciliation document the establishment of the national accord government and the constitutional ratification of the political reforms. At the conclusion of this period the two governments - the Syrian government and the Lebanese national accord government - shall decide on the redeployment of the Syrian forces in the Bekaa area and the western Bekaa approaches in Dahr al-Baydar to the Khamana-al-Mudayraj-Ein Dara line. Should the need arise (for the forces to be deployed) in other locations this shall be decided by a joint Lebanese-Syrian military committee with the agreement of the two governments to determine the scope of the Syrian forces and the duration of their presence in these areas. The agreement shall also define the relationship between these forces and the Lebanese authorities in the places they are stationed.

The Arab League "troika" committee is prepared to assist the two states in achieving this agreement should they so wish.

PART III: THE LIBERATION OF LEBANON FROM ISRAELI OCCUPATION

1. Renewed state control to the internationally recognized Lebanese border requires the following measures:

a. The implementation of Resolution 425 and the other Security Council decisions referring to the complete removal of the Israeli occupation.

b. Adherence to the armistice agreement signed on March 23 1949.

c. Taking all necessary measures to liberate all Lebanese lands from Israeli occupation the extension of government sovereignty to all these lands the deployment of the Lebanese army along the border with Israel and the strengthening of the UNIFIL presence in southern Lebanon in order to ensure the Israeli withdrawal and to restore security and stability to the border area.

PART IV: LEBANESE-SYRIAN RELATIONS

Lebanon which has Arab affinities and an Arab identity maintains loyal ties of brotherhood with all Arab states. It maintains preferred relations with Syria based on the roots of close affinity history and common interests.

This is the bases for coordination and cooperation between the two states which shall sign agreements in various areas in such a manner as to realize the interests of both states within the framework of the sovereignty and independence of each.

a. [illegible] withdrawal of the Israeli troops
in the SLA, some of the weapons to
the Lebanese people; [illegible]

b. the strengthening of the Lebanese Army, enabling
it to bear its natural responsibility for the
security and territorial integrity of Lebanon.

c. Redeployment of UNIFIL forces along
the international Israel-Lebanon border.

d. Presence of international peacekeeping forces in
the area [illegible] to help security conditions,
when UNIFIL finds itself in need with the
Lebanese Army until withdrawal

e. Cessation of hostilities everywhere, particularly
that no Lebanese territory may ever
be used for any act of aggression
against Israel, or Israeli personnel abroad

f. Cessation of hostilities,
guaranteeing the safe return of any
any acts of armed aggression against Israeli
of captured soldiers

On this basis and given that the security principles create the necessary climate for the development of these preferred relations Lebanon cannot serve as the source of a threat against Syrian security nor can Syria serve as the source of a threat against Lebanese security. Hence Lebanon shall not allow itself to serve as the transit point or base for any force state or organization interested in harming its own security or the security of Syria.

Similarly Syria which meticulously upholds the security independence and unity of Lebanon and the agreement between the two countries shall not allow any activity that threatens (Lebanese) security independence or sovereignty.

OTO 31285 Rome Versailles

Annex

1. Freedom of Transit. The Free Zone. The Free Zone shall develop as necessary [illegible] may [illegible] be (as stated in the Treaty Agreement).

2. "The general duties of the Treaty

2. (Agreement with the Treaty Agreement)
The port of Fiume shall consult and be free of Italy as necessary measures to give the full scope of provisions of Part IV [illegible] necessary [illegible] provisions [illegible]
(Italy may [illegible] by necessary [illegible] necessary treaty.

3. The following shall be [illegible] of Italy. The Free Zone shall remain under the [illegible] of the [illegible]

European Treaty Series
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N° 106

EUROPEAN OUTLINE CONVENTION ON TRANSFRONTIER CO-OPERATION BETWEEN TERRITORIAL COMMUNITIES OR AUTHORITIES

CONVENTION-CADRE EUROPÉENNE SUR LA COOPÉRATION TRANSFRONTALIÈRE DES COLLECTIVITÉS OU AUTORITÉS TERRITORIALES

Strasbourg, Conseil de l'Europe, Division des publications et des documents
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Preamble

The member States of the Council of Europe, signatories to this Convention,

Considering that the aim of the Council of Europe is to achieve a greater unity between its members and to promote co-operation between them ;

Considering that, as defined in Article 1 of the Council of Europe Statute, this aim will be pursued in particular by agreements in the administrative field ;

Considering that the Council of Europe shall ensure the participation of the territorial communities or authorities of Europe in the achievement of its aim ;

Considering the potential importance, for the pursuit of this objective, of co-operation between territorial communities or authorities at frontiers in such fields as regional, urban and rural development, environmental protection, the improvement of public facilities and services and mutual assistance in emergencies ;

Having regard to past experience which shows that co-operation between local and regional authorities in Europe makes it easier for them to carry out their tasks effectively and contributes in particular to the improvement and development of frontier regions ;

Being resolved to promote such co-operation as far as possible and to contribute in this way to the economic and social progress of frontier regions and to the spirit of fellowship which unites the peoples of Europe ;

Have agreed as follows :

Article 1

Each Contracting Party undertakes to facilitate and foster transfrontier co-operation between territorial communities or authorities within its jurisdiction and territorial communities or authorities within the jurisdiction of other Contracting Parties. It shall endeavour to promote the conclusion of any agreements and arrangements that may prove necessary for this purpose with due regard to the different constitutional provisions of each Party.

Article 2

1. For the purpose of this Convention, transfrontier co-operation shall mean any concerted action designed to reinforce and foster neighbourly relations between territorial communities or authorities within the jurisdiction of two or more Contracting Parties and the conclusion of any agreement and arrangement necessary for this purpose. Transfrontier co-operation shall take place in the framework of territorial communities' or authorities' powers as defined in domestic law. The scope and nature of such powers shall not be altered by this Convention.

2. For the purpose of this Convention, the expression "territorial communities or authorities" shall mean communities, authorities or bodies exercising local and regional functions and regarded as such under the domestic law of each State. However, each Contracting Party may, at the time of signing this Convention or by subsequent notification to the Secretary General of the Council of Europe, name the communities, authorities or bodies, subjects and forms to which it intends to confine the scope of the Convention or which it intends to exclude from its scope.

Préambule

Les Etats membres du Conseil de l'Europe, signataires de la présente Convention,

Considérant que le but du Conseil de l'Europe est de réaliser une union plus étroite entre ses membres et de promouvoir la coopération entre ceux-ci ;

Considérant qu'aux termes de l'article 1er du Statut du Conseil de l'Europe, ce but sera poursuivi notamment par la conclusion d'accords dans le domaine administratif ;

Considérant que le Conseil de l'Europe tend à assurer la participation des collectivités ou autorités territoriales de l'Europe à la réalisation de son but ;

Considérant l'importance que peut revêtir pour la poursuite de cet objectif, la coopération des collectivités ou autorités territoriales frontalières dans des matières telles que le développement régional, urbain et rural, la protection de l'environnement, l'amélioration des infrastructures et des services offerts aux citoyens et l'entraide en cas de sinistre ;

Considérant qu'il découle de l'expérience acquise que la coopération des pouvoirs locaux et régionaux de l'Europe est de nature à permettre une meilleure exécution de leur mission, qu'elle est susceptible en particulier de contribuer à la mise en valeur et au développement des régions frontalières ;

Résolus à favoriser autant que possible cette coopération et à contribuer ainsi au progrès économique et social des régions frontalières et à la solidarité qui unit les peuples européens,

Sont convenus de ce qui suit :

Article 1

Chaque Partie contractante s'engage à faciliter et à promouvoir la coopération transfrontalière entre les collectivités ou autorités territoriales relevant de sa juridiction et les collectivités ou autorités territoriales relevant de la compétence d'autres Parties contractantes. Elle s'efforcera de promouvoir la conclusion des accords et arrangements qui s'avéreront nécessaires à cette fin dans le respect des dispositions constitutionnelles propres à chaque Partie.

Article 2

1. Est considérée comme coopération transfrontalière, au sens de la présente Convention, toute concertation visant à renforcer et à développer les rapports de voisinage entre collectivités ou autorités territoriales relevant de deux ou plusieurs Parties contractantes, ainsi que la conclusion des accords et des arrangements utiles à cette fin. La coopération transfrontalière s'exercera dans le cadre des compétences des collectivités ou autorités territoriales, telles qu'elles sont définies par le droit interne. L'étendue et la nature de ces compétences ne sont pas affectées par la présente Convention.

2. Aux fins de la présente Convention, l'expression « collectivités ou autorités territoriales » s'entend des collectivités, autorités ou organismes exerçant des fonctions locales et régionales et considérées comme telles dans le droit interne de chaque Etat. Toutefois, chaque Partie contractante peut, au moment de la signature de la présente Convention ou par voie de communication ultérieure au Secrétaire Général du Conseil de l'Europe, désigner les collectivités, autorités ou organismes, les objets et les formes auxquels elle entend limiter le champ d'application ou qu'elle entend exclure du champ d'application de la présente Convention.

Article 3

1. For the purpose of this Convention the Contracting Parties shall, subject to the provisions of Article 2, paragraph 2, encourage any initiative by territorial communities and authorities inspired by the outline arrangements between territorial communities and authorities drawn up in the Council of Europe. If they judge necessary they may take into consideration the bilateral or multilateral inter-state model agreements drawn up in the Council of Europe and designed to facilitate co-operation between territorial communities and authorities.

The arrangements and agreements concluded may be based on the model and outline agreements, statutes and contracts appended to this Convention, numbered 1.1 to 1.5 and 2.1 to 2.6 with whatever changes are required by the particular situation of each Contracting Party. These model and outline agreements, statutes and contracts are intended for guidance only and have no treaty value.

2. If the Contracting Parties deem it necessary to conclude inter-state agreements, these may *inter alia* establish the context, forms and limits within which territorial communities and authorities concerned with transfrontier co-operation may act. Each agreement may also stipulate the authorities or bodies to which it applies.

3. The above provisions shall not prevent the Contracting Parties from having recourse, by common consent, to other forms of transfrontier co-operation. Similarly, the provisions of this Convention should not be interpreted as invalidating existing agreements on co-operation.

4. Agreements and arrangements shall be concluded with due regard to the jurisdiction provided for by the internal law of each Contracting Party in respect of international relations and general policy and to any rules of control or supervision to which territorial communities or authorities may be subject.

5. To that end, any Contracting Party may, when signing the present Convention or in a later communication to the Secretary General of the Council of Europe, specify the authorities competent under its domestic law to exercise control or supervision with regard to the territorial communities and authorities concerned.

Article 4

Each Contracting Party shall endeavour to resolve any legal, administrative or technical difficulties liable to hamper the development and smooth running of transfrontier co-operation and shall consult with the other Contracting Party or Parties concerned to the extent required.

Article 5

The Contracting Parties shall consider the advisability of granting to territorial communities or authorities engaging in transfrontier co-operation in accordance with the provisions of this Convention the same facilities as if they were co-operating at national level.

Article 6

Each Contracting Party shall supply to the fullest possible extent any information requested by another Contracting Party in order to facilitate the performance by the latter of its obligations under this Convention.

Article 3

1. Aux fins de la présente Convention, les Parties contractantes favoriseront, sous réserve des dispositions de l'article 2, paragraphe 2, les initiatives des collectivités et autorités territoriales prenant en considération les schémas d'arrangements entre collectivités et autorités territoriales élaborés dans le cadre du Conseil de l'Europe. Elles pourront, si elles l'estiment nécessaire, prendre en considération les modèles d'accords interétatiques, bilatéraux ou multilatéraux mis au point au Conseil de l'Europe et destinés à faciliter la coopération entre les collectivités et autorités territoriales.

Les arrangements et les accords à conclure pourront notamment s'inspirer des modèles et schémas d'accords, de statuts et de contrats annexés à la présente Convention numérotés de 1.1 à 1.5 et de 2.1 à 2.6 moyennant les adaptations rendues nécessaires par la situation particulière propre à chaque Partie contractante. Ces modèles et schémas d'accords, de statuts et de contrats, étant de nature indicative, n'ont pas de valeur conventionnelle.

2. Dans le cas où les Parties contractantes estiment nécessaire de conclure des accords interétatiques, ceux-ci peuvent notamment fixer le cadre, les formes et les limites dans lesquelles ont la possibilité d'agir les collectivités et autorités territoriales concernées par la coopération transfrontalière. Chaque accord peut également déterminer les collectivités ou organismes auxquels il s'applique.

3. Les dispositions qui précèdent n'affectent pas la faculté pour les Parties contractantes de recourir d'un commun accord à d'autres formes de coopération transfrontalière. De même, les dispositions de la présente Convention ne sauraient être interprétées comme rendant caducs des accords de coopération déjà existants.

4. Les accords et arrangements seront conclus dans le respect des compétences prévues par le droit interne de chaque Partie contractante en matière de relations internationales et d'orientation politique générale, ainsi que dans le respect des règles de contrôle ou de tutelle auxquelles sont soumises les collectivités ou autorités territoriales.

5. A cet effet, chaque Partie contractante peut, au moment de la signature de la présente Convention ou par voie de communication ultérieure au Secrétaire Général du Conseil de l'Europe, indiquer les autorités qui, selon son droit interne, sont compétentes pour exercer le contrôle ou la tutelle à l'égard des collectivités et autorités territoriales concernées.

Article 4

Chaque Partie contractante s'efforcera de résoudre les difficultés d'ordre juridique, administratif ou technique qui sont de nature à entraver les développements et le bon fonctionnement de la coopération transfrontalière et se concertera autant que de besoin avec la ou les autres Parties contractantes intéressées.

Article 5

Dans le cas d'une coopération transfrontalière entreprise conformément aux dispositions de la présente Convention, les Parties contractantes envisageront l'opportunité d'accorder aux collectivités ou autorités territoriales qui y participent les mêmes facilités que dans le cas où la coopération s'exercerait sur le plan interne.

Article 6

Toute Partie contractante fournira dans toute la mesure du possible les informations qui lui sont demandées par une autre Partie contractante en vue de faciliter la mise en œuvre par celle-ci des obligations qui lui incombent en vertu de la présente Convention.

Article 7

Each Contracting Party shall see to it that the territorial communities or authorities concerned are informed of the means of action open to them under this Convention.

Article 8

1. The Contracting Parties shall forward to the Secretary General of the Council of Europe all relevant information concerning the agreements and arrangements provided for in Article 3.

2. Any proposal made by one or more Contracting Parties with a view to adding to or extending this Convention or the model agreements and arrangements shall be communicated to the Secretary General of the Council of Europe. The Secretary General shall then submit it to the Committee of Ministers of the Council of Europe which shall decide on the action to be taken.

Article 9

1. This Convention shall be open to signature by the member States of the Council of Europe. It shall be subject to ratification, acceptance or approval. Instruments of ratification, acceptance or approval shall be deposited with the Secretary General of the Council of Europe.

2. The Convention shall enter into force three months after the date of the deposit of the fourth instrument of ratification, acceptance or approval, provided that at least two of the States having carried out this formality possess a common frontier.

3. In respect of a signatory State ratifying, accepting or approving subsequently, the Convention shall come into force three months after the date of the deposit of its instrument of ratification, acceptance or approval.

Article 10

1. After the entry into force of this Convention, the Committee of Ministers of the Council of Europe may decide unanimously to invite any European non-member State to accede thereto. This invitation must receive the express agreement of each of the States which have ratified the Convention.

2. Such accession shall be effected by depositing with the Secretary General of the Council of Europe an instrument of accession which shall take effect three months after the date of its deposit.

Article 11

1. Any Contracting Party may, in so far as it is concerned, denounce this Convention by means of a notification addressed to the Secretary General of the Council of Europe.

2. Such denunciation shall take effect six months after the date of receipt by the Secretary General of such notification.

Article 12

The Secretary General of the Council of Europe shall notify the member States of the Council of Europe, and any State that has acceded to this Convention of :

a. any signature ;

b. any deposit of an instrument of ratification, acceptance, approval or accession ;

c. any date of entry into force of this Convention in accordance with Article 9 thereof ;

d. any declaration received in pursuance of the provisions of paragraph 2 of Article 2 or of paragraph 5 of Article 3 ;

e. any notification received in pursuance of the provisions of Article 11 and the date on which denunciation takes effect.

Article 7

Chaque Partie contractante veillera à ce que les collectivités ou autorités territoriales concernées soient informées des moyens d'action qui leur sont offerts par la présente Convention.

Article 8

1. Les Parties contractantes transmettront au Secrétaire Général toute information appropriée relative aux accords et aux arrangements visés à l'article 3.

2. Toute proposition faite par l'une ou plusieurs Parties contractantes en vue de compléter ou de développer la Convention ou les modèles d'accords et d'arrangements sera transmise au Secrétaire Général du Conseil de l'Europe. Celui-ci la soumettra au Comité des Ministres du Conseil de l'Europe qui décidera des suites à donner.

Article 9

1. La présente Convention est ouverte à la signature des Etats membres du Conseil de l'Europe. Elle sera ratifiée, acceptée ou approuvée. Les instruments de ratification, d'acceptation ou d'approbation seront déposés auprès du Secrétaire Général du Conseil de l'Europe.

2. La Convention entrera en vigueur trois mois après le dépôt du quatrième instrument de ratification, d'acceptation ou d'approbation, à condition que deux au moins des Etats ayant accompli cette formalité aient une frontière commune.

3. Elle entrera en vigueur à l'égard de tout Etat signataire qui la ratifiera, l'acceptera ou l'approuvera ultérieurement, trois mois après la date du dépôt de son instrument de ratification, d'acceptation ou d'approbation.

Article 10

1. Après l'entrée en vigueur de la présente Convention, le Comité des Ministres pourra décider, à l'unanimité des voix exprimées, d'inviter tout Etat européen non membre à adhérer à la présente Convention. Cette invitation devra recevoir l'accord exprès de chacun des Etats ayant ratifié la Convention.

2. L'adhésion s'effectuera par le dépôt, près le Secrétaire Général du Conseil de l'Europe, d'un instrument d'adhésion qui prendra effet trois mois après la date de son dépôt.

Article 11

1. Toute Partie contractante pourra, en ce qui la concerne, dénoncer la présente Convention en adressant une notification au Secrétaire Général du Conseil de l'Europe.

2. La dénonciation prendra effet six mois après la date de la réception de la notification par le Secrétaire Général.

Article 12

Le Secrétaire Général du Conseil de l'Europe notifiera aux Etats membres du Conseil et à tout Etat ayant adhéré à la présente Convention :

a. toute signature ;

b. le dépôt de tout instrument de ratification, d'acceptation, d'approbation ou d'adhésion ;

c. toute date d'entrée en vigueur de la présente Convention, conformément à son article 9 ;

d. toute déclaration reçue en application des dispositions du paragraphe 2 de l'article 2 ou du paragraphe 5 de l'article 3 ;

e. toute notification reçue en application des dispositions de l'article 11 et la date à laquelle la dénonciation prendra effet.

In witness whereof the undersigned, being duly authorised thereto, have signed this Convention.

Done at Madrid, the 21st day of May 1980, in English and French, both texts being equally authentic, in a single copy which shall be deposited in the archives of the Council of Europe. The Secretary General of the Council of Europe shall transmit certified copies to each member State of the Council of Europe and to any State invited to accede to this Convention.

En foi de quoi, les soussignés, dûment autorisés à cet effet, ont signé la présente Convention.

Fait à Madrid, le 21 mai 1980, en français et en anglais, les deux textes faisant également foi, en un seul exemplaire qui sera déposé dans les archives du Conseil de l'Europe. Le Secrétaire Général du Conseil de l'Europe en communiquera copie certifiée conforme à chacun des Etats membres du Conseil de l'Europe et à tout Etat invité à adhérer à la présente Convention.

For the Government
of the Republic of Austria:

Pour le Gouvernement
de la République d'Autriche:

Erwin LANC

For the Government
of the Kingdom of Belgium:

Pour le Gouvernement
du Royaume de Belgique:

Strasbourg, le 24 septembre 1980

A.J. VRANKEN

For the Government
of the Republic of Cyprus:

Pour le Gouvernement
de la République de Chypre:

For the Government
of the Kingdom of Denmark:

Pour le Gouvernement
du Royaume de Danemark:

Strasbourg, le 2 avril 1981

Preben Arthur von der HUDE

For the Government
of the Republic of Finland :

Pour le Gouvernement
de la République de Finlande :

For the Government
of the French Republic :

Pour le Gouvernement
de la République française :

Strasbourg, le 10 novembre 1982

André CHANDERNAGOR

For the Government
of the Federal Republic of Germany :

Pour le Gouvernement
de la République Fédérale d'Allemagne :

Lothar LAHN

H.J. ORDEMANN

For the Government
of the Hellenic Republic :

Pour le Gouvernement
de la République hellénique :

For the Government
of the Icelandic Republic :

Pour le Gouvernement
de la République islandaise :

For the Government
of Ireland :

Pour le Gouvernement
d'Irlande :

Sylvester BARRETT

For the Government
of the Italian Republic :

Pour le Gouvernement
de la République italienne :

Marino CORDER

For the Government
of the Principality of Liechtenstein :

Pour le Gouvernement
de la Principauté de Liechtenstein :

Strasbourg, le 20 octobre 1983

Nicolas, Prince de LIECHTENSTEIN

For the Government
of the Grand Duchy of Luxembourg :

Pour le Gouvernement
du Grand-Duché de Luxembourg :

Jean SPAUTZ

For the Government
of Malta :

Pour le Gouvernement
de Malte :

For the Government
of the Kingdom of the Netherlands :

H.E. KONING

Pour le Gouvernement
du Royaume des Pays-Bas :

J. van E. TENGBERGEN

For the Government
of the Kingdom of Norway :

Pour le Gouvernement
du Royaume de Norvège :

Inger Louise VALLE

For the Government
of the Portuguese Republic :

Pour le Gouvernement
de la République portugaise :

Strasbourg, le 16 mars 1987

Luís Octávio ROMA DE ALBUQUERQUE

For the Government
of the Republic of San Marino :

Pour le Gouvernement
de la République de Saint-Marin :

For the Government
of the Kingdom of Spain :

Pour le Gouvernement
du Royaume d'Espagne :

Strasbourg, le 1er octobre 1986

Fernando BAEZA

For the Government
of the Kingdom of Sweden :

Pour le Gouvernement
du Royaume de Suède :

Karl BOO

For the Government
of the Swiss Confederation :

Pour le Gouvernement
de la Confédération suisse :

Strasbourg, le 16 avril 1981

Alfred WACKER

For the Government
of the Turkish Republic :

Pour le Gouvernement
de la République turque :

For the Government
of the United Kingdom of Great Britain
and Northern Ireland :

Pour le Gouvernement
du Royaume-Uni de Grande-Bretagne
et d'Irlande du Nord :

APPENDIX — ANNEXE

APPENDIX [1]

Model and Outline Agreements, Statutes and Contracts on Transfrontier Co-operation between Territorial Communities or Authorities

This graduated system of model agreements was devised by distinguishing between two main categories defined according to the level at which the agreement is concluded :

— model inter-state agreements on transfrontier co-operation at local and regional level ;

— outline agreements, contracts and statutes capable of providing a basis for transfrontier co-operation between territorial authorities or communities.

As shown in the table below, only the two model inter-state agreements for the promotion of transfrontier co-operation and regional transfrontier liaison fall exclusively within the jurisdiction of States. The other inter-state agreements merely establish a legal framework for the conclusion of agreements or contracts between territorial authorities or communities, the outlines of which have been placed in the second category.

1. MODEL INTER-STATE AGREEMENTS

General clauses for model agreements

1.1 Model inter-state agreement for the promotion of transfrontier co-operation ;

1.2 Model inter-state agreement on regional transfrontier consultation ;

1.3 Model inter-state agreement on local transfrontier consultation ;

1.4 Model inter-state agreement on contractual transfrontier co-operation between local authorities ;

1.5 Model inter-state agreement on organs of transfrontier co-operation between local authorities.

2. OUTLINE AGREEMENTS, STATUTES AND CONTRACTS BETWEEN LOCAL AUTHORITIES

2.1 Outline agreement on the setting up of a consultation group between local authorities ;

2.2 Outline agreement on co-ordination in the management of transfrontier local public affairs ;

2.3 Outline agreement on the setting up of private law transfrontier associations ;

2.4 Outline contract for the provision of supplies or services between local authorities in frontier areas (private-law type) ;

2.5 Outline contract for the provision of supplies or services between local authorities in frontier areas (public-law type) ;

2.6 Outline agreement on the setting up of organs of transfrontier co-operation between local authorities.

1. As stated in Article 3, first paragraph, second sub-paragraph, of the Convention, the model and outline agreements, statutes and contracts are intended for guidance only and have no treaty value.

ANNEXE [1]

Modèles et schémas d'accords, de statuts et de contrats en matière de coopération transfrontalière des collectivités ou autorités territoriales

Ce système gradué d'accords modèles a été conçu en distinguant deux catégories principales définies d'après le niveau de conclusion de l'accord :

— modèles d'accords interétatiques sur la coopération transfrontalière aux niveaux régional et local ;

— schémas d'accords, de contrats et de statuts pouvant servir de support à la coopération transfrontalière entre autorités ou collectivités territoriales.

Comme le montre le tableau ci-après, seuls les deux modèles d'accords interétatiques sur la promotion de la coopération transfrontalière et sur la concertation régionale transfrontalière sont exclusivement de la compétence des Etats. Les autres accords interétatiques ne font que fixer le cadre juridique permettant la réalisation d'accords ou de contrats entre autorités ou collectivités territoriales, dont les schémas respectifs sont classés dans la deuxième catégorie.

1. MODÈLES D'ACCORDS INTERÉTATIQUES

Clauses générales pour les accords interétatiques

1.1 Modèle d'accord interétatique sur la promotion de la coopération transfrontalière ;

1.2 Modèle d'accord interétatique sur la concertation régionale transfrontalière ;

1.3 Modèle d'accord interétatique sur la concertation locale transfrontalière ;

1.4 Modèle d'accord interétatique sur la coopération contractuelle transfrontalière entre autorités locales ;

1.5 Modèle d'accord interétatique concernant les organismes de coopération transfrontalière entre autorités locales.

2. SCHÉMAS D'ACCORDS, DE STATUTS ET DE CONTRATS À CONCLURE ENTRE AUTORITÉS LOCALES

2.1 Schéma d'accord pour la création d'un groupe de concertation entre autorités locales ;

2.2 Schéma d'accord pour la coordination dans la gestion d'affaires publiques locales transfrontalières ;

2.3 Schéma d'accord pour la création d'associations transfrontalières de droit privé ;

2.4 Schéma de contrat de fourniture ou de prestation de services entre collectivités locales frontalières (de type « droit privé ») ;

2.5 Schéma de contrat de fourniture ou de prestation de services entre collectivités locales frontalières (de type « droit public ») ;

2.6 Schéma d'accord pour la création d'organismes de coopération intercommunale transfrontalière.

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1. Comme il est indiqué à l'article 3, paragraphe 1, second alinéa, de la Convention, les modèles et schémas d'accords, de statuts et de contrats étant de nature indicative, n'ont pas de valeur conventionnelle.

1. MODEL INTER-STATE AGREEMENTS

Introductory Note : The system of inter-state agreements aims above all to define precisely the context, forms and limits which States favour for territorial authority action, and to eliminate legal uncertainties likely to create problems (definition of the applicable law, judicial authorities, possible avenues of appeal, etc.).

Further, the conclusion of inter-state agreements between the States concerned promoting transfrontier co-operation between local authorities would undoubtedly be advantageous in the following respects :

- official recognition of the legitimacy of such co-operation procedures and encouragement for local authorities to use them ;
- purpose and conditions of intervention by supervisory or controlling authorities ;
- exchange of information between States ;
- links which may be established between such forms of co-operation and other procedures for concerted action in frontier areas ;
- amendment of legal rules or interpretations thereof which hinder transfrontier co-operation etc.

The system of multiple choice model agreements described above enables governments to place frontier co-operation within whatever context is best suited to their needs by using the inter-state agreement for the promotion of transfrontier co-operation (1.1) as a foundation and supplementing it with any of the various options (model agreements 1.2 to 1.5). States could have recourse either to one option only or to more or even all of them, and they could do so either simultaneously or in stages. In the case of agreements between States which already have similar legal systems, such as the Scandinavian states, recourse to agreements of such a specific kind might prove unnecessary.

General clauses for model agreements 1.1 to 1.5

Article *a*

1. For the purposes of this agreement "local authorities" shall mean authorities, communities or bodies exercising local functions under the domestic law of each State.

2. For the purposes of this agreement "regional authorities" shall mean authorities, communities or bodies exercising regional functions under the domestic law of each State. [1]

Article *b*

This agreement shall not prejudice various existing forms of transfrontier co-operation between the States parties, particularly those based on an international agreement.

Article *c*

The Parties shall inform regional and local authorities of the scope for action afforded to them and shall help them to avail themselves thereof.

Article *d*

"Higher authorities" shall in the present agreement mean such supervisory authorities as shall be designated by each Party.

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1. Paragraph 2 will not be included in draft agreements 1.3, 1.4 and 1.5.

1. MODÈLES D'ACCORDS INTERÉTATIQUES

Note liminaire : Le système d'accords interétatiques a pour but notamment de fixer de façon précise le cadre, les formes et les limites dans lesquels les Etats souhaitent voir agir les collectivités territoriales, ainsi que d'éliminer les incertitudes juridiques de nature à provoquer des problèmes (définition du droit applicable, juridictions compétentes, recours possibles, etc.).

Par ailleurs, la conclusion d'accords interétatiques entre les Etats intéressés favorisant le développement de la coopération transfrontalière entre autorités locales aurait sans doute des conséquences favorables sur les plans suivants :

— consécration officielle de la légitimité de ces procédés de coopération et encouragement pour les autorités locales à y recourir ;

— rôle et condition d'intervention des autorités de tutelle de surveillance ou de contrôle ;

— mission d'information réciproque des Etats ;

— liens susceptibles d'être créés entre ces formes de coopération et d'autres procédés d'actions concertées au niveau des frontières ;

— modification de certaines règles juridiques ou de certaines interprétations de celles-ci qui constituent des obstacles pour la coopération transfrontalière, etc.

Le système de modèles d'accord à « tiroirs », décrit au schéma figurant plus haut, permet aux gouvernements de placer la coopération frontalière dans le cadre qui leur convient le mieux, à partir du minimum constitué par l'accord sur la promotion de la coopération transfrontalière (1.1) et en ouvrant les « tiroirs » qu'ils ont admis (modèles d'accords allant de 1.2 à 1.5). L'ouverture d'un seul « tiroir », comme celle de plusieurs « tiroirs », voire de l'ensemble des « tiroirs », peut parfaitement se concevoir en même temps ou par périodes successives. Il est évident que dans le cas d'accords entre Etats ayant déjà des systèmes de droit très rapprochés, par exemple les Etats scandinaves, le recours à des accords aussi précis pourrait ne pas s'imposer.

Clauses générales pour les modèles d'accord 1.1 à 1.5

Article *a*

1. Sont considérées comme des « autorités locales » au sens du présent accord les autorités, collectivités ou organismes exerçant des fonctions locales selon le droit interne de chaque Etat.

2. Sont considérées comme des « autorités régionales » au sens du présent accord les autorités, collectivités ou organismes exerçant des fonctions régionales selon le droit interne de chaque Etat[1].

Article *b*

Le présent accord ne porte pas atteinte aux modes de coopération transfrontalière existant, sous des formes diverses, dans les Etats parties et en particulier ceux qui ont été établis sur la base d'un accord international.

Article *c*

Les Parties informeront les autorités régionales et locales des moyens d'action qui leur sont offerts et les encourageront à y recourir.

Article *d*

Les termes « autorités supérieures » dans le présent accord se rapportent aux autorités gouvernementales, de tutelle, de contrôle, de surveillance, telles qu'elles sont déterminées par chaque Partie.

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1. Ce paragraphe 2 est supprimé pour les modèles d'accord 1.3, 1.4 et 1.5.

Article *e*

The extent and nature of local authorities' powers as defined in the domestic law of the States parties shall in no way be modified by this agreement.

Article *f*

Each State may at any time specify the areas of its territory, the objectives and forms of co-operation which are excluded from the application of this agreement.

Such a specification shall not, however, prejudice rights acquired in the context of existing co-operation.

Article *g*

The Parties shall keep the Secretary General of the Council of Europe informed of the activities of the commissions, committees and other bodies entrusted with a task under this agreement.

Article *h*

The Parties may make minor changes to this agreement in the light of experience, by simple exchange of notes.

Article *i*

1. Each Party shall notify the other of the completion of the procedures required under its domestic law for the implementation of this agreement, which shall take effect as from the date of the last notification.

2. This agreement is concluded for a period of five years from its entry into force. Unless six months' notice of termination be given prior to its expiry, it shall be tacitly renewed on the same terms for successive further periods of five years.

3. The Party giving notice of termination may signify that it applies only to specified articles, geographical regions or fields of activity. In such a case, the agreement shall remain in force for the remainder, unless terminated by the other Party or Parties within four months of receiving notice of partial termination.

4. The Parties may at any time suspend application of the present agreement for a specific period. They may similarly agree that the activity of a particular committee be suspended or discontinued.

1.1 Model inter-state agreement for the promotion of transfrontier co-operation

Introductory note : This is a model inter-state agreement containing general basic provisions which could be concluded either on its own or in conjunction with one or more of the model inter-state agreements appearing below.

The governments of .....

and .....

aware of the advantages of transfrontier co-operation as defined in the European Outline Convention on Transfrontier Co-operation between Territorial Communities or Authorities, have agreed as follows :

Article 1

The Parties shall undertake to seek and promote means for transfrontier co-operation at regional and local level.

By transfrontier co-operation they understand all concerted administrative, technical, economic, social or cultural measures to consolidate and enhance neighbourly co-operation between the areas situated on either side of the frontier, and the conclusion of appropriate agreements for the purpose of resolving such problems as may arise in this field.

These measures should seek, *inter alia*, to improve the conditions for regional and urban development, the protection of natural resources, mutual aid in case of a disaster or calamity and the improvement of public services.

Article *e*

L'étendue et la nature des compétences des autorités locales telles qu'elles sont définies par le droit interne des Etats parties ne sont aucunement modifiées par le présent accord.

Article *f*

Chaque Etat peut à tout moment désigner les zones de son territoire, les objets et les formes de coopération qui sont exclus de l'application du présent accord.

Toutefois, cette désignation ne peut porter atteinte aux droits acquis dans le cadre des coopérations déjà réalisées.

Article *g*

Les Parties tiennent le Secrétaire Général du Conseil de l'Europe informé des activités des commissions, comités et autres organes investis d'une mission en exécution du présent accord.

Article *h*

Les Parties pourront apporter au présent accord, par simple échange de notes, des modifications de peu d'importance, dont l'expérience aurait fait ressortir l'opportunité.

Article *i*

1. Chacune des Parties notifiera à l'autre l'accomplissement des procédures requises par son droit interne pour la mise en vigueur du présent accord, qui prendra effet à la date de la dernière notification.

2. Le présent accord est conclu pour une durée de cinq ans à partir de son entrée en vigueur. S'il n'est pas dénoncé six mois avant l'échéance, il sera renouvelé par tacite reconduction et aux mêmes conditions pour une période de cinq ans et ainsi de suite.

3. La Partie qui notifie sa dénonciation peut en limiter la portée à certains articles nommément désignés, à certaines régions géographiques ou à certains domaines d'activité. Dans ce cas, l'accord reste en vigueur pour le surplus sauf dénonciation par l'autre ou les autres Parties, dans les quatre mois de la notification qui leur est faite de la dénonciation partielle.

4. Les Parties peuvent convenir à tout moment de suspendre l'application du présent accord pour une durée déterminée. Elles peuvent de même convenir que l'activité d'une Commission ou d'un Comité déterminés sera suspendue ou qu'il y sera mis fin.

1.1 Modèle d'accord interétatique sur la promotion de la coopération transfrontalière

Note liminaire : Il s'agit d'un modèle d'accord interétatique contenant des dispositions générales de base et susceptible d'être conclu soit exclusivement, soit conjointement à un ou plusieurs des modèles d'accords interétatiques figurant ci-dessous.

Les Gouvernements de .....

et de .....,

conscients des avantages attachés à la coopération transfrontalière tels qu'ils sont définis dans la Convention-cadre européenne sur la coopération transfrontalière des collectivités ou autorités territoriales sont convenus des dispositions suivantes :

Article 1

Les Parties s'engagent à rechercher et à promouvoir les moyens d'une coopération transfrontalière tant au niveau régional que local.

Par coopération transfrontalière, elles entendent toutes mesures concertées à caractère administratif, technique, économique, social ou culturel et aptes à raffermir et à développer les rapports de voisinage entre des zones situées de chaque côté de la frontière, ainsi que la conclusion d'accords appropriés en vue de résoudre les problèmes qui se posent dans ce domaine.

Ces mesures pourront tendre notamment à l'amélioration des conditions du développement régional et urbain, de la protection des richesses naturelles, de l'entraide en cas de sinistre et de calamité, ainsi qu'à l'amélioration des services aux populations.

Article 2

The Parties shall endeavour, through mutual consultation, to secure to the regional authorities within their jurisdiction the resources needed to permit them to establish co-operation.

Article 3

They shall also undertake to encourage local authority action aimed at establishing and developing transfrontier co-operation.

Article 4

Local and regional authorities engaging in transfrontier co-operation in accordance with this agreement shall be entitled to the same facilities and protection as if they were co-operating at national level.

The competent authorities of each Party shall see to it that budget provision is made for the appropriations needed to cover the running expenditure of the bodies responsible for promoting the transfrontier co-operation covered by this agreement.

Article 5

Each Party shall instruct such body, commission or institution as it shall designate to study current national legislation and regulations with a view to suggesting changes in any provisions liable to hinder the development of local transfrontier co-operation. Such bodies shall give particular consideration to improving fiscal and customs regulations, foreign exchange and capital transfer rules and procedures governing intervention by higher authorities, particularly as regards supervision or control.

Before taking the steps referred to in the above sub-paragraph, the Parties shall consult with each other as necessary and exchange any relevant information.

Article 6

The Parties shall endeavour, by arbitration or other means, to resolve matters in dispute of local importance whose prior settlement would be necessary for the success of transfrontier co-operation projects.

1.2 Model inter-state agreement on transfrontier regional consultation

Introductory note : This agreement may be concluded either individually or in conjunction with one or more of the model inter-state agreements (Texts 1.1 to 1.5).

Article 1

In order to promote transfrontier consultation between the regions defined in the appendix to this text, the Parties shall establish a joint commission (hereinafter referred to as "the Commission"), and if necessary one or more regional committees (hereinafter referred to as "Committees") to deal with matters relating to transfrontier consultation.

Article 2

1. The Commission and Committees comprise delegations whose members are chosen by each of the Parties.

2. Delegations to the Commission shall comprise not more than 8 members, of whom at least 3 shall represent the regional authorities. The chairman of delegations to the Committees, or their representatives, shall take part, in an advisory capacity, in the proceedings of the Commission.[1]

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1. The figures given for the number of members of the Commission are intended for guidance only and should be adapted to individual situations, as indeed should all the provisions in this model agreement. By giving figures the authors of the model agreements intended to highlight the need for efficient commissions with relatively few members. They also wanted to give an indication of the *ratio* to be maintained between representatives of central authorities on the one hand and of regional authorities on the other.

Article 2

Les Parties s'efforcent, en concertation entre elles, de procurer aux autorités régionales de leur ressort les moyens propres à leur permettre d'établir entre elles des liens de collaboration.

Article 3

Elles s'efforcent de même de favoriser les initiatives des autorités locales en vue d'établir et de développer la collaboration transfrontalière.

Article 4

Dans le cas d'une coopération transfrontalière entreprise conformément au présent accord, les autorités et collectivités locales et régionales qui y participent bénéficieront des mêmes facilités et protection que dans le cas où la coopération s'exercerait sur le plan interne.

Les autorités compétentes de chaque Partie veilleront à ce que soient prévus les crédits nécessaires à la couverture des frais de fonctionnement des organes chargés de la promotion de la coopération transfrontalière visée par le présent accord.

Article 5

Chaque Partie chargera tel organe, commission ou institution qu'il désignera d'examiner la législation et la réglementation nationales en vigueur, en vue de proposer la modification des dispositions susceptibles d'entraver le développement de la coopération locale transfrontalière. Ces organes étudieront notamment l'amélioration des dispositions fiscales et douanières, les règles en matière de change et de transfert de capitaux, ainsi que les procédures réglant l'intervention des autorités supérieures, notamment en matière de tutelle ou de contrôle.

Avant de prendre les mesures visées à l'alinéa précédent, les Parties intéressées se concerteront, si nécessaire, et se communiqueront les informations nécessaires.

Article 6

Les Parties veilleront à rechercher par la voie de l'arbitrage, ou autrement, la solution de questions litigieuses d'importance locale dont le règlement préalable serait nécessaire à la réussite des actions de collaboration transfrontalière.

1.2 Modèle d'accord interétatique sur la concertation régionale transfrontalière

Note liminaire : Cet accord peut soit être conclu individuellement, soit en conjonction avec un ou plusieurs des modèles d'accords interétatiques (textes 1.1 à 1.5).

Article 1

En vue de promouvoir la concertation transfrontalière dans la région définie à l'annexe au présent accord, les Parties constituent une Commission mixte (désignée ci-après « Commission ») assortie, le cas échéant, d'un ou plusieurs Comités régionaux (désignés ci-après « Comités ») chargés de traiter les questions relatives à la concertation transfrontalière.

Article 2

1. La Commission et le Comité sont formés de délégations composées à l'initiative de chacune des Parties.

2. Les délégations de la Commission sont composées de 8 membres au maximum, parmi lesquels 3 au moins représentent les autorités régionales. Les présidents des délégations aux Comités, ou leurs représentants, participent, avec voix consultative, aux travaux de la Commission[1].

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1. Les chiffres relatifs aux nombres des membres de la Commission n'ont qu'un caractère indicatif et devront être adaptés aux situations particulières, comme par ailleurs l'ensemble des dispositions de ce modèle d'accord. Les auteurs des modèles d'accord ont voulu souligner par ces chiffres la nécessité de créer des Commissions composées d'un nombre limité de membres et capables de travailler avec efficacité. Par ailleurs, ils ont également voulu donner des indications sur la proportion entre, d'une part, les représentants des autorités centrales et, d'autre part, les représentants des autorités régionales.

3. The Committees shall be composed of ... delegations, each comprising ... members, and shall be formed at the instigation of the Commission in agreement with the regional and local authorities of the frontier areas covered by this agreement. Delegations to the Committees shall be composed of representatives of those authorities or of regional or local bodies. One delegate shall be appointed by the central authorities. He shall, where appropriate, be chosen from among the bodies representing the central authorities in the frontier areas for which the Committees are responsible.

4. The Commission shall meet at least once per year. The Committees shall meet as required, but at least twice per year.

5. The Commission and the Committees shall draw up their own rules of procedure.

Article 3

Each Party shall defray the expenditure of its own delegation to the Commission.

The expenditure of delegations to the Committees shall be defrayed by the authorities forming such delegations.

Article 4

For purposes of co-ordination and continuity in the work of the Commission and the Committees, the Parties shall if need be establish a Secretariat whose composition, headquarters, manner of operation and financing shall be laid down in an ad hoc arrangement between them, as proposed by the Commission. Failing agreement between the Parties, the Commission itself may establish such a Secretariat.

Article 5

The frontier areas covered by this agreement shall be specified in an Annex thereto, the content of which may be amended simply by an exchange of notes.

Article 6

1. The matters dealt with under transfrontier consultation shall be those arising in the following fields : [1]

— urban and regional development ;

— transport and communications (public transport, roads and motorways, joint airports, waterways, seaports, etc.) ;

— energy (power stations, gas, electricity and water supplies) ;

— nature conservation (places requiring protection, recreation areas, natural parks, etc.) ;

— water conservation (pollution control, treatment plants, etc.) ;

— protection of the atmosphere (air pollution, noise abatement, noise-free zones, etc.) ;

— education, training and research ;

— public health (e.g. use of medical facilities in one of the areas by the inhabitants of another) ;

— culture, leisure and sport (theatres, orchestras, sports centres, holiday homes and camps, youth centres, etc.) ;

— mutual assistance in disaster relief (fire, flood, epidemics, air crashes, earthquakes, mountain accidents, etc.) ;

— tourism (joint projects for the promotion of tourism) ;

— problems relating to frontier workers (transport facilities, housing, social security, taxation, employment, unemployment, etc.) ;

— economic projects (new industry, etc.) ;

— miscellaneous projects (refuse disposal plant, sewerage, etc.) ;

— improvement of the agrarian system ;

— social facilities.

2. The Parties may agree to amend this list by simply exchanging notes.

---

1. This list is given merely for guidance and should be adapted to each co-operation project. It is not to be interpreted as modifying the powers vested in territorial authorities by domestic law. Both central and regional authorities are, after all, represented on the Commission.

3. Les Comités, formés de ... délégations de ... membres, sont constitués sur l'initiative de la Commission et d'entente avec les autorités régionales et locales des zones frontalières visées par le présent accord. Les délégations aux Comités seront composées de représentants de ces autorités ou d'organismes régionaux ou locaux. En outre, un délégué sera désigné par les autorités centrales. Ce dernier sera, le cas échéant, choisi parmi les organes qui représentent les autorités centrales dans les zones frontalières qui relèvent de la compétence des Comités.

4. La Commission se réunit une fois par an au moins. Les Comités se réunissent aussi souvent que les besoins l'exigent, mais au moins deux fois par an.

5. La Commission et les Comités établissent leur règlement intérieur.

Article 3

Chacune des Parties assume les frais de sa délégation à la Commission.

Les frais des délégations aux Comités seront supportés par les autorités qui ont constitué ces délégations.

Article 4

Afin d'assurer la coordination et la continuité des travaux de la Commission et des Comités, les Parties créent, chaque fois que le besoin s'en fait sentir, un secrétariat dont la composition, le siège, les modalités de fonctionnement et le financement sont fixés par un arrangement *ad hoc* entre les Parties sur proposition de la Commission ou, à défaut, par la Commission elle-même.

Article 5

Les zones frontalières auxquelles s'étend l'application du présent accord seront déterminées dans une annexe à l'accord, annexe dont le contenu pourra être modifié par simple échange de notes.

Article 6

1. Les questions qui font l'objet de la concertation transfrontalière sont celles qui se posent dans les matières suivantes[1] :

— Développement urbain et régional ;

— Transports et communications (transports en commun, routes et autoroutes, aéroports communs, voies fluviales, ports maritimes, etc.) ;

— Energie (centrales pour la production d'énergie, fournitures de gaz, électricité, eau, etc.) ;

— Protection de la nature (sites à protéger, zones de récréation, parcs naturels, etc.) ;

— Protection des eaux (lutte contre la pollution, construction de stations d'épuration, etc.) ;

— Protection de l'air (pollution atmosphérique, lutte contre le bruit, zones de silence, etc.) ;

— Enseignement, formation professionnelle et recherche ;

— Santé publique (par exemple, utilisation d'un centre de soins situé dans l'une des zones par les habitants de l'autre zone) ;

— Culture, loisirs et sport (théâtres, orchestres, centres sportifs, colonies de vacances, maison des jeunes, etc.) ;

— Entraide en cas de catastrophe (incendies, inondations, épidémies, accidents d'avion, tremblements de terre, accidents de montagne, etc.) ;

— Tourisme (réalisations communes pour promouvoir le tourisme);

— Problèmes posés par les travailleurs frontaliers (facilités de transport, de logement, sécurité sociale, questions fiscales, problèmes d'emploi et de chômage, etc.) ;

— Projets d'activités économiques (projets d'implantations industrielles, etc.);

— Projets divers (usine de traitement des déchets, construction d'égouts, etc.) ;

— Amélioration de la structure agraire ;

— Infrastructure sociale.

2. Les Parties pourront convenir par simple échange de notes de modifier cette liste.

---

1. Cette liste n'a qu'une valeur indicative et devra être adaptée à chaque cas de coopération. Elle ne peut être interprétée comme modifiant les compétences des différentes autorités territoriales d'après le droit interne. En effet, au sein de la Commission sont représentées aussi bien les autorités centrales que régionales.

Article 7

1. Unless otherwise provided, the Commission shall be responsible for dealing with general matters and matters of principle, such as drawing up programmes for the Committees, co-ordination and contact with the central administrations concerned and with joint Commissions established before the entry into force of this agreement.

2. The Commission shall in particular be responsible for referring to the respective governments, as appropriate, its own and the Committees' recommendations and any projects for the conclusion of international agreements.

3. The Commission may avail itself of the services of experts for the investigation of particular questions.

Article 8

1. The primary function of the Committees shall be to investigate problems arising in the fields specified in Article 6 and to make proposals and recommendations accordingly. Such problems may be referred to them by the Commission, by the Parties' central, regional or local authorities and by institutions, associations or other public or private bodies. They may also take up matters on their own initiative.

2. The Committees may, for the purpose of studying these matters, set up working parties. They may also avail themselves of the services of experts and request legal opinions or technical reports. The Committees shall, through the fullest possible consultation, seek to obtain results in keeping with the interests of the population concerned.

Article 9

1. The Committees shall inform the Commission of matters referred to them and of the conclusions which they have reached.

2. Where their conclusions require decisions by the Commission or by the respective governments, the Committees shall make recommendations to the Commission.

Article 10

1. Both the Commission and the Committees shall be empowered to settle matters of common interest which are referred to them with the members' agreement, provided that their members hold powers in respect thereof according to the legislation of the Parties.

2. The Commission and the Committees shall exchange information on the decisions reached in this respect.

Article 11

1. The delegations to the Commission or the Committees shall exchange information on the action taken by the competent authorities on recommendations made or agreements drafted in accordance with Article 7.2 and Article 9.2.

2. The Commission and the Committees shall consider the action required on the measures taken by the competent authorities referred to in paragraph 1.

1.3 Model inter-state agreement on local transfrontier consultation

Introductory note : This agreement may be concluded either individually or in conjunction with one or more of the model inter-state agreements (Texts 1.1 to 1.5).

Article 1

With a view to ensuring a fuller exchange of information and developing consultation between local authorities on either side of frontiers, the Parties call on such authorities to make a joint study of problems of common interest through consultation committees.

Article 2

The rules of procedure of such committees shall be agreed by their members. Higher authorities shall be associated with their proceedings or kept informed of them.

Article 7

1. Sauf dispositions particulières, la Commission est chargée de traiter les questions générales et les questions de principe, comme l'élaboration de programmes pour les Comités, la coordination et les contacts avec les administrations centrales intéressées ainsi qu'avec les commissions mixtes créées avant l'entrée en vigueur du présent accord.

2. La Commission a, en particulier, pour tâche de saisir, le cas échéant, les gouvernements respectifs de ses recommandations et de celles de ses Comités, ainsi que des projets éventuels tendant à la conclusion d'accords internationaux.

3. La Commission peut faire appel à des experts pour l'étude de questions particulières.

Article 8

1. Les Comités ont principalement pour tâche d'étudier les problèmes qui se posent dans les domaines visés à l'article 6 et d'émettre des propositions et des recommandations à ce sujet. Ils peuvent en être saisis par la Commission, par les autorités centrales, régionales ou locales des Parties ainsi que par des institutions, associations ou autres organismes de droit public ou privé. Ils peuvent également s'en saisir eux-mêmes.

2. Les Comités peuvent, pour l'étude de ces problèmes, constituer des groupes de travail. Ils peuvent de même faire appel à des experts et demander des avis de droit ou des rapports techniques. Les Comités doivent faire en sorte qu'une consultation aussi large que possible aboutisse à des résultats conformes à l'intérêt des populations concernées.

Article 9

1. Les Comités informent la Commission des questions soumises à leur examen ainsi que des conclusions auxquelles ils ont abouti.

2. Si les conclusions appellent des décisions à l'échelon de la Commission ou des gouvernements respectifs, les Comités formulent des recommandations à l'intention de la Commission.

Article 10

1. Tant la Commission que les Comités sont habilités à régler, de commun accord entre leurs membres, les questions d'intérêt commun, dans la mesure où leurs membres en ont la compétence d'après la législation respective des Parties.

2. La Commission et les Comités s'informent mutuellement des décisions prises à ce sujet.

Article 11

1. Les délégations au sein de la Commission ou des Comités s'informent mutuellement des mesures prises par les autorités compétentes à la suite des recommandations formulées ou des projets d'accords élaborés conformément à l'article 7.2 et à l'article 9.2.

2. La Commission et les Comités examinent la suite à donner aux dispositions prises par les autorités compétentes visées à l'alinéa premier.

1.3 **Modèle d'accord interétatique sur la concertation locale transfrontalière**

Note liminaire : Cet accord peut soit être conclu individuellement, soit en conjonction avec un ou plusieurs des modèles d'accords interétatiques (textes 1.1 à 1.5).

Article 1

En vue d'une meilleure information réciproque et du développement de la concertation entre les autorités locales de part et d'autre des frontières, les Parties invitent ces autorités à examiner ensemble les problèmes locaux d'intérêt commun dans le cadre de groupes de concertation.

Article 2

Les règles de fonctionnement de ces groupes sont définies par accord entre leurs membres. Les autorités supérieures sont associées à leurs travaux ou tenues informées de ceux-ci.

The consultation committees shall be associated with the work of regional transfrontier consultation commissions on terms to be decided by the latter, should such commissions have been set up in the regions in question. Similarly, these commissions shall give their assistance to the work of the consultation committees.

They may also act as advisory bodies in connection with the implementation of special inter-state agreements concluded in the context of transfrontier co-operation.

Article 3

The function of the consultation committees shall be to organise exchanges of information and consultations on both sides as well as to study matters of common interest and determine common aims.

Their activities shall be governed by respect for the responsibilities of their members and no transfer of powers shall be involved.

The members of these committees may, however, within the framework of co-operation agreements, decide together what measures or restrictions are to guide their respective activities or what preliminary consultation procedures they wish to see followed.

Article 4 (alternative)

To assist these consultation committees in their work, the local authorities concerned may, within the limits of the powers conferred on them under domestic law, form associations to provide a legal framework for their co-operation.

Such associations shall be set up under the civil law or commercial law applicable to associations in one of the States concerned. For the application of the legal system chosen, should the occasion arise, the conditions, formalities and particular authorisations concerning the nationality of members of the associations should be disregarded.

The information provided to the higher authorities, conforming to Article 2, will include all information on the activities of the associations mentioned in the present article.

1.4 Model inter-state agreement on contractual transfrontier co-operation between local authorities

Introductory note : This agreement may be concluded either individually or in conjunction with one or more of the draft inter-state agreements (Texts 1.1 to 1.5).

Article 1

Transfrontier co-operation between local authorities shall be conducted *inter alia* by means of administrative, economic or technical contracts.

Article 2

Transfrontier co-operation contracts shall be concluded by local authorities within the limits of their powers under domestic law.

They shall *inter alia* relate to the provision of supplies or services, the taking of joint action, the creation of associations established on the basis of civil or commercial law of one of the States parties or the membership of such an association.[1]

Article 3

The Parties to such a contract shall specify the law applicable thereto by reference to the law of contracts (both public and private) of one of the States parties to this agreement.

They shall also specify, as far as is necessary, those derogations that may be made from such provisions of that law as are not binding.

Failing any relevant stipulation in the contract, the law applicable shall be that of the State of whichever local authority is responsible thereunder for providing the principal service, or failing this, the local authority with the most important financial involvement.

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1. The coherence of this agreement remains the same whether or not this paragraph is included.

Les groupes de concertation sont associés aux travaux des commissions régionales de concertation transfrontalière dans les conditions définies par ces dernières, si de telles commissions ont été créées dans la région considérée. Réciproquement, ces commissions apportent leur concours aux travaux des groupes.

Ils peuvent également intervenir comme groupes de consultation dans le cadre de l'application d'accords interétatiques à objet particulier conclus dans le domaine de la coopération transfrontalière.

Article 3

La vocation des groupes de concertation est d'assurer l'échange d'informations, la consultation réciproque, l'étude de questions d'intérêt commun, la définition d'objectifs identiques.

Leur activité s'effectue dans le respect des responsabilités propres de leurs membres et n'implique aucun transfert de compétence.

Cependant, dans le cadre d'accords de coopération, les membres de ces groupes peuvent valablement définir en commun les mesures ou restrictions qui guident leurs actions respectives ou les procédures de consultations préalables qu'ils entendent suivre.

Article 4 (variante)

En vue de faciliter l'activité de ces groupes de concertation, les autorités locales intéressées peuvent créer, dans les limites des pouvoirs que leur attribue le droit interne, des associations destinées à fournir un support juridique à leur coopération.

Ces associations seront constituées sur la base du droit civil des associations ou du droit commercial de l'un des Etats concernés. Pour l'application du régime juridique adopté, il est fait, le cas échéant, abstraction des conditions, formalités ou autorisations particulières liées à la nationalité des membres de ces associations.

Les informations procurées aux autorités supérieures, conformément à l'article 2, comporteront tout renseignement sur les activités des associations visées au présent article.

1.4 Modèle d'accord interétatique sur la coopération transfrontalière contractuelle entre autorités locales

Note liminaire : Cet accord peut soit être conclu individuellement, soit en conjonction avec un ou plusieurs des modèles d'accords interétatiques (textes 1.1 à 1.5).

Article 1

La coopération transfrontalière entre autorités locales est mise en œuvre notamment par voie de contrats ayant un objet administratif, économique ou technique.

Article 2

Les contrats de coopération transfrontalière sont conclus par les autorités locales dans les limites de leur compétence telle qu'elle résulte du droit interne.

Ils portent notamment sur la fourniture de prestations ou de services, sur la mise en œuvre d'actions communes, sur la création d'associations constituées sur la base du droit civil ou commercial de l'un des Etats parties ou sur la participation à de telles associations[1].

Article 3

Les cocontractants définissent le droit applicable auxdits contrats par référence au droit des contrats (public et privé) de l'un des Etats parties au présent accord.

Ils déterminent également autant que de besoin les dérogations pouvant être apportées aux dispositions non contraignantes de ce droit.

Dans le silence du contrat, le droit applicable est celui de l'Etat dont relève l'autorité locale qui, en vertu de l'accord, est chargée de l'exécution de la prestation en nature la plus importante, ou à défaut, l'autorité locale dont l'engagement financier est le plus important.

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1. La cohérence de l'accord subsisterait même si cet alinéa n'y était pas inclus.

Under all circumstances the persons subject to the local authorities parties to the contract shall retain any right to take action against or seek remedy from the said authorities which they would have enjoyed with regard to the authorities if the latter had retained their duty to provide the said persons with the supplies or services in question. The local authorities against which such action is taken or from which remedies are sought shall be entitled to institute proceedings against those local authorities which have assumed responsibility for providing the supplies or services.

Article 4

Proposals for the conclusion or amendment of contracts shall be simultaneously subject in each State to the ordinary rules governing intervention by higher authorities. However, no approval shall be required from authorities parties to the contract. Any decision taken by a higher authority which may prevent the conclusion or application, or which may provoke the cancellation, of a transfrontier co-operation contract, should imply previous consultation with the corresponding higher authorities of the other States concerned.

Article 5

In the event of a dispute, the competent judicial authority shall be determined by the applicable law. However, transfrontier co-operation contracts may include arbitration clauses. Notwithstanding any such clauses users and third parties shall retain any existing legal remedies against the local authorities of the State to which they belong, it lying with those authorities to seek redress against the defaulting co-contractor.

Higher authorities shall take all measures in their power to secure the prompt execution of judicial decisions, whatever the nationality of the court from which they emanated.

Article 6

Contracts concluded under this agreement shall remain in effect after its denunciation. However, the contracts will include a clause authorising the parties to terminate such contracts, subject to five years' notice, in the event of the denunciation of the present agreement. The States parties will have the power to bring about the application of this clause.

1.5 Model inter-state agreement on organs of transfrontier co-operation between local authorities

Introductory note : This agreement may be concluded either individually or in conjunction with one or more of the model inter-state agreements (Texts 1.1 to 1.5).

Article 1

For the purposes which they are permitted under domestic law to pursue through an association or consortium, local authorities and other public-law bodies may take part in associations or consortia of local authorities formed in the territory of another Party in accordance with the latter's domestic law.

Article 2

Within the limits of their members' powers, the associations or consortia referred to in Article 1 shall be entitled to pursue their activities arising out of their statutory purpose in the territory of each of the Parties concerned. In so doing, they shall be subject to the rules laid down by that State, unless exceptions are allowed by that State.

Article 3

1. The instrument of establishment of the association or consortium, the articles of association and any alterations thereto shall be subject to approval by the higher authorities of all the local authorities participating. The same shall apply to admission to an already existing association or consortium.

2. The population concerned shall be notified of such instruments and the approval thereof, in accordance with each country's normal publicity arrangements. The same shall apply to any change in official headquarters and to any decisions regarding the persons authorised to act on behalf of the association or consortium and the limits of their powers.

En tout état de cause, les citoyens de chacune des autorités locales qui sont parties au contrat conservent contre celles-ci tout droit d'action et recours dont elles auraient bénéficié à l'égard desdites autorités si celles-ci avaient conservé par devers elles la charge d'effectuer les prestations, fournitures ou services. Les autorités locales qui font l'objet de telle action ou recours disposent d'une action récursoire contre les autorités locales qui ont assumé la charge des prestations, fournitures ou services.

Article 4

Les projets de conclusion ou de modification de contrats sont soumis simultanément dans chaque Etat aux règles ordinaires fixant l'intervention des autorités supérieures. Toutefois, aucune approbation n'est exigée de la part des autorités qui sont parties au contrat. Toute décision d'une autorité supérieure tendant à empêcher la conclusion ou l'application, ou à provoquer la résiliation, d'un contrat de coopération transfrontalière implique une concertation préalable avec des autorités supérieures homologues des autres Etats intéressés.

Article 5

En cas de litige, le droit applicable définit la juridiction compétente. Toutefois, les contrats de coopération transfrontalière peuvent prévoir des clauses d'arbitrage. Les usagers et tiers conservent cependant les voies de recours existantes contre les autorités locales de l'Etat dont ils relèvent, à charge pour ces autorités de se retourner contre le cocontractant défaillant.

Les autorités supérieures prendront toutes les mesures en leur pouvoir pour assurer une prompte exécution des décisions juridictionnelles quelle que soit la nationalité du tribunal qui les a rendues.

Article 6

Les contrats conclus dans le cadre du présent accord subsistent après sa dénonciation. Toutefois, les contrats comporteront une clause autorisant les parties à les résilier moyennant le respect d'un préavis d'au moins cinq ans dans le cas où le présent accord aurait été lui-même dénoncé. Les Etats parties auront la faculté de provoquer l'application de cette clause.

1.5 Modèle d'accord interétatique concernant les organismes de coopération transfrontalière entre autorités locales

Note liminaire : Cet accord peut soit être conclu individuellement, soit en conjonction avec un ou plusieurs des modèles d'accords interétatiques (textes 1.1 à 1.5).

Article 1

Pour des objets qu'elles sont admises en vertu du droit interne à réaliser dans le cadre d'une association ou d'un syndicat, les collectivités locales et autres personnes de droit public peuvent participer à des associations ou syndicats de pouvoirs locaux constitués sur le territoire d'une autre Partie conformément au droit interne de celle-ci.

Article 2

Dans les limites des attributions de leurs membres, les associations ou syndicats visés à l'article 1 ont le droit d'exercer leurs activités relevant de leur objet social sur le territoire de chacune des Parties intéressées. Ils y sont soumis aux règles édictées par cet Etat, sauf dérogation admise par celui-ci.

Article 3

1. L'acte constitutif de l'association ou syndicat et les statuts particuliers ainsi que les modifications de ces actes sont soumis à l'approbation des autorités supérieures de toutes les collectivités locales participantes. Il en est de même de l'entrée dans une association ou un syndicat déjà existant.

2. Ces actes et leur approbation seront portés à la connaissance de toutes les populations intéressées suivant les modes de publicité appliqués dans chaque Etat. Il en est de même pour tout changement du siège social ainsi que pour toute décision concernant les personnes aptes à engager l'association ou le syndicat et les limites de leur pouvoir.

3. The above instruments shall be drawn up in the official languages in use in each of the States where they are to have effect. Each such version of the text shall be authentic.

Article 4

1. The articles of association shall specify rules governing the association's or consortium's relations in law. They shall include the subjects required by the relevant legislation, in accordance with Article 1. In every case, they shall designate its members, its name and its headquarters. They shall determine the purpose of the association or consortium and, where appropriate, the functions of its installations and the location thereof. They shall determine the manner of appointment of the managerial and administrative bodies, the extent of the members' obligations and their contribution to joint expenditure. The management bodies shall include at least one representative of the member local authorities of each country. The articles of association shall determine the composition and the mode of deliberation of the General Assembly, the form of minutes of sittings, the mode of dissolution or liquidation and the rules governing budgets and accounts.

2. The articles shall also include a provision whereby members may withdraw from the association on giving a period of notice which will be fixed by the articles, after settlement of any debts to the association and on payment to the association of compensation, as assessed by experts, in respect of investment effected or expenditure incurred by the association for or on behalf of the members concerned. They shall also specify rules governing members' dismissal or exclusion for failure to honour their undertakings.

Article 5

The Parties undertake to give the authorisation necessary to the accomplishment within their territory by the association or consortium of its task, subject to the requirements of public policy and public safety.

Article 6

Where, pursuant to domestic law, the association or consortium may not, on the territory of a State, exercise certain powers, rights or advantages necessary to the accomplishment of its task for the benefit of that State's member local authorities, the latter shall have the right and the duty to act for and on behalf of the association or consortium for the purpose of exercising or securing these powers, rights or advantages.

Article 7

1. Powers of supervision or control over the association or consortium shall be exercised, in accordance with domestic law, by the responsible authorities of the State in which its headquarters are located. Such authorities shall also ensure that the interests of local authorities of other States are safeguarded.

2. The responsible authorities of the other States shall have a right to information on the activities and decisions of the association or consortium and on action taken in the exercise of supervision or control. They shall, in particular, be supplied on request with the adopted texts and minutes of meetings of the bodies of the association or consortium, the annual accounts and the draft budget, if any, insofar as domestic law requires that these be communicated to the authorities responsible for supervision or control. They may communicate directly with the bodies of the association or consortium and with the supervisory or controlling authorities, submit observations to them or ask to be directly consulted in specific instances and on specific matters.

3. The responsible authorities of the other States shall also have the right to notify the association or consortium that they object to those authorities falling under their jurisdiction continuing to take part in the association or consortium. Such notification, duly justified, shall be deemed to be grounds for exclusion and shall be specified as such in the association's articles. The authorities referred to in paragraphs 1 and 2 of this Article shall also be entitled to be represented by a delegate to the management bodies of the association or consortium ; such delegate shall be entitled to attend all the bodies' meetings and to receive their agendas and minutes.

Article 8

The supplies or services with which the association or consortium is to be entrusted, in accordance with its articles, in the territory of its members shall be provided on its responsibility, thereby completely releasing its members from their obligations in respect thereof. The association or consortium shall also be responsible vis-à-vis users and third parties. The latter shall, however, retain, with regard to the local authorities for and on whose behalf the supplies or services are provided, all such rights of action and legal

3. Les actes ci-dessus seront dressés dans les langues officielles en usage dans chacun des Etats où ceux-ci devront avoir effet. Les divers textes feront également foi.

Article 4

1. Les statuts règlent les rapports de droit de l'association ou syndicat. Ils comportent les matières exigées par la législation qui les régit, conformément à l'article 1. Dans tous les cas, ils en désignent les membres, le nom et le siège. Ils définissent la mission de l'association ou du syndicat et éventuellement les fonctions et le lieu d'implantation des installations appelées à les réaliser. Ils règlent les conditions dans lesquelles les organes de gestion et d'administration sont désignés, la mesure des engagements des associés et de leur contribution aux charges communes: Les organes de gestion doivent comporter au moins un représentant des collectivités locales membres de chaque pays. Ils fixent la composition et le mode de délibération de l'assemblée générale, la forme des procès-verbaux de séance, les modes de dissolution et de liquidation, ainsi que les règles applicables en matière de budgets et de comptes.

2. Les statuts doivent en outre comporter une disposition permettant aux associés de se retirer de l'association moyennant un délai dont ils fixent la durée, la liquidation de leurs dettes éventuelles envers l'association et l'indemnisation de celle-ci, à dire d'experts, pour les investissements et frais réalisés ou exposés par l'association au profit ou à la décharge desdits associés. Ils fixent également les conditions de démission d'office ou d'exclusion d'un associé pour cause d'inexécution de ses engagements.

Article 5

Les Parties s'engagent à accorder les autorisations nécessaires à l'accomplissement, sur leur territoire, par l'association ou le syndicat, de la mission qui lui incombe, sous réserve des exigences de l'ordre et de la sécurité publics.

Article 6

Lorsque, par l'application du droit interne, l'association ou syndicat ne pourra disposer, sur le territoire d'un Etat, de certains pouvoirs, droits ou avantages nécessaires au bon accomplissement de sa mission au profit des collectivités locales membres relevant de cet Etat, celles-ci auront le droit et le devoir d'intervenir aux lieu et place de l'association ou syndicat, en vue d'exercer ou d'obtenir ces pouvoirs, droits ou avantages.

Article 7

1. Les pouvoirs de tutelle ou de contrôle sur l'association ou syndicat sont exercés, conformément au droit interne, par les autorités compétentes de l'Etat de son siège. Celles-ci veillent également à la sauvegarde des intérêts des collectivités locales relevant d'autres Etats.

2. Les autorités compétentes des autres pays ont un droit d'information sur les activités et les décisions de l'association ou syndicat et les actes pris dans l'exercice de la tutelle ou du contrôle. Elles reçoivent notamment, à leur demande, les textes adoptés et les procès-verbaux des réunions des organes de l'association ou syndicat, les comptes annuels, ainsi que le projet de budget, s'il existe, dès lors que le droit interne prescrit leur communication aux autorités de tutelle ou de contrôle. Elles peuvent communiquer directement avec les organes de l'association ou syndicat ainsi qu'avec les autorités de tutelle ou de contrôle de celui-ci, leur adresser des observations et leur demander d'être consultées directement dans des cas et sur des questions déterminées.

3. Les autorités compétentes des autres Etats auront également le droit de notifier à l'association ou au syndicat qu'elles s'opposeront à ce que les collectivités qui relèvent de leur compétence continuent à participer à l'association ou au syndicat. Cette notification dûment motivée sera tenue pour une cause d'exclusion et reprise comme telle dans les statuts. Les autorités visées aux paragraphes 1 et 2 du présent article ont également le droit de se faire représenter par un délégué auprès des organes de gestion de l'association ou syndicat, ce délégué ayant la faculté d'assister à toutes les réunions desdits organes et d'en recevoir les ordres du jour et procès-verbaux.

Article 8

Les prestations ou fournitures dont l'association ou syndicat sera chargé sur le territoire de ses membres, en conformité avec ses statuts, seront effectuées sous sa responsabilité et à la décharge complète de ceux-ci. L'association ou syndicat en sera également responsable envers les usagers et les tiers. Toutefois, ceux-ci conserveront contre les autorités locales, aux lieu et place desquelles les prestations ou fournitures auront été effectuées, tous les droits, actions et recours dont ils bénéficieraient à l'égard desdites autorités si

remedy as they would enjoy if the authorities themselves had retained the obligation to provide them with the supplies and services concerned. The authorities against whom such action or recourse is directed may themselves take action against the association.

Article 9

1. Failing conciliation, disputes between the association and its members, or between several members, regarding its operation shall be referred to the administrative and judicial authorities of the State in which the headquarters of the association or consortium are located.

2. All disputes other than those referred to in paragraph 1 may be referred to the administrative and judicial authorities according to the ordinary rules applying in the territory of the States parties, unless those interested decide to refer such disputes to a tribunal which they may designate.

3. The States parties will take the necessary measures in order to ensure the execution on their territory of decisions and judgments, relating to the above provisions.

Article 10

The associations or consortia created according to this agreement shall remain in effect after the denunciation of this agreement, though without prejudice to the provisions of Article 7, paragraph 3.

celles-ci avaient conservé par-devers elles la charge d'effectuer les prestations ou fournitures. Les autorités qui auront fait l'objet de tels action ou recours disposeront d'une action récursoire contre l'association ou le syndicat.

Article 9

1. A défaut de conciliation, les contestations relatives au fonctionnement de l'association ou syndicat et opposant celui-ci à ses membres, ou deux ou plusieurs membres entre eux, sont portées devant les autorités administratives et judiciaires de l'Etat dans lequel l'association ou syndicat a son siège.

2. Tous autres litiges que ceux prévus au paragraphe 1 sont portés devant les autorités administratives et les juridictions compétentes selon les règles ordinaires applicables sur le territoire des Etats parties Contractantes, à moins que les intéressés ne conviennent de confier la solution du litige à une instance arbitrale qu'ils désignent.

3. Les Etats parties prendront les mesures nécessaires pour assurer sur leur territoire l'exécution des décisions et jugements relevant des dispositions qui précèdent.

Article 10

Les syndicats et associations constitués en application du présent accord subsistent après la dénonciation de celui-ci, sans préjudice toutefois des dispositions de l'article 7, paragraphe 3.

2. OUTLINE AGREEMENTS, STATUTES, AND CONTRACTS BETWEEN LOCAL AUTHORITIES

Introductory note :

Outline agreements, contracts and statutes intended for local authorities

Like States, local authorities could be offered a choice of agreements and contracts. In fact, such a choice already exists in a number of countries, as is shown by the appreciable volume of documentation on agreements concluded that has already been assembled.

The proposed system comprises six outline agreements, contracts and statutes corresponding to different degrees and formulae of local transfrontier co-operation. According to the scope and state of national legislation, these outlines may either be put to immediate use or may be subordinated to the adoption of an inter-state agreement governing their use.

In general, the conclusion of inter-state agreements, even when it does not seem absolutely essential, could help to clarify the conditions on which these agreements may be used by the local authorities. In any event, the conclusion of an inter-state agreement would seem to be a prerequisite for recourse to the agreement numbered 2.6 (transfrontier co-operation organs).

This system of outline agreements intended for local authorities corresponds to the model inter-state agreements. Reference is made to the inter-state agreements in the introductory note to each outline.

It is then possible to integrate the agreements and organs set up at local level, into the structures of transfrontier consultation to be set up at regional or national level. For example, the local liaison committees (outline 2.1) could be integrated into the structure of the Commissions, Committees and working parties stipulated in the model inter-state agreement on regional transfrontier consultation (1.2).

Also, these models have been designed on a schematic basis, as it was not possible to take a global view of all the problems that could arise in each particular case. The outlines are a valuable guide, but may be amended according to the needs encountered by the local authorities using them.

Likewise, local authorities must determine means of encouraging citizen participation in transfrontier consultation in the socio-cultural sphere. Such participation would certainly overcome the psychological obstacles sometimes seriously impeding transfrontier co-operation. Consultation, supported by public interest, would also benefit from a solid foundation. One way of encouraging public participation would be to have recourse to an association. Thus, one of the outlines (2.3) concerns the setting up of a private law association.

2.1 Outline agreement on the setting up of a consultation group between local authorities

Introductory note : Normally, the creation of such a group is possible without the need for inter-state agreements. There are numerous examples of such a possibility. However, if legal or other uncertainties exist, an inter-state agreement would provide the conditions under which such consultation could be used (see model agreement 1.3).

Purpose of the group and headquarters

Article 1

The local authorities Parties to this Agreement undertake to co-ordinate their efforts in the following fields within their powers (specify the field(s) of responsibility or refer to "local problems"). For this purpose, they hereby establish a Consultation Group, hereinafter referred to as "the Group", with headquarters at .....

2. SCHÉMAS D'ACCORDS, DE STATUTS ET DE CONTRATS À CONCLURE ENTRE AUTORITÉS LOCALES

Note liminaire :

Les schémas d'accords, de contrats et de statuts destinés aux autorités locales

De la même manière que pour les Etats, les collectivités locales devraient disposer d'un certain choix d'accords et de contrats, choix qui existe déjà aujourd'hui dans un certain nombre d'Etats, comme le démontre la documentation assez nombreuse réunie sur les accords.

Le système proposé comporte six schémas d'accords, de contrats et de statuts correspondant à des degrés et à des formules différentes de coopération transfrontalière locale. Ces schémas sont, selon l'objet et l'état des législations nationales, soit susceptibles d'une utilisation immédiate, soit subordonnés à l'adoption d'un accord interétatique réglant leur utilisation.

D'une manière générale, la conclusion d'accords interétatiques, même là où elle ne paraît pas absolument indispensable, pourrait contribuer à préciser les conditions de recours à ces accords de la part des collectivités locales. La conclusion d'accords interétatiques paraît s'imposer en tout cas pour le recours à l'accord visé sous 2.6 (organes de coopération transfrontalière).

Le système de ces schémas d'accords destinés aux collectivités locales, correspond aux modèles d'accords interétatiques. On trouvera une référence aux accords interétatiques dans les notes liminaires précédant chaque schéma.

Il est dès lors possible d'intégrer les accords et organismes créés au niveau local et les structures de concertation transfrontalière qui seraient mises en place aux niveaux régional ou national. Ainsi, par exemple, les groupes locaux de concertation (voir schéma 2.1) pourraient s'intégrer à la structure des Commissions, Comités et groupes de travail prévus dans le modèle d'accord interétatique sur la concertation régionale transfrontalière (voir 1.2).

Il y a lieu aussi de mentionner que ces modèles ont été conçus sur une base schématique, car il n'est pas possible d'imaginer l'ensemble des problèmes qui peuvent se poser dans chaque cas d'espèce. Ces schémas constituent un guide précieux, mais ils pourront être modifiés selon les nécessités rencontrées par les collectivités locales qui en feraient usage.

Il appartiendra également aux collectivités locales de déterminer la manière dont elles entendent faire participer les citoyens à la concertation transfrontalière, notamment dans le domaine socio-culturel. Une telle participation contribuerait sans aucun doute à lever certains obstacles à la coopération transfrontalière. La concertation appuyée par l'intérêt des citoyens bénéficierait ainsi d'une base solide. Un des moyens d'instaurer la participation du public pourrait être le recours à une association. Ainsi, l'un des schémas d'accords (voir 2.3) concerne la création d'une association de droit privé.

2.1 Schéma d'accord pour la création d'un groupe de concertation entre autorités locales

Note liminaire : Normalement, il est possible de créer ce type de groupe sans avoir recours à des accords interétatiques. De nombreux exemples témoignent de cette possibilité. Toutefois, si des incertitudes de caractère juridique ou autre subsistaient, il conviendrait que les conditions de recours à ce type de concertation soient fixées dans un accord interétatique (voir modèle 1.3).

But du groupe de concertation et siège

Article 1

Les autorités locales (Parties) s'engagent à se concerter dans les domaines suivants relevant de leur compétence (spécifier le domaine ou les domaines de compétence, ou éventuellement se référer aux « problèmes locaux de voisinage »). A cette fin, elles instituent un groupe de concertation ci-après dénommé « groupe » dont le siège est à .....

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The Group's function shall be to ensure the exchange of information, co-ordination and consultation between its members in the fields specified in the preceding sub-paragraph. The member authorities undertake to supply it with all information necessary for the discharge of its function and to consult each other, via the Group, prior to the adoption of decisions or measures affecting the fields specified above.

Membership

Article 2

Each participating local authority shall be represented in the Group by a delegation of ... members appointed by it. Each delegation may, with the Group's agreement, be accompanied by representatives of private socio-economic bodies and by experts (this alternative excludes entities other than local authorities from membership, which distinguishes this arrangement from the private law association dealt with under 2.3).

Possible variant : The number of members in each delegation may vary. Membership shall be open to local and regional authorities, socio-economic groups and private persons subscribing to this agreement. The Group shall decide on the admission of new members. Each delegation may, with the Group's agreement, be accompanied by representatives of private bodies and by experts.

Terms of reference

Article 3

The Group may deliberate on all matters specified in Article 1. All questions on which a consensus is reached, and recommendations which the Group decides to make to the relevant authorities or groups, shall be recorded in the minutes.

The Group shall be authorised to commission studies and investigations on matters within its competence.

Article 4

The members of the Group may agree to entrust the Group with the execution of certain well-defined practical duties. The Group may also carry out any tasks entrusted to it by other agencies.

Operation

Article 5

The Group shall draw up its own rules of procedure.

Article 6

The Group shall, as a general rule, be convened twice a year, or at the request of one-third of its members proposing the entry of an item on its agenda.

Notice of the meeting must be given and the agenda circulated at least 15 days in advance, in order that the deliberations may be prepared by each of the institutions represented.

Article 7

The Group shall appoint from among its members a permanent Bureau whose membership and powers it shall determine.

The Chair shall be taken in accordance with the rules of procedure or, where they do not apply, by the oldest member present.

Relations with outside persons and higher authorities

Article 8

In relations with outside persons, the Group shall be represented by its Chairman, except as otherwise provided for in the rules of procedure. Higher authorities, to which members of the Group belong, may obtain from the Group such information as they may request on the Group's work and shall be authorised to send an observer to its meetings.

La mission du groupe est d'assurer l'échange d'informations, la concertation et la consultation entre ses membres dans les domaines définis à l'alinéa précédent. Les autorités membres s'engagent à lui transmettre toutes les informations nécessaires à l'accomplissement de sa mission et à se consulter en son sein préalablement à l'adoption des décisions ou mesures intéressant les domaines susmentionnés.

Membres du groupe

Article 2

Chaque autorité locale Partie est représentée au groupe par une délégation de ... membres délégués par elle. Chaque délégation peut en accord avec le groupe se faire accompagner de représentants d'organismes socio-économiques privés et d'experts (cette variante exclut la participation à titre de membres d'entités autres que les autorités locales, ce qui différencierait cette formule de l'association de droit privé visée sous 2.3).

Variante possible : Le nombre des membres de chaque délégation peut varier. Peuvent devenir membres du groupe les autorités locales et régionales, les groupes socio-économiques et les personnes physiques qui souscriront au présent accord. Le groupe décide de l'admission de nouveaux membres. Chaque délégation peut, en accord avec le groupe, se faire accompagner de représentants d'organismes privés ou d'experts.

Attribution du groupe

Article 3

Le groupe peut délibérer de toutes les questions indiquées à l'article 1. Le procès-verbal enregistrera toutes les questions à propos desquelles s'est dégagé un consensus ainsi que les recommandations qu'il est convenu d'adresser aux autorités ou groupements concernés.

Le groupe est habilité à faire procéder à des études et des enquêtes sur les questions de sa compétence.

Article 4

Les membres du groupe peuvent convenir de confier au groupe l'exécution de certaines tâches d'ordre pratique bien délimitées. Le groupe peut en outre accomplir toutes les missions qui lui sont confiées par d'autres institutions.

Fonctionnement du groupe

Article 5

Le groupe arrête son règlement intérieur.

Article 6

Le groupe est convoqué en règle générale deux fois par an ou sur demande d'un tiers des membres proposant l'inscription d'un point à l'ordre du jour.

La convocation et l'envoi de l'ordre du jour doit intervenir au moins 15 jours à l'avance afin de permettre la préparation des délibérations au sein de chaque institution représentée.

Article 7

Le groupe désigne en son sein un bureau permanent dont il détermine les attributions et la composition.

La présidence est exercée conformément au règlement intérieur et à défaut par le doyen d'âge.

Relations avec les tiers et les autorités supérieures

Article 8

Dans ses rapports avec les tiers, le groupe est représenté par son Président sauf dispositions particulières du règlement intérieur. Les autorités supérieures dont relèvent les membres du groupe peuvent obtenir de celui-ci, à leur demande, toute information sur les travaux du groupe et sont habilitées à y envoyer un observateur.

Secretariat and finance

Article 9

Secretarial services shall be provided by one of the member institutions (with or without a system of annual replacement).

Each authority shall be required to contribute to the cost of secretarial services as specified hereunder :

...

Information and documentation shall normally be circulated in the language of the State from which it originates.

Accession and withdrawal

Article 10

Membership of the Group shall be open to such additional local and regional authorities as may subscribe to this agreement. The Group shall decide on the admission of new members.

Article 11

Any member may withdraw from the Group by notifying the Chairman to that effect. The withdrawal of a member from the Group shall not affect its operation unless otherwise decided upon by the Group.

Article 12

The Parties shall inform the Secretary General of the Council of Europe of the conclusion of this agreement and supply him with the text.

2.2 Outline agreement on co-ordination in the management of transfrontier local public affairs

Introductory note : In several States this type of transfrontier co-operation agreement is already possible. Where this is not the case, the conditions under which such an agreement could be used should be defined within the framework of an inter-state agreement (see model agreement 1.3).

Purpose of the agreement

Article 1

Article 1 specifies the purpose of the agreement (e.g. harmonious development of frontier regions) and the fields concerned.

Territory covered by the agreement

Article 2

Article 2 should specify the territories covered by the agreement on either side (or on all three sides) of the frontier.

Undertakings

Article 3

Article 3 should define the means of achieving the aims of the agreement (Article 1). According to the material purpose of the agreement, the following undertakings may be specified :

— the Parties undertake to comply with a prior consultation procedure before reaching decisions on a number of measures they have to take within the limits of their powers and of the territory administered by them ;

— the Parties undertake, within their territory and within the limits of their powers, to take the measures necessary to the achievement of the agreement's objectives ;

— the Parties undertake to do nothing detrimental to the objectives of this agreement.

Secrétariat et financement

Article 9

Le secrétariat est assuré par l'une des institutions membres (avec ou non un système de renouvellement tous les ans).

Chaque collectivité est tenue de contribuer aux frais de secrétariat selon les modalités fixées ci-après :

.....

En principe, l'envoi des informations et de la documentation se fait dans la langue de l'Etat d'où elles émanent.

Adhésions et retraits

Article 10

Peuvent devenir membres du groupe les autorités locales et régionales qui souscriront au présent accord. Le groupe décide de l'admission de nouveaux membres.

Article 11

Tout membre peut se retirer du groupe par simple notification de sa décision au Président. Le retrait d'un membre n'affecte pas le fonctionnement du groupe sauf délibération formelle du groupe.

Article 12

Les Parties informeront le Secrétaire Général du Conseil de l'Europe de la conclusion de cet accord et lui en transmettront le texte.

2.2 Schéma d'accord pour la coordination dans la gestion d'affaires publiques locales transfrontalières

Note liminaire : Dans plusieurs Etats, ce type d'accord de coordination transfrontalière est d'ores et déjà possible. Si cela n'était pas le cas, les conditions de recours à ce type d'accord devraient être fixées dans le cadre d'un arrangement interétatique préalable (voir modèle 1.3).

But de l'accord

Article 1

L'article 1 définit le but et l'objet de l'accord (par exemple la recherche d'un développement harmonisé de la région frontalière) et les domaines concernés.

Territoire visé par l'accord

Article 2

Il y a lieu de préciser à l'article 2 les territoires visés par l'accord des deux (ou trois) côtés de la frontière.

Engagement

Article 3

Cet article définit les conditions qui permettent de réaliser les buts de l'accord (article 1). Selon l'objet matériel de l'accord, les engagements suivants peuvent être prévus :

— les Parties s'engagent à se soumettre à une procédure de consultation préalable avant la prise des décisions pour un certain nombre de mesures qu'elles ont à prendre dans les limites de leurs attributions et du territoire qu'elles administrent ;

— les Parties s'engagent à entreprendre sur leur territoire et dans les limites de leurs attributions, les mesures nécessaires à la réalisation des objectifs visés à l'accord ;

— les Parties s'engagent à ne rien faire qui puisse aller à l'encontre des objectifs communs visés par le présent accord.

Coordination

Article 4

Il est précisé à l'article 4, selon les circonstances et les nécessités propres à chaque accord, les conditions dans lesquelles se déroule la coordination :

— soit en désignant en tant que groupe de concertation le groupe à compétence générale visé par le schéma d'accord 2.1,

— soit en prévoyant la création d'un groupe de consultation spécifique pour l'objet visé à cet accord,

— soit encore par la voie de simples contacts directs bilatéraux au niveau des autorités concernées.

Conciliation

Article 5

Chaque membre du groupe de concertation (chaque Partie s'il n'y a pas de groupe) peut saisir le groupe (l'autre Partie s'il n'y a pas de groupe) chaque fois qu'elle considère que l'accord n'a pas été appliqué :

— soit que la consultation préalable n'est pas intervenue,

— soit que les mesures prises ne sont pas conformes à l'accord,

— soit que les mesures nécessaires à la réalisation de l'objectif de l'accord n'ont pas été prises.

Si les Parties ne parviennent pas à un accord, elles peuvent recourir à une commission de conciliation chargée de contrôler le respect des engagements.

Instance de contrôle

Article 6

Les Parties peuvent convenir de la création d'une instance spécifique de contrôle du respect des engagements composée d'un nombre égal d'experts désignés par les deux parties et d'un expert neutre dont la désignation ou le mode de désignation est prévu à l'avance.

L'instance de contrôle exprime son avis sur le respect ou le non respect de l'accord. Elle est habilitée à rendre public son avis.

Article 7

Les Parties informeront le Secrétaire Général du Conseil de l'Europe de la conclusion de cet accord et lui en transmettront le texte.

2.3 Schéma pour la création d'associations transfrontalières de droit privé

Note liminaire : Il est présumé que la participation d'une collectivité locale d'un Etat à une association de droit privé d'un autre Etat est possible selon les mêmes règles et les mêmes conditions qui s'appliquent à la participation de ladite collectivité locale à une association de droit privé de son Etat. Si cela n'est pas le cas actuellement, cette possibilité devrait être expressément prévue dans le cadre d'un arrangement international entre les Etats concernés (voir modèles d'accords interétatiques 1.3 et 1.4).

Normalement, les associations de droit privé doivent se soumettre aux règles prévues par la loi du pays où l'association a son siège. Ci-après figure la liste des dispositions que leur statut devrait fixer dans la mesure où la loi applicable ne le prévoit pas. Par ailleurs, les dispositions relatives au groupe de concertation (voir schéma 2.1) peuvent s'appliquer aussi, *mutatis mutandis*, à ce type d'associations.

Les statuts déterminent notamment :

1. les membres fondateurs de l'association et les conditions d'adhésion de nouveaux membres ;
2. le nom, le siège et la forme juridique de l'association (avec référence à la loi nationale) ;
3. l'objectif de l'association, les conditions de réalisation de ses objectifs et les moyens qu'elle a à sa disposition ;
4. les organes de l'association et notamment les fonctions et le mode de fonctionnement de l'assemblée générale (modalités de représentation et vote) ;
5. la désignation des administrateurs ou des gérants et leur pouvoir ;

Coordination

Article 4

Il est précisé à l'article 4, selon les circonstances et les nécessités propres à chaque accord, les conditions dans lesquelles se déroule la coordination :

— soit en désignant en tant que groupe de concertation le groupe à compétence générale visé par le schéma d'accord 2.1,

— soit en prévoyant la création d'un groupe de consultation spécifique pour l'objet visé à cet accord,

— soit encore par la voie de simples contacts directs bilatéraux au niveau des autorités concernées.

Conciliation

Article 5

Chaque membre du groupe de concertation (chaque Partie s'il n'y a pas de groupe) peut saisir le groupe (l'autre Partie s'il n'y a pas de groupe) chaque fois qu'elle considère que l'accord n'a pas été appliqué :

— soit que la consultation préalable n'est pas intervenue,

— soit que les mesures prises ne sont pas conformes à l'accord,

— soit que les mesures nécessaires à la réalisation de l'objectif de l'accord n'ont pas été prises.

Si les Parties ne parviennent pas à un accord, elles peuvent recourir à une commission de conciliation chargée de contrôler le respect des engagements.

Instance de contrôle

Article 6

Les Parties peuvent convenir de la création d'une instance spécifique de contrôle du respect des engagements composée d'un nombre égal d'experts désignés par les deux parties et d'un expert neutre dont la désignation ou le mode de désignation est prévu à l'avance.

L'instance de contrôle exprime son avis sur le respect ou le non respect de l'accord. Elle est habilitée à rendre public son avis.

Article 7

Les Parties informeront le Secrétaire Général du Conseil de l'Europe de la conclusion de cet accord et lui en transmettront le texte.

2.3 Schéma pour la création d'associations transfrontalières de droit privé

Note liminaire : Il est présumé que la participation d'une collectivité locale d'un Etat à une association de droit privé d'un autre Etat est possible selon les mêmes règles et les mêmes conditions qui s'appliquent à la participation de ladite collectivité locale à une association de droit privé de son Etat. Si cela n'est pas le cas actuellement, cette possibilité devrait être expressément prévue dans le cadre d'un arrangement international entre les Etats concernés (voir modèles d'accords interétatiques 1.3 et 1.4).

Normalement, les associations de droit privé doivent se soumettre aux règles prévues par la loi du pays où l'association a son siège. Ci-après figure la liste des dispositions que leur statut devrait fixer dans la mesure où la loi applicable ne le prévoit pas. Par ailleurs, les dispositions relatives au groupe de concertation (voir schéma 2.1) peuvent s'appliquer aussi, *mutatis mutandis*, à ce type d'associations.

Les statuts déterminent notamment :

1. les membres fondateurs de l'association et les conditions d'adhésion de nouveaux membres ;
2. le nom, le siège et la forme juridique de l'association (avec référence à la loi nationale) ;
3. l'objectif de l'association, les conditions de réalisation de ses objectifs et les moyens qu'elle a à sa disposition ;
4. les organes de l'association et notamment les fonctions et le mode de fonctionnement de l'assemblée générale (modalités de représentation et vote) ;
5. la désignation des administrateurs ou des gérants et leur pouvoir ;

6. the extent of members' liabilities vis-à-vis third parties ;
7. conditions for modification of the Articles and for winding-up the association ;
8. an undertaking by the Parties to inform the Secretary General of the Council of Europe of the formation of a transfrontier association and to supply him with its Articles.

2.4 Outline contract for the provision of supplies or services between local authorities in frontier areas ("private-law" type)

Introductory note : It is assumed that local authorities have the right to conclude such a contract with local authorities of other countries. Where this is not the case, this possibility should be expressly provided for within the framework of an inter-state agreement (see model agreement 1.4).

This is a type of contract which may be used by local authorities for sales, leases, works contracts, the supply of goods or services, the granting of operating concessions, etc. Local authorities' use of "private-law" contracts is permitted to varying degrees in national legislation and practice and it is difficult to draw the line between "public-law" and "private-law" contracts. Nevertheless it may be assumed that this type of contract may be used wherever, according to the prevailing interpretation in each particular country, the agreement concerns an operation of a commercial or economic type for which a private person or corporate body could also have contracted. In the case of operations which involve action by local authorities in the exercise of functions reserved to public authority, the supplementary rules specified in the "public-law" outline contract (see 2.5) must be borne in mind, in addition to the provisions set out below.

Parties

Article 1 specifies the Parties (and whether the agreement is open to other local authorities).

Article 2 specifies the problems connected with general contractual powers and, in particular, beneficiaries and terms and conditions. It may also, where appropriate, specify the necessary reservations regarding authorisation by higher authorities, where this affects the applicability of the contract.

Object of the contract

Article 3 specifies the object of the contract by reference to :

— specific matters ;
— geographical areas ;
— corporate bodies (municipalities, national bodies with local powers, etc.) ;
— specific legal forms.

Article 4 specifies the duration of the contract, the conditions for renewal and any completion dates.

Legal regime and financial provisions

Article 5 indicates the place of signature and performance of the contract and specifies the legal regime by which it is governed (private international law) and the law which applies.

Article 6 deals, where appropriate, with financial questions (currency in which payment is to be made and the mode of price adjustment in the case of long-term services) and insurance.

Arbitration

Article 7 provides, if necessary, for a conciliation procedure and provides for an arbitration procedure.

In the event of arbitration, the arbitration board shall be made up as follows :

— each Party with opposing interests (Variant : the presidents of the administrative courts with jurisdiction over each of the parties) shall designate a member of the arbitration board and the Parties shall jointly appoint one or two independent members so that there may be an odd number of members ;

— where there is an even number of members of the arbitration board and the votes are tied, the independent member shall have a casting vote.

6. la portée de l'engagement des associés vis-à-vis des tiers ;
7. les conditions de modification des statuts et de dissolution ;
8. l'engagement, pour les Parties, d'informer le Secrétaire Général du Conseil de l'Europe de la création d'une association transfrontalière et de lui en communiquer les statuts.

2.4 Schéma de contrat de fourniture ou de prestation de services entre collectivités locales frontalières (de type « droit privé »)

Note liminaire : Il est présumé que les collectivités locales sont habilitées à conclure un tel type de contrat avec des autorités locales d'autres pays. Si cela n'est pas le cas, cette possibilité devrait être prévue dans le cadre d'un accord interétatique (voir modèle 1.4).

Il s'agit d'un type de contrat auquel peuvent avoir recours les collectivités locales pour la vente, la location, un marché de travaux, la fourniture de biens ou de prestations, la cession de droits d'exploitation, etc. Le recours par les collectivités locales à des contrats type « droit privé » est plus ou moins admis selon les législations et les pratiques nationales, et la distinction entre contrats types de « droit privé » et de « droit public » est difficile à tracer. Néanmoins, on admet que ce type de contrat peut être utilisé chaque fois que, selon l'interpréation prévalant dans chaque pays, il s'agit d'une opération plutôt de type commercial ou économique qu'une personne physique ou morale de droit privé aurait également pu conclure. Pour toute opération qui comporte l'intervention des collectivités locales exerçant des attributions qui ne peuvent être le fait que de la puissance publique, il y a lieu de considérer, en plus des dispositions évoquées ci-après, les règles supplémentaires développées dans le contrat modèle de type « droit public » (voir 2.5).

Parties

L'article 1 désigne les Parties (et précise si l'accord est ouvert ou non à d'autres collectivités locales).

L'article 2 précise les problèmes liés à la faculté générale de contracter et en particulier les bénéficiaires, les modalités et les conditions. S'il y a lieu, il fait également état des réserves nécessaires quant à l'autorisation à accorder par les autorités supérieures dans la mesure où elles conditionnent l'applicabilité du contrat.

Objet du contrat

L'article 3 fixe l'objet du contrat en référence :

— à des matières déterminées ;
— à des zones géographiques ;
— à des personnes (communes, organismes nationaux à compétence locale, etc.) ;
— à des formes juridiques déterminées.

L'article 4 stipule la durée du contrat, les conditions de reconduction et les délais éventuels de réalisation.

Régime juridique et économique du contrat

L'article 5 indique le lieu de signature et d'exécution du contrat et précise le régime juridique du contrat (droit international privé) et le droit applicable.

L'article 6 stipule s'il y a lieu des questions liées au régime monétaire (monnaie dans laquelle doit être payé le prix ainsi que le mode de réévaluation pour les prestations de longue durée) et les problèmes d'assurance.

Procédure d'arbitrage

L'article 7 prévoit s'il y a lieu une procédure de conciliation et prévoit une procédure d'arbitrage.

Dans cette dernière éventualité la commission d'arbitrage est composée comme suit :

— chaque Partie ayant un intérêt opposé désigne (Variante : les présidents des juridictions compétentes en matière administrative, dont relève chacune des Parties, désignent) une personne en tant que membre de la commission d'arbitrage et les Parties ensemble procèdent à la désignation d'un ou deux membres indépendants de manière à parvenir à un chiffre impair de membres ;

— en cas de nombre pair des membres de la commission d'arbitrage et de partage des voix, la voix du membre indépendant est prépondérante.

Alteration and termination of the contract

Article 8 specifies the rules to apply in the event of alteration or termination of the contract.

Article 9. The Parties shall inform the Secretary General of the Council of Europe of the conclusion of this agreement and supply him with the text.

2.5 Outline contract for the provision of supplies or services between local authorities in frontier areas ("public-law" type)

Introductory note : This type of contract is similar to that dealt with under 2.4 ("private-law" contracts) in that it relates to specific purposes. This type is more particularly concerned with concessions or contracts for public services or public works (or services or works which are regarded as "public" by one of the countries concerned), or the provision of contributory finance,[1] from one authority to another on the other side of the frontier. Such public concessions entail special risks and responsibilities related to the public services provided which require the inclusion in the contract of other provisions in addition to those specified in the model "private-law" contract.

"Transfrontier" contracts of this type are not necessarily permitted in all countries. Consequently, the possibility of such arrangements and the conditions for their use would often first have to be provided for in an inter-state agreement (see model agreement 1.4).

The use of such a contract, which is simple enough to devise and implement, could in some cases obviate the need for a joint agency of the "Transfrontier Syndicate of Local Authorities" type (see 2.6), which raises other legal problems.

Contractual provisions

Where the contract involves the establishment or administration of public property, a public service or facility belonging to a local authority in at least one of the countries, contractual guarantees must be specified in accordance with the rules which apply in the country or countries concerned.

The contract will also, where necessary, make reference to the following specific conditions :

1. the regulations governing the establishment or operation of the facility or service concerned (e.g. timetable, charges, conditions of use, etc.) ;
2. special conditions governing the setting up of the facility or service (e.g. permits required, procedure, etc.) ;
3. the conditions of contract for the facility or service ;
4. the procedure for adjusting the contract for reasons of public interest and resulting financial compensation ;
5. ensuing relations between users of the facility or service and the operator (e.g. conditions of access, charges, etc.) ;
6. withdrawal from, surrender or termination of the contract.

In addition to these special requirements, the provisions specified in the specimen "private-law" contract 2.4 will also apply.

2.6 Outline agreement on the setting up of organs of transfrontier co-operation between local authorities

Introductory note : It is assumed that several local authorities may get together and form a legally based organisation with a view to providing and operating some public utility, service or facility body.

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1. This arrangement might be particularly useful to frontier authorities, e.g. in the case of pollution : one authority might offer another contributory finance to enable it to carry out work within its competence but of value to the first.

Modification et résiliation du contrat

L'article 8 fixe les règles qui s'appliquent en cas de modification ou de résiliation du contrat.

Article 9. Les Parties informeront le Secrétaire Général du Conseil de l'Europe de la conclusion de cet accord et lui en transmettront le texte.

2.5 Schéma de contrat de fourniture ou de prestation de services entre collectivités locales frontalières (de type « droit public »)

Note liminaire : Cette catégorie de contrats se rapproche de celle prévue sous 2.4 (contrats conclus dans un but déterminé). Cette catégorie vise plus particulièrement la concession de services publics ou de travaux publics (ou en tout cas considérés comme « publics » par un des pays en cause), l'affermage et les offres de concours[1], d'une commune à une autre commune ou à un autre organisme de l'autre côté de la frontière. La concession de telles prestations de caractère public comporte des responsabilités et des risques particuliers liés aux services publics, qui nécessitent par conséquent l'introduction dans le contrat de dispositions supplémentaires à celles prévues pour le contrat de type « droit privé ».

La possibilité de « faire passer la frontière » à de tels types de contrats n'est pas forcément admise par tous les pays et, de ce fait, une telle possibilité et la détermination des conditions de recours à de tels contrats devraient souvent être préalablement réglées dans un accord interétatique (voir modèle d'accord 1.4).

Le recours à un tel contrat dont la conception et la réalisation sont finalement simples pourrait dans certains cas éviter la création d'un organisme commun de type « Syndicat intercommunal transfrontalier » (voir 2.6) qui pose d'autres problèmes juridiques.

Dispositions contractuelles à prévoir

Dans le cas où le contrat met en jeu, au moins dans un des pays, l'établissement ou la gestion du domaine public, d'un service public ou d'un ouvrage public d'une collectivité locale, il est nécessaire de prévoir des garanties contractuelles conformément aux règles en vigueur dans le ou les pays concernés.

Par ailleurs, le contrat fera, pour autant que de besoin, référence aux conditions particulières suivantes :

1. au règlement fixant les conditions d'établissement ou de fonctionnement de l'ouvrage ou du service considéré (par exemple, horaires, tarif, conditions d'utilisation, etc.) ;
2. aux conditions particulières de la mise en œuvre de l'entreprise ou de l'exploitation, par exemple habilitations et autorisations requises, procédure, etc. ;
3. au cahier des charges de l'entreprise ou de l'exploitation ;
4. aux procédures d'adaptation du contrat en cours d'exécution découlant des exigences de l'intérêt public et aux compensations financières devant en résulter ;
5. aux modalités des relations qui résulteront de l'entreprise ou de l'exploitation considérée entre, d'une part, les usagers de l'ouvrage ou du service, et, d'autre part, l'exploitant (par exemple, conditions d'accès, redevances, etc.) ;
6. aux modalités de retrait, de rachat ou de dénonciation du contrat.

En dehors de ces conditions particulières, les dispositions évoquées pour le schéma de contrat (type « droit privé ») sous 2.4 s'appliquent.

2.6 Schéma d'accord pour la création d'organismes de coopération intercommunale transfrontalière

Note liminaire : Il est présumé que plusieurs autorités locales sont admises à créer ensemble un organisme doté de la personnalité juridique en vue de la création et de l'exploitation d'un ouvrage ou équipement public ou d'un service public.

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1. Cette formule pourrait rendre des services aux collectivités frontalières, notamment en matière de pollution : une collectivité pourrait offrir un concours financier à une autre pour que cette dernière réalise certains travaux relevant de sa compétence, mais présentant un certain intérêt pour la première.

The creation and functioning of such an association or syndicate will mainly depend on the applicable legislation and the provisions of any previous inter-state agreement authorising this form of co-operation (see model agreement 1.5).

There follows a list of the provisions that the articles of association should include, insofar as they are not embodied in the applicable legislation.

The articles of association should specify *inter alia* :

1. the names of the founding members of the association and the conditions on which new members may join ;
2. the name, headquarters, duration and legal status of the association (with references to the law conferring legal status upon it) ;
3. the object of the association, the way in which it is to be pursued and the resources at the association's disposal ;
4. the way in which the registered capital is constituted ;
5. the scope and limits of members' liabilities ;
6. the procedure for appointing and dismissing administrators or managers of the association, as well as their powers ;
7. the associations' relations with its members, third parties and higher authorities, especially as regards the communication of budgets, balance sheets and accounts ;
8. the people with responsibility for financial and technical control over the activity of the association and the reports arising out of such control ;
9. the conditions for altering the articles of association and for the dissolution of the association ;
10. the rules applying to personnel ;
11. the rules applying to languages.

La création et le fonctionnement de cette association ou de ce syndicat dépendront essentiellement de la législation applicable et des éventuelles précisions que comportera un accord interétatique préalable autorisant cette forme de coopération (voir modèle 1.5).

Ci-après figure la liste des dispositions que les statuts devraient fixer, dans la mesure où la loi applicable ne les prévoit pas.

Les statuts détermineront notamment :

1. les membres fondateurs de l'association et les conditions d'adhésion de nouveaux membres ;
2. le nom, le siège, la durée et la forme juridique de l'association (avec les références à la loi qui lui confère la personnalité juridique) ;
3. l'objet de l'association, les conditions de réalisation de cet objet et les moyens dont elle dispose ;
4. la manière dont le capital social est formé ;
5. la portée des engagements des associés et leurs limites ;
6. le mode de nomination et de révocation des administrateurs ou gérants de l'association ainsi que leurs pouvoirs ;
7. les rapports de l'association avec ses membres, les tiers et les autorités supérieures, notamment en ce qui concerne la communication des budgets, bilans et comptes ;
8. les personnes qui sont chargées d'exercer les contrôles techniques et financiers sur l'activité de l'association et les communications auxquelles leurs vérifications donnent lieu ;
9. les conditions de modification des statuts et de dissolution ;
10. les règles applicables en matière de personnel ;
11. les règles applicables en matière de langue.

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