

## An Analysis of the Economic Restrictions Confronting the West Bank and Gaza

**The restrictions on Palestinian economic potential involve more than roadblocks and checkpoints.** With due regard to Israel's security concerns, there is consensus on the paralytic effects of the current 'movement and access restrictions' on the Palestinian economy. A report by the International Development Committee of the UK House of Commons, Published on July 24<sup>th</sup> 2008, noted that: "...it is important for Palestinians to be able to move around their own country for education, to receive healthcare, to visit their families, to work and to trade, irrespective of whether their journeys are regarded as strategically significant to international negotiations. Neither Israel nor the international community should lose sight of this..."<sup>57</sup> However, the common view of these restrictions extends only to the network of checkpoints and barriers riddling the West Bank, and partitioning the West Bank from Gaza, and both from Israel and the rest of the world. In reality, these restrictions go beyond concrete and earth-mounds, and extend to a system of physical, institutional and administrative restrictions that form an 'impermeable barrier' against the realization of Palestinian economic potential. Thus, tackling checkpoints alone, while potentially having a massive impact on economic revival, must be complemented with a broader address of the system of barriers facing the Palestinian economy, which includes:

- **Access to Economies of Scale:** Palestinian businesses are unable to achieve sufficient 'economies of scale' to warrant additional investment, business growth and/or additional entrants into the market. This is why over 95% of businesses are 10 employees or less. Capital intensive industries are also few and far between, and occupy the bulk of the market space. This is due to Israeli restrictions that have fragmented the West Bank's Palestinian population into economically isolated pockets, increasing the costs of trading with each other and between Israel and the West Bank and Gaza. The West Bank and Gaza are now almost completely delinked, with Gaza starkly transforming from a potential trade route to a walled hub of humanitarian donations. These restrictions, furthermore, prevent full trade with Israel, and with the rest of the world. More importantly, the restrictions against movement in and through East Jerusalem preclude a main economic hub for Palestinian businesses.
- **Access to Natural Resources:** This covers a number of resources essential to the exploitation of Palestinian economic potential. Key among them is access to land, water, cultural heritage and telecommunications radio frequencies, among others.

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<sup>57</sup> The Humanitarian and Development Situation in the Occupied Palestinian Territory, 11<sup>th</sup> Report of Session 2007-2008, UK House of Commons, International Development Committee, July 24, 2008.

- **Access to an Investment Horizon:** Beyond the physical impediments affecting access to inputs, supply chains, and markets, investors in a Palestinian economy face an unclear horizon with which to measure and mitigate their risks. This is linked, first and foremost, to the uncertain political horizon, and the resulting unpredictability in the investment horizon. In addition, the system of permits and visas make it difficult for foreign investors and create uncertainty for local investors.

## Access to Economies of Scale

**The West Bank and Gaza is a small, underdeveloped economy next to a much larger, and in the case of Israel, a much more developed economy.** Consequently, its growth depends on maintaining open trade with its neighbors. Trade flows represent 85% of Palestinian GDP, with imports of goods and services representing over 80% of total flows and exports around 20%. Around 90% of Palestinian trade is with Israel.<sup>58</sup> However, with the deteriorating security situation Israel has increasingly imposed barriers to trade. In addition, changes in the Israeli economy have reduced the market for traditional Palestinian goods.<sup>59</sup> Thus, future growth will depend on enterprises being able to reach beyond Israel and access new world markets.

### Alternative Trade Routes for the West Bank

**West Bank enterprises have essentially two options to access the world market—through Israeli ports or airport, or through Jordanian ports or airport.**<sup>60</sup> Israel will undoubtedly remain the West Bank's main trading partner for the foreseeable future. However, in order for the Palestinian economy to grow, Palestinian businesses will have to break their dependence on Israel and access the wider world markets. To this end, the PA has signed a number of agreements that provide Palestinian goods preferential entry into other markets. However, for Palestinian enterprises to take full advantage of these preferences there must be significant improvements in trade logistics and a relaxation of Israel's strict security regime.

**The main constraints to trade between the West Bank and the outside world are the internal restrictions, the commercial crossings along the Separation Barrier and the inefficient operation of the Allenby Bridge.** If Palestinian enterprises are to successfully penetrate the international market, all of these issues must be addressed, while at the same time not jeopardizing Israel's security. Improved trade logistics will increase the competitiveness of Palestinian goods which is necessary if Palestinian enterprises are to achieve efficient scale and move toward higher value added products.

**To access the wider world market, Palestinian enterprises first face the challenge of moving within the West Bank itself.** The numerous Israeli road blocks, restricted areas and growing settlements have cut the Palestinian communities into separate cantons, which significantly raise transportation costs and limit the ability of Palestinian enterprises to achieve economies of scale.<sup>61</sup> As a result, internal trade has declined and external trade has also

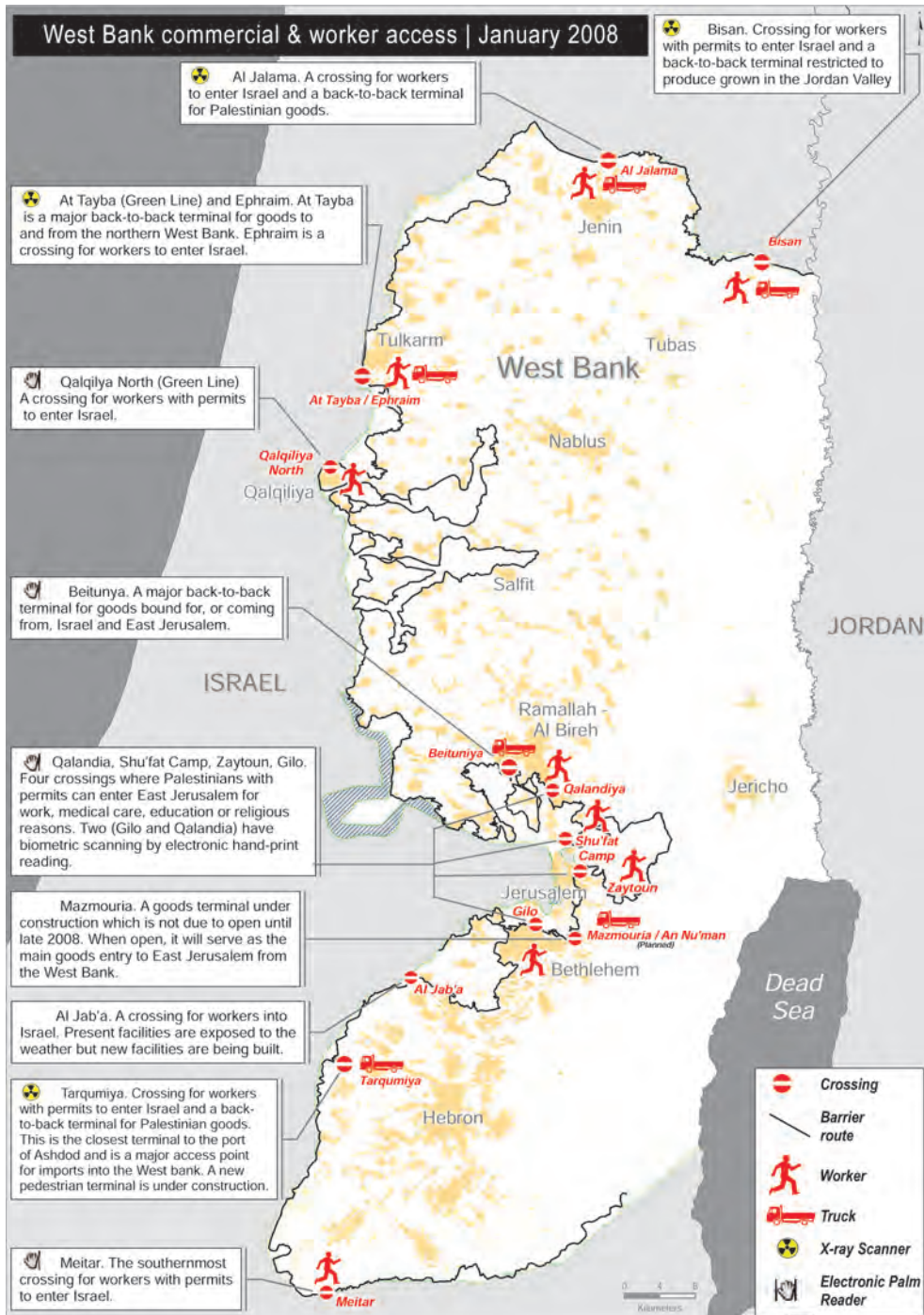
58 There are no accurate statistics for trade with Israel. Since the borders with the West Bank are porous, much of the trade takes place informally and is not reported. However best estimates suggest that trade with Israel accounts for anywhere from 85%-90% of total trade flows.

59 See the World Bank's 2006 Investment Climate Assessment for a discussion of the changing relationship between the Israeli and Palestinian private sector.

60 It is also possible to send goods across Israel and through Egypt. However, the costs are so high that this is not competitive for goods not destined for Egypt.

61 See World Bank 2007 Report for a detailed description of restrictions in the West Bank.

Figure 5: West Bank Crossings



undoubtedly been affected. The World Bank's 2006 Investment Climate Assessment found that in 2000 nearly 60% of West Bank enterprises made a significant share of their sales outside of their home city, but by 2006 this number had dropped to less than 40%. Furthermore, a World Bank-Paltrade Survey found that the increasing restrictions in the West Bank have: (a) raised the cost of inputs and equipment, as well as the time wasted taking less efficient alternative routes; (b) reduced utilization of the current truck fleet; and (c) prevented accurate planning and efficient allocation of resources.

**For trade to and through Israel, which constitutes the vast majority of Palestinian trade, goods must navigate a series of crossings that are a key factor for trade logistics for West Bank enterprises.** In 2005 the Israeli authorities issued a report stating that: "Israeli security forces will transfer the bulk of their monitoring and control efforts from checkpoints inside the West Bank and the Gaza Strip to crossing points along the revised route of the security fence. This will mean a sharp reduction in the number of roadblocks and barriers within the Gaza Strip and the West Bank..."<sup>62</sup> All Israeli/Palestinian trade will go through the crossings once the Separation Barrier is complete.<sup>63</sup> Currently, the six planned commercial crossings and some smaller crossings are either operational or near completion.<sup>64</sup> However, the promised reduction in internal restrictions has not materialized.<sup>65</sup> In January 2008 the World Bank commissioned PalTrade to monitor four crossings. To date the results have been mixed. While no queuing has been observed, the average time to process a shipment out of the Palestinian areas was one hour and 45 minutes.

**Critical to the Palestinian economy is the extent to which the crossings can accommodate the demand once the Separation Barrier is closed.** Since Israel is the main trading partner for the WB&G, these crossings are a determining factor of the size and competitiveness of Palestinian trade. There are no reliable estimates of the volume of traffic between the entire West Bank and Israel, since much of the traffic does not currently use the Crossings. A recent Economic Cooperation Foundation (ECF) study<sup>66</sup> found that only 15% of traffic in the southern West Bank currently passes through the Tarqumia Crossing and less than half of this uses the back-to-back facilities. Despite handling only a fraction of the actual traffic, the average waiting time for Palestinian trucks was one hour and a half, which ECF estimates adds at least 15% to the cost of

62 "Israeli Assistance Steps and Humanitarian Measures Towards the Palestinians: Following the Palestinian Elections and the Sharm el-Sheikh Summit." Israeli Ministry of Foreign Affairs, May 2005.

63 The Separation Barrier is designed to enhance Israel's security by preventing Palestinians from moving into Israeli controlled areas. In most places the Barrier runs inside the Green line and encompasses about 10% of pre -1967 West Bank. Because of this the International Court of Justice has ruled it illegal.

64 The crossings of Bardala/Bet Shean, Jalameh, Irtah/Sh'a'ar Ephraim, and Tarqumia have all been established and the Beitunia commercial checkpoint continues to be operated by the IDF near Ramallah. The planned crossing point of Mazmouria near Bethlehem is still to be completed. Beitunia is a crossing between Ramallah and Jerusalem and as such is well inside the 1967 Green line.

65 The number of closure obstacles reported by OCHA rose from 566 in September 2007 to 607 in April 2008. This figure does not include checkpoints placed on the Green Line, flying checkpoints and the Barrier. OCHA reports a slight deterioration in the overall access situation in the West Bank in the first half of 2008 based on the number of obstacles, prohibitions on the use of roads, the increase in curfews and long queues of Palestinians at crossings.

66 "A Survey of Freight Traffic Between Israel and the Southern West Bank and the Tarqumia Crossing in Particular", Unpublished report by Yaakov Garb, March 2008

shipping goods.<sup>67</sup> There is recognition of this capacity constraint by the Israeli authorities, who have begun exploring options expanding this capacity. Furthermore, the Israeli authorities have yet to institute a “known trader” system or a sophisticated risk management system; all outgoing shipments are subject to full inspection by scanners, and in some crossings 60% are subject to additional manual inspections. Moreover, none of the Crossings involve any coordination between the Israelis and Palestinians, despite the existence of the Palestinian General Administration for Crossings and Borders (GACB).<sup>68</sup>

**To access the world market, Palestinian enterprises can send their goods through Israel or Jordan.** Israel currently provides the most economical and best services, so despite the security constraints, the majority of shippers send goods through Israel. However, the introduction of the commercial crossings, tighter Israeli security requirements and improving services in Jordan is likely to shift traffic towards the Jordan route. For sea shipments to North America and Europe, Israeli ports offer an advantage despite the high internal transport costs imposed by security restrictions in the ports and elsewhere. However, for flows from Asia, Aqaba offers significant savings relative to Haifa, while Aqaba is served by routes that do not continue through Suez. For air shipments, Israel’s advantages are less clear. While Ben Gurion Airport offers more flights to Europe and North America and has better facilities, its costs are marginally higher than Jordan’s airport. Moreover, Israeli security requirements create a burden. Nevertheless, most Palestinian shippers currently view Ben Gurion as a better option.<sup>69</sup> Time-sensitive crops such as flowers and herbs require shipments by air, whereby Jordan’s Queen Alia offers competitive rates and service. However, because of conditions at the border, most shippers continue to use Ben Gurion. In the first half of 2008 there were successful shipments of herbs and pharmaceuticals across the bridge and through Jordan. However, these were specially coordinated and are not the norm.

**As Israeli crossings and security are tightened, no other alternatives have been provided to Palestinian traders. While Palestinian trade with Israel will be routed through the crossings, for trade with the rest of the world it is critical to find alternatives to the trade route through Israel. The Allenby Bridge with Jordan will take on increased importance and it is vital to both increase its capacity and its efficiency.** Improving operations at Allenby would increase the competitiveness of Palestinian products in the Gulf- a significant potential market for Palestinian products- and make Aqaba port a competitive alternative to Israeli ports. Improved handling facilities would also encourage a greater use of Queen Alia airport for fragile goods that need immediate shipments. Currently, the operations in place do not allow for the full exploitation of the Allenby Bridge. First, while both Jordan and the PA utilize the ASYCUDA

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67 However, COGAT recently estimated that in 2007 on average 1,037 trucks per day crossed both ways. This is well above the average total throughput for the 4 crossings that are being monitored by PalTrade, which is less than 350 per day.

68 This issue is not solely the responsibility of the Israeli authorities. On the Palestinian side, there does not appear to be a clear mandate for the management of the crossings.

69 Shipments through Egyptian ports are not economical because of additional road transport costs and the added border crossing with its delays and informal payments.

system for customs processing, there is no linkage since Israel, which is the intermediary, does not use this system and is reluctant to share data. Secondly, complicated procedures for crossing the border reduce the usefulness of Jordan as an outlet for Palestinian goods. Thirdly, the lack of cold storage and the requirement to conduct back-to-back loading prevents the export of sensitive agricultural products, or pharmaceuticals that require a temperature controlled environment.

**The Israeli authorities have recently extended the hours of operations at Allenby, but note that the Crossings are underutilized due to insufficient demand.** In technical discussions with the Israeli authorities, they state that while Allenby can accommodate 70 export trucks and 50-60 import trucks per day, there are currently about 30-40 export trucks and 30 import trucks passing through each day. However, this low demand is entirely reasonable given the limited capacity, lack of cold storage and protected facilities, the risk of damage from inspections, and the uncertainty of crossing delays. It is also reasonable to assume a considerable increase in demand once these constraints are removed. Immediate needs include an increase in handling equipment;<sup>70</sup> providing cold storage facilities; increasing the size of scanners at the Israeli-controlled side of Palestinian crossing between the West Bank and Jordan, to avoid having to break the cargo into small pallets; and a risk management system on the Israeli-controlled side. Ideally operation of Allenby should be handed to the PA in accordance with past agreements so that it can control the border of a future Palestinian state and coordinate with Jordanian authorities. Palestinian exports could also be assisted by upgrading / reopening the Damya bridge crossing.

## Alternative Trade Routes for Gaza

**While the current closure regime appears to have precluded any discussion on trade routes for Gaza, the topic remains an essential factor in the long-term sustainability of the economy of the Strip.** As noted earlier, the current closures befalling Gaza have altered the nature of the economy, and have acted to "...convert a densely-populated and poor region to an internationally-supplied welfare project."<sup>71</sup> Nevertheless, the development of the Strip's trade infrastructure and prospects remain a priority, without which Palestinian development will not be realized.

**World Bank analysis shows that using the Rafah Crossing to ship goods from Gaza to Egypt's container terminal at the Suez Canal or to Cairo Airport is more efficient than through Israel's ports and airports.** By air, the Crossing has the added attraction of providing direct access to the Gulf and other Middle East locations (as well as Europe), and permitting the use of cargo capacity on passenger aircraft (not allowed at Ben Gurion). By sea, Egypt offers comparable services in time and cost to Europe, faster times to Asia and less expensive and faster service to the Gulf. It also offers greater frequency to all destinations. By land, Rafah offers the

70 Currently, the equipment moves between exports and import. Dedicated equipment for each would allow exports and imports to flow simultaneously.

71 Nathan J. Brown, *The Road Out of Gaza*, Carnegie Endowment for International Peace.

possibility of trucking goods directly to Gulf countries in 4-5 days. Finally, while the distance from Rafah to the Egyptian gateways is further than to Israel's, in terms of cost and time it is expected to offer comparable and more reliable service when the border crossing and procedures at the gateways are taken into account. The West Bank and Gaza enjoy generous trade arrangements with the EU. Under the Arab Free Trade Area Agreement (AFTAA), Palestinian goods have duty-free access to this burgeoning market. According to a recent study by the Peres Center and Paltrade, merchandise imports into this zone amounted to \$170 billion in 2005 and are projected to reach over \$500 billion by 2015<sup>72</sup>.

**The legal basis for using Rafah are in place including the Agreement on Movement and Access (AMA) which allows for Rafah to be used for exports immediately, and the Arab League Agreement on Transit which allows for duty-free transit of Palestinian goods through Egypt.** However, there is still a need for straightforward procedures for a secure supply chain at the Rafah terminal and transit protocols to be agreed between the Palestinian and Egyptian Governments, preferably with the support of European, UN or other border monitors at Rafah.

**However, opening Rafah must not be a substitute for efforts to reopen crossing with Israel, and to make them more efficient and transparent.** Opening Rafah is complimentary to efforts to improve the border crossings with Israel, particularly at Karni. An effective Rafah corridor will introduce competition to monopolistic border operations on the Israeli side. The Karni Crossing has been largely closed and almost no commercial imports or exports have been allowed. Sufa and Kerem Shalom have become the alternatives for commercial foodstuffs and humanitarian aid. However, neither has the infrastructure of Karni for large scale imports and exports. So, Karni must be opened to allow for effective trade with Israel, and must be made more efficient.

**In general, Israeli policies even before the Hamas takeover were rendering Palestinian exports uncompetitive.** Changes were introduced in Ashdod in early 2007. One, for example, dictated that goods originating in the West Bank and Gaza be held for 48 hours at the port. Also, air cargo originating in West Bank and Gaza is prohibited from being shipped on passenger airlines out of Ben Gurion. Even before the Hamas takeover, it took a West Bank firm an average of 10 days to clear customs and a Gazan firm 30 days. But it also took as many as 30 days for goods destined for the West Bank and 60 days for goods destined for Gaza to clear. In comparison, goods imported by Israeli firms cleared customs within a day or two.<sup>73</sup>

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72 "The Untapped Potential", December 2006 by the Peres Center for Peace and Paltrade.

73 Prior to the Hamas takeover, and per the Agreement on Movement and Access (AMA), the Rafah crossing was turned over to the PA, with 3rd party monitoring by the (EUBAM) and additional scrutiny through the operation of CCTV cameras by Israeli security. The experience of Rafah as a passenger terminal was positive until the kidnapping of Corporal Gilad Shalit and the closure of the crossing. Prior to this, the crossing's performance was a dramatic improvement over the period of Israeli control. There was coordination between customs and Palestinian security forces at the crossing and the PA Customs Department introduced electronic customs reporting for goods carried by passengers (using the UN's ASYCUDA ++ system). The EU monitors and CCTVs used by all parties, including Israeli security at Kerem Shalom assuaged concerns about the security of the crossing.

## Access to Natural Resources

**The dependence of the West Bank and Gaza on humanitarian assistance is particularly unfortunate given the West Bank and Gaza endowment of resources,** and its potential for economic development, including agriculture and tourism as well as urban and industrial growth. As the below section will show, the restrictions confronting the Palestinian economy go beyond the movement of goods and people, and involve access to the resources necessary to create wealth and economic opportunities.

### Access to Land

**The West Bank which is fragmented into enclaves that are fractured by a system of movement restrictions between them due in large part to the 1995 Oslo Accords<sup>74</sup> which created, as an interim (5-year) measure, three distinct zones Areas A, B, and C, with different security and administrative arrangements, including land administration.<sup>75</sup>** Area A corresponds to all major population centers, where the PA has full responsibility for civilian and security matters. Area B covers most rural centers, where the PA handles only civil affairs, with security under the Israeli military. The territorial space of Areas A and B is not contiguous, and consists of some 227 enclaves under partial or full Palestinian control.<sup>76</sup> Each enclave, whether Area A or B or a combination of both, is surrounded by Area C, which covers the entire remaining area and is the only contiguous area of the West Bank. Area C is under full control of the Israeli military for both security and civilian affairs related to territory, which includes land administration and planning.<sup>77</sup>

**Area C accounts for 59% of the West Bank, and is sparsely populated and underutilized by the Palestinian population. Of this, a large portion of Area C- covering 38.3% of the West Bank, is restricted from current or future Palestinian use.** Today only a fraction of the Palestinian population resides in Area C. Exact figures are not available, but it has been estimated that between 70,000 and 230,000 Palestinians reside there.<sup>78</sup> Conversely, an estimated 461,000

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74 The status of Area C was not intended to be a permanent issue, awaiting final status discussions. A phased process was envisioned in the 1995 Israeli-Palestinian Interim Agreement on the West Bank and Gaza Strip. In fact, there were a series of IDF redeployments in the West Bank between 1994 and 2000 (until the Second Intifadah).

75 The Israeli-Palestinian Interim Agreement on the West Bank and Gaza Strip, Washington, D.C. (September 28, 1995), Article XI

76 Amnesty International's report, *Israel and the Occupied Territories: The Demolition and Dispossession of Palestinian Homes* (December 1999).

77 The Interim Agreement did, however, transfer civilian affairs not related to territory to the Palestinian Authority in Area C in areas outside of the settlements and Jerusalem (e.g., health, education, commerce, etc.).

78 OCHA Special Focus "Lack of Permit" Demolitions and Resultant Displacement in Area C, May 2008. The broad range is due to the method of estimation which can vary widely since many Palestinian villages are located partially in Area A and B on the one hand, and partially in Area C, so it is difficult to determine the actual number specifically residing in Area C.

settlers live in Area C as of 2007.<sup>79</sup> The portion of the West Bank that precludes Palestinian use includes the following:

- **Numerous settlements have emerged since 1967, and cover about 5.1% of the West Bank.** These are heavily concentrated in and around East Jerusalem, but also include 123 “official” settlements and 105 outposts in Area C. In the West Bank, the built-up area of the settlements covers only 52,000 dunums, which constitutes 1.5% of Area C, but their jurisdictions cover more than half a million dunums, covering about 5.1% of the entire West Bank.<sup>80,81</sup> Furthermore, the land set aside for the future expansion of the settlements surpasses the needs of the fast growing settler population. Between 1987 and 2005 the settler population grew by over 150% and the land area controlled by settlements by more than 400%<sup>82</sup>.
- **Another 23% of the West Bank is restricted to Palestinians by order of the Military Commander of the West Bank** <sup>83</sup> comprising: closed military areas and bases, and Israeli declared natural reserves (with some overlap between the two).
- **A further 10.2% of the West Bank, including 42 Palestinian villages, will be enveloped by the most recent route of the Separation Barrier, approved by the Israeli Cabinet in April 2006.**<sup>84</sup> The enclosed areas include valuable agricultural land and substantial water resources, which has severely impacted Palestinian farmers. The Barrier also isolates East Jerusalem, traditionally the political, social, and commercial centre of Palestinian life.

**The remainder of Area C land that is accessible for Palestinian use is subject to Israeli military regulations covering land administration, preparation of plans, and permits for construction. In 90% of the villages in this area, building permits are not forthcoming.** Planning and construction in Area C are subject to the Jordanian law of 1966, which was revised by Israel in 1971, centralizing village planning and the granting of permits with the Israeli Civil Administration.<sup>85</sup> Since the 1990s, the Civil Administration has unilaterally prepared ‘Special Partial Outline Plans’ for 10% of the approximately 130 Palestinian villages in Area C, the basis on which building permits are granted (another 27 plans were announced on May 13th, of which 13

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79 World Bank calculations based on Israeli Central Bureau of Statistics population figures and the Jerusalem Institute of Israel Studies, Statistical Yearbook of Jerusalem.

80 Bimkom.

81 OCHA, op. cit., (page 41)

82 The Humanitarian Impact on Palestinians of Israeli Settlements and Other Infrastructure in the West Bank, UN Office for the Coordination of Humanitarian Affairs (OCHA) July 2007, pages 12 - 18.

83 Ibid, page 51

84 OCHA, op. cit., pages 48-50.

85 Instead of a three-tier hierarchic system (local committees, regional committees and a Supreme Planning Council), Israel created a centralized planning system which, regarding the Palestinians, included only one single planning institution (the SPC) which includes only Israeli employees of the Civil Administration.

were regarded as approved but not implemented).<sup>86</sup> Palestinian applications to build on private land outside of the demarcation lines are rejected by the Civil Administration as they are outside the outline plan, or are not permitted according to the old British Mandate plans (e.g. zoned for agriculture or a nature reserve). Permits are also rejected if the owner cannot prove ownership, which can be difficult when two thirds of the West Bank lands have not been registered<sup>87</sup>. The Israeli Ministry of Defense data shows that, between 2000 and 2007, 6% of construction permits were granted to Palestinians.<sup>88</sup> During the same period, 4,993 demolition orders were issued, of which 1,663 were executed. Conversely, 97% of building requests were approved in 1972.<sup>89</sup> However, since May 2008 and as a result of agreements with Quartet Representative Tony Blair, the Israeli authorities have observed a welcome moratorium on house demolitions in Area C.<sup>90</sup> Demolitions in East Jerusalem, which is not covered under this moratorium, continue.

**Compounding the difficulty of utilization of land is the fact that 70% of the land in the West Bank is not registered.** Partial efforts at systematic land registration were made during the British Mandate, and later during the Jordanian administration. However, land registration in the West Bank ceased completely since Israel's administration of the West Bank in 1967, leaving only 30% of the land in the West Bank registered. In 1980's, Israel declared all land that was not registered or under cultivation as "State land", thus precluding it from use by Palestinians. However, even where title to land is registered, it has in some cases been subject to requisition primarily for settlement-related activities.<sup>91</sup>

**These multi-faceted obstacles, compounded by movement and access restrictions, are precluding the exploitation of valuable land in the Jordan Valley and East Jerusalem.** While there is no physical barrier along the Jordan Valley, travel restrictions create a de facto separation from the rest of the West Bank. Restrictions on movement in the area have impacted investors. In East Jerusalem, use of land is hampered by "green zones" around Palestinian neighborhoods

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86 These "special partial outline plans" usually also include some main roads, sometimes sized and located seemingly without regard for the village needs and existing structures, and sometimes specify different types of residential areas as well, but rarely designate any commercial, industrial, or public areas.

87 This requirement is upheld by the Israeli civil administration despite the fact that the Jordanian Law did not require proof of ownership for approval of building permits.

88 This is in comparison to 18,472 housing units which were constructed in the settlements during the same time period (According to the Israeli Central Bureau of Statistics, completed construction in the Settlements from 2000 till September 2007). As compiled by Peace Now.

89 See «The Prohibited Zone - Israeli planning policy in the Palestinian villages in Area C», Bimkom, to be published October 2008 for this and additional information on planning in Area C.

90 Since the May announcement one house was demolished in Qalqilia on 19 June. However, house demolitions are proceeding at a much higher rate in East Jerusalem, which is not covered by the moratorium. Between the beginning of May and 3 July, 11 houses were demolished, most of them in the Beit Hanina area.

91 The construction of settlements and outposts on private Palestinian land was deemed illegal under Israeli law pursuant to a decision of the Supreme Court of Israel involving the settlement of Elon Moreh in 1979. A report by Peace Now using data from the Civil Administration reveals that over 32% of the land in settlement jurisdictions is private land owned by Palestinians (Etkes, Dror and Ofra, Hagit "Breaking the Law in the West Bank – The Private Land Report", November 2006). The Sasson Report found that 15 outposts have been established solely on private Palestinian land and 39 on a combination of public and private land (Summary of the Opinion Concerning Unauthorized Outposts produced by Talia Sasson, and made public on October 18, 2005, available at [www.mideastweb.org](http://www.mideastweb.org)).

which limit their expansion, the cost of obtaining building permits, the absentee property law which discourages Palestinians from registering land, and the Separation Barrier.<sup>92</sup> The Palestinian Central Bureau of Statistics (PCBS) data shows that between 1967 and 2002, 82% of housing units built in East Jerusalem were for Israelis, as opposed to 18% for Palestinians.<sup>93</sup>

**Thus, land use restrictions will stunt the Palestinian economy so long as the majority of lands are precluded from investment, and movement restrictions render non-contiguous areas unattractive for urban expansion.** The extent of the impacts includes: (a) **donor-driven development:** Public infrastructure projects in Area C also require permits, which in turn require an Outline Plan. Thus, despite available donor resources, spending for public investment in Area C is minimal; (b) **agricultural development:** Area C holds 63% of the West Bank's agricultural lands.<sup>94</sup> Low-intensity agricultural production is generally permitted in Area C. However, the permit system constrains permanent investments and the intensification of agriculture; (c) **industrial development:** Access to land and water is a key constraint for industrial development. The PA is planning for four industrial parks, which require suitable public or private land close to the commercial crossings with Israel and Jordan (Jalameh, Tarqumiyah, Jericho Agro-industrial Park and Bethlehem). Suitable land is mostly in Area C, and obtaining permits for construction of the industrial sites and associated infrastructure has proven to be a time-consuming and bureaucratic process,<sup>95</sup> and (d) **urban growth:** The restrictions in Area C impact not only development in Area C, but in Areas A and B as well, where over 90% of the Palestinians reside. First, by preventing urban areas from spreading into Area C, they create artificial land scarcities which have led to distortions in the land market.<sup>96</sup> Secondly, they limit the scope for municipalities and village councils to efficiently use the land at their disposal to provide services to their growing populations.<sup>97</sup>

92 According to B'Tselem ("Statistics on Demolition of Houses built without Permits in East Jerusalem"), in the period of 1996-2000, the number of recorded building violations was four and a half times higher in Israeli neighborhoods of Jerusalem (17,382 violations) than in Palestinian neighborhoods of East Jerusalem (3,846 violations). Nevertheless, during this same period, the number of demolition orders issued in West Jerusalem was four times less (86 orders) than the number in East Jerusalem (348 orders). In other words, while over 80 percent of building violations were recorded in West Jerusalem, 80 percent of actual demolition orders were issued for buildings in Palestinian East Jerusalem.

93 Jerusalem Statistical Yearbook, No.7, June 2005, p. 171.

94 A Review of the Palestinian Agriculture Sector 2007 – Consulate General of Spain in Jerusalem.

95 Located near Jenin, Jericho, Bethlehem, and Hebron, these industrial parks are at various stages of progress. In all cases, PIEFZA states that available land is the largest obstacle to establishing these parks, in addition to permits for construction of the estate and arrangements and permits for necessary infrastructure. Industrial parks require a sizable plot of land near main transportation routes, adequate services, population centers for access to labor, and preferably near one of the main commercial crossings into Israel to minimize transport and shipping. Source: Interview with PIEFZA, June 2008.

96 The past few years have witnessed an explosion of land prices, particularly in areas of high population density. In Ramallah, for instance, the municipality reports that prices of commercial land in the city have doubled each year for the past three years, reaching \$4000/sq.m. Even more striking is the clear differential between prices of otherwise similar land in Area A vs. Area C, where the premium for land classified as A or B vs. C can range from 30% to over 150% or more, depending on the location and the perceived relative «safety» of the property of Area C from confiscation or demolition.

97 The most striking illustration of this issue is the Qalqilya municipality, where the built-up area of the city has already exceeded not only the municipal master plan limits but even the Area A territory within which it is situated, with unlicensed construction spilling out into the surrounding Area C territory.

## Access to Water, Power and Basic Service Infrastructure

**Access to clean and adequate water is at a point of crisis in both the West Bank and Gaza.** In the West Bank, there is a serious shortage of piped fresh water supply. Average daily per capita consumption is only about 50 liters per capita per day (l/c/d), a shortfall of about 100 l/c/d from the World Health Organization's worldwide target of 150 l/c/d. This figure takes into account system losses which are estimated at 40% of supply, an unacceptably high figure and a major investment priority. Furthermore, Gaza faces a water and sanitation crisis. While there is close to universal water supply there, per capita daily consumption is only 78 l/c/d on average. Moreover, water quality is poor, with high nitrate and chloride concentrations, supply is unreliable and, as in the West Bank, system losses are unacceptably high at about 40% of supply.

**Palestinian use of water in the West Bank - most of which lies in Area C- is limited to 17% of total water in the aquifers.** Israel uses the remaining 83% either through its settler population or pumping from the shared aquifers for consumption in Israel.<sup>98</sup> Israel uses the remaining 83% either for its settler population in the West Bank or pumping from the shared aquifers for consumption in Israel or for sale back to the Palestinian utilities. Palestinian allocations from wells are restricted with rare approvals for new wells or for increasing outputs from existing wells dug before 1967. As a result, Palestinian annual water extraction has actually dropped about 10% from 120 million cubic meters (mcm)<sup>99</sup> since the mid-1990s.<sup>100</sup> This is despite the fact that 10%-14% of Palestinian GDP comes from agriculture, as opposed to 2-3% of Israel's GDP. Only 10% of Palestinian agriculture uses irrigation; the rest is rain-fed.<sup>101</sup> In the Jordan Valley, Palestinian allocations from wells are restricted with rare approvals for new wells and or increasing outputs from existing wells dug before 1967. Gaza, on the other hand, relies on wells that are increasingly

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98 This number refers to the Mountain Aquifer (western, northeastern, and eastern aquifers) and excludes transboundary (Coastal Aquifer) and other aquifers (Carmel, Galilee, etc.) in general in Israel. This also does not include surface water, primarily the Jordan River. The PWA notes that Palestinian access to water in the Mountain Aquifer has dropped since the Oslo II Interim Agreement was signed, from 118 mcm in 1995 to 106 mcm in 2007. This equates to 15.6% with Israeli in control of the remainder.

99 The Palestinian Water Authority notes that the amount accessible from the mountain aquifer by Palestinians in the West Bank has dropped from 118 mcm in 1995 to 106 mcm in 2007 due to several factors: the limited number of permits for new wells and the rehabilitation of old wells; the loss of wells due to the construction of the wall and the confiscation of land where some wells are located; the reduction of irrigatable land since 1995 due to the confiscation of land by the construction of the wall and the high cost of transport which is a product of the restrictions on access and movement; and finally recurrent droughts which to some degree includes climate change and which remains difficult to quantify.

100 Total Palestinian consumption in 2006 was 333.3 million cubic meters (mcm), comprising consumption of 170.6 mcm in the West Bank and 167.7 mcm in Gaza. Within the West Bank, about 106 mcm/yr is currently extracted from the Mountain Aquifer; a 10% reduction since the 1990s. The remainder is provided by Israel.

101 Sources: PWA Statistics; World Health Organization, Health Conditions of, and Assistance to, the Arab Population in the Occupied Arab Territories, including Palestine, 58th World Health Assembly, May 17, 2005; and PLO Negotiations Affairs Department, Presentation on Water and the Two State Solution, July 2007.

infiltrated by seawater due to over-pumping by all parties. As a result, the UN estimates that Gaza will have no drinking water in the next 15 years<sup>102</sup>.

**The Israeli and Palestinian Authorities continue regular dialogue on water resource management, which Israel regards as adequately addressed by the Oslo Agreements.** In discussions with the Israeli authorities, officials note that Israeli water consumption dropped from 500 cu.m./cap/year in 1967 to 170 cu.m./cap/year currently, while Palestinian water consumption rose from 86 cu.m./cap/year in 1967 to 100 cu.m./cap/year currently. The major reason for this disparity is Israeli control over West Bank aquifers. Moreover, Palestinian extraction of water in Gaza is 3 times renewable resources<sup>103</sup>. The Israeli authorities add that scarcity of this common resource requires the Palestinian Water Authority (PWA) to minimize water losses, enhance distribution, and rationalize its use of potable water. As such, the PWA must develop alternatives such as infrastructure for water treatment and reuse, and improved irrigation techniques in Palestinian agriculture.<sup>104</sup> It is worth noting that the PA, along with Israel and Jordan, is an active participant in the on-going Red Sea-Dead Sea Water Conveyance Study Program. If deemed feasible, such a water conveyance could bring up to 500 mcm per year of new potable water to the region, of which the PWA would have a yet undetermined share. The Red-Dead studies started in May 2008, and any decision on financing and construction would only come in late 2010.

**Access to water, as well as electricity is hindered by inadequate infrastructure and the inability of the PA to obtain Israeli permission for infrastructure development in these areas.** While the Israeli authorities provide some services through the Israeli electricity or water companies, most of the population in Area C is still directly dependent on the PA for electricity distribution, water supply, waste management, and telecommunications services, which have been hampered by the difficulty of obtaining Israeli permits. Attempts by the PA to provide electricity to some villages west of the Separation Barrier have been frustrated by their inability to obtain permits to enter the area. Even villages which lie mostly or entirely in Areas A or B, officially under Palestinian control, frequently have their key infrastructure in Area C. There are several examples of village councils in those circumstances who have requested permits to

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102 Unfortunately, plans to enhance water availability and wastewater reuse in Gaza have been delayed by the suspension or postponement of several donor projects. Examples of key projects include: USAID's \$140 million for the Gaza Seawater desalination plant and the Gaza North-South carrier, and KfW's approx Euro 70 for the Central Wastewater Treatment Plant. The World Bank-financed North Gaza Emergency Sewage Treatment Plant is facing delays due to the lack of entry of urgent supplies and equipment to complete the work. Wastewater reuse is at risk, and all poorly treated sewage generated from 70 million cubic meters of water supply is now pumped into the sea.

103 About 160 mcm is abstracted per year, approximately three times the sustainable limit of 55 mcm/year

104 In an earlier response on this issue, the Government of Israel asserts that "...all actions relating to water issues are undertaken according to the 1995 Water Agreement between Israel and the Palestinians. Israel fulfills all of its obligations and more (diverting 60 million cubic meters instead of 23 to the Palestinians), and has offered the Palestinians to assist in countering water shortages in various ways." GOI adds that since 1967, the water quantity drawn by Israel from the Mountain aquifer is diminishing in favor of the Palestinians. Thirdly, GOI notes that it has offered the PA several options to access more water, including a donor-financed desalination plant to be built in Hadera, Israel that would then sell desalinated water to the Palestinians. Lastly, GOI notes that it has reduced by 50% the use of potable water in Israeli agriculture, while the Palestinian side has not, thus raising the need for potable water.

improve road access, or install water supply pipelines, to no avail.<sup>105</sup> According to the PWA, about 33% of the villages representing about 9% of the West Bank's population are not connected to the water networks, and there is a limited scope to assist them. There are also issues beyond the quantity of fresh water supplies in the West Bank. Communities without piped water must rely on rainwater capture or fresh water tanker deliveries of questionable water quality and reliability. Water tanker deliveries are expensive, with prices as high as NIS 20 per cubic meter.

**Despite its importance to the PA and the sustained support of the donors, the development of infrastructure for water and wastewater services has been particularly problematic.** The PWA reports over 140 projects awaiting approval from the Israeli authorities, including development of wells, springs, transmission lines, and wastewater treatment plants. Two stages of approvals are required; an approval through the Israeli-Palestinian Joint Water Committee, followed by a building permit by the Israeli Civil Administration. Recently, there was an approval granted and a construction permit issued for the Nablus West WWTP and the Hebron WWTP, however obtaining these approvals is subject to long delays. Current efforts by the Israeli authorities, brokered by the Office of Quartet Representative Blair, to facilitate the approvals for water and power projects, are welcome but require expediting; only two meetings have been held over a period of six months. The PWA and the World Bank are currently conducting a study on the economic impacts of the systematic delays of water infrastructure projects, to assess this issue further.<sup>106</sup>

**In Gaza, the closure regime currently underway is preventing adequate maintenance of infrastructure for water and power.** The lack of entry of the necessary spare parts, materials and equipments for the water and wastewater facilities has resulted in constructing new wells, thus compromising quality of water, quicker aquifer deterioration. The inability of treatment plants to run efficiently implies increased dumping of untreated sewage- about 80 million liters per day at the height of the siege- into the sea<sup>107</sup>. In addition to the considerable environmental impact, this represents a loss of potentially treated water that could be used to recharge the aquifer, and thus avoid sea intrusion into this critical reserve. Unfortunately, a joint Israeli-Palestinian coordination meeting, brokered by the Office of the Quartet Representative, that took place on August 27<sup>th</sup> which addressed the facilitation of the entry of items critical for maintenance of water and sanitation services into Gaza achieved little results in this respect.

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105 Qaryut, south of Nablus, is an example of a village, officially under Palestinian civil control, with almost all its infrastructure in Area C. In 1999, the village council submitted a request for paving the dirt-road, with no success so far. Likewise, every request submitted to install a water supply pipeline has been denied.

106 PWA has requested the World Bank to conduct a study on the economic impacts of the systematic delays of water infrastructure projects. The study will have particular focus on delays derived from planning, approval and implementation restrictions for water works and water management, beyond Palestinian control, in the context of Israeli occupation, containment and settlement. The tailoring of "Poverty and Social Impact Analysis" (PSIA) methodologies to the study was deemed relevant in order to focus on the impacts of (i) delays related to Area C in the West Bank, (ii) on water quality and health impacts in Gaza, and (iii) on conflict-related governance issues of the sector.

107 Consisting of 60 million liters pumped from Gaza city, 8 million liters from the Middle Area and 12 million liters from the Rafah Area (Coastal Municipal Water Utility, August 2008).

## Access to Cultural Heritage

**The West Bank and Gaza are rich in historical, cultural, and religious sites and contain a number of extraordinary geological features, the majority of which remain unexploited.**

UNESCO has identified 20 outstanding sites that reflect this rich heritage; 16 sites are located in the West Bank and 4 in Gaza. However, Palestinians have been unable to translate this resource into a competitive tourism sector. According to some estimates, tourism currently contributes approximately 3-4% to Palestinian GDP, down from 10% in 1999, which was a peak year prior to the Second Intifadah. On the other hand, Israel has been developing some of these sites in the West Bank, with restricted Palestinian access to them.<sup>108</sup>

**The tourism sector has seen positive though fragile developments since 2007.** During the past two years, the overall hotel occupancy rate in the Palestinian Territories stood at 24%.<sup>109</sup> However, there has been an observed increase in tourism over the past year, with a number of hotels estimating full bookings in certain periods.<sup>110</sup> According to the Israeli Civil Administration, during the first half of 2008 the number of tourists in Bethlehem grew by 94.3% in comparison to the first half of 2007. In Jericho, the number of tourists grew by 42.7% over the same period. However, progress has been geographically isolated, and has not encompassed the entire tourism sector, nor has it been sufficient to translate into a substantial contribution to Palestinian GDP. As it stands, the Palestinian tourism industry remains fragmented and dominated by a small number of Palestinian companies, as the current movement restrictions preclude the emergence of sufficient economies of scale to allow for new entrants. The inability of Palestinians to travel freely within the West Bank (including East Jerusalem) and Gaza also prevents the emergence of internal tourism. Within the Palestinian areas, poor maintenance of historical sites has become more acute as a consequence of the recent political environment, and the shortage in funds. Efforts to develop a common Israeli-Palestinian framework for reviving Palestinian tourism have not yielded much fruit; there have been to date two meetings of the Joint Tourism Committee this year, with few tangible results. In addition, a tourism master plan said to be under preparation for the Jordan River baptism site has so far excluded Palestinian involvement.<sup>111</sup>

**There is consensus among all sides on the need for a revival of the Palestinian tourism sector, and several initiatives have sought to trigger this revival. Sustaining impacts, however, requires a fundamental address of the current restrictions on the Palestinian economy.** The PA's PRDP foresees the restoration and preservation of tourism sites, as well as

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108 According to the PLO Negotiations Support Unit (NSU), this includes the Herodian Site in Bethlehem and the Good Samaritan Site in the Jordan Valley.

109 There are over 82 operating hotels in the Palestinian Territories, of which 30% are located in Jerusalem, 20% in the central West Bank, and 19% in the southern West Bank.

110 Discussions with PADICO, the holding company that owns the Al-Jacer Intercontinental Hotel in Bethlehem, indicates that the occupancy rate has reached over 85% this year, from an almost non-operational level approximately two years ago.

111 Based on discussions with Friends of the Earth, Middle East (FOEME).

enhanced marketing of these sites. The May 13<sup>th</sup> package of Confidence-Building Measures developed by Quartet Representative Tony Blair noted that “the facilitation of access from and to Bethlehem will be improved on a permanent basis. Five-hundred new trader permits and the existing permits for tour guides will be renewed, on an ongoing basis.” However, progress appears to be limited to date. Several initiatives have been undertaken, including renewal permits for tour guides and traders, but these are unlikely to provide any tangible improvements in a sector that has historically provided one-tenth of Palestinian GDP. Facilitated access to Bethlehem remains an exception during high-profile events, rather than the daily rule, although the Israeli authorities have allocated some budget to increase capacity of Rachel’s Tomb Checkpoint. Access to land-critical for key sites in East Jerusalem, Bethlehem, and the Jordan Valley- remains elusive. Lastly, and as mentioned earlier, the Jordan Valley, and particularly the Dead Sea and Jordan River, which offer significant untapped potential, are inaccessible to Palestinian tour operators, visitors and investors.

## Access to Telecommunications Frequency

**Assignment of telecommunications frequencies is governed by the Oslo Accords which require agreement by both sides.** Under those interim arrangements, the PA is to present its requirements based on needs through the Joint Technical Committee, which are to be fulfilled within a period not exceeding one month. Frequencies were to be allocated by Israel expediently whenever possible, or an alternative would be presented which was to be acceptable to the Palestinian side.

**Currently, the structure of the Palestinian Telecommunications market is heavily influenced by Israeli limitations on the amount of frequency assigned to Palestinian companies.** The Palestinian Telecommunications market is serviced by only one company, Paltel/Jawwal. On July 28<sup>th</sup>, after over 18 months of negotiations, Israel agreed to the incremental allocation of 4.8 Mhz of frequency to a Wataniya which allowed for the introduction of competition into the sector.<sup>112</sup> The introduction of a new operator is expected to inject over \$350 in new license fees to the, with an immediate transfer of \$80-100 million. Secondly, Wataniya will invest an additional \$350 million in the Palestinian Authority over 10 years, create 750 skilled jobs for Palestinians and generate 1,500-2,000 indirect jobs. The entry of a new provider into the sector is also likely to yield service and pricing gains from competition. However, it is worth noting that the current monopolistic environment is a function of restrictions on the access to frequencies by Israel; throughout this period both the incumbent Paltel (Jawwal) and the entrant Q-Tel (Wataniya) have had similar difficulties in receiving new frequencies and facilities, to expand operations of the former, and initiate operations of the latter. For instance, Jawwal currently serves over 1 million subscribers using the frequencies assigned to it 10 years ago, when its based

112 The PLO Negotiations Support Unit (NSU) adds that the Israeli allocation is partial since the request made by the Palestinians included frequencies for the introduction of 2G and 3G services. Israel’s current allocation enables the introduction of the 2G services only.

consisted of 120,000 subscribers only. Similarly, several wireless data operators, licensed by the PA, have also been unable to begin operations due to the lack of available frequencies.<sup>113</sup>

**While until recently the Palestinian telecommunications market was characterized by a single operator, in reality competition existed in the mobile market. Israeli operators, authorized under the Oslo Agreement to offer services to the settlements, covered a large part of the territory of the West Bank.**<sup>114</sup> According to both operators, the lack of sufficient frequencies for Palestinian providers<sup>115</sup> requires the installation of more infrastructure than needed, leading to extra costs and lower quality. Moreover, infrastructure construction in Area C requires Israeli permits, which are not often granted. At the same time, most of the West Bank is covered by Israeli mobile operators. According to some estimates, Israeli operators cover 80% of the West Bank and capture at least 20% of the market.<sup>116</sup> Given the scattered geography of the settlements, the mobile coverage reaches most of the West Bank, including many of the most densely populated Palestinian towns and villages.<sup>117</sup> In addition, Palestinian operators face other restrictions, including: (a) the requirement to route international communications through a licensed Israeli operator; which increases costs; (b) the lack of a direct long-distance connection linking the West Bank with the Gaza strip; and (c) difficulties in obtaining Israeli permits to build infrastructure in large parts of the country.<sup>118</sup>

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113 According to NSU, Israel has also been holding the release of radio frequencies for the introduction of broad band services and Voice-Over-Internet (VOIP) services as well. The PA liberalized the provision of the broad band and VOIP service and issued 7 licenses for broad band companies, and another 7 licenses for the VOIP services. Although the request was made 9 months ago, Israel has not released any radio frequencies yet.

114 The presence of Israeli operators in the West Bank also implies leakage of tax revenues from the PA to Israel through unauthorized Israeli mobile operators in the West Bank and Gaza. According to PA officials, the revenue collected by Israeli operators in the West Bank is not subject to taxation from the PA. The PA estimates that the lost annual tax revenues due to unauthorized Israeli operations amounts to \$60 million.

115 At the time of this report, both Jawwal and Wataniya do not have access to the entire set of frequencies they had requested earlier. Wataniya has been given frequencies to initiate operations, with a commitment to provide more in the future. Jawwal continues to seek additional frequencies to upgrade services.

116 World Bank, *Introducing Competition in the Palestinian Telecommunications Sector*, January 2008.

117 The Israeli authorities indicate that the marketing of Israeli SIM and recharge cards in the West Bank is done in areas that are not under control of Israel, or under its jurisdiction. The PA indicated that the Israeli operators continue exceeding what is provided in Israeli-Palestinian Interim Agreement on the West Bank and the Gaza Strip ("Oslo 2" — 9/28/95) - ANNEX III, Art. 36, and are deliberately targeting the Palestinian customers, for example, by installing infrastructure with high power in settlements of a few hundred settlers and which is directed towards densely populated Palestinian cities and villages and by installing infrastructure in Areas C with the pretext of providing coverage to the bypass Roads. In addition, according to the PA, Israeli operators use direct marketing in Arabic via SMS to Palestinian users.

118 World Bank, *Introducing Competition in the Palestinian Telecommunications Sector*, January 2008.

## Access to an Investment Horizon

**The most pernicious effect of the system of economic restrictions is the level of uncertainty it creates for existing and prospective investors.** From a trade perspective, firms cannot accurately predict how long it will take to move their goods, they can not commit to delivery times and consequently are unable to enter the most lucrative export markets. From an investment perspective, investors cannot accurately assess the horizon facing their investment, nor their prospects for supervision of their investments, particularly for those of Arab and Palestinian origins, due to potential difficulties in securing entry into the West Bank and Gaza.

**Clearly, and as can be easily observed, the Palestinian private sector contains a number of highly effective and successful enterprises who are able to produce world-class products and services, and trade globally.** A number of these enterprises effectively exploited the Palestinian Investment Conference in Bethlehem to showcase their technologies and products, and to attract investment interest. However, while their presence has been and continues to be critical to the survival of the Palestinian economy, they represent only a fraction of Palestinian entrepreneurial potential, and their numbers reflect the artificially limited size of the Palestinian economy. Moreover, and as noted by several representatives of the Palestinian private sector, they are able to prosper only insofar as they can effectively circumvent the restrictions on movement and access.

**Ultimately, international investment in the Palestinian economy must reflect a decision on whether money spent in the West Bank and Gaza will yield a better risk-return horizon compared to countries elsewhere.**<sup>119</sup> In this regard, the uncertainties related to the Palestinian Territories are closely tied to the progress of the final status discussions between Israel and the Palestinian Territories. However, until then, there is significant room for improvement in the investment climate, not least of which is the need for further clarity in the visa/residency regime. Israel maintains control of the population registry<sup>120</sup> and it remains difficult for foreign investors, particularly those of Palestinian descent who are the most likely investors, to obtain

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119 The Israeli Ministry of Justice notes that: "This section treats economic restrictions (primarily with relation to entry and movement of goods), and the Israeli visa regime, as major causes of uncertainty discouraging international investment in the Palestinian economy. This should be balanced by acknowledging the difficulties placed on Israel in this matter due to security considerations it must take into account even in this context. We also suggest that the Report refer here to an additional factor deterring investment, which we believe has a greater impact on this matter than the visa regime: the legal environment in the PA. The Palestinian legal system generally suffers from poor enforcement and out of date legislation in the commercial field. Continuing updating Palestinian commercial legislation, and providing better enforcement, would increase legal certainty, and thereby encourage investors to invest in the PA."

120 This registry is based on a census taken by Israel immediately after seizing the Territories in 1967.

visas.<sup>121</sup> In May, the GOI facilitated a number of visas for important visitors to the Palestinian Investment Conference held in Bethlehem. In addition, the Israeli Ministry of Foreign Affairs has established a committee to review applications and grant visas to large scale investors. However, this is widely regarded as an exception, with no observable changes in Israeli policy. Furthermore, the Israeli authorities continue to limit family reunifications that allow Palestinians to unite with their families in the Territories. The uncertainty in the security of residency and land tenure is often cited by Palestinians as a major reason for the lack of investment. In December 2006, the Civil Administration outlined new procedures for entry into the West Bank and Gaza. In March 2007 a similar statement was issued by the Israeli Ministry of Foreign Affairs. However, these two notices address only the issue of temporary admissions.<sup>122, 123</sup>

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121 A person who is not registered in the population registry can acquire status via an application for family reunification which can be submitted by a first degree relative who is a resident of the Territories, which effectively refers to foreign spouses of a resident of the territories. Children under 16, on of whose parents is a resident may also be registered in the Palestinian population registry. The Oslo Accords granted the PA the authority to administer applications from residents and children under the age of 16 in the population registry. However, approval of family unification applications and issuance of visitor permits for foreigners remained under the control of Israel. Moreover, approval of children under the age of 16 in the population registry requires that one of the parents be resident in the Territories, and that the child be present, at the time of registration. However, Israel requires children over the age of five who are not in the registry to have a visit permit, thus controlling applications. After the Second Intifadah, Israel froze processing of visitor permits and family reunification applications. As of late 2007, Israel has approved 12,000 family reunification applications. Also, Israel has been providing entry permits to children fairly regularly since November 2006 (Hamoked, Center for the Defense of the Individual, Residency in the Occupied Palestinian Territories).

122 Campaign for the Right of Entry/Re-Entry to the Occupied Palestinian Territory.

123 The June 2007 update of the Campaign for the Right to Enter the oPt notes that in June 2007, a random sample of visa renewal applications submitted to the Israeli authorities by the Palestinians Authority indicates that approximately 30% of the applicants are being denied their request for visa extensions. The Campaign also noted that Israel's continued refusal to lawfully process family reunification applications affects as many as 500,000 to 750,000 people who may be forced to leave the oPt to keep their families united.