

## **An Interim Assessment of Passages and Trade Facilitation February 2006**

### **Background**

1. It has been widely acknowledged that the future economic viability of the Palestinian economy depends on the creation of a trade logistics system which permits the safe, reliable and competitively-priced movement of people and cargo. This system has been described, at length, in a number of World Bank reports beginning with the December 2004 report to the AHLC, “Stagnation or Revival? Israeli Disengagement and Palestinian Economic Prospects” which was broadly endorsed by the international community, the Palestinian Authority (PA) and Government of Israel (GoI) at a meeting in Oslo in December 2004. This and subsequent reports are available on the World Bank’s website for the West Bank and Gaza ([www.worldbank.org/we](http://www.worldbank.org/we)).
2. The creation of a functional trade logistics system for the West Bank and Gaza requires addressing four inter-related types of movement:
  - Movement across the Gaza/West Bank-Israel borders, either to Israel or through Israel to third countries via Israeli sea and air ports.
  - Internal movement within Gaza and within the West Bank.
  - Movement between Gaza and the West Bank.
  - Direct access to third countries, via land borders (to Egypt and Jordan), by sea and by air.
3. Throughout 2005, the two governments, with technical support from the international donor community, sought to replace the current system---which is unilaterally managed, grounded in security considerations and based on the inefficient “back to back” system of cargo handling--with one that is cooperatively managed and ensures a proper balance between Israel’s legitimate security requirements and Palestinian economic needs. The various Bank papers written on border management over the past 15 months stress that there is no basic contradiction between these two objectives: **a judicious mixture of modern management and the use of new scanning technology will make it possible to create a regime that provides both high levels of security and commercial efficiency, and thereby is of benefit to all parties.** Elements of such a regime were incorporated in the *Agreement on Movement and Access* brokered by the US Secretary of State in November 2005. However, as of the writing of this update, very little has been implemented **and the system that exists today is virtually unchanged from that which existed in December 2004.**
4. This note summarizes the status of the movement of people and goods, with a particular emphasis on Gaza. This is a summary note; a more detailed analysis will be provided in the context of the Bank’s update of “The Palestinian Economy and the Prospects for its Recovery” expected in April 2006.

## Movement of Goods and People in Gaza

5. The Karni crossing, the only existing crossing for the export and import of goods serving Gaza's 1.4 million people, has evolved through a turbulent period in bilateral relations from a gated gap in the Gaza perimeter to today's complex, haphazard and inefficient facility. Physically and procedurally, Karni is a culmination of *ad hoc* responses to specific incidents, terrorist attacks, and policy shifts.<sup>1</sup> As the Bank has expressed in earlier reports, remedying today's dysfunctional arrangements requires a thorough procedural and physical reform.
- Karni represents a serious physical barrier to Palestinian trade, embodying a design that introduces unnecessary delays, inflicts damage on goods, and severely limits the throughput of cargo<sup>2</sup>.
  - It acts as a significant non-tariff barrier to trade, as a result of controls and processes which (a) make it difficult for Palestinian exporters and importers to avoid using Israeli middlemen and traders<sup>3</sup>, (b) discriminate against goods entering from the West Bank and exiting Gaza<sup>4</sup>, and (c) oblige Palestinian importers and producers to pay Israeli truckers to sit idle for long periods at the crossing.
  - According to reports from shippers and producers, it acts as a magnet for corruption on both sides of the border as a consequence of the lack of clear and predictable procedures. This outcome can be expected in any situation in which the volume of trade is heavily controlled, procedures are altered with little or no notice, and an advantageous position in the truck queue is valuable in terms of avoiding losses due to delayed handling and damage.
  - It uses a "one size fits all" approach to inspection. This is incompatible with both modern security procedures and efficient cargo management.
6. The problems at Karni are related first and foremost to management and process. USAID has recently procured for the Government of Israel several millions of dollars worth of new scanner technology and supporting infrastructure which is being installed on the Israeli side of the wall. However, despite this newest technology, the design and flow, as currently configured, is based on maintaining the back-to-back system and may, in fact, require *an additional layer* of handling through the new scanners after passing through the first offloading into the current scanners and inspection cells.<sup>5</sup> GoI plans for new crossings on the West Bank (such as the one at Tulkarm/Shair Efraim) appear to reinforce the back-to-back system despite evidence that,

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<sup>1</sup> Recently, press reports have suggested that GoI is considering making Karni an "international crossing" which would mean an abrogation of the existing quasi-customs union put in place under the Paris Protocol.

<sup>2</sup> Everything is offloaded and passed through an opening in the border wall, or placed on the ground in clearing cells at the wall before being reloaded onto trucks on the other side of the wall. Moreover, all goods are handled in close proximity and without separation by cargo type--meaning that dirty cargoes (gravel and live animals, for example) are handled where they can contaminate agricultural and consumer goods.

<sup>3</sup> Many Palestinian producers have no dependable means of ensuring onward transport of goods once they cross into Israel, or of imported goods before they reach Gaza. To ensure market access, Palestinian producers and importers are thus heavily reliant on Israeli middlemen to clear landed goods and to ensure that exports leave Israel to third country markets.

<sup>4</sup> Goods exiting West Bank and headed to Gaza have already undergone a back-to-back procedure when leaving the West Bank and entering Israel. There does not appear to be a security-related reason to hold these cargoes at Karni before they enter Gaza as the trucks, drivers and cargoes have been free to move about inside Israel. Products loaded in Israel do not undergo a security inspection prior to reaching Karni, but are given preference on arrival there.

<sup>5</sup> The new system is not yet functional so operations could not be evaluated by the Bank.

from a commercial perspective, this system as currently implemented constitutes a virtually insuperable impediment to competitive cargo movement. As the Bank and others have argued on many occasions, the purchase of additional scanners and other equipment will not remedy the current situation unless they are deployed within a fully-managed system<sup>6</sup>. There is no evidence that such a system is being developed; rather there appears to be continued resistance to the publication of service standards, procedures and fees and limited progress in terms of developing clear operating procedures which are shared between cooperating parties on both sides of the border.

7. The PA has compounded these problems by being slow in establishing its own unified border services agency. Such an organization is necessary in order to ensure efficient and secure border management and would significantly bolster the PA's ability to assume responsibility for the management of a port, airport and land borders with third countries. These benefits would result from having a single national entity responsible for the delivery of integrated services including the uniform application of laws and regulations, and maintaining key relationships with the private sector, Israeli customs and border security, and with foreign border services agencies.
8. Despite extending operating hours and a commitment in the *Agreement on Movement and Access* to raise productivity at Karni to 150 trucks a day by December 31, 2005, the Karni operation remains mired in the same processes and problems described above. Data provided by Paltrade, a Palestinian private sector organization which has monitored the flow of trucks across Karni since June 2005, suggests that there has been **no sustained improvement** in the movement of goods across Karni before or after the disengagement. According to Paltrade and the Office of the Quartet Special Envoy, **in the six months preceding disengagement, an average of 43 trucks per day crossed out of Gaza, followed by 18 trucks a day in September and October 2005. From November 2005 to mid-February, the daily average flow again reached only 43 a day.**<sup>7</sup>
9. While there were certain weeks when the truck flow was in excess of 60 a day (still well below capacity according to World Bank calculations), the Karni crossing was completely closed from January 15 to February 5<sup>8</sup>. Given the high demand during this period for agricultural exports, the losses to the Palestinian economy have been substantial. Estimates by USAID contractors for the week of January 23-29 alone was some US\$4.1 million for agricultural goods. Estimates by Paltrade were that losses to Palestinian exporters were some US\$10.1 million from January 15-February 3. Losses to the Israeli economy for food and other imports destined for Gaza, as well as for Israeli fashion and textile producers who use Gaza workshops for piece work and product finishing, will also have been substantial although estimates have not been made. Moreover, such wide disparity in daily truck flow numbers demonstrate that movement remains extraordinarily **unreliable and unpredictable** – and therefore a strong disincentive in

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<sup>6</sup> The shortcomings of modern equipment operating in a procedural vacuum are demonstrated by the failure of the truck scanner introduced at Karni in the first half of 2005 to improve the flow of cargo. The scanner, financed by the PA, was installed on the Israeli side of Karni. Rather than using it to accelerate the secure clearance of goods, it has been used to inspect empty containers exiting Gaza ---a process which could be done more quickly using less costly methods (i.e. laser technology).

<sup>7</sup> This includes data collected through 17 February.

<sup>8</sup> GoI closed the crossing in response to what it said was evidence of a tunnel. In response, the PA undertook digging operations but the nature of this threat was not resolved. The crossing was subsequently reopened after twenty days, but operations have been hampered by the damage to the area caused by the search for the tunnel.

terms of attracting and promoting private sector investment in Gaza. As of the writing of this note, Karni has once again been closed (as of February 23).<sup>9</sup>

10. The Palestinian controlled Rafah terminal could offer an alternative to Karni for some direct exports to third countries (i.e. without the need to go through Israel) and the *Agreement on Movement and Access* allows exports to leave Rafah. A number of Palestinian exporters have sought to move goods through the Rafah terminal. In practice, however, this has not been possible. Anecdotal evidence suggests that efforts have been made to prohibit empty Egyptian trucks from entering the Rafah terminal in order to take products out, while GoI would prohibit any Palestinian truck leaving Rafah in order to take products across into Egypt (even if traveling only to the Egyptian side of the border to transfer goods to an Egyptian truck) from reentering Gaza. As Rafah is currently the only border terminal controlled by the PA, however, it is worth exploring the development of new supply chains that would take Palestinian goods to third country markets by transiting through Egyptian ports.
11. In terms of the movement of people, there have been significant improvements for Palestinian travelers entering and exiting Gaza to Egypt. According to data provided by the Office of the Quartet Special Envoy, travelers through the Rafah crossing have increased from a daily average of some 580 for the period January-June 2005 during which Rafah was under Israeli jurisdiction, to a daily average of about 1360 in the period November 2005-February 2006 when Rafah was transferred to the Palestinian Authority with oversight by EU monitors (EU BAM). According to the EU BAM, the 100,000<sup>th</sup> traveler to cross through Rafah under these new arrangements was recorded on February 7, 2005. It appears that Rafah operations are fully meeting passenger demand.
12. At the same, there has been relatively little change in the daily flow of workers and businessmen through the crossing at Erez into Israel. Since November, the average number of workers and businessmen entering Israel through Erez has averaged 1284 a day, compared to 1841 a day in the January-June 2005 period.<sup>10</sup> While for most periods, the daily flows were nearly the same as the immediate pre-disengagement (approximately 1925 daily), Erez also suffered from periods of complete closure such as during the last week of December and most of January. The number of workers remain far lower than the amount committed to by GoI in February 2005 when indications were that 15,000 permits would be available in order to provide short-term stability to the Palestinian economy.<sup>11</sup>

## Connecting Gaza and the West Bank

13. The economic and social connections between Gaza and the West Bank have been largely severed since the beginning of the *intifada*; apart from permits given to a limited number of businessmen and high level officials, very few West Bank residents are able to visit Gaza and vice-versa. Cargoes transiting between one part of WBG and the other are subject to two back-

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<sup>9</sup> GoI claims that there were tremors which might have been related to tunnel activity. The Palestinian side of the terminal says that there is no evidence of this and that they had already undertaken digging at the terminal at the request of GoI during the January/February closure. GoI has offered the possibility of moving goods through Kerem Shalom at the southern end of Gaza. The PA has refused on the basis that the closing of Karni is unwarranted and against the provisions in the *Agreement on Movement and Access*.

<sup>10</sup> Data provided by the Office of the Quartet Special Envoy.

<sup>11</sup> In discussions with the Bank in late 2004, GoI indicated that in the near-term Israel would issue 15,000 permits to Gazans and 20,000 to West Bankers. This understanding was reconfirmed to the Bank in February 2005 (see "The Palestinian Economy and the Prospects for its Recovery", December 2005).

to-back procedures and long delays, particularly when entering Gaza, rendering Palestinian products non-competitive compared to imports from Israel. Moreover, in periods when Israel closes access to and from Gaza as they have at present, the absence of a permanent link between Gaza and the West Bank means that producers cannot even sell goods into the whole domestic Palestinian market.<sup>12</sup> As a result, merchandise flows between the two Palestinian territories are minimal. In December 2004, the Bank pointed out that “an unfettered flow of people and goods between Gaza and the West Bank is needed to link the two territorial elements of the Palestinian economy, and to lay the basis for viable statehood. A functioning link would create a larger effective internal market, help trigger price and income convergence between Gaza and the West Bank and provide a pathway from the economy of the West Bank to a future seaport in Gaza.” *The Agreement on Movement and Access* promoted this view with a commitment to begin bus convoys between the two territories for passengers by December 15 and truck convoys for goods by January 15. Both deadlines have passed, however, without these commitments being met.

14. In terms of a permanent link, Bank staff prepared a brief note on the issue in a June 19 paper entitled “*The Gaza/West Bank Link—Rail vs. Road*”. With USAID, the Bank is sponsoring a feasibility study of various options, including sunken road and rail options, for establishing a secure, economically viable, permanent link between the two Palestinian territories. Results from this study are expected in April 2006.

### **Internal Closure**

15. Israel’s disengagement has left Gaza free from internal closure, greatly improving the situation that prevailed during the *intifada*. The same, however, has not happened in the West Bank. The future status of the system of checkpoints and roadblocks in the West Bank remains unclear<sup>13</sup>. The United Nations Office for the Coordination of Humanitarian Affairs (OCHA) regularly monitors and reports on the status of these obstacles. According to OCHA, the number of fixed obstacles had been reduced from 680 in November 2004 to some 396 in November 2005. However, this number has increased by nearly 100 to 484 as of February 2006. Moreover, the number of *manned checkpoints*, which constitute the most serious form of physical impediment to economic activity, has remained relatively constant -- 62 in November 2004, 52 in August 2005, 55 in November 2005 and 58 at present.

*This is a summary note. A fuller assessment will be included in the World Bank’s Economic Monitoring Report to the Ad Hoc Liaison Committee which is being prepared in April 2006.*

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<sup>12</sup> For example, because of the closure of Karni for much of January and February, the Gazan market is flooded with produce which was destined for Israel and third country markets beyond. This produce could be sold profitably into the West Bank market if there was a means for it to reach the West Bank such as through the use of truck convoys.

<sup>13</sup> On the eve of the *intifada*, there were approximately one dozen checkpoints in the West Bank (most of them around Jerusalem); by 2003, the number of obstacles of all kinds exceeded 700. This resulted in the severe fragmentation of the West Bank. These obstacles also block access to many of the main roads in the West Bank, which are now partially or wholly restricted for use by Israelis (the military and settlers). The Bank is currently finalizing a report on the settlements and movement in the West Bank which will analyze this situation further.