Economic Policy Programme

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Palestine and regional trade: Prospects for future trade relations with Jordan, Egypt and the Arab World

May 25-27 1997

Report and Follow-up
July 1997

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Report and Follow-up

WORKSHOP

Palestine and regional trade: Prospects for future trade relations with Jordan, Egypt and the Arab World

July 1997

London School of Economics
Department of International Relations
Houghton Street, London, WC2A 2AE
United Kingdom

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The Economic Policy Programme is funded by the European Community (EC) and coordinated by the Ministry of Economy and Trade in collaboration with the London School of Economics and Political Science. The two-year project is an initiative launched as part of the European Community's programme of assistance to the Palestinian population of the West Bank and Gaza Strip. The objective is to provide the Palestinian Authority (PA) with policy support that will both assist it in clarifying and shaping trade policy and strengthen its capacity to negotiate with current and potential trading partners on economic and trade policy issues. The programme, which was launched in May 1996, works with a team of leading international experts - economists, political scientists and trade lawyers - in support of the ministry's policy agenda, and has held in collaboration with the ministry a number of roundtables on trade-related issues.

Economic Policy Programme

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Contents

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Introduction

This report, *Palestine and regional trade: Prospects for future trade relations with Jordan, Egypt and the Arab world*, was prepared following a workshop held in Ramallah on the West Bank on May 25-27. It is based on the proceedings of the workshop which Palestinian officials and private-sector representatives and the consultants attended. Both the workshop and the report form part of the two-year **Economic Policy Programme,** which is funded by the European Community (EC) and coordinated by the Ministry of Economy and Trade in collaboration with the London School of Economics and Political Science.

Economic Policy Programme

The **Economic Policy Programme** is an initiative launched as part of the European Community's programme of assistance to the Palestinian population of the West Bank and the Gaza Strip. The objective is to provide the Palestinian Authority (PA) with policy support that will both assist it in clarifying and shaping trade policy and strengthen its capacity to negotiate with current and potential trading partners on economic policy issues.

The programme, launched in May 1996, is designed to bring Palestinian officials and businessmen together with international experts in a series of informal, consultative meetings as well as interministerial, consultative workshops and roundtables. Activities target specific trade-related issues, in line with Palestinian needs and recommendations. They thus provide the PA with access to a network of international experts to whom it may turn at short notice for expert analysis and a forum in which to exchange views.

In response to ministry requests three workshops have been held - in July and December 1996 and in May 1997. The first workshop addressed the issue of Palestinian-European trade, focusing on the opportunities and problems that the proposed Interim Agreement on Trade and Cooperation might present for the Palestinians. The aim was to provide a means for the Palestinians to explore the mechanisms for exporting to the European Union and the options open to them. Sessions were held on agricultural exports to the EU, cumulation of origin, non-tariff barriers to trade and infant industries.

The second workshop, on *Palestine and regional trade: prospects for future trade relations with Israel*, convened with the aim of evaluating trade regime options available to the PA in its relations with Israel. The main results detailed in the Workshop Report of December 1996 included:

* a recognition of the need to distinguish between addressing short-term problems and a longer-term vision for trade relations. In this regard recurring themes were the need for the PA to explore fully i) the mechanisms within the Paris Protocol, in particular the Joint Economic Committee channel, as a means to address some of the major problems posed by Israel actions, ii) practical steps that can be taken now to ease conditions and iii) ways of meeting both Palestinian trade/economic concerns and Israeli security considerations.

* An initial evaluation from the Palestinian point of view of the pros and cons of three trade policy options - the status quo (the Paris Protocol as currently implemented) full customs union and free trade arrangements - according to a number of criteria. There was broad consensus that labour movement would not be much affected in the case of either a properly implemented customs union or a free trade arrangement; that Palestine exports to Israel would be likely to be less and trade with other countries greater under the latter.

The workshop

The third workshop on *Palestine and regional trade: prospects for future trade relations with Jordan, Egypt and the Arab world* was convened on May 25-27, 1997 with a view to assisting the Ministry of Economy and Trade to formulate future trade policies with the Arab world, in particular with Jordan and Egypt, and to assess how Palestinian regional trade might be expanded and impediments to trade removed.

Four visiting consultants - Tayseer Abdel Jaber (Jordan), Professor Gouda Abdel-Khalek (Egypt), Allan Waight (UK) and Hanspeter Tschaeni (Switzerland) - all with negotiating experience and practical expertise in trade and customs - were identified with the help of the PA and invited to participate.

Following a day of preparatory discussions, the formal workshop on May 26 was opened by the minister of economy and trade, Maher Masri. The sessions were well attended by officials from the PA's ministries of agriculture, economy and trade, planning and international cooperation, finance, and industry and by private-sector representatives. The main findings and conclusions of the workshop are set out in the next section of this report.

Report and follow-up

Following the workshop this report was assembled. It comprises:-

* *Findings and recommendations*, which have been prepared in collaboration with the Ministry of Economy and Trade on the basis of the workshop's proceedings and presentations as well as the reports written by the four consultants.

* *A main points report*, which has been read and amended by Ministry officials and by the consultants. This report provides an outline of the key points raised during the two days of formal discussions and in its final section a series of recommendations for follow-up work, as proposed by the workshop participants. It is not a verbatim report. The intention is to provide a guide through the main issues discussed during the two-day workshop.

* *Reports by the consultants*. These reports reflect the structure of the workshop with chapters on Palestinian trade with Jordan, from a Jordanian perspective; Palestinian trade with Egypt, as seen from Egypt; the impact of WTO membership on regional trade; and diagonal cumulation with the Arab world when exporting to the EU. Although each chapter covers a specific issue, there are important linkages and some overlap between the broad areas examined. In their reports, the experts

present and discuss Palestinian concerns, report on the work agenda set by the preparatory study group, consider the problems, opportunities and choices facing Palestinian policymakers and private-sector representatives and propose key follow-up activities.

* *Presentations by workshop participants.* Workshop sessions opened with one or more presentations by participants. Written versions of these papers, where provided, have been included in the final part of this report.

Following the workshop a number of ideas for follow-up were discussed, and several activities to be supported by the **Economic Policy Programme** in its second year were identified.

The workshop proceedings, as on previous occasions, were businesslike, stimulating and productive. Ministry officials and private-sector representative reported that they found the proceedings highly beneficial . The workshop format again proved successful for discussing highly technical issues and for encouraging serious exchanges. The mix of ministry officials and private-sector representatives provided a balanced input and enabled the consultants to gain an understanding of the practical problems faced by the Palestinian side. Inter-ministerial contacts around trade issues were consolidated and the groundwork for future work laid. With a degree of continuity built into the representation on both the Palestinian and consultant sides, professional contacts were strengthened.

The intention is that the **Economic Policy Programme** should continue during its second year to provide a flexible vehicle for technical assistance to the Ministry. In the immediate future the Ministry of Economy and Trade favours consolidating the operational aspects of the EPP's activities, in particular taking forward work on trade negotiations with third parties, and following through on outstanding tasks. Further meetings and consultancy missions will be organised in the coming months to discuss other aspects of Palestinian economic and trade policy.

Grateful thanks are extended to the EC's representative, Thierry Bechet, and to his staff for their continuing support, to the staff of the Ministry of Economy and Trade for their organisational role and participation, to the Ministry of Planning and International Cooperation for permission to hold the workshop at its National Centre for Public Administration, and to all those who participated in the workshop proceedings. The programme would like to express its special gratitude to the visiting consultants for sharing their expertise, for the time put into their mission to the West Bank and for writing contributions for this report.

Valerie Yorke
Programme Coordinator
London School of Economics
July 1997

ECONOMIC POLICY PROGRAMME

Workshop on Palestine and regional trade: Prospects for future trade relations with Jordan, Egypt and the Arab world, May 25-27, 1997

FINDINGS AND RECOMMENDATIONS

1.1 On the basis of two days of exchanges among Palestinian participants and visiting experts at the workshop, the papers presented and the reports subsequently written by the latter, the following is offered as a guide - with no order of priority imposed - to the main findings and conclusions reached. These should not be taken to represent the thinking of all the workshop participants nor of the EU or the **Economic Policy Programme**. No attempt was made at the workshop to reach a consensus on a set of conclusions.

2. Trade Policy

2. 1. The PA should seek to diversify its economic relations including trade. It should exploit to the full the economic benefits of exporting to the large Israeli market, but in parallel every effort should be exerted to develop direct trade relations with other countries, particularly with Jordan, Egypt, the Gulf countries, the European Union (EU) and the USA.

2.2 Given its small economy and limited natural resources, Palestine should follow a liberal trade policy, and not a protectionist one, based on the mutual reduction of barriers with its neighbours as part of the global movement towards free trade. Palestine's growth potential lies in export expansion rather than import substitution.

2.3 An export-oriented policy needs to be backed by measures to encourage the private sector - the development of an efficient government machinery, good infrastructure, the easing of bureaucratic restrictions and the provision of technical support facilities and export credit incentives.

2.4 In line with the above, Palestine needs to explore complementarities with its neighbours, particularly in view of the benefits to be had in the context of EU cumulation-of-origin rules.

2.5 Following discussion on trade diversion and trade creation, it was noted that the PA should take care not to pursue diversification at the price of established markets. Rather it would be advised to focus on expanding into new markets and trade opportunities.

2.6 Although Palestine aspires towards free trade with its Arab neighbours in order to reduce dependence on Israel, implementation of trade agreements so far reached with the EU, Jordan and Egypt poses problems due not only to the constraints built into the Paris Protocol (PP) but also to infringements of the PP by Israel. The PA therefore needs to develop a trade policy for the future that takes account of these realities.

2.7 Global movement towards free trade represents additional competition for Palestinian suppliers but will also bring opportunities. The opening of the Israeli market to other suppliers under the terms of the WTO will lead to greater competition; but it is also the case that as Israel switches out of some sectors, Palestinian producers will stand to benefit eg. in garments and textiles.

2.8 The Arab free trade area agreement, reached in February 1997, is expected to become effective as of January 1, 1998. Regardless of whether this agreement will be implemented or not, the region is gradually moving towards freer trade through association agreements with the EU and membership of WTO. Hence, more trade competition will take place locally and regionally. Fortunately, the Palestinian enterprises will be quite adaptable to higher competition since there is little, if any, tariff protection at the present time.

3. Paris Protocol

3.1 A recurring theme of the workshop was the way in which Israel's non-implementation and infringements both of specific clauses and the spirit of the Paris Protocol (PP) - often in the form of non-tariff barriers which are restricted under international trade rules - have constrained the development of Palestine's trade with its neighbours and damaged the Palestinian economy. Even more disturbing, the Likud government's understanding of the PP appears to differ to that of its Labour predecessor, which negotiated it, with the result that infringements are growing in number.

Palestine has a strong interest in publicly exposing these obstacles. To this end, it was suggested that the PA conduct a systematic, well-documented investigation of Israeli infringements of the PP. The availability of such a study would assist the PA in preparing for future negotiations with Israel and would provide invaluable material for third parties.

3.2 It was pointed out that Palestine has much to gain from using the mechanisms provided for in the PP in support of developing Palestinian trade policy - which differs from that of Israel - in terms of relations with Jordan, Egypt and the Arab world. This opportunity is not being exploited, however. It was recommended that the PA should, as a priority, use the Joint Economic Committee (JEC) mechanism both to insist that Israel implement the PP and to seek revision to the lists of imports (products and/or quantities), as provided for in the PP. As a first step the PA should prepare a position paper on the amendments they wish to make.

3.3 One participant stressed that the terms of the semi-customs union agreed by the PA and Israel and incorporated in the PP were unusual in a key respect. All customs unions have a mechanism to coordinate joint foreign trade policy but the PP does not. However, the PP does have a weaker commitment to consultation in case of change to the foreign trade regime. Apparently such consultations have not taken place. The resulting lack of coordination works to the disadvantage of Palestine. It was proposed that the PA should assess a range of possible mechanisms (e.g. joint or back-to-back meetings) to facilitate coordination of trade policy and then take its ideas to Israel for negotiation. Alternatively a more far-reaching commitment to coordinate foreign trade policy questions could be written into the Protocol or otherwise agreed upon.

3.4 There was broad agreement that the PA should develop a clear plan for future economic and trade relations with Israel and its Arab neighbours. One discussant proposed that the PA should take the position that once the transitional period is complete the PP be considered as expired and that it should persuade Jordan and Egypt to do likewise. In the meantime Palestine should move towards free trade with Jordan and Egypt in phases - by enlarging lists over time - with a view to implementing free trade over 12 years. In his opinion, provided it stays with phased implementation, the PA would not be in violation either of the PP or of GATT rules.

4. Trade relations with Jordan --

4.1 There was agreement that politics has inevitably played a role in shaping Palestine's trade relations with Jordan. Ambiguity over future political relations with Jordan, one discussant maintained, had adversely affected bilateral trade relations and investment, for example the small number of Jordanian-Palestinian joint ventures. No consensus was reached on what might be done about this in the immediate future. The eventual political configuration between Palestine and Jordan would only be decided over time, but the question of how the two sides might develop economic relations in the interim needed to be addressed.

4.2 There was general agreement that Palestine and Jordan have vested interests, political as well as and economic, in moving towards free trade. Several participants pointed out that moves would have to be gradual, however. Bound by the terms of the PP, Palestine may not conclude a free trade agreement with Jordan covering all products. It was suggested that Palestine could move towards free trade with Jordan in phases, gradually expanding lists of goods receiving preferential treatment when imported by the other party. One recommendation was that Palestine and Jordan themselves should take the initiative, expand their lists on a regular basis and thus press Israel to respond. Israel is committed under the PP to review every six months the quantities of products to be imported under lists A1 and A2 and to discuss in the JEC, when the Palestinians so request, Palestinian proposals for additions to the lists of goods (including list B) for which the PA establishes its own import policy and tariff structure.

4.3 Other discussants called for caution:

i) Politically, Palestine has an incentive to open up trade with Jordan and build on existing close ties, but it should be careful to do so on the basis of equitable trade relations in order not to lose out economically. Jordan could supply larger quantities of cement and other products (see 4.4 below), but Palestinian products - agricultural and manufacturing - are at a competitive disadvantage (in terms of cost and support structure).

ii) Specifically, in the area of agriculture, Palestine should insist on a level playing field as a pre-requisite for moving towards free trade. Most importantly Jordan should lift subsidies to farmers.

iii) In view of the massive Palestinian deficit on services trade with Jordan (health, education, and transport) it was proposed that an equitable agreement on trade in services be reached.

It was hoped that in view of its forthcoming accession to the WTO, Jordan would pay attention to WTO rules with regard to trade in services.

iv) Moving towards free trade with Jordan should be conducted in parallel with the restructuring of production in Palestine in order to reduce duplicate industries and allow time for the economy to diversify.

4.4 There was considerable discussion on the potential for expanding Palestinian-Jordanian trade, but it was agreed that its extent was open to question and required careful study. One area ripe for expansion, it was pointed out, are Palestine's imports of strategic goods - cement, petroleum products, steel bars - from Jordan and other Arab countries. It was proposed that the PA should urgently pursue this option, depending on market forces. (The PP, on the basis of lists A1, A2 and B, permits the PA to import commodities such as cement, steel bars for construction and petroleum from Jordan, Egypt or other Arab countries. However, except for some cement imports, the PA has so far arranged to import these goods from, or via, Israel. An Arab source for steel is currently being sought.)

4.5 A participant from the private sector argued that Palestine should seek to exploit existing complementarities - and selectivity will be important. For example, in the case of the garment industry the Palestinians' superior design capabilities would help overcome the advantages Jordan enjoys on production costs. Other areas where the Palestinian product is competitive in the Jordanian market include marble and stone, flowers, olive oil and strawberries.

4.6 PA customs officials pointed out that the volume of actual trade between Palestine and Jordan is much higher than officially recorded trade. This was attributed to "bag trade", mainly practised by persons crossing from Jordan to Palestine on a regular basis, carrying commodities with them. One participant argued the case for encouraging this form of trade as a means to bypass PP restrictions. However the official viewpoint was that "bag traders" undermine the PA's revenue collection effort, have adverse effects on infant industry and that some of the goods imported through "bag trade" should not be - on health and standards grounds. This school argued that the practice should be brought under control forthwith.

4.7 There was general consensus that Palestine and Jordan should cooperate more closely with each other (see below) in order to exploit trade opportunities, reduce Israel's ability to take advantage of separate trade agreements with each and tackle Israeli non-tariff barriers.

5. -- with Egypt

5.1 The PA regards Egypt as an important potential trade partner and considers that an expansion of trade with Egypt would constitute an important step towards diversifying trade relations.

5.2 An important theme addressed by participants is the discrepancy between Egypt's political and commercial roles in the region. Egypt plays a key political role, but has integrated least, when compared with its Arab neighbours, with the regional market. The issue of Egypt's stance with regard to regional trade was raised.

5.3 With regard to Palestinian trade with Egypt, participants voiced concern on the following:

i) the current imbalance in Palestinian-Egyptian bilateral trade relations, which has so far worked in Egypt's favour. However, Egypt's recent effort to liberalize its trade should help rectify this situation;

ii) the volume of Egyptian-WBGS trade, which is below its potential due to poor transport, regulations and lack of finance;

iii) the poorly organised border point at Rafah which is too small to handle a larger volume of trade and encourages smuggling on a significant scale - predominantly from Egypt to the Gaza Strip - which is damaging Gazan industries such as handicrafts;

iv) the PA's unilateral implementation of tariff cuts due to Egypt's refusal to reciprocate on the grounds of WTO rules. One consequence is that Egypt's high level of tariffs on manufactured goods makes Palestinian exports of finished garments and shoes more expensive.

5.4 The recent agreement between the PA and Egypt - to discuss a list of goods for reciprocal tariff exemption, to reorganise and modernise the Rafah exit and to establish a joint industrial free zone on the Egyptian-Palestinian border - represents progress. With regard to the first of the above, the PA is merely required to notify Israel. To the degree that Israel's consent is necessary to implement the second and third of those ideas, it was suggested that the EU might be in a position to press Israel to be helpful on this matter.

5.5 Participants considered that one important way to expand bilateral trade in general and Palestinian exports to Egypt in particular might be through the application of the EU's diagonal cumulation rules of origin to trade with Egypt and other Arab countries. There is good potential for Palestine to import capital goods, steel, raw materials and especially fabric from Egypt, while West Bank marble could be exported to Egypt. One participant suggested that opportunities be explored for Egyptian/Palestinian joint venture investment to integrate the fabric and garment industry. Another that the EU provide technical assistance to Egypt, Jordan and the PA to discuss the implementation of diagonal cumulation with the EU.

5.6 It is too early to judge the impact of the free trade area between Jordan and Egypt on the volume of their bilateral trade - the agreement has not yet been ratified by Egypt. However, several discussants argued that in view of the Egyptian-Jordanian trade experience and the difficulties currently encountered in Palestine's trade with Egypt, the PA would be advised to opt for a trade protocol with Egypt in the first instance (rather than moving towards free trade) for designated products.

Overcoming obstacles to trade: a joint approach

6.1 Israel's infringements of the Paris Protocol have impeded the development of Palestinian trade with Jordan, Egypt and the wider world and vice-versa. Palestine and its Arab partners have a shared interest to address their economic problems, to expose current obstacles to trade and to press Israel to abolish trade impediments. It was proposed that they should work collectively, as a triad, as well as individually, to this end. One way forward for the triad would be to bring their respective officials, private-sector representatives together with outside consultants to discuss trade problems and develop a common stance and joint approaches to resolve them.

6.2 There was widespread agreement that an agenda for the triad would include:-

* a "nuts-and-bolt" study together with documentation of all Israeli non-tariff barriers currently in practice. The resulting evidence would be used in negotiations between Jordan and Palestine as well as Jordan/Israel and Palestine/Israel. One discussant proposed that as a priority a study should be undertaken of impediments in the area of transportation, trucking and transit between Jordan and Palestine;

* exploration of the possibility of invoking WTO trade rules. In this regard the possibility that Egypt, and later Jordan (following accession) might take to the WTO the issue of Israeli obstacles to regional trade should be considered;

* the development of a joint approach to the EU with regard to acquiring technical assistance and the financing of regional projects; making a request to be allowed to operate diagonal cumulation rules of origin in advance of the EC's plan for the region.

7. Harmonisation

7.1 In view of the current mix of bilateral trade agreements - whether protocol, preferential, free trade or minutes - among the four countries (Jordan, Egypt, Palestine and Israel), there was a general consensus on the need collectively to work towards harmonisation and coordination - in the first instance of trade agreements between Israel and Jordan and between Palestine and Jordan.

7.2 One proposal was that Palestine, Jordan and Egypt should first try and reach an agreed position in academic circles, in technical and political committees, drawing on outside technical assistance. They could then press individually and collectively for reforms in trade with Israel, including coordination of the lists of goods on which tariffs are reduced.

8. Cumulation of origin

8.1 There was general agreement that the introduction of diagonal cumulation of origin will help Palestine, Jordan and Egypt to enhance exports to the EU, and to other premium markets, as well as among themselves. Policymakers need therefore:-

i) to examine how regional complementarities might be exploited - to see how the opportunities to source materials and parts in neighbouring countries could be put to good use; and what market opportunities exist for Palestine's intermediate products to be exported to its neighbours for incorporation into products for export to the EC;

ii) to assess the experience of the Mahgreb countries to which the benefits of cumulation have been slow in coming;

iii) and to pay attention to the outcome of the current EC debate over rules determining origin - whether the principle of "lion's share" or "country of final processing" should apply.

8.2 An important feature of the EC's preferential trade agreements which include diagonal cumulation is the requirement that the rules of origin applying in trade between each of the countries within the group are identical to the rules of origin for trade between each of the countries and the EC. It is imperative, therefore, that when drawing up new agreements with neighbouring countries, the PA makes provision for EC origin rules to be included in those agreements. Only then will it be possible to take advantage of the diagonal cumulation provisions to be introduced in the EC revised trade agreements. It was pointed out that recent agreements between Egypt and Jordan and between Jordan and Israel contain origin rules far removed from the EC's rules.

8.3 In view of the expected benefits of diagonal cumulation, it was proposed that the PA, Jordan and Egypt should make a joint approach to the EC with a request to be allowed to operate diagonal cumulation in advance of the EC's plan for the region. It is believed the Community would not insist that it be a condition of diagonal cumulation that each country negotiate a free trade agreement with each of the other members of a regional group. One participant suggested that free trade agreements would be necessary as a means to stimulate trade between Arab countries.

8.4 The PA should also consider forming a committee comprising representatives of the exporting private sector and the customs services to examine problems relating to customs procedures encountered in implementing the EC-PLO Interim Association Agreement. Such a committee would provide a channel for communicating problems to the appropriate EU committee and would also demonstrate the Palestinians' commitment to overcoming them.

9. WTO

9.1 The Middle East region is gradually moving towards freer trade as a result of its association agreements with the EU. Furthermore Palestine's neighbours are (eg Egypt), or are soon to become (eg Jordan), members of the WTO. In this environment it was suggested that the PA with the assistance of international experts and research institutes might undertake:-

* to clarify the status of the PA/PLO and of the Palestinian entity vis-a-vis the WTO;
* to assess the likely impact of Jordan's forthcoming accession to the WTO on its trade relations with the Arab world in general and with the West Bank in particular;
* to assess the implications of Palestine remaining a non-member;
* to examine how WTO rules might be used to Palestine's advantage eg Egypt and later Jordan could use the WTO dispute settlement mechanism to raise a case against Israeli practices which do not comply with WTO trade rules;
* to prepare to apply for technical assistance on WTO rules and practices in order to enable it to bring its domestic legislation into line with WTO obligations.

10. The private sector and trade

10.1 The importance of involving private-sector representatives in the formulation of trade policy was frequently reiterated and it was proposed that an appropriate forum, in which officials and private-sector representatives might exchange views, be created. The forum would also facilitate contacts with Jordanian and Egyptian teams, in a trilateral relationship. It was crucial that private-sector opinion be sought on every aspect of future trade relations and agreements with Israel, Arab neighbours and other third parties.

10.2 Following the experience of the occupation, Palestinian manufacturers require support to build up their enterprises and to enable them to compete. Three requirements were stressed:

i) a venture loan fund to facilitate the introduction of improved technology for the enhancement of quality, to enable a company to employ more personnel and to assist in financing raw material inputs;

ii) an export financing programme that will provide working capital on a soft interest basis; and

iii) a concerted effort to upgrade managerial and technical skills in manufacturing and industry.

10.3 The relationship between trade policy and marketing was the subject of some debate. The workshop was reminded that trade policy must be based on maximising the utilisation of human and natural resources and exploiting comparative advantage. Within this context, marketing guidance is an instrument of trade policy that should be used to assist the private sector.

10.4 Following on from this it was suggested that maps of market opportunities be created to guide manufacturers and industrialists.

11. Data and statistics

11.1 A key requirement for any government formulating trade policy is access to reliable and comprehensive trade data. Currently Palestinian officials work with different sets of statistics and data on Palestinian trade, which are partial and confusing, with estimates emanating from various institutions differing widely. It was suggested that funding be identified for the Palestinian Central Bureau of Statistics (PCBS) to launch, as a priority, a project aimed at the collection, processing and publication of one set of comprehensive and reliable trade statistics (with declared shortcomings). To ensure the project's success the PCBS would need to cooperate closely with the Ministry of Economy and Trade, the Ministry of Finance VAT Department and customs officials at the borders. A computer link-up between the PCBS and Ministry of Economy and Trade to provide direct access to continuously updated statistics is also a crucial requirement.

Economic Policy Programme
July, 1997

Aims of the workshop

There is a general trade policy debate on whether Arab countries should concentrate their trade on the Arab world, creating a strong regional trade entity which would form a free trade area as proposed by the Arab League. The second option is to concentrate their trade on the EU and the rest of the world, meeting their trade needs and complementing their economies in a more efficient way.

The aim of this workshop is to help the Palestinian Ministry of Trade and Economy formulate and develop its future policy on trade with the Arab world, focusing on Jordan and Egypt. Throughout this workshop we are seeking an insight into these countries' trade policies and agreements, and their vision of trade prospects with Palestine, with each other and with the EU. This will lead on to a discussion that deals not only with all the trade policy options and covers both the potential for and the obstacles to trade within the Arab world, but also takes into consideration regional and global factors that may have an effect on trade policy.

Discussion points

We would like the consultants to cover the following points:

*** As part of the discussion of the effect of Israel's trade policy and practices on Palestine's trade with the world as well as with its Arab neighbours (Jordan and Egypt), we would appreciate a treatment of the impact of Jordan's Trade Agreement with Israel on Palestine's trade and economy.**

Recent changes to the Israel-Jordan Trade Agreement extend tariff preferences to products which were not accorded such treatment in the Palestinian-Jordanian Trade Agreement. These products will enter Israel tariff-free (or with reduced tariff) and then, because of the semi customs union between Israel and the West Bank and Gaza Strip, enter these areas on the same terms. But, entry to the West Bank and Gaza Strip on these terms has not been agreed between the PNA and Jordan, and it can harm our own markets. How is this disadvantage to us to be avoided, or changed into an advantage. How should we proceed in the future?

*** As part of the consideration of the potential for intra-Arab trade, we would appreciate a treatment of the actual trade outcome of the free trade agreement between Jordan and Egypt.**

Even though Jordan has signed a free trade agreement with Egypt, there has been some lists of products put up by both parties which have been excluded. Might that be the reason for trade between the two countries having remained almost the same after the completion of the free trade agreement? If so, what was the purpose of a free trade agreement? If not, what is the reason for the stagnation?

*** As part of the discussion of diagonal cumulation with the Arab World when exporting to the EU, we would appreciate a treatment of the effect of cumulation on our industries and on trade between Arab countries.**

What is the potential for introducing diagonal cumulation between Arab countries in trading with the EU (Jordan, Egypt, West Bank and Gaza Strip, Israel and the Maghreb)?

What are the benefits or disadvantages of introducing diagonal cumulation:
i) where we can cumulate with the close Arab countries of the Mashreq i.e Jordan and Egypt and with Israel?
ii) where we can cumulate with far Arab countries of the Maghreb such as Tunisia, Algeria and Morocco?

How will diagonal cumulation operate especially in the following fields:
textiles and clothing,
leather and shoe industry, and
food processing?

What are the changes that might be introduced in the rules of origin protocol already existing in the PLO/PA agreement with the EU, and that found in the Jordan/EU agreement or the proposed one in Egypt's agreement with the EU?

*** As part of the discussion of the effect of WTO membership on regional trade and trade between Arab countries, we would appreciate a treatment of the impact of Jordan's membership of WTO on its trade with the Arab countries.**

What are the different effects of Jordan's WTO entry on its trade relations with the West Bank (a non-member) and with Israel or Egypt (as members)?

Ministry of Economy and Trade
Palestinian Authority
May, 1997

Main Points Report[1]

Monday, May 26, 1997

SESSION ONE

Chair: Maher Masri, Minister of Economy and Trade
Presenter: Saeb Bamiyeh, Ministry of Economy and Trade
Discussant: Dr Tayseer Abdel Jaber, Arab Consulting Centre, Amman

Current state of Palestine's trade relations with the Arab world and future vision

1. Presentation

1.1 **Saeb Bamiyeh** presented a paper (see presentations).

1.2 The chairman, the minister of economy and trade, Maher Masri, drew attention to the imbalance in the Palestinian-Israeli trade regime, in which Palestine is a minority partner. So far Palestine only has a free trade arrangement with Israel. However, it is always affected by Israeli policy and agreements; if Israel relaxes tariffs on goods from third parties, these goods enter Palestine on the same terms. Thus Palestine must look for opportunities to open up trade.

2. The discussant

2.1 Dr Tayseer Abdel Jaber, raised a number of points which included the following:

* The appropriate trade policy for Palestine is one of export promotion rather than import substitution. Its past exposure to competition means that it already has companies which can flourish without protective barriers.

* While an export-oriented policy will seek openings in all markets, it needs to identify focus markets. In the case of Palestine these are Jordan, Egypt and the Gulf, as well as the large, growing markets represented by the USA and Europe.

* An export-oriented policy needs to be backed by measures to encourage the private sector, in the form of easing bureaucratic restrictions and also specific incentives and technical and promotional assistance.

[1] *This report has been written in the style of an aide memoire; it is not a verbatim report. The intention is to provide a guide through the main issues discussed during the two-day workshop and a tool for those who wish to take matters further. In the interest of manageability not all interventions have been recorded.*

* In the present framework (ie the Paris Protocol on economic relations with Israel) it is essential that the existing provisions are fully implemented and access to the large market represented by Israel be maintained.

* Nevertheless diversification among trading partners should be the policy objective, particularly in the context of EU cumulation rules.

* The terms of trading relations between Palestine, Jordan and Israel must be harmonised. specifically in the lists of goods on which tariffs are reduced (see point raised in the ministry's preparatory document).

* While trade and economic cooperation agreements should be reached with other Arab countries, they have little operational impact in the current situation.

* The Interim Association Agreement with the EU represents a significant opening to Palestinian goods.

2.2 The **minister** affirmed that there is a consensus that the momentum towards free trade be maintained - but inevitably some less competitive sectors in Palestine would suffer.

3. General discussion

3.1 The discussion which followed focused on three areas:

Trade

3.2 It was argued that Palestine has so far failed to exploit the opportunities provided in the Paris Protocol to diversify its sources of "strategic commodities" (cement, petroleum products, steel bars etc.) Instead it has concluded arrangements with Israel which it could have made with Arab partners.

3.3 The minister responded that imports from the Arab world have been increasing and now account for around one third of consumption. An Arab source of steel is being sought, and options in telecommunications are being explored. Palestinian exports to Israel are also well down, sometimes by as much as a half.

3.4 The discussant pointed out that a reduction in exports to Israel is not a desirable outcome - the Israeli market is still very important to Palestine.

Another participant raised the issue of the unreliability of official statistics, quoting the disparity between Egyptian and Palestinian estimates of Egypt's exports to WBGS, and the evidently large volume of bag trade across the Allenby Bridge.

Specific export markets for Palestinian producers

3.5 A private sector participant noted that:

* Diagonal cumulation would allow Palestinian goods to compete in the premium (western) markets.

* Restrictions in the trade agreement limit access for Palestinian garments in the Jordanian market, where they have a design edge.

* The opening of the Israeli market to other suppliers under the terms of the WTO represents additional competition for Palestinian suppliers.

* As Israel switches out of some sectors (eg textile-manufacturing, because of its labour-intensity), Palestinian producers stand to benefit.

Investment

3.6 It was argued that the environment for investment remains ambiguous. There are political objections to joint ventures between the Palestinian private sector and Israeli interests, while the uncertainty over the future political relationship between Palestine and Jordan is deterring joint ventures between the two.

3.7 The **minister** responded that the issue of land ownership is a major constraint, but it is lifted in the case of industrial zones.

SESSION TWO

Chair: Geoffrey Haley, ECTAO
Presenter: Dr Tayseer Abdel Jaber, Arab Consulting Centre, Amman
Discussant: Hisham Awartani, An-Najah University

Trade with Jordan: a Jordanian perspective

1. Presentation

1.1 **Dr Tayseer Abdel Jaber** presented a paper, whose main points were the following:

* Trade liberalisation and export promotion are core objectives of Jordanian macroeconomic policy.

* Trade with Arab countries is significant for Jordan (41% of exports and 25% of imports in 1996).

* Economic linkages with Palestine have always been significant and Jordan is seeking to develop them (note the trade agreements with the PNA in January 1995 and May 1995). But there are numerous Israeli impediments to trade.

* Trade with Egypt has considerable potential, with free trade due to be implemented in stages within ten years.

* Trade with Israel remains marginal, and the Jordanian side wants reforms in its terms, including a co-ordination of the list of goods on which tariffs are reduced, among the three parties (Jordan, Israel and Palestine).

* Exports to the EU, while still modest (6% of the total), have been increasing rapidly and the market is thought to have great potential for Jordan.

2. The discussant

2.1 **Dr Hisham Awartani** raised the following points:

* The economic reform programme undertaken by Jordan is laudable, but its implementation has been fitful.

* Jordanian-Palestinian trade was one-way during much of the Israeli occupation, and while both sides want its development, under present conditions Palestine would lose out. Jordan could supply larger quantities of cement and other products, but Palestinian products - both agricultural and manufacturing - are at a competitive disadvantage (in terms of cost and support structure)

* Palestine therefore wants a level playing field, with the removal of subsidies for the Jordanian producer (the speaker denied that subsidies exist).

* Insufficient coordination between Palestine and Jordan has allowed Israel to come out ahead in its - separate - trade agreements with each.

3. General discussion

3.1 Participants raised the following points:

* Free trade between Jordan and Palestine remains the objective, but there are major structural obstacles - including the terms of the Paris Protocol and the current duplication in some production activities, which will take time to correct.

* There are, on the other hand, some complementarities already in existence, in garment manufacturing (knitwear and ladies clothing) for example, and areas where the Palestinian product is competitive in the Jordanian market, for example marble and stone, flowers, olive oil and strawberries.

* Bag trade, across both Jordanian borders, is greater than officially recorded trade. One participant suggested it could be encouraged as a means of bypassing protocol restrictions. However, another proposed it should be stopped on the grounds that it undermines the PA's revenue collection effort.

* There is currently a massive Palestinian deficit on services trade with Jordan, while merchandise trade is recorded as in surplus - although how much of this is transit is unclear.

* There is an identity of interest between Jordan and Palestine in countering Israel's non-tariff barriers and the two countries should jointly tackle these.

Hanspeter Tschaeni took up two issues: Jordan's entry into the WTO (see the ministry's preparatory memorandum) and trade policy within a customs union. He pointed out that:

* the process of securing WTO membership is both lengthy and multi-faceted (involving goods, services and intellectual property rights)

* all customs unions have a joint mechanism to enable constitutent members to coordinate trade policy towards the outside. The Palestine/Israel semi customs union is an exception in this respect. The PA should examine possible joint mechanisms (joint, back-to-back meetings) and then raise the issue with Israel.

3.2 The **chairman**, **Geoffrey Haley**, identified a number of questions which had arisen during the session:

* Is it possible for Jordan and Palestine to take the initiative on trade and economic cooperation, without Israeli involvement?

*Is it possible for Jordan and Palestine to combine as one party to negotiate with Israel?

*How can complementarity between the Jordanian and Palestinian economies be enhanced?

*How should border trade be controlled?

*How should "strategic commodities" (cement, steel, petroleum products, water and electricity) be dealt with?

SESSION THREE

Chair: Dr Atef Alawneh, Deputy Minister of Finance
Presenter: Professor Gouda Abdel-Khalek, University of Cairo
Discussant: Hanspeter Tschaeni, STIMENA

Trade with Egypt: an Egyptian perspective

1. Opening remark

1.1 **The chairman, Atef Alawneh,** opened the session by drawing attention to the fact that Palestine was unable to implement its trade agreements with the EU, Jordan and Egypt due to Israeli constraints. Thus, Palestine may aspire towards free trade with its neighbours but implementation poses a problem. The need is to develop a policy for the future that takes account of realities.

2. Presentation

2.1 **Professor Gouda Abdel-Khalek** presented a paper (see presentations) whose main points were the following**:**

Multilateral and bilateral agreements

2.2 Egypt has been active in seeking out trade partners and laying the legal foundations for trade. It is party to a number of multilateral and bilateral trade agreements

* Egypt joined GATT in 1970, participated in the Tokyo and Uruguay Rounds and signed the GATT 1994 Marrakesh accords in April 1994;
* Egypt extends MFN status to imports from WTO members (in region, Israel and Jordan soon); and is also bound by extension of MFN treatment via a string of bilateral trade agreements - a number of which are important to Egyptian-PLO trade relations:-

* Egypt-Israel trade agreement, 1980;
* Egypt-Jordan trade agreement, September 1992; and Egypt Jordan free trade agreement, May 1996 (not yet entered into force because Egypt has not ratified it);
* Egypt PLO/PA Technical and Economic Cooperation Accord, January 1995;
* Egypt-EU Economic and Technical Cooperation Agreement, 1977, renewed in 1987.

* In addition Egypt has a number of preferential trade arrangements e.g. with Libya, Saudi Arabia and Sudan**.**

2.3 Most of the above are based on reciprocal duty cuts based on lists of commodities and the creation of joint economic committees. The exception is Egypt's agreement with Jordan, which goes further. It aims to set up a free trade area by the year 2004.

2.4 Egypt is negotiating a partnership agreement with the European Union (EU). The main stumbling block is agriculture, particularly in the area of potatoes, where the EU is driving a hard bargain. The EU's logic behind this is obtuse. Egypt has the comparative advantage - good food and vegetables at a low price. The EU also limits access through quotas. A partnership agreement is expected in 1998 with partial liberalisation in agriculture; support for industry and human rights provisions.

Trade policy and the Egyptian economy

2.5 With regard to trade policy today, Egypt has gone a long way in liberalising, in Professor Abdel-Khalek's view too far.
* Egypt has reduced tariff rates from 32-34% average tariff in 1990 to 16% today.
* Egypt levies 2% charges for consignments whose tariff rates are less than 30%, also a 1% statistical fee and a 10% sales tax.

2.6 Egypt has a huge trade deficit offset by a surplus in the services sector (the opposite to Palestine) e.g. the Suez Canal, capital inflows.

2.7 The economic growth rate lags considerably behind population growth rates, resulting in falling GDP per capita. According to World Bank classification, Egypt is a low income country.

The structure of trade

2.8 Crude oil accounts for one third of export earnings and manufactured foods
Textiles and engineering products - are important.

2.9 The EU, is Egypt's main trading partner accounting for 40% of trade (mainly oil). Intra-Arab trade, accounts for a surprising small proportion of trade, 8-10%.

Trade flows

2.10 Exports to the West Bank and Gaza remain at a very low level, but have grown considerably, from $160,000 in 1993 to nearly $3m in 1995. Imports from the West Bank and Gaza have grown from $46,000 in 1993 to $325,000 in 1995. The main exports to the West Bank and Gaza are cement, chandeliers, marmalade, seeds, aluminium, aluminium products. The main imports are wheat flour, copper products, caustic soda and table glass.

2.11 In 1995 Egypt exported $45m worth of foods to Jordan and imported $10m worth. The main exports to Jordan are aluminium, chemicals, rice, iron and steel, glass products, razor blades and cotton yarn. The main imports from Jordan are organic chemicals and pharmaceuticals.

Future vision for trade (with the West Bank and Gaza Strip)

2.12 In Professor Abdel-Khalek's view, Egypt should aim to expand its trade with the Arab world, despite the many obstacles. In negotiating its partnership agreements, the EU is at an advantage because it negotiates as a block with each country. Thus, as far as industry is concerned the EU would become the hub and the Mediterranean countries the spokes. Egypt would inevitably have to restructure its industry and Egypt's infant industries would suffer.

3. Discussant

3.1 The **discussant, Hanspeter Tschaeni,** raised the following points:

* Egyptian trade policy had undergone a remarkable change moving from import substitution and state monopoly of trade towards "opening up". This process has been applauded by the international community.

* The huge trade gap has been offset by services revenue (Suez; US aid) but these may be subject to potential fluctuation.

* Egypt is taking a big step towards development of trade relations with the EU. A historic process has been set in motion because it entails, for the first time, granting preferential access to a large segment of the Egyptian market.

* Finally, and importantly, a discrepancy exists between Egyptian political and commercial roles. Egypt plays a key political role in the region, but, commercially speaking, it has integrated least, when compared with its Arab neighbours, with the regional market.

4. General discussion

4.1 The minister of economy and trade, Maher Masri, pointed out that Egypt's level of tariffs on manufactured goods is still high with the result that Palestine is unable to export finished garments and shoes. This issue has been raised in recent Palestinian-Egyptian trade talks which have resulted in a draft three-point agenda, he said. Once agreed these points have to be referred back to Israel for approval. They cover 1) consideration of certain products for reduced tariff levels; 2) the reorganisation of the Rafah border area in order to overcome bottleneck difficulties which are at present facilitating smuggling from Egypt; 3) a free zone border area which would be useful to Palestinian producers both because of the access it would provide to Port Said and because of the short distances involved.

The minister pointed out that smuggling is hurting the handicrafts industry in Palestine.

4.2 Another Palestinian discussant wondered why Egypt should be more conservative than other Arab countries in terms of developing intra-Arab trade links. He wondered whether Egypt's orientation reflected a quirk resulting from the process of liberalisation or a policy decision. If the latter, it could result in a loss for the Arab world. If Egypt does not expand trade significantly, it would be passing up an opportunity to take advantage of diagonal cumulation provisions.

4.3 In the case of Egypt, infrastructure on the border aids the smuggler. The Palestinian trader can cross to an area and pass goods to Egypt. He does not even have to enter Egyptian land.

4.4 The **presenter** noted that there were no easy answers on the issue of political-commercial discrepancy. Egyptians are behind their leader on political issues, but the economic reform process is deeply divisive. The speed of implementation of reform has to be carefully calibrated.
4.5 Another discussant, referring to the minister's remarks, questioned the advantage of institutionalising trade based on smuggling patterns. This is because the free entry of Egyptian manufactured goods into Gaza would simply kill Gazan industry. He asked what the potential might be for expanding the export of those Egyptian goods that are cheaper than Israel's to Gaza. In short, perhaps Egypt and Palestine could focus on developing an arrangement that is beneficial to both sides.

The **Chairman** concluded by making the following points:

1. In Egyptian-Palestinian trade talks, the Egyptians have stressed that they cannot give preferential treatment to certain Palestinian goods until/unless the Paris Protocol is changed .

2. The free zone area idea should be explored, but Palestinians should be fully aware of the sovereignty issue and the danger of preempting the political definition of borders.

3. With regard to Egypt, caution towards intra-Arab trade, the Chair wondered whether historical factors played a part here.

SESSION FOUR

(Bernard Philippe, European Commission (Brussels) was unable at the last minute to attend the workshop. As a consequence, the programme was rearranged and topics planned for Session One, Day Two brought forward to this session. Diab Jarrar (Ministry of Industry) addressed the issue of Palestine's industrial strategies and their likely impact on regional trade and Samir Huleileh (Trade consultant) Israel's trade policy and practices.

Chair: Professor Gouda Abdel-Khalek, University of Cairo
Presenters: Diab Jarrar, Ministry of Industry
Samir Huleileh, Trade consultant

1. Presentations

1.1 Two presenters addressed the workshop. Diab Jarrar delivered a paper (see presentations) on *Palestine's industrial strategies and their impact on regional trade* and Samir Huleileh spoke to the title *Israel's politics, trade policy and practices: impact on Palestinian trade*. A short general discussion followed.

1.2 **Samir Huleileh's** presentation covered the following main points:

i) The Paris Protocol (PP), April 1994 defined Palestinian-Israeli economic relations. Any violation of this agreement would be treated as a violation of the agreement as a whole.

ii) However, Israel considers the economic sphere as one in which it can press for advantage. Economics, in its view, can be used as a tool to pursue political as well as economic gain. As a result the PA has encountered problems with Israel with regard to implementation of the Paris Protocol.

* Israeli customs used not to permit the entry of goods which Israelis cannot have (i.e those on lists A1, A2, B.)
* The Ministry of Agriculture oppose the PP, as do other Israeli ministries. Only the Ministry of Finance is in favour. Thus PA ministries have had to spend time convincing their counterparts.
* The military said they had no difficulty with the economic aspects of the PP, but with its security implications.
* The Labour government had doubts about some articles of the agreement and tried to obstruct their implementation altogether (i.e. Article III, 14 - free trade/ entry points).

iii) There is an Israeli conviction that the PP should be respected. But on the basis of the above, there is also an understanding that it can be used to pursue Israeli advantage during the remaining negotiating period.

iv) In addition, most of the ministers in the Likud government needed time to educate themselves on the Paris Protocol and to formulate a policy towards it.

The following collective attitude has emerged:

* An awareness that the PP could lead to a loss of sovereignty has resulted in an Israeli effort to lower Palestinian expectations;

* Financial and commercial aspects. The Israeli government would like to prevent implementation of those aspects of the PP where the cost is greater than expected. (i.e. fees at the ports);

* Israel continues to stall on proper implementation of the agricultural clauses of the PP due to the influence of the powerful agricultural lobby;

* Israel continues to make implementation of the PP conditional on security requirements.

v) As a consequence of the above, Israeli violations of the PP continue:

- International borders are still controlled (Article III, 14) by Israel;
- The development of infrastructure for trade and the implementation of provisions for safe passage, airport, and the port are still obstructed.

vi) Palestine should move towards full free trade with Egypt and Jordan by enlarging lists over time, thereby implementing free trade in phases over 12 years.
Provided the PA sticks to phased implementation, it would not be in violation of either the Paris Protocol or GATT rules.

2. General discussion

2.1 The discussion period was very short but three key points were made:

* Israel's will still prevails even when this involves Israeli violations of agreements signed;

* Palestine should move towards free trade in phases - starting with the lists A1, A2 and B on which it can determine tariffs and building on these;

* There would be considerable advantage in persuading Egypt and Jordan to adopt the position that, once the transitional period is complete, the Paris Protocol be considered as expired. This would leave Palestine free to formulate its own trade regime and to develop relations with Egypt and Jordan. (Some participants suggested that both Jordan and Egypt would be cautious about pursuing this path.)

2.2 Tayseer Abdel Jaber agreed it to be in Palestine's interest to mobilise Jordanians and Egyptians in a cooperative effort to challenge Israel. Jordan (particularly its business communities) would have an interest in this, he said. He conceded the matter was politicised at present and tied to the peace process.

Tuesday, May 27, 1997

SESSION ONE

Chair: Hisham Mustapha, Ministry of Planning
Presenters: Mahmoud El Jafa'ari, Al Quds University
Abed al Mun'em Draghmeh, Customs
Abed Al-Hafiz Nofal, Ministry of Economy and Trade
(paper read by Nawal El Haj)

Regional potential for trade between Arab countries

1. Presentation

1.1 **Mahmoud El Jafa'ari** presented his remarks on the *Regional potential for trade between Arab countries* and distributed a number of transparencies (see presentations). The main points made, based on the findings of Dr Jafa'ari's recent study, included the following:

i) The establishment of trade relations between the Palestinian territories and any other country depends mainly on the regulations and arrangements of the Paris Protocol signed by the PLO and Israel on April 29, 1994. This agreement imposes several restrictions on Palestinian imports from countries other than Israel.

ii) If the non-tariff barriers (NTBs) to trade imposed by Israel are removed, Palestine would more than double its merchandise exports (based on 1992 statistics) and the merchandise trade deficit would contract by 30%.

iii) Under this situation increased exports to Egypt would improve the trade balance by 1%. With regard to trade with Jordan, Palestinian imports from Jordan would be three times greater than exports to Jordan.

iv) Restricted trade causes Palestine a loss of some $277m per year. Under unrestricted trade conditions, the merchandise trade deficit would be around $663m compared with $940m in 1992. Thus trade creation with other countries and trade diversion with Israel would reduce the deficit by 30% and the ratio of the trade deficit to GDP from 31% to 25%.

v) Palestine's main exports markets would be in Iraq, Saudi Arabia, Lebanon, the UAE, Jordan and Israel. More than 75% of merchandise imports would originate in Egypt, Syria, Lebanon, the USA, Japan, Korea, Indonesia and the EU.

Abed al Mun'em Draghmeh presented a paper on *Trade with Jordan and impediments on the Allenby Bridge* (see presentations) and Nawal El Haj read a paper prepared by **Abed Al-Hafiz Nofal** on *Trade flows* (see presentations).

2. General discussion

2.1 The main points of the short discussion were:-

* The formulation of a coherent trade policy requires a solid statistical base which Palestine currently lacks. The PA must work to develop a set of dependable statistics and an agreed rendering of its balance of payments.

* At present the PA depends on statistical information from a number of different sources (Ministry of Economy and Trade (import licenses), Ministry of Finance (VAT department) and Customs, each of which provides partial data only.

* Ministries and departments need to get together to develop a statisticl base.

SESSION TWO

Chair: Dr Tayseer Abdel Jaber, Arab Consulting Centre, Amman
Presenters: Geoffrey Haley, ECTAO
Allan Waight, UK Customs
Hanspeter Tschaeni, STIMENA

Europe and the Arab world

1. Presentation

1.2 **Geoffrey Haley** provided a survey of EU-Mediterranean trade relations, which he said the EU regarded as significant and he offered statistical indicators (1994) by way of illustration.

* The Mediterranean area accounted for 6.8% of EU imports and 8.5% of its exports;
* It supplied 25% of EU total energy imports, 33% of its fertilizer imports and 22% of its clothing imports;
* The EU's chief Mediterranean trade partners - Israel, Turkey and Algeria - accounted for 50% of EU trade with the Mediterranean; while three EU member states - Germany, France and Italy - accounted for 65% of EU trade flows to and from the region
* 1994 saw a substantial trade imbalance in EU trade flows with Mediterranean countries - some Ecu12 billion in Europe's favour.

1.3 Providing the workshop with background on the EU's new Mediterranean policy and partnership agreements, Mr Haley made the following remarks:

i) Europe is interested to open its markets to the Mediterranean states and to increase its own market share in the region. In moving towards freer trade and greater integration, Europe recognises the process will be gradual - with the European side moving faster in implementing concessions than the Arab side.

ii) The aim is to conclude a series of parallel, bilateral agreements, similar in terms of structure and philosophy. These would provide a multilateral framework, or Euro-med area, which is both coherent and relevant, comprising Euro-med and Arab-Arab relations.

iii) The concept undoubtedly needs further thinking through on the Mediterranean side. At the inter-Arab level there is uncertainty as to its usefulness.

iv) Difficult areas requiring more work included rules of origin, the right approach with regard to aid and the issue of intellectual property rights.

1.4 In conclusion Mr Haley said that the Barcelona process is a dynamic one which depends on detailed negotiations. The EU is in no doubt with regard to its purpose, namely the creation of a trade environment conducive to enhancing trade flows, which will in turn lead to greater investment, faster growth and better living conditions throughout the region.

2. General discussion

2.1 A short discussion followed.

i) One participant asked how the Palestinians could best exploit the substantial market opportunities that the partnership agreements offered. The Palestinians needed to identify programmes to assist them to exploit opportunities and identify those sectors best able to benefit from European markets. He suggested a renegotiation of the EU-PLO agreement was required.

ii) An Egyptian participant pointed out that a partnership agreement would be significant for Egypt, but less so for Europe. There were anxieties in Egypt's labour circles with regard to the tough period of adjustment involved. Government arguments that finance and technical assistance would help Egypt cope with adjustment difficulties are dismissed by many, on the grounds that there is a limit to what such assistance can achieve. Most important is the extent to which the agreement will lead to trade diversion or creation - there is a real possibility, he said, that a good deal of trade diversion would result.

iii) Another discussant pointed out that Jordan's private sector was not supportive of the EU-Jordan partnership agreement due to the difficult period of adjustment that it entailed. Jordan would therefore like a financial package to support the adjustment process. The political, security and cultural aspects of the agreement were regarded as important, however.

Diagonal cumulation with the Arab world when exporting to the EU

3. Presentation

3.1 **Allan Waight** presented a paper (see presentations).

4. General discussion

4.1 The discussion which followed focused on the following areas:

Shortcomings of the EU-PLO Interim Association

4.2 The EU is signing agreements without sufficient preparation and coordination with regional parties. This had been the case with Palestine.

4.3 In particular the agreement negotiated is disadvantageous for the Palestinians on a number of agricultural issues. The Palestinians wanted an increase in the cut flowers quota; the inclusion of sweet potatoes.

The disadvantages relating to diagonal cumulation

4.4 One speaker suggested that the benefits of diagonal cumulation could be slow in coming - the experience of the Mahgreb countries was a case in point. Two questions were posed with regard to the introduction of diagonal cumulation: Would the "lion's share" or "last country" principle prevail? Should 10% tolerance currently given to Israel be allowed to continue after introducing diagonal cumulation? In response to the first question, it was confirmed that the concerned EC department would like to see dramatic changes in origin rules before the end of the year. In response to the second, the EC would like to amend some features of the EC-Israel agreement.

A collective approach to Europe

4.5 Palestine has many common interests with its Arab neighbours with regard to economic relations with Europe and could benefit from coordinating a collective approach to Brussels. Demands could be made with regard to the early introduction of diagonal cumulation. Collectively, Palestine and its neighbours could seek to constrain Israel.

WTO membership: impact on regional trade and trade between Arab countries

5. Presentation

5.1 **Hanspeter Tschaeni** led the discussion on the WTO. He started by presenting some basic facts on the GATT and the WTO, sketching the main elements of the GATT 47 and those of the WTO agreement. He went on to discuss the possible impact of WTO membership on regional trade and trade between Arab countries. His main points were as follows:

i) WTO membership implies that parties honour all the obligations under the multilateral agreements falling under the WTO agreement. They are thus valid, ipse facto, for regional trade as well.

ii) Exceptions are possible where the agreements contain special provisions, but these exceptions are then valid towards all contracting parties, including regional partners.

iii) The possibility of reserving a specific aspect of the preferential treatment to some contracting parties only has been introduced by the General Agreement on Trade in Services GATS (Article II).

iv) Regional trade or trade between Arab countries may be directly affected by the stipulation in several of the WTO agreements (GATT 94, GATS) of the conditions under which regional preferential trade agreements can be concluded. Such agreements must be notified to other contracting parties and are subject to examination by them.

v) WTO membership has other more indirect consequences for regional trade.

a) A condition for membership is that all relevant domestic legislation comply with WTO obligations. The WTO's regular policy review mechanism ensures that contracting parties keep domestic legislation in line with WTO obligations after accession. Membership provides certain procedures against, and sets a limit to the degree to which governments may take protectionist measures.

b) WTO members share a common language for trade policy terms and instruments. This facilitates interaction and negotiations at regional and inter-Arab levels.

c) A regional or Arab party can use the WTO dispute settlement mechanism against a regional or Arab WTO partner if it deems that an agreement rule has been violated.

6. General discussion

6.1 The discussions that followed was short. The main points were:

i) There was agreement that the status of the PA/PLO and of the West Bank and Gaza Strip vis a vis the WTO is unclear and needs to be clarified. The PA might wish to examine the following:

* Palestine as part of a customs territory embracing Israel and Palestine (the EU serves as a precedent);
* Palestine as an independent customs territory**,** in which case WTO members would have to be convinced that such a customs territory would live up to WTO obligations**.**

ii) There was less certainly over the exact procedure were Palestine to make an approach to the WTO as a single independent customs territory. According to WTO rules, a two thirds majority is sufficient for accession to the organisation (Article XII).

iii) The requirement for the PA to obtain more technical assistance on WTO rules and practices in order to shape its domestic legislation in line with them.

FINAL SESSION

Chair: Maher Masri, Minister of Economy and Trade
Saeb Bamiyeh, Ministry of Economy and Trade

Findings, conclusions, proposals, recommendations

The participants were invited to present findings and make recommendations with regard to policy and with regard to a future work agenda for the **Economic Policy Programme**.

1. Palestinian private-sector representatives made the following suggestions:

Need to exploit Palestinian/Jordanian complementarities

1.1 Two private sector representatives differed over what Palestine's approach towards trade with its neighbours should be. The first argued that Palestinian products were either not eligible in certain markets (EU) or unable to compete in others. Palestinian trade policy should therefore be sectorally driven and formulated according to groupings of markets. Palestine should look to East Asia, Africa etc rather than to its neighbours.

1.2 The second emphasised the opportunities for trade with neighbours. Palestine and Jordan should try and exploit existing complementarities. Selectivity was the answer. Palestine would be in a position to cumulate with Egypt, taking raw material from Egypt and re-exporting to Europe.

Venture loan fund

1.3 A private sector representative pointed out that the private sector wanted to expand exports but lacked funds to invest in better technology or to finance raw material supplies. Political instability deterred the taking of loans. He stressed the need for a venture fund to extend loans to help industry to upgrade management, invest in better technology and subsidize salaries of qualified managers.

An export financing programme

1.4 Such a programme could provide working capital on a soft interest rate basis. This would permit companies to finance raw material imports required to expand exports.

Recommendations for follow up

1.5 It was suggested the **Economic Policy Programme** could follow up by supporting Palestine in bringing Jordanian and Egyptian representatives together with outside consultants to address issues of concern within the triad. Political and economic concerns as well as areas for potential cooperation and action need to be identified.

1.6 An agenda for triangular cooperation might include:
* Economic relations with the EU, in particular the significance of the Interim Agreement for the private sector;
* Tackling Israeli obstacles to regional trade (use of WTO rules);
* Membership of the WTO, in particular Jordanian and Egyption reaction to potential Palestinian membership;
* Jordanian-Palestinian economic and trade relations:

The eventual political relationship will only be defined over time. The question of how the two should develop economic relations in the meanwhile needs to be addressed.

2. The **visiting consultants** were then invited to set out their findings and recommendations.

Professor Gouda Abdel-Khalek

Trade policy

2.1 Trade policy is the signal framework for marketing. The definition of objectives and instruments is the starting point. Palestine must seek to maximise the utilisation of resources - human resources, marble stone etc.

2.2 The administration must develop the enabling environment for the businessman.

2.3 Systematic and comprehensive collection of data is a priority. The formulation of a sensible trade policy must be based on data.

Harmonisation of agreements

2.4 Palestine, Egypt and Jordan should work together for some harmonisation of agreements, whether protocol, preferential, free trade or minutes. The triad should try and sort themselves out (academic, technical political committees) before asking for outside assistance.

Dr. Tayseer Abdel Jaber

2.5 The PA should seek to diversity its trade from Israel (to Jordan, Egypt, Europe, the USA etc.) for economic and political reasons. Palestine and Jordan should build on the positive aspects of existing trade relations.

2.6 Bag trade is a symptom of discontent with the Paris Protocol. It works to the advantage of Palestine and Jordan and should be permitted.

2.7 It is essential to harmonise Jordanian, Palestinian, Israeli trade relations. The lists need to be carefully looked at, but this need not be done collectively

2.8 The advantages of using cumulation in and beyond the region in order to export to the EU are well understood. Policy makers need to look at specifics - which commodities? With who?

2.9 The Arab Monetary Fund has funds to support regional trade.

2.10 Israeli restrictions on Palestinian-Jordanian-Egyptian trade need to be studied on the ground and documented. Dr. Abdel Jaber favoured trucking and transportation sectors both between Palestine and Jordan and transit.

2.11 Now that a number of problems have been identified, nuts and bolts studies are required.

2.12 The PCBS should give priority to developing one accepted set of trade figures (with declared shortcomings).

2.13 The PA should prepare for a review of the Paris Protocol commodity by commodity, quantity by quantity.

2.14 The PA should move to a decision on strategic commodities - Does it want to import from Jordan? To date Jordan has not been able to make use of the PP in this regard.

Hanspeter Tschaeni

2.15 The numerous areas identified for further work should be categorised. Certain topics are ripe for action.

2.16 A distinction needs to be made between trade agreements *already* concluded and those *to be* concluded. Take the EU-PLO agreement which is soon to become effective. It is important for Palestine to meet the challenge ahead by developing a plan of action now. What does the government want, and what does the private sector need in order to maximise the opportunities the EU-PLO agreement offers?

2.17 Discussions should be held to develop policy options with regard to the range of problems identified. Some issues require discussion internally between government and the private sector; others need to be discussed externally with neighbours.

2.18 The PA needs to take advantage of existing fora to discuss broader issues.

2.19 On harmonisation, a topic that STIMENA has been asked to examine by the four core parties to the peace process, we need to define what we mean by harmonisation. It is not always clear what the agreements concluded between parties entail?

Allan Waight

2.20 Jordan, Egypt and Palestine should make a joint approach to the EC with a request to be allowed to operate diagonal cumulation rules of origin in advance of the EC's plan for the region. It might not be rejected out of hand.

2.21 The Palestinians could form a committee comprising representatives of the exporting private sector and the Palestinian Customs service to examine problems encountered in the initial period of implementation of the new Interim Association Agreement . The Committee could provide a channel through which problems could be raised with the appropriate EC customs authority. Such a step would demonstrate the Palestinians' commitment to the early resolution of problems and the PA might expect to gain the forbearance of EC customs authorities during a period when teething problems would be bound to arise.

Consultants' reports

1.	**Trade with Jordan: a Jordanian Perspective**	**Dr Tayseer Abdel Jaber**
2.	**Trade with Egypt: an Egyptian Perspective**	**Professor Gouda Abdel-Khalek**
3.	**The impact of WTO membership on regional trade and trade between Arab countries**	**Hanspeter Tschaeni**
4.	**Diagonal cumulation with the Arab world when exporting to the EU**	**Allan Waight**

1. Trade with Jordan: A Jordanian Perspective

1. The concerns of the Palestinian Authority

1.1 Prior to the workshop, the Ministry of Trade and Economy set out the aims of the two days of sessions. With regard to Palestine's trade with Jordan, the Ministry's objective was to acquire an insight into Jordanian trade relations, trade policy, agreements and its vision with regard to future trade with Palestine, other Arab countries, Israel, the EU and the USA**.** This process would assist the PA in formulating its trade policy towards Jordan and the wider Arab world.

1.2 The Ministry formulated some specific discussion points relating to its concerns with regard to Palestinian trade with Jordan. Further concerns were expressed during workshop discussions:

i) How can possible leakage of Jordanian goods to Palestinian markets via Israel be avoided, given that the Jordanian-Israeli trade agreement extends tariff preferences to more Jordanian goods than those in the Jordanian-Palestinian Trade Agreement (due to the restrictions imposed by the PLO Israeli Paris Protocol)?

ii) In spite of Arab Economic Unity Agreement, the Arab Common Market Resolution, the Trade Facilitation agreement and the more recent Free Trade Area Agreement, intra-Arab trade and that of trade between Jordan and Egypt has remained relatively small. What are the reasons for this and would that govern Palestinian trade with the Arab countries in the future?

iii) What is the likely impact of Jordan's expected membership of the WTO on its trade relations with Palestine - a non-member - and its trade relations with Israel and Egypt, which are members?

2. Trade policy

2.1 External trade plays a key role in the Jordanian economy. Exports account for 25% of GDP while imports account for 59%. Under the Economic Adjustment Programme (EAP) which has been implemented since 1989, Jordan has re-orientated its trade policy:

i) The promotion of exports has been encouraged with the result that growth has become export-oriented. Administrative restrictions on exports have been abolished. Tax incentives have been offered to exporters. In the period 1989-1996, exports doubled in value.

ii) Trade liberalization replaced traditional import substitution as the main plank of external trade policy. Hence, customs duties were lowered on most imported goods. The objective is to reach a tariff rate of 30% or lower with the exception of revenue generating goods such as cars, cigarettes and others.

iii) Together with trade liberalisation, a parallel policy was pursued in order to achieve convertibility of the Jordan dinar (JD) in current transactions. This was realised in early 1995 and the Central Bank of Jordan has recently taken further measures to liberalise capital transactions.

iv) The basis for trade relations has shifted from trade protocols to trade agreements, particularly, free trade agreements (FTAs). The Jordanian-Egyptian trade agreement of May 8,1996 is an example.

3. Economic Adjustment Programme

3.1 Export promotion and trade liberalisation are components of a set of policies adopted under the EAP. The EAP, which aims to correct the imbalances in the Government budget, the balance of payments and the investment/savings gap, covers a wide range of policies in monetary, fiscal, economic and sectoral fields. Of direct relevance to external trade are those policies which aim:

i) To maintain the stability of the exchange rate of the Jordan dinar. Since December 1995, the JD exchange rate vis-a-vis the US dollar has been fixed.

ii) To build up foreign reserves through policies that encourage such as tourism, transit trade, exports of services (health and education) and others that strengthen the balance of payments.

ii) In addition, Jordan issued in 1995 a new investment law which provides incentives to local, Arab and other investors. In line with this law, Jordan adopts measures to tackle administrative "red tape" which deters investors and implements privatisation of government shares and certain public corporations.

4. Trade relations

4.1 Jordan's economic relations, including trade, with Arab countries are very strong. In 1996, Arab countries accounted for 47% of its exports and 25% of its imports. In this regard, Jordan pursues the following policies:

i) It takes part in arrangements aimed at strengthening regional economic cooperation and integration. Jordan was a founding member of the Arab Economic Unity Council and the Arab Common Market in 1964. It signed all agreements for facilitating intra-Arab trade early in the 1950s and in 1981. While intra-Arab trade continues to be marginal for the Arab world as a whole (9% of total only), it is much more important for Jordan, and there is a potential to expand further.

ii) It looks for markets outside the region in Europe, North America and Asia. The volume of exports to these new markets is still limited, but rose quite quickly over the last few years. In 1993-1996, exports to the European Union (EU) tripled while those to the USA doubled.

iii) In line with the goal of export diversification and trade openess, Jordan began negotiations with the EU in 1995 and initialled the Association Agreement on April 16. In 1995 it applied for membership of the World Trade Organisation (WTO) and is currently negotiating accession.

Jordan's trade relations with Palestine

4.2 Jordan is eager to expand its trade with Palestine. Historically, up to 1948, Jordan and Mandate Palestine formed a customs union and shared a single currency. From 1948 to 1967, both the East and the West Banks were unified in one economy. Even after Israel's occupation of the West Bank in 1967, economic ties between the two banks remained significant. This was manifested in the following ways:

i) Jordan maintained an "open bridges" policy for Palestinian exports and imports and became the Palestinians' largest market after Israel, the latter pursued policies and practices to enable it to monopolise the Palestinian market.

ii) Hundreds of thousands of persons moved over the bridges (in both directions) every year.

iii) The Jordan dinar remained a legal tender in Palestine.

iv) Jordanian banks opened many branches in Palestine and thus provided a strong base for its banking system.

v) There are other areas of cooperation as reflected in the various agreements reached between the Jordan government and the PNA - including training, provision of experts.

Jordan-PNA trade agreements

4.3 Jordan concluded a trade agreement with the PNA on January 26, 1995. This calls for achieving free trade in goods and services of national origin. It also provides for:

* A special programme for agricultural trade.
* The establishment of a free trade zone in the Jordan Valley.
* Facilitation of transit trade.
* The provision by Jordan to the PNA of supplies of refined petroleum, cement and steel for construction.

4.4 In May 1995, the Jordanian-Palestinian Joint Committee met in Amman and agreed on the following:

* Lists (1) and (2) of Jordanian goods to be imported by the PNA free from customs duties.
* Lists (3) and (4) of Palestinian goods to be imported by Jordan free from customs duties.
* Agricultural products to be exchanged free of customs in accordance with the agricultural

agenda.

Israeli impediments to Jordanian-Palestinian trade

4.5 Actual trade with Palestine has faced many Israeli impediments:

*Delays in unloading.
*Back-to-back transportation.
*Security checks and payment fu additional fees for unloading goods, security etc.
*Limitation on number of trucks carrying Palestinian exports.

Trade flows

4.6 Trade figures differ widely from the licensed imports and exports.
The following table shows the volume of Jordan's trade with Palestine, Egypt and Israel.

Jordan's direction of trade
(JDm)

	1995		**1996**	
	Exports	Imports	Exports	Imports
Egypt	8.82	32.41	14.04	65.94
Palestine	1.63	10.37	6.92	25.04
Israel	-	-	4.28	2.06

Source: Department of Statistics, Amman; Central Bank of Jordan.

Jordan's trade relations with Egypt

4.7 Jordan and Egypt reached an agreement on May 8, 1996 to create a free trade area to be implemented during a transition period of ten years. It included a timetable for the gradual exemption of customs duties, a definition of the national origin and safeguard clauses.

4.8 In reality, Jordan's trade with Egypt falls short of potential, even now. There is a new move in Egypt calling for a FTA or an Arab Common Market which implies trade liberalisation. This Jordan welcomes as it would encourage Jordan's trade with Egypt.

Trade with Israel

4.9 In accordance with the Jordan-Israel Peace Treaty of 1994, the two countries reached a trade agreement which was signed on October 25, 1995. The agreement provides for an asymmetrical reduction of tariffs on certain lists of goods. Those Jordanian goods, which will benefit from tariff reductions, are classified into three lists with tariff reductions of

100%, 50% and 30%. Israeli products, in a single list are to be given 10% reduction over two years and an additional 5% in the third year.

4.10 In reality, Jordan's trade with Israel is marginal, a situation which it regards as unsatisfactory and has told Israel as much. Jordan wants to apply the door-to-door transportation. It would like to export cement, petroleum and steel bars to Palestine. It would benefit from coordination of the lists of goods in the agreements among the three parties: Jordan, Israel and Palestine. It also wants all Israeli non-tariff barriers on trade, including that with Palestine, to be abolished.

Trade with the EU

4.11 Jordan reached an economic cooperation agreement with the European Community in 1977. This called for unilateral (European) exemption of industrial imports from customs, a similar exemption on agricultural imports but within agreed quotas and dates, and some financial development assistance to be agreed upon every five-year period.

4.12 In 1995, Jordan began negotiations with the EU on an Association Agreement within the broad Euro-Med partnership. The Agreement was initialled in Malta on April 16, 1997. The main issues in the negotiations were:

* Lists of imports which will be free from customs up to the establishment of the free trade area in the year 2010.
* The negative list that will remain subject to customs after the year 2010 due to revenue generation.
* List of Jordanian agricultural exports and quotas.
* The transitional period to apply the intellectual property rights.
* Treatment of asylum seekers in Europe who arrived there via Jordan.
* Liberalisation of services.

While to the EU accounts for 6% of Jordan's total exports, Europe-bound exports have increased rapidly in the last few years. Jordan hopes that access to a large and growing European market will provide a sustainable growth prospect. Jordan's imports from the EU account for 35% of total imports which means that Jordan will lose substantial customs revenues. However, the Association Agreement provides for financial assistance to Jordan.

5. Findings

5.1 On the basis of the discussion during the session on Jordanian trade and in other workshop sessions, the following findings were reached with regard to the issue of Jordanian trade policy and its implications for Palestine.

i) The PNA has much to gain from diversifying its economic relations including trade. Every effort should be exerted to develop trade relations with Jordan as well as with Egypt, the Gulf countries, the European Union and the USA.

ii) There is a good potential for trade expansion between Palestine and other countries, particularly Jordan and Egypt. It is in the interest of all to expose Israeli obstacles and non-tariff barriers to trade and pressure it to abolish these impediments. There are possibilities for Egypt and later Jordan to raise a case at the WTO against those Israeli practices which disrupt regional trade.

iii) Since there are bilateral trade agreements, protocols and accords among the four countries (Jordan, Egypt, Palestine and Israel), there is a need for harmonising and coordinating these agreements in a way to expand the lists of duty free goods to be traded.

iv) The Paris Protocol had been a limiting factor on Jordan's (and Egypt's) trade with Palestine and vice versa. It should be reviewed to give the Palestinians a freer hand in their imports in terms of kinds of goods and their quantities. It is recommended that the Palestinians prepare a position paper on exact amendments which they wish to make.

v) EU cumulation of origin rules will help Jordan, Egypt and Palestine to enhance their exports to the EU and among themselves. The three countries should therefore ask the EU to grant them jointly the right of such cumulation. This right should be granted, as in the case of Central Europe, without the need for establishing a free trade area.

vi) It is too early to judge the impact of the free trade area between Jordan and Egypt on the volume of their bilateral trade. This is especially so since the agreement has not yet been ratified by Egypt.

vii) The same applies to the Arab free trade area agreement which was reached in February 1997 and is expected to become effective as of January 1, 1998. Regardless of whether this agreement is implemented or not, the region is gradually moving towards freer trade given its association agreements with the EU and membership of WTO. Hence, more trade competition will take place locally and regionally. Fortunately, the Palestinian enterprises will be quite adaptable to higher competition since there is little if any tariff protection at the present time.

viii) The Paris Protocol allows for the PNA to import such strategic commodities as cement, steel bars for construction and petroleum from Jordan. Of these, Palestine only imports some cement. However, there is plenty of potential for Palestine to expand imports from Jordan.

ix) The actual volume of Palestine's trade with Jordan and Egypt is much higher than official figures indicate. Persons crossing the border areas carry with them many commodities and some do so on a regular basis. There is a case for encouraging this form of trade (bag trade) because it represents one way of countering Israeli restrictions and Paris Protocol limitations on regional trade.

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June, 1997

2. Trade with Egypt: An Egyptian Perspective

1. PA concerns on trade with Egypt:

1.1 The PA is striving to design a trade policy to diversify and promote the foreign trade of the West Bank and Gaza Strip (WBGS) away from heavy trade dependence vis-á-vis Israel. Palestinians look on Egypt as an important potential trade partner, and consider that an expansion of trade between WBGS and Egypt would constitute an important step towards diversifying their trade, as a substitute for trade with Israel. The PA has already started discussions with Egypt on identifying a list of goods for preferential trade.

1.2 The volume of Egypt/WBGS trade may be below its potential and could, and should, be augmented. In 1996, PA customs officials estimate imports from Egypt at $41m in licences given - but actual imports were only one third of this sum ($14m), because of the existence of various obstacles: poor transport and handling, customs and regulations and lack of finance.

1.3 Trade between Egypt/WBGS needs to be organised to combat smuggling to and from Gaza (estimated at $13m a year). Smuggling is more from Egypt - mainly cigarettes. A technical and Economic Cooperation Accord between Egypt and the PLO was signed in Cairo, January 26, 1995. The Accord stipulates constituting a Joint Trade Committee to encourage commercial exchanges of national products, and studying the possibility of establishing a free zone in Rafah for trade, industry, investment and other purposes.

1.4 Egypt is in strong competition with other countries of the region for foreign direct investment. Palestinians would like to see some coordination among individual country efforts in this area.

1.5 The PA expressed its concern about the highly unbalanced trade in favour of Egypt. PA officials would like to see Egypt play a bigger economic role to match its political weight in the region. PA participants in the workshop expressed their concern over Egypt's reluctance to open its market. Applying diagonal cumulation in relations with the EU may change Egypt's stance.

The PA expressed concern that tariff cuts are unilaterally implemented on the Palestinian side, with Egypt having refused to reciprocate on the grounds of GATT rules.

2. An overview of trade relations: agreements and protocols at bilateral and multilateral levels:

At the multilateral level:

2.1 Egypt is an acceding party to GATT since 1970, and participated in Tokyo and Uruguay Rounds. It signed the GATT 1994 Marrakesh accords in April 1994, and is an original member of the World Trade Organization (WTO).

2.2 Egypt adopted the Harmonised Commodity Description and Coding System (HS) in 1994.

2.3 As a member of WTO, Egypt extends most favoured nation (MFN) treatment to imports from other WTO members such as Israel. MFN treatment has also been extended via bilateral trade agreements to a number of non-WTO members, such as Jordan.

2.4 As a member of the League of Arab States, Egypt is committed to the decision of the League's Economic and Social Council in February 1997 to set up a free trade area among the member states.

At the bilateral level:

Egypt is party to the following agreements:

2.5 Egypt-Israel Trade Agreement of 1980, which provides a framework for closer co-operation between the two countries. They exchange MFN treatment.

2.6 Egypt-Jordan Trade Agreement of September 1992, under which Egypt grants duty-free access to 15 product categories originating in Jordan (processed industrial goods, capital goods, pharmaceuticals, processed agricultural products), and Jordan extends duty-free access to 17 product lines originating in Egypt (including glycerin, refractory bricks, steel sinks and wash basins, wires, ropes and cables of iron, razors and razor blades, pumps, electricity meters and tomato ketchup).

2.7 Egypt-Jordan Free Trade Agreement of May 1996, which envisages the eventual creation of a free trade area (FTA) over a transitional period not exceeding 10 years, except for a list indicated in Annex 2 on a seasonal basis (apples, pears, grapes and apricots from Jordan and potatoes, onions and garlic from Egypt).

2.8 Egypt-PLO/PA Technical and Economic Co-operation Accord, of January 1995, which offers a broad framework for co-operation in trade, investment, industry, etc. Article 2 of the Accord deals with trade issues and calls for setting up a Joint Trade Committee. Article 8 calls for a Technical and Economic Co-operation Joint Committee. (See summary of agenda of its Second Meeting in Cairo, February 18-20, 1997).

2.9 Egypt-European Union Economic and Technical Co-operation Agreement of 1977, renewed in 1987. Currently Egypt is negotiating a Partnership Agreement.

2.10 Preferential trade agreements with other countries, notably Libya, Saudi Arabia and the Sudan. Important issues are raised by these arrangements in the area of trade creation, diversion and deflection. This makes it necessary to coordinate and harmonise.

3. Trade policy:

3.1 Under the Economic Reform and Structural Adjustment Programme (ERSAP) Egypt is committed to more trade liberalisation through reducing tariff mean and dispersion, and through tariffication (reduction or elimination of non-tariff barriers (NTBs)).

3.2 According to the Marrakesh accords, agricultural NTBs are to be replaced by tariffs and tariff rates are to be reduced stepwise from an average of 30% to 22% by January 2004. Tariff binding was also introduced.

3.3 Egypt applies the following customs fees on imports: 2% for products with greater than 30% tariff and 5% for those with tariff below 30% + 1% statistical fee + 10% sales tax.

3.4 The Egyptian economy is now much more open, thanks to the measures taken since 1990. The overall simple average tariff rate is down to 16% from 35%, and NTBs have virtually been eliminated (poultry and yarn are minor exceptions). But the import-weighted average tariff is still considered high (31%). However, Egypt has reduced its tariff rate under ERSAP, which supersedes Egypt's commitments under GATT 1994. The state trading monopoly has been dismantled, and the private sector and foreigners are now allowed to engage in foreign trade. The newly established Supreme Export Council, headed by the President of the Republic, is the spearhead of Egypt's effort to promote exports.

4. Trade flows:

4.1 Egypt has experienced a large and rising trade deficit. According to figures for 1995/96 (July-June), merchandise exports were $4 billion and imports were $13 billion representing a trade deficit of about $9 billion.

4.2 The trade deficit is largely offset by the surplus in the services balance and by capital inflows.

4.3 Regional trade accounts for a small proportion (5%) of total trade.

4.4 The main trading partner in the EU (40% of the total), followed by the USA and Japan.

4.5 Regional trade flows are difficult to measure accurately because of different data from different sources and the existence of smuggling/border trade. The official figures are underestimates.

Trade between Egypt, WBGS and Jordan
($m)

	1993	1994	1995
Exports to WBGS	0.16	0.671	2.71
Imports from WBGS	0.46	0.025	0.325
Exports to Jordan	38.0	43.0	45.0
Imports from Jordan	7.0	8.0	10.0

Source: Central Bank of Egypt.

4.6 The structure of Egypt's trade with WBGS and Jordan is as follows:

* The main Egyptian exports to WBGS are cement, jams, juices, crystal chandeliers, seeds and aluminium and aluminium products, while the main Egyptian imports are wheat and barley flour, copper products, caustic soda and table glassware.

* The main Egyptian exports to Jordan are aluminium and aluminium products, chemicals, rice, iron and steel products, glass and glass products, razor blades and cotton yarn, and its main imports are organic chemicals, pharmaceutical, animal feed, iron products and automobiles.

4.7 We have to underscore the data problems mentioned above. Figures on trade volume, value or structure have to be treated with great caution. In fact, a study to verify the magnitude of trade flows is badly needed.

5. Prospects for the future

Two specific issues may be raised, dealing with regionalism and globalisation (GATT/WTO).

5.1 Egypt has an open, pragmatic attitude on the orientation of its foreign trade. It is pushing for an Arab trading block (a free trade area) and at the same time seriously negotiating a partnership agreement with the EU. It also seems intent on continuing its existing trade/aid ties with the USA, but with a more recent effort to balance this out by forging trade/investment links with South East Asian countries.

5.2 Egypt seems poised for more trade and financial openness, as witness various measures under GATT 1994 and ERSAP to that effect. This is borne out by the high rate of capital inflows (about $1 billion annually) and the extent of foreign involvement in Egypt's stock exchange (in 1996 30% of total transactions on the Egyptian stock exchange were by foreign investors). Under WTO membership, Egypt is committed to liberalisation in five service areas: banking and finance, insurance, construction, maritime transport and tourism. All this implies that trade and investment issues will be increasingly closely linked. Thus the new Investment Code (passed by Parliament in May 1997), offers very generous treatment to investors.

6. Summary of discussions

6.1 There are good benefits to be derived from applying diagonal cumulation to trade with Arab countries. Egypt should combine with Jordan and the PNA to ask the EU for diagonal cumulation - the EU being the most important trade partner for Egypt, and one of the most important partners in the case of Jordan and PNA.

6.2 Although there is, as yet, no trade agreement between Egypt and the PNA, Egyptians are now considering a list of products for tariff exemption. This will help boost Egypt/WBGS trade relations since Egypt's trade policy remains highly protective.

6.3 There is a good basis for sourcing fabric for the PNA garment industry in Egypt.

6.4 In the past Egypt followed a dirigiste import substitution strategy hiding behind the highly protective trade regime. But, Egypt's effort for trade liberalisation under Economic Reform and Structural Adjustment Programme (ERSAP) is commendable, and the international community is happy with this development.

6.5 The trade deficit has always been a problem, with merchandise trade so far unresponsive to reform measures (trade liberalisation, price adjustment, devaluation). The main sources of foreign exchange remain beyond the country's control: Suez Canal, tourism foreign aid and workers' remittances.

6.6 There is a discrepancy between Egypt's political and economic orientation. Politically, Egypt is an active member of the Middle East; it is playing an instrumental role in bringing about peace and greatly helping PNA in this. But economically, Egypt hardly deals with countries in the region: the OECD countries account for more than 70% of Egypt's trade, while its trade with Arab countries is no more than 5-6%.

6.7 The Rafah exit in its present condition appears to be both a bottleneck and a threat to Egypt/WBGS trade. It is too small to handle a larger volume of trade, and so ill-organised as to encourage smuggling on a large scale (about $13m in 1996, according to PNA customs officials).

6.8 The PA minister of economy and trade has agreed with his Egyptian counterpart (Dr Ahmed Goweily) to draw up a list of products for preferential treatment reciprocally and to reorganize the Rafah exit and to establish a border free zone. But all this requires the consent of Israel. The EU may be able to help persuade Israel to be forthcoming on these matters.

6.9 The New National Project for Sinai, recently ushered in by Egypt, may help boost Egypt/WBGS economic exchange.

6.10 In Egypt/PNA trade, there is a great potential for importing capital goods, strategic goods, raw materials and fabric from Egypt, while West Bank marble may be exported to Egypt.

6.11 Egypt appears to have been very successful recently in attracting foreign investment ($750m in 1995/96). The New Investment Code may involve tax holidays, inexpensive land sites, guarantees against nationalisation, and may help increase the investment inflow to Egypt.

6.12 A major problem remains the low rate of domestic saving.

7. Recommendations:

Some of the more important recommendations are:

7.1 Make reasonable accurate estimates of trade flows between the WBGS and Jordan and Egypt.

7.2 Harmonise the existing trade agreements between the various parties (between PA and Jordan and between Egypt and Jordan) and the association agreements with the EU regarding rules of origin and diagonal cumulation.

7.3 Re-organise and modernise the Rafah exit, in order to encourage Egypt/PA trade and to combat smuggling.

7.4 Study ways and means of utilising the presence of Palestinians outside WBGS as a vehicle to promote Palestinian trade (in the Gulf, North America etc.).

7.5 Explore opportunities for Egyptian/Palestinian joint venture investment to integrate the fabric and garment industry.

7.6 Ensure the right of PA to direct importation, rather than through Israel.

7.7 Study the impact of existing trade agreements in trade creation, diversion and deflection.

7.8 Study the possibilities and prospects for setting up a venture loan fund in the WBGS.

7.9 Give technical support to Egypt, Jordan and the WBGS to discuss the implementation of diagonal cumulation with the EU.

8. Follow-up suggestions:

8.1 On the issue of diagonal cumulation, make sure that in their agreements with EU, Egypt and other Arab Mashreq countries can benefit from diagonal cumulation.

8.2 Harmonising the criteria for rules of origin: Under the Egypt/PLO Technical and Economic Co-operation Accord of January 1995 (Article 4), the PLO grants Egyptian products any preferential treatment which the PA may extend to any other party. The accord gives as a criterion of national origin for industrial products a minimum 40% value added in the country concerned. In the Egypt/EU partnership agreement the "list rules" (Annex to protocol No. 3) are

applied - meaning that origin is determined on a case-by-case basis to establish "sufficient working or processing".

8.3 Establishing lists of products to be exchanged on a reciprocal basis between Egypt and PA, to serve as an operational tool for a trade agreement. This issue was discussed during the second meeting of the Joint Egyptian-Palestinian Committee for Technical and Economic Co-operation in Cairo (February 18-20, 1997) and it was agreed that a technical committee study the possibility.

8.4 Establishing a joint industrial free zone on the border of Egypt/PNA, as a means of enhancing trade and investment relations. The Egyptian experience in industrial development and free zones may be deployed to the joint benefit of both parties. In this context organising the Rafah exit with the aim of enhancing trade flows and combating smuggling is essential.

8.5 Organising a seminar to provide the professional/technical and intellectual support needed by technocrats on both sides. (I have discussed this possibility with PA people in Ramallah.)

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June, 1997

3. The impact of WTO membership on regional trade and trade between Arab countries

1. Concerns of the Palestinians expressed prior to or during the workshop

The first of the concerns listed below was formulated as a written discussion point prior to the event by the PA while the others were expressed during the discussions of the workshop.

1.1 What are the effects of Jordan's accession to the World Trade Organisation (WTO) on its trade relations with the WBGS as a non-member and with Egypt and Israel as members?
1.2 What are the rules of the GATT/WTO on border trade?
1.3 Are there possibilities for Arab WTO members to raise for discussion in the WTO the issue of trade obstacles, which Israel has erected for Palestinian goods?
1.4 According to WTO rules, Israel will have to accept the unhindered import of textile products from all its WTO partners by the end of 1997. Will this have repercussions for the WBGS?
1.5 Egypt initially refused to conclude a preferential trade agreement with the Palestinians because this would be in contradiction to its GATT (now WTO) obligations. Is this argument justified?

2. Presentation during the workshop

Before presenting a few ideas on the possible impact of WTO membership on regional trade and trade between Arab countries, some basic facts on the GATT and the WTO need to be clarified.

Terminology:

2.1 GATT = General Agreement on Tariffs and Trade. The original text is nowadays referred to as GATT 47, while the modified version after the Uruguay Round negotiations is called GATT 94.

2.2 Uruguay Round = Eighth and so far last round of multilateral trade negotiations conducted under the GATT 47. The Round received its name from the country in which the negotiations were launched in 1986. The negotiations were concluded on December 15, 1993, and the Final Act Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations was signed on April 15, 1994, in Marrakesh.

2.3 WTO Agreement = Agreement establishing the World Trade Organisation. The Agreement was signed on April 15, 1994, in Marrakesh and entered into force on January 1,1995. The other agreements negotiated during the Uruguay Round are annexed to this Agreement (for a list of these agreements, see the Appendix to this note)

History:

2.4 The General Agreement on Tariff and Trade (GATT 47) grew out of the negotiations for a more ambitious International Trade Organisation under the UN umbrella (1946-48), which never came into existence, however. The GATT itself has been provisionally applied since January 1,1948 until it was incorporated, in a somewhat modified form and as GATT 94, in the WTO Agreement. From 23 founding members listed in the preamble, the number of contracting parties grew to around 90 at the launch of the Uruguay Round and some 125 today.

The main elements of the GATT 47:

2.5 The GATT 47 covered essentially trade in industrial goods. It aimed at achieving its goals[2] through the "substantial reduction of tariffs and other barriers to trade and [...] the elimination of discriminatory treatment in international commerce" (preamble).

2.6 Through a series of multilateral negotiating rounds, the tariffs of the contracting parties were substantially lowered and their levels fixed (bound). The Tokyo Round (1973-79) introduced as a new dimension common rules for some non-tariff obstacles, which were laid down in so-called Codes. Membership in these Codes was optional, however.

2.7 The principles of most favoured nation (MFN) treatment and national treatment were designed to implement the second aspect mentioned in the preamble, i.e. the elimination of discriminatory treatment. The MFN principle requires that trade advantages granted by a contracting party to another country are automatically extended to all other parties. According to the national treatment principle, a product emanating from another party to the agreement must not be treated less favourable then a comparable domestic good.

2.8 The GATT 47 allowed a number of exceptions to the principles of MFN and national treatment, including: preferential agreements in line with Article XXIV; special treatment for developing countries according to the so-called enabling clause; the possibility of obtaining a waiver from certain obligations; and the treatment of textile products according to special rules. These exceptions could not be claimed unilaterally but were subject to specified procedures. For all practical purposes, agricultural products were not covered by the GATT 47, either.

The main elements of the WTO Agreement:

2.9 Certain provisions of the GATT 47 were sharpened and detailed but the bulk of the agreement was incorporated in the WTO Agreement without changes. As in earlier rounds, tariffs were again reduced, this time including developing countries in the exercise.

[2] The following goals are listed in the preamble: raising standards of living, ensuring full employment and a large and steadily growing volume of real income and effective demand, developing the full use of the resources of the world, expanding the production and exchange of goods.

2.10 The coverage of the Agreement was extended to agriculture, services, intellectual property rights and investment. The content of the rules for each of these fields differs, however.

2.11 The development started during the Tokyo Round to establish common rules for non-tariff obstacles was continued and extended to other sectors. In some of the fields, the corresponding agreements are of a multilateral nature, i.e have to be adhered to by all contracting parties (see Multilateral agreements on trade in goods in the list reproduced in the Appendix), while membership in others is optional (see Plurilateral trade agreements).

2.12 Trade in textiles shall be brought under the discipline of the WTO after a ten-year transitional period. In the meantime, market access conditions will be gradually improved.

2.13 Although special provisions for developing countries were maintained, some of these countries were asked to assume a greater share of the general WTO disciplines.

2.14 The dispute settlement mechanism was sharpened in order to ensure better compliance with WTO rules.

2.15 The WTO was given the status of an international organisation.

3. WTO membership situation for countries from the Middle East and North Africa region

3.1 Within the Middle East and North African region the current members of WTO are: Bahrain, Egypt, Israel, Kuwait, Mauritania, Morocco, Qatar, Tunisia and United Arab Emirates.

3.2 The countries requesting accession are: Algeria, Jordan, Oman, Saudi Arabia and Sudan.

4. Impact of WTO membership on regional trade and on trade between Arab countries

4.1 In principle, WTO membership implies that the contracting parties honour all the obligations under the various multilateral agreements falling under the WTO Agreement, including the Understanding on Rules and Procedures Governing the Settlement of Disputes and the Trade Policy Mechanism, and of those plurilateral trade agreements to which they are parties. As a rule, these obligations exist vis-à-vis all the contracting parties, i.e. also the regional partners.

4.2 Exceptions are possible where the agreements contain explicit special provisions (e.g. developing countries might be granted the possibility to avail themselves of a longer transitional period to implement certain obligations). However, these exceptions are then valid towards all contracting parties, including regional partners.

4.3 The possibility of exempting specific aspects of the preferential treatment from the MFN principle has been introduced by the General Agreement on Trade in Services (GATS; Article II). To the degree that a member restricts certain benefits to regional partners only under that Article, a direct impact on regional trade or on trade between Arab countries might in fact be realised.

4.4 A further direct effect for regional trade or for trade between Arab countries stems from the fact that several of the WTO agreements (GATT 94, GATS) stipulate under which conditions regional preferential trade agreements can be concluded. Moreover, such agreements need to be notified to the other contracting parties and are subject to an examination by them. WTO member countries are thus no longer entirely free in determining the content of trade agreements with their neighbours in the region.

4.5 WTO membership also has more indirect consequences for regional trade/trade between Arab countries. A condition for membership is that all the relevant domestic legislation complies with the WTO obligations; so as a rule accession to WTO implies numerous amendments to domestic laws and practices. It can be assumed that these laws and practices will normally also be valid for regional partners who are not members of WTO. The regular trade policy review mechanism, which forms part of the WTO agreements, is aimed at ensuring that the contracting parties keep their domestic legislation in line with WTO obligations after accession. Membership also provides certain procedures against, and sets a limit to the degree to which the governments may take, protectionist measures in case of difficulties in a particular sector or the entire economy of a country. While these rules certainly need to be observed vis-à-vis other WTO contracting parties, there might also be a spillover effect in relation to non-members in the region.

4.6 Members of WTO share a common language for trade policy terms and instruments. This will facilitate interaction and negotiations also at the regional level and between Arab countries. To the degree necessary to comply with the WTO obligations, their relevant domestic legislation on trade and trade-related matters will have common features or might even be to a degree harmonised. Finally, a regional party or an Arab country can of course also use the WTO dispute settlement mechanism against a regional or Arab WTO partner if it deems that a rule of one of the agreements has been violated.

5. Findings and follow-up proposals

5.1 The discussion following the presentation was too short to work out any definite conclusions. Several of the concerns raised under paras 1.1-1.5, above, thus remained on the table and might need to be pursued on another occasion.

5.2 In addition, the following questions, which were raised during the discussion, might merit further examination:

- Clarification of the status of the PA/PLO and of the WBGS vis-à-vis the WTO;
- How can the PA obtain more technical assistance on WTO rules and practices in order to shape its domestic legislation in line with them?

Hanspeter Tschaeni
STIMENA
June, 1997

Appendix: Agreement establishing the World Trade Organization

ANNEX I
ANNEX IA: MULTILATERAL AGREEMENTS ON TRADE IN GOODS

- General Agreement on Tariffs and Trade 1994
  Understanding on the Interpretation of Article II:I(b) of the General Agreement on Tariffs and Trade 1994
  Understanding on the Interpretation of Article XVII of the General Agreement on Tariffs and Trade 1994
  Understanding on Balance-of-Payments Provisions of the General Agreement on Tariffs and Trade 1994
  Understanding on the Interpretation of Article XXIV of the General Agreement on Tariffs and Trade 1994
  Understanding in Respect of Waivers of Obligations under the General Agreement on Tariffs and Trade 1994
  Understanding on the Interpretation of Article XXVIII of the General Agreement on Tariffs and Trade 1994
  Marrakesh Protocol to the General Agreement on Tariffs and Trade 1994
  - Agreement on Agriculture
  - Agreement on the Application of Sanitary and Phytosanitary Measures
  - Agreement on Textiles and Clothing
  - Agreement on Technical Barriers to Trade
  - Agreement on Trade-Related Investment Measures
  - Agreement on Implementation of Article VI of the General Agreement on Tariffs and Trade 1994
  - Agreement on Implementation of Article VII of the General Agreement on Tariffs and Trade 1994
  - Agreement on Preshipment Inspection
  - Agreement on Rules of Origin
  - Agreement on Import Licensing Procedures
  - Agreement on Subsidies and Countervailing Measures
  - Agreement on Safeguards

ANNEX IB: General Agreement on Trade in Services

ANNEX IC: Agreement on Trade-Related Aspects of Intellectual Property Rights

ANNEX II: Understanding on Rules and Procedures Governing the Settlement of Disputes

ANNEX III: Trade Policy Review Mechanism

ANNEX IV: Plurilateral Trade Agreements
Agreement on Trade in Civil Aircraft
Agreement on Government Procurement
International Dairy Agreement
International Bovine Meat Agreement

4. Diagonal cumulation with the Arab world when exporting to the EU

1. The European Community's proposals

1.1 The European Community (EC) is proposing a revision of its agreements with a number of countries of the Mediterranean. It is envisaged that under the new agreements provision should be made to allow goods originating in one of the countries within the group to be further worked or processed in another country within the group and for the finished product to be exported to the EC as a product entitled to preferential tariff access to the EC market. This aspect of the EC's rules of origin is known as 'diagonal cumulation' of origin.

2. The concerns of the Palestinian Authority

Prior to the workshop the Palestinian Authority (PA) formulated a number of discussion points about diagonal cumulation of origin in the following terms:-

2.1 As part of the discussion of diagonal cumulation with the Arab World when exporting to the EC discussion we would appreciate a treatment of the effect of cumulation on our industries and trade between Arab countries.

i) What is the potential for introducing diagonal cumulation between the Arab countries in trading with the EC (regional level Jordan, Egypt, West Bank and Gaza Strip, Israel and Maghreb)?

ii) What are the benefits or disadvantages of introducing diagonal cumulation -

* where we can cumulate with close Arab countries of Mashraq such as Jordan and Egypt, and with Israel?
* where we can cumulate with far Arab countries of Maghreb such as Tunisia, Algeria and Morocco?

iii) How will diagonal cumulation, if introduced, operate especially in the following fields:-

textiles and clothing,
leather and shoe industry, and
food processing.

2.2 What are the changes that might be introduced in the rules of origin protocol already existing in the PLO/PA agreement with the EU and that found in the Jordan/EU agreement or the proposed one in Egypt's agreement with the EU?

3. The Workshop

The EC view of cumulation explained

3.1 Cumulation may be explained as the beneficial adding together of goods originating in one country with goods originating in another to make a product that satisfies the EC's preferential rules of origin. Its purpose is to make it easier for countries within a trade group to produce goods which satisfy the rules of origin for preferential tariff access to the EC market, a market which is over 100 times larger than the Israeli market. Cumulation encourages not only more trade with the EC but also more trade between the countries of a regional group.

The countries forming the regional group

3.2 Although the inclusion of Algeria, Morocco and Tunisia in the wider Mediterranean grouping remains an objective of the EC, the initial aim of the Community is to create a regional group comprising Egypt, Israel, Jordan, Lebanon, Syria and the West Bank & Gaza Strip (WB&GS). The difficulty of including the Maghreb countries along with the others is linked to the full cumulation provisions currently enjoyed by Algeria, Morocco and Tunisia, provisions that the EC find difficult to extend to other Mediterranean countries from the outset. The alternative solution - reduce the cumulation opportunities available to the Maghreb countries to diagonal cumulation - is not at present viewed by the EC as a viable option. Many EC traders take advantage of the presence of full cumulation, with Morocco in particular, and the Community would find it difficult to remove this benefit which has been enjoyed for many years.

3.3 The EC does not envisage that all countries would necessarily join the cumulation group at the same time. There is a pressing need for the EC to secure agreement with Israel that would enable the present irregular practice, whereby goods made up in WB&GS under sub-contract to Israeli firms are exported to the EC as of Israeli origin, to be placed on a proper legal basis. At present the agreement between the EC and Israel is a bilateral agreement which does not contain provision for diagonal cumulation of origin with the WB&GS and yet cumulation of origin is taking place. The EC cannot be expected to allow products manufactured in this way to continue to enjoy preferential access to its markets without formal changes to the EC-Israeli agreement (and the EC-PLO/PA agreement), but is aware that denying such goods preferential tariff treatment could have serious consequences for WB&GS firms. It may be assumed that the EC would welcome the inclusion of Jordan and Egypt in any formal diagonal cumulation grouping of Israel and WB&GS at the same time or as soon as possible thereafter.

3.4 The PA has had preliminary trade talks with Tunisia and would welcome the inclusion of Tunisia in the regional diagonal cumulation group. The workshop questioned whether Tunisia trades with Morocco, Algeria or the EC using full cumulation of origin provisions. If not then the possibility appears to exist for the EC to consider the inclusion of Tunisia in the diagonal cumulation group without any loss of benefits to Tunisia or the EC in real terms.

How others view cumulation of origin

3.5 The value of cumulation of origin has been recognised by Israel and Jordan. In a Memorandum of Understanding of December 1996, the two countries agreed to seek from the EC an agreement to allow them to cumulate origin between them to produce goods for export to the EC. The EC will support this request as it is in line with its own policy towards the Mediterranean countries.

3.6 The benefits of cumulation of origin are also recognised by Egypt and Jordan in their Free Trade Zone Agreement, which has yet to enter into force.

The advantages of diagonal cumulation on a trade sector basis

3.7 The advantages of diagonal cumulation are the same for all types of products. Manufacturers of finished goods have available to them a wider area from which to source materials and parts. Manufacturers of intermediate products, semi-manufactured products or raw materials have a wider market in which to promote their products.

3.8 Some industries will inevitably gain more from cumulation than others. The **garment manufacturing** industry will have a much wider source of suppliers of fabric. Egypt in particular should find it attractive to promote its fabrics among garment manufacturers within the regional group and those garment manufacturers will welcome the opportunity to use those fabrics in place of, say, fabrics of US or Far Eastern origin, as the finished garments will qualify for preferential tariff access to the EC (a saving of approximately 12% customs duty).

3.9 **Agriculture** and the **food processing** industry can also benefit from cumulation. A food processor who relies on local produce may find that at times of local shortages his production must be curtailed. Regional cumulation allows purchase of supplies from neighbouring countries without the final product losing its preferential status for export to the EC.

3.10 The **agricultural sector** could also find that at times of surpluses, instead of having to plough them back because local food processors are running at capacity, it can supply food processors in neighbouring countries to help them maintain production without losing their entitlement to preferential access to the EC.

The disadvantages of diagonal cumulation

3.11 The benefits of diagonal cumulation described above highlight one of the possible disadvantages. The availability of intermediate products in a neighbouring country means less incentive to create vertically integrated industries within a single country eg a fabric industry to support the garment manufacturing sector. There is also the possibility that assembly work for industrial goods requiring high labour input becomes concentrated in the countries within the regional group which have the lowest wage costs.

3.12 The view of the workshop was that these problems can be overcome by identifying complementing, rather than competing, features of trade. The Palestinian textile industry is already looking to establish a fabric dyeing and finishing sector to provide specific fabric needs of part of the garment manufacturing sector whilst recognising that fine cotton fabrics will be acquired from Egypt. The garment industry feels confident that its superior design capabilities can help overcome the advantages Jordan may have on production costs.

Rules of origin in trade between countries forming a regional group

3.13 An important feature of the EC's preferential trade agreements which include diagonal cumulation is the requirement that the rules of origin applying in trade between each of the countries within the group are identical to the rules of origin for trade between each of the countries and the EC. It is important therefore that, when drawing up new agreements with neighbouring countries, the PA makes provision for EC rules of origin to be included in those agreements. Only by so doing will it be possible to take advantage of the diagonal cumulation provisions to be introduced in the EC's revised trade agreements.

Changes to existing EC-PLO/PA Agreement to facilitate introduction of diagonal cumulation

3.14 Very few changes will be necessary to permit the operation of diagonal cumulation. The list rules - the rules annexed to Protocol No 3 which identify for each product the rules which must be satisfied for a product to acquire originating status - will remain the same. These are already the most up-to-date rules offered by the EC to any of its trading partners and are the rules introduced from January 1, 1997, in the Europe Agreements with the Central and Eastern European Countries and the agreements with the EFTA countries. The only change will be the insertion, in the articles of Protocol No 3, of provisions for the introduction of diagonal cumulation.

3.15 The workshop recognised that in its original proposals the EC had suggested a rule for allocating origin, where two or more countries are involved in the manufacture of a finished product, which could be less than beneficial to Palestine in so far that the origin of materials could be the deciding factor in determining the origin of a product made up in Palestine. (For a full commentary on this issue and the alternatives see the report of the **Economic Policy Programme's** workshop held in June 1996.) The Commission has made no decision on this issue but is thought to be sympathetic towards a simple rule which would result in a product acquiring the origin of the country of final processing, provided that processing were more than minimal.

4. Conclusions

4.1 The workshop concluded that diagonal cumulation would bring new opportunities for trade to Palestine and neighbouring Arab countries.

4.2 It was recognised that new agreements on trade and co-operation between the EC and each of the Mediterranean countries could take some time to conclude. The view was expressed that this should not delay the introduction of diagonal cumulation of origin provisions.

It was therefore proposed that Egypt, Jordan and Palestine make a joint approach to the EC to be allowed to operate diagonal cumulation rules of origin in advance of the new agreements.

5. Other matters relating to rules of origin

Preparation for the introduction of the interim association agreement on trade and cooperation between the EC and the PLO for the benefit of the PA of WB&GS

5.1 It is expected that the ratification process will be concluded soon and that the agreement could enter into force on July 1, 1997. The PA needs to be ready to carry out its administrative obligations under the agreement from the date of implementation.

5.2 The annex to this section of the Workshop Report deals with two aspects of administrative co-operation which fall to the customs authority of WB&GS - the stamping of EUR1 proofs of origin and the subsequent verification of those proofs of origin when requested by the customs authorities of the EC.

5.3 The early identification and resolution of problems encountered in the initial period following the introduction of the new agreement should be treated by the PA as of primary importance. It is **recommended** that a committee be formed, comprising representatives of the exporting private sector and the Palestinian Customs service, to examine problems encountered and to provide a conduit through which such problems may be raised with the appropriate EC customs authority where necessary. The EC authorities may be expected to recognise that in the initial stages following the implementation of the agreement problems will arise which reflect the lack of knowledge of the rules of origin and the administrative requirements associated with those rules. By demonstrating a commitment to the early resolution of problems, e.g. through the creation of a committee as described above, the PA might reasonably expect to gain the respect and forbearance of the EC customs authorities during the initial period.

Allan Waight
UK Customs
June, 1997

Annex

Preparation for the introduction of the Interim Association Agreement between the European Community and the PLO for the benefit of the Palestinian Authority of the West Bank and the Gaza Strip.

1. Issue

1.1 The implementation of suitable customs procedures in the West Bank and Gaza Strip (WB&GS) for

i) the issuing (stamping) of EUR 1 proofs of preferential origin, and

ii) the subsequent verification of such proofs of origin if requested by the customs authorities of the European Community (EC).

2. Background

2.1 Under the autonomous preferential arrangements which have been offered by the EC to WB&GS since 1986, responsibility for the issuing (stamping) of EUR 1 proofs of preferential origin has rested with the Chambers of Commerce of WB&GS. Under Protocol 3 of the new Interim Association Agreement, to be implemented shortly, responsibility for issuing EUR 1 proofs of preferential origin will switch to the customs authorities of WB&GS (Article 16 of Protocol 3).

2.2 Article 31 of Protocol 3 provides for proofs of origin to be returned to the customs authorities of WB&G for verification, at random or whenever the customs authorities of the EC have reasonable doubt as to the authenticity of such documents or the originating status of the products concerned. According to the Protocol, such verifications are to be carried out by the customs authorities of WB&GS. The results of the verifications are to be sent to the customs authorities of the EC as soon as possible. If no reply is received within 10 months steps may be taken to refuse the tariff preference.

2.3 Article 30 of Protocol 3 requires the PA to provide to the European Commission specimen impressions of the stamps to be used by their customs authorities to issue EUR 1 proofs of origin together with the address of the customs authority responsible for verifying those certificates.

3. The problem

3.1 The small Palestinian Customs Administration has no expertise in the field of preferential origin rules. It therefore needs training and assistance in setting up control procedures that would enable it to provide the EC with the level of assurance it requires.

3.2 Allowing the Chambers of Commerce to continue to issue (stamp) EUR 1 proofs of origin would only be possible with the agreement of the EC. The EC is known to place considerable importance on controls of this nature being carried out by customs authorities rather than Chambers of Commerce and is likely to be reluctant formally to allow a derogation from Articles 16 and 31 of Protocol 3, even for a short transitional period.

4. Recommendations

i) The issuing (stamping) of EUR 1s

4.1 The Customs authorities of WB&GS should make all the preparations necessary to take on the duties of issuing (stamping) EUR 1 proofs of origin from the date of implementation of the new Interim Agreement. To make this possible, it is **recommended** that the following steps be taken:

* if no customs stamp suitable for the use on EUR 1 certificates is available, urgent steps should be taken to design and produce such a stamp. There is no special format laid down by the EC for the design of the stamps to be used. Nevertheless it is suggested that the stamp should be predominantly in English, should indicate that it is the stamp of the customs authority of the West Bank or Gaza Strip, as appropriate, and should indicate the office (customs station) of issue. The stamp may be round, oval or square/oblong. Ideally its overall dimensions should be not less than 30mm and not more than 50mm. It need not include a date, this is usually added to the EUR1 in typescript or in manuscript;

* the stamps should be made available to the customs stations before the implementation of the Interim Agreement;

* good quality impressions of the stamps to be used should be sent as soon as possible before the implementation of the new Agreement to:

Mr L Casella
Head of Unit B2
DG XXI
European Commission
200 Rue de la Loi
1049 Brussels
Belgium

The role of the customs authorities

4.2 Under the terms of Protocol 3 it is the responsibility of the customs authority to ensure that the EUR 1 has been completed correctly and that the goods meet the rules of origin. Without the necessary training, customs staff cannot be expected to carry out this role in a professional and

competent manner.
4.3 It is understood that appropriate technical assistance will be provided by the EC to prepare the customs authorities of WB&GS for this role but possibly not before the implementation of the Interim Agreement.

4.4 To ensure the smooth operation of the Interim Agreement, it is **recommended** that the customs authority should nevertheless begin stamping EUR 1s from the date of implementation of the Agreement under an agreement to be reached with the European Commission that recognises that during this period prior to full training, the EC acknowledges that the stamp of the customs authority carries with it no acceptance of responsibility for the accuracy of the details of the EUR 1 (other than the details which the customs authority can verify for themselves from the export documents) or the declaration that the goods in question have satisfied the rules of origin for preferential tariff treatment.

The role of the Chambers of Commerce

4.5 Given their experience dating from 1986, it is **recommended** that the Chambers of Commerce in WB&GS should continue to have a part to play in the preparation of the EUR 1 for issue by customs.

4.6 The Chambers of Commerce in WB&GS hold stocks of EUR 1 forms which are suitable for use under the new Interim Agreement. It is **recommended** that exporters continue to obtain EUR 1 forms from the Chambers of Commerce and that the procedure for issuing the EUR 1 should be as follows:-

i) the exporter should present the completed EUR 1 and the accompanying EUR 1 Application Form to the local Chamber of Commerce;

ii) the Chamber of Commerce should scrutinise the form and the evidence presented as showing that the goods meet the rules of origin;

iii) the Chamber of Commerce should indicate its satisfaction with the document and the claim to originating status by stamping the Application Form **not** the top copy of the EUR 1.

iv) the completed set of top copy EUR 1 and stamped Application Form should then be returned to the exporter for presentation to the customs at the export station for stamping of the top copy EUR 1, the Chamber of Commerce retaining a copy of both documents;

v) for the supply of the EUR 1 and the scrutiny service, the Chambers of Commerce may make a charge to the exporter.

ii) Post exportation verification

The role of the customs authorities

4.7 It is the duty of the customs authority in WB&GS to carry out post exportation verifications when requested to do so by the EC. Without the necessary training, customs staff cannot be expected to carry out this role in a professional and competent manner.

4.8 It is understood that appropriate technical assistance will be provided by the EC to prepare the customs authorities of WB&GS for this role but this is unlikely to be completed before the implementation of the Interim Agreement.

4.9 It is therefore **recommended** that until suitable training has been given the EC should accept that any requests for verification of EUR 1 certificates will be referred to the appropriate Chamber of Commerce and that the subsequent reply from the customs authority to the EC be accepted as reflecting only the report of the Chamber of Commerce.

4.10 Although EUR 1 proofs of origin may be issued at more than one customs station, a central office should be established for the receipt of requests from the EC for post exportation verification and for the sending of replies to the customs authority of the EC seeking such verification. The address of this office should be provided to Mr Casella at the European Commission (for address see above).

The role of the Chamber of Commerce

4.11 The Chamber of Commerce should carry out post exportation verification enquiries and report their findings to the customs authority.

Note: If the necessary training is provided soon by the EC it seems unlikely that it will be necessary to implement the post exportation verification procedures suggested above.

The long term position of the Chambers of Commerce

4.12 The acceptance by the customs authorities of WB&GS of full competence for the issue of and subsequent verification of EUR 1 proofs of origin should not necessarily lead to the Chambers of Commerce having no further role in either of these aspects of administrative co-operation.

4.13 It is **recommended** that the Chambers of Commerce should continue to provide exporters with the EUR 1 form and receive and scrutinise the completed form and application prior to customs stamping. It is also **recommended** that the Chambers of Commerce expertise continues to be used in the post exportation verification procedures but that such involvement should under no circumstances be viewed as taking any of the responsibility from the customs authority for the proper control of the issue of and verification of EUR 1 proofs of origin.

Allan Waight
UK Customs
June, 1997

Presentations

1.	**Presentation of workshop framework**	**Saeb Bamiyeh**
2.	**Current State of Palestine's trade relations with the Arab world and future vision**	**Saeb Bamiyeh**
3.	**Palestine's industrial strategies and their impact on regional trade**	**Diab Jarrar**
4.	**Regional potential for trade between Arab countries**	**Mahmoud Jafa'ari**
5.	**Trade with Jordan and Israeli impediments on the Allenby Bridge**	**Abed al Mun'em Draghmeh**
6.	**Trade Figures (exports, imports and main trade partners)**	**Abed Al-Hafiz Nofal**
7.	**Diagonal cumulation with the Arab world**	**Allan Waight**

1. Presentation of Workshop Framework

Presenter: Saeb Bamiyeh, Ministry of Economy and Trade

Good Morning, Ladies and Gentlemen:

Let me start by thanking the European Commission (EC) for its serious work and support for the Palestinian cause. Politically, the situation here has been extremely difficult, but the Commission has tried hard to support and assist us in many ways. A number of projects have been chosen by us and the EC's Technical Assistance Office and many have been successful. A good example is the Economic Policy Programme and for this I thank Valerie Yorke, the programme's coordinator.

The Economic Policy Programme aims to assist, and has assisted, the Palestinian Ministry of Economy and Trade to formulate and incorporate their trade policies. The programme brings in the valuable advice of Arab and foreign experts on different trade policy options, together with the opinions of Palestinian government officials as well as those of members of the private sector. Such meetings of minds often result in successful recommendations and follow-up work that enable the Ministry to serve best its country's trade interests within the present difficult political situation and within a relatively optimistic view as to the future. This is what we aspire to achieve as a result of our meeting today.

There is a general trade policy debate over whether Arab countries should 1) concentrate trade ties between Arab countries thereby creating a strong regional trade entity which would form a free trade area as proposed by the Arab League or 2) concentrate on developing trade with the EU (based on the association agreements) and/or with the rest of the world, which can complement their trade needs in a more efficient way, as some countries tend to think. Another option might even be to ignore the debate altogether.

Taking all this into consideration, the specific aim of this workshop is to help the Palestinian Ministry of Trade and Economy formulate and develop its trade policies with the Arab world, with Jordan, Egypt, and the Maghreb and Gulf Countries. Even though the meeting here is to discuss our trade policies with the Arab world, we can not escape the role Israel plays in such relations. The effect of Israel's trade policies and practices is a key issue and is therefore included in our discussions in these two days. Today, we would like to concentrate on trade policy options; tomorrow will be devoted to trade obstacles and potential, as well as global and regional factors that might favour one trade policy above others.

To elaborate a little, today we are to deal with the trade policies as chosen by Palestine, Jordan and Egypt when trading with each other; trading with Israel; and trading with the EU. The trade agreements or arrangements signed by each country with the countries of the Arab world, Israel or the EU are to be the vehicle that would transport us to the trade policy chosen by each country. That would also reflect what is the intended goal of each agreement and would hint at possible visions for trade and trade policies in the future.

Talking about future trade policies, we should greatly appreciate hearing the opinion of the EU representative on the trade policy behind the association agreements with the Mediterranean countries and where such policies will take trade among Arab countries and trade between Arab countries and the EU.

As today's session will produce different trade policy options, in tomorrow's session we would like to concentrate on the potential for regional trade as well as the obstacles facing it within the trade policy options mentioned. Discussing Israel's practices and their effect as an obstacle to regional trade potential is again crucial.

Another key issue to discuss is that of the global factors that may have a concrete impact on trade policies, and on trade potential and constraints. These will also have to be taken into consideration tomorrow.

Hopefully, your contributions will influence trade policy making in the best possible way.

Thank you.

2. Current State of Palestine's Trade Relations with the Arab world and future vision

Presenter: Saeb Bamiyeh, Ministry of Economy and Trade

Ladies and Gentlemen;

The limited domestic resources of the West Bank and Gaza Strip leave the Palestinian territories by themselves unable to feed the present population. It would therefore be pointless for the new entity to attempt to cut itself off from the outside world economically, or even to try to achieve self sufficiency behind quotas or tariffs barriers, in line with the theory of protectionism for developing countries.

Palestine's stand is in favour of free trade. For Palestinian producers to benefit from the opening of bigger markets, with unrestricted flows of goods and services, and access to large numbers of customers, their products must have a comparative advantage. Market access is not now an impediment rather the ability to compete in those markets. Standards, quality, price, demand and all other competitive market forces have to be considered initially before production or export is begun.

With or without free trade agreements, our exports face competitive products in the outside markets; with a free trade agreement at least they do not face tariffs as well. On the other hand with free trade agreements, our producers face severe competition not only in the outside markets but in the internal markets as well.

Such difficulties are faced by any developing country opening its markets. However, in the case of Palestinian producers, because of the historical restrictions to their trade under occupation, and because they were rarely exposed to other open markets, special attention is needed.

The development of Palestine's trade potential and the expansion of its exports requires the enhancement of capacity through transfers of technology and know-how, through small business development, and through the transformation of businesses from product to market orientation.

Realizing the difficulties that might face our producers, the Palestinian Authority has to chose the right markets to open its trade via free trade agreements. Recently, the Arab summit has formally resolved to create an Arab free trade area. A key issue is the effect of this decision on our trade policies. Are we to favour free trade with Arab countries as well as with other foreign countries?

The Ministry's strategy focuses on developing and putting into place trade agreements with Arab countries; included here is an updated approach to the traditional markets represented by Jordan and Egypt.

Furthermore, it is important to note that the government's role is to support the private sector. This will not be through subsidies and loans to industries. Having chosen free trade as its policy, the government sees its role as giving guidance to the private sector, and ensuring that trade cooperation, raising standards and assistance programmes be included, in one form or another, in all the free trade arrangements yet to be reached. The West Bank and Gaza Strip can make use of technical assistance, for example, in developing, strengthening and diversifying of its production and export bases so as to maximize the benefits of liberalized market access.

Protocol on economic relations between the government of the State of Israel and the PLO, representing the Palestinian people

After the Declaration of Principles on Interim Self Government Arrangements signed in Washington DC on September 1993, which represented a political agreement for peace, another agreement echoing the first was signed in April 1994: the Paris Protocol which "will govern the economic relations between the two sides and will cover the West Bank and the Gaza Strip in the interim period." As the Oslo agreement is designed to bring independence transitionally and step by step, the Paris Protocol is to bring economic control to the Palestinians traditionally and step by step.

The Paris agreement not only established a semi-customs union between the two entities, but also provided for the application of the Israeli trade regime to imports into Palestinian territories from countries other than Israel. For this reason trade agreements and especially free trade agreements, between Israel and other countries apply to Palestine as well, meaning that goods that enter Israel free of tariff can enter the Palestinian market on the same terms. To make preferential treatment reciprocal, Palestine has entered into free trade agreements with these countries.

But, there is a very important exception to this rule of Palestine following Israel's trade regime which forms the basis for setting our own trade and import policies. This exception gives the Palestinian Authority the freedom and independence to establish its own import policy and tariff structure for certain products and commodities (lists A1 and A2 and B)[3] from third parties, notably Jordan and Egypt.

Within these lists, the Palestinians can set their own trade policy and tariffs differing from those followed by Israel. This creates the legal basis for our own customs book.

According to the Paris Protocol the Joint Economic Committee can review the protocol and the lists every six months.[4] Our policy is to enlarge the above mentioned lists, which created our own customs book with Israel, to include goods and commodities of most importance to the economy, goods on which both production and consumption depend. The rationale behind this policy is threefold: first to expand direct trade opportunities with Arab countries

3 Paris Protocol Article III para 2.

4 Paris Protocol Article III para 16.

which can satisfy our import needs at good quality and a good price; second to expand direct trade opportunities with Arab country markets where our exports can compete at good quality and price; and third is to encourage cooperation with Arab countries in the cumulation of exports to the EU with Arab countries which have signed EU association agreements.

This trade policy option does not mean that we need to give up completely on the semi customs union with Israel, asking for a complete separation of the market. We cannot afford such a decision at the moment since Palestinian industry is currently structured so as to be dependent on the Israeli market; under occupation 80% of our produce went to Israel. But now, with the transitional opening of other markets, Palestinian industries are redirecting themselves and diversifying their trade. A lower percentage of our produce now goes to Israel.

Trade Agreement between the Government of the Hashemite Kingdom of Jordan and the Palestinian National Authority

The Palestinian National Authority signed a trade agreement with Jordan on January 26, 1995. In line with the above mentioned trade policy, the principal goal of the agreement is to achieve free trade in all goods, including agricultural goods, and services.[5] To achieve this goal, a joint agreement shall be reached every six months to determine the goods that will be traded on these terms, with the list to be gradually expanded to reach full free trade between the two parties.

Restricted by the Lists A1 and A2 and B of the Paris Protocol, the two parties agreed as a start to four lists of products which will receive preferential treatment when imported from the other party.[6] The PNA grants customs duty exemptions to products originating in Jordan - 45 contained in list 1 and 32 products in list 2. For its part, Jordan grants customs duty exemptions in list 3 and exemption from customs duties and other taxes of equivalent effect in list 4 to a total of 60 Palestinian products.

Even though such an approach is in line with the trade policy we have chosen i.e. reaching free trade between us and Jordan, we must also take into account the trade agreement signed between Jordan and Israel, under which the two parties extended lists of goods to be either partially or completely exempt from tariffs. Israel has granted some Jordanian products a 100%, 50% or 20% duty exemption; Jordan has granted some Israeli products 10% exemption. (Many of these products are not accorded preference in the Palestinian-Jordanian agreement.)

Palestine and Jordan are to meet soon to renegotiate the existing lists between them. How to remedy the situation is yet to be decided: should the Palestinians receive exact reciprocal treatment (the 30-50-100% duty exemption accorded to some Jordanian products) for their products entering Jordan, or should we prepare a new list of Palestinian products to be

5 Trade Agreement between the Government of the Hashemite Kingdom of Jordan and the Palestinian National Authority Article 1A.

6 Minutes of meeting of the Jordanian Palestinian Joint Committee 2-4/5/1995.

granted preferential treatment by Jordan? A harmonization of the trade agreements between Israel and Jordan and between Palestine and Jordan is needed.

Technical and Economic Cooperation Accord between the Arab Republic of Egypt and the Palestinian Liberation Organisation

A technical and economic cooperation accord was reached between Egypt and the Palestine Liberation Organisation on January 25, 1994 and supplemented in the minutes of the meeting of the Joint Commercial Committee on April 19, 1995. Through this agreement, cooperation in trade should increase the flow of products and facilitate the transit of goods. Further goals pursued are mutual participation in trade fairs and the improvement of relations between businessmen.

A recent meeting of the Joint Commercial Committee in February 1997 concentrated on the inward investment in the Palestinian region through cooperation in joint ventures, banking and the ongoing process of building the infrastructure. Cooperation in other fields (such as industry, agriculture, tourism and transportation) were also touched on.

Following our trade policy of establishing good trade relations with Egypt and working for a free trade agreement, both parties have initiated work to set a list of products, as explicitly stated in the 1994 accord, which are to receive preferential treatment. This will set the first stage for more products to receive preferential treatment, once an enlargement of lists A1, A2 and B in the Paris Protocol is achieved.

Trade Arrangement between the Palestinian Authority and the Government of Tunisia

At the meeting between our minister and the Tunisian minister of economy and trade on August 30, 1996, agreement was reached to cooperate in the following fields:

1. Trade

Two aspects were covered here: the development of trade between the two countries and an exchange of know how. Under the first, agreement was reached on promoting trade relations and bilateral investment between the two countries. In this regard it was agreed that: a technical committee will be established to follow up on the legal aspects; guiding lists will be prepared of products that can be exchanged between the two parties; a Tunisian-Palestinian business committee will be set up; and the private sector will be encouraged both to participate in the trade fairs and similar events in the two countries.

Under the second heading, the two sides agreed to exchange technical experience and know how in the fields of internal trade, competition and international marketing. Economic legislation and quality control measures, as well as training for Palestinian officials, are interesting areas of cooperation. Another one is passing on the Tunisian experience in institution building, exports promotion and foreign trade.

2. The economy
It was agreed to enhance economic cooperation and integration between the two sides in the following fields: investment (by signing agreements to protect and promote investment); industry (harmonizing the standards for some products, setting up a databank and creating industrial training projects together); and energy (creating the framework for cooperation in the fields of electricity, gas, oil, and mining).

Again, in line with our policy of liberalizing trade with Arab countries, we started serious work with Tunisia on drawing up a list of goods that will enjoy mutual preferential treatment.

Euro-Mediterranean Interim Association Agreement on Trade and Co-operation between the European Communities and the PLO for the benefit of the Palestinian Authority of the West Bank and Gaza Strip

The EU regards the Palestinians as an equal counterpart; The parties have negotiated and reached an Interim Association Agreement on Trade and Co-operation, in early 1997.

This agreement, recently signed by President Yasser Arafat, grants duty-free access to WBGS products into the EU, keeping some quantitative restrictions on agricultural products. The PLO/PA grants duty-free access to EU products upon importation keeping some quantitative restrictions as well.

This transitional agreement provides measures to protect specific infant industries in the WBGS for a period of time, after which no more protection will be given and the Palestinian manufacturers are expected to be able to compete in the open markets.

The EU extends economic and financial cooperation as set out in Barcelona, in this agreement. It goes further, promising cooperation and assistance in different fields such as economic and social development. It covers important areas, such as narrowing the gap in standard and certification, creating an environment propitious to the development of small and medium sized enterprises, co-operation in information, infrastructure, telecommunications, science and technology co-operation, and the transfer of know how.

In this agreement the policy stance of the Palestinian Authority is clear on all aspects; it reflects not only our policy on free trade with the EU but also on the government's role in directing and assisting the private sector as mentioned earlier.

3. Palestine's industrial strategies' and their impact on regional trade

Presenter: Diab Jarrar, Ministry of Industry

Overview

Palestinian industries (which numbered 11,842 establishments in 1994) are highly flexible, consisting mainly of family-based micro-enterprises, 90% of them employing 15 or less persons. These industries have the advantage not only of a greater willingness to combat difficult external conditions, but also fast growth rates and they have contributed significantly in employment creation (accounting for 18% of the total labour force in 1995). While industry's contribution to GDP and its value-added remained small throughout occupation (8% and $353 million respectively) the sector has benefited slightly as a result of the peace accord signed with the Israeli government in 1993.

Development of the industrial sector is also a commonly cited priority of development policies and it is currently being addressed by the PNA, the donor community and the private sector. In particular, the PNA is prioritising rejuvenation of the industrial sector by encouraging investment. This encouragement includes tax holidays to investors and strengthening the physical infrastructure such as electricity networks, water supply and waste water disposal, communications, among others. Evidence of the revitalisation of the industrial sector is already emerging with an increase in the number of employees from 24,000 in 1993 to 60,900 in 1995, and growing numbers of applications for licences to set up industrial enterprises, and the establishment of industrial estates and free industrial zones which will be open to investment from domestic and foreign sources and will help to energize the economy overall.

Proposed industrial strategies in Palestine

In recent years two major strategies for industrial development have been debated. The first strategy advocates *export-oriented industrial development*. Under this strategy, the concentration is on industries that have proven competitiveness in the global and regional markets, such as religious and tourism industries, building materials and ceramics, textile products, handicrafts, leather and shoes industries. Thus, the fundamental factor shaping the commodity configuration of Palestine's industrial development is the structure of regional and global demand. Moreover, this strategy is based on the assumption that available Palestinian human and capital resources will permit the production of competitive commodities.

The second strategy focuses on *import substitution* to meet existing or expected domestic demand. Under this strategy, the concentration is on industries with available domestic raw materials whose inputs can be procured easily from the international market at reasonable cost and whose products at the same time enjoy a competitive price domestically as well as globally. Examples are agro-based industries, building materials, textile industries, food and beverage industries...etc.

For Palestine, the chosen strategy, at least during the interim period, should be a mix of import-substitution, aimed at meeting domestic demand and the basic needs of the people, and increasing export-orientated activity, depending on the availability of resources and the ability to produce competitive products. This strategy should involve the consolidation of existing industries, the establishment of viable new ones, and encouragement of Palestinian Arab and global investment. It should also utilize the capabilities of the Palestinian diaspora in mobilizing capital resources, securing export markets, and providing the required technical assistance at all levels of industrial activity.

The immediate objectives of the strategy are the preservation, reconstruction and revitalization of existing industries, the upgrading of technical skills and the development of the institutional and physical infrastructure required for sustaining a viable industrial base. Medium and long-term objectives should include the acquisition of appropriate technological and scientific capabilities, the exploitation of natural resources for local industrial activities, the establishment of strong forward and backward linkages between industry and other sectors, and the securing of access to markets, for exporting Palestinian industrial products and for importing the raw materials required for industrial production.

A significant proportion of existing manufacturing units operate at far below capacity levels due to lack of capital, inadequate management and production techniques, and interruptions to marketing of the product. Some units have had to shut down completely. A top priority of the industrial development programme in the short term should be an examination of the operational status of the major existing industrial units, with the aim of assessing the requirements to ensure their continued operation as economically and physically viable ventures.

The provision of technical assistance to existing and proposed industries should aim at helping them to arrest the stagnation or decline in production and to achieve full capacity utilization. It should also aim at helping them identify outlets for their products. Assistance should also be given to improve product quality to meet international standards; specialized training courses and on-the-job training programmes should also be provided on a continuous and systematic basis.

Activities aiming at upgrading the operational performance of existing industries and other industrial units must be accompanied by the establishment of an institutional framework and supporting infrastructure, including financial facilities, research and development centres, product design and quality control centres, marketing organizations, standardization and quality control services, means for acquisition of better technology.....etc.

An urgent requirement for industrial development is the provision of an adequate network of public utilities including industrial estates and zones, adequate supply of energy, water supply, transport facilities and communications network. Moreover, appropriate environmental occupational health and safety and consumer standards should be enforced throughout the industrialization process so as to ensure adequate safeguards for these elements in view of the expected rapid rate of industrialization.

Ministry plans and actions to date

In the context of this proposed strategy, it is worthwhile to mention the various steps and programmes already adopted by the Ministry of Industry in relation to the industrial sector.
1) The Ministry of Industry has gone a long way in planning for the establishment of industrial estates and zones, as an example of a macro-level mechanism to kick start the rehabilitation of this sector of the economy. In the West Bank, industrial estates are planned in Nablus, Tulkarem and Jenin as well as two face-to-face areas in the Khadir area. In Gaza, the Karni industrial estate is in the early stages of implementation. In addition, a second estate is planned in the Erez area. Negotiations are going on with the Israelis to convert lands for these industrial estates from region (c) to region (a). The incentives offered to investors in these estates are likely to be as follows:

* Provision of facilities such as warehousing, transportation and communication, packaging centres, banks, water supply, electricity, sewage system and other facilities for industrial activities in return for a monthly rent.

* Exemption from customs duties and taxes for international manufacturing companies unless they want to market their products in areas under PNA Jurisdiction.

* Freedom to import and export material or goods from/to any country provided the trade legislations prevailing in the country are respected.

2) One of the significant achievements of the Ministry of Industry has been the establishment of a Palestinian Standards Organization, which aims at creating a national institution as the focal point for standardization, metrology, quality assurance and other related activities. It is worthwhile mentioning in this context that, in co-ordination with the Directory of Standardization in the Ministry of Industry, the standards organization has proven 22 technical standards so far.

3) For small and medium-size enterprises, plans are under way on the part of the Ministry, with the help of ESCWA and other international organizations, to set up a programme of pilot technology business incubators in Palestine. These will be linked to business development centres, entrepreneurship, trade promotion and other development schemes. As such, they form part of the national strategy to strengthen technology and industry in Palestine. Services for entrepreneurs accepted into the incubator programme will typically include shared facilities, technical, business, accounting, and legal advisory services, training in all aspects of business, as well as facilitation in securing seed capital for projects, and providing "post-incubation" services. Firms will be selected on the basis of their likelihood of success, including evidence of entrepreneurship and high dollar earning potential.

4) The Ministry of Industry is making every possible effort, with the help of Unido and donor countries, to train the private industrial personnel and update the sector's capacity.

5) A plan is underway to establish an Industrial Development Bank to provide loans and financial assistance to the industrial sector. It is worthwhile to mention in this context that the intent of the PNA is to establish this bank with the efforts of the private sector so as to avoid government control and dominance over the institution.

Trade is still below its potential

The volume of our trade with other countries is not up to the mark. There has been a decline in Palestinian industrial exports from $357 million in 1987 to $292 million in 1993.

In fact, Israel accounts for 80% of these exports, mostly through subcontracting, Jordan 5% and the share of Egypt is almost negligible. The small size of Palestinian export trade and the imbalance in its' direction may be due to the obstructions and constraints imposed by the Israeli government on Palestinian exports, lack of industrial estates and industrial free zones which are mainly meant for external markets, lack of up-to-date expertise and technology, absence of industrial legislation and institutions, non-adherence to internationally accepted manufacturing standards which made our industrial products uncompetitive in the international market, and above all, the absence of industrial strategies and policies to guide and organize the industrial sector. The Ministry believes that the proposed industrial strategies and policies and the programmes and steps it takes should help in stimulating the Palestinian industrial sector, and this will ultimately have a favourable impact on the volume of our trade with the outside world, particularly, in goods that have proven competitiveness in the global market such as handloom industries, textile goods, leather goods, pharmaceutical products, glass products, ceramics, building materials and other products of extractive industries.

What the Palestinian industrial sector actually needs at this moment is a conducive environment for the development which the PNA is trying to create through the above mentioned strategies and programmes. But, frankly speaking, these efforts on the part of the PNA might go to waste if political calm through true and comprehensive peace settlement is not achieved in the region.

Recommendations to improve the competitiveness of Palestinian industrial products

The Ministry would propose a number of actions and policies that would stimulate the potential of Palestinian industry by enhancing its competitiveness.

* Materials inputs for production should be imported directly without an Israeli intermediary. In addition Israeli obstructive procedures at the ports and crossing points must be reduced. Field research has shown that these two steps would reduce the cost of material production inputs by 30%.

* The Palestinian manufacturer should be allowed to import material production inputs at the lowest international price. Israel's protectionist policies make importing raw materials from many countries uneconomical; this is best exemplified by cloth that could be imported at half price from countries in the Far East.

* Reducing the custom duties and other fees levied by Israel on imports of material production inputs destined for Palestinian manufacturers and removing or decreasing the value added tax on such imports.

* Raising capacity utilization through opening new avenues for export and encouraging exporters by giving them custom exemptions and tax breaks.

* Improvement by the Palestinian producer in the quality of his product and adherence to internationally accepted manufacturing standards.

* As a means to improve the competitiveness of industrial products over the long term, the move must be from factor-based competitiveness to skill-based competitiveness and then to innovation-based competitiveness.

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4. Regional potential for trade between Arab countries

Presenter: Mahmoud El Jafa'ari, Al Quds University

Dr. Jafa'ari spoke to the workshop on the findings of his recent study entitled *Potential Merchandise Trade of the West Bank and Gaza Strip.* The summary and conclusions of that paper are as follows:

Summary and Conclusions

The main purpose of this study is to analyze the potential merchandise trade flows between the Palestinian Territories (PTs), the West Bank and Gaza Strip, and other markets, particularly those of the neighbouring countries, Egypt, Israel and Jordan. The potential performance of the merchandise trade sector will be examined after removing Israeli imposed non-tariff barriers (NTBs). It is anticipated that trade flows will be expanded.

Since 1967, one-sided and unfair trade and economic relationships have prevailed between Israel and the West Bank and Gaza Strip. Palestinian critics of the Israeli policy have argued that Israeli occupation authorities regularly used security claims to justify the imposition of NTBs that disregard and neglect the interests of the Palestinian people. Consequently, trade flows became restricted mainly to trading with Israel. Also, the range of exports continued to be limited, while they were unlimited for merchandise imports.

Over the past twenty-eight years, the Palestinian economy has experienced a unique and extraordinary situation in which Israel dominated the Palestinian economy. This was supported indirectly from some Palestinian agencies who sought profits through dumping Israeli goods in local markets. There were efforts, though limited, devoted to separate the unfair linkages between Palestine and Israel, particularly during the first years of the Intifada. However, by 1991, the economic consequences of the Intifada had vanished and the merchandise trade deficit widened to become greater than its level in 1987.

Two quantitative methods were employed in this study to assess the potential merchandise trade flows between the PTs and other countries. The two methods were: (1) Trade similarity coefficients (TSCs) and (2) gravity trade equations of the export supply and the import demand. The empirical results indicated that removing NTBs imposed by Israel will double merchandise exports, based on 1992 statistics. Consequently, the merchandise trade deficit will be narrowed by 30 percent. Exporting to Egypt will improve the trade balance by only one percent. This could be attributed to the fact that TSC is found to be very small, 0.06, between Palestinian exports and the Egyptian merchandise imports. In contrast, TSC of Palestinian imports and Egyptian exports is calculated to be 33 percent. Palestinian imports from Jordan are expected to be three times greater than merchandise exports to this country. The economic agreement signed by the PLO and Israel on April 29, 1994, imposes several restrictions on the Palestinian imports from countries other than Israel. This agreement became a reference point, whereby the establishment of any trade relationship between PTs and any other country depends mainly on the regulations and arrangements of this agreement.

Therefore, the economic agreement conditions should be improved by taking into account the process of restructuring the Palestinian economy. The decrease of dependency on Israel cannot be accomplished only through planned separation between the PTs and Israel.

Under unrestricted trade conditions, the merchandise trade deficit will be at a minimum of US$ 663 million compared to US$ 940.2 million in 1992. This finding implies that restricted trade causes a loss of US$ 277 million to the West Bank and Gaza. Therefore, trade creation with other countries and trade diversion with Israel will reduce the trade deficit by 30 percent, and will reduce the ratio of the trade deficit to GDP from 31 to 25 percent. The following countries are expected to be the major outlets for Palestinian merchandise exports: Iraq, Saudi Arabia, Lebanon, United Arab Emirates, Jordan and Israel. More than 90 percent of PTs merchandise exports could be directed to these markets. On the other hand, more than 75 percent of the PTs merchandise imports are expected to originate from Egypt, Syria, Lebanon, U.S.A., Japan, Korea, Indonesia and the European Union.

Table (1): Trade Similarity Coefficients (TSCs) and Minimum Amounts of Exports and Imports (US.$ million) based on 1992 Statistics

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Table (6): Potential Merchandise Trade Flows Between the West Bank and Gaza and Egypt, Israel, and Jordan in 1992. (US.$ million)

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Table (7): Potential Palestinian Trade with Countries other than Israel and Jordan Based on 1992 Estimates

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Table (8): The Expected Gains of Unrestricted Trade to the West Bank and Gaza Strip

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5. Trade with Jordan and the Israeli impediments on the Allenby Bridge

Presenter: Abed al Mun'em Draghmeh, Customs

Israeli impediments

The procedure of importing from Jordan started officially on June 14, 1995, with the issue of Palestinian import licences, and on a back-to-back basis.

Israel imposes strong and harsh conditions, directly and indirectly, on imports by the Palestinian territories. These can be listed as follows:

i) The 'catch-all' of the security check. This is done by Israeli staff.
ii) Customs clearance. This is done by an Israeli company or through a Palestinian agent of an Israeli company.
iii) Loading and unloading of goods, is done by Israelis with very high salaries.
iv) Limits on the number of Jordanian trucks that can enter the commercial bridge area; 5-10 trucks a day, just recently raised to 70 trucks.
v) Non-acceptance of Jordanian certificates in respect of health and agricultural products; approval must come from the Israeli Ministry of Agriculture and Ministry of Health.
vi) Forbidding Palestinian trucks coming to the bridge at many times, for security reasons; the shipment consequently has to get back to Jordan.
vii) After the approval of the Israeli customs staff, that of the Israeli security men has to be obtained, which adds to the time the product has to stay at the bridge.
viii) Disregarding the list of prices of the imported goods as approved by the Jordanian Chamber of Trade and Industry.
ix) The political and security situation always impinges on the normality and pace of our work as customs people.

Recommendations for action

The Paris Protocol clearly states that border areas are completely under Palestinian control in relation to customs checking and the Customs Authority. But, unfortunately this is not the situation today.

Thus, what is required is the following:

i) Respect for and implementation of the Paris Protocol so that the PA can use its authority on the borders.
ii) The creation of a mechanism to assess indirect and non-official trade with Jordan and Egypt.
iii) Not permitting the entry of Jordanian products to the Palestinian market that are imported through Israeli agents when the final destination is a Palestinian trader and thus Palestinian consumers.

iv) Greater Jordanian pressure on Israel to permit Palestinian trucks to enter and leave Jordan without difficulties, thus helping implement the transport agreement signed between the PA and the Hashemite Kingdom of Jordan.
v) The Palestinian Customs Authority needs to have its own customs book, and to stop using the Israeli customs book, because there are charges that should be raised on certain commodities and others that should be decreased.
vi) Computers on the border that deal with customs procedures and calculations should be transferred to the Palestinian Customs Authority.
vii) The whole situation present now on the borders should change. The Israelis control everything and Palestinian staff are watching only (vis-a-vis the goods, not the passengers).

Some statistical data on merchandise coming from Jordan via Al Karameh Bridge

1. Via the commercial crossing point:

a) In 1996, goods of Jordanian origin $13 million; of non-Jordanian origin $15 million and goods from the free zone area in Jordan a minimum of $7 million.

b) In January-April 1997, goods of Jordanian origin $3.6 million; goods of non-Jordanian origin $2.08 million; goods from free zone area $0.6 million.

2. Via the passenger-crossing point:

In 1996, a total of around $200 million worth of imported goods of Jordanian and other origin. Examples are (in units):

- TV sets	5,000
- Ovens	10,000
- Cigarettes	400,000 (packets)
- Carpets	20,000
- Plastics	60,000
- Blankets	30,000

These volumes are double the volume of goods that were imported officially via the official commercial crossing point.

The volume of goods of Jordanian origin registered at the commercial crossing point were 75 units.

The volume of goods of Jordanian origin registered and imported through the passenger crossing point were 300 units.

Goods of other origin are not specified or calculated.

In 1996:-

* 8% of the total numbers of passengers coming from Jordan to the West Bank and Gaza paid customs duties, amounting to $7 million.

* It has been estimated that the average sum of money that a Palestinian spends in Jordan is $100-500 per visit.

* Palestinian passengers going to Jordan in 1996 numbered 663,000 people.

* It is estimated that each Palestinian visitor to Jordan brings gifts back with him worth an average $100-300.

6. Trade Figures (Exports, Imports and Main Trade Partners)

Presenter: Abed Al-Hafiz Nofal, Ministry of Economy and Trade
(Paper read by: Nawal El Haj, Ministry of Economy and Trade)

It is difficult to talk about a new trade regime among the main parties concerned in the peace process - Egypt, Palestine, Jordan and Israel - while the political negotiations are impeded by Israel's insistence on imposing its conditions and political views on the final status negotiations.

The solution of these problems and the recognition of the Palestinian people's rights in accordance with the Oslo agreement and the pursuant agreements with Israel are only achievable through the faithful implementation of these agreements. Once this has been done, there is a basis for setting up a framework of economic and trade relations among the countries of the region founded on their capacity and mutual interest in a world of deepening trade liberalization. The people of the region face the following challenges:

1) Membership of GATT/WTO imposes a new situation on the countries of the region, represented by liberalizing trade, opening markets and cancelling all kinds of support - the latter enhancing competition - and so requires a coordination of efforts to confront it.

2) Trying to achieve balance in the productive structures in the countries of the region. This balance requires supporting and restructuring the productive, industrial and institutional sectors in the countries of the region in general and in the Palestinian territories, Jordan and Egypt in particular. Financial and technical support is required for implementing these measures.

3) Inhabiting employment in the light of the changes witnessed by the world labour markets in order to limit the movement of employment among the industrial countries and fight inflation and unemployment by generating new employment opportunities through expanding investments and productive, banking and other development sectors in the countries of the region.

4) Finding solutions for the following problems:

1. Differing standards and specifications.
2. Transport and central transportation.
3. Different taxation systems.

It is unreasonable to have as many as four or five systems of specifications and different taxation systems in a circle whose radius is less than 100 km. This, along with other impediments, creates barriers to trade movement.

The Palestinian economy is suffering from many problems which include lack of planning, small local markets, and competition between the Palestinian product and those of neighbouring countries.

1. Imports

There is a growing deficit in Palestinian trade resulting from the considerable increase of imports. Direct imports amounted to $265 million in 1996, compared to $180 million in 1995, while imports from Israel amounted to $2.2 billion in 1996, compared to $1.5 billion in 1995.

2. Exports

Palestinian exports reached $450 million in 1994 compared to $350 million in 1995 and $275 million in 1996. The following table shows the last three years' figures (in US dollars).

Palestinian trade indicators ($m)			
	1994	**1995**	**1996**
Exports	450	350	275
Imports	1,200	1,500	2,200
Total trade	1,650	1,850	2,475
Trade deficit	750	1,150	1,925
Percentage of exports to imports (%)	37.5	23	12.5

3. Geographical distribution of direct imports

The EU is the main source of direct imports, accounting for $175 million in 1996 and 66% of the total, followed by imports from Egypt of $42 million (16%), Jordan $38 million (14.2%), and $10 million from the rest of the world, 3.8%.

4. Geographical distribution of exports

The Palestinian territories mainly export to Israel. Total Palestinian exports to Israel amounted to $235 million in 1996 and are mainly stones, textiles and agricultural products. Exports to Jordan amounted to $26 million and are mainly fruit, stones, foodstuffs and oil. Meanwhile, exports to Egypt and the rest of the world were only $14 million in 1996.

7. Diagonal cumulation with the Arab world

Presenter: Allan Waight, UK Customs

Those present at this workshop who have had an opportunity to study the EC's rules of origin will know how complex they are. This is not a suitable forum in which to discuss the technical details of rules of origin. Instead I will concentrate on the general principles involved, in particular those concerning cumulation.

Cumulation is essentially a simple concept. It is the adding together of products originating in one country with products originating in another, to make a product that satisfies the EC's rules of origin for entry to the EC market at a preferential rate of duty (often nil).

Towards a Mediterranean cumulation area

It is with some personal pleasure that I find on the agenda of a workshop that sets out to examine prospects for future trade with Jordan and Egypt and the wider Arab world, an item on diagonal cumulation with the Arab world when exporting to the EU. It demonstrates an appreciation of the role that the EC trade agreements with the Mediterranean countries can play in improving not only trade opportunities with the EC but among the countries of the region themselves. It also demonstrates, I hope, the value of the small contribution I have made to the knowledge of this subject here in Palestine as a result of my previous visits.

A year ago the EC set out to review the origin rules in the trade agreements with all its Mediterranean partner countries. The objectives were to replace the bilateral agreements and the very old rules of origin (many have been in place since the 1970s) with new origin rules based on the harmonised rules introduced recently in trade with the EFTA countries and the countries of Central and Eastern Europe (CEEC) and in particular to introduce provisions that would allow cumulation of origin between the countries of the region as has been achieved in the Agreements with EFTA and the CEECs.

Although the inclusion of Algeria, Morocco and Tunisia in the wider Mediterranean grouping remains an objective of the EC, the initial aim of the Community is to create a regional group comprising Egypt, Jordan, Syria, Lebanon, Israel and Palestine. The difficulty of including the Maghreb countries along with the others is linked to the unique cumulation provisions currently enjoyed by Algeria, Morocco and Tunisia, provisions that the Community finds difficult to extend to other Mediterranean countries from the outset. The Commission has recently confirmed that linking the Maghreb countries with those of this region for cumulation purposes is most unlikely in the first phase of creating a Mediterranean cumulation area.

Advantages of diagonal cumulation

Cumulation is a feature of rules of origin designed to make it easier for countries within a trade group to produce goods which satisfy the rules of origin for preferential tariff access to the EC market, a market which is over 100 times larger than the Israeli market. But, cumulation encourages not only more trade with the EC but also more trade between the countries of a regional group.

I see from the background papers provided for this workshop that the value of cumulative origin has been recognised by Israel and Jordan. In a Memorandum of Understanding of December 1996 they agreed to seek from the EU an agreement to allow them to cumulate origin between them to produce goods for export to the EC. That in principle will cause the EC no difficulty. It is precisely what the EC wants. But the EC is anxious that Palestine should be included in such an arrangement from the start.

The benefits of cumulation are also recognised by Egypt and Jordan in their Free Trade Zone Agreement, which has yet to enter into force.

The advantages of diagonal cumulation are the same for all types of products. Manufacturers of finished goods have available to them a wider area from which to source materials and parts. Manufacturers of intermediate products, semi-manufactured products or raw materials have a wider market in which to promote their products.

Some industries will inevitably gain more from cumulation than others. The garment manufacturing industry will have a much wider source of suppliers of fabrics. One can imagine that Egypt in particular will find it attractive to promote its fabrics among garment manufacturers within the regional group, and those garment manufacturers will welcome the opportunity to use such fabrics in place of, say fabrics of US or Far Eastern origin, as the finished garments will qualify for preferential tariff access to the EC (a saving of over 12% customs duty).

Agriculture and the food processing industries can also benefit from cumulation. A food processor who relies heavily on local produce may find that at times of local shortages his production must be curtailed. Regional cumulation allows for the purchase of supplies from neighbouring countries without the final product losing its preferential status for export to the EC.

The agricultural sector could also find that at times of surpluses, instead of having to plough them back in because local food processors are running at capacity, it can supply food processors in neighbouring countries to help them maintain production without losing their entitlement to preferential access to the EC.

These benefits of diagonal cumulation highlight one of the possible disadvantages. The availability of intermediate products in a neighbouring country means less incentive to create vertically integrated industries within a single country,eg a fabric industry to support garment manufacturing. There is also the possibility that assembly work for industrial goods requiring high labour input becomes concentrated in countries within the regional group which have the lowest wage costs.

Diagonal cumulation, rules of origin and intra-regional trade

An important feature of the EC's preferential trade agreements which include diagonal cumulation is the requirement that the rules of origin applying in trade between each of the countries within the group are identical to the rules of origin for trade between each of the countries and the EC. This is essential,otherwise we could find that Israel might supply fabric to Palestine for making up into garments for export to the EC in circumstances where that fabric has been merely dyed in Israel, the grey cloth having been imported from,say, the USA. Such fabric might be regarded as originating in Israel if, for example, the value added there is deemed sufficient to confer origin but, generally speaking, added value is not a criterion accepted by the EC as a method of determining the origin of fabric. It is important therefore that, when drawing up new agreements with neighbouring countries, the Palestine Authority makes provision for EC rules of origin to be included in those agreements. Only by doing so will it be possible to take advantage of the diagonal cumulation provisions to be introduced in the EC revised trade agreements.

Recent agreements between Egypt and Jordan and between Israel and Jordan contain rules of origin which are far removed from the EC's rules of origin. The need to harmonise on EC rules of origin <u>must</u> be taken into account when drawing up new agreements with neighbouring countries.

I used just now the example of fabric being sent from Israel for making up into garments for eventual export to the EC. This raises an issue which is currently of considerable concern in the EC.

The EC's agreement with Israel is a bilateral agreement which does not contain provision for diagonal cumulation of origin with WBGS and yet cumulation of origin is taking place.

The EC cannot allow products manufactured in this way to continue to be imported at preferential rates contrary to the terms of the agreement, but is aware that denying such goods preferential treatment could have serious consequences for Palestine.

The EC is therefore anxious to legitimise this practice with amendments to the EC-Israel and the EC-Palestine agreements that would formalise the de facto cumulation taking place at present. The EC would like to be able to include at the same time, or soon after, Jordan and Egypt in this diagonal cumulation club.

The urgent need to solve the problem of the irregular cumulation taking place at present between Israel and WBGS may therefore result in diagonal cumulation for the countries of the immediate area becoming a reality from an early date.

The discussion points attached to the programme ask what changes might be expected to the existing rules of origin in the present EC-PLO/PA agreement. In short very few. The list rules annexed to Protocol 3 which show on a product-by-product basis the rule that must be satisfied will remain unaltered. They are already the most up-to-date rules offered by the EC

to any of its trading partners. The only change will be the introduction, in the articles of Protocol No 3, of provisions for the introduction of diagonal cumulation.

The EC's cumulation of origin proposals are intended to provide a framework in which trade can expand. It will be for the private sector to see how it can use these new opportunities, to see how the opportunities to source materials and parts in neighbouring countries could be put to good use. And also to see what market opportunities exist for Palestinian intermediate products to be exported to neighbouring countries for incorporation into products for export to the EC. Perhaps in the discussion to follow we will learn how the private sector views these opportunities.

WORKSHOP PROGRAMME

Palestine and regional trade: Prospects for future trade relations with Jordan, Egypt and the Arab world, May 25-27, 1997.

Monday May 26

9.00 Workshop registration

9.30 **Opening Remarks**
Maher Masri, Minister of Economy and Trade
Geoffrey Haley, European Commission Technical Assistance Office

Presentation of Workshop framework
Saeb Bamiyeh, Ministry of Economy and Trade

SESSION ONE

Current State of Palestine's Trade Relations with the Arab World and future vision

Chair: Maher Masri, Minister of Economy and Trade
Presenter: Saeb Bamiyeh, Ministry of Economy and Trade
Discussant: Dr. Tayseer Abdel Jaber, Arab Consulting Centre, Amman

1. Overview of Palestine's trade relations and policies through description of Palestine's trade agreements and protocols with:
* Israel
* Jordan, Egypt
* Other Arab countries
* EU

2. Future vision of Palestinian trade encompassing prospects for trade expansion: Which direction will it take: the Arab world, the EU and the rest of the world?

11.00 Coffee

11.15 **SESSION TWO**

Trade with Jordan: a Jordanian perspective

Chair: Geoffrey Haley, ECTAO
Presenter: Dr. Tayseer Abdel Jaber, Arab Consulting Centre, Amman
Discussant: Hisham Awartani, An-Najah University

1. Overview of Jordan's trade relations and policies through description of Jordan's trade agreements and protocols with:
* Palestine *Egypt
* Israel * EU
* Other Arab countries

2. Future vision of Jordan's trade encompassing prospects for trade expansion: Which direction will it take: the Arab would, the EU and the rest of the world?

1.00 Lunch (Bardoni)

2.30 **SESSION THREE**

Trade with Egypt: an Egyptian perspective

Chair: Atef Alawneh, Deputy Minister, Ministry of Finance
Presenter: Professor Gouda Abdel-Khalek, University of Cairo
Discussant: Hanspeter Tschaeni, STIMENA

1. Overview of Egypt's trade relations and policies through description of Egypt's trade agreements and protocols with:
* Palestine
* Jordan
* Israel
* EU
* Other Arab countries

2. Future vision of Egypt's trade encompassing prospects for trade expansion: Which direction will it take: the Arab world, the EU and the rest of the world?

4.00 Coffee

4.15 **SESSION FOUR**

Chair: Professor Gouda Abdel-Khalek, University of Cairo

1. Industrial Strategies: Impact on Regional Trade

Presenter: Diab Jarrar, Ministry of Industry

2. Israel's politics, trade policy and practices impact on Palestine's trade with the world as well as on trade of Arab countries (Jordan, Egypt) with Palestine and other Arab countries

Presenter: Samir Huleileh, Trade consultant

8.00 Workshop Reception/Dinner - Grand Park Hotel

Tuesday May 27

9.15 **SESSION ONE**

Global and regional factors positively or negatively affecting future vision for trade relations with the Arab world

Chair: Hisham Mustapha, Ministry of Planning

1. Regional potential for trade between Arab countries

Presenter: Mahmoud El Jafa'ari, Al Quds University

2. Palestine's trade relations with Jordan: Impediments on the Allenby Bridge

Presenter: Abed al Mun'em Draghmeh, Customs

3. Palestine's trade relations: Main statistics and partners

Presenter: Abed Al-Hafiz Nofal, Ministry of Economy and Trade

11.30 Coffee

Chair: Tayseer Abdel-Jaber, Arab Consulting Centre

4. Europe and the Arab world

Presenter: Geoffrey Haley, ECTAO

5. Diagonal Cumulation and trade with the EU

Presenter: Allan Waight, UK Customs and Excise

6. WTO membership: impact on regional trade and trade between Arab countries

Presenter: Hanspeter Tschaeni, STIMENA

1.00 Lunch

2.30 **Proposals, recommendations, conclusions, follow-up**
Chair: Maher Masri
Saeb Bamiyeh

Workshop on Palestine and regional trade: Prospects for future trade relations with Jordan, Egypt and the wider Arab World, May 25 - 27, 1997.

Participants:

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Khaldoun Mosleh	Ministry of Economy & Trade
Nawal El Haj	Ministry of Economy & Trade
Nisreen Haj Ahmad	Ministry of Economy & Trade
Hazem Kawasmi	Ministry of Economy & Trade
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Maha Abu Issa	Ministry of Economy & Trade
Amal Tarazi	Ministry of Economy & Trade
Saidah Shobaki	Ministry of Economy & Trade
Tawfik Shihabi	Ministry of Economy & Trade
Abed Al-Hafiz Nofal	Ministry of Economy & Trade
Hisham Mustapha	Ministry of Planning and International Cooperation
Atef Alawneh	Deputy Minister of Finance
Diab Jarrar	Ministry of Industry
Nabil Fares	Ministry of Industry
Aata Salim	Ministry of Industry
Mohammed Al Rayes	Ministry of Agriculture (Gaza)
Ahmad Jabr	Ministry of Agriculture
Zohari Shllot	Customs Alcrama
Ahmad Al Rabaie	Allenby Bridge
Abdul Munem Draghmeh	Customs
Samir Huleileh	Trade Consultant
Hisham Awartani	An-Najah University
Mahmoud El Ja'afari	Al Quds University, Jerusalem
Mazen Sinokrot	Food Industries
Hani Murad	Textiles and Garments Union

Adnan Younis	Development Alternatives Inc. (DAI)
Murad Tahboub	PTPO
Brian Buckley	CPED
Salim Aba Gazaleh	P.A.R.C.
Hadeel Hijazy	Friedrech Nouman
Tayseer Abdel Jaber	Director of the Arab Consulting Centre, Amman, Jordan
Gouda Abdel-Khalek	University of Cairo, Cairo, Egypt
Allan Waight	UK Customs and Excise
Hanspeter Tschaeni	STIMENA
Bettina Muscheidt	ECTAO
Geoffrey Haley	ECTAO
Valerie Yorke	Programme Coordinator, Economic Policy Programme, London School of Economics

Workshop on Palestine and regional trade: Prospects for future trade relations with Jordan, Egypt and the wider Arab World, May 25 - 27, 1997.

List of Visiting Participants

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Curriculum Vitae

Gouda Abdel-Khalek

Professor Gouda Abdel-Khalek, an Egyptian national, holds a Masters degree in Economics (University of British Columbia) and a Ph.D in Economics (McMaster University, Canada).

He is Professor of Economics in the Department of Economics at Cairo University. His previous positions include those with the Diplomatic Institute, Cairo (1990-1992); the World Bank Core Planning Team, Kuwait (1979-81); the UN Economic and Social Commission for Western Asia (ESCWA) (1987)(1991-1992), the Economic Commission for Africa (ECA) (1994) and Energy Planning Agency of the Government of Egypt (1992-93). He has held a number of teaching positions including a visiting professorial post at the University of California, Los Angeles. He was also a senior Fulbright Visiting Scholar at Johns Hopkins University.

Professor Abdel-Khalek has led and participated in numerous international and Egyptian research and evaluation missions. Most recently he has conducted studies on structural adjustment and industrialisation in Egypt, focussing on trade liberalisation, price liberalisation and public sector reform.

Professor Abdel-Khalek's teaching and research interests are in the areas of macroeconomics, structural adjustment, development economics, and the political economy of Egypt and other Arab states. He has written extensively on these broad areas and most recently on Egypt's economic reform and the challenge of globalisation.

Tayseer Abdel Jaber

Dr Tayseer Abdel Jaber currently serves as the Director of the Arab Consulting Centre in Amman, Jordan. Prior to this, he acted as Deputy Chairman for the Board of Directors of the Jordan Kuwait Bank. Dr Abdel Jaber has served as an economic expert for the Development Planning Division from 1975-1976, Under Secretary General of the United Nations, and Executive Secretary of the Economic and Social Commission for Western Asia (ESCWA) from 1989-1993. Additionally, he has held several positions within the Jordanian government, including: Minister of Labour and Social Development 1984-1985; Under Secretary, Ministry of Labour, 1979-1984; Secretary General of the National Planning Council 1977-1979; and Director, Economic and International Organisations Department, Ministry of Foreign Affairs, 1973-1974.

Dr Abdel Jaber was the founder and chairman of the Jordan Economic Association. Currently he is the founder and chairman of the Institute of Management Consultants in Jordan. He is also a member of the Georgetown Leadership Seminar, World Affairs Council, and Jordan

Businessmen Association. He has written extensively on the subject of Arab economic integration, Jordan's economy, human resource development and sectoral studies. He received his BSc in Economics from Cairo University in 1963; his MA and Ph.D in Economics from the University of Southern California Los Angeles in 1968 and 1970 respectively.

Hanspeter Tschaeni

Mr Hanspeter Tschaeni, Swiss national, is holder of a degree of Master of Arts in Political Science (USA) and a Doctorate of Law (Switzerland).

Mr Tschaeni joined the services of the Swiss federal government in 1981, working primarily with political and economic questions related to European integration. In 1982, he was appointed legal advisor to the Swiss Integration Office, dealing also with non-tariff barriers to trade. From 1986 to the end of 1994, he occupied the post of Director of Trade Policy Affairs in the Secretariat of the European Free Trade Association EFTA in Geneva. He was closely associated with negotiations between the EFTA countries and the European Union on the Agreement on the European Economic Area (EEA), being both a member of the High-Level Steering Group and co-ordinating the substantive work in the field of trade in goods. From 1991-1994, Mr Tschaeni was in charge of the Secretariat work during the negotiations and implementation of free trade agreements between the EFTA States and several Central and East European countries, Israel and Turkey. During 1994, he was also consultant to the Liechtenstein government for the EEA negotiations.

In autumn 1994, Mr Tschaeni resumed his work in the European integration field with the Swiss federal administration in Berne. As Head of Unit in charge of economic integration, he was associated with the bilateral negotiations between the Switzerland and the EU.

In August 1995, he joined the Swiss Trade Initiative for the Middle East and North Africa (STIMENA) team.

Allan Waight

Mr Allan Waight joined HM Customs and Excise in 1959. He has served in headquarters directorates covering Personnel, Value Added Tax and Customs matters. From 1974-1980, Mr Waight served in the Tariff Preference branch of the Customs Directorate dealing mainly with imports into the UK.

In 1989, he was promoted to Senior Executive Officer, Customs Policy Directorate Duty Liability Group and is now responsible for implementing EC legislation in the UK in relation to customs aspects of all the European Community's preferential trading arrangements with other countries. This includes issuing guidance to customs officials at local offices and to commercial operators on matters relating to the preferential origin of goods and carrying out post importation verification of claims to originating status.

Mr Waight also has extensive experience in handling appeals which challenge the Departmental interpretation of the law governing the granting of preferential status.

Since 1990, Mr Waight has attended, as the UK Customs delegate, meetings in Brussels of the EC's Customs Code Committee - Origin Sector, the legislative committee responsible for drafting European Community legislation covering origin aspects of preferential trade.

Bernard Philippe

Bernard Philippe is an official with the European Commission serving in its Directorate General for External Relations: Mediterranean, Middle East and North Africa, where he is responsible for economic and trade questions in the Mashrek and Israel unit. In 1994-1995 Dr Philippe represented the EU at the World Bank (Ad Hoc Liaison Committee Secretariat) where he worked on the coordination of economic assistance to the West Bank and Gaza Strip. He holds a doctorate in economics and has written extensively on international trade and business, and economic development issues.

Valerie Yorke (Programme Coordinator)

Valerie Yorke, a UK national, holds a Master of Arts (Honours) degree from the University of Edinburgh. She is a senior research fellow at the London School of Economics and project coordinator of the EU-funded Economic Policy Programme for the Palestinians also based at the LSE. Previously she was a senior Middle East editor with the Economist Intelligence Unit, going on to become coordinator of the EIU's *Peace Media* project, funded by the EU. She has held research posts at the International Institute of Strategic Studies, the Royal Institute of International Affairs, the World Security Trust, and the Foreign and Commonwealth Office.

Valerie Yorke's research has focused on the domestic politics and foreign policies of Jordan, Syria and Israel, the Arab-Israeli peace process and the relations of outside powers with the Middle East and Gulf. She has written extensively on these broad themes.

Economic Policy Programme

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