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Palestine Economic Policy Research Institute

Round Table Discussion (7)

**Recent Amendments to Trade Arrangements
in Paris Protocol**

2012

Executive Summary

Recent Amendments to the Paris Protocol Trade Arrangements

Since concluding the Paris Protocol in 1994 between Israel and the PLO, the Palestinian side has often complained of detriments inflicted as a result of fiscal leakage- a situation in which money exits the Palestinian economy (in the form of tariffs on imports, indirect taxes or purchase tax). Such amounts are taken out by Israel, yet the PNA cannot recover. The Palestinian National Authority has frequently asked the Israeli side to put this issue on the table through the Joint Economic Committee, but to no avail. However, in late June 2012, an important breakthrough occurred when the Palestinian Prime Minister and the Palestinian Finance Minister held a meeting with the Israeli Finance Minister. Both sides agreed on a number of procedures that can reduce the fiscal leakage.

Key Speakers

Mr. Yousef Zomar: Chairman of the Board of Tax Revenue in the Palestinian Ministry of Finance
Mr. Mohammed Hirbawi: Chairman of the Palestinian Business Forum - Chairman of the Board of Directors of the Palestine Trade Center- PalTrade
Mr. Bader Rock: Economic and Commercial Counselor to the Quartet Representative

Discussion Questions

1. To what extent will the new measures contribute to reducing the fiscal leakage, facilitating the flow of trade and reducing the cost of imports? Are the amendments made really significant, and how well do they take precedence over other issues?
2. How can this agreement be aligned with the Palestinian official and popular calls to revisit agreements concluded with Israel and further the calls to annul the Paris Protocol? What are the consequences of holding negotiations beyond the "Joint Economic Committee," the body authorized to negotiate economic issues with Israel? Finally, what are the disadvantages of setting up an additional committee to follow up the implementation of these new arrangements?
3. What are the political implications of the Palestinian 'implicit' approval of the locations of the Israeli gates (16 border posts) that are located inside the Palestinian Territory, and which Israel considers a "border" with the oPt?

Summary of the contributions of keynote speakers

Dr. Nu'man Kanafani kicked off the discussion- introducing the title of the meeting and the key speakers. He then thanked Friedrich Ebert Foundation, the sponsor of the roundtable project. Dr. Kanafani surveyed the impediments of the subject matter, particularly the absence of the official text of the recent amendments to the trade arrangements of the Paris Protocol- the secret agreement has not been published yet and what is available is only two press statements issued by the Israeli Ministry of Finance and a press release given by the Palestinian government spokesman, as well as a large number of speculative articles. Dr. Kanafani then unfolded some protests against using the term 'amendments': Are they really amendments or merely executive actions? Kanafani believes that, given the press release of the Israeli Ministry of Finance which indicated that taxes will be calculated based on the *actual* rather than the *reported* transfer of goods, they are amendments rather than executive actions.

Dr. Kanafani briefed the audience on clearance revenues, which involve three types of payments.

- 1) Direct taxes: the Israeli side transfers to the PNA a sum equal to 75% of the income taxes collected from Palestinians from the West Bank and Gaza employed in Israel (and the full amount of income taxes collected from Palestinians from the West Bank and Gaza employed in settlements).
- 2) Indirect taxes on purchases from Israel: In accordance with the provisions of Article (6) of the Paris Protocol, the Israeli Tax Administration will collect VAT and other indirect taxes, and transfer them to the Palestinian Authority at a later stage after deducting 3% to cover

Israel's administrative costs. 3) Customs and indirect taxes on imports: Paragraph 15 of Article (3) of the Paris Protocol provides that "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.

It is important here to differentiate between the customs declaration and the clearing bill. The former is taken as a verification for customs revenues and indirect taxes that Israel collects on Palestinian imports. The latter, by contrast, is only considered in transactions between the West Bank and Gaza Strip, on the one hand, and Israel on the other.

Dr. Kanafani then reviewed the PNA's clearance revenues, saying that they roughly totaled \$1.5 billion in 2011, i.e. a rising tendency since 2008. These revenues comprise three main items: customs revenues, VAT and fuel tax. Manifestly, customs tax and fuel tax saw significant increases, while the growth in VAT was a little lower. Clearing revenues constituted about 70% of the total budgetary domestic revenues and 22.5% of GDP.

By way of introduction, Dr. Kanafani laid down the forms of financial leakage the Palestinian economy has incurred since 1994. The losses figure in many forms: 1) taxes on purchases from Israel (except for fuel) that the PNA does not recover; 2) customs paid on foreign goods imported first to Israel and then re-exported to the West Bank and the Gaza Strip; and 3) the loss of various taxes (VAT and other indirect taxes) levied on purchases from Israel, which are not documented properly by Palestinian importers. In order to avoid shipment clearing delays and reduce income tax, some Palestinian businesses engage in indirect imports via Israeli intermediaries.

Several Palestinian and international research centers conducted theoretical studies to detect the drawbacks of the clearing mechanism provided for in the Paris Protocol. There are also many reports that provided estimates of the volume of financial leakage of indirect taxes paid by Palestinian consumers and withheld by Israel. According to the World Bank (2002), annual tax revenue losses on indirect imports amount to \$ 133 million

The new arrangements are intended to "introduce mechanisms that better facilitate the movement of goods between Israel and the Palestinian Authority, and that support both parties' efforts in reducing illegal trade and tax evasion," the Israeli press statement read. According to the agreement, as of January 2013 the mechanism of tax clearance on imported goods (via or from Israel) will be based on the actual transfer of goods, replacing the current practice of calculating such tax clearances on the reported transfer of such goods. To support these efforts, both sides will enhance the exchange of information regarding the actual transfer of goods. In order to fight tax evasion, improve monitoring and ensure efficiency, advanced technologies will be employed, including electronic tagging. Particularly, containers shipped to Israeli ports will be sealed by electronic locks. Further, Palestinian officials from The Ministry of Finance will be granted access to a computerized database in order to identify Palestinian traders who clear their imports via Israeli trading companies. The agreement also provides for appropriating areas for customs clearance of Palestinian goods at Israel-West Bank crossings. The Palestinian side hopes that this will contribute to facilitate imports from abroad and to reduce costs and eventually prices.

The agreement also provided for building a fuel pipeline from Israel to the PNA territories to replace the current trucking. Apart from environmental benefits, the project is expected to reduce the costs of trucking and storage, and eventually reduce the high cost of imported fuel.

In his presentation, Mr. Yousef Zomar pointed out that the alleged amendments are merely letters of understanding exchanged between the Israeli and Palestinian sides rather than an actual agreement. Regarding the Joint Committee, Mr. Zomar believes that, as far as clearing is concerned, since the Paris Protocol was concluded in 1994, the Joint Committee has never been active. As such, it is no use talking about the existence of a committee or forming a new one.

Mr. Zomar said that since 2010, the PNA has insisted on the principle of reciprocity in the monthly meetings on clearing issues between the two sides, i.e. the Director General of the Palestinian Tax Department must be met by the Director General of the Israeli Tax Department.

With regard to importing directly, Zomar noted that the inland port (border station) involves two distinct parts: the clearance center which needs further investigation and testing of implementation stages; and the warehouses that can be built anywhere in the Palestinian Territory. Zomar said that the two sides agreed to establish inland ports, yet they have not designated the locations of these ports and they have not specified the quality of direct or gradual customs clearance.

Zomar continued to say that when the Israeli side proposed only four inland ports, the Palestinian side rejected because it would mean further losses incurred by Palestinian businesses. Therefore, the Israeli proposal has given way to the actual transfer of goods- a mechanism which has not been specified so far. Several committees were formed to discuss the implementation to the actual transfer. The committees will hold the first meeting with the Israeli side on October 16. Zomar noted that at the current stage, the Palestinian Ministry of Finance draws comparisons between the data channeled from Israel and invoices available to the Palestinian Ministry of Finance as a tool to control and reduce tax evasion. Zomar believes that establishing fuel pipelines is extremely critical since they ensure sustained availability of petroleum products for at least one month in at least two areas.

In his talk during the roundtable meeting, Mr. Hirbawi said that the Paris Protocol is the major framework for economic relations between the Israeli and Palestinian sides. The Paris Protocol and all its annexes established Israel as the dominant party, leaving the vulnerable PNA helpless and unable to do anything. Even with some tight spaces the Protocol provides for, the PNA has done nothing to take advantage of this agreement. For example the PNA could not avail lists A1, A2 and B. These have not been amended to account for the population growth or increased consumption, as provided for in the Protocol. Israel controls all the terms of the agreement because it manages all seaports, airports and inland crossings. It also has the means to pressure the PNA, to have the upper hand on revenues and to transfer them to the Palestinian National Authority the way it deems appropriate. It can also impose specifications and standards and the way they are applied. The Israeli procedures are always in place to block Palestinian imported goods under the pretext of security checks.

Mr. Hirbawi continued to say that the recent amendments to the Paris Protocol, specifically those pertaining to the new system of calculating the actual transfer of goods (including the exchange of information and the employing of modern technology), are ostensible modifications. In fact, he underscored, these are only implementation of what is stated in Article 36, which provides for the use of a computer system linked to the two sides to levy taxes and clear VAT. It also states that the Israeli and the Palestinian departments of taxes will exchange lists of registered businesses, and if necessary each will provide the other side with the necessary documents to verify transactions. Once implemented, this would reduce tax evasion, increase PNA returns, enhance the competitiveness of the local environment and improve the Palestinian products because it would reduce tax evasion which hinders fair competition.

Regarding the Palestinian bonded areas, Article 14 of the Paris Protocol recognizes the PNA's control over the Palestinian bonded areas and regulates the customs policy and import of goods. It is not an amendment but an implementation of one of the items set forth in the Protocol, Hirbawi said.

According to the Paris Agreement, the PNA may import petroleum products from Jordan and Egypt. However, since 1994, all Palestinian petroleum imports have been bought from Israel. Laying a fuel pipeline means that imports from abroad is off the table, though the oil prices in Jordan and Egypt are much lower than in Israel or Palestine, Hirbawi maintained.

Annulling the Paris agreement is not possible. However, the amendment is a must because, after seventeen years now, many articles need to be reconsidered. This is congruent with the function of the Joint Committee which is tasked with the follow-up of the implementation of the terms of the agreement and dealing with the problems that may arise from time to time, such that each side can, via the Committee, ask for reconsidering any issue related to the agreement, Hirbawi remarked.

Mr. Bader Rock reviewed the items that have initially been agreed upon, saying that such an understanding would improve cooperation between the two sides and propel the agreements concluded. The expected degree of benefits will depend on the practical mechanisms that will be proposed for the implementation stage. Therefore, both sides should agree on identifying mechanisms to achieve the desired objectives. Mr. Rock warned of unilateral practices that serve the interests of one side at the expense of the other.

As a first step towards developing these mechanisms, the two sides signed on September 5 2012 an agreement for the exchange of information about goods imported to the Palestinian Authority through Israeli ports. Notwithstanding, setting only four inland ports would hinder the movement of goods and raise the cost of shipping unless specific mechanisms are in place to facilitate trade, such as the extension of working hours of the crossings and employing additional workers and equipment. Both sides should also agree on the precise details regarding warehouses to be established in the Palestinian Territory and their locations and how to manage them. Mr. Rock pointed out that pipelining would put an end to fuel theft.

Mr. Rock related that these amendments are the first step towards a broader understanding that can enable the Palestinian Authority to deal with the difficult economic situation it faces. That is why the unilateral withdrawal from the Paris Agreement without a better alternative and a clear plan of action would result in serious economic consequences for both sides. The Joint Economic Committee is the perfect platform since it represents all the Israeli and Palestinian ministries and institutions. It can set up sub-committees to follow up the related sub-issues. Mr. Rock noted that this committee has been inoperative since 2009. Both sides have been asked to revive it in order to examine the necessary measures to overcome the Palestinian current crisis.

The Palestinian side has never okayed the Israeli 16 crossing gates, part of which is located within the West Bank. It has also refused the transfer of tax revenues according to the principle of actual movement of goods via four crossings. Rather, it proposed monitoring goods through tracking devices attached to the container as a verification of access to the Palestinian side. The 2010 decision of the Council of Ministers (03/74/13) demonstrated that the Palestinian consent to deal with the four commercial crossings does not mean that the PNA takes these crossings as borders. It does not mean that the PNA recognizes the route of the segregation wall or accepts changes to the demarcation of the border. Rather, such consent is only a practical step to alleviate the suffering of the citizens in the transitional period only. The border and border crossings between the Palestinian state and the state of Israel are pinned down through negotiations and bilateral agreements and in accordance with international law and legitimacy.

Summary of the Discussion

Maher Masri: the Palestinian Capital Market

Whatever the understandings on trade arrangements are, the main question is: Is there a unified Palestinian political decision to amend the Paris Protocol?

Tawfiq Nassar: the Palestinian Shippers' Council

Does the PNA have the intentions to build an independent Palestinian economy, or it is only interested in the mechanisms for increasing the collection of tax revenues? The Palestinian Authority must take into account the interests of all Palestinian sectors rather than its own interests. He criticized the PNA's selectivity concerning the parties participating in the national

dialogue regarding the commercial arrangements. An integrated and transparent dialogue should be initiated before going to negotiate with the Israeli side, Nassar remarked.

Ahmed Asa: Palestine Securities *Exchange* Company

Any amendment to the original provisions of the Paris Protocol requires concerted efforts and long negotiations. The PNA must embrace a national dialogue to determine the objectives and requirements pertaining to clearance issues.

D. Atef Alawneh: Bank of Palestine

The issues proposed for amendments to the commercial arrangements had been posited earlier. Some of these amendments have been approved while others are still pending. According to Alawneh, Israel will not allow Palestinian tax officials to check over the customs data of the Israeli tax system.

Misyef Misyef: Palestinian Ministry of Finance

It would have been better off discussing issues of Palestinian sovereignty within the Paris Protocol. The clearing system and the proposed amendments are only the tip of the iceberg. Mr. Misyef believes that if the Palestinian side could obtain data for customs and clearance from the Israeli side, it would solve the problem of the exchange of information, which would, in turn, curb tax evasion. Misyef reiterated the position of the Palestinian Authority of casting off the Israeli proposal of adopting the actual movement of goods as an alternative mechanism for calculating clearance. What is the point of these amendments? He wondered.

Key Policy Recommendations

- ✧ An internal Palestinian consensus on amendments to the Paris Protocol should be reached before negotiating with the Israeli side. The agreement should be based on an integrated national dialogue that is not for the exclusive disposal of official bodies (ministries); rather it should bring together all sectors, particularly the Palestinian private sector.
- ✧ Setting up customs clearance centers and warehouses administered by the Palestinian side will require appropriate locations and capacity building of Palestinian professionals capable of addressing the issues of shipping and customs clearance. Otherwise, the establishment of Palestinian customs clearance centers will backfire on trade flows and prices.
- ✧ The items proposed as amendments will not per se ensure an increase in tax revenues of the Palestinian Authority. Thus, both sides should agree on the details of enforcing these amendments: "The devil is in the details" as the long years of dealing with the Paris Protocol have shown.

Background Paper

Recent Amendments to Trade Arrangements in Paris Protocol

Since concluding the Paris Protocol in 1994 between Israel and the PLO, the Palestinian side has often complained of detriments inflicted as a result of fiscal leakage- a situation in which money exits the Palestinian economy (in the form of tariffs on imports, indirect taxes or purchase tax). Such amounts are taken out by Israel, yet the PNA cannot recover. The Palestinian National Authority has frequently asked the Israeli side to put this issue on the table through the Joint Economic Committee, but to no avail¹. However, in late June 2012, an important breakthrough occurred when the Palestinian Prime Minister and the Palestinian Finance Minister held a meeting with the Israeli Finance Minister. Both sides agreed on a number of procedures that can reduce the fiscal leakage.

This background paper is a snapshot of the financial clearing between Israel and Palestine and the problems associated with it. The paper then provides some data on the amount of fiscal leakage. It further elicits the scant available information on the new amendments to the Paris Protocol. The paper concludes with key questions and themes raised for a roundtable discussion.

1. Clearing and financial leakage

Clearing revenue refers to the total revenues that Israel collects on behalf of the Palestinian Authority, as stipulated in the Paris Economic Agreement. These revenues (that are collected and transferred to the Palestinian Authority in NIS) involve three types of payments: direct taxes (income tax on the wages of Palestinian workers employed in Israel and the Israeli settlements); indirect taxes (VAT, purchase taxes and any taxes or levies) resulting from exclusive trade between Israel and the West Bank and Gaza; and taxes levied on West Bank and Gaza imports from the international market (via Israel), such as customs duties, fees, purchase tax and others taxes on imports.

❖ **Direct taxes**

The Paris Protocol states that the Israeli side will transfer to the PNA a sum equal to 75% of the income taxes collected from Palestinians from the West Bank and Gaza employed in Israel (and the full amount of income taxes collected from Palestinians from the West Bank and Gaza employed in settlements).

❖ **Indirect taxes on purchases from Israel**

In accordance with the provisions of Article (6) of the Paris Protocol, the Israeli Tax Administration will collect VAT and other indirect taxes, and transfer them to the Palestinian Authority at a later stage after deducting 3% to cover Israel's administrative costs. Article (6) provides for the conditions to handle clearance procedures between Israeli and Palestinian tax departments. These conditions are based on clearing invoices as verification documents. Representatives of the two sides will meet once a month, on the twentieth day of the month, to present each other with a list of invoices submitted to them for tax rebate. The clearance claims will be settled within six days from the meeting. It is worth mentioning that since a Palestinian claim is, under the agreement, conditioned by the availability of a clearing invoice, the abstinence from presenting a clearing invoice before the competent authorities costs the PNA's coffers the amount of taxes on that invoice.

❖ **Customs and indirect taxes on imports**

Paragraph 15 of Article (3) of the Paris Protocol provides that "the clearance of revenues from all import taxes and levies, between Israel and the Palestinian Authority, will be based on the

¹ The Joint Economic Committee was established to follow up the implementation of the Paris Protocol. Ever since the outbreak of the second intifada, JEC suspended its meetings, holding only one meeting in September 2009. Palestinian demands in that meeting focused on increasing Lists A1 and A2 quotas, but without achieving significant results.

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."

It is important to note that tax settlements of transactions between the Palestinian economy and the international market, via Israel, is based on the customs declaration, rather than on clearing invoice, as a verification document. The clearing invoice is only considered in transactions between the West Bank and Gaza Strip, on the one hand, and Israel on the other. By comparison, the customs declaration is taken as a verification for customs revenues and indirect taxes that Israel collects on Palestinian imports.

Table 1 presents the development in clearing revenues in the last few years. Obviously, revenues totaled about \$1.5 billion in 2011, rising by 20% from the previous year, due to a 19% increase in the value-added tax and an increase of 16% in customs revenues (as a result of an increase in imports). Evidently, the fuel tax accounts for about one third of clearing revenues, and customs revenues represent another third.

Clearing revenues constituted about 65-70% of the total budgetary domestic revenues. However, when foreign aid is integrated into the budget, the share of clearing revenue declines to 35-50%. These figures demonstrate how critical clearing revenues are in the public budget, and the Palestinian economy in general.

Table 1: Clearance revenues (US \$ million)

Item	2008	2009	2010	2011
Clearance revenues*	1,137	1,090	1,233	1,489
Customs tax	368.3	386.6	434.2	503.7
VAT	385.3	336.5	379.7	452.5
Purchase tax	3.6	3.7	3.8	0
Fuel tax	344.3	358.3	437.4	456.8
Income tax	0.0	15.4	0.4	8.24
Others	20.8	2.6	3.2	1.9
Clearance revenues as % to total budget domestic revenues	64	70	67	69.5
Clearance revenues as % to total budget revenues	31	37	41	50
Clearance revenues as % to GDP	18	16	22**	22.5

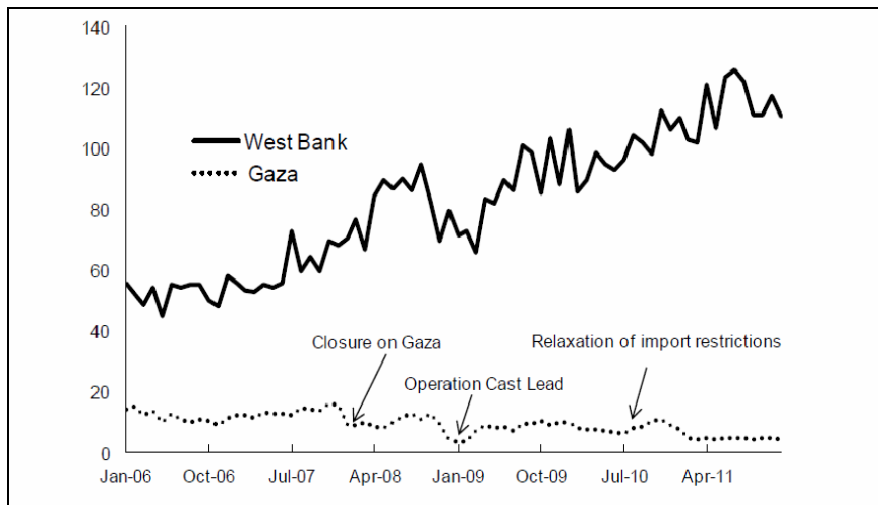
Source: The PNA's Ministry of Finance.

* There is a slight difference between the total clearance revenues and the total sum of the items- because the total revenues are on cash basis while the components are on commitment basis.

** GDP for 2010 and 2011 are in fixed prices.

The share generated from imports and purchases of the Gaza Strip in the total amount of clearance money fell from 18% in 2006 to about 7% in 2010. The ratio declined further to only 4% in 2011, due to the curtailment of oil imported from Israel, replacing it with cheaper oil imported from Egypt. The decline was also a result of the Israeli government's decision in February 2011 to reduce taxes on petroleum products (see Figure 1).

Figure 1: Clearing Revenue in the West Bank and Gaza Strip (million dollars)



IMF (March, 2012): Recent Experience and Prospects of the Economy of the West Bank and Gaza. Staff report prepared for the meeting of the Ad Hoc Liaison Committee.

2. Size of fiscal leakage

The Palestinian side incurs significant financial losses since it does not recover all indirect taxes paid by Palestinian in the West Bank and Gaza Strip on goods they consume. For example, the PNA does not recover purchase taxes that are paid on goods purchased from Israel (except for fuel). Similarly, the PNA does not receive customs paid on foreign goods imported first to Israel and then re-exported to the West Bank and the Gaza Strip; let alone the loss of various taxes levied on direct purchases from Israel, which are not, of course, documented properly.

What adds fuel to the fire is a set of value added taxes and other indirect taxes imposed on Palestinian purchases from Israel. Palestinian businesses and petty chapmen do not often provide the Palestinian Ministry of Finance of the necessary invoices or import documents.

It is now not unusual that some Palestinian businesses engage in indirect imports via Israeli intermediaries to avoid shipment clearing delays or other complications imposed by Israeli customs officers. Often, these imports are reportedly destined to Israel rather than the OPT. This way, customs, VAT and purchase tax (all are borne by the Palestinian consumer) go to the Israeli government.

Another factor that drives Palestinian importers to either underreport the value of their imports or engage in indirect import activities is the desire to reduce their income tax paid to the PNA. Such illegal acts have evidently doubled the adverse effect on PNA's tax revenue collection.

Several Palestinian and international research centers conducted theoretical studies to detect the drawbacks of the clearing mechanism provided for in the Paris Agreement. There are also many reports that provided estimates of the volume of financial leakage of indirect taxes paid by Palestinian consumers and withheld by Israel. In an EU study, Dumas (1999) concluded that the lost revenue amounted to 90-140 million dollars in 1997 (equivalent to between 2.6% and 4.2% of GDP)². According to the World Bank (2002), annual tax revenue losses on indirect imports amount to \$ 133 million, or 3.2 percent of GDP³. Both of these studies, however, failed to notice the losses on direct purchases (without bills) by consumers and merchants in the West Bank and Gaza Strip.

² Dumas, J (1999). Fiscal Leakage in the West Bank and Gaza Strip. MEDA Program of the EU.

³ World Bank (2002). Long Term Policy Options for the Palestinian Economy. West Bank and Gaza Office.

Third: Withholding clearance revenues

Apart from the fiscal leakage, Israel has occasionally withheld the transfers of clearance revenues and used them to extract political concessions. Table 2 presents the periods of freezing revenue transfers to the PNA.

Period	Amounts (millions \$)	Offset
August-September 1997	78	Short term loans from the European Union
December 2000-December 2002	500	- Special funding from the European Union - Loans from the Islamic Development Bank - A project to fund emergency services funded by the World Bank and the European Union
March 2006-July 2006	1,100	The Palestinian-European Mechanism for the Management of Socio-Economic Aid funded the salaries of staff and spending on basic services (non-budget mechanism)

IMF (March, 2012): Recent Experience and Prospects of the Economy of the West Bank and Gaza. Staff report prepared for the meeting of the Ad Hoc Liaison Committee.

4. Recent amendments to the agreement

It is no secret that the severe financial crisis of the PNA has robustly driven the PNA to seek mechanisms that might reduce the financial leakage. According to the IMF's report, an increase of clearance transfers by 5% would decrease the Palestinian budget deficit in 2012 by \$ 75 million. The report pointed out that the Palestinian and Israeli technical committees had, in 2011, reached an agreement that would fill the gaps in the process of calculating clearance transfers. This agreement was referred to the Israeli government for approval, but the government has not yet responded. To pressure the PNA, Israel replied that its approval is contingent on returning to the negotiation table⁴.

The agreement that was concluded by the Palestinian finance minister Nabeel Kassis and the Finance Minister of Israel Yuval Steinitz, in the presence of the Palestinian Prime Minister Salam Fayyad, has so far done nothing to put an end to the junk status. The full text of the agreement has not been released and all that we have is a press release given by the Finance Minister of Israel and a brief news report by the Palestinian government spokesman.

The Israeli press release stated that the objective of the arrangements is to introduce mechanisms that better facilitate the movement of goods between Israel and the Palestinian Authority, and that support both parties' efforts in reducing illegal trade and tax evasion.

We were able to collect some information about the terms of the agreement, particularly the following three points:

✧ Tax calculations and reduction of undocumented trade

Beginning in January of 2013, taxes that Israel collects on behalf of the PNA will be calculated based on the *actual* rather than the *reported* transfer of goods. This will be achieved through an increase of information sharing by tax authorities on both sides. Specifically, Palestinian officials from The Ministry of Finance will be granted access to a computerized database in order to identify Palestinian traders, who clear their imports via Israeli trading companies. In addition, other measures will also be taken to curb smuggling and tax evasion on transferring goods to the Palestinian Territory. These measures include technology utilization, such as electronic tagging. Particularly, containers shipped to Israeli ports will be sealed by electronic

⁴ IMF (March, 2012): Recent Experience and Prospects of the Economy of the West Bank and Gaza. Staff report prepared for the meeting of the Ad Hoc Liaison Committee.

locks. These containers then leave the Israeli ports prior to tax collection, which takes place once arrived in the Palestinian Territory the advantage of these locks is that goods can be monitored even after the opening of the container.

❖ **Palestinian bonded areas**

For years, Palestinians faced difficulties caused by clearing their customs in the Israeli bonded areas. Examples of these difficulties are lack of access to imported goods, extra charges for inland transportation to storage warehouses, stolen and damaged items, and prolonged checks and delays by Israeli authorities. As a solution, the new agreement now allows the PNA to establish Palestinian bonded areas in which the objective is to decrease the aforementioned inconveniences.

❖ **Laying fuel pipelines**

An additional point in the agreement is the establishment of a fuel pipeline from Israel straight to the area administrated by the PNA. This is to stop the current practice of using trucks to transport fuel into the Palestinian Territory. Piping fuel, however, is claimed to be a better alternative to trucking as the latter is prone to corruption and blatant fuel theft⁵. Moreover, the storage of fuel is expensive and would quickly be offset by the initial cost of building a pipeline.

One source estimates the extra revenues for the PNA from these amendments to be between \$ 200 and 450 m.⁶

5. Questions for Discussion

1. To what extent will the new measures contribute to reducing the fiscal leakage, facilitate the flow of trade and reduce the cost of imports? Are the amendments made really significant, and how well do they take precedence over other issues?
2. How can this agreement be aligned with the Palestinian official and popular calls to revisit agreements concluded with Israel and further the calls to annul the Paris Protocol? What are the consequences of holding negotiations beyond the "Joint Economic Committee," the body authorized to negotiate economic issues with Israel? Finally, what are the disadvantages of setting up an additional committee to follow up the implementation of these new arrangements?
3. What are the political implications of the Palestinian 'implicit' approval of the locations of the Israeli gates (16 border posts) that are located inside the Palestinian Territory, and which Israel considers a "border" with the oPt?

⁵ Ma'an News Agency. (2011, Januray 1). *Israel to compensate PA for Paz fuel theft scandal*. <http://www.maannnews.net/eng/ViewDetails.aspx?ID=346887>

⁶ <http://www.ft.com/cms/s/0/95f77d30-6df6-11e1-baa5-00144feab49a.html#axzz26zP>

Recent Amendments to Trade Arrangements in Paris Protocol

Name	Organization
Musa Hussein	Palestine TV
Atef Alawneh	Bank of Palestine
Philip Houry	MAS
Omar Abdullah	Alquds Dot Com
Mueed Ide's	The Independent Commission for Human Rights
Mustafa Masri	PCBS
Salah hanieh	Palestinian Society for Customer Protection
Firas Tanineh	Maan Agency
Elias Khayo	U.S. Department of the Treasury
Stefanie Kirster	FES
Ahmed Abbas	Ministry of Planning and Administrative Development
Dr. Rana Halaseh	NIRAS
Mohammad Hirbawi	Palestinian Business Forum
Bashar Juma'	The PLO Negotiations Affairs Department
Fadi Mousa	Business Women Forum
Jamal Melhem	Talal Abu Ghazaleh Co.
Mohammed Bawatneh	Palestine Capital market Authority
Maher Masri	Palestine Capital market Authority
Dr. Martti Eirola	Representative Office of Finland
Bader Rock	The Office of the Quartet Representative
Dr. Samir Awad	Birzeit University
Mohammed Qerresh	Palestinian Economists Association
Yaser Alawneh	The Independent Commission for Human Rights
Abed Khatib	PIF
Adnan Abu Hummos	PADICO
Omar Assaf	Higher National Committee for the Defense of the Right to Return
Naser Hmeidat	Ministry of National Economy
Dr. Hazem Shunnar	Ministry of National Economy
Rana Abu Seifeh	Ministry of Foreign Affairs
Shehadeh Deeb	PMA
Abood Hamayel	The PLO Negotiations Affairs Department
Lina Ghbeish	Palestine Capital market Authority
Mohammed Mousa	Palestine Investment Promotion Agency
Yousef Zomor	Ministry of Finance
We'am Mudi	Arab Bank
Basel Taha	Palestine Institute for Financial and Banking Studies
Suheir Zubi	PIF
Sana Kamal	HADARA
Ahmed Asa	Al-Watanieh Securities Co.
Mohammed Abed	PMA
Mahmoud Bsharat	PMA
Shadi Shaheen	Palestine Trade Centre
Tawfeeq Nassar	Palestinian Shippers' Council
Maha Abu Shusheh	Palestinian Shippers' Council
Niveen Salameh	PNA Council of Ministers
Yaser Alawneh	The Department of Monitoring of Legislation and Public Policy
Mesyef Mesyef	Ministry of Finance