



State of Israel

Measures Taken by Israel in Support of Developing the Palestinian Economy and Socio-Economic Structure

**Report of the Government of Israel to the Ad Hoc Liaison
Committee (AHLC)**

Brussels, March 21, 2012

Acronyms

AHLC – Ad Hoc Liaison Committee
BoI – Bank of Israel
COGAT – Coordinator of Government Activities in the Territories
GDP – Gross Domestic Product
DFID – UK Department for International Development
GOI – Government of Israel
ICBS – Israel Central Bureau of Statistics
ICD – Israel Customs Directorate
IDF – Israel Defense Forces
IMF – International Monetary Fund
ISA – Israel Security Agency
JWC – The Joint Water Committee
MCM – Million Cubic Meters
MOF – Ministry of Finance
NIS – New Israeli Shekels
OQR – Office of the Quartet Representative
PA – Palestinian Authority
PCBS – Palestinian Central Bureau of Statistics
PACE – Palestinian Authority Customs and Excise
PMA – Palestinian Monetary Authority
SEMEP – South Eastern Mediterranean Sea Project
USAID – United States Agency for International Development
USD – United States Dollars
UNCTAD- United Nations Conference on Trade and Development
UNDP – United Nations Development Program
UNRWA – United Nations Relief and Works Agency for Palestinian Refugees
VAT – Value Added Tax
WFP – World Food Programme

Executive Summary

*"... So I've made clear from day one that I'm prepared to meet President Abbas any place, any time to negotiate peace. And I make that clear again today. I invite him to sit down and negotiate peace for both our peoples. President Abbas, don't walk away from peace; continue the negotiations".
PM Netanyahu's Speech at the Portuguese Synagogue in Amsterdam, January 18, 2012.*

The Government of Israel views the bilateral track with the Palestinians as the only way to reach a sustainable solution, based on two states for two peoples.

In the first three quarters of 2011, Palestinian economic growth slowed, as real GDP in the West Bank rose by 5.8%, while growth in the Gaza Strip continued to climb, with a 25.8% increase in real GDP. Unfortunately, the PA faces a financial crisis, caused primarily by the shortfall in foreign aid, growing arrears to suppliers and reaching the lending limit that the domestic banking system can sustain. Another primary factor was the lack of significant development in the private sector coupled with an inability to increase income from internal resources, while the public sector remains the largest employer in the West Bank. The current fiscal situation raises doubts about whether the PA will be able to reduce its dependency on foreign aid in the coming years.

In a time of regional political uncertainty and instability, the global economic slowdown now hinders the capability of international donors to assist the PA, and the PA enjoys very limited Arab financial support. Thus, after three consecutive years of impressive economic growth in the West Bank, PA financial stability is now challenged.

In 2011, Israel continued to implement its policy of support for economic growth in the West Bank, inter alia by removing additional check points, upgrading commercial crossings, approving projects in Area C, increasing the number of permits for Palestinian employment in Israel, and pushing forward an agreement to build four electricity substations in the West Bank to increase the amount of electricity available for further economic development.

Israel maintained bilateral dialogues with the PA aimed at supporting the upgrade of Palestinian infrastructure, including: financial and customs services, water and sewage infrastructure, the agriculture sector, and the electricity network. Israel worked closely with the international community in

order to support projects, facilitate trade and contribute to improved Palestinian governance and economic capacity.

Israel's policy in the West Bank contributed to maintaining growth in the past year. Overall Israeli trade with the PA (goods and services) totaled USD 4.308 billion, an increase of 2.1% compared to 2010. Israeli purchases from the PA amounted to USD 815.9 million, an increase of 18.3%. Israeli sales to the PA amounted to USD 3.492 billion, a decrease of 1.1% compared to 2010.¹ Tax revenue transferred by Israel to the PA increased by 5.9%.² A higher volume of commercial goods was shipped from the West Bank via the land crossings to Israel. In 2011, there was a 33% increase in commercial movement of goods via the Allenby Bridge.³ Palestinian imports (excluding Israel) amounted to USD 1,758,147,197, a 9.22% increase compared to the parallel period in the previous year. Palestinian exports (excluding Israel) amounted to USD 105,831,164 in 2011, a 13% increase compared to the parallel period in the previous year.⁴

The aforementioned measures have been accompanied by security coordination between the authorities on both sides, seeking greater security and improved institutional capacity. Still, terror threats remain imminent from both the West Bank and Gaza. In 2011, 563 terrorist incidents emanating from the West Bank were recorded and 191 terrorist incidents were recorded in the area surrounding Jerusalem. The death toll of terrorist incidents from the West Bank rose for the second year in a row, taking 10 lives in 2011 (versus 8 in 2010).⁵

In the **Gaza Strip**, in the first three quarters of 2011, real GDP growth has climbed by 25.8%.⁶ Unemployment dropped in 2011 to the lowest level in the past 10 years. Israel's June 20, 2010 Civilian Policy has made a substantial contribution to the economy.

The Palestinian Authority has no effective role, nor control, in Gaza, which is still controlled by Hamas. During the past few months, security in Southern Israel along the border with Gaza has been under constant threat. The most recent serious escalation started on March 9, 2012 when, **during a four day period alone, over 300 projectiles were fired from the Gaza Strip**, 171 hit Israeli territory, and 65 were intercepted, while the remainder fell within the Gaza

¹ ICBS

² Israel Ministry of Finance

³ Excluding the import of vehicles. There was a 38% increase in the import of vehicles in 2011.

⁴ Israel Customs Directorate

⁵ ISA

⁶ IMF

Strip.⁷ This fire was aimed at heavily populated areas in Israel, forcing a million Israeli citizens to take refuge in shelters. This brutal attack came just half a year after the last attack, an escalation that began in July 2011 and peaked in mid-August 2011, which had been the worst escalation since Operation Cast Lead. During both of these attacks, the area sustained a continuous, almost daily, barrage of heavy rocket and mortar fire launched from the Gaza Strip into Israeli territory. This fire was deliberately aimed at civilian targets, hitting schools, residences and places of worship, and has reached major population centers in Southern Israel, including Beersheba, Ashdod, Ashkelon, and surrounding areas, paralyzing daily life. Three Israeli civilians were murdered in the round of attacks this summer, while in both rounds numerous civilians have been wounded or have suffered trauma, and property has been damaged.

This unbearable security reality is an alarming reminder of the proliferation of terrorist military capacity in Gaza, which jeopardizes prospects for peace and stability for both Israelis and Palestinians.

Since June 20, 2010, and despite these ongoing attempts by Hamas and the Islamic Jihad to terrorize Israeli cities and the crossings between Israel and the Gaza Strip, Israel continues to implement its policy, a policy that contributes to the economic and social recovery in Gaza.

Israel has approved 176 projects led by the international community in Gaza, and has upgraded the infrastructure and capacity of the Kerem Shalom crossing far beyond actual needs. More people are exiting Gaza for humanitarian and commercial purposes. Agricultural exports have been expanded and exports of furniture and textiles to international markets have been approved. Date bars were also exported from Gaza to the West Bank in March 2012. Thousands of tons of construction materials for international projects have been shipped into Gaza, and a pilot for the recovery of ten local private factories in Gaza has commenced.

Israel is committed to the understandings reached between Prime Minister Benjamin Netanyahu and Quartet representative Tony Blair in February 2011, containing measures in both the West Bank and Gaza. A significant part of these measures have already been implemented. Through the implementation of its policy, Israel supports economic development in the West Bank and the humanitarian sustainability in Gaza, while calling on the Palestinian leadership to return to the negotiation table, to revive the bilateral track which is the only way to reach a sustainable solution, based on two states for two peoples.

⁷ IDF Spokesperson

Chapter One

Economic Growth in the West Bank - Israeli Measures

The Economic Situation in the West Bank and the PA Fiscal Crisis

After three years of rapid economic growth, in the first three quarters of 2011 there was a slowdown in the rate of economic growth in the West Bank. Real GDP growth reached 5.8%⁸. Unemployment remains at the level of 17%, with relatively high rates of unemployment among young and educated populations (28.3% of those aged 20-24, and 20% of academic degree holders)⁹. The rate of participation in the workforce remained relatively low at 38.4%, while among women the rate of participation in the workforce was even lower (21.6% among women, versus 72.2% among men).

Employment in Israel continues to serve as a primary source of income for households in the West Bank both in terms of volume (14% of those employed in the economy), and income (the average daily wage of Palestinians working in Israel was NIS 164 versus NIS 90 in the public sector in the West Bank and NIS 60 in the private sector in the West Bank).

In this context, the number of Palestinians employed in Israel and by Israeli employers in the West Bank continues to rise, numbering approximately 54,414 at present, of which 31,414 work in Israel, and approximately 23,000 work for Israeli employers in the West Bank. The total number of permits for Palestinian employment is 34,250 in Israel and 23,000 by Israeli employers in the West Bank.¹⁰ In 2011 Israel provided 5,250 additional permits for employment in Israel, 4,000 of them in construction and 1,250 in agriculture.

This substantial dependency on employment in Israel demonstrates, inter alia, the challenge in creating suitable, well-paying employment in the Palestinian private sector.

In 2011, the PA faced financial difficulties due to a shortfall in international financial support and the inability to tap the local banking system to finance this shortfall, after having reached its upper credit limit (approximately USD 1 billion). Income from transfers of taxes collected by Israel matched PA forecasts for the 2011 fiscal year. These financial difficulties loomed heavily as

⁸ PCBS

⁹ PCBS

¹⁰ COGAT

an obstacle to the stability of the Palestinian economy and the PA administration.

The fiscal crisis is especially acute because much of the West Bank economy still depends on the public sector and on construction projects, both still heavily financed by foreign aid. It also serves as an alarming warning sign for the stability of the Palestinian economy.

While the present fiscal crisis was caused by a shortfall in donor aid, there were also deviations in the execution of 2011's budget, as demonstrated by the PA's disbursement for development expenses, for which no funds were available, at the expense of recurrent expenditure. The public finance management system's role in the current crisis may undermine its track record as a system that meets the requirements of a well-functioning state.¹¹

During 2011, Israel transferred NIS 5,068 million in tax revenues to the PA, an increase of 5.9% compared to the previous year.¹² As mentioned above, income from transfers of taxes collected by Israel matched PA forecasts for the 2011 fiscal year.¹³

In an effort to assist the PA in increasing its budget revenues, discussions were held between the ministries of finance of Israel and the PA during 2011. The discussions revolved around ways to improve clearance revenue collection and minimize leakages, tax collection from the Gaza Strip and allowing the PA to settle electricity bills directly with the Israeli provider, among others.¹⁴

The above underlines the shortcomings of the PA's current fiscal management framework, which helped contribute to the present fiscal crisis. This demonstrates the need for further reform in order for the PA to meet the standards of a well-functioning state. It also emphasizes the need to intensify investment in developing private sector activity. Israel strives to support this effort.

¹¹ For further information, see Chapter 2, below.

¹² Israel Ministry of Finance.

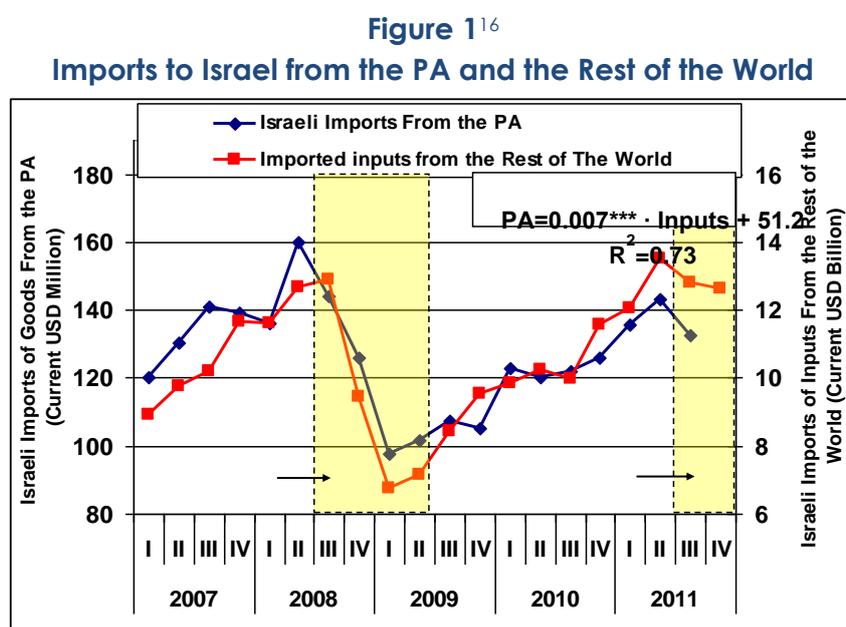
¹³ Israel collects revenues on behalf of the PA and transfers more than USD 100 million in tax revenues to the PA, on a monthly basis, in accordance with the 1994 Paris Protocol.

¹⁴For further information about the Ministry of Finance joint team, see Chapter Two below.

Trade with Israel

Israeli purchases from Palestinians constitute about 90% of all purchases from Palestinians. Naturally, sales from the PA to Israel depend on demand in the Israeli economy. These sales dropped in late 2008 and early 2009, as Israel was impacted by the global recession, and then recovered after 2009/Q2, when the Israeli economy recovered from the recession. This trend paralleled imports to Israel from the rest of the world.¹⁵

Figure 1 below demonstrates the impact of the global recession on sales to Israel from the PA and the rest of the world.



In 2011, overall Israeli trade with the PA (goods and services) totaled **USD 4.308 billion, an increase of 2.1%** compared to 2010. Israeli purchases from the PA amounted to **USD 815.9 million, an increase of 18.3%**. Israeli sales to the PA amounted to **USD 3.492 billion, a decrease of 1.1%** compared to 2010.¹⁷ In 2011, the share of imported goods originating from Israel in total Palestinian imports was 73%. Palestinian sales to Israel continued to constitute more than 90 percent of Palestinian exports. Encouraging Palestinian exports

¹⁵ Notably the IMF (April 2011, p. 8) and UNCTAD (July 2011, p. 6) claimed that the 2009 drop in exports to Israel resulted from the construction of the security fence, yet they did not provide adequate evidence to support these claims. Indeed, the fence was not built during 2008-9, when the Palestinian exports dropped, nor was it removed in 2010 when the Palestinian exports to Israel increased, but rather the Israeli economy slowed down and recovered from the global recession, accordingly.

¹⁶ ICBS

¹⁷ ICBS

to expand to new markets is likely to enhance the local economy, and reduce its dependency on the Israeli market.¹⁸

Netanyahu- Blair Package – Israeli Measures for Economic Growth

On February 4, 2011, a package of measures designed to facilitate economic activity in the West Bank and Gaza was agreed between Prime Minister Netanyahu and Quartet Representative Blair.

Below are the measures related to the **West Bank**, and their status of implementation¹⁹:

- Telecommunications
The GOI transferred frequencies to Wataniya Telecom Company (pending since November 2009), completing its commitment to the PA. The Palestinians have not yet fulfilled their commitment to return temporary frequencies given by Israel in the past.
- Area C Schools and Health Clinics
The GOI has committed to prioritizing projects in Area C, and fast-tracking the construction and renovation of a number of schools and health clinics in Area C, from the lists submitted by the OQR and SEMEP. 27 out of 31 projects submitted have been approved.
- Convening of MOF Joint Teams
Since February 14, 2011, several meetings have been held between MOF officials from both sides, aiming to improve the mechanism of tax revenue collection, inter alia.²⁰
- PA Security Presence in Area B
The GOI has agreed in principle to facilitate expansion of the PA security presence to seven towns in Area B. The Palestinian side has indicated that they are preparing a list of seven new police stations to be built. The list has not yet been submitted.
- West Bank IDs for Gazans Residing in West Bank
The GOI has agreed to authorize 5,000 West Bank residents who currently hold Gaza IDs to change their address for ID purposes to the West Bank. Thus far, 3,857 residents have submitted requests. 2,777

¹⁸ PCBS

¹⁹ Information regarding measures for **Gaza** appears in Chapter Four of this Report, which addresses Israel's policy towards the Gaza Strip.

²⁰ For further information, see Chapter 3 below.

requests have been approved, 790 are currently being processed, and 200 additional West Bank residents might be approved.²¹

Developing Industrial Zones

In the Bethlehem Industrial Area, initiated with the sponsorship of the French Government, a number of companies have already commenced operations, or plan to commence operations, including a number of training centers, a car dealership, a dairy manufacturer and others. In the planned Jericho Agro-Industrial Park, sponsored by the government of Japan, there is modest progress on the ground. Israel supports these projects and considers them a crucial development for further Palestinian economic growth, through upgrading the level and volume of Palestinian trade, as well as a valuable provider of new jobs.

Upgrading of Commercial Crossings²²

During 2011, Israel continued to upgrade the infrastructure of the commercial crossings between Israel and the West Bank. The volume of commercial activity at the crossings continued to grow, with an average of 1,330 trucks passing through the crossings each day. There was an even distribution between the number of trucks carrying sales and purchases, a 5% increase in comparison to 2010.²³ In the area surrounding Jerusalem, there was a **58% increase** in the number of shipments passing through the Beituniya Crossing in the first eight months of 2011 (28,949 entries and exits), compared to the first eight months of 2010 (16,672 entries and exits).²⁴

Gilboa/Jalame Crossing

Since the Gilboa/Jalameh crossing reopened for Arab-Israeli visitors to the West Bank in November 2009, over 835,000 vehicles have entered the West Bank through the crossing and volumes over the last several months have averaged well over 8,000 per week.

In December 2011, an average of 3,317 vehicles passed between Israel and Jenin each day at the Gilboa/Jalame Crossing. On Saturdays, this number reached 5,700. Record levels are recorded during the Muslim holidays Eid al-Fitr and Eid al-Adha. For example, during Eid al-Adha the daily number of vehicles peaked at 12,697. During Eid al-Fitr, the number climbed to 8,650. In

²¹ COGAT

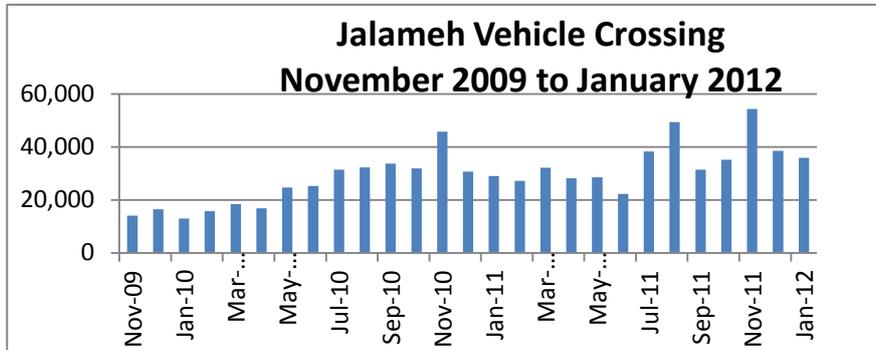
²² Ministry of Defense, Land Crossings Authority

²³ This figure does not reflect goods smuggled through areas other than the Land Crossings. Ministry of Defense, Land Crossings Authority

²⁴ Israeli Police - Commander of Jerusalem Vicinity

2011, a total of 434,382 cars crossed into Jenin, a 32% increase in comparison to 2010.

Figure 2²⁵
Vehicles Passing Through Gilboa/Jalame
November 2009 to January 2012



In partnership with USAID, NIS 18 million has been invested in the upgrade of the Gilboa/Jalame Crossing. Access roads have been expanded on both the Israeli and Palestinian sides. Additional lanes have also been built.²⁶ The scanner area was expanded, an area for the intake of containers was constructed, and an area was built for the transfer of cement in bulk from Israel to the Palestinian side.

Currently, Israel's Ministry for Regional Cooperation is financing a project to add two vehicle lanes to the Gilboa/Jalame Crossing, in order to facilitate the entry of Israelis to the Jenin area. At present, approximately 1,500 vehicles pass through the crossing daily (3,000 on weekends). This project is intended to ease the heavy load of traffic at the crossing, resulting from the large number of vehicles passing through the crossing, and to enable the passage of additional vehicles. The Ministry is expected to invest NIS 5 million in the project. A tender for the project is expected in April 2012. Project completion is projected for September 2012.²⁷

The Gilboa/Jalame Crossing is now open from 8 am to 7 pm seven days per week. During the month of Ramadan, Muslim holidays and special occasions (such as festivals), the crossing remains open until 24:00.

The average expenditure in Jenin per individual is NIS 400.²⁸ According to surveys conducted in October 2010 by the USAID Trade Facilitation Project, when the traffic volumes through the Gilboa/Jalameh Crossing were 7,000 per

²⁶ Ministry of Defense, Land Crossings Authority

²⁷ Ministry for Regional Cooperation

²⁸ Israeli Civil Administration

week, a conservative estimate of weekly Israeli Arab expenditures in Jenin was USD 1 million. The surveys also indicated that local businesses were reacting to the influx of shoppers by changing their range of goods and services, hiring more employees and/or expanding hours for existing employees, and launching new advertising programs.²⁹

Shaar Efrayim Crossing

In 2011, an average of 380 trucks passed through the Shaar Efrayim Crossing each day. The daily average of pedestrians passing through the crossing during this period was 3,500.

In partnership with USAID, NIS 15 million has been invested in the upgrade of the Shaar Efrayim Crossing. Access roads have been constructed in order to ease heavy traffic. Additional scanner and aggregate areas have been built, and the area of the crossing has been doubled. Additional lanes have been constructed, and lanes have been merged.³⁰ This upgrade has enabled a substantial increase in the volume of goods passing through the crossing and has cut in half the time it takes to transport goods through the crossing.

In addition, the construction of a meeting lounge for Israeli and Palestinian businesspeople is underway. It is expected to enhance the business environment, and to help provide additional tools to expand trade and investment in the PA. Completion is projected for November 2012.³¹

Tarkumiya Crossing³²

In 2011, an average of 467 trucks passed through the crossing each day. The daily average of pedestrians passing through the crossing during this period was 3,100.

In partnership with USAID, an NIS 13.5 million project aims to expand the passage area for goods, the entry to the passage area, and other unloading areas, at the Tarkumiya Crossing. Furthermore, an additional scanner will be installed, and additional unloading areas will be constructed. USAID has placed the project on hold, due to budgeting considerations.

Hours of operation have been expanded to 13 hours a day.

²⁹ USAID

³¹ Ministry for Regional Cooperation

³² Crossings Authority

Pedestrian and Vehicle Crossings

In 2011, an average of 16,076 pedestrians passed through the main West Bank terminals each day, a 12% increase compared to 2010 (when the daily average numbered 14,375 pedestrians). An average of 9,500 vehicles and 1,570 trucks passed through the crossings each day.³³

Several projects are underway for the upgrading of pedestrian crossings, inter alia at the following crossings: Meitar (an NIS 3 million project), Eyal, Eliyahu, Cross-Shomron³⁴ and Rachel (installation of new technology to facilitate the smooth passage of tourists and Palestinians, funded by the Ministry for Regional Cooperation at a cost of NIS 500,000).³⁵ Authorization was given for tourist busses to pass through Mazmoria and Minharot Crossings, shortening waiting times for tourists at crossings.³⁶

International Trade³⁷

In 2011, Palestinian imports (except Israel) amounted to USD 1,758,147,197 a 9.22% increase compared to the parallel period in the previous year. Palestinian exports (except Israel) amounted to USD 105,831,164, a 13% increase compared to the parallel period in the previous year.

Palestinian international trade is transported through Israeli ports and airports or via the Allenby Bridge.

Allenby Bridge³⁸

The Allenby Bridge serves Palestinian trade with international markets³⁹ as well as the passage of pedestrians and vehicles. The volume of exports passing through the Allenby Crossing from the West Bank increased, as follows⁴⁰:

- The volume of shipments in 2011 numbered 20,753, a 33.18% increase compared to 2010 (15,583 shipments). In January and February 2012, the volume increased by 46.76% (numbering 3,487 shipments), compared to the parallel period in 2011 (2,376 shipments).
- The volume of vehicle imports to the Palestinian Authority increased by 38.10% in 2011 (4,212 vehicles) compared to 2010 (3,050 vehicles). In

³³ Crossings Authority

³⁴ Commander, Surrounding Areas of Jerusalem

³⁵ Ministry for Regional Cooperation

³⁶ Israel Police Force

³⁷ Israel Customs Directorate

³⁸ Israel Airport Authority

³⁹ Palestinian international trade is also transported through Israeli ports and airports.

⁴⁰ Israel Airports Authority

January and February 2012 there was a 108% increase (539 vehicles), compared to the parallel period in 2011 (259 vehicles).

- The volume of passengers at the Allenby Bridge decreased by -0.60% in 2011 (1,669,826 passengers) compared to 2010 (1,679,845 passengers). In January and February 2012, there was an 11.30% increase (211,321 passengers) compared to the parallel period 2011 (189,864 passengers).
- The volume of vehicles passing through the Allenby Bridge increased by 6.43% in 2011 (10,294 vehicles), compared to 2010 (9,672 vehicles). In January and February 2012, there was a 24.13% increase (1,888 vehicles), compared to the parallel period in 2011 (1,521 vehicles).

For the past few years, the hours of operation of the Allenby Bridge have been extended, and the bridge is now open from Sunday through Thursday until midnight (8:00 – 24:00) for passengers and for commercial traffic. On weekends (Friday and Saturday), the bridge is open until late afternoon (8:00 – 15:00). Israel is ready to install a container scanner for use at the Allenby Bridge. In February 2012, the Dutch Government declared that it will sponsor the project, financing the scanner (approximately USD 2.5 million plus USD 1 million for maintenance). The construction of the scanner area, which will be funded by Israel, is projected at approximately USD 7.5 million. Use of the scanner is expected to improve trade conditions and increase the competitive capabilities of Palestinian manufacturers, enabling Palestinian output for export to increase by 30% (based on a survey conducted among Palestinian merchants).⁴¹

Marketing Dairy and Meat Products to Jerusalem – Capacity Building

Marketing Palestinian meat and dairy products and capacity building has been discussed between the parties in several bilateral meetings between officials from both sides. The Israeli authorities, the Office of the Quartet, USAID, TAIEX, UNIDO and FAO have joined forces in a project intended to help food manufacturers meet the veterinary standards required to export their goods to Jerusalem and the rest of the world. The project will help develop veterinary capabilities in the PA, and adherence to international standards. Temporary authorization to market these goods to East Jerusalem has been granted until the end of March 2012.⁴²

⁴¹ Ministry for Regional Cooperation

⁴² COGAT, Ministry for Regional Cooperation

Upgrading Electricity Infrastructure

In February 2012, an agreement was signed between the Israel Electric Corporation and the Palestinian Energy Authority to build four electricity substations throughout the West Bank. The substations will be built in Jenin (90 megawatt), Nablus (135 megawatt), Atarot near Ramallah (180 megawatt) and Tarkumiya (90 megawatt). The substations will substantially increase capacity to supply electricity throughout the West Bank, and will upgrade the potential for economic development⁴³.

Developing Potential in the Tourism Sector

In 2011, tourism from abroad to Bethlehem increased by 7.5%, numbering 1,174,280 tourists, compared to 1,092,811 tourists in 2010. Internal Palestinian tourism to Jericho also increased in 2011, numbering 713,224 tourists, compared to 540,389 tourists in 2010. Foreign tourism to Jericho remained stable, numbering 550,029 tourists in 2011 and 551,505 tourists in 2010.⁴⁴

The Office of the Quartet, together with Israel's Ministry for Regional Cooperation and the private sector in the PA, are cooperating on a project to mark out tourist routes that run through the West Bank, with the objective of offering joint tourism packages together with the Palestinian Ministry of Tourism. Within this project, a procedure to enable passage of tourists through the Jalame/Gilboa Crossing has been formulated, and a procedure for continuous travel through the West Bank is being formulated with the help of the Civil Administration. At present, this project is being conducted with the private sector.⁴⁵

Movement and Access⁴⁶

Despite the continued security challenges faced by Israel, a number of steps were taken to ease movement and access in the West Bank.

In 2011, three internal checkpoints which had previously operated as "normally open" (i.e. impede movement only when security warnings are issued), were removed:

- Hashomronim Checkpoint near Nablus was removed in December 2011.

⁴³ This agreement was made possible due to support offered by the European Investment Bank (EIB).

⁴⁴ COGAT

⁴⁵ Ministry for Regional Cooperation

⁴⁶ COGAT

- The "Barrels" (Dir Sharaf) Checkpoint near Nablus was removed in the beginning of 2011.
- Checkpoint 197 (Einav, Anabta) in the Efraim area was removed in the beginning of 2011.⁴⁷

There are 11 checkpoints remaining, the majority of which are "normally open".

A number of steps were taken to facilitate religious worship, particularly during the Muslim and Christian holidays of 2011.

During Eid al-Adha:

- Hours of operation at the Courthouse Checkpoint were extended until 22:00, and there was free movement at the crossing from 22:00 until 6:00 the next day.
- Hours of operation were extended until midnight at Reihan, Jalame/Gilboa, and Gate 300, throughout the entire holiday.
- Approval was granted for Palestinians to return to the West Bank through Al-Jeeb.
- The Baqaa al-Sharqiya Crossing was open for movement in both directions during the holiday until midnight.
- The Khirbet Jabara crossing was open to movement in both directions during the holiday until midnight.
- 23,440 permits were granted to visit family in Israel.

During Ramadan:

- Four roadblocks were opened throughout the West Bank to ease movement of Palestinians.
- There was free movement at the Courthouse Checkpoint from 22:00.
- Hours of operation were extended until 22:00 for Israelis at Reihan, Jalame/Gilboa, and Gate 300. During Eid al-Fitr they were extended until 24:00.
- The Tulkarem crossings, near Highway 6, were opened 7 days a week, throughout Ramadan.

⁴⁷ Civil Administration

- The "Gray Gate" at Dahiet al-Bareed was open, for entry to the West Bank, between 19:00 and 22:00.
- During the holiday, 31,639 permits were granted for prayers.

Christian Holidays:

- Approximately 91,000 permits were granted to Christians during Christian holidays.
- Permit times were extended during different Christian holidays.
- The baptism site was opened for ceremonies by different Christian denominations, and about 15,500 Christian pilgrims participated in ceremonies.
- During Christmas, 18,766 permits were granted to enter Israel, an increase of 144% compared to 2010.
- During Christmas, approximately 250,000 visitors and tourists entered Bethlehem, the same amount as the previous year.
- Tourists entered Bethlehem (organized groups and tourist busses) through all crossings, and continue to do so since the holiday.
- During Christmas, permits were granted for Christians from the West Bank to enter Israel (no age restrictions) throughout the entire holiday.
- Permits were granted to 400 Palestinian Christians to visit their families abroad through Ben Gurion Airport.
- 200 permits were allocated for Christians from Arab countries to visit the West Bank during Christmas.
- Permits were granted for an additional 300 church employees.

Additional measures have been taken to encourage trade:

- The number of permits for traders⁴⁸ has been increased by 1,000 and is currently 16,000.

⁴⁸ Individuals recognized as traders by the Civil Administration are eligible for permits to enter Israel in order to engage in trade.

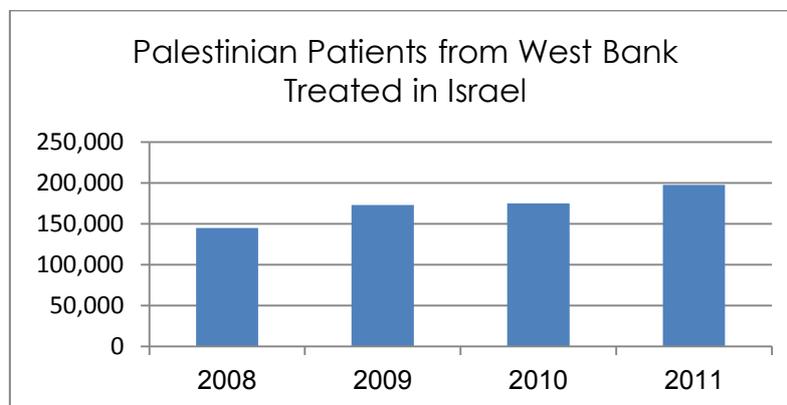
- A growing number of Israelis are now entering Area A in order to procure goods and services. They provide a significant contribution to the Palestinian economy in the West Bank.

Health Care⁴⁹

Thousands of Palestinian patients receive medical treatment in Israel each year. In 2011, 197,713 permits were granted for patients and accompanying individuals to enter Israel for medical treatment, a 13 percent increase from 2010 when 175,151 Palestinians were treated). Furthermore, 21,538 Palestinian children from the West Bank were treated in hospitals in Israel in 2011, a sharp 171% rise from 2010 (when 7,944 children were treated). In addition, a number of projects continue to enable Palestinian doctors to conduct residency training in Israeli hospitals. In 2011, 118 training sessions were held in Israeli hospitals for medical teams from the West Bank.

Figure 3 below demonstrates the numbers of patients from the West Bank who received medical care in Israel from 2008 to 2011.

**Figure 3: Palestinian Patients from the West Bank Treated in Israel⁵⁰
2008 – 2011**



Security Cooperation

In 2011, 764 joint security meetings were held, a 5% increase compared to 2010. In addition to the routine meetings held between officers from the Israeli and Palestinian police forces (440 routine meetings in 2011), a number of meetings were held at different levels⁵¹:

⁴⁹ COGAT

⁵⁰ COGAT

⁵¹ Israel Police Force

- During the end of 2011 and the beginning of 2012, three joint study days were held for the Israeli and Palestinian police forces, in cooperation with the European Union, on the topics of evidence, drug trafficking and transportation.
- Meetings were held between Israeli and Palestinian commanders of districts and police stations, including between the Commander of the Samaria area and Palestinian commanders from Jenin, Nablus, Tulkarem and Qalqilya, as well as between the Commander of the Benjamin and Maale Adumim police stations, and their Palestinian counterparts.
- Meetings were also held between the Head of the Operations Branch and his Palestinian counterpart; the Head of the Etgar Unit (a unit charged with combatting automobile theft) and the Head of the Investigations Department of the Palestinian Police, regarding plants where stolen vehicles are disassembled to resell parts, and improving cooperation to combat this phenomenon; an officer of the Judea and Samaria Transportation Unit and his Palestinian counterpart, including a visit to the police headquarters in Ramallah; the Head of the forensics lab and representatives from the Palestinian forensics lab and the European Union, including a visit to the labs; and in addition meetings were held of the Joint Investigations Committee.

Assistance was provided to approximately 16,000 Palestinian residents, in a range of policing duties. Approximately 3,800 requests from the Palestinian police were processed, covering a range of issues. Complaints from over 550 Palestinian residents were processed.

Firefighting Equipment

The Israeli Ministry for Regional Cooperation is taking part in the purchase of fire trucks and the upgrade of firefighting equipment in major cities in the PA (Ramallah, Nablus, Hebron and others). The Ministry is currently examining a request to provide NIS 6 million in funding (in addition to NIS 5 million invested in 2010). The Civil Administration has an agreement for firefighting in PA territory with the Cities Union for firefighting in the West Bank.⁵²

Security Challenges

Maintaining security and preventing terrorism is critical in order to promote stability and economic development on the ground. Despite improved security coordination and relative calm throughout the year, terrorism

⁵² Ministry for Regional Cooperation

continues to threaten the lives of innocent civilians in the area. Unfortunately, in 2011 terrorists in the West Bank were able to increase operations, leading to a 10% rise in terrorist incidents emanating from the West Bank (563 incidents in 2011 compared to 463 in 2010). Thus, in the area surrounding Jerusalem, 191 terrorist incidents were recorded in 2011, up from 144 in 2010 and 112 in 2009. Concurrently, the death toll of terrorist incidents from the West Bank rose for the second year in a row, taking 10 lives in 2011 (versus 8 in 2010).⁵³

Terrorist incidents were recorded at the crossings surrounding Jerusalem (Rachel, Zeitim, Atarot, and Ofer), including stone-throwing (105 incidents) and the use of Molotov cocktails (19 incidents).⁵⁴

The ISA has noted that during 2011, Hamas has been trying to rehabilitate its military infrastructure in the West Bank in order to carry out attacks against Israeli targets. The Hamas leadership abroad has provided funding, guidance and training for the establishment of terrorist infrastructure. Hamas in the Gaza Strip has been involved as well, attempting to move weaponry into the West Bank and providing funding for terrorist activities.⁵⁵

⁵³ ISA

⁵⁴ Israel Police Force

⁵⁵ <http://www.idf.il/1283-13091-en/Dover.aspx>

Chapter Two

Cooperation in Water Supply and Infrastructure

Cooperation in Water Supply⁵⁶

This section relates to water supply cooperation between Israel and the PA, as well as in coordination with the international community, in the West Bank.⁵⁷

Dialogue and cooperation between the Israeli and Palestinian water authorities continued in 2011 on all levels - the technical level and the most senior levels - in accordance with the Water Agreement between the two sides. A number of meetings were held at the level of Director General of the Israeli Water Authority and the Palestinian Water Minister regarding water problems and possible solutions in the West Bank and Gaza. Israel does its utmost to help the Palestinians with their every request, except for projects that have not been approved by the Joint Water Committee (Hereinafter: JWC) or that are part of unlawful construction.

Within this cooperation:

- Despite the drought, in 2011 Israel continued to directly supply some 52 million cubic meters per annum to the Palestinians, about 21 MCM more per annum than its obligation under the Water Agreement.
- Five joint subcommittee meetings were held under the auspices of the JWC, as well as 12 coordination meetings together with professional Israeli bodies such as the Mekorot Water Corporation, COGAT, the Sewage Authority, the Ministry for Environmental Protection, the Hydrological Service, and others. Some one hundred different projects in the areas of water and sewage, hydrology, wells and other relevant areas were discussed at these meetings. Two JWC protocols on fast-track approvals were also signed.

Approximately 30 Palestinian wastewater treatment projects in the West Bank have been discussed in the joint committees, with some of them gaining final approval and some approved in principle, while most are not being promoted by the Palestinians for various reasons. One of the main

⁵⁶ Israel Water Authority

⁵⁷ For information on water supply in Gaza, see Chapter Four below.

problems is the lack of funding and involvement by the donors, with the most notable exceptions being Germany and the US.

The following cooperation projects are underway:

- In the fast-track JWC procedure, 54 Palestinian wells have been approved for upgrade and 3 more for replacement, to take the place of unusable wells in the eastern aquifer.
- In addition, drilling commenced on 4 wells in the agreed-upon “nature reserve” in the eastern aquifer. Two more new drilling projects were also approved in the West Bank (in Auja and Kufeirat).
- Israel is waiting for an alternative Palestinian plan to be submitted for a water pipe from Dir Shaar to Halhul.
- Israel hopes the Palestinians will soon begin operating the filtration facility in the Hebron Industrial Area, so it can operate the wastewater treatment facility in the vicinity of the Shoket Junction which is meant to treat all the waste flowing southward from the Hebron area. Failure to operate the filtration facility causes the sewage flowing south from this locality to contaminate water sources and the environment in the area of the Shoket Junction and Beer Sheva.

In addition, the following activities took place in contact with representatives from the international community:

- Two trilateral meetings between Israel, the United States and the Palestinians, in a complementary forum to the JWC.
- Two broader meetings with Israel, the Palestinians, the US and Norway to discuss specific issues related to the water problem in Gaza.
- Seventeen preparation and coordination meetings with State Department representatives and USAID staffers.
- Two meetings with German KFW representatives, to discuss sewage projects in Tulkarm and Nablus.
- Two meetings with Japanese JICA representatives, to discuss the agricultural area and water well in Jericho.
- Eight meetings with Norwegian representatives regarding water supply to Gaza.

- Four meetings with representatives of the World Bank to discuss the wastewater treatment facilities in the northern Gaza Strip and Hebron.
- One meeting with the Dutch Representative to discuss Israeli-Palestinian cooperation.
- A debriefing session with the Quartet Representative.

Wastewater Treatment

Unfortunately, Israeli efforts to cooperate in finding solutions to sewage problems in Palestinian villages in the West Bank are often met with Palestinian resistance, despite willingness on the part of Israel to cooperate and invest resources, particularly since this is an environmental issue with long term repercussions for health and the environment.⁵⁸ Despite this, a number of wastewater projects have been able to move forward:

- Connection of A-Zaim Village to the Jerusalem Sewage System:

This project includes connection of 100 households, building a pumping station, and laying infrastructure pipes. The project aims to serve the Palestinian population and provide a solution to ongoing pollution in the Jerusalem area. Project implementation improves cooperation between Israelis and Palestinians and helps remove environmental hazards. The project is ready for immediate implementation, at a projected cost of NIS 8 million.⁵⁹

- Connection of the Samaritan Village to Wastewater Plant:

This project includes laying internal sewage infrastructure for 120 existing households (as well as an additional 80 households), building a pumping station, and laying infrastructure pipes. The project aims to improve the standard of living for the local population, and will also enable treatment necessary for the use of water for agricultural purposes. The project is scheduled for implementation in 2012 at a projected cost of NIS 4.9 million.⁶⁰

⁵⁸ Ministry for Regional Cooperation

⁵⁹ Ministry for Regional Cooperation

Hebron Wastewater Treatment Plant

Israel would like to thank the World Bank and the United States for their contributions to a project to build a wastewater treatment plant in Hebron. The World Bank undertook, in mid-September 2011, to fund and support the treatment plant, which had been held up for a number of years due to lack of funding. The United States was instrumental in promoting World Bank involvement in this project. This project will make a significant contribution to the environment in the Hebron and Beersheba areas, which suffer from sewage contamination. Israel offered training for Palestinian professionals who will operate the wastewater plant. A course for Palestinians and Jordanians began in 2010.

Although there has been welcome progress in the area of water supply, there is still much to be done, and the role of donor countries remains crucial.

Development in Area C⁶¹

The majority of the Palestinian population is concentrated in areas A and B, where civil powers and responsibilities are under the jurisdiction of the PA, in accordance with the Interim Agreement. In Area C, where between 60,000 and 70,000 Palestinians are resident, civil powers and responsibilities, including with regard to planning and construction, remain under Israeli jurisdiction, with the exception of certain powers and responsibilities not relating to territory, as set out in the Interim Agreement. The final status of Area C will be determined through bilateral negotiations between Israel and the PA.

There is a clear, well-organized procedure for approval of projects through a Civil Administration planning committee.

As illustrated by figure 4 below, in 2011, 182 project requests were submitted, of which 119 were approved, 19 were denied, and 44 are under examination.

⁶¹ COGAT

**Figure 4: Status of the Projects Advanced in 2011
Area C**

	Submitted	Approved	Denied	Under Examination
International Organizations roads, environment, water, etc.	78	58 Completed: 28 Implementation: 5 Awaiting Funding: 25	5	15 By Civil Administration: 6 By Organization: 9
Economic quarries, gas stations, factories	22	14	4	4
Infrastructure schools, clinics, electricity, etc.	82	47 Completed: 29 Awaiting Palestinian Activity: 18	10	25
Total	182	119	19	44

International Community Infrastructure Projects

During 2011, 58 out of 78 infrastructure projects funded by the international community in Area C were approved. The total value of these projects was approximately USD 300 million. Priority is given to projects for building and renovating schools and clinics, which appear on the lists of the Quartet and the US Team.

The international community's contribution in this area is important. These projects, primarily in the areas of roads, environment, water, infrastructure, and agriculture contribute to the community's well-being and protect the environment. Unfortunately, many of the projects that have been approved have not yet been implemented due to a lack of funding.

Israel facilitates, in coordination with the PA and the international community, the relevant procedures in order to enable large projects to move forward. For example, a temporary access road was approved in order to enable the construction of the new city of Rawabi, near Ramallah. Some of these projects are stalled due to factors beyond Israel's control

The distribution of projects in Area C funded by the international community is illustrated in Figure 5, below:

**Figure 5: Projects in Area C Funded by the International Community
Breakdown by Organizations and Fields**

Project	Organization	Approved	Under Examination	Denied	Total
Roads	USAID	38 (15 completed, 23 awaiting funding/under examination by organization)	2 By Organization	0	40
Environment	KFW World Bank	3 (1 completed, 2 under construction)	7 By Organization: 6 By Civil Administration: 1	0	10
Water	USAID	3 (1 completed, 1 under construction, 1 awaiting funding/under examination by organization)	1 By Organization	0	4
Infrastructure	-	2 (1 completed, 1 under construction)	0	0	2
Agriculture	ICRC	12 (10 completed, 1 under construction, 1 awaiting funding/under examination by organization)	5 By Civil Administration	5	22
Total	-	58	15	5	78

Chapter Three

Fiscal Cooperation⁶²

Transfer of Clearance Revenues

Cooperation between the ministries of finance of Israel and the Palestinian Authority includes, inter alia, the regular transfer of tax clearance revenues to the Palestinian Ministry of Finance by the Israeli Ministry of Finance, meetings of the joint bilateral MOF professional team, and training for Palestinian professionals on customs and tax systems.

In accordance with the Paris Protocol, Israel collects customs and several other kinds of taxes on behalf of the PA, and in the beginning of each month, transfers the previous month's tax revenues to the PA.

Transfers of tax revenues have been made on a monthly basis. Revenues transferred constitute one of the PA's primary sources of income, and are indispensable, together with budget support provided by donors and local tax collection, in enabling the PA to sustain operations, including payment of public sector salaries and private sector contracts.

In 2011, total taxes collected for the PA amounted to NIS 5,068,544,766

The following tables illustrate transfers since 2007:

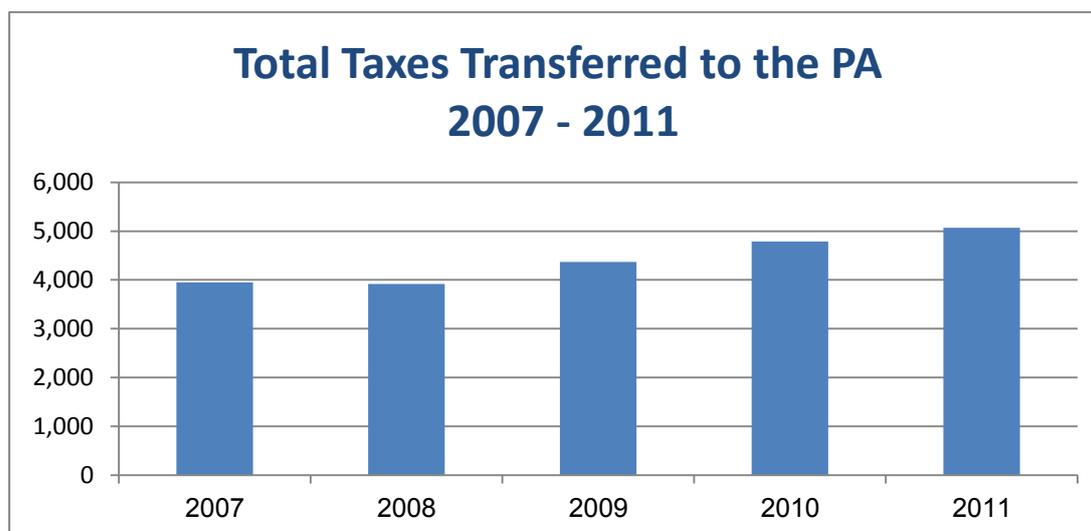
Figure 6 : Transfer of Tax Clearance Revenues 2007-2011

(Millions of NIS)

Year	Import Taxes	VAT	Fuel Excise	Purchase Tax	Total
2007	1,263	1,439	1,222	23	3,947
2008	1,313	1,366	1,226	13	3,918
2009	1,523	1,377	1,457	15	4,372
2010	1,630	1,503	1,640	14	4,787
2011	1,803	1,622	1,637	6.8	5,068.8
Total 2007-2011	7,532	7,307	7,182	72	22,093
Increase:2011 vs 2010 (%)	10.6	7.9	-0.2	-51.5	5.9

⁶² Ministry of Finance

Figure 7
Total Taxes Transferred to the PA 2007 – 2011



Joint Ministries of Finance Team

At the beginning of 2011, the Israeli Ministry of Finance and the PA Ministry of Finance decided to establish a joint team (MOF to MOF) headed by the Head of the Israeli Customs Directorate and the Palestinian General Accountant. The Joint Team has held several meetings, has set an agreed agenda and has addressed issues such as updating existing economic arrangements, increasing transparency, and mutual information sharing. The team has discussed principles for cooperation on several issues, including Allenby Bridge passage fees, electricity payments, and a mechanism for the transfer of goods and other issues.

The sides have also discussed the development of an electronic interface to access data compiled by Israel on imports via Israel to the West Bank and Gaza, for the purposes of assessing clearance revenues owed to the PA. The technical side has been agreed with the Israel Customs Directorate, and a work contract is expected to be signed between the Palestinian Authority Customs and Excise (PACE) and the company selected to develop the interface.

Israel Tax Authority Training Activities for the PA Tax Administration

The Israel Tax Authority supports international efforts to provide technical assistance to the PA in the area of taxation. It plays a major role in the implementation of a comprehensive reform of tax administration with technical assistance from the IMF, DFID and USAID.

Cooperation between the Israeli and Palestinian Customs Authorities

The Israel Customs Directorate (ICD) continues to support capacity building for the development of PACE, and views it as an important element both for PACE and for strengthening cooperation between the customs administrations of both sides. ICD considers itself an active partner and is willing to assist PACE with its professional capacity building.

In 2011, Israel Customs continued to make efforts to strengthen its relations with PACE, and contribute to PACE capacity building, as follows:

Working Meetings between Officials of ICD and PACE

- In the first half of 2011, a number of meetings were held between senior customs officials of ICD and PACE in order to discuss and clarify certain issues, receive updates, exchange information and forward requests.
- Within the framework of the ongoing cooperation between the two administrations, meetings at the director general level as well as the senior professional level are held periodically between the two sides.
- ICD is working on a computer interface which will enable it to transmit electronically, on a daily basis, the information stored in the import entries of Palestinian importers. This will provide PACE with a wide database for its customs control work and the establishment of an infrastructure for macro-economic data. A work contract is expected to be signed soon between PACE and "Malam Team", which is the company selected to develop the interface.

Meetings with Importers

Meetings were held between ICD officials and Palestinian importers as per the importers' request.

For example, in February 2012 a meeting was held between the Acting Director General of the Israel Tax Authority and a group of Palestinian traders, including importers and exporters. The purpose of the meeting was to give the traders the opportunity to discuss various issues and problems of interest, and to examine solutions.

In February 2012, a visit of Palestinian traders, importers and exporters, was held at Ashdod port. The visit program included a lecture by a customs official and a guided tour of the Ashdod container scanner x-ray site.

Training Activities

- In a study visit, in January 2011, the Director General of PACE visited the Israeli customs office at the Tel Aviv Central Post Office in order to become familiar with the customs procedures and methods in the field of parcel inspection.
- ICD and PACE cooperate in learning working methods in bonded warehouses where vehicles are stored prior to their release from customs. These activities are funded by USAID. In August 2011, PACE representatives conducted a study visit to a vehicle bonded warehouse in Israel.
- In February 2012, a course on customs related issues started under the auspices of the Israeli Chamber of Commerce. The course, intended for Palestinian businessmen, will primarily address issues of classification, valuation, legality of importation, international shipping and other issues.
- Joint working procedures have been formulated by the customs authorities to enable the release of goods from customs control under the various conditions of conditional exemption, for coordination and cooperation between them.
- Additional training programs are planned for the future, including a training course on the topic of investigations, a seminar for PACE officials on Israel's free trade agreements while a meeting on the topic of risk assessment is planned between representatives of ICD, PACE and Jordanian customs.

Other Cooperation between PACE and ICD

- In 2010, a procedure that allowed Palestinian importers to take cars out of bonded warehouses in Israel, in order to display them in their stores in the Palestinian areas, was approved. This procedure was continued in 2011.
- The Palestinians requested to exempt vehicles intended for foreign investors and the handicapped from import taxes. This request is currently being examined by ICD.
- ICD is further examining the possibility of the construction of a general vehicle bonded warehouse in the Palestinian areas.

- The possibility of constructing a bonded warehouse at the Allenby Bridge border crossing is also being examined.

Cooperation with the Private Sector

In 2011, ICD held meetings with Palestinian businesspeople on different topics, including holding a panel attended by USAID representatives on various customs and operational issues, and a meeting with Palestinian businessman and freight forwarders.

Transfer of Deficits Collected from PA Importers and Electronic Transmission of the Details of the Deficits for Collection by PACE

According to an arrangement pursuant to the Interim Agreement, ICD transfers to the PA taxes collected for imports destined for the Palestinian territories. In cases where inaccuracies are uncovered, based on post clearance audits, deficits are collected from the importers. Since May 2008, ICD has transferred the deficits collected from Palestinian importers to PACE on a monthly basis. In 2011, ICD transferred to PACE approximately NIS 26 million in deficits collected from PA importers.

Concurrently, ICD transfers information on deficits of Palestinian importers that it was unable to collect due to lack of accessibility to the PA territories. This process and the information forwarded gives PACE the necessary tools to deal with the importers within its territories, an essential stage in the professional capacity building of PACE.

In 2011, ICD continued a pilot that began in February 2010, giving PACE full responsibility for handling deficits resulting from the importation of vehicles into the PA territories.

Cooperation between the VAT Liaison and the PA VAT Unit

The Israel VAT Liaison and the PA VAT Unit cooperate actively. Cooperation includes:

- Monthly Clearance Meetings - Representatives of Israel and the PA meet on a monthly basis to determine the amounts to be transferred. In the framework of these meetings, each side raises matters that it wishes to discuss. In addition, pre-clearance preparatory meetings are held on a regular basis between the sides, in the middle of each month.

- Implementation of the Large Dealer Arrangement.⁶³
- Training in VAT for Palestinian Tax Officials - the Israel Tax Authority has prepared a professional training program for Palestinian VAT officials, similar to training courses given to Palestinian customs officials by ICD. The initiative to organize this training program is based on the common interest of two sides: the Palestinian VAT Authority and the Israel Tax Authority. The United States Government assists in funding the seminar via USAID. In March 2011, an advanced VAT training course was held. This training program was planned and authorized by the professional representatives of both sides and was approved by the Director of the Palestinian VAT Authority.
- Other Areas of Cooperation - In addition to the abovementioned clearance meetings and related activities, bilateral cooperation includes assistance in conducting verifications, including submitting investigation materials to the other side, as well as with regard to any other matter raised by one of the sides.

Clearance of Donations to the PA:

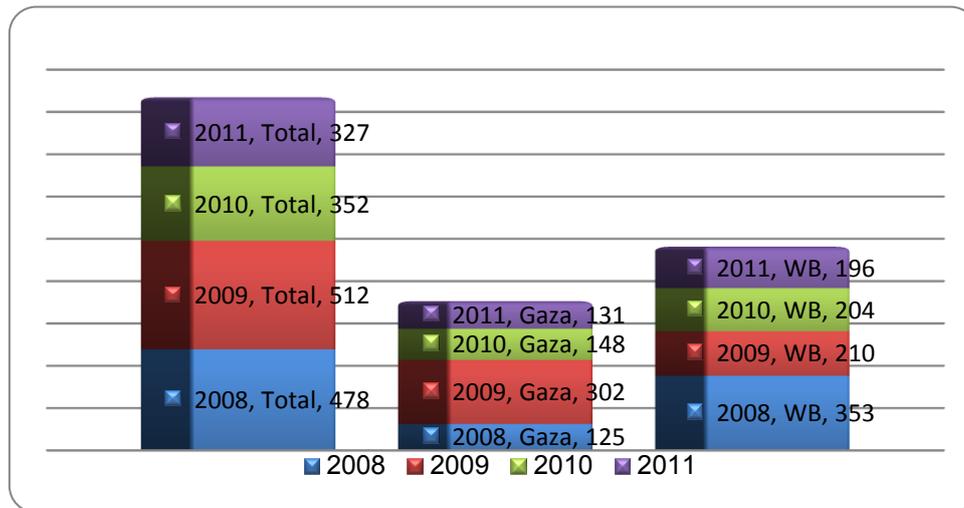
In 2011, 327 donations intended for the PA were cleared from Israeli customs. The breakdown of the donations was as follows: 55% medicines and medical equipment; 19% vehicles including cars, ambulances and trucks; 3% food donations; and 4% water and electricity infrastructure. The volume of donations in 2011 increased by 1% compared to 2010.

In 2011, the distribution of donations between the West Bank and Gaza remained the same as in 2010, as the majority of donations were destined for the West Bank (60%) and a smaller number was destined for Gaza (39%).

⁶³ An arrangement mutually agreed by the sides to facilitate trade by waiving the use of special VAT invoices while the goods are accompanied by a shipping certificate only. Clearance is conducted at the end of each month by presenting one centralized tax invoice for the sales of each month. As per the request of the Palestinians, several years ago, three large Palestinian dealers were added to the arrangement. It should be noted that this arrangement is not included in the Economic Agreement between the State of Israel and the PA. This arrangement allows the transfer of goods between the sides using shipping certificates instead of special tax invoices as required by the VAT Law. This arrangement benefits the PA authorities since the clearance includes on the average amounts exceeding NIS 25 million per month, accounting for 20% of the amount of taxes from invoices transferred to Palestinians.

Figure 8: Donations to the PA 2008-2011

Number of Donations



Cooperation between the Bank of Israel and the PMA⁶⁴

The Bank of Israel (BoI) has been working with the Palestinian Monetary Authority (PMA) to smooth banking relations between the respective economies, subject to security concerns, Israeli anti-terror financing legal requirements, and international standards. These requirements, combined with a low profitability of business relations with Palestinian banks, have induced commercial banks to limit their commercial relations with Palestinian banks. Specifically, they do not conduct business with branches located in the territory illegally controlled by Hamas (the Gaza Strip). BoI continues to exchange damaged banknotes, in coordination with the Gol, the banking system in Gaza and subject to the approval of the Gol.

Due to risks related to the financing of terrorism, some Israeli banks are still concerned about handling cash transfers from Palestinian banks. At the same time, West Bank residents have begun to deposit increasing amounts of cash in West Bank banks due to the improvement in the security situation. This has generated large amounts of excess cash in the West Bank. The trend of increasing amounts of cash deposits made by Palestinian banks in Israeli banks (including BoI as described herein) continues and has even intensified. The BoI and the PMA cooperate in transferring the excess cash to Israel. Specifically, since August 2009, the BoI, in coordination with the Gol, has arranged cash transfers from the West Bank to Israel. The BoI and the Gol also cooperated with the PMA in finding solutions for other problems that arose from time to time in Palestinian banks, such as depositing cash surpluses and exchanging worn and unfit bank notes.

⁶⁴ Bank of Israel

Chapter Four

Implementation of Israel's Policy Towards the Gaza Strip

Introduction

Since March 9, 2012, a brutal assault of rockets and mortar shells from Gaza has been terrorizing a million Israeli civilians, paralyzing their daily lives. **During a four day period alone, over 300 projectiles were fired from the Gaza Strip,** 171 hit Israeli territory, and 65 were intercepted, while the remainder fell within the Gaza Strip. This fire is deliberately aimed at heavily populated areas in Israel, including Beersheba, Ashdod, Ashkelon, and surrounding areas, forcing a million Israeli citizens to take refuge in shelters.⁶⁵ This fire targets civilian areas, hitting schools, residences and places of worship. Despite this, the State of Israel has kept the land crossings to Gaza open. Erez crossing has remained open for passengers and international organization employees. Kerem Shalom has remained open for the daily delivery of commercial goods from Israel to Gaza.

The PA has no effective control in Gaza, since Hamas⁶⁶ illegitimately seized power in 2007. While the estimated PA expenditure in Gaza reached USD 720 million in 2011 (payment for salaries as well as electricity and water supplied from Israel), the PA enjoys no income from the tax collection system that Hamas operates in Gaza.

On June 20, 2010, Israel's new Civilian Policy towards Gaza was adopted. This policy comprised the following principles:

- Publication of a list of controlled (dual use items, including certain construction materials). **All items not on the list are allowed into the Gaza Strip freely, with no need for any special permit⁶⁷.**

⁶⁵ IDF Spokesperson

⁶⁶ Hamas is a terror organization committed to Israel's destruction. It has not accepted the minimal conditions set by the international community: Recognition of Israel's right to exist, honoring the signed agreements between Israel and the Palestinian Authority, abandoning violence.

⁶⁷ The list was published on July 5, 2010, and is based strictly on security considerations, relating to the ability of terrorist organizations to utilize these items for terrorist activities, such as developing, manufacturing and upgrading rocket and explosive capabilities to be used against the civilian population. The list is transparent and can be found on the website of the Ministry of Foreign Affairs.
http://www.mfa.gov.il/MFA/HumanitarianAid/Palestinians/Lists_Controlled_Entry_Items_4-Jul-2010.htm

- Upgrading and expansion of the capacity of the commercial land crossings.
- Expansion of internationally-sponsored and monitored humanitarian projects.

Israel has implemented this policy consistently throughout the past year and a half, despite ongoing attempts by Hamas to attack populated areas within Israel, as well as the crossings between Israel and the Gaza Strip. Since adoption of the policy, **176 infrastructure and humanitarian projects, implemented by the international community, have been approved. The commercial crossing at Kerem Shalom has been upgraded to a capacity that exceeds actual daily use**, and enables the transfer of goods, aggregates, cooking gas and fuels. **The movement of businessmen from Gaza has been facilitated and construction materials have been transferred for use in international projects and pilot projects within the private sector.**

This policy, aimed at improving the quality of life in Gaza, has made a substantial contribution to the creation of a new reality on the ground and enabled an economic and humanitarian recovery in the area.

Among the factors that contributed to the economic recovery: the entry of commercial goods and raw materials from Israel; the implementation of dozens of international community sponsored infrastructure projects, which provided hundreds of new jobs; and the movement of businessmen out of Gaza. It should be noted that there is also extensive illegal traffic of commercial goods and construction materials through the tunnels.

This is reflected by the following indicators⁶⁸:

- Real GDP is estimated to have increased by 25.8% in the first three quarters of 2011.⁶⁹
- The unemployment rate in 2011 was the lowest in the past ten years (30.8% in the first quarter of 2011, 25.6% in the second quarter of 2011, and 28% in the third quarter of 2011), declining from 37% from last year.
- The volume of construction materials transferred into Gaza in 2011 was 9,060 truckloads carrying 377,028 tons of aggregates; 400 truckloads carrying 15,244 tons of iron; and 1,730 truckloads carrying 68,459 tons of cement.
- Ten private-sector factories in the Gaza Strip have been authorized to undergo expansion and renovation projects under international

⁶⁹ PCBS

supervision. Construction materials for the implementation of these projects have entered the Strip.

- The number of truckloads bringing goods to the Gaza Strip in 2011 was 53,874, carrying 1,430,590 tons, a 26% increase in truckloads and a 36% increase in volume, compared to 2010 (when 39,868 truckloads carrying 908,960 tons entered Gaza).

Netanyahu-Blair Package – Agreements Related to Gaza⁷⁰

In February 2011, Quartet Representative Tony Blair and Prime Minister Netanyahu agreed on a package which included measures for the West Bank⁷¹ and Gaza. The measures in Gaza included: Israeli agreement, following a Palestinian request, to begin discussions on the development of the "Gaza Marine" gas field; measures in the area of water, sewage and desalination facilities; upgrading the Gaza power station and other measures to increase the supply of electricity; expansion of exports and private sector imports and approval of 20 additional construction projects implemented by the international community; transfer of 377,028 tons of aggregates.

At present, implementation of a number of measures **relating to Gaza** included in the package has progressed, as follows:

- Permits for internationally sponsored projects in the Gaza Strip: As of now, **Israel has approved 176 projects**⁷².
- 377,028 tons of aggregates were successfully transferred to the Gaza Strip - 59,958 through the Sufa site, 269,312 through Kerem Shalom and 47,758 through Karni.
- In accordance with the package, produce has been exported in larger volumes than previously (see detail below). In this context, approval has also been granted to **expand exports from Gaza abroad** to include textiles and furniture (see detail below).
- It should be noted that, within the agreement reached between Blair and Netanyahu, the international community was supposed to fund the installation of a dedicated scanner by June 1, 2011, in order to

⁷⁰ For further details regarding implementation of the package in the West Bank, see Chapter 1, above.

⁷¹ West Bank measures are detailed in Chapter 1 above.

⁷² 56 of them have been approved since the package of measures agreed upon by Blair and Netanyahu in February 2011.

facilitate the expansion of exports without impacting the entry of other goods to Gaza. The international community has not met this obligation. However, a scanner from the Karni Crossing has been upgraded, and will be installed at Kerem Shalom beginning in May.

- In the area of electricity supply, a UNDP project is currently in progress to upgrade the production capacity of the power station by 40 megawatts and/or build an additional power station, subject to the submission of plans by the PA. Delays in implementation have been caused by UNDP. Projected completion of the project in 2012.⁷³
- Examination of additional sources of electricity from Israel in the medium term (2013/2014) – the matter is currently in a background study with the Israel Electric Corporation and representatives of the PA.⁷⁴
- As stated above, ten private-sector factories in the Gaza Strip have been authorized to undergo expansion and renovation projects under international supervision. Construction materials for the implementation of these projects have entered the Strip.

Cooperation on Water Supply⁷⁵

Israel has expressed its willingness to assist the Palestinians in rehabilitating Gaza's water supply system which was destroyed due to Palestinian mismanagement, mainly due to over-pumping. In this context, Israel has expressed its support for the establishment of a desalination plant in Gaza and its willingness to aid the Palestinians. Accordingly, Israel is holding desalination training courses for the Palestinians and Jordanians. A professional guided tour of the desalination plant in Ashkelon was given to Palestinian officials from the Water Authority in Gaza and at their request a similar tour is slated to take place at another plant in Nahal Sorek.

In addition, Israel has expressed its agreement in principle to transfer a water increase of up to five MCM per annum to the Palestinians, but the Palestinians' lack of agreement on the price is preventing this increase from being implemented. However, Israel unilaterally decided to embark on the infrastructure work required for transferring this water increase in the Northern Gaza Strip (as per Palestinian request) so that when the price is agreed upon it will be possible to make the transfer without further delay.

⁷³ COGAT

⁷⁴ COGAT

⁷⁵ Israel Water Authority

As mentioned above, Israel is holding training courses on desalination and wastewater treatment as part of regional water activity. In January 2012, Palestinians and Jordanians participated in a course held in the Dan Region Reclamation Project for treating wastewater.

Building desalination plants – this includes purchasing desalination plants to supply 14 cubic meters of water. Specific projects have not yet been presented by the Palestinians for approval. The price of water has been discussed between the sides and was raised in a meeting between the heads of the Israeli and Palestinian water authorities.⁷⁶

Several wastewater treatment plants have been approved in Gaza. Projects in Sheikh Ajleen and the northern Gaza Strip (stage two of the World Bank Project) are currently in progress. A budgeting gap is delaying the UN project in Khan Yunis (discussions are being held between Kuwait and the Islamic Development Bank, to finance the project).⁷⁷

International Activity

Israel works with the international community and the Palestinian Authority to advance and streamline procedures for the approval of internationally funded projects. To this end, a coordination and monitoring mechanism has been set up for the implementation of internationally funded projects, in accordance with security considerations.

Thus far, 176 internationally funded projects have been approved, 98 of them in 2011. Seventy-eight projects were approved in 2010. **Of these 176 projects, 37 have been completed, 78 are in progress, 52 have not yet commenced implementation, and 9 have been cancelled.**

The projects are in the following areas: 64 in the field of education, 31 infrastructure projects, 25 miscellaneous, 18 agriculture projects, 14 health projects, 13 housing projects and 11 road projects.

Increased Exports⁷⁸

On December 8, 2010, Israel's Security Cabinet adopted a decision on additional measures to expedite increased exports from the Gaza Strip,

⁷⁶ COGAT

⁷⁷ COGAT

⁷⁸ COGAT

thereby boosting the Gaza economy.⁷⁹ In order to support the private sector in Gaza, Gol authorized export of agricultural produce, furniture and textiles.

In accordance with the decision, agricultural produce was exported in 2011. During the agricultural season from November 2010 until February 2012, the volume of agricultural exports was: 632.5 tons of strawberries, 9,000,000 flowers, 39 tons of peppers, and 11 tons of cherry tomatoes. Recently, the export of regular tomatoes was also approved, and seven trucks carrying 50.2 tons were exported to Jordan.

On March 5, 2012, COGAT approved the export of 2 truckloads of date bars from the Gaza Strip to the West Bank. On March 12, an additional 2 truckloads of date bars exited the Gaza Strip for the West Bank. The trucks belong to the WFP (World Food Programme). The export was possible thanks to the staff work done in the CLA in Gaza with the PA, the Israeli CPA and the WFP.

In addition, approval was granted for the export of textiles, but no orders were received. A delegation participated in a furniture exhibition in Jordan, thanks to authorization granted for the export of furniture.

Upgrading Land Crossing Infrastructure

Kerem Shalom⁸⁰

Kerem Shalom serves for traffic in commercial and humanitarian goods, fuels, aggregates and grains in bulk. **The capacity of the crossing today far exceeds actual use for the transfer of commercial goods, construction material, aggregates and grains in bulk.**

Thus far, the Land Crossings Management Authority has invested approximately NIS 70 million in the development of the crossing (excluding the conveyor belt, in which an additional NIS 15 million was invested) in order to double the number of trucks crossing from Israel to Gaza. Projected project completion is in mid-2012.

Improvements completed include the expansion of the crossing area from 120 dunams to 600 dunams, construction of access roads, expansion of work areas and access roads, expansion of the area for the processing of

⁷⁹ The full text of the Decision can be found at: <http://www.pmo.gov.il/PMOEng/Communication/Spokesman/2010/12/spokedes081210.htm>

⁸⁰ Ministry of Defense, Land Crossings Authority

aggregates and grains in bulk, expansion of unloading areas, expansion of the import area, paving an access road to the Palestinian side, upgrade of security equipment and lighting, installation of gates, security television cameras and monitors, communication equipment, expansion and upgrade of the fuel and gas station, building a secure administrative system, creating the capacity to process aggregates and produce through a 400 meter conveyor belt, assistance to the Palestinian side for the purposes of constructing electricity, water and security infrastructure.

In addition, hours of operation at the crossing have been extended and the number of workers at both the Israeli and Palestinian sides has increased.

The Kerem Shalom Crossing's capacity has been increased since July 2010 in stages. In the long term, capacity for goods will reach 400 truckloads a day, including grains in bulk and aggregates through Kerem Shalom. In addition, capacity for fuel and gas will reach 50 truckloads, for a total of 450. There will be capacity for the passage of the following types of goods: imports, cement, grains in bulk, aggregates, fuel and gas.

At present, the crossing has the capacity to handle 300 trucks a day, including 40 trucks of grains in bulk, 80 trucks of aggregates and ten trucks of goods from Gaza intended for export.

Although the Kerem Shalom Crossing's capacity has been increased, the average number of truckloads actually sent through the crossing by the Palestinians and the international community remains below actual capacity.

In January 2012, the daily average of trucks passing through the crossing numbered 227. In February 2012, the daily average was 198. In 2011, a total of 50,407 trucks passed through the Kerem Shalom Crossing into the Gaza Strip.

In March 2011, due to security concerns that interfered with the daily operation of the site, Israel decided to transfer the activities of the Karni conveyor belt to the Kerem Shalom Crossing. A short conveyor belt was installed at Kerem Shalom. This change enabled an increase in the number of working days of the conveyor belt which is currently used exclusively for grains in bulk, while aggregates are transferred through a separate section of the crossing, through a back to back mechanism. In 2012, a longer, permanent conveyor belt is expected to be installed at Kerem Shalom, which will increase the volume of aggregates and grain in bulk entering Gaza.

Movement of People⁸¹

In 2011, 55,258 people passed through the Erez Crossing, of which 34.2% passed for humanitarian reasons, 28.1% for commercial reasons, 30.5% foreigners, 2.1% international organization employees, 1.2% travelled abroad, among others.

During Christmas, authorization was given for up to 500 Gazan Christians to leave the Strip for family visits in Israel and the West Bank.

In 2011, 9,245 Gazans received medical treatment in Israel (a 5% increase compared to 2010, when 8,858 Gazans received medical treatment in Israel). In addition, in 2011, the aforementioned 9,245 Gazan patients were accompanied by approximately 9,500 family members.

Furthermore, in 2011 15,337 businessmen and merchant passes were issued, enabling businessmen to leave Gaza through Israel for the West Bank (compared to 3,818 passes in 2010).

Electricity⁸²

Israel supplies 124 megawatts of electricity to Gaza through 10 feeding lines, and Egypt supplies 22 megawatts through 3 feeding lines. The power station in the Gaza Strip generates about 60 megawatts.

Israel has authorized a UNDP project to supply equipment that will enable the upgrade of Gaza's independent electricity production capacity at the Gaza power station, by building a transformer farm adjacent to the power station. The transformer farm will increase the supply of energy produced by the Gaza station from 60 megawatts a day to between 100 and 110 megawatts a day, such that the gap in electricity supply will be lessened to approximately 40 to 50 megawatts.

The Security Threat from Gaza

A genuine security threat from the Gaza Strip continues to endanger Israel. While Israel was implementing the new Civilian Policy, in order to improve the standard of living and meet the needs of the population of the Gaza Strip, **2011 marked an increase in terrorist incidents from the Gaza Strip, killing 12 Israelis, and wounding 57** (compared to 4 deaths and 7 wounded in 2010). Terrorist attacks numbered 404 in 2011, compared to 344 attacks in 2010. 154 attempted attacks were also recorded, compared to 98 attempted attacks in 2010.⁸³

⁸¹ COGAT

⁸² COGAT

⁸³ ISA

Throughout this period, terrorist organizations from the Strip, led by Hamas, continued to fire rockets and mortars at Israeli civilian population centers, and to develop rocket launching capabilities, alongside high-quality anti-tank and anti-aircraft weaponry capabilities.⁸⁴

In 2011 and the beginning of 2012, there have been several major rounds of rocket and mortar shell fire into Israel. The most recent serious escalation started on March 9, 2012 when, during a four day period alone, over 300 projectiles were fired from the Gaza Strip, 171 hit Israeli territory, and 65 were intercepted, while the remainder fell within the Gaza Strip. This fire was aimed at heavily populated areas in Israel, forcing a million Israeli citizens to take refuge in shelters.⁸⁵ Within this round of attacks, rockets even targeted the Kerem Shalom Crossing, which serves for the transfer of humanitarian and commercial goods to the Gaza population. The crossing, which was hit twice, remained open.⁸⁶

Yet another brutal round of attacks, occurred during the week of October 26 - November 1, 2011, when 45 rockets and 20 mortar shells landed in Israeli territory, among them standard Grad rockets with a range of more than 40 kilometers (25 miles). The rockets hit large cities (Ashdod, Ashkelon and Beersheba), towns and villages in the south. A resident of Ashkelon was killed and four civilians suffered minor to serious injuries. Several dozen people were treated for shock, and extensive property damage was caused.⁸⁷

Moreover, on September 9, 2011, snipers from the Gaza Strip shot at the Israeli village of Netiv Ha'asara, located near the Erez crossing (northern Gaza Strip). There were no casualties, but some of the buildings were damaged.⁸⁸

Prior to the March 2012 round of attacks, the worst escalation since Operation Cast Lead had been a massive rocket and mortar shell attack that began in July 2011 and peaked in mid-August 2011, During this round of escalation, 149 rockets and 19 mortar shells fell in Israeli territory (of 200 fired). **The round of rocket attacks from August 18 to 25 took a heavy toll on Israeli civilians,**

⁸⁴ This trend was accompanied by an overall increase in rocket launching weaponry in the Gaza Strip (including rockets with a range of up to 75 kilometers). Consequently, there was a substantial increase in the number of projectiles launched at Israel, numbering 399, including 289 rockets and 244 mortar shells, compared to 244 such attacks in 2010 (152 rockets and 217 mortar shells). Source: ISA

⁸⁵ IDF Spokesperson

⁸⁶ Crossings Authority

⁸⁷ Source: <http://www.terrorism-info.org.il/site/home/default.asp>

⁸⁸ <http://www.terrorism-info.org.il/site/home/default.asp>

wounding 27 (5 critically), and killing three.⁸⁹ These figures do not include civilians who suffered from panic or trauma.⁹⁰

On August 18, 2011, a series of terrorist attacks was perpetrated against civilians and IDF soldiers in Israel's southern region. **Eight people were killed in the day's attacks and at least 31 were wounded.** The terrorists responsible for the attacks originated in the Gaza Strip and crossed into Israel via Egypt. The Popular Resistance Committees (PRC), responsible for the terrorist attacks, is an independent terrorist organization in the Gaza Strip that is supported, subsidized and trained by the Hamas terrorist organization.⁹¹

In another terror attack, on August 25, rockets and mortar shells launched by terrorist groups from the Gaza Strip hit the **Erez Crossing**, damaging the crossing. The attack occurred as three women and two infants passed through the crossing, returning to the Gaza Strip after receiving medical treatment in Israel. Due to damage caused to the electricity system in this terror attack, these women and children were caught at the crossing, but they were brought to a safe area within the crossing where they received medical treatment. Erez Crossing is used for the movement of Palestinians and international staff members and serves as a lifeline for the thousands of Palestinians who seek medical care in Israel.

Rocket and mortar shell fire from Gaza deliberately targets civilian areas, hitting schools, residences and places of worship.

During his recent visit in Israel in February 2012, at a visit to Sapir College in Southern Israel United Nations Secretary General Ban Ki-Moon stated:

*"I just witnessed the dramatic conditions in which students study at the Sha'ar he Negev school and at Sapir Academic College. The students told me what it feels like to live under the constant threat...Nothing justifies the indiscriminate firing of rockets and mortars into Israel. It is completely unacceptable to target and terrorize citizens on a near-daily basis. It must stop. Any such attack must be condemned."*⁹²

⁸⁹ A 62-year-old woman became the second victim to lose her life as a result of the rocket fire on Beersheba when she passed away on August 24, 2011 at the Soroka Medical Center in Beer Sheba.

A third victim, a 79 year old man, passed away at the Hadassah Medical Center in Jerusalem on September 4, 2011.

⁹⁰ COGAT

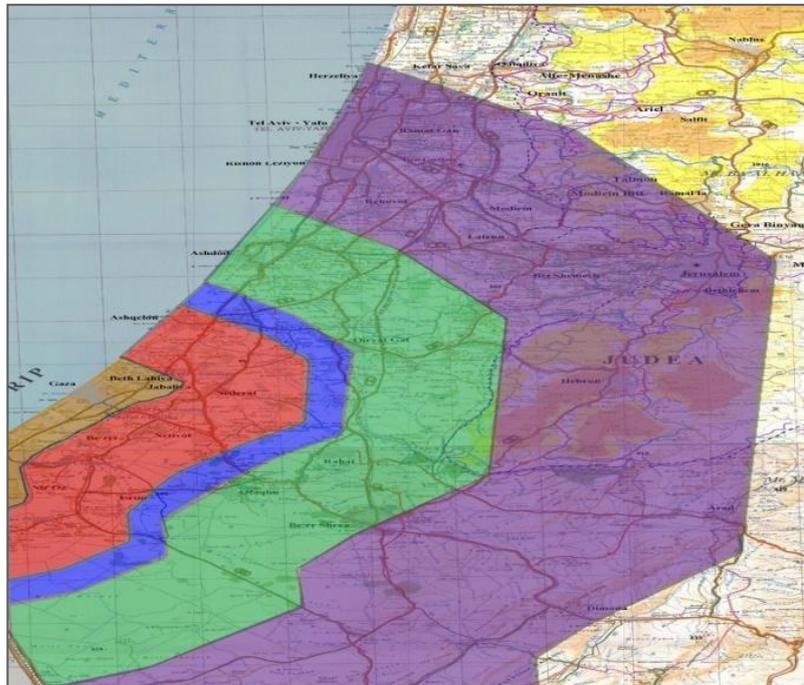
⁹¹ Ministry of Foreign Affairs

http://www.mfa.gov.il/MFA/Terrorism+Obstacle+to+Peace/Palestinian+terror+since+2000/Terror_attacks_Eilat_18-Aug-2011.html

⁹² http://www.un.org/apps/news/infocus/speeches/statments_full.asp?statID=1453

The number of casualties resulting from these attacks has been kept down due to Israel's use of the Iron Dome defense system as a means of self-defense. Rockets launched from Gaza threaten **almost half of Israel's population, placing in harm's way 3.5 million Israeli citizens**, who live in shooting range of the Gaza Strip, as illustrated by Figure 9 below:

Figure 9: Gaza Strip Rocket Ranges



Red = Mortars – (60mm, 81mm, 120mm and improvised) 1.8-6 mi / 3-10 km
Blue = Improvised rockets (90mm, 115mm, 168mm) 3.7-12.5 mi / 6-20 km [5-15 kg payload]
Green = 122mm (Russian, Chinese and Iranian) 13 mi / 21 km [20 kg payload]
Purple = Fajr-5 46 mi / 74km [175 kg payload]

Israel calls on the international community to condemn these attacks. As stated by UN Secretary General Ban Ki-Moon:

*"For many years I have been fully condemning those rocket attacks on civilians. This is totally unacceptable and against the fundamental principles of human rights."*⁹³

Israel holds Hamas, the ruling authority in the Gaza Strip since June 2007, responsible for all terrorist activity originating in the Gaza Strip. Israel has repeatedly filed complaints to the UN over illegal rocket fire from Gaza and continuously calls on Hamas to abide by international law. Israel calls on Hamas to cease all terrorist activity immediately and calls on the international community to condemn these attacks unequivocally and to make all efforts to encourage their immediate cessation.

⁹³ <http://www.haaretz.com/print-edition/news/un-chief-to-haaretz-palestinians-will-only-get-a-state-through-negotiations-1.410687>