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ECONOMIC AND SOCIAL COUNCIL
Second regular session of 1989
PERMANENT SOVEREIGNTY OVER NATIONAL RESOURCES IN THE OCCUPIED PALESTINIAN AND OTHER ARAB TERRITORIES

Israeli trade practices in the occupied Palestinian territories

Report of the Secretary-General

1. On the basis of a note by the Secretary-General (A/43/432-E/1988/68) concerning progress in the implementation of General Assembly decision 40/432 of 17 December 1985 and Economic and Social Council resolution 1987/87 of 8 July 1987, the Council, by its resolution 1988/65 of 28 July 1988, requested the Secretary-General to speed up the preparation of the required report on the trade practices of the Israeli occupation authorities in the occupied Palestinian territories and on the financial and trade practices of the Israeli occupation authorities in the occupied Syrian Arab Golan and to report to the General Assembly at its forty-fourth session, through the Economic and Social Council, on the implementation of the resolution.

2. As part of its 1988 work programme, the United Nations Conference on Trade and Development (UNCTAD) carried out an in-depth study covering the Palestinian external trade sector under Israeli occupation. The study examined the role of trade and services in promoting Palestinian economic development, the performance of the external trade sector, major factors affecting the external trade of the territories, including policies, practices and structural limitations, the potentials for expansion and diversification of external trade in the territories, and the requisite policies and measures for the long-term development of the Palestinian external trade sector. The main findings and recommendations of the study on the external trade of the occupied Palestinian territories (UNCTAD/ST/SEU/7), which were submitted to the Trade and Development Board at the first part of its thirty-fifth session in September 1988 (TD/B/1183 and Corr.1), are circulated as an annex to the present document.

* A/44/50/Rev.1.

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ANNEX

The external trade of the occupied Palestinian territories*

I. THE ROLE OF TRADE IN THE PALESTINIAN ECONOMY

A. Trade performance

1. Trade has played an important role in the economy of the West Bank and the Gaza Strip before and since the Israeli occupation. Exports and imports constituted around 50 per cent of the gross national product (GNP) in 1965/1966, rising to 77 per cent in 1975 and declining to 62 per cent in 1986. In terms of gross domestic product (GDP), the share of trade increased from 54 per cent in 1965/1966 to 105 per cent in 1975, declining to 81 per cent in 1986 with imports rapidly increasing to a share of almost two thirds of total foreign trade. This very high degree of "openness" has rendered the economy of the occupied territories vulnerable to external economic and political forces. The lack of a central authority and the inability to negotiate and benefit from international agreements on trade and finance have further added to the vulnerability of the territories' trade. Its potential for contributing to the domestic economy has been contained by a variety of constraints mostly imposed under occupation. The relative "freedom of choice" in trade which the territories enjoyed was shattered as a result of the occupation since 1967. Consequently, the net result has been the emergence of patterns and terms of trade which are markedly unfavourable to the territories.

2. Since 1967, the occupied territories have been drawn progressively into a close trading relationship with Israel. The closure of traditional trading outlets made the territories almost totally dependent on Israel for both exports and imports. From a position of no trade with Israel until 1967, 46 per cent of Palestinian exports were destined for Israel and 84 per cent of imports originated in Israel (both in value terms) in 1970, giving rise to a deficit of $54 million. a/ By 1986, 73 per cent of the territories' exports went to Israel. Israel's share of Palestinian imports, on the other hand, showed a slow increase, standing at 90 per cent in 1986. In absolute terms, however, the growth of imports from Israel over the occupation period was more than nine-and-a-half fold between 1970 and 1986, reaching almost $800 million by 1986. Accordingly, the territories' merchandise trade deficit with Israel surged throughout the two decades of occupation to stand at $523 million in 1986. If the deficit with other countries is added to this, the merchandise trade deficit of the territories with and through Israel (i.e., not including Jordan) stood at more than $600 million in 1986, or 40 per cent of GDP and 30 per cent of GNP in that year. This deficit was covered by factor income derived from the export of labour to Israel and partly by the surplus (of some $90 million in 1986) maintained in merchandise trade with Jordan,

* Previously issued under the symbol TD/13/1183 and Corr.1, part II, paras. 55-116.

as well as transfers from the rest of the world. By contrast, the Israeli policy of benefiting from low-wage Palestinian labour has both enabled it to control production costs and create a market for its own subsidized products in the territories. This has led to greater labour export dependency on Israel and, consequently, to lower domestic production and merchandise export capacity in the territories.

B. Trade composition

3. While agriculture remains the backbone of the territories' economy, the value of its exports declined from $107 million in 1977 to $75 million in 1986. The share of agricultural produce in total exports has fallen from 42 per cent in 1977 to 19 per cent in 1986. This fall in the export capacity of the largest sector of the economy has serious implications for the future role of trade in growth and development of the Palestinian economy.

4. The market distribution of agricultural exports indicates the historical role played by Jordan and other Arab countries in the absorption of Palestinian merchandise exports. Since 1980, and annual average of 54 per cent of agricultural exports went to and through Jordan to other Arab markets. However, the value of agricultural exports to and through Jordan has followed a declining trend since 1977, reflecting a fall both in quantities and prices. Much of this may be attributed to the general economic recession in the region, policies aimed at supporting domestic agricultural sectors in Arab countries and the entry of new competitors in the traditional markets of Palestinian exports. In the 1980s, Israel imported an annual average of 44 per cent ($36 million) of Palestinian agricultural exports.

5. Agricultural imports increased from $89 million in 1977 to $130 million in 1986. In itself, this is not necessarily an unexpected phenomenon, considering that the territories have not been self-sufficient in a number of items, especially staples. The growth in food imports has been so high that the surplus in agricultural trade enjoyed by the territories until 1982 has turned into a large and growing deficit, equivalent to $55 million in 1986. Almost all food imports come from Israel; they are unrestricted and are directly competitive with domestic output.

6. Meanwhile, despite this growth in imports, surpluses of some types of domestic agricultural produce have accumulated without adequate markets to absorb them. Owing to the lack of overall guidance and market orientation, farmers have tended to emulate each other in the selection and production of crops, especially the traditional ones. They have achieved increases in productivity in certain crops, but the size of both domestic and external markets for the territories' produce has not shown a corresponding increase. Constraints imposed on agricultural marketing have prevented Palestinian agriculture from balancing and rationalizing output between domestic and external demand, while at the same time striving towards the achievement of a greater degree of self-sufficiency in certain foods.

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7. With regard to industry, the situation does not appear more promising. Industrial products constitute the bulk of the territories' exports. While industrial exports have significantly grown over the last decade, most of the increase has been directed towards Israel, which accounted for more than 80 per cent of total industrial exports in 1986. Much of this constitutes manufactured goods traded under sub-contracting arrangements for semi-finished goods between Israeli firms and Palestinian producers. The balance of total industrial exports is composed of traditional output (olive oil, other vegetable oil, dairy products, soap and construction materials), which has continued to be absorbed through Jordan.

8. It may be inferred that Palestinian industrial trade is highly dependent on a single market involving specific production processes, the scale of which greatly overshadows the production and performance of the indigenous industrial sector. The industrial export sector of the territories has been effectively turned into an external enclave of the Israeli industrial sector, performing low-wage labour-intensive tasks that require fewer technical and managerial skills. This allows Israeli industries to concentrate increasingly on the development of new technology-oriented, capital-intensive activities that provide for higher value-added industrial processes in which Israel can realize significant foreign exchange gains. The arrangement provides limited, if any, gains to the economy of the territories and inhibits the development of complementarities, linkages and integration within the Palestinian industrial sector.

9. Israel has provided close to 90 per cent of Palestinian industrial imports, during most of the occupation period, with a rapidly rising value reaching $665 million in 1986. A significant portion of this is constituted by semi-finished goods destined for processing in the territories and re-export to Israel, as mentioned above. The balance includes a range of consumer goods, some of which compete with local Palestinian output. Close to 10 per cent of the territories' industrial imports originate in other countries and enter via Israeli ports. The value of industrial imports from abroad has risen from $40 million in 1977 to $81 million in 1986. Around 1 per cent or about $11 million of the total industrial imports of the territories originated in/through Jordan in 1986. These include edible oil, dairy products, paper, textiles and metals intended for processing and re-export.

II. FACTORS AFFECTING THE DEVELOPMENT OF PALESTINIAN EXTERNAL TRADE

A. Israeli policies and practices

10. The poor trade performance of the two most important economic sectors briefly examined above is attributed to a wide range of factors largely reflecting the severe constraints imposed under conditions of occupation. The policy measures and practices of Israeli authorities have had a dampening effect on the economy of the territories, including the dynamics of its trade sector.

1. Production constraints

11. More than 52 per cent of the total area of the occupied territories has been gradually brought under direct Israeli control. This has sharply reduced the area devoted to rain-fed and cereal cultivation and production after 1967. The inevitable decrease in rain-fed agriculture was mainly manifested in the fall in cereal production. While the irrigated area and its productivity increased through improved inputs and techniques, aggregate production has remained fairly constant over the past decade. This has been an important impediment to expanding agricultural trade.

12. Two important bottle-necks that have impeded expansion and intensification of irrigated areas are water and capital. Out of total annual supplies of 800 million cubic metres, the Palestinian inhabitants are allowed the use of only 110 million cubic metres, despite the rapid growth of population, with the balance available for use by Israel and its settlements in the territories. The Palestinian inhabitants are not permitted to exploit their water resources for the development of their economy. Deep wells are only bored for the benefit of Israeli settlers, thus causing the drying-up of shallow tube-wells in nearby Palestinian villages. On the other hand, the high cost of fresh water has forced farmers to mix brackish water with fresh water from springs that were already in use before 1967. This has also led to the cultivation of certain crops at the expense of others.

13. One of the most notable Israeli practices adversely affecting Palestinian industrial structure and output deals with sub-contracting arrangements in the occupied territories. This practice has turned much of the industrial base of the territories into a de facto "free zone" operating exclusively for the benefit of Israeli producers. The non-existence of a central authority, trade unions and other bodies capable of defending the interest of Palestinian producers and workers has added to the range of anomalies under which the Palestinian economy struggles.

14. Another important factor that has adversely affected the economy of the occupied territories and helped create a captive market for Israeli output is the growing number of unemployed and underemployed Palestinians who have been obliged to take up low-paid jobs in Israel. With the domination by Israel of Palestinian agriculture and industry, the engagement of close to 40 per cent of the Palestinian labour force in Israel has strengthened Israeli control over the trade of the territories and added to the vulnerability of their economy.

2. Financial constraints

15. Scarcity of equity and working capital has been another limiting factor for agriculture, industry and international trade. There are no specialized financial institutions geared to meet the financial needs of agriculture and industry. Inflation and the uncertainty of the investment climate have further complicated the problem for entrepreneurs. In the area of trade, the role of the branches of Israeli banks, operating in the territories as the only financial institutions until 1986, has remained insignificant particularly with regard to export-import needs.

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16. The use of over-draft facilities from the branches of Israeli commercial banks in the territories is hampered by constraints arising from both Government regulations and banking practices. In addition, poor banking services and delays in processing customs formalities have increased the cost of imports and exports to Palestinian merchants. No monetary and fiscal incentives are applied in order to reduce the cost of exports which might add to the competitiveness of the territories' outputs and increase gains in international trade. Additional obstacles have been imposed in the wake of the recent uprising in the territories, which specifically affect the financing of foreign trade, including the severe restriction of funds brought into the territories.

3. Marketing constraints

17. Israeli agricultural and industrial products are assured complete protection in the occupied territories' markets. No tariffs and/or non-tariff regulations are applied to the entry of Israeli goods into the territories. There is no limitation on the amount and type of Israeli goods entering the occupied territories, except those with high technology contents and military goods. Many of the agricultural and industrial goods involved are subsidized at the production level. In a captive market where the Israeli producers benefit from a unilaterally imposed division of labour, the gains from these subsidies accrue totally to Israeli producers and traders.

18. The production and marketing of Palestinian agricultural and industrial goods are subject to strict regulations, ranging from licences to quotas and numerous administrative restrictions. The entry of Palestinian agricultural output into Israel and occupied East Jerusalem is subject to numerous restrictions. High fines are imposed on the territories' farmers who are seeking to find an outlet for their goods in East Jerusalem and in Israel. Palestinian exports to Israel are subjected to quotas, both by type and amount, covering items that complement Israeli local production or that are either more expensive to produce locally in Israel or to import from elsewhere. The territories' comparative advantage in both traditional and new lines of production is used to serve the interest of the Israeli economy.

19. Direct commercial contacts between the territories and the rest of the world, other than with Jordan and other Arab States, are maintained largely through Israeli commercial agents. Palestinians are not allowed to export or import goods directly to and from outside markets using Israeli ports. Gaza Strip producers alone have been allowed to export citrus fruit direct to Eastern Europe through the Israeli port of Ashdod. Difficult barter trade conditions and inadequate transit handling have caused this export to fall from 20 to 25 per cent of citrus production in the 1960s to less than 10 per cent of the much lower production levels of 1987. While the restriction on direct trade with the rest of the world may have put the experience of Israeli agents at the disposal of Palestinian exporters/importers, the cost-benefit aspect of such a policy and its consequences for the Palestinian economy deserve careful examination. This constraint has prevented the Palestinian entrepreneur from coming into direct contact with external markets, learning the dynamics of supply and demand in these markets, searching for new outlets and concentrating on ways and means of reducing cost and

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maximizing gains in trade with the rest of the world. In certain markets, such as those in the European Economic Community (EEC) and in North America, products obtained from Palestinian producers in the occupied territories and from Israeli settlements in these territories have been marketed as Israeli produce carrying Israeli brand names. The Commission of the European Communities is reported to have asserted that this practice is not only in violation of international law but also an abuse of the preferential treatment extended to Israeli products. b/

20. Domestic trade of the territories is equally controlled by Israeli producers and traders. The flow of farm products between the West Bank and the Gaza Strip and within the territories themselves is subject to permits from relevant Israeli authorities in the district of origin. The permits specify the kind of produce, quantity, date of entry and route of the vehicles involved. On the other hand, free and unlimited entry of subsidized Israeli goods, together with forceful marketing campaigns, has confronted local producers with stiff competition. The lack of institutional arrangements, such as marketing centres and research facilities for improving and maintaining quality and reducing costs, poor transport facilities and numerous administrative obstacles dealing with permits, paper work and payment of various levies have all rendered domestic trade costly and less attractive.

4. Infrastructural constraints

21. The loss in quality and markets has adversely affected the incentive to invest in physical infrastructures such as storage, cold stores, packing and grading stations, containers and other prerequisites that are an absolute necessity for modern export marketing. This has had a particularly damaging effect on the bulk of agricultural output that goes to Jordan and beyond to the Arab hinterland. Despite the Israeli "open bridges" policy, trade with Jordan experiences numerous obstacles. The transport facilities are inadequate and cumbersome for the shipment of products to Jordan. The open trucks do not provide for sufficient protection of perishable goods and are few in number. They have to return empty within a short period and are held up for a considerable time for security checks. Unpredictable security measures and import restrictions, as well as Israeli customs formalities at the bridges, have frustrated Palestinian traders. The risks of loss from delays in preparing shipments to Jordan and during the crossing of bridges are high.

22. In view of poor transport facilities, Palestinian agricultural produce continues to experience problems with packaging, which is done with the use of inadequate wooden boxes. This is required in order to comply with the League of Arab States boycott provisions, which prohibit the entry into Arab markets of materials produced in or imported through Israel. Every effort is needed to increase production of packaging materials and to arrange for the grading and packing of the produce to take place in the territories themselves. The only existing cardboard plant in the West Bank could be supported by increasing its capacity and facilitating the importation of the required raw materials.

23. One of the most important gaps in the institutional prerequisites for the promotion of the territories' trade is the lack of a marketing facility. The

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existing institutions, including co-operatives and their unions, chambers of commerce and individual exporters, are not adequately equipped with the technical expertise needed for the type of activities required to develop and implement appropriate export promotion programmes. It is also equally important to expand domestic markets in the territories. There are no indigenous facilities created to achieve this crucial objective. This need, was addressed by resolution 169 (VII) of the United Nations Conference on Trade and Development (UNCTAD). g/

B. Trade with Arab countries

24. After 1948, the West Bank was cut off from its traditional trading routes to the Mediterranean and European countries. New routes had to be established through the Jordanian port of Aqaba. West Bank exports benefited from the liberal foreign trade and exchange systems of Jordan and its industries were accorded protection against unfair competition. Jordan maintained its trade relations with the West Bank after 1967. Trade relations with the Gaza Strip were also initiated. Israeli restrictions on imports to these territories meant that trade with Jordan became virtually a one-way flow from the territories to and through Jordan, resulting in surpluses that paid for the territories' growing deficit with Israel.

25. Since the 1970s, however, the export position of the territories with Jordan and other Arab countries has gradually deteriorated, resulting in unmarketable surpluses of agricultural output, which in turn acted as effective disincentives to Palestinian growers. Much of the reason for this development lies in fall of demand in traditional export destinations and in the Israeli policies and practices enumerated above which have prevented growers from maintaining their competitiveness, as well as in the continued occupation of the territories and the uncertainties this carries for the future.

26. Trade with most of the traditional markets of the territories (namely, the Islamic Republic of Iran, Iraq, Lebanon, Saudi Arabia, the Syrian Arab Republic and the Arab countries of the Gulf) has decreased considerably over time. This leaves Jordan as the most important external market for the agricultural output of the territories. This development comes at a time when Jordan itself is confronted with growing preoccupations concerning the marketing of its own agricultural output. In addition, the application of League of Arab States regulations, which boycott goods produced in or imported through Israel, have had the effect of restricting Palestinian industrial exports to Jordan. In compliance with these same boycott regulations, the agricultural exports of the occupied territories to and through Jordan are considered as being of Arab origin and thus exempt from boycott. While this has facilitated the exports of the territories to Jordan and other Arab countries in the region, the repacking and handling charges in Jordan are likely to increase the final price vis-à-vis similar products in Jordan. This is in addition to the cost of transportation from the territories to Amman and various levies and charges imposed by the Israeli authorities.

27. These developments have prompted the Jordanian authorities to examine periodically the policies vis-à-vis the agricultural and industrial sectors of the occupied territories. The goals of these exercises have been: to continue to

provide an outlet for the agricultural and industrial output of the territories aimed at ensuring their markets in Jordan and the Arab countries and strengthening the capabilities of the Palestinian people to cope with discriminating policies and practices of occupation; to abide by the boycott regulations of the League of Arab States; and to protect domestic Jordanian production sectors from unregulated competition.

28. In line with the objectives enumerated above, Jordan has regulated domestic crop production, accompanied by import quotas geared to West Bank agricultural produce. Entry to Jordan is permitted for up to 50 per cent of West Bank agricultural output (depending on the products concerned) and up to 65 per cent of industrial output for firms established prior to 1967 and importing their raw materials via Jordan. A number of items imported to Jordan (olive oil, stones, soap, handicrafts) were exempted from these requirements. Some firms established after 1967 were subsequently allowed to register in Jordan in order to be entitled to the exemptions. Jordan has also relaxed requirements applicable to some items with respect to the importation of industrial raw materials and equipment through Jordan as a pre-condition for exemption from boycott provisions. The effective implementation of these favourable decisions, however, calls for co-ordination in production and marketing and for improvement in formalities and transport facilities affecting the export of the territories to and through Jordan. The building up of the appropriate organizational infrastructure to deal adequately with this crucial task is an absolute necessity. Similarly, it signals the need for increasing the active role of Palestinian institutions in promoting the production and exports of these territories.

III. EXTERNAL TRADE POLICIES

A. Trade and overall economic development goals

29. It is necessary to underline, at the outset, that any attempt at improving the performance of the external trade sector must emanate from an overall strategy that is aimed at accelerating the growth of the domestic economy at a rate faster than natural increases in population. At the sectoral level, such a strategy would have to concentrate on increasing overall productivity in agriculture and industry, with sufficient employment opportunities to absorb the growing labour force, and expand the output of essential goods by promoting import substitution industries based on local raw materials and by expanding and diversifying exports. While import rationalization measures deserve careful examination in this regard, feasible export promotion and diversification policies should receive priority attention.

30. Over the past 21 years of occupation, the economy of the territories has performed without a strategy, governed by *ad hoc* impulses that were often alien to its own interests. More than at any other time, the territories need to be provided with appropriate indigenous institutions to establish an economic identity of the territories themselves, reflecting their needs and providing prospects for their future development. Short of a comprehensive development strategy, immediate efforts need to concentrate on certain policy measures primarily aimed at increasing employment opportunities in order to provide jobs for that part of the

Palestinian labour force which functions under precarious circumstances outside the national economy. It is necessary to initiate the basis for establishing a productive and viable indigenous Palestinian economy. This necessitates a restructuring of the economy with the orientation of production for the domestic market and for exports by developing complementarities with Arab economies and exploiting opportunities in other markets. In the absence of an indigenous central authority, the role of entrepreneurs and local institutions is now becoming crucial in the process.

31. The areas to be considered at first should be those in which the territories demonstrated a comparative advantage in both agriculture and industry. Emphasis could be placed on the improvement of productivity, quality and diversification of agricultural output and the development through small-scale, employment-generating projects. The abundance of low-wage labour and the existence of a pool of skilled and technically proficient manpower enhance the potential role that the private sector will be expected to play in this connection. Given the similarities that exist, especially between the territories and Jordan in the availability of raw materials and other factors of production in both agriculture and industry, and bearing in mind the limited size of their markets, efforts need to aim at achieving a degree of economic complementarity between the territories, Jordan and other Arab countries.

32. Understandably, the realization of much of the restructuring required to set the economy on a path for sustained growth and development and provide a sound basis for external trade of the territories is a relatively long-term process. Parallel measures are needed on a more urgent basis to revive the economy by providing an impetus for activities that increase output and improve the balance of trade of the territories. Therefore, a two-pronged approach involving both domestic and household economies is needed to achieve this objective. With respect to the latter, the emphasis could be placed on increasing crop and animal production for household consumption, thus reducing dependence on imports. The pioneering work of Palestinian agricultural committees to promote self-reliance, with respect to certain commodities, deserves support. International assistance is needed to provide the basic requisites for developing and sustaining a programme of activities involving the household sector in crop and animal production and processing.

B. Export promotion and trade concessions

33. With respect to the domestic economy, efforts need to be concentrated on increasing and diversifying production and promoting its marketing both domestically and abroad. Immediate attention could be directed to the marketing of the surpluses that accumulate in the agricultural sector by launching a carefully structured export promotion drive not only to increase its share in traditional markets but to also penetrate new ones. The exports of the territories have not increased at a pace that can further stimulate the growth of the productive sectors. The territories' comparative advantage in certain productive sectors has not been exploited, owing to the factors enumerated earlier. This is so despite the fact that Palestinian producers realize the importance of identifying new external markets.

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34. Even where new markets are opened, the territories have not been able to take full advantage of the opportunities offered. A clear example is the trade concession extended by the European Economic Community (EEC) to the occupied Palestinian territories. In a move to enable the territories to benefit directly from trade with EEC, the Council of the European Communities, upon the proposal of the Commission, in October 1986, extended to the territories trade concessions similar to those enjoyed by other countries of the region in their trade with the community. d/ The Community has adopted autonomous tariff arrangements applicable to imports into the Community of products originating in the occupied territories. The Community has accepted chambers of commerce in the occupied territories as authorities qualified for issuing certificates of origin and for ensuring the necessary administrative co-operation. There have been numerous contacts between the Community and the Israeli authorities in order to enable exports to pass through Israeli territory, the most economic export route to Europe. Some trial shipments of manufactured goods from the territories by this route have recently been effected. However, the Israeli authorities have not yet allowed Palestinian agricultural producers direct access to EEC markets. The Community has repeatedly stressed to Israel the importance it attaches to the effective implementation of its trade measures, without any administrative or other obstacles to Palestinian exporters. Israeli authorities have argued that they should be able to co-ordinate Palestinian exports to Europe so as to ensure that their own exports to these markets are not subject to competition from similar Palestinian products. It is only very recently that the Israeli authorities are reported to have agreed, in principle, to the idea of allowing the export of Palestinian agricultural produce direct to Europe through Israel. Palestinian producers are awaiting the implementation of this agreement in the 1988/89 agricultural year and discussions are under way aimed at overcoming existing difficulties with export procedures. e/

35. A similar move of support for the economy of the territories has been recently made at the Ministerial Meeting on the Global System of Trade Preferences among developing countries members of the Group of 77. f/ The resolution adopted at that Meeting calls for granting trade concessions and concrete preferential measures to Palestinian exports on a non-reciprocal basis, pending the elimination of the Israeli occupation. It also calls for treating Palestinian exports and imports through neighbouring ports and points of exit and entry on a transit basis. These concessions can greatly enhance the role of the Palestinian private sector in the expansion of output and promotion of exports, thus strengthening the occupied territories' position in external markets.

36. It is of paramount importance for Palestinian agriculture in the territories to be able to benefit fully from these measures and concessions, not only to find an outlet for surpluses but also to be able to exploit and develop its potential comparative advantages. In the industrial sector, the prospects for expanding exports would initially lie in the standardized goods that require less technical and managerial skills, low-wage labour cost and raw materials that have low opportunity cost. More importantly, certain branches could enter a complete cycle of production, with all phases vertically and horizontally integrated, unlike the present sub-contracting arrangements.

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37. However, many factors that determine the extent of the responsiveness of the private sector to these concessions need to be carefully and adequately dealt with. It is not realistic to expect producers from the territories, irrespective of their dynamism, to benefit through individual initiative from any preferential treatment accorded to them in external markets. Many conditions need to be met, some by the Israeli authorities as the occupying Power, others by the Palestinian people themselves and their local institutions and some by the international community.

C. Prerequisites for successful export promotion

38. An important factor in optimizing the benefits of competitive and concessional trade is the consolidation of the production process by achieving some degree of co-ordination among producers in both agriculture and industry. This is needed in order to avoid over- or under-production of goods, misallocation of resources and damaging competition among producers of rival goods. In view of market limitations, both domestic and external, this issue deserves serious consideration. The role of producers' associations, chambers of commerce and industry and other existing institutional facilities in the occupied territories is crucial in this respect. Such local agricultural and industrial facilities need to embark, *inter alia*, on operationally oriented surveys to determine the nature and size of markets, both local and foreign, for commodities that can be produced in the territories along with production forecasts falling within a medium-term time horizon.

39. In view of keen competition in export markets, improvement in the quality of exportable commodities should remain the foremost preoccupation of Palestinian producers and their various associations in the territories. Given the relatively limited size of the exportable output of the territories compared with that of its competitors, the territories' position in international markets will be determined primarily by the quality and prices of what it can offer. This is very important, as most of the competing countries either enjoy a modern agricultural sector or are modernizing their agriculture. Emphasis on quality and competitive prices will become even more crucial when EEC evolves into a "single market" with the abolition of all internal tariffs and customs duties by 1992. The territories should be able technically to meet expectations in such a competitive environment. Palestinian producers' organizations, universities and research centres could play a significant role by mobilizing resources and co-ordinating efforts on research aimed at improving the quality of agricultural and industrial output. This could be accompanied by strong sales promotion campaigns on behalf of small producers using various channels aimed at increasing the share of markets for the territories' output.

40. The impact of external concessions on the price structures of exportable commodities and on the distribution of gains among the various actors involved in the production and marketing processes equally require careful examination. The present structure and operation of agricultural institutions need to be oriented to the new opportunities in order to encourage a realistic price structure of exportable output, thus providing maximum benefit to the sector/branches

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concerned. Similarly, land tenure arrangements and market relations among producers need careful treatment so as to ensure an equitable distribution of gains among all producers. Special attention should be given to the significant contribution of small land owners, share croppers, and tenant farmers who are in dire need of remaining on the land. The same applies to small producers involved in the industrial sector.

D. The urgency of direct Palestinian marketing arrangments

41. The direct marketing of exportable commodities responds to the urgent need to optimize the gains of external trade and ensure their equitable distribution among the contributors. The past position of the Israeli authorities, whereby part of the territories' output should be marketed by Israeli agencies and the rest sent through "open bridges" to Jordan, places unjustifiable constraints on Palestinian producers. To deny Palestinian producers the right of direct export, while granting this right to Israeli settlers in the territories, is a clear penalization of the Palestinian producers as against Israeli settlers/producers, who furthermore enjoy the benefits of concessions, subsidies and services denied to the indigenous inhabitants of the territories.

42. Israeli policies towards the Palestinian external trade sector have resulted in an important missing link in the institutional infrastructure of the trade sector in the territories. In order to take full advantage of the opportunities that trade offers for the growth and development of the Palestinian economy, independent local facilities ought to be created. The establishment of a Palestinian trade promotion and marketing facility would be a first step in this direction, especially with respect to expansion of agricultural exports from the territories. Such a facility would be the nucleus of an independent trade promotion and marketing organization in the territories.

43. The proposed marketing facility could collaborate with existing local institutions regarding all technical and administrative tasks involved in the identification, production and marketing (including grading, packing, cold storage and processing) of exportable goods from the territories. The same facility could also be entrusted with authority to deal with local marketing needs and could operate a branch each in the West Bank and the Gaza Strip. Action needs to be initiated urgently to investigate the technical, administrative, financial and other requirements of such a facility and to obtain the necessary authority for its operation. The EEC offer to provide technical and, if necessary, financial assistance for the establishment of export structures is a welcome move in this direction. g/

44. An adequate and efficient transport system is another important prerequisite for the promotion and development of the territories' trade. While local institutions, including municipalities, can contribute to the improvement of the present transport system, much of the physical infrastructural requirements would need to be met by Israeli authorities. Moreover, the provision of refrigerated containers and trucks, improvement in customs and security formalities, and installation of more modern equipment for monitoring of goods would also need to be permitted and encouraged by Israeli authorities.

45. The trade of the territories with non-Arab markets, either through Jordan or Egypt, is hampered by the high cost of transport and the long duration of the journey involved. This has had an adverse effect on the quality of the goods reaching their final destinations. Obviously, the rise in cost and decline in quality are detrimental to the perishable exports of the territories, especially in the highly competitive markets of Western Europe or North America. The most natural outlet for such export is the development of the port of the Gaza Strip. In addition to the existing fishing port, which is specifically designed to meet the requirement of the Gaza fishing community, the commercial port that existed prior to 1967 also needs to be re-opened and developed to accommodate the future trading requirements of the occupied territories. The Israeli authorities and the international community could contribute to the construction of this vital facility. In the mean time, the proposed Palestinian trade promotion and marketing facilities would need to obtain transit facilities through Israeli sea and airports for direct access to international markets.

E. Other trade-support measures

46. Parallel with efforts to meet the various institutional and physical infrastructural requisites outlined above, a number of policy measures could further enhance the vital role of trade in the economy of the territories. This would require above all the rescinding of many related Israeli orders and measures adopted since 1967 that have inhibited trade and other economic activities in the territories. The major issues outlined in the following paragraphs need to be urgently and seriously considered.

47. Efforts to eliminate the numerous administrative constraints that have obstructed economic activities affecting the trade of the territories could fruitfully be set in motion. Most importantly, such relaxation would necessitate the abolition of military government requirements for permits to start a new business, expand a product line, diversify crops, export a consumer good or import manufacturing equipment and the like.

48. The occupied Palestinian territories need to be treated as an entity with distinct economic interests. Israeli policies over the 21 years of occupation have treated the territories as an extension of the Israeli market while impairing their participation in benefits that accrue. The market of the occupied territories should be treated independently of Israel and subject to the laws and regulations of the territories.

49. The severe shortages of financial resources in the territories and the inadequacy of financial institutions deserve serious consideration. Given this unique problem of the territories, a more imaginative approach to the monetary and fiscal aspects of economic policy may have to be pursued in order to revive the economy and expand trade. The implementation of the suggestions embodied in previous reports h/ could go a long way to contributing to such an approach. Emphasis needs to be specifically concentrated on areas that can contribute to the expansion and development of trade. Regional and international monetary and development finance institutions can also play a leading role in meeting the needs of the territories.

50. With respect to export earnings, it is necessary to ensure the purchasing value of these earnings to the Palestinian exporters who export through Israel. The conversion of export proceeds into the Israeli shekel could be pegged to a stable currency, such as the Jordanian dinar, which is the medium of exchange in the territories and is used in transactions with Jordan, in order to avoid undue losses that may arise from exchange rate fluctuations and the drop in the market value of the Israeli currency.

51. Attempts at encouraging exports could include the exemption of small exporters' profits from income tax for a specified period of time. This is vital for the survival of these exporters, as they have no influence on the prices of their output in domestic or external markets. Such profits could be deducted from total taxable income of the exporter, thus lowering the marginal tax rate. This would provide greater incentive to small exporters to expand business activities and stimulate non-traditional exports thus contributing to a diversification of production.

52. As for export financing, arrangements could be worked out through the intermediation of the branches of local Arab banks and foreign importers and their institutions to provide lines of credit in favour of small exporters. This could be maintained until such time as the local banks can build up an "export promotion fund" from small surcharges on imports, and/or exports. In this connection, the newly opened branches of the Cairo-Amman Bank need to be given every support and their resources augmented in order to meet the growing financial requirements of internal and external trade. External resources could be mobilized and made available at low interest rates, enabling these branches to grant short-term credit to farmers and manufacturers.

53. Similar incentives need to be instituted in the form of exemption from customs duties on imported inputs used in the production of small and non-traditional exports. This could cover the import of raw material and equipment essential for such exports. The incentive could be introduced through a "drawback" arrangement that would ensure its appropriate use. In view of financial constraints, exemption from advance import deposits could further strengthen the position of small exporters. The amount of revenue foregone through such monetary and/or fiscal measures could be adequately compensated for by the contribution these measures will make to the overall volume of business activities.

54. The case for the abolition of the value-added tax on Palestinian business in the territories has already been made in earlier reports by the UNCTAD secretariat. h/ This tax puts Palestinian producers and exporters at a disadvantage compared to Israelis, who are compensated by numerous subsidies. The same is true of an Israeli tax on imports (Tamah), which raises the value of imports to/through Israel for the purpose of a purchase tax. Despite the claimed reduction of import tariffs, the Tamah rates are much higher in some cases than the reduction in tariffs. As a result, the price of imported raw material and equipment through Israel is 15 to 25 per cent higher than in the world market. As the external trade of the territories is handled through Israeli middlemen, the Palestinian importer has to bear the tax cost. The existence of this tax further adds to the argument for abolishing the levies that are imposed on the trade of the territories under occupation.

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IV. ROLE OF THE INTERNATIONAL COMMUNITY

55. Conscious of the deteriorating economic conditions in the occupied Palestinian territories, in general, and their trade sector, in particular, UNCTAD, at its seventh session, adopted resolution 169 (VII). g/ The resolution, inter alia, welcomed the decision of EEC to give Palestinian goods and products preferential access to its market on the basis of Palestinian certificates of origin. It urged all States to facilitate the access of Palestinian goods and products to their markets and to continue providing assistance to the Palestinian people to enable them to develop their economy, including the trade sector, free of occupation.

56. The concessions made to the occupied territories, as noted earlier, represent major multilateral and bilateral measures aimed at assisting the Palestinian people in their efforts to develop their economy. In order for these concessions to have a positive impact, action is needed by the Israeli occupation authorities and the international community in support of Palestinian efforts. The Israeli occupation authorities have the responsibility to facilitate international assistance to enable it to reach the Palestinian people in the occupied territories. The international community, through multilateral and bilateral arrangements, could maintain the momentum of its assistance to these territories in order to enable the Palestinian people to build up the foundation of a sound economy and foster its independent growth and development. In addition to the points stated earlier, further attention needs to be focused on the following specific issues of immediate concern to the external trade of the territories.

57. Pending the establishment of a Palestinian marketing facility, international marketing facilities could extend their assistance to Palestinian producers in the occupied territories by promoting the sale and marketing of their products. Such immediate measures could include short-term credit facilities, input provisions, including cartons and packing facilities, sales promotion activities, as well as training and orientation programmes for developing a local cadre. Possible joint venture arrangements for the processing of primary produce could also contribute much to this process.

58. The expertise of some of the United Nations organizations, such as the UNCTAD/General Agreement on Tariffs and Trade International Trade Centre, in export promotion programmes could also provide Palestinian producers and institutions with the technical assistance they need. The vast knowledge and experience at the Centre in the establishment of export promotion facilities in many developing countries could benefit the territories in the design of a comprehensive export promotion programme, including the establishment of the proposed Palestinian marketing organization.

59. Relevant multilateral and bilateral sources could contribute to the re-opening and development of the commercial port in the Gaza Strip and its related infrastructural facilities. Pending that, consideration could be given to possibilities of instituting transit arrangements for Palestinian exports to regional and international markets.

60. Bearing in mind the provisions of the boycott regulations of the League of Arab States, the Arab Economic and Social Council and the Council for Arab Economic

Unity have adopted resolutions urging member States to facilitate the entry into their markets of Palestinian agricultural and industrial products. However, the access of Palestinian products to many of these markets has in fact been diminishing because of the economic and administrative reasons mentioned earlier in this report.

61. A fresh attempt is therefore needed to revive traditional Arab markets for the agricultural and industrial products of the occupied territories. The Arab markets in the region should provide one of the most satisfactory outlets for the products of the territories. Any attempt at benefiting from existing and/or new Arab markets should concentrate on areas that promote the comparative advantage of the territories and develop complementarities with their trading partners. This would necessitate better co-ordination of policies and practices that affect agricultural and industrial production. As noted, another vital prerequisite for the success of such efforts is improvement in the quality and delivery of exportable goods to these markets.

62. Another aspect that needs to be pursued urgently, especially in view of the Palestinian uprising in the territories, is to review the effect of League of Arab States boycott regulations on Palestinian exports and the implementation of their provisions in a manner that provides increased impetus to Palestinian export capacity and performance. The Arab Economic and Social Council, the Council for Arab Economic Unity and the Federation of the Unions of Arab Chambers of Commerce and Industry, within the framework of efforts aimed at achieving regional food security, increased trade and greater economic integration among the Arab countries of the region, could play a significant role in promoting and expanding markets in these countries for the products of the occupied territories.

Notes

a/ Figures in this section are calculated from: (1) Israel, Central Bureau of Statistics, Statistical Abstract of Israel (Jerusalem, Central Bureau of Statistics, 1983, 1985, 1986 and 1987), pp. 766, 712, 692 and 710; (2) Israel, Central Bureau of Statistics, "Quarterly Statistics of the Administered Territories", vol. IX, no. 2 (Jerusalem, Central Bureau of Statistics, 1979), p. 72; (3) Israel, Central Bureau of Statistics, Statistical Abstract of Israel (Jerusalem, Central Bureau of Statistics, 1983), p. 202; (4) Israel, Central Bureau of Statistics, Statistical Abstract of Israel, (Jerusalem, Central Bureau of Statistics, 1986 and 1987), pp. 198, 204 and 711.

b/ Al-Fajr, 28 June 1988; Jerusalem Post, 13 October 1987 and 2 December 1987.

c/ See Report of the United Nations Conference on Trade and Development on its seventh session (TD/351), pp. 37 and 38.

d/ Council of the European Communities regulation No. 3363786, Official Journal of the European Communities, 1 November 1986, No. L 306/103 and 104.

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Notes (continued)

e/ Information on policy action of the European Economic Community is provided in the note verbale of 17 May 1988 by the Commission of the European Communities, in response to the note by the secretariat of the United Nations Conference on Trade and Development (TDO/140 (PAL)) of 6 April 1988.

f/ Proceedings of the Ministerial Meeting on the Global System of Trade Preferences among developing countries, Belgrade, 11-13 April 1988, vol. II, p. 4.

g/ Jerusalem Post, 2 December 1987.

h/ See, for example, "Recent economic development in the occupied Palestinian territories, with special reference to the financial sector" (TD/B/1142), 1987, part II.
