West Bank Trade and Transport:

Learning from Landlocked Developing Countries

Hernan Levy

December 19, 2016

I am grateful to Edward Thompson and Sam Bahour, co-founders of Americans for a Vibrant Palestinian Economy (AVPE), who encouraged me to carry out this research, contributed comments, and provided invaluable contacts with Palestinian trading staff and companies. PALTRADE and the Office of the Quartet, especially Audrey Adams and her team at the trade group, and Nasser Abufarha, Founder and Director of Canaan Fair Trade, were very helpful, contributing with views and data. Comments on an earlier draft by esteemed colleagues Graham Smith, a co-author of relevant documentation, and Santiago Friedmann, are gratefully acknowledged. I further thank Graham for his editorial assistance. I thank John Nellis for his review of sensitive and broader aspects of the paper. Suggestions during the design of the paper regarding research coverage and sources were provided by several World Bank staff and consultants. I appreciate especially the suggestions by Jean-Francois Arvis and Gael Raballand. All remaining errors are mine.

Sources

Documentation used for preparing this paper comes from a variety of sources. Several of the documents were sponsored/financed by bilateral and multilateral agencies, including the United States, the European Union, the Office of the Middle East Quartet ("The Quartet", composed of representatives from the US, the EU, the UN and Russia), the World Trade Organization, the International Council of Swedish Industry (NIR), and the World Economic Forum. The World Bank's extensive research on Landlocked Developing Countries (LLDCs) has been the main source regarding their experience.

Authors of the papers reviewed included distinguished Palestinians such as Dr. Karim Nashashibi, former Country Director for the West Bank and the Gaza Strip at the International Monetary Fund and others associated with PALTRADE and PSC, and Israeli researchers associated with the Peres Center for Peace and Tel Aviv University.

Important material was received from the Office of the Quartet. Such documentation has been the basis for discussing the situation of the West Bank with regard to various areas where the LLDC's experience is deemed to be relevant.

Acronyms

AVPE	Americans for a Vibrant Palestinian Economy
CC	Commercial Crossings
COGAT	Coordination of Government Activities in the Territories
CPA	Crossings Port Authority
DTIS	Diagnostic Trade Integration Study (World Trade Organization)
EU	European Union
GDP	Gross Domestic Product
LLDC	Landlocked Developing Countries
LDC	Least-Developed Countries
MENA	Middle East and North African region
NIR	International Council of Swedish Industry
OECD	Organization for Economic Cooperation and Development
PA	Palestinian Authority
PALTRADE	Palestine Trade Center
PSC	Palestinian Shippers' Council
USAID	United States Agency for International Development
WEF	World Economic Forum
WTO	World Trade Organization

Table of Contents

Annex 1. Recommendations Prepared by the Palestinian Shipper's Council (PSC, 2012)
Annex 2. Recommendations by the Peres Center for Peace/CORE Associates (2015)
Annex 3. Recommendations Regarding Israeli-Palestinian Trade Regime, included in the report sponsored by the PBIF/NIR/QUARTET (2015)

1. Introduction

This paper has been prepared on the conviction that an improved West Bank economy will increase the chances for a stable peace in the Middle East. Many private initiatives based on this same conviction have been launched in recent years[1]. There is a clear case for a better West Bank economy, from which both Israelis and Palestinians would benefit.[2] [3]

One way to improve the West Bank's economy is by helping facilitate and reduce the costs of its trade, especially exports. The West Bank has a negative, and growing, trade balance. Thus, reducing trade costs and increasing exports would be critically important to improve the West Bank's economy. Trade costs are very significant for developing countries, on average about 100% for manufactured goods and 200% for agriculture goods in value terms (ex-factory/farm gate) equivalent and higher for landlocked countries.[4]

As a landlocked territory, with no direct access to maritime transport, the West Bank's overseas trade needs to go through a transit country to reach a sea port. Israel is that transit country. Jordan also offers transit to West Bank products, but access to its sea port is more difficult.

Over the last 10-15 years much research has been carried out, mainly by the World Bank, regarding the problems facing landlocked developing countries (LLDC) in different regions when they trade internationally. At the same time, the problems facing LLDCs are a topic of major importance for the United Nations, which in 2003 carried out a first major conference on the topic in Almaty, Kazakhstan. The United Nations followed up with a second conference in 2014, which assessed the progress made by the countries in improving trade and transport[5]. All this work contains data and analysis that are likely to be useful for the West Bank.

There are 44 landlocked countries in the world, of which 34 are developing countries, or LLDCs[6]. Africa has the largest number (15), followed by 12 countries in Europe and Central Asia. The rest are three countries in South Asia, two in America, and two in East Asia. These 34 LLDCs provide a variety of conditions at all levels, from political and economic relations between landlocked and coastal countries, to the specific details of trade and transport logistics.

---

[1] See, for example: (i) articles in The Economist 2014, Haaretz, 2014 Jerusalem Post, 2014, and ii) the website of Americans for a Vibrant Palestinian Economy (AVPE, a4vpe.com).

[2] The Rasgon, 2015 articles states, " Israeli and Palestinian leaders recognize the need to address and improve their economic relations".

[3] A stable peace, leading to an end of the Israeli-Palestinian conflict, and to a " two-state solution", would have an enormous positive impact on the GDP of both sides. A study (Rand Corporation, 2015) finds that over a 10 year period, compared with current trends, the average Israeli would see income increased by about $2,000 (or 5%) while the average Palestinian income would rise by about $1,100 (or 36%). Other scenarios analyzed, coordinated unilateral withdrawal, uncoordinated unilateral withdrawal, non violent resistant, and violent upraising would produce negative results, with upraising showing the highest negatives.

[4] J-F Arvis, 2013.

[5] World Bank, 2014a.

[6] World Bank, 2014a.

Several European landlocked countries are, in contrast, among the richest in the world, including Switzerland, Austria and Luxembourg, in part due to the highly facilitated movement of trade across European borders.

Applying lessons from one environment to another is rarely straightforward. In the case of the West Bank, it may be argued that Israel is a developed country, generally meaning more efficient procedures than LLDCs, and as such much different from the majority of transit countries used by other LLDCs. Only a few LLDCs transit through a developed country, among them Macedonia and Kosovo. Most LLDCs are situated at long distances from the ocean, often more than 1,000 kilometers, meaning that transportation is a major factor adding to trade logistics costs, but this is not the case of the West Bank.

No transit country faces the security concerns that Israel does, which impacts the ease of travel it allows through its territory. Still, Israel, in contrast to most transit countries, should have a special interest in helping improve the economy of the West Bank, making it a more stable neighbor, thus improving Israel's security.

The West Bank, in turn, differs from most LLDCs in important ways[7]. It is located just a few kilometers from Israel's ports, its labor force has a high literacy rate, and business people are familiar with overseas markets[8]. At the same time, regarding trade and transport logistics the West Bank has to contend with many issues common to LLDCs. The fact that the LLDCs are located in different continents, with different geography, economy, political perspectives and history, offers a broad window from where to extract lessons of value to the West Bank.

This paper is organized as follows. Following a section on the West Bank-Gaza economy and trade, the paper focuses on the following topics: (i) *the landlocked country's dependence on a transit country*, because any LLDC is forced to go through a transit country for its overseas trade, and because sometimes the transit country has economic or political reasons to introduce obstacles to the passage of the LLDC goods, or use its leverage in other ways; (ii*) the cost of being landlocked*, because research is clear that being landlocked imposes extra costs to trading that the maritime country does not face, and provides a useful analysis of the ways to reduce costs; (iii) *international trade and transport corridors*, that is, the transport infrastructure and the documentation required of the landlocked country's freight to cross international borders and reach a sea port, and the transport corridors observatories that provide insights into the management and operations of the corridor; (iv) *customs unions*, because the Paris Protocol that regulates trade issues between Israel and the Palestinian Authority area, includes a Customs Union, that is, a free trade area with a common external tariff, and there are relevant experiences

[7] The West Bank is a territory, the LLDCs are countries. Under the "two- state solution" the West Bank would be part of the Palestinian State and would no longer be landlocked, as it would have direct access to Gaza's seacoast.
[8] US Dept of State, 2014.

on this topic; (v) *trade logistics performance*, because measuring performance, and understanding the factors that influence it, can help identify remedial actions.

The final section of the paper presents recommendations prepared by three recent studies aiming to improve the West Bank's trade and transport, and briefly reviews the overlaps among them and with findings about LLDCs described in earlier sections of the paper.

Trade logistic issues are normally more complicated for imports than for exports, because the former involves custom duties and other taxes that need to be defined, charged and properly accounted. This is also the case of the West Bank, with the additional security check required regarding the nature of the imported products[9]. Yet, this paper has a bias towards exports, and discusses them in more detail, because of the importance for the West Bank's economy to increase exports.

This paper excludes Gaza and Palestinian Jerusalem, because both have specific circumstances that would make it difficult to apply lessons from LLDCs. Gaza's access, in and out, is severely restricted by Israel and Palestinian Jerusalem access is a reflection of access issues for the West Bank or Gaza. An exception to the focus solely on the West Bank is this paper's section on the economy, because key economic statistics are only available for West Bank and Gaza together[10].

2. West Bank and Gaza Economy and Trade[11]

Economy

With a per capita income of US$2,867 in 2015[12], the economy of West Bank and Gaza is classified as lower middle-income.

The Palestinian economy has slowed down in recent years. Following several years of high growth, including a peak of 12% growth in 2011, it declined by 2.5% from 2013 to 2014. The growth and subsequent drop were due mainly to changes in the level of external budget support from 22% of GDP in 2007-2009 to some 8% of GDP in 2011-2014. At the same time, the fiscal stimulus resulting from large budget deficits fell drastically, as the deficits were cut from 22% of GDP in 2007-09 to 13% in 2013.

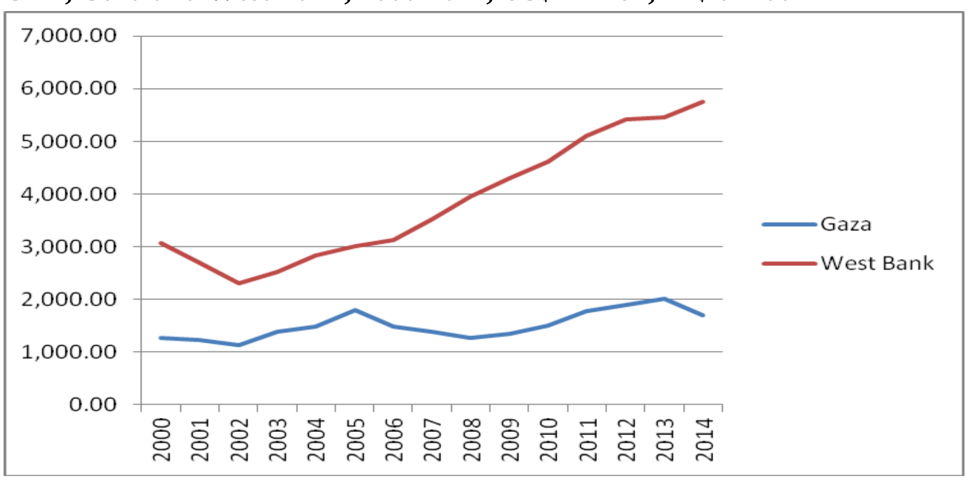
[9] Of the several lists of goods restricted by Israel for import into the PA, the "Dual-Use"[civilian and military] list is the most extensive one. The Dual-Use Goods (DUGs) list was first created in 2008, and has since been updated to contain products deemed a security threat by Israeli authorities (Peres Center, 2015).
[10] "West Bank and Gaza" is the terminology used by the World Bank and the International Monetary Fund. Data on the economy and trade is for the whole area, data covering solely the West Bank is not publicly available
[11] This section relies largely on Nashashibi et al, 2015. See note in the Introduction section regarding the terminology used for the area and data availability.
[12] World Bank, Atlas method.

In 2014 the Palestinian economy entered a recession, following a contraction of the Gaza economy by nearly 15% as a result of the July-August 2014 conflict. In contrast, the West Bank economy grew by 4.5% in 2014, driven primarily by new building construction. Negative growth in Gaza had a severe effect on unemployment, causing it to go up to 43%, with youth unemployment estimated at a staggering 60%. Overall unemployment in the West Bank and Gaza increased in 2014 to 27%.[13] In 2016, unemployment had remained at 27%, despite Israel's Government efforts to increase the number of work permits to Palestinians.[14]

Overall, from about 2005 there has been a substantial difference between the performance of the West Bank and the Gaza economies, with the latter suffering during the wars with Israel in 2008/2009, 2012 and 2014.

Palestine's GDP per capita was similar to regional comparators Jordan and Egypt until about 1999, when its growth rate started to slow. By 2014 the Palestinian GDP per capita had become much smaller than Jordan's, and somewhat smaller than Egypt's.

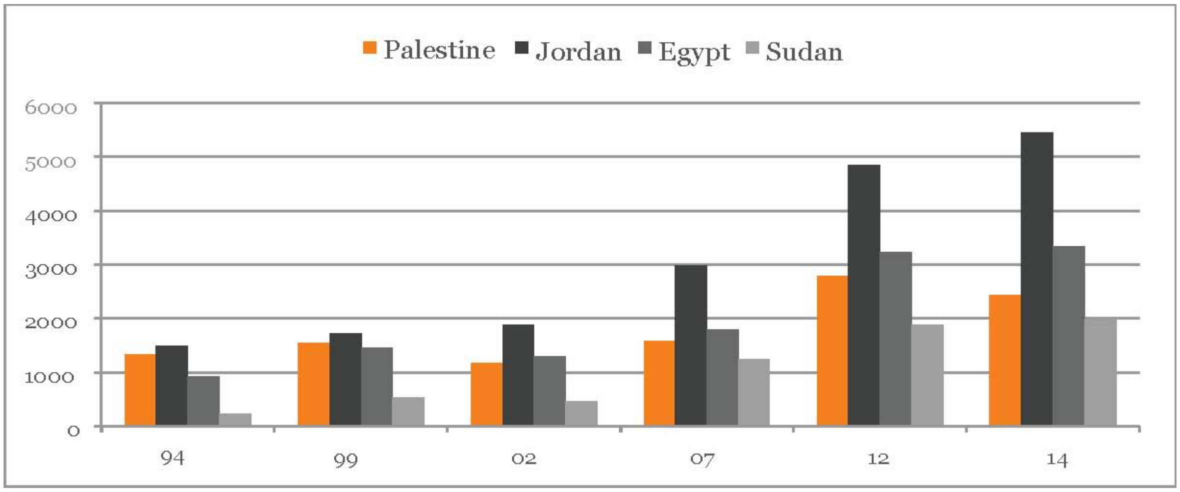
GDP, Gaza and West Bank, 2000-2014, US$ million, in $ of 2004



Source: Palestinian Central Bureau of Statistics

[13] World Bank,website, 2015.West Bank and Gaza, Overview (Context), updated Sept 30, 2015, and World Bank 2014b.
[14] World Bank, 2016.

Palestinian GDP per Capita, Regional Comparison, 1994-2014. US$



Source: Nashashibi et al. 2015

Business Environment

According to the World Bank[15], the current economic decline of the West Bank-Gaza could be reversed in an environment where sustainable, private sector-led growth is fostered, coupled with a commitment of on-going financial support from the international community. A dynamic private sector can generate the sustainable growth needed. However, restrictions put in place by the Government of Israel continue to stand in the way of potential private investment. Access to Gaza remains highly controlled, and much of Area C, which makes up 60% of the West Bank's area, is inaccessible to Palestinians.

In the ease of doing business, the West Bank and Gaza is rated 129, out of 189 world economies.[16] Its best areas are paying taxes and getting electricity (ranked 56 and 75), while its worst areas are resolving insolvency, starting a business, and dealing with construction permits (ranked 189, 170 and 162, respectively). This means that the West Bank and Gaza have much to improve to become friendly to business and attract investments. It should be noted that this ranking does not differentiate between the West Bank and Gaza, and it is likely that the West Bank performs substantially better than Gaza.

Trade

Trade imbalance, imports greater than exports, has been a constant in the Palestinian economy. The imbalance has widened over the years, with imports growing faster than exports. Goods account for the majority of trade, with services being a small fraction and growing slowly.

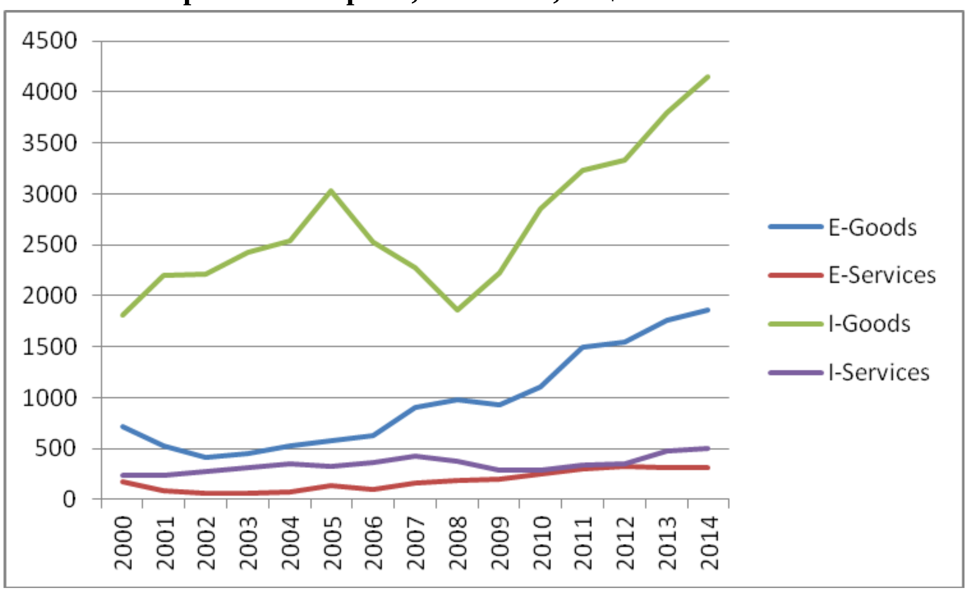
[15] World Bank website, April 1, 2016.
[16] http://www.doingbusiness.org/rankings.

The weak performance of Palestinian exports hurts the Palestinian economy. Exports of goods and services contribute only 17 percent of GDP, less than half of the corresponding share of GDP in neighboring Jordan. This already small portion of GDP, moreover, is reduced to less than 3 percent if exports to Israel are subtracted.[17]

Most Palestinian trade is with Israel, which is the destination of 87% of Palestinian exports. The next largest export market (9%) is the Greater Arab Free Trade Area (GAFTA).

Exports that rely mostly on raw local production (i.e. agriculture and stone) and less on processed imports tend to go less to Israel and more to destinations abroad than other sectors. This can be attributed to the fact that Israel has similar natural resources to those of the West Bank and Gaza. Marble and stone are exported to Israel in substantial amounts, largely because of the great demand for stone that is mainly mined in Hebron.

Palestinian Exports and Imports, 2000-2014, US$



Source: Palestinian Central Statistical Bureau (E=exports, I=imports)

The largest Palestinian companies are in the processed food sector, even though these companies use imported inputs that could make them less competitive. Additionally, most of their exports are destined for Israel. Mostly, these companies have been long established and have been able to develop efficient supply chains over time.[18]

[17] Office of the Quartet, 2015
[18] Peres Center for Peace/CORE Associates, 2015

Palestinian Overseas Export Products and Main Destinations[19]

Product	Destination
-Olive oil	Gulf countries, Europe, US, East Asia
-Vegetables, herbs, -Fruits -Fresh/Chilled Fruits	US, Turkey, Norway, Holland, UK
-Monumental Stones and Marbles	Italy, China
-Sausages and similar products	Germany, UK, Turkey
-Medicaments	Germany, Chile
-Footwear	Germany, Czech Republic
Portland cement	Germany, China, Turkey
Preparations for Animal Feeding	US, China, Holland
Wheat/Meslin Flour	France, Turkey

Source: PALTRADE/PSC/EU 2013

Potential for Trade Diversification

A recent report[20] identifies two main barriers to the diversification of Palestinian trade in general, and in particular the growth of Palestinian trade with GAFTA.

*Physical barrier: King Hussein Bridge (KHB, also called the Allenby Bridge)***.** Most of the GAFTA trade destinations are to the east of the West Bank (and Gaza) and can be reached more easily through Jordanian than through Israeli ports. In principle, the Jordanian route for Palestinian exports should offer reduced transaction costs, since goods do not have to go through the commercial crossings into Israel and face fewer security restrictions. Jordan is an important market for Palestinian exports and is also a gateway for Palestinian exports to other external markets. However, in order to reach Jordanian markets and port, Palestinian goods must pass through Israeli security at the King Hussein Bridge.

*Regulatory Barrier: Effect of Israeli trade policy on PA-GAFTA trade***.** The framework of the Customs Envelope (created by the Paris Protocol in 1995) applies Israel's trade regime to all of Palestinian trade with few exceptions. These exceptions, also called Lists A1/A2, were included in the Paris Protocol in order to allow the PA the import of basic market needs from Jordan, Egypt and other Arab and Islamic states under Palestinian customs tariffs and Palestinian standards, and serve as a first stepping stone in a progressive process of creation of an

[19] Paltrade/PSC/European Union, 2013.
[20] Peres Center, 2015.

independent Palestinian tariff book. Over the years, the efficacy of the A1/A2 lists arrangement has declined significantly for various reasons.

Routes and Logistics to Ports and Airports

A simplified view of the routes via Israel and via Jordan and the logistics steps is presented in the table below. Changes may have occurred, though, since 2013.

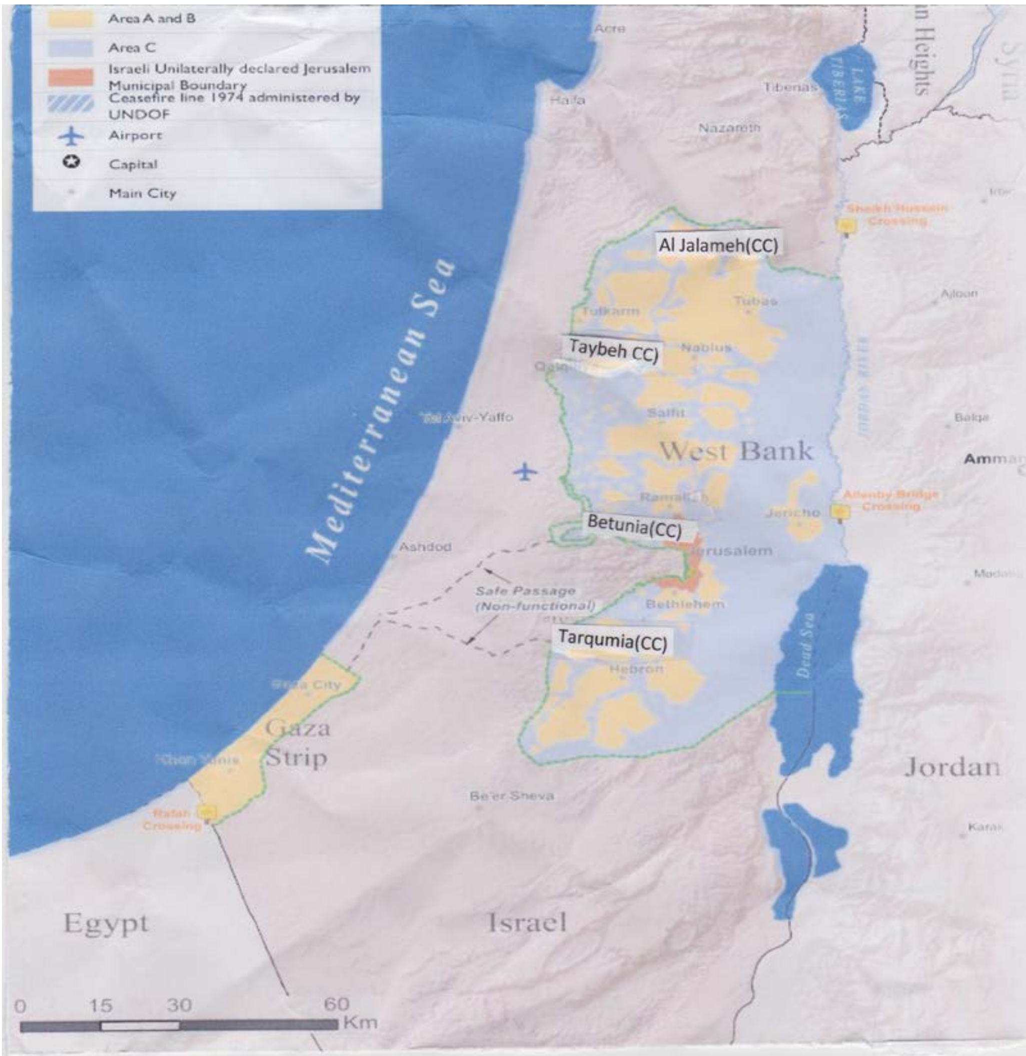
Logistics Steps for Exports Via Israel and Via Jordan

Via Israel	**Warehouse to Ashdod/Haifa Port or Ben Gurion Airport**		*Via Jordan*	*Warehouse to KHB, Aqaba Port, or Queen Alia International Airport (QAIA)*
EXPORTER WAREHOUSE	-Transport goods to nearest CC -Ensure pallets/containers comply CC requirements -Products accompanied by all necessary documents		***EXPORTER WAREHOUSE***	*-Packing list and invoice sent to Israeli customs agent one day before -Transport goods to KHB -Use Palestinian trucks -Coordinate with Jordanian trucks*
COMMERCIAL CROSSING	-Betunia, Taybeh, Tarqumia,or Jalameh -Perform all required steps (administrative, security) to transfer product to port/airport -Ensure Israeli trucks ready to collect products		*ALLENBY BRIDGE*	*-Goods transferred to Jordanian trucks through back-to-back system -Lighter Israeli security checks (relative to exports via Israel) on exported products -Israeli customs agent pays crossing and loading/unloading fees and ensures documentation is complete*
ISRAELI PORT/ AIRPORT	-Collect products from CC by truck and transporting to airport/port -Deliver products to export bonded area for storage (if in containers) or stuffing into containers -Perform port/airport procedures, storage, security check, transporting to ship		*KING HUSSEIN BRIDGE*	*-Goods arrive to the Jordanian side (bonded area) -Jordanian customs agent performs customs requirements/organized further movements to port/airport -Some special goods need accompanied by Jordanian customs -Transfer goods to port/airport*
SHIP	-Containers placed on ship		*AQABA PORT/ AIRPORT*	*-Cargo goods can be booked on passenger or cargo planes (unlike Israeli route option) -Needed documentation prepared prior to loading on plane -Goods to Aqaba need go to ALV for storage, packing, loading into containers -Goods shipped to final destination*

Source: Paltrade/PSC/European Union, 2013

West Bank exports and imports are subject to the back-to-back system that Israel has put in place. At the CCs, all cargo, with very few exceptions, whether carried in containers, pallets or boxes, is required to be unloaded from the Palestinian truck or taken out of the container, to be inspected by Israeli officials. The export cargo is then reloaded onto an Israeli truck (or a Jordanian truck when crossing into Jordan) waiting at the CC. A reverse procedure applies to West Bank imports.

Commercial Crossings (CC) Israel-West Bank



Source: UN/OCHA Maps

3. Dependence of the Landlocked Country on the Transit Country[21]

The need to go through a transit country to reach a sea port for overseas trade, or an airport for people and valuable freight to reach international destinations, creates a dependence, in transport and trade, for a landlocked country or territory vis-à-vis the transit country. The West Bank is in this situation.

[21] Main source: Arvis et al, 2011

Defining the dependence

The landlocked country depends on the transit country, at the highest level, on the latter's political and economic views regarding its relation with the landlocked country moving freight through its territory. Operationally, this is reflected in the two dimensions of the trade: the physical movement of the freight through a transport service, and the controls that are regular when crossing borders (customs, sanitary, security). International and bilateral treaties regulate the transit traffic. Yet, in practice, it is up to the transit country to implement the terms of such agreements. How well it implements the agreements is a function not only of politics and economics, but also of the transit country's capacity and efficiency to carry out the necessary function. Things as simple as the transit country's not keeping regular hours for border crossing procedures can greatly hamper the landlocked country's trade.

Traditionally, transport constraints were considered to be the main the problem facing landlocked developing countries' trade, particularly because the majority of those countries are situated at long distances from the sea. Thus, the dependence was seen in relation to the physical obstacles to the movement of people and cargo. Recently attention has turned to the soft-side of trade facilitation. There have been specific programs to help LLDCs tackle and improve this area of trade. The first such activity was a program known as Trade and Transport Facilitation in Southeast Europe, under which the World Bank, the European Union and other donors supported customs modernization and related reforms in eight Balkan countries during 2000-2004. Similar programs were later undertaken in other regions.

Landlocked countries that have routes to the ocean through various countries are less dependent on one or two of their neighbors, but few landlocked countries have such flexibility. Dependence is compounded because most LLDCs are poor and produce low volumes of tradable products, which are no incentive for the transit countries to expedite road transport or port operations.

The leverage of the transit country opens the opportunity for rent behavior, that is, bribes and other informal charges, which the landlocked country's shippers cannot avoid unless they have alternative routes that are less subject to that behavior.

The United Nations 1982 Convention on the Law of the Sea provided landlocked states with the right of access to and from the seas and freedom of transit. However, the law makes such rights subject to the agreements to be made by landlocked and transit states. This, in turn, depends on the prevailing relations between the concerned states. If they are not on good terms, the transit states may not be willing to negotiate, thus hindering the landlocked states' right to free transit. The denial of free transit, in turn, affects the rights of landlocked states on the different maritime regimes. Landlocked states have no absolute right of access to and from the seas and freedom of transit. Hence, to give practical effect to those rights, negotiating bilateral and multilateral agreements with the transit states has a crucial and irreplaceable role.[22]

Experience of the LLDCs

There are abundant cases where implementation of agreements is disturbed by the transit country because of a variety of reasons. A strike by Chilean customs officials in 2013 blocked international land transport, causing a queue of trucks 20 km long in Bolivia, for example[23]. Ghana provides Burkina Faso a shorter distance to an ocean port than other neighbors, but because of differences in language and road conditions, most of Burkina's international freight moves through Cote d'Ivoire. A study noted that while LLDCs consider their free access to the nearest seaport through a transit country as a natural right, the transit countries often bargain with them from a position of strength. The study claims that India used the transit issue as a political leverage in dealing with landlocked Nepal[24] while at the same time it states that Nepal failed to address India's security concerns. Sometimes, international trade rivalry between landlocked and coastal countries motivates the transit country to make it difficult for the landlocked country's freight to move with ease. Such rivalry happens in many places in Africa, where transit and landlocked country produce and export the same agricultural products.

Central Asian countries (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan) face common security challenges from crime, corruption, terrorism, and faltering commitments to economic and democratic reforms. These issues gravely impact movement of trade and people, as border controls become stricter, or just more difficult. These countries have had many disputes regarding borders. Besides border claims, other problems revolve around whether borders are open or closed. Open borders within the Central Asian states after the breakup of the Soviet Union were widely viewed as fostering trafficking in drugs and contraband and free migration, so border controls have been tightened in all these states. Security issues often lead to an increase in the number of checkpoints. [25]

Countries with high volumes of export commodities, such as Zambia's production of copper, enjoy leverage vis-a-vis the transit country, which is interested in the revenues to its services resulting from the transport and handling of those commodities.

Many countries follow trade policies, especially regarding exports, aimed at reducing dependence on specific markets, to avoid potential fall in demand, or changes in currency values that may become more unfavorable to the exporters. Many LLDCs often seek to reduce

[22] UK essays, 2015.
[23] The Economist, May 9, 2015.
[21] Nihar R. Nayak, 2016.
[25] Jim Nichol, 2010.

dependence on one specific market as well as one specific transit country and instead diversify their options.

There are significant regional differences in the trade patterns. Landlocked countries of Central Asia and Southeastern Europe trade mainly within their regions, mainly via land transport. In contrast, African LLDCs trade mainly with Europe and the United States. As a result, such countries are completely dependent on accessing an ocean port for most of their trade, an exception being the high-value products such as highly perishable fresh fruits and flowers that can be shipped by air[26].

The West Bank

The West Bank's overseas trade is highly dependent on Israel in two ways. First, as a transit country with convenient sea ports, especially Ashdod. West Bank's trade via Israel is subject to Israel's security checks, customs inspections, and meeting sanitary and other standards. Second, when the West Bank trade transits via Jordan, whether via its international airport or its maritime port at Aqaba, the trucks carrying the West Bank freight need to cross the Jordan border at the KH Bridge. This crossing is subject to Israel's security controls, a substantial inconvenience.

The West Bank economy, more broadly, is dependent in other ways on Israel. For example, Israel uses border crossing restrictions and freezing of the customs revenues which it collects regularly on behalf of the Palestinian Authority as punishment for violence or Palestinian initiatives with which it disagrees[27].

On the other hand, the West Bank's exports are too small in volume and value to be attractive for Israel's ports and land transport systems and hence to warrant any special attention in the logistics chain. Fresh produce shipments that could reach European markets by air from Ben Gurion airport are too small to justify transport in cargo planes, and cannot be shipped as freight in passenger planes due to Israel's security restrictions.

Also, the terms of the Paris Protocol make it difficult for the West Bank to diversify its import and export markets. More details of this dependence are explored in the section on customs union and in other sections of this paper.

4. The Cost of Being Landlocked[28]

The West Bank and Gaza, do not have direct access to a sea port. Having to transit through a neighboring, coastal country to reach maritime transport imposes high costs on their trade.

[26] OECD/WTO, 2010.
[27] A. Rasgon, 2015.
[28] A major study (Arvis et al,2010) analyzed in detail the cost, and other consequences, of being landlocked. This section is based substantially on the analysis and conclusions of that study.

Background

The previous section discussed the problems of dependence of the landlocked vis-à-vis the coastal country, and noted that trade logistics is now seen as bigger obstacle than transport constraints and distance from a landlocked country to a sea port. This section focuses on the cost implications of such dependence.

In most cases, both landlocked and transit country have complicated trade procedures that greatly hamper the landlocked country's potential for reaching overseas markets. This means that when an LLDC export crosses the border into the transit country, the time required for an overseas export to be loaded aboard a ship is long and the cost high. A study of the group of Least Developed Countries, to which 16 of the LLDCs belong, found that, when compared to other LDCs countries, the landlocked LDCs paid on average 43% more to export and 54% more to import[29].

Landlocked countries trade less and experience slower trade growth than coastal countries. Sometimes, the coastal country has protective policies that in practice aim at complicating trade to or from its LLDC neighbor, resulting in an increase in the latter's trade costs. Landlocked countries have traditionally had higher trade costs than the coastal countries and the difference has grown over the last decade. As pointed out in the OECD/WTO[30] report, in the case of the Least Developed Countries the cost of shipping a 20-ft container in 2005 was 96% higher for a landlocked than for a coastal LDC. By 2014, the cost difference had increased to 168%. While coastal countries managed to have only a 7% increase in costs during the period, landlocked countries costs increased 46%.[31]

The Arvis 2010 study demonstrates that transit logistics are complex, involve many public and private participants, and require efficient procedures and responsibilities. Export/import performance is determined by a wide range of policies, implementation mechanisms, and the organization of services, which are usually prone to rent seeking and capture, especially in an environment where traded volumes are small.

That study notes that for an effective transit regime, the physical movement of goods must be backed by relevant financial and documentary flows. Very often there are gaps and inefficiencies in the LLDCs in some of the key areas, such as:

---

[29] OECD/WTO, 2015. This report quoted findings in Busse, M., R. Hoekstra, and J. Königer (2011), "The Impact of Aid for Trade Facilitation on the Costs of Trading", Ruhr-University of Bochum.
[30] OECD/WTO, 2015.
[31] The most likely explanation for the cost differential is that LLDC's export quantities are smaller than the transit country's, and miss out on economies of scale. However, it is also possible that the transit country levied fees taking advantage of its monopoly power.

- Provision of a guarantee by the consignee (or its agent). This would be done through a bond or other financial instrument to the transit country's customs to cover the risks of cargo disappearance in the transit country.
- Use of secured vessels (containers), appropriately sealed, checked at the entry port.
- Appropriate customs documentation and information systems.

Experience of the LLDCs

Most LLDC are situated at a fairly long distance from the closest ocean port. The corridors of the LLDCs in Asia have, on average, distances to the ocean port of over 2,000 kilometers, and in Africa and Latin America over 1,000 kilometers. It is only the LLDC corridors in Eastern Europe that have a shorter distance. In consequence, given the long distances involved, often combined with monopolistic or otherwise inefficient trucking services, for the majority of LLDCs the cost of overland transport of goods to and from a sea port is the most significant component of the trade and transport logistics cost between source and destination.

LLDC International Transport Corridors: Distance to Ocean Ports

Region	Number of corridors considered	Average distance to most used ocean port (kms)
Africa	20	1,340
South and Central Asia	11	2,633
East Asia	5	2,460
Eastern Europe	2	555
Latin America	5	1,872

Source: Arvis et al, 2010

There are also significant differences among regions in the operational efficiency of crossing borders. In Sub-Saharan Africa the median time for moving an imported shipment from the transit port to the destination in the landlocked country is almost seven days longer than the median time for an export shipment to make the reverse trip. In South Asia the difference is eight days (table below). There is often a large variation in the time a shipment takes to clear customs. Statistics on containers passing through the port of Mombasa (Kenya) en route inland to Uganda and Rwanda show that, although the median is about 11 days, one container in 20 takes more than a month. The large time variance for import containers in clearing customs impacts trucking costs, since it makes it difficult for truckers to plan round-trip loads.[32]

[32] Arvis et al, 2011

Days to/from port for export/import, landlocked and coastal, SS Africa - South Asia

			Sub-Saharan Africa		**South Asia**	
Lead time			Landlocked	Coastal	Landlocked	Coastal
Export	**shipper –> port**	median	11.8	6.2	6.5	2.5
Import	**port –> consignee**	median	18.4	9.3	14.7	3.3
Import	**port –> consignee**	best 10%	9.1	5.0	11.0	2.5

Source: Arvis et al, 2010

The Arvis 2010 document, based on the analysis of several trade and transport facilitation projects funded by the World Bank, assesses the reasons for delays of imports to reach their final destination (some of the reasons also apply to exports' time to reach the port of loading), as follows:

- The most important source of delay is initiating transit in ports, which typically takes as much time as the final clearance for domestic goods.
- The second major source of delay is final clearance at destination.
- Border delays can also be a cause for concern, particularly at major regional border crossings. In Central Asia, trucks can face a delay of up to three days at the Uzbek-Turkmenistan border. Delays are due to (1) congestion created by hauliers' schedules, and inadequate and uncoordinated working hours in the various administrative offices; and (2) slow processing and duplication of tasks between the two border countries.
- Other sources of delay include (1) mandatory freight procedures such as allocation decided by freight bureaus, or choice of transport authorized by transporter administration; (2) controls en route, including axle load controls (trucks were usually kept waiting for hours at several weigh bridges in the northern corridor between Mombasa and Nairobi in 2004, but the situation has improved since, partly due to extended capacity); (3) condition of the infrastructure; (4) trans-shipment at multimodal facilities or at the border (when trucks cannot go through and the merchandise needs to be unloaded to a vehicle of another nationality, a practice common in Asia); and (5) customs convoy requirements that, besides slowing traffic, can lead to days of delay in transit, especially if convoys are not available daily or are slowed by defective vehicles.

Recent studies[33] show that trade and transport costs borne by LLDCs now depend more on operations than on infrastructure capacity. The main factor is the fragmentation of the supply chain. Few traders in LLDCs have access to the door-to-door logistics infrastructure that has developed in industrialized countries over the past two decades.

LLDC exports normally are simpler and less costly and time consuming than imports, to a large extent because exports are not subject to customs, valued added or other taxes that affect imports. Registering and recording such taxes require tracking the type and value of the imports, at the transit country's port of entry, then at the landlocked entry, and to be able to match such numbers. On the other hand, some exports, such as fruits and vegetables and other perishable products, are highly sensitive to crossing-border delays, which can lead to substantial value losses.

Two types of costs, in addition to transport and trade logistics costs often have a major impact in raising the trade costs for landlocked countries. One is the predictability and reliability of the times involved in crossing borders. Delays and poor reliability and predictability of services lead to higher total logistics costs through increased inventories. Exporters in many LLDC often have to consider the trade-off between trade and transport logistics cost and reliability, sometimes selecting the most expensive trade route because it is more reliable. Due to uncertainty, companies need to maintain high inventories to avoid shortages of raw materials or intermediate products. A study cited by Arvis showed that for maritime transport, a standard deviation of 20 percent in transport time increases transport costs by nearly 45 percent.

The WTO's DTIS data provides relevant examples of this type of cost (OECD/WTO, 2015). Unpredictable delivery times prevent Malawi producers from competing in regional and international markets. Burundi faces customs delays and high costs in the ports of Dar es Salaam (Tanzania) and Mombasa (Kenya), through which Burundi trades, leading to transport and logistics costs that, according to some estimates, reach approximately 40% of export prices of agricultural products in Burundi.

Exporters tend to optimize their supply chain according to the trade-off between cost and reliability. Malawi, which is a small landlocked economy, provides a good example. It mainly exports tobacco, sugar, tea, cotton, and garments. The country is served by four corridors to the sea, each with advantages and disadvantages, attracting different traders depending on their requirements and on transport prices.

[33] World Bank,2014.

European and American importers value predictability, especially of fruits and vegetables. Unreliable delivery times of exports to the transit country's seaports carries a cost, since containers have to be booked in advance on a specific ship, and since the exporter can't predict the transit time reliably, he has to plan for some idle time in the port. Uncertainty afflicting imports (e.g. availability of pallets, containers and trucks) may have a knock-on effect on the exporters' ability to stick to the scheduled shipping out of exports. Keeping a larger-than-necessary inventory of pallets/containers/trucks and the storage space they take up will add to their costs. Exports to the US bear the additional burden of having to be received in the transit seaport at least 24 hours before the ship's departure, so that the US Customs can give it the required green light.

Trade for LLDCs is also impacted by the rents and inefficiencies during the transit process. Shippers usually suffer from massive overheads resulting from corruption, overregulation, and private inefficiencies.

The West Bank

The West Bank's overseas exports and imports are most conveniently served by Israel's ports. The distance to those ports is small. The distance from Ramallah to the port of Ashdod is just 50 kilometers, for example. West Bank cargos can also use the Jordanian port of Aqaba, although the distance is considerably longer, some 400 km from Ramallah. Still, in both cases, whether Israel's or Jordan's outlets, the issue is, rather, complicated procedures and rules for a West Bank export cargo to cross the border, arrive at a port, and be loaded onto a ship. Or, for an import cargo, carry out the reverse route.

On the other hand, as it happens with many landlocked countries, the majority of the West Bank foreign trade is with its neighbor, Israel, rather than with overseas markets.

A major difference between the West Bank and most landlocked developing countries is that for a West Bank cargo to reach a sea port it transits through a country with an advanced economy, Israel, rather than another LLDC, and with better logistics performance. This should, in theory, result in less complicated and cheaper trade logistics than other LLDCs. In practice, though, West Bank trade, whether via Israel or Jordan, suffers from similar issues to those that affect other LLDCs, although its route alternatives are more limited.

West Bank exporters do not have the choices that traders in LLDCs have to optimize trade and transport logistics costs when dealing with time-sensitive exports. The decision rests more on the final cost of maritime transport for the destination of the export, for example, United States or Asia, than the cost and reliability of the Aqaba route compared to Ashdod (or Haifa). The time and cost of exporting building stones to Shanghai is substantially cheaper and faster via Aqaba[34] than Israel, while the converse is true for exports to the United States[35].

Trade costs for the West Bank are raised by Israel's security requirements that apply to all cargo moving between Israel and the West Bank. This includes, significantly, the "back-to-back system" (described in Section 2), which negates the cost advantages of moving unitized cargo, since in practice only a small amount of cargo is containerized when crossing the border.

Any improvement in trade costs for West Bank goods crossing the border has a positive impact on its economy. In turn, a growing West Bank economy also benefits the Israeli economy, since there would be increased business by the Israeli ports, by Israeli trucking companies, and by Israeli operators throughout the logistics chain. This would thus be a win-win situation for both the landlocked and the transit country, and should be an important incentive for Israel to do as much as possible to facilitate and reduce the cost of the West Bank's exports and imports.

Information available on the trade logistics cost (and time) of West Bank freight crossing Israel's borders lacks details on predictability and reliability, especially of the times involved in border crossing procedures. In fact, data available from surveys depict a situation when everything goes as well as possible, with no indication of the range of time variation[36]. The reality is that there may be significant variances from such numbers, due, for example, to an unexpected change in the working hours of the border customs offices, more detailed inspections than is generally the norm, and other operational factors. Collecting good data on predictability and reliability would be useful to help identify priority areas for improvements in crossing this border.

Reducing the cost and time of crossing West Bank borders into Israel and Jordan could be greatly improved through the use of technology, such as the use of scanners to check the cargo inside a container. Israel has installed scanners in some commercial crossings, and extending this to other crossings could have important benefits for West Bank trade, as well as for Israel security.

5. International Trade and Transport Corridors, Border Crossings, Observatories

The experience of LLDCs' international trade and transport corridors, border crossings and monitoring operations via observatories should be of interest to West Bank trade, especially regarding availability of information to trade logistics stakeholders, even if its routes are simpler than most LLDCs.

Background

[34] King Hussein Bridge.
[35] PALTRADE/PSC/EU,2013.
[36] PALTRADE/PSC/EU,2013.

A Trade and Transport Corridor (TTC) can be defined as “a coordinated bundle of transport and logistics infrastructure and services that facilitates trade and transport flows between major centers of economic activity”.[37]

Trade corridors connect one or more adjoining countries, connect countries separated by one or more transit countries or provide access to the sea for landlocked countries (for example, the corridors connecting landlocked Bolivia to the Pacific *via* Chile and Peru and the corridor connecting Nepal to the Bay of Bengal and the Arabian Sea). Although some corridors have a single mode or route (for example, CANAMEX corridor), most have multiple modes and routes. Some corridors are relatively short in length and defined by principal gateways (for example, the Maputo Corridor connecting Maputo port to the industrial areas around Witbank in eastern South Africa). Other corridors are defined by the region they serve (for example, the West Bengal corridor connecting Kolkata and Haldia ports with Eastern India, Bangladesh, Bhutan, and Nepal). Still others are part of a set of corridors serving a larger region (for example, the Trans-European Networks, TEN, in EU).[38]

Corridor performance depends on a combination of factors involving public and private entities (logistics operators, control and enforcement agencies) and *hard* and *soft* aspects (transport infrastructure and facilities, legal and regulatory environment, procedures and practices). Crossing international borders often is a major source of delays and of trade costs along the corridor.

Some corridors have created observatories as a way to better understand the issues affecting the operational performance of the corridor. A Corridor Transport Observatory (CTO) is primarily an analytical tool that analyzes corridor performance in its multiple dimensions. It can be developed as a permanent mechanism anchored to corridor management institutions or specialized agencies of regional/ national institutions for regular monitoring of corridor performance – a dashboard for corridor management institutions in which red flags can trigger additional investigation and remedial action; or as an *ad-hoc* expanded diagnosis of selected aspects of corridor performance.

[37] World Bank,2013.
[38] John Arnold, 2006.

Experience of the LLDCs[39]

Transport corridor organizations and observatories are in place in Africa, Latin America and other continents.

One successful corridor organization is the Maputo Corridor. It links the east coast port of Maputo in Mozambique with the highly industrialized and productive regions of the Gauteng province in South Africa. This corridor includes road and rail services, a border post (Lebombo/Rossano Garcia) and the Port of Maputo. Short by African corridor standards, the Maputo corridor is 590 kilometers from the port to Johannesburg by road, and 581 kilometers by rail, but it is increasingly strategic because it provides the shortest route to a port for South African exporters on the corridor. This corridor handles a variety of commodities including coal, timber, agricultural produce, granite, chrome, cement, containers, steel, magnetite, sugar, maize, gasoline, pulp, fertilizer and citrus. The Port of Maputo provides the shortest access to the Indian and Far Eastern markets and complements the South African regional port hubs in a multipurpose port of 15 terminals. It is an extremely busy trade corridor, despite its short distance. The corridor had a long-standing reputation of inefficient transport and trade logistics, including short border operating hours that resulted in severe congestion and delays, and increased costs to cargo owners. The establishment in 2004 of the Maputo Corridor Logistics Initiative (MCLI) by users, infrastructure investors, cargo owners and service providers successfully addressed the issues and removed trade barriers. MCLI is a non-profit membership organization and currently has 170 members from the three corridor countries of Mozambique, Swaziland and South Africa.

Border crossings are often a major source of delays for trucks that need to clear customs and complete other procedures. Several corridors have undertaken to convert the border posts on each side of the border into One-Stop Border Posts (OSBP) that are expected to cut the processing time of vehicles and freight traversing international borders, and to improve the governance that applies to border crossings. OSBPs are jointly operated by agencies of both countries.

In the last decade, several border posts on main trade corridors in Africa have been converted into OSBPs, and many more are earmarked for conversion over the coming years. However, results have rarely met expectations, as coordination between border agencies from different

---

[39] The UN General Assembly approved in 2014 the "Resolution on the Role of Transport and Transit Corridors in Ensuring Global Sustainable Development", the first UN resolution focusing on transport and trade corridors. The Resolution focuses on the role of transport and transit corridors and their contribution to the global sustainable development outlined in the UN's Post-2015 Development Agenda. Read more at: *http://www.modernghana.com/news/587645/1/un-adopts-first-ever-resolution-on-international-t.html*

countries is far from simple. Furthermore, in many cases border issues are perceived to be an infrastructure problem that is often believed solved by remodeling facilities.[40]

Measures adopted in Kenya and Uganda to improve the border crossing procedures prior to conversion to OSBP resulted in dramatic decrease in border crossing time. The measures targeted the three types of parties involved in border crossings:[41]

- Border management agencies, through advance preparation with pre-arrival filing of the customs declaration, and when the trucks have arrived, through coordination between appropriate agencies
- Clearing agents through mandatory pre-arrival filing of declarations (used to be optional and at the discretion of the agents, hence rarely used)
- Truck drivers through traffic and parking rules to decongest Customs

The measures built on the preparatory work for the creation of an OSBP: the culture and co-operation across border agencies (within and across countries), the legal framework allowing that cooperation, and the supporting IT infrastructure that allows documentation to be prepared before loaded trucks' arrival at the OBSP.

There are several examples of trucks from one side of the border not allowed to cross to the other side. Under the free trade agreement (NAFTA)[42] between the US and Mexico, Mexican trucks initially were not allowed to enter the USA. Reasons ranged from unsafe trucks to drugs transport. It took a few years until this issue was resolved and Mexican trucks were allowed to drive on US highways.[43] Compulsory loading and unloading of goods was typical at some border crossing points into and out of Uzbekistan, and other Central Asian countries.[44]

International trade of some large, landlocked countries suffers not only from the cost added by crossing international borders, but also by crossing internal borders, that increase the cost of transport companies. For example, freight forward companies in Kazakhstan reported (in the early 2000s) that any crossing of *oblast* borders in Kazakhstan required a payment between US$50 and 100 for any Kyrgyz truck in transit towards Russia.[45]

[40] Mike Fitzmaurice et al, 2013.
[41] Mike Fitzmaurice et al, 2013.
[42] NAFTA was signed by President George H.W. Bush, Mexican President Salinas, and Canadian Prime Minister Brian Mulroney in 1992. It was ratified by the US Congress in 1993 and signed into law by President Clinton.
[43] After pilots for several years, Mexican truckers in 2015 were finally allowed to drive on US highways, on condition to pass safety audits and undergo a 37-points vehicle inspection every 90 days for at least four years. (Source: *http://www.dallasnews.com/business/headlines/20150109-mexican-truckers-allowed-u.s.-trips.ece*).
[44] Mitra et al, 2007. Things may have changed since 2007.
[45] Raballand, 2003.

The corridor observatories have proven effective in collecting data from different sources to help corridor authorities as well as individual stakeholders analyze issues and identify solutions. The observatory of the Northern Corridor in Africa monitors indicators in four categories: volume and capacity, rates and costs, efficiency and productivity, and transport times and costs. The observatory tracks the indicators using raw data collected from the stakeholders in all the member states. A total of 30 indicators provide a good view of the performance of the corridor, and helps the corridor managers and stakeholders to address major operational issues. Major indicators track variables such as freight volumes at the port, degree of containerization, road freight charges in each of the member countries, number of check points (weighbridge, police, customs, road toll) per country per route, rate of fraud/damages for freight in transit, customs clearance times at the document processing centers, time taken at the Mombasa one-stop center for customs release, and transit time in different corridor sections.[46]

Several freight logistics observatories have been set up in different countries in Latin America. The observatory network supported by the Inter-American Development Bank (IDB) seeks to promote local capacity development and the sharing of experience between countries in the region (*http://logisticsportal.iadb.org/).*

The West Bank

The West Bank international routes via Israel and Jordan can be considered as simple corridors, because they have only one land transport mode –trucking-- to reach the ports or airports, the trade volumes are low, and the distance to the international outlets in both countries is short. In addition, no country beyond the landlocked and the transit countries, is involved in these corridors.

Despite the simplicity of its corridors, some of the issues encountered in international corridors and observatories are relevant to the West Bank, notably the hours of operation of border crossing and their regularity, customs clearing times and processing of documentation.

As noted earlier, operations of the West Bank corridors is complicated by the security measures which Israel imposes on West Bank freight entering and leaving Israel, including the back-to-back system. In addition to the cost of delays, products that are temperature-sensitive are subject to damage, because the areas where the loads are transferred to lack climate controls.[47] Beyond

---

[46] The observatory is available online at *http://northerncorridorobservatory.org/*

[47] PSC, 2012. This report is based on a survey of 30 companies in different economic sectors that provided inputs to help assess the impact of Israeli security procedures on Palestinian shippers at Ashdod and Haifa. The report notes that some of the biggest challenges facing Palestinian shippers are related to lengthy security procedures, the inability of shippers to reach the ports, the lack of Palestinian customs brokers, and insufficient information on the trade and security procedures at Israeli ports. The study identifies practical issues such as the hours where the border crossing operates, the delays in the process of transferring freight from a trucker one side of the border to a trucker on the other side, the problems of perishable products due to lack of cold facilities at the crossing, and the

the border controls, Israeli checkpoints inside the West Bank greatly complicate the movement of freight and people within the West Bank territory.[48]

As a result of the West Bank's international land routes being in simple corridors, the total number of stakeholders such as truckers, brokers, freight forwarders, is small. It would thus be inefficient to allocate resources to set up and maintain observatories for such corridors.

Yet, simpler ways to facilitate real time access to the operations of the corridors should be found. Each of the functions and operations of the corridors need to be fulfilled, as in the more complex corridors. Improved coordination and communication between the Palestinian and Israeli stakeholders involved in trade relations is needed in various areas.[49] Some experienced Palestinian traders manage to establish good communications with Israeli officials, which help facilitate the moving of exports across the borders. See box below.

The Experience of Established West Bank Exporters

Exporters who have been operating for several years have acquired enough experience that the export process is greatly facilitated. One such trader is Canaan Fair Trade, that exports Palestinian olive oil to the US, Europe and other regions. Points they have noted during preparation of this paper, that may be useful to less experienced exporters, are the following:

- Establish a good communications channel with officials involved in the export process to resolve potential issues or to be alerted to changes in the process, for example, in crossing centers' opening hours. This means that officials at entry and passage into Israel know the firm, and an established exporter is treated as the equivalent of a 'known trader', even if this system does not exist formally.
- Take advantage of a system, recently arranged by USAID, whereby a container is loaded at the exporter's factory, it is inspected and scanned at the commercial crossing, and continues with the same truck, if it is an Israeli one, to the port, or, it is transferred to an Israeli truck if the first truck is a Palestinian one.
- Send occasionally by air, rather than by maritime transport, small shipments of medium- to high-value products, such as olive oil.
- Exporters who sell products in the US would like to make sure that if the current Customs Union arrangement with Israel is changed into a Free Trade Agreement, which is being advocated in some studies, Palestinian exports would continue to benefit from the current trade status with the USA.
- Exporters go through a simpler process than importers, who need to go through a complicated customs clearance process involving Israeli and Palestinian authorities.

---

requirement to unload containers onto pallets. These issues represent significant restrictions to the export-import trade. Translating the restrictions into trade costs is not easily done.

[48] While there has been an easing of the barriers to movement within the West Bank in recent years, the system of internal movement restrictions continues to fragment the West Bank, largely on account of restrictions to movement in and across Area C. At the end of 2012, 60 Palestinian communities were still compelled to use detours that are two to five times longer than the direct route to the closest city (Niksic, Orhan et al, 2014).

[49] See, for example, Peres Center for Peace, 2015

6. Customs Union

The current trade regime between the West Bank-Gaza and Israel is a Customs Union.

Background

A *customs union* is a type of trade bloc composed of a free-trade area with a common external tariff. The participant countries set up common external trade policy. A Customs Union is one of several trade arrangement models.

Incentives for establishing a customs union normally include increasing economic efficiency and establishing closer political and cultural ties between the member countries.

A Customs Union between a sea country and its landlocked neighbor countries is a unique situation, which normally implies an agreement between the transit country and the landlocked countries, whereby import custom duties are collected by the transit country. In turn, the transit country transfers to the landlocked countries the revenue corresponding to the fee collected for the imports. Experience shows that this arrangement is almost always a source of conflict between the transit and the landlocked countries members of the Customs Union.

In addition, the objective of the Customs Union's external tariff policy may be different for a developed country and a developing country, given major differences in their economies. For example, the objective for one member country may be protection of local production, for another member it may be raising government revenues.

Experience of the LLDCs

The Southern African Customs Union (**SACU**) is by far the most interesting case of a trade agreement involving LLDCs. The SACU is a customs union among five countries of Southern Africa: South Africa (an coastal country) and Botswana, Lesotho, Namibia, and Swaziland (BLNS, landlocked countries).

The SACU is one of the oldest customs unions in the world. It is interesting for two reasons. First, it is a CU between a coastal country and landlocked countries. At the same time, while based on GDP per capita the Republic of South Africa is a developing country, it is a fairly efficient country as regards trade logistics, better than many advanced countries, including Israel (Section 7). There are few such CUs in the world, where the coastal country has trade logistics efficiency corresponding to that of an advanced country, while the landlocked country members have low trade logistics efficiency. Second, South Africa, the coastal country, collects the import tax corresponding to the BLNS.

A peculiarity of the SACU is a wide range in the GDP per capita of the various members, and the coastal country does not have the highest one:

SACU: GDP and Population

	GDP per capita (US$ thousand)	Population (million)
South Africa-the coastal country	6.4	55.0
BNLS-the landlocked countries:		
Botswana	7.1	2.2
Namibia	5.4	2.3
Lesotho	1.0	1.9
Swaziland	3.5	1.1

Sources: GDP, World Bank (2011-2014). Population, Wikipedia

Revenue distribution has been a longstanding issue between South Africa and the landlocked members of the CU. The revenue sharing formula is at the heart of SACU and determines how the inflow of money from all customs, excise and additional duties is distributed between the member states. The share accruing to each member state is calculated from three distinct components: customs, excise and development. It is a complex formula and the current version was first implemented in 2006 following difficult negotiations over a number of years.

There are significant differences among the economies of SACU, with South Africa dominant on all fronts. There are also differences in the objectives of the tax and other common charges, for example, between purely revenue collection for budget purposes and economic development strategies.

Trade relations between South Africa, Botswana, Lesotho, Namibia and Swaziland (BLNS) were democratized thanks to the new SACU agreement entered into force in 2004. The new Agreement led to the establishment of a Council of Ministers, in which decisions are made through consensus. A common external tariff was maintained under the agreement, which allowed for free trade within the SACU market.

Still, the SACU faces many challenges. These include declining revenue and the need to achieve inclusive economic growth that would reduce the high levels of unemployment in the region. There are aspects of the latest SACU Agreement that have yet to be fully implemented. Due to South Africa's large trade surplus with the BLNS, the customs component is linked with intra-SACU imports to compensate BLNS for the cost-raising and polarization disadvantages of being in a customs union with South Africa[50].

The SACU publishes annual reports that are available in its website.

Two points of the SACU experience may be of special relevance to the West Bank:

[50] Catherine Grant et al, 2011

- Amendment of SACU statutes. The Republic of South Africa, despite its position of power as the coastal country, agreed to modify the terms of the SACU statutes, with the purpose of better meeting the requirements of the landlocked countries, including review of the issue of the collection and distribution of revenues.

- Management and distribution of revenues. While revenues are collected by South Africa, their accounts and distribution are supervised by the SACU Council of Ministers, and no attempts are made by South Africa to withhold distribution of revenues when it disagrees with policies of an individual member of the SACU.

The West Bank

The current Customs Union between Israel and the Palestinian Authority covers the West Bank and Gaza. It was established by the Paris Protocol, signed in 1994 and incorporated in the Oslo II in 1995. Under the Protocol, Israel collects taxes on Palestinian overseas imports that enter through Israeli ports. Under the free-trade area standard in customs unions, Israeli and Palestinian exports within the customs union are exempted from tax. Israel is expected to distribute the tax it collects on Palestinian imports from overseas to the Palestinian Authority on a regular basis. It charges a 3% administrative fee for these transfers. Some Palestinian imports such as household items, for which the Palestinian Authority can issue its own tariffs, are excluded from the common external tariff, and are subject to tariffs set by the Palestinian Authority. The protocol, like the rest of the Oslo Accords, was meant to last for a five-year interim period, and sought to empower Palestine to take control of many aspects of its economy.[51]

In practice, the tax revenue transfers are not always made regularly. Israel often withholds and delays revenue transfers because of violence or other reasons. For example, in March 2015, after several months freezing the transfer of tax revenues, Israel resumed the transfer. Some US$500 million, accounting for about two thirds of the PA budget, had been withheld.

Another significant problem related to the distribution of the revenue, according to the PSC staff, is that in order to transfer the revenue to the PA, Israel requires confirmation that the shipment for which it collected import taxes had arrived in the West Bank or Gaza. Sometimes, trucks bringing imports into those areas do not pass through the control points that would retain the documentation that Israel demands as verification that the import has arrived. The result would be a loss of revenue for the PA.

Recent studies suggests that this Customs Union may have been useful in the past, but that other trade models would better serve the Palestinian economy. Rasgon further notes that Israeli and Palestinian leaders appear to favor an improvement in their economic relations. He cites the

[51] Rasgon, 2015

view of an important Israeli leader that: "This Israeli government is open to economic relations because there is deep skepticism about the top-down approach."[52]

A recent study by the World Bank finds that the PA suffers from substantial revenue losses under the current revenue-sharing arrangements outlined by the Paris Protocol and other subsequent agreements. Annual revenue losses are estimated at US$285 million, or 2.2% of the Palestinian GDP.[53]

A detailed study[54] of alternatives to the existing customs union, finds that replacing it by a Free Trade Agreement would benefit both the Palestinian and the Israeli economies. The study analyzes the consequences of limitations of the Paris Protocol, together with Israeli security and other measures on the Palestinian economy. It finds that the Protocol has a broad impact, including raising Palestinian transaction costs, making it more difficult to benefit from scale economies and to compete internationally. Although there are big differences between the two economies, the Protocol also impacts the Palestinian economy by imposing on it the Israeli (higher) cost structure.

The study concludes that under the present restrictive trade and economic regime there is no prospect for the Palestinian economy of a return to growth and fiscal sustainability. The report analyzes three alternative trade models to replace the existing customs union: an Improved Customs Union, a Most Favored Nation (MFN) agreement, and an advanced Free Trade Agreement (FTA), and recommends the latter.

Under an FTA, there would be no import tariffs between Israel and the Palestinian economy, and Palestine would have independent trade policies toward other countries. This would allow Palestine to become a full member of bilateral and multilateral trade agreements. An FTA would also include other arrangements, such as movement and access and tax standardization.

The study estimates that under an FTA Palestinian real GDP would have a strong double-digit economic growth rate. The report states that an agreement on a new economic and trade regime can be achieved without concurrently reaching a final status agreement.

7. Trade Logistics Performance[55]

Measuring trade logistics performance, and understanding the factors that influence performance, can help identify and recommend remedial actions.

[52] Statement, cited by Rasgon made by Mike Herzog, a retired Brigadier General in the Israel Defense Forces and fellow at The Washington Institute for Near East Policy (Rasgon, 2015)
[53] World Bank, 2016
[54] Nashashibi et al, 2015,
[55] Main source: Arvis et al, 2011

***Measures of trade logistics performance*[56]**

The Logistics Performance Index (LPI), developed by the World Bank and in use since 2007, is the key measure of logistics performance. The Bank updates this index every two years. The index is measured in 160 countries, developed as well as developing countries.

The LPI is based on a worldwide survey of operators on the ground (global freight forwarders and express carriers), providing feedback on the logistics “friendliness” of the countries in which they operate and those with which they trade. They combine in-depth knowledge of the countries in which they operate with informed qualitative assessments of other countries where they trade and experience of global logistics environment. Feedback from operators is supplemented with quantitative data on the performance of key components of the logistics chain in the country of work.

The LPI consists of both qualitative and quantitative measures and helps build profiles of logistics friendliness for these countries. It measures performance along the logistics supply chain within a country and offers two different perspectives: international and domestic.

International LPI: provides qualitative evaluations of a country in six areas by its trading partners—logistics professionals working outside the country.

Domestic LPI: provides both qualitative and quantitative assessments of a country by logistics professionals working inside it. It includes detailed information on the logistics environment, core logistics processes, institutions, and performance time and cost data.

LPI 2014 ranks 160 countries on six dimensions of trade -- including customs performance, infrastructure quality, and timeliness of shipments --that have increasingly been recognized as important to development. The data used in the ranking comes from a survey of logistics professionals who are asked questions about the foreign countries in which they operate.

The components analyzed in the International LPI were chosen based on recent theoretical and empirical research and on the practical experience of logistics professionals involved in international freight forwarding. They are:

• The efficiency of customs and border management clearance (Customs).
• The quality of trade and transport infrastructure (Infrastructure).
• The ease of arranging competitively priced shipments (Ease of arranging shipments).
• The competence and quality of logistics services—trucking, forwarding, and customs brokerage (Quality of logistics services).
• The ability to track and trace consignments (Tracking and tracing).

[56] *http://lpi.worldbank.org/*

• The frequency with which shipments reach consignees within scheduled or expected delivery times (Timeliness).

A second measure of trade logistics performance is the 'Trading Across Border" (TAB) indicator, part of the World Bank's Doing Business indicators. *Doing Business* records the time and cost associated with the logistical process of exporting and importing goods. The new methodology introduced in the 2016 *Doing Business* measures the time and cost (excluding tariffs) associated with three sets of procedures—documentary compliance, border compliance and domestic transport—within the overall process of exporting or importing a shipment of goods. For exports, the indicator applies to the process of exporting a shipment from a warehouse in the origin economy to a warehouse in an overseas trading partner through a port. For imports, it is the reverse.

Documentary compliance is a major input to the TAB indicator. It captures the time and cost associated with compliance with the documentary requirements of all government agencies of the origin economy, the destination economy and any transit economies. The aim is to measure the total burden of preparing the bundle of documents that will enable completion of the international trade for the product and partner pair assumed in the case study. As a shipment moves from Mumbai to New York City, for example, the freight forwarder must prepare and submit documents to the customs agency in India, to the port authorities in Mumbai and to the customs agency in New York City.

The time and cost for documentary compliance include the time and cost for obtaining documents (such as time spent undergoing inspections to obtain a certificate of conformity or certificate of origin); preparing documents (such as time spent gathering information to complete the customs declaration or certificate of origin); processing documents (such as time spent waiting for the relevant authority to issue a phyto-sanitary certificate); presenting documents (such as time spent showing a customs declaration to road police or showing a port terminal receipt to port authorities); and submitting documents (such as time spent submitting a customs declaration to the customs agency in person or electronically.

A third measure is the Trade Enabling Index (TEI)[57]. The TEI, prepared by the World Economic Forum, measures the quality of institutions, policies and services facilitating the free flow of goods over borders and to their destinations. It benchmarks the performance of 138 economies (including emerging economies) in four areas: (i) market access, (ii) border administration, (iii) transport and communication infrastructure, and (iv) regulatory and business environment.

Of these three indicators, only the TAB is available for the West Bank-Gaza.

[57] reports.weforum.org/global-enabling-trade-report-2014/

Performance in Landlocked Developing Countries

The Arvis 2011 study analyzed the performance of LLDCs relative to developing countries in the same region that are not landlocked. It found that in most cases, the LLDCs performed worse in all categories of performance. There were exceptions, such as Uganda, that had better LPI than a number of coastal countries in the region. In metrics affected by the distance to the coastal country port, transport time and cost accounted for most of the differences. However, in other metrics, such as logistics competence, LLDCs still performed generally worse than the coastal country, although the differences were substantially smaller. The table below illustrates this, for Sub-Saharan Africa, Central Asia and South Asia. The most striking differences between landlocked and coastal country are in the South Asia region.

Regions with Poorly Performing Landlocked Countries on the LPI
(higher numbers are better)

	Sub-Saharan Africa		Central Asia	South Asia	
Background Data	**Land-locked**	**Coastal**	**Land-locked**	**Land-locked**	**Coastal**
Overall LPI	2.22	2.43	2.25	1.84	2.64
Selected LPI components					
Logistics competence	2.21	2.45	2.18	1.84	2.69
Infrastructure	1.97	2.11	1.98	1.61	2.41
Customs and trade processes	2.10	2.30	2.04	1.69	2.34
LPI input data					
Customs clearance (days)	3.2	4.7	n.a.	2.6	2.2
Physical inspection (percent) (higher is worse)	62	42	n.a.	56	27
Possibility of review (percent) (higher is better)	52	19	n.a.	33	30
Lead time to: (days)					
Export (median) shipper–> port	11.8	6.2	n.a.	6.5	2.5
Import (median) port–> consignee	18.4	9.3	n.a.	14.7	3.3
Import (best 10 percent) port--> consignée	9.1	5.0	n.a.	11.0	2.5

Source: Arvis et al, 2011, based on figures from the 2009 LPI report.

The Arvis report finds that the main factor in the trade and transport costs borne by the LLDC is the fragmentation of the supply chain. Few traders have access to modern door-to-door logistics infrastructure. As a result, most traders need to go through many procedures, agencies and services, making the process expensive, both in formal and informal costs. Transferring the loads at the border from one truck to another is also a common problem, with implications for time and cost.

The West Bank

The LPI has not been estimated for the West Bank. All indications are that the West Bank would suffer from similar issues as those affecting LLDCs in all regions.

Using a combination of LPI data and TAB data, the following table shows that the West Bank requires more documents for export and for import than Israel (or Germany, a country with highly efficient trade logistics). The number of documents is an indicator of the ease of the trade logistics processes, given the time and cost involved in their preparation, submission and approval. However, the number of documents in the TAB data also includes the documents required by the transit country, and the documents required by the final destination country, when different from the transit country. This indicator does not allow assessing the relative performance of the West Bank as separate from Israel's or final destination countries requirement for export (and the reverse for imports).

Select Indicators of Logistics and Trading Across Border Performance[58]

	Israel	Germany	Lebanon	Jordan	West Bank
Export –Documents (number)	4	4	4	5	6
Import-Documents (number)	4	4	7	7	6
Exports-Documentary Compliance (hours)	13	1	72	0?	52
Imports-Documentary Compliance (hours)	44	1	180	55	45
Lead time to Export – Days (median case)a/	2 (2012)	1	2	3	No data
Lead time to Import – Days (median case)b/	2 (2012)	2	13	3	No data

a/Time from point of shipment to port of loading, b/Time from port of discharge to arrival at consignee
Sources: World Bank. Number of documents: 2015 Doing Business, TAB/
Documentary Compliance (hours), 2016 Doing Business, TAB/Lead Times: 2014 Logistics Performance Index (2011-2015)

On the other hand, the West Bank-Gaza performs well in the TAB when compared with the Middle East & North African region, most of the countries in that region have a higher GDP per capita, and in theory should be better performers. Because the WB-G trades mainly with Israel, although it is landlocked, it is not at a disadvantage when compared with the MENA countries,

---

[58] The estimate of the TAB for the West Bank-Gaza considered Israel as the trading partner, and the Betunia border crossing. The products used were, for exports, 'edible vegetables and certain roots and tubers' (H57) and for imports, 'parts and accessories for motor vehicles' (HS8708).

that are all coastal, since its exports and imports cross borders only once. This is in contrast with most LLDCs, that trade mainly overseas.

Select TAB Measures for the West Bank-Gaza and Two Comparators

Indicator	West Bank and Gaza	Middle East & North Africa	OECD high income
Time to export: Border compliance (hours)	73	65	15
Cost to export: Border compliance (USD)	196	445	160
Time to export: Documentary compliance (hours)	52	79	5
Cost to export: Documentary compliance (USD)	288	351	36
Time to import: Border compliance (hours)	31	120	9
Cost to import: Border compliance (USD)	0	594	123
Time to import: Documentary compliance (hours)	45	105	4
Cost to import: Documentary compliance (USD)	200	385	25

Source: http://www.doingbusiness.org/data/exploreeconomies/west-bank-and-gaza#trading-across-borders

Information from the table below, with international LPI data for a select group of countries, developed and developing, shows that Israel ranks relatively low in LPI for a country of high income. As the West Bank's main trading partner as well as main outlet for overseas trade, Israel mediocre LPI performance, especially in international shipments, necessarily affects the West Bank trade operations. The performance of Jordan, the West Bank's other coastal outlet, is worse, although it performs well when compared to other developing countries.

International LPI Results, 2014. Select Countries

	Rank	Customs		Infrastructure		International Shipments		Logistics quality and competence		Tracking and Tracing		Timelines	
		Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score
Germany	1	2	4.10	1	4.32	4	3.74	3	4.12	1	4.17	4	4.38
Netherlands	2	4	3.96	3	4.23	11	3.64	2	4.13	6	4.07	6	4.34
Sweden	6	15	3.75	9	4.09	3	3.76	6	3.98	7	3.98	8	4.26
United States	9	16	3.73	5	4.18	26	3.45	7	3.97	2	4.14	14	4.14
Switzerland	14	7	3.92	11	4.04	15	3.58	16	3.75	18	3.79	21	4.06
China	28	38	3.21	23	3.67	22	3.50	35	3.46	29	3.50	36	3.87
South Africa	34	42	3.11	38	3.30	25	3.45	24	3.62	41	3.30	33	3.88
Israel	41	43	3.10	45	3.11	96	2.71	36	3.35	46	3.20	12	4.18
Chile	42	39	3.39	41	3.17	53	3.12	44	3.19	40	3.30	44	3.50
Jordan	68	78	2.60	76	2.59	65	2.96	60	2.94	96	2.67	58	3.46
Lebanon	85	124	2.29	89	2.53	118	2.53	67	2.89	44	3.22	108	2.89
Mozambique	147	126	2.26	135	2.15	154	2.08	153	2.10	152	2.08	134	2.74

Sources: World Bank: 2014 Logistics Performance Index

8. Conclusion

This paper has reviewed the experience of Landlocked Developing Countries regarding trade and transport logistics and costs, with the view that such experience can help the West Bank reduce its trade costs.

While the West Bank is, in practice, a landlocked country, a number of factors make its situation different from many landlocked developing countries. Yet it was possible to identify, in most trade areas, issues in the LLDCs that are relevant to the West Bank. Even in aspects that appeared to be specific to the Israeli-West Bank situation it was possible to find similar arrangements in other regions. This was the case of the back-to-back system of transferring loads at the border, although it is likely that this system is no longer in use in most places.

The West Bank suffers the high cost of being landlocked. The security arrangements for crossing to and from Israel are an additional cost that LLDCs rarely experience. Yet, the West Bank has important advantages over most LLDCs, in that it has a short distance to the closest sea ports, those ports are more efficient, lower cost, than those that most LLDCs use. The West Bank should also benefit from being a small territory without internal borders, but security restrictions impede the free movement of freight and people, reducing and sometimes negating this benefit. Overall, these conditions make the West Bank well positioned relative to other LLDCs, with the potential for achieving significantly lower trade costs. Yet, achieving such potential would require substantial changes in current trade and transport arrangements with its transit countries.

It was beyond the scope of this paper to conclude presenting its own recommendations regarding ways for the West Bank to improve trade logistics. However, there are recent, substantive studies that do include recommendations and are worth noting. References to three such papers were made in previous sections of this paper. Their recommendations are briefly summarized below (details are in Annexes 1, 2 & 3).

At the highest level are the recommendations proposed by the Nashashibi, Gal, Bader study. This 2015 study analyzes the existing trade regime between the PA and Israel and concludes recommending the replacement of the current customs union with a Free Trade Agreement.

Next is the 2015 Peres Center/CORE study, that contains recommendations in five areas: *trade diversification*; *creation of an internationally-sponsored Palestinian fund* to facilitate VAT procedures and refunds; *improving standardization* between the PA and Israeli agencies; *logistics and intermediation* resolving the conflict of interest created by logistics providers receiving commission on storage; and *improving commercial crossings*, with measures addressing infrastructure, hours of operation, duplicate security procedures, reduction of back-to-back and others.

The third study is the 2012 report by the Palestinian Shippers' Council. It presents recommendations divided in two areas: (i) *negotiations with Israeli authorities and interventions by the international community*, including reforming management of border gateways, establishing a door-to-door system, instituting a known-trader[59], and the Israeli port authority making available better information regarding security requirements, procedures and costs; and, (ii) *actions by the Palestinian Shippers' Council and the private sector*, including legal actions and logistical measures.

[59] The Peres Center, 2015, report, has a footnote referring to a pilot known-trader system: 'The Known Trader Program, initiated by USAID's Trade Facilitation Project, included 20 companies that transfer cargo through Tarqumiya. In order to be included in the program, companies had to meet criteria of trade volume, legal compliance, business record and most importantly – supply chain security. In coordination with COGAT and the CPA, these companies have access to extended operating hours, expedited registration, container drop-off and circulating trailers. These benefits result in time and cost savings but do not circumvent security inspection or allow door-to-door access. Despite intentions to expand the program beyond its pilot phase and into other areas of the West Bank, it has so far remained within its original limited scope, and is not backed by official regulations or procedures.

As can be seen, there is some overlap among the three papers, and there is also overlap between their recommendations and the experience of the LLDCs analyzed in previous sections. Start with the issue of the trade regimes between the landlocked and transit countries. The level of dependence of the former on the latter is substantially influenced by the trade regime. The example referred to in this paper is the customs union between South Africa and its four landlocked neighbors. Despite several amendments over time, there are still major issues in the operations of the SACU. At the same time, organizing as a customs union often make it difficult to benefit from bilateral or multilateral trade agreements. A customs union makes more sense when it is within countries of similar degree of economic development, less so in the case of Israel and the West Bank, where the economic gap is huge. Thus the recommendation in the Nashashibi, Gal & Rock study to reform the economic regime and move towards a free trade agreement. Implementing this recommendation should facilitate the objective to expand and diversify trade with new trading partners, therefore making the economy of West Bank less dependent on that of Israel. A change in the economic regime would also help resolve the issue of tax procedures and management, notably collection and distribution, existing under the current customs union arrangement, along the lines suggested in the Peres Center study. Improving border crossings is obviously of major importance, thus the interest in the efforts in several international transport corridors to move towards a single customs/border agency.

A number of specific recommendations in the Peres Center/CORE study are consistent with the issues and in line with the experiences of landlocked developing countries discussed earlier. These include the management of border controls, such as hours of operation, infrastructure capacity, application of door-to-door systems, instituting a known-trader system, and better information on procedures available on a regular basis to shippers of the landlocked country.

The list of recommended logistical measures in both the Peres Center and the PSC reports is extensive, and includes things such as monitoring border crossings, adhering to correct documentation and procedures, building a secure supply chain, and improving management of stocks. This suggests that while the logistic problems related to crossing the transit country are probably the most consequential, much is required to be done on the Palestinian side, in addition to action on the Israeli side, to achieve substantial improvements on trade logistics and reduce trade costs.

Finally, the analysis of the West Bank's logistics performance is hindered by the lack of data on its Logistics Performance Index and on its Trade Enabling Index. It is to be hoped that the World Bank and the World Economic Forum will soon incorporate measures of the West Bank indices in their respective reports.

References

Arnold, John. 2006. Best Practices in Management of International Trade Corridors, Transport Paper, World Bank.

Arvis, Jean Francois, G. Raballand and J-F Marteau. 2010. *The Cost of Being Landlocked: Logistics Costs and Supply Chain Reliability*. Directions in Development. Washington, DC: World Bank

Arvis, J-F, Carruthers, R, Smith, G, Willoughby, C. 2011. *Connecting Landlocked Developing Countries to Markets. Trade Corridors in the 21st Century*. Directions in Development. Trade. World Bank.

Arvis, J-F, Y. Duval, B. Sheperd, C. Utoktham. 2013. *Trade Costs in the Developing World*, 1995-2010. Policy Research Working Paper 6309. World Bank

Grant, Catherine, G. Chapman: 2011. *Southern African Customs Union: Myths and Reality* (http://www.saiia.org.za/opinion-analysis/southern-african-customs-union-myths-and-reality, 23 March 2011)

Fitzmaurice, Mike, O. Hartmann. 2013. *Border Crossing Monitoring Along the Northern Corridor*. Working Paper 96. SSATP/World Bank.

Haaretz. 2014. *The Economic Case for Peace in the Middle East. A Venture Capitalist on how both Israel and the Palestinians can Benefit from Making Peace*. Yadin Kaufmann , Haaretz. September 7, 2014.

Jerusalem Post. 2014. *Breaking down the economic implications of Israeli-Palestinian peace*. Jerusalem Post, 1Feb 2014

Mitra, Saumya, B. Kaminski, M. Kholmatov and G. Raballand. 2007. *Cross-Border Trade Within the Central Asia Regional Economic Cooperation*. World Bank.

Nichol, Jim. 2010: *Central Asia's Security: Issues and Implications for U.S*. US Congressional Research Service

Nashashibi ,Karim, Yitzhak Gal , Bader Rock. 2015. *Palestinian-Israeli Economic Relations: Trade and Economic Regime*. Palestine International Business Forum/International Council of Swedish Industry (NIR), Office of the Quartet Representative.

Nayak, Nihar R. 2016 Landlocked and Transit Developing Countries: Nepal's Transit Route Negotiations with India. Strategic Analysis, Volume 40, Issue 2 Published online: 17 Feb.

Niksic, Orhan, Massimiliano Cali, M, Nur Nasser, Eddin,N. 2014.*Area C and the Future of the Palestinian Economy*. A World Bank Study.

OECD/WTO. 2015. *Aid for Trade at a Glance: Reducing Costs for Inclusive, Sustainable Growth*.

Office of the Quartet, 2015. *Report for the Meeting of the Ad-Hoc Liaison Committee on Action in Support of Palestinian State-Building*, 30 September 2015, New York

PALTRADE/PSC/EU. 2013. Exporting and Importing via Jordanian and Israeli Ports. Comparison Study. Trade Corridors' Facilitation Project

Peres Center for Peace/CORE Associates. 2015. Strengthening the Palestinian Private Sector through Reducing Trade Transaction Costs: A Comprehensive Research and Advocacy Program. Funded by the US Middle East Partnership Initiative. Final Report.

PSC. 2012. Capacity Development for Facilitating Palestinian Trade. A Study of the Problems of Palestinian Trade via Israeli Ports (Ashdod and Haifa)

Raballand, Gael. 2003. Determinants of the Negative Impact of Being Landlocked on Trade: An Empirical Investigation Through the Central Asian Case. Comparative Economic Studies, 2003, 45, (520–536). www.palgrave-journals.com/ces

RAND Corporation. 2015. The Costs of the Israeli-Palestinian Conflict.

Rasgon, Adam. First, An Economic Peace. Revisiting Israel and Palestine's Paris Protocol. Foreign Affairs, November 2015

The Economist. 2013. *Israel and Palestine Boosting the West Bank's economy Businessmen try making peace through economic co-operation* The Economist. 1 Jun 2013

The Economist. 2015. *The Economics of Landlocked Countries. Why it is better to have a coastline*. 9 May 2015

UK Essays. 2015. *The Status Of Landlocked States In International Law*, International Law Essay. 23 March 2015

US Department of State. 2014. *Investment Climate Statement*, Bureau of Economic and Business Affairs, June 2014

World Bank. 2013. *Trade and Transport Corridor Management Toolkit*

World Bank. 2014a. *Improving Trade and Transport for Landlocked Developing Countries. A Ten Year Review*. World Bank-United Nations report for the 2nd United Nations Conference on Landlocked Developing Countries (LLDCs).

World Bank. 2014b. *West Bank and Gaza - Country assistance strategy for the period FY2015-16*

World Bank, 2016. *Economic Monitoring Report to the Ad Hoc Liaison Committee*

World Economic Forum, 2014. *Global Enabling Trade Report*.

Annex 1. Recommendations Prepared by the Palestinian Shippers' Council (PSC, 2012)

A. Recommendations on issues that require negotiations with the Israeli authorities and interventions by the international community

The following recommendations are directed to the Palestinian Ministries, more prominently the Ministry of National Economy and the Ministry of Transportation, in addition to the Negotiation Support Unit (NSU):

1. *Reform management of border gateways* – The international community must advocate for the reformed management of border gateways, this may include improved working hours, improved knowledge dissemination, speedy processing, longer free demurrage periods and reduced storage days.

2. *Apply door-to-door system* – The international community is encouraged to support the application of a door-to-door system for cargo traveling from the WB company to the Israeli ports Ashdod and Haifa. Such a system would reduce significant time and cost savings.

3. *Institute a known-trader system* – Although there is discussion on what a known-trader system would look like, none has been officially instituted[20]. Best international practice at international border crossings is to institute some form of known-trader system and should be instituted for Palestinian cargo in order to reduce time and costs.

4. *Encourage better information dissemination from Israeli port authority regarding security requirements, procedures, and costs* – The provision of information to Palestinian shippers regarding all technical and security related aspects by the Israeli authorities and ensuring that the information is updated on regular basis must be encouraged.

5. *Establish a bonded area for goods not cleared* - A special bonded area should be established for goods that are waiting to be cleared (customs not paid yet) for Palestinian importers.

6. *Abide by terms of Paris Protocol* - Despite the fact the Paris Protocol is an interim agreement that should have been annulled by the end of the 1990s and that doesn't serve the Palestinian economy, it is the only bilateral framework that exists between both sides. This Protocol should be reconsidered to better serve the interests of the Palestinian development and economy. Until then, adherence to its terms (for equal treatment of goods) must be respected despite all of its drawbacks. Unfortunately this protocol has been exploited to benefit the Israeli economy, while hampering that of the Palestinians. The international community must pressure Israel to abide by the terms of the Paris Protocol of 1994. Under the terms of the Paris Protocol of 1994, Palestinian and Israeli goods are to receive the same treatment at the Israeli ports. However Israeli Authorities have not adhered to the terms of this agreement. Selective discrimination against Palestinian shippers as illustrated in earlier examples is in violation of basic human rights and the Paris Protocol.

7. *In line with the above recommendation, resumption of Joint Economic Committee (JEC) meetings* – The effective resumption of the established JEC should be encouraged, as per the Paris Protocol agreement,

with a focus on facilitating Palestinian trade via Israeli ports. The international community should play an observatory role in such meetings.

B. Recommendations for the PSC and the Palestinian private sector

Recommendations on Legal Actions

1. *Provide access to ports for Palestinian shipper* –Legal action is required in order to facilitate the travel of Palestinian shippers to the ports to follow up on clearing their shipments effectively and efficiently, without having to depend on a third party to conduct the clearing for them.

2. *Formal complaint mechanism* - A formal complaint mechanism must be established to help protect the rights of Palestinian shippers. Palestinian shippers do not have a complaint mechanism to help resolve any issues that they may face with clearing their shipments, such as identifying and claiming damages, claiming storage area, and claiming demurrage free areas.

3. Licensing Palestinian customs brokers - Currently there are no licensed Palestinian customs brokers, only agents working through Israeli customs brokers. There is an urgent need to address the lack of licensed Palestinian customs brokers, in order to provide effective and efficient clearing services for Palestinian shippers.

4. Legal support against additional storage day costs – Palestinian shippers are required to bear the cost of additional storage days due to worker and customs strikes at the ports (which occur frequently). Legal action is required to advocate the shippers rights.
‘

Recommendations on logistical measures

1. *Negotiate free demurrage days* – Palestinian shippers are compelled to pay extra fees mainly because the allocated free demurrage days are not taken advantage of due to worker and customs strikes, and delayed security inspection appointments. A demurrage days agreement must be established with major shipping lines to specify a maximum amount of days a shipment can be held at the port. For any costs after the maximum amount of days stated in the policy, a Palestinian shipper must have the right for reimbursement of additional costs.

2. *Capacity building for Palestinian shippers* – Capacity building is necessary on topics such as:

Study tours - Coordinate study tours to Ashdod and Haifa ports in order to better familiarize Palestinian shippers with the rules, regulations, procedures, and services at the Israeli ports.

Awareness of freight forwarder and customs broker services - Promote increased awareness amongst Palestinian shippers regarding the services provided by freight forwarders and customs brokers.

Participation in trainings that promote international best practices – Palestinian shippers are encouraged to enhance their efficiency and professionalism through participation in trainings that promote international best practices. Such trainings would also better inform shippers about shipping procedures, rules and regulations.

Build a secure supply chain - Palestinian shippers are encouraged to build their supply chain taking into consideration the weakest links in the trade logistics chain. A strong supply chain can ensure secure flow of Palestinian trade and help to avoid unexpected obstacles and impediments (mainly security) and lead to smooth and efficient flow of goods in terms of costs and lead time.

Improve negotiation skills – Palestinian shippers are encouraged to enhance their negotiations skills, which would enable them to obtain improved contract terms and shipping rates, and to negotiate additional charges imposed by the custom brokers as special treatments charges.

Manage product stocks efficiently – In order to avoid a disruption of business, businesses are encouraged to manage their product stocks efficiently. Better stock management will allow the Palestinian business to overcome any halts in business due to delayed shipments.

Obtain price quotations - Palestinian shippers must learn to obtain price quotations from the freight forwarder in order to avoid unexpected costs. The price quotation should provide information related to total transportation costs, customs duties, security costs, and any special documentation.

Adhere to correct documentation and procedures - Even when using a freight forwarder, Palestinian shippers must understand that it is their responsibility to ensure that correct documentation and procedures are adhered to.

Introduce risk management – Promote efforts to introduce a risk management system to help shippers anticipate any trade related impediments (operational, security/political, financial, legal/environment) and assist them in securing their supply chain, and improve the movement of goods. A risk management system will reduce uncertainty and unpredictability.

3. *Launch a public awareness campaign* – Palestinian shippers are in urgent need of up to date and accurate information on current trade policies and procedures. This information should be disseminated to Palestinian shippers through the PSC website, flyers, brochures, and pamphlets. Such issues may include the following:

Rules and regulations at Israeli ports and border crossings

All laws, regulations, and procedures applicable to Palestinian imports and exports

Maritime and other conditions affecting merchandise trade

Customs rules, regulations and rates, ensuring that all the above mentioned rules and regulations are translated into Arabic and are updated on a regular basis.

4. *Conduct monitoring at border crossings* – There is insufficient statistics and information available on the movement of Palestinian goods through Ashdod and Haifa. As such, the PSC recommends that regular monitoring be conducted at these crossings. The information obtained from the monitoring efforts may be used for advocacy efforts and to help devise solutions to some of the problems facing Palestinian shippers. Emphasis would be placed on issues related to security measures.

Annex 2. Recommendations by the Peres Center for Peace/CORE Associates (2015)

FOCUS AREA	RECOMMENDATIONS
Trade Diversification	Increase Palestinian autonomy to promote trade with GAFTA countries by advocating for renewal of MoF-MoF meetings as the relevant forum to promote the following measures that streamline the movement of goods via Jordan to and from Arab countries: Re-evaluate A1/A2 lists Promote Palestinian control of imports from GAFTA Authorize PA to determine customs rate and standardization processes on imports from GAFTA Raise awareness of the mechanisms that impede PA trade with GAFTA
	Advocate for the building of a bonded storage area at/near KHB1
VAT Procedures	Promote the establishment of an internationally-sponsored Palestinian fund to facilitate VAT refunds
Standardization	Advocate for increased coordination and cooperation between PA and Israeli agencies by: Promoting the creation of a function in the PSI and SII for coordination with the other agency Promoting the standards-related initiative pending approval by the Israeli government (permitting the release of goods from Israeli ports with collateral and a standards inspection by the PSI in the PA)
Logistics and Intermediaries	Resolve the conflict of interest created by logistics providers receiving commission on storage, which affects specifically storage costs and customs clearance at ports for international, Israeli and Palestinian traders
Commercial Crossings	Improve the following conditions at crossings: Infrastructure (for optimal conditions related to time, weather and sanitation) Roads with capacity of 2 trucks simultaneously Hours of operation Duplicate security procedures (technology + manual) Reduction of back-to-back Containerization (not only at KHB and Jalame), in order to reduce back-to-back Tractor trailer exchange Appointments that sync Israeli and Palestinian truck drivers to avoid extraneous hours in line

Annex 3. Recommendations Regarding Israeli-Palestinian Trade Regime, included in the report sponsored by the PBIF/NIR/QUARTET (2015)

Free Trade Agreement (FTA)

This regime envisages an Israeli–Palestinian Free Trade Agreement (FTA). It further envisages that this FTA is advanced through additional components and supplementary enablers.

Like an ICU, a Free Trade Agreement (FTA) is an economic integration agreement. Most, if not all, of the goods nationally produced (based on agreed rules of origin) enter the other market exempt of any customs duties or equivalent charges. The main difference between a FTA and a CU is the lack of a common external tariff on third-party imports. An FTA does not require the partners to harmonize their external trade policy towards third parties, and partners remain free to negotiate trade agreements, including tariffs, with third parties.

Under an FTA, bilateral economic borders remain intact. The FTA therefore requires separate customs administrations by the parties. The Israeli–Palestinian FTA can be designed to permit diagonal accumulation between Palestinian, Israeli, and third party inputs and value-added aimed at entry to the European or US markets duty-free.[35] A detailed analysis of this aspect is provided in Annex 2.3 on Rules of Origin options.

Most importantly, the FTA allows each party to have completely separate trade policies *vis-à-vis* third parties. For Palestine, the benefits of an FTA would include the freedom to enter into preferential trade agreements which Israel is not party to. Hence, having an FTA with Israel, instead of an ICU, would enable Palestine to become a full member of GAFTA and other trade agreements and multilateral organizations such as the WTO.

Parties to an FTA are free to take further measures towards integration and cooperation, and agree on additional components such as cooperation on health, tax standardization, competition and bank supervision authorities, harmonization and recognition of product standards and professional qualifications of service providers, and institutional arrangements such as joint committees, dispute settlement mechanisms, cooperation between standards organizations, etc.

An FTA can be achieved only in the context of a positive political atmosphere. So the report assumes that an FTA will also include movement and access arrangements, as well as security procedures, enabling the orderly movement of goods, businesspeople, and tourists between Israel, Palestine and third-party countries; and active Israeli and Palestinian governmental policies encouraging new business cooperation and investment.

In addition, the report expects a return to a high level of donor financial support, over the forecast period, with most of it directed towards new infrastructure and other development programs.

Transition Period Towards a New Trade and Economic Regime

The following set of measures can be agreed upon without undermining Israel's security considerations.

As these measures gain success and momentum they will also significantly improve prospects for the political track. These are:

• Allow Palestinian development of Area C, including agriculture and tourism projects, industrial zones, and utilization of land, water, and other natural resources;

• Restore free movement of goods and passengers between the West Bank and Gaza Strip, as foreseen in the Agreement of Movement and Access of 2005, with some amendments with respect to imports through Rafah;

• Liberalize travel of Palestinians abroad and travel of foreign visitors to Palestine, and allow Israeli civilians free access to areas under Palestinian jurisdiction (i.e. Area A), to stimulate trade and business opportunities;

• Allow West Bank and Gaza people and products access to the East Jerusalem market;

• Limit restrictions on the 'Dual Use' list to standard prohibitions, and enable unrestricted imports of capital equipment by Palestinian businessmen;

• Facilitate the implementation of large Palestinian infrastructure projects, as outlined in the OQR Initiative forte Palestinian Economy (IPE) and elsewhere, including such projects as Gaza Marine, Gaza water desalination, and electricity generation in the West Bank.

The report also lists the necessary steps for an orderly transition to a new economic and trade regime.