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**Palestinian Interaction with the  
Geography of Colonialism**

**How to Circumvent Israel's System of  
Control over Trade within the West Bank**

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**Palestinian Interaction with the Geography of Colonialism  
How to Circumvent Israel's System of Control over Trade within the West Bank**

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## Executive Summary

The Oslo Accords (1993-1999) delineated administrative borders within the territory of the West Bank, separating it into Areas A, B and C, in addition to Jerusalem. Restrictive occupation policies, combined with the imposition of the Israeli tax system under the remit of the Paris Economic Protocols, force the Palestinian private sector to constantly search for solutions in order to conduct trade and manage their business interests, operating in a distorted environment unlike that governing the private sector in other countries. This, in turn, has resulted in distorted economic and trade relations within the Palestinian economy, that are harmful to its markets and the public Treasury.

On the other hand, in the wake of the second Palestinian Intifada (2000-2004), Israel imposed a segregated border regime, characterized by a “colonial geography” encompassing Israeli spatial planning and confining Palestinian population centers to specific, and scattered, geographical areas. Israel has established settlements deep in Palestinian areas, creating an enabling spatial environment for illegal trade relations between Palestinian and Israeli merchants that constitute an unregulated and uncontrolled economy. Settlements have been designed to provide an infrastructure for these relations, creating unregulated border trade. In other words, there are Palestinian economic players who have adapted to this complex geographic system and have developed practical skills on to how to circumvent and take advantage of its loopholes.

This paper highlights the role of geographical realities in the West Bank, and the creation of ‘grey’ and ‘in-between’ zones that facilitate the circumvention of trade laws and regulations. These provide a fertile ground for profit-making. The paper also outlines the most important methods used by Palestinian merchants to benefit financially from border trade, taking advantage of their knowledge of the geography of colonialism and of the differences between multiple legal systems within the West Bank. This profit is not unilateral as such activities also result in profits for Israeli merchants in the settlements. Indeed, if there were no gains for the Israeli side of the transactions, the profitability of these dynamics would not have been in this form, or on this scale.

### **1. Introduction: Between the Paris Economic Protocol and Geographic Realities in the West Bank**

While preparing for the Oslo peace process, the Israeli government appointed a team of specialists to propose a specific formula for economic relations with the Palestinians. This team was headed by Professor Haim Ben Shahr, which recommended the continuation of economic integration and trade dependency, a state of affairs that had been imposed forcibly by Israel on the West Bank and the Gaza Strip since 1967. This effectively meant that any future agreements “should not include any economic borders” between Israel and the Palestinian territories.<sup>1</sup>

In 1994, the signing of the Paris Protocol on Economic Relations regulated economic relations between the autonomous Palestinian areas and Israel. The Palestinian delegation suggested the formation of a customs’ system similar to that of a free trade area, allowing Palestine to pursue its own trade system with countries across the globe, as well as delineating economic borders. However, Israel strongly opposed this proposition. Based on the recommendations of Ben

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<sup>1</sup> Arie Arnon, “Israeli Policy Towards the Occupied Palestinian Territories: The Economic Dimension 1967-2007,” *Middle East Journal* 61, no. 4 (AUTUMN 2007): 583–84.

Shahar, Israel insisted on the application of a customs' union system, without demarcating boundaries between the two parties. The customs' union system imposes several obligations on the Palestinian National Authority (PNA):<sup>2</sup>

- Compliance with customs duties and taxes applicable in Israel (except for specific goods detailed in lists A1, A2 and B).
- The Authority can conduct free exchange of goods between its autonomous territories and Israel (with the exception of six agricultural products that were supposed to be added to the free trade agreement by 1998).
- The Authority has the right to use Israel's external passages (seaports, airports and land borders), freely and without obstacles.
- Customs' revenues levied on imports to Israel or the Authority are considered due to the party to which imported goods will ultimately arrive (i.e. the final destination of the imports).

Since 1994, significant changes have occurred 'on the ground', leading to the emergence of a gap between the provisions of the Paris Economic Protocols (de jure) and its application in practice (de facto). Israel has created borders and constructed a separation wall, leading to the imposition of an Israeli spatial system of control. This increases transportation and logistical costs, which contributed to great losses for many Palestinian merchants. However, this colonial geography, which stifled the Palestinian economy and harmed trade routes and freedom of movement was, at the same time, a source of income and profit for other merchants.<sup>3</sup>

Previous reports and studies focused on the existence of a gap between the provisions of the Protocol and realities on the ground, presenting numerous opportunities for economic players from both parties to circumvent regulations and applicable laws. Of particular importance are issues of tax evasion, financial leakages and commodity smuggling. These practices have negatively influenced the overall income of the Treasury, reducing the volume of clearance revenues that the PNA collects from Israel. They have also led to the creation of unfair competition between traders. However, these previous studies did not address the problems of colonial geography and spatial differences in laws and regulations, enabling many segments of West Bank residents to reap profits that are considered "illegal" by the PNA.<sup>4</sup>

## 2. Overview of the Border System in the West Bank

After occupying the West Bank in 1967, Moshe Dayan announced "the removal of the Green Line" and "bragged about" the fact that the Palestinians now depended on Israel for their livelihoods, especially in matters of trade. The borders re-emerged during the Oslo negotiations (1993-1999), when the PNA was granted administrative autonomy over 40% of the West Bank (Areas A and B). These administrative borders turned the Palestinian economy into a single, legal entity, restructuring trade between the two parties, transforming it from a forcibly-

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<sup>2</sup> Steven Barnett and International Monetary Fund, eds., *The Economy of the West Bank and Gaza Strip: Recent Experience, Prospects, and Challenges to Private Sector Development* (Washington, DC: International Monetary Fund, 1998).

<sup>3</sup> Walid Habbas, "The West Bank-Israel Economic Integration: Palestinian Interaction with the Israeli Border and Permit Regimes," in *Political Economy of Palestine: Critical, Interdisciplinary, and Decolonial Perspectives*, ed. Alaa Tartir, Tariq Dana, and Timothy Seidel (Cham: Springer International Publishing, 2021), 111–34, [https://doi.org/10.1007/978-3-030-68643-7\\_5](https://doi.org/10.1007/978-3-030-68643-7_5).

<sup>4</sup> UNCTAD, "The Economic Costs of the Israeli Occupation for the Palestinian People: Cumulative Fiscal Costs" (New York: United Nations Conference on Trade and Development, 2019), [https://unctad.org/en/PublicationsLibrary/gdsapp2019d2\\_en.pdf](https://unctad.org/en/PublicationsLibrary/gdsapp2019d2_en.pdf); Jamil Misyef, "Smuggling and Evasion of Custom Duties and Taxes: The Cost to the Palestinian Treasury and Market," Background Paper, Roundtable (6) (Ramallah: Palestine Economic Policy Research Institute (MAS), 2018), <http://www.mas.ps/files/server/20181612091326-1.pdf>.

imposed customs system (1967-1994) to a mutually-agreed one (1994-), similar to an international trade system.<sup>5</sup>

In the aftermath of the Al-Aqsa Intifada (2000-2004), Israel imposed a border regime that isolated the autonomous Palestinian areas from Israel, labelling these as “dangerous areas”. Gradually, the West Bank was surrounded by a separation wall and divided into isolated cantons, surrounded by numerous checkpoints. This border regime put an end to what could be termed the smooth flow of trade between the two sides. Gradually, Israel turned the wall into something akin to an international crossing point, forcing Palestinian traders (exporters and importers) to use special trade routes that pass through commercial passages, specifically instituted for this purpose. The imposition of this border system had many consequences for the Palestinian economy overall, and for Palestinian trade in particular, most notably below.

### **First: Forcing Palestinian Traders to Use Commercial Passages**

The separation wall in the West Bank has turned into a quasi-international trade border with Israel, which has designated six permanent, official, commercial passages, through which a large proportion of Palestinian exports pass: Al-Taybeh/Tulkarem, Barta’a/Al-Rehan, Al-Za’im/Jerusalem, Beitunia, Al-Jalama and Tarqumiya. In addition there are seasonal, commercial passages such as the Bardala agricultural crossing. There are also unofficial, commercial passages. These are not intended for the entry of goods, however, the Israeli authorities allow certain industries to use them for this purpose, without there being a written agreement with such merchants. The Bethlehem checkpoint 300 is an example, through which stone-works and manufactured clothes exit Bethlehem and enter Israel. It should be noted that there are no official statistics on the percentage of goods that pass through commercial passages specifically, other than those operated by the Civil Administration and Border Passages Authority in Israel, who do not publish official statistics.<sup>6</sup>

With regard to exports from Palestinian territories in the West Bank, irrespective of whether the final destination is Israel, Gaza, or a third country (via Israeli ports), the transportation of goods is carried out via designated commercial passages, and is therefore subject to a strict inspection system called the “back-to-back” system. This system is considered physically and mentally exhausting for Palestinian merchants.<sup>7</sup> First, Palestinian merchants incur double freight costs, because goods are transported to Israel using Palestinian and Israeli trucks that meet at the passages, with back to back unloading and reloading of goods. Second, the waiting period for each shipment at commercial passages ranges from two to four hours because of time required for inspection operations, leading to the reduction in the number of Palestinian shipments that can be made daily. This acts as a disincentive for Palestinian producers to increase production volumes, given their inability to move produced goods. Third, Israel forces Palestinian exporters to use wooden pallets to package their cargo during shipments, which limits the volume of goods that can be loaded onto each truck. Fourth, inspection procedures cause significant damage to goods, as Israeli agents unload pallets and inspect their contents. Fifth, transit regulations and procedures change sporadically, without informing Palestinian merchants of such changes.

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<sup>5</sup> Arie Arnon, ed., *The Palestinian Economy: Between Imposed Integration and Voluntary Separation*, Social, Economic, and Political Studies of the Middle East and Asia, v. 60 (Leiden ; New York: Brill, 1997).

<sup>6</sup> USAID, “Strengthening the Palestinian Private Sector through Reducing Trade Transaction Costs: A Comprehensive Research and Advocacy Program,” Final Report (Jerusalem: United States Aid Agency, 2015); B’Tselem, “List of Military Checkpoints in the West Bank and Gaza Strip” (B’Tselem, 2019), [https://www.btselem.org/freedom\\_of\\_movement/checkpoints\\_and\\_forbidden\\_roads](https://www.btselem.org/freedom_of_movement/checkpoints_and_forbidden_roads)

<sup>7</sup> We exclude from this narrative large-scale Palestinian merchants who have started using secure logistical services within the “door-to-door” program. For more details on the context of negotiations and efforts to reach a “door-to-door” agreement, and the consequences of its use for merchants, see: Habbas Walid and Berda Yael (2021) Colonial management as a social field: The Palestinian remaking of Israel's system of spatial control. *Current Sociology*. <https://doi.org/10.1177/001139212111024695>

## Second: Creating “Colonial Geography”

The border regime imposed by Israel on West Bank lands is not limited to the separation wall, official commercial passages, and the road network. It also includes different layers of administrative borders that allow for the creation of diverse commercial/legal systems between certain regions. Palestinian merchants are aware of this colonial geography, which enables them to move easily from one administrative region to another, and to benefit from the differences in the mechanisms of law enforcement. Below are some of the most prominent forms of colonial geography in the West Bank:

1. Areas A and B, which are under PNA jurisdiction.
2. Area C, which is under jurisdiction of the Israeli Civil Administration.
3. Settlements in the West Bank. Although the settlements are physically located in Area C, there is a regulatory system that Israel imposes on the Palestinians therein (outside the territorial boundaries of the settlements), which is separate from the system of laws that governs Israeli settlers<sup>8</sup>. Settlers within the boundaries of a settlement can benefit from Israeli laws relating to economic matters (such as commercial laws, tax system) and logistical transportation. For example, the transfer of goods between an industrial area in the settlement and between Israel is not considered an import or export, even though it is a transfer of goods from the West Bank to Israel.
4. Area J1, located ‘behind’ the wall, under the jurisdiction of the Municipality of Jerusalem (meaning that this area was annexed to Israel, which imposed its sovereignty). However, geographically, these are located on the Palestinian side of the wall. Examples include Kafr Aqab and Shufat camp.<sup>9</sup>
5. Area J2, that is not located ‘behind’ the wall. It is classified as part of Area C, but is located on the Israeli side of the wall, and is geographically contiguous with the Israeli interior. Examples include Dahiyat al-Barid near Beit Hanina, and Atarot industrial park.<sup>10</sup>
6. Areas located on the borders of the West Bank. These are Palestinian villages situated on the separation line (border). They are divided by the Green Line into two parts. Examples include Baqa and Barta’a, as well as villages/towns adjacent to the Green Line whose economic activity is linked to Israel, such as Beit Awa, Al-Madya and Ni’lin, to name a few.

The complications imposed by Israel on Palestinian merchants (particularly exporters) in using commercial passages forces many of them to search for other means that are less costly, in terms of time and logistics/finance. This creates new mediators and brokers for logistical transport, and new Palestinian economic players who are familiar with the conditions of colonial geography.

In other words, the colonial border system imposed by Israel, especially after the second intifada, led to the emergence of new needs by some businesses and merchants, who did not

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<sup>8</sup> ACRI, “One Rule, Two Legal Systems: Israel’s Regime of Laws in the West Bank” (The association for Civil Rights in Israel, 2014), <https://law.acri.org.il/en/2014/11/24/twosysreport/>.

<sup>9</sup> J1 area includes that part of the Jerusalem governorate which was annexed by the Israeli occupation forcibly, after its occupation of the West Bank in 1967. J1 area includes the following communities (Kafr Aqab, Beit Hanina, Shu’fat Camp, Shu’fat, Al-Isawiya, Sheikh Jarrah, Wadi Al-Joz, Bab Al-Sahira, Al-Sawwanah, Al-Tur (Mount of Olives), Al-Quds (Beit Al-Maqdis), Al-Shiyah, Ras Al-Amud, Silwan, Al-Thawri, Jabal Al-Mukabber, As-Sawahrah Al-Gharbiya, Beit Safafa, Sharafat, Sur Baher, Umm Tuba).

<sup>10</sup> Area J2 covers the Jerusalem governorate, with the exception of that part of the governorate which was annexed by force by Israel after its occupation of the West Bank in 1967. J2 area includes the following communities (Rafat, Khums, Qalandia Camp, Jaba, Qalandia, Beit Daqu, Al-Jadeerah, Al-Ram and Dahiyat Al-Barid, Beit Anan, Al-Jib, Bir Nabala, Beit Ijza, Al-Qubeiba, Khirbet Umm al-Lahem, Biddo, Al-Nabi Samuel, Hizma, Beit Hanina Al-Balad, Qatana, Beit Surik, Beit Iksa, Anata, Al-Ka’abna, Al-Za’im, Al-Eizariya, Abu Dis, Arab Al-Jahalin, and the Bedouin communities in Al-Eizariya, Abu Dis, Al-Sawahrah Al-Sharqiya, and Sheikh Saad).

want to be exposed to the distorted and overlapping geographical trade situation.<sup>11</sup> On the contrary, the beneficiaries of this geography tried to create opportunities for economic transactions between themselves on the one hand, and between them and Israel on the other, outside existing legal frameworks and the oversight of official Palestinian authorities.

### **3. The Most Prominent Forms of the Use of Colonial Geography by the Palestinians**

#### **3.1 Using Settlements as a Transit Station to Israel**

The settlements and Israeli industrial zones in the West Bank (there are currently 19 industrial zones in addition to four under construction) have turned into transit stations (terminals) for moving Palestinian goods to Israel. Typically, there is no border crossing between Palestinian villages/towns and adjacent Israeli settlements. If there is a barrier at a settlement's gate, the entry of goods through it is not subject to the same procedures as those at "border" passages. On the other hand, Israeli settlements in the West Bank are linked to Israel through a network of roads and special passages that facilitate the movement of settlers into Israel, especially settlements and industrial areas that are adjacent to the Green Line, and whose geographical connection with Israel is easier and faster.

Between 2005 and 2008, Israel forced Palestinian exporters to pass through designated commercial passages, and to adhere to the "back-to-back" inspection regime. Resultantly, many Palestinian merchants, in partnership with Israeli merchants, or sometimes through Palestinian partners, began renting small properties inside Israeli settlements, especially in those settlements adjacent to the wall. The property (it is sufficient for the property to have an area of 2 square-meters only) is registered as an Israeli operator. This includes the issuance of invoice/consignment papers, and not clearance papers, given that goods are moved from an Israeli town (settlement) to another Israeli town (within the Green Line).

The furniture and furnishings' sector is one of the most prominent Palestinian sectors that use this method of export. This includes furniture manufacturing workshops, fabric and furniture dealers, and upholsterers. The furniture industry in Nablus, Salfit and surrounding areas is a clear example of the dependence of some Palestinian merchants and manufacturers on the infrastructure of the Israeli occupation (settlements and associated road networks), in order to export and market their goods in Israel. This undoubtedly reinforces Israeli control over the Palestinian economy and exacerbates economic dependence.

For example, in 2015, there were about 340 furniture manufacturers in Nablus, where 55% of their production was destined for Israel.<sup>12</sup> Instead of "acquiescing" to the "back-to-back" system, the owners of these businesses sought alternative means to bring their goods into Israel, without passing through commercial passages, mainly by renting rooms or caravans inside the settlements, and registering them as Israeli operators. According to some furniture makers from the villages of Bidya and Mas'ha, interviewed in 2019, the Immanuel Industrial Zone is a suitable destination for such businesses. When examining the nature of the factories and workshops in this settlement, it was found that, as of the end of 2020, there were 64 workshops/factories, of which approximately 50 are furniture workshops. This phenomenon is

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<sup>11</sup> The information below is based on in-depth interviews (audio-recorded), conducted by the researcher between 2019-2021 in preparation for his doctoral thesis at the Hebrew University in Jerusalem.

<sup>12</sup> Jamil Misyif, "*Developing Competitiveness and Increasing the National Product Share: The Furniture Industry Sector*". Ramallah: Palestine Economic Policy Research Institute (MAS, 2018, Arabic). It is worth noting that most of these furniture workshops are small workshops and are not registered for tax purposes, and therefore they are not eligible for clearance papers.

not confined only to the Nablus area or the furniture sector.<sup>13</sup> Rather, it is a phenomenon that exists across a number of small- or medium-sized Palestinian industries, which rely heavily on marketing their products on the Israeli market, in addition to agricultural products such as fruits, herbs and others.

This phenomenon has developed over the past years, as new players, Palestinians and Israelis, have emerged, acting as middlemen between Palestinian merchants (whether furniture or any other Palestinian product) and the Israeli market. In other words, the idea of “the settlement as a transit station” has turned into one that attracts numerous beneficiaries who visit clearing houses, selling fake invoices/consignments, in order to bring goods into Israel. A number of them maintain relations with Israeli soldiers who are present at checkpoints designated for settlers and offer bribes to the guards at the settlements.<sup>14</sup>

Officially, Israel considers these actions to be “prohibited acts”, which should be held accountable by Israeli law. However, in practice, it largely ignores them, as long as it is reassured of the commercial nature of these trade flows. As for Palestinians, this issue is not under the control of official authorities, or subject to the control of the customs’ police. According to the Paris Protocol, the PNA is obliged to pay the Israeli side the value of the taxes that it collects on Palestinian goods exported to Israel. Accordingly, efforts by the customs’ police focus on monitoring the legality of goods imported into the Palestinian Authority areas. However, if goods leave the West Bank by illegal means, the PNA does not pay much attention to pursuing this type of smuggling, as it does not directly affect the Treasury. The use of settlements as transit stations has significant economic and political effects on the Palestinian side, the most important of which is the creation of economic relations between Palestinians and illegal settlements on Palestinian lands, harnessing the settlements’ infrastructure to serve the financial interests of numerous Palestinian merchants.

### **3.2 Exports and Imports via Non-Commercial Passages**

In general, Israel monitors the movement of Palestinian exports and imports through commercial passages designated for this purpose. It places tax officials and representatives from various ministries at commercial crossing points. On the other hand, Israel prevents the PNA from being present at commercial passages. Therefore, the Authority uses whatever tools it has at its disposal (such as the customs’ control apparatus) in an attempt to control movement at some entrances to Palestinian cities. However, this does not mean that all trade exchanges between Palestinians and Israelis flow through commercial passages. There are numerous routes and entrances between Israel and the West Bank, or between Area C and the PNA areas (where customs’ patrols sometimes operate). These are considered a major arena for professional smugglers. In practice, it is impossible to curb these routes, due to the overlapping geography and complexities of the administrative borders drawn by Israel, which allow anyone to build a dirt road, or a detour, once he/she knows the topography of the place. Accordingly, observed commercial movements, whether by the Israeli or Palestinian Central Bureau of Statistics, or by the customs’ police or other official authorities in Palestine, is less than the real figures. According to the Israeli State Comptroller, the volume of smuggled trade (import and export) via non-commercial passages between the West Bank and Israel amounted to about \$2.16 billion in 2018. This constitutes about one-fifth of the total volume of merchandise trade

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<sup>13</sup> See, for example, the definition of the industrial zone at the following link: <https://bit.ly/3jZeRd5>

<sup>14</sup> Q Furniture focus group, Participation with various furniture manufacturers focus group, headed by Walid Habbas, Nablus. Sept 28, 2019, September 28, 2019; Gh. S, Owner of a furniture textile who does not participate in the Door-to-Door. Interviewed by Walid Habbas, Nablus. Nov 1, 2019, November 1, 2019.

(official and unofficial) between the PNA and Israel.<sup>15</sup> This type of undisclosed commercial exchange (smuggling) is not subject to any kind of taxes or customs' duties and is not officially registered by Palestinian or Israeli parties. Various categories of smugglers, drivers, bill counterfeiterers, Israeli policemen and legal professionals also benefit from these unofficial commercial channels.

On the other hand, and perhaps most importantly, the Israeli legal system, which is supposed to address such ambiguities on the grounds that they harm the Israeli economy, contains many loopholes, and even encourages the continuation of smuggling operations. For example, the Israeli Administrative Offenses Law of 1985 contains numerous provisions and references to VAT laws, but it has restrictions/limitations that render the Israeli Tax Authority impotent in terms of enforcing penal sanctions (such as collecting fines) from anyone who does not work in Israel, or from any person residing in the territories of the PNA. Therefore, when Israel imposes a fine on a Palestinian smuggler from within the PNA, this does not constitute a deterrent.<sup>16</sup>

To reflect this reality, we cite two examples below (out of hundreds) of smuggling cases by Palestinians that were monitored and caught by Israel. However, there was no way of enforcing Israeli law after taking legal measures against the smugglers. In the period between May 2017 and June 2018 (i.e., only one year), the same Palestinian person was caught 24 different times while smuggling goods from PNA areas to Israel without legal papers. Each time, the Israeli authorities fined him NIS 4,000, without any mechanisms to prosecute him, or any legal justifications to imprison him until he pays the accumulated fines.<sup>17</sup> Moreover, in March 2018, a Palestinian smuggler was caught at a non-commercial crossing, transporting goods worth NIS 212,000, without the necessary legal documents. An administrative fine of NIS 4,000 was imposed on him. In August 2017, the same Palestinian smuggler had been arrested at the Adumim crossing, smuggling tobacco (which has a high tax value) with a total value of NIS 200,000, without the necessary legal documents. Again, he was fined NIS 4,000.

The issue does not only depend on smuggling from the PNA areas to Israel, but also in the other direction. For example, "official" goods from Israel are supposed to enter the southern West Bank through the Tarqumiya crossing, via Road No. 35. A Ben Gurion University researcher used a team of researchers for a year to monitor the movement of goods entering the outskirts of Hebron from the east and north. In this important and controversial study, the researcher noted that all the Palestinian villages surrounding the Tarqumiya crossing constitute alternative routes to Road No. 35.<sup>18</sup> In fact, the number of trucks that the Tarqumiya crossing handled on a daily basis was much less than the actual number of trucks that were monitored to be heading to the crossing, before changing their course a few kilometers before reaching the crossing. Therefore, it can be concluded from Mr. Garb's study that smuggling is a random act, carried out by smugglers on a medium or small scale. In fact, it includes organized operations and high-value goods. However, there are also goods that enter Palestinian areas through passages designated for Israelis, without the knowledge of the Israeli authorities. In

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<sup>15</sup> Comptroller, "Annual Audit Report 70c," The Tax Authority Supervision on Land Crossings (Jerusalem: State Comptroller's Office, 2020), <https://www.mevaker.gov.il/sites/DigitalLibrary/Pages/Reports/3602-12.aspx>.

<sup>16</sup> State of Israel, "Value Added Tax Law," 1975, [https://www.nevo.co.il/law\\_html/law01/271\\_001.htm#Seif107](https://www.nevo.co.il/law_html/law01/271_001.htm#Seif107).

<sup>17</sup> Comptroller, "Annual Audit Report 70c."

<sup>18</sup> Yaacov Garb, "Porosity, Fragmentation, and Ignorance: Insights from a Study on Freights Traffic," in *Israelis and Palestinians in the Shadows of the Wall: Spaces of Separation and Occupation*, ed. Stéphanie Latte Abdallah and Cédric Parizot, Border Regions Series (Farnham, Surrey, England: Ashgate, 2015), 89–108. It should be noted that Yaakov Garb is an Israeli professor from Ben Gurion University in Beersheba. The aforementioned study was carried out by him, through his cooperation with the Israeli Economic Cooperation Fund, which is concerned with establishing networks between the Palestinian and Israeli economies. Later, he developed his research and published it as a chapter in a critical book, published in French under the title "*Under the Shadow of the Wall*".

other words, the goods enter the West Bank on the basis that they are destined to travel from Israel to the settlements, but in reality, they are destined for the Palestinian areas.

### **3.3 Kafr Aqab: A Grey Area Breeding Ground for Fraud**

Kafr Aqab is situated to the north of Jerusalem, within the Israeli municipal boundaries of Jerusalem. However, geographically it overlaps with the city of Ramallah, without any barrier separating these two areas. Kafr Aqab constitutes a major arena for tax fraud, due to the complexities of colonial geography. One of the examples observed during fieldwork is the phenomenon of huge warehouses in Kafr Aqab, which store Israeli or foreign goods and re-market them inside the West Bank as Palestinian goods.

For example, there are some Palestinian goods whose importation is monopolized by only one Palestinian agent company. However, this sole-agency covers only the Palestinian areas and does not include Israel and the settlements that obtain the same goods from Israeli importers. In addition, unlike Palestinian laws, Israeli laws allow Palestinian companies to monopolize the import of goods, provided that these goods are not marketed in Israel. For example, Ariel washing powder is one of the products of Procter & Gamble. Unipal General Trading Company is the sole agent licensed to import it. Unipal offers 7 kg Ariel powder bags at a price of “X” to shops. However, there are Palestinian merchants who own/rent warehouses in Kafr Aqab and obtain the same product from Israeli agents at a much lower price. They store the product in bulk quantities in warehouses in Kafr Aqab. These are then distributed to shops throughout the West Bank, especially in areas adjacent to Ramallah, or to networks of shops that have branches throughout the West Bank.

In other cases, the Palestinian importer (especially from Jerusalem or from within Israel) can import Ariel merchandise from Egypt (for example) and bring it directly to Kafr Aqab, as Israel allows him/her to do so, provided that he/she does not sell these goods inside Israel.<sup>19</sup> Following this, retail stores mix Ariel’s goods smuggled from Israel with Ariel’s goods sourced by Unipal, displaying them on the same shelf after forging and pasting Palestinian stickers indicating that all goods came from Unipal. This process is applied to numerous merchandised products monopolized by Palestinian companies, that are offered in the market at higher prices than those sourced by Israeli agents. This process extends from gasoline and diesel to food, as well as a wide variety of detergents, construction equipment and other products.<sup>20</sup>

In another example, the Palestinian merchant who stores his goods in the Kafr Aqab area can import them from (or through) Israel and bring them into Kafr Aqab. Thus, he does not have to show import papers, or pay due taxes to the PNA since the PNA cannot monitor the volume of sales or purchases in Kfar Aqab warehouses. The merchant then distributes these goods to the rest of the Authority’s regions, according to an invoice/consignment bill (used to distribute goods within the areas of the Authority after they have been imported, according to the system in force). Thus, the merchant evades income tax, because he/she does not declare the volume of his/her actual sales, since the distribution warehouses are located in Kafr Aqab.

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<sup>19</sup> N. B., Interview with N. B., a Business Consultation Officer – Jericho Agro Industrial Park (JAIP). Interviewed by Walid Habbas in Ramallah on 12 April 2019.

<sup>20</sup> Ibid.

### 3.4 Dual Company Registration

There are companies registered in Israel that are owned by Palestinian businessmen, working in the field of imports. Since these companies are owned by Palestinians (in most cases Jerusalemites), their owners are also able to register them as Palestinian companies with the PNA. The presence of two registrations for the company allows the owner to take advantage of two different legal systems and two distinct labor law frameworks. For example, a company based in the Jerusalem industrial zone of Atarot (an Israeli settlement adjacent to the wall) may continue to employ the same workers, by firing them as employees of the Israeli company, then rehiring them by the Palestinian branch of the same company, in the PNA areas or within Area C). Thus, it is not obliged to abide by the minimum wage in Israel. Moreover, it can reduce workers' wages by 50%-60%, even though they continue to work at the company's branch in Atarot. Alternatively, they may be moved between the two branches.

With regard to trade, the company can move its goods between the two branches without these being considered as imports. The process of transferring goods from the Israeli branch to the Palestinian one includes legal aspects that the company is aware of and can easily circumvent. It is sufficient for the company to use one import invoice, and continue using it, until it is intercepted by the PNA customs' police, which requires showing the invoice. However, this means that the company is able to use the invoice dozens of times, before it is stopped and its papers are checked. According to this mechanism, the company will be able to evade sales' taxes, income taxes, and even import duties paid to the Palestinian side.

### 3.5 Barta'a: An Israeli "Free Market" on Areas B and C in the West Bank

Barta'a lies on the Green Line to the west of Jenin and south of Umm al-Fahem. When the armistice line between Israel and Jordan was demarcated in 1949, Barta'a was divided into two parts: Barta'a al-Gharbiyye (western Barta'a) is located in Israel, and Barta'a al-Sharqiya (eastern Barta'a) is located in the West Bank. In the Oslo Accords, Barta'a al-Sharqiya and the surrounding lands were divided across Areas B and C. Later, when Israel commenced building the wall in that area, the planners suggested that some of the small settlements located east of Barta'a ought to be annexed to Israel. Thus, the wall was built inside West Bank lands and both Barta'a al-Sharqiya and Barta'a al-Gharbiyye (in addition to neighboring settlements) ended up on the Israeli side of the wall.<sup>21</sup> Although the two villages were re-united, the eastern part of the town is still classified as Area B and C, while the western part is in the State of Israel.

This new reality has caused tremendous economic growth in the town of Barta'a al-Sharqiya, which has turned into an attractive location for entrepreneurs and businessmen, both large and small. Barta'a has become an example of cooperation and common interests between the townspeople and businessmen from Ramallah, Jenin, Hebron and Israel. For example, it is possible for a merchant from Ramallah to import his goods from Turkey, receive them in the nearby Haifa port, and store them in warehouses or shops inside Barta'a al-Sharqiya. Thereafter, hundreds of Israeli customers (Arabs and Jews) visit these warehouses on a daily basis, given that the merchant is exempt from paying income tax, VAT and other levies. Furthermore, major Israeli companies (such as the Israeli Coca-Cola company) rent huge lands or warehouses in Barta'a al-Sharqiya. These are completely exempt from "arnona" (property tax) and income taxes, which they would otherwise have to pay if their warehouses were

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<sup>21</sup> These are: Moshav Rihan (founded in 1977), Tel Menashe (1999), Hananit (1981), Shaked settlement (1981), Shaked Industrial Zone (1998).

located inside Israel or a settlement.<sup>22</sup> While Kafr Aqab is considered a grey area suitable for storing goods by Palestinians and distributing them in the West Bank, Barta'a is a suitable grey area for storing goods by Palestinians and Israelis and distributing them inside Israel.

### 3.6 Beit 'Awa: The Political Economy of Israeli Waste

Beit 'Awa is located about 22 km to the west of Hebron on the Green Line and its lands are classified as Area B. The village thrives on its business sector, which is the main sector in this community. Business activities focus on the purchase of used furniture that has been disposed of inside Israel. Such waste includes household furniture such as chairs, chapels, beds, electrical and electronic appliances, wires, factory equipment, automotive parts; items that were once of value and were then disposed of but are repairable. The political economy of waste involves semi-structured hierarchies, wherein Beit 'Awa residents (holding entry permits to Israel) travel through Israel with a driver (usually from East Jerusalem), buying all the waste that they can get hold of, or simply taking it for free. Usually, the regions or sectors (factories, commercial buildings, homes, etc.) within Israel are divided across different groups of people.

In the evening, numerous trucks enter the village of Beit 'Awa carrying large and varied quantities of used furniture, which are offered for sale at public auctions, or by agreement with Palestinian merchants. For example, there are Palestinians who specialize in buying computer parts, such as screens, hard drives, wiring, and other components. There are also several laboratories inside Beit 'Awa that specialize in repairing these electronic parts and reselling them on the Palestinian market (and sometimes warranty certificates are issued for what has been repaired!).<sup>23</sup> In many cases, the remnants of goods (waste) that have been repaired are combined with other local or imported goods, and are sold within the Palestinian market, without the consumer knowing their source of origin.

## 4. Conclusions

The cases outlined above prove the existence of insufficiently studied, and alarming, socio-economic phenomena. The segregation regime and commercial passages imposed by Israel have not only damaged the Palestinian economy, but have also had other serious consequences, characterized by the emergence of beneficiaries, brokers and smugglers who engage in illegal activities. This has exacerbated the damage inflicted by the Israeli occupation on the Palestinian economy and multiplied the negative effects resulting from the Israeli-imposed regime of isolation. In other words, the colonial geography underlying the apartheid regime of Israeli occupation contributed to the establishment of networks of economic interests, made up of Palestinians and Israelis (including settlers). This means that, at the grassroots level, there are close relations between Palestinians and Israelis, and that these relations exist secretly or openly. Without doubt, these relations are illegitimate from an economic and political point of view. They result in great benefits for the participants, but they also harm the PNA Treasury.

A sizeable portion of the Palestinian economy is considered an undisclosed, secretive, or fraudulent economy. While the importance of this phenomenon - and the expansion in the number of participants and beneficiaries - should not be underestimated, comprehensive data do not exist to monitor the size of this economy definitively. This economy comprises labor,

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<sup>22</sup> Rubinstein, Danny, "The Palestinian Economy: The Free Market for the Dividing Frontier," Calcalist, 2008. See the following link: <https://bit.ly/3iOCKob>.

<sup>23</sup> Diana Bahor-Nir, "Economy Junk: Have You Thrown Something in the Garbage? Just a moment, another future awaits it," Calcalist, 2016. See the following link: <https://bit.ly/3jGDoUf>

import/export operations, logistics, control of transportation routes, fraud, tax manipulation, etc. It permeates across most economic sectors and directly includes Palestinian individuals from diverse social classes and backgrounds.

### **Discussion Questions**

1. Who is responsible for monitoring the unregulated and illegal Palestinian economy, which not only harms the Treasury of the PNA, but also has important political consequences related to relations between Palestinians and settlers?
2. Is the customs' police adequately prepared - in terms of personnel, equipment, intelligence, field experience and ability - to operate outside Areas A and B, in order to monitor the informal economy, smuggling, and circumvention of borders?
3. What is the strategic plan for developing the work, tasks and powers of the Palestinian Borders and Passages Authority, in any future negotiations with Israel? Which proposed issues are an essential part of this work doctrine?
4. What are the proposed recommendations for Palestinian law, in terms of dealing with merchants and economic players who establish economic relations with settlements, whether in terms of logistics, counterfeiting, or economic cooperation?