



Economic Policy Programme
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Confidential

Agricultural Exports to Europe

Alberto de Pascale

September 16-24 1996

Mission Report
October 1996

Report

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Agricultural Exports to Europe

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

Economic Policy Programme

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This report was prepared with financial assistance from the Commission of the European Communities. The views expressed herein are those of the Consultants, and do not represent any official view of the Commission.

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This report was prepared with financial assistance from the Commission of the European Communities. The views expressed herein are those of the Consultant, and do not represent any official view of the Commission.

Summary

This report was prepared by Alberto de Pascale following his mission to the West Bank and Gaza Strip on September 16-24, 1996. The aim of the mission was to work with Palestinian Authority representatives on following up the results of a workshop, held in June, on *Trade and Cooperation between Palestine and the European Communities*, in particular to give technical advice on agricultural issues which will be the subject of forthcoming negotiations between Palestine and the European Commission. Both Mr de Pascale's mission and the June workshop form part of the two-year **Economic Policy Programme** which is funded by the European Community (EC) and coordinated by the Ministry of Economy and Trade in collaboration with the London School of Economics and Political Science.

The main results of the mission, as outlined in the report, are that 1) the two lists of requests that the PA wishes to present at the negotiations are now complete both in terms of identification of the agricultural products and quantities it wishes to export and with regard to technical presentation (paras 2.3-2.4; Annexes I and II); 2) an appropriate technical mechanism (a letter conveying information from the Ministry of Agriculture to the Ministry of Economy and Trade) for providing statistical evidence to the EC in support of the Palestinian case has been discussed (para 2.6-2.10); 3) a "staging" mechanism as a means for requesting increases in quantities has been outlined (para 2.11); and 4) looking ahead, the need by the Palestinian side to acquire knowledge of European standards and the suggestion that the EC provide funds for this has been put forward by the Palestinian side (para 4.1).

Recommended action

The above would seem to take the PA's preparations for negotiations forward on a number of fronts. However, Mr de Pascale suggests that if the preparatory work so far completed is to achieve the desired results, then further specific action (see 2.2-2.10) needs to be taken straightaway and others (2.5, 2.11, 3.1, 4.1) are recommended. They are as follows:

1) The Ministry of Agriculture are advised immediately to prepare a piece of technical documentation to be put at the disposal of the chief negotiator (paras 2.6-2.9), with a view to strengthening the PA's negotiating position. The suggested procedure for establishing this documentation - a letter, as well as the recommendations on the explanations and statistical data that should be contained in the letter, are spelt out in the report. Mr de Pascale makes specific recommendations on appropriate ways (paras 2.7 (ii), 2.9, 2.10) to present the statistical data.

It is stressed that the letter would be technical in nature and should be treated procedurally as such i.e. as part of the technical documentation handed to the EC experts (para 2.10).

2) The PA might consider withdrawing two products (fatty liver of geese and seeds for forage plants) from their list in Annex 2. This is because customs duties on both products will be reduced in due course to zero by the EC, independently of any preferential negotiations (para 2.5);

3) The PA might review all the quantities indicated in Annex I and Annex II with the objective of "staging" the implementation over three years at least (see para 2.11), confirming at the same time the positive advice given with regard to the staging of the quantities referred to for cutflowers and strawberries. It is suggested that the PA should **not** propose such staging at the outset, but rather introduce the idea as a second best or fall back position in the negotiations.

Before the negotiations

4) With regard to the above, since the list is rather long and the EC is unlikely to agree to all the concessions requested, it is suggested that the PA might review the products listed in the Annex II with a view to fixing its own priorities, possibly in line with development plans. In this way the PA negotiator would be in a position to make suggestions, if necessary, on where the list could be shortened, on the basis of PA priorities.

Follow up action

5) The PA might consider using the Economic Policy Programme to assist the Ministry of Economy and Trade on the question of standards (para 4.1). One way forward might be to hold a seminar in Brussels, involving all the Commission officials dealing with the issue and a limited number of representative Palestinians, who would be able to disseminate the knowledge back in the West Bank and Gaza Strip. Undoubtedly there are other possibilities.

The programme would like to thank all those at the Ministry of Economy and Trade and Ministry of Agriculture for assisting Alberto de Pascale both with the substance of his mission and arrangements during his visit to the West Bank and Gaza Strip.

Now that the EC and Palestinians have embarked on negotiations, the LSE workshop programme will move on to cover other issues. Planning is well advanced for two workshops, one scheduled for early December and one for early 1997, on Palestine's future trade relations with Israel and its Arab neighbours. Building on the format of the June workshop on Palestine's trade with Europe, a number of senior trade economists have been invited to meet Palestinian officials and private-sector representatives in the West Bank.

Valerie Yorke
Programme Coordinator
London School of Economics
October 1996

**TRADE AND COOPERATION
PALESTINE AND THE EUROPEAN COMMUNITIES
Mission of Alberto de Pascale to the West Bank and Gaza Strip
September 16-24, 1996**

Report and findings

1. Terms of reference

1.1 The mission's objective was to work with the Palestinian Authority on following up the results of the **Economic Policy Programme's** workshop, held in June, on *Trade and Cooperation between Palestine and the European Communities*, in particular on those agricultural issues which will be the subject of forthcoming negotiations between Palestine and the European Commission. The basis for the work in the West Bank and Gaza Strip was the July report, of which the following excerpts are relevant:

(i) **The PA's negotiating objectives** (p.11): "to obtain a substantial increase on the quantities presently set out as tariff quotas or as reference quantities in the draft Interim Agreement... and to extend the list to include other products"

(ii) **Formulating appropriate lists** (p.10, paras 5.1 and 5.4): As a first step toward the above, "during the workshop the Palestinian team:

produced a list of products that Palestine has the potential to export to the EU markets but which do not appear in the Annex of Protocol No.1 of the informal working document;" [The workshop suggested that the PA's Ministry of Agriculture should provide more detail in order to permit a better definition in terms of the EC customs classification.] **and**, as far as products **included in the Annex of Protocol No. 1** are concerned, declared their intention "to provide documented evidence of the current level of output, exports and...consumption for cutflowers and strawberries", to support the argument for increasing the quantities noted in the informal working document.

(iii) **Formulating an evolutionary clause** (p.8 para 3.4, p.11 paras 5.8, 5.10 and p.12 para 5.11): The workshop considered *inter alia* "the insertion in a future...Agreement...of an "evolutionary clause" that would permit a foreseeable increase in quantities in the future."

(iv) **Challenging the degree of EU discretionary power to reduce Palestinian access** (p.12 para 5.12)

2. The Results

2.1 During the mission, I met and exchanged views with senior officials in the

Ministry of Economy and Trade (in particular Samir Huleileh, Assistant Under Secretary), with the Minister for Agriculture, A. Jawad Saleh, with senior middle-level officials from the Ministry of Agriculture in Ramallah (El Bireh), in Gaza, and in Jericho, and with private-sector managers. Mansour Klfah, Director General for Marketing from the Ministry of Agriculture, accompanied me on all these visits (See Annex III).

The lists of Palestinian requests

2.2 The Palestinians officials were waiting for assistance to carry out the proposed follow-up work on compiling the two lists. In fact, detailed and technical two-way explanations were necessary in order to reach a clear definition of the agricultural products the Palestinians desire to export and to identify the correct European customs nomenclature for them. This was made possible, thanks to the advice from agricultural experts and producers in Ramallah, and in Gaza.

2.3 Two lists have now been finalised. The first, in Annex I of this report, contains the PA's requests regarding those products - presently included in Protocol No.1 of the informal working document - where quantities granted are considered insufficient. It should be noted that the list has been expanded from two products (cutflowers and strawberries) to three - to include lemons. Moreover, on the basis of the statistical information collected by the Palestinian side after the workshop in June, the Palestinians have further increased the quantities requested to 4,000 tons for both cutflowers and strawberries from the levels indicated at the workshop of 3,000 tons and 2,500 tons respectively.

2.4 The second list (the "Supplementary list"), in Annex II, contains the PA's requests regarding products **not** presently included in Protocol No.1. In general, the Palestinians made an effort to limit their requests as far as possible to a particular part of the season taking into account their production period as well as European production sensitivities. All the quantities indicated should be considered as "reference quantities" and not as "tariff quotas". Some of these products are included in Israel's Association Agreement with the EC. Some are not.

2.5 Many of the products listed are currently produced in Palestine, but exports of them to the EC are not recorded as emanating from Palestine. On the other hand there are some items, on which production is just beginning, which have good export potential. The PA will probably wish to withdraw two products from its list, namely those where customs duties will be reduced in due course to zero by the EC, independently of any preferential negotiations:

- 02.07.34.10 Fatty liver of geese, and
- 12.09.20 Seeds for forage plants.

For both items the EC has in fact **bound** the rate of duty to zero, for all origin, in the GATT.

2.6 I advised officials from the Ministry of Agriculture, particularly in Gaza (where they have a special interest in the production and export of cutflowers and strawberries), but also in Ramallah, that they should write an official letter dealing with the delicate issue of statistics, to their own Palestinian Authority, for the eventual benefit of the Official Palestinian Negotiator (presumably the Ministry of Economy and Trade). The letter should address separately the questions of:-

- (i) current exports to the Community, and the reasons why these do not - or only minimally - appear as such in the Community's statistics, and
- (ii) new production - and hence new export- potential to the Community.

That section of the letter dealing with issue (i) would provide explanations in support of the requests contained in Annex I (increase in quantities). That dealing with (ii) principally with the products listed in Annex II.

The first part of the letter

2.7 Discussions with the Palestinians provided the basis for the draft letter:

- (i) "Two sets of reasons explain why export levels of Palestinian agricultural products to the Community appear, at first view, so modest.

The first is the mis-denomination of origin by Israeli contractors/exporters, whether voluntarily or not. AGREXCO is the Israeli monopoly exporter for non-citrus products. It also provides various indispensable services, such as packaging and grading. It used in the past to be the principal contractor and agent for Palestinian fruits and vegetable exports, and it is still a very important buyer for these products in Gaza and in the Jordan Valley.

Israeli settlements and Palestinian farms often "share" the same basic agricultural land (and the same underground water resources, though the settlements take the lion's share). AGREXCO services are at hand (except during border closure), and its prices are normally rewarding. Eggplants (aubergines) of Palestinian origin, for instance, in the Jordan Valley, were for many years packaged in the same "Carmel" boxes used for the genuine Israeli-origin product. The same was true for Gaza-origin - strawberries. Only very recently has AGREXCO begun to provide producers in Gaza with stickers indicating "Palestine origin" - but only for part of their production for export. The situation is similar for citrus fruit through the operations of the Israeli Citrus Marketing Board, which has been granted the monopoly on Israeli citrus exports.

As a result of these factors the European Community registers a great proportion of effective Palestinian vegetable production as Israeli-origin

imports.

A second set of reasons is to be found **in the artificial barriers created by Israel's occupation of the Palestinian territories.** The study, "The Agricultural sector of the West Bank and the Gaza Strip", (UNCTAD, 1993) recalls *inter alia* the "rigid restrictions on the quantity of water available to occupied Palestinian territories' farmers" (page 27) and the fact that "further extension in the West Bank's vegetable area was later obstructed by new Israeli regulations which placed a rigid ceiling in the area of tomato and eggplant grown by Palestinian farmers in the Jordan Valley (Military Order No. 1039)." As a matter of fact, "the area under vegetable cultivation in the West Bank" fell by 40% between 1963-66 and 1990 (from 253,000 to 150,000 dunums). The same study (page 70) adds that "despite apparent inequality, the actual implementation of Israeli policies relative to trade with the OPT, was characterized [before the *intifada*] by a relatively relaxed attitude, hence permitting a marked degree of "illegal" [i.e. not officially registered] entry of OPT produce across the green line". Clearly, part of that trade may also have found its way to exports through the Israeli territory."

(ii) Having set out the above by way of introduction the Palestinian side is advised to present any precise information it has for the past three years regarding annual levels of:-

- production
- consumption
- total exports

With regard to the last figure the Palestinian side should add a *bona fide* technical estimate of what percentage of Palestinian total exports was actually sent to the European Community.

2.8 I gained the information in 2.7(i) from the Palestinians themselves, and I believe that it is relevant to cite the UNCTAD study, because it confirms my own findings. The course of action I suggest in 2.7(ii), restates a similar suggestion I made during the workshop. The Palestinians (who were not all present at the workshop) seem seriously interested in acting along these lines, and the Ministry of Economy and Trade has approved the procedure.

The second part of the letter

2.9 This part should relate mainly to Palestinian export potential. Two types of cases may occur here:

- **Production already takes place, but ways and means of reaching the export stage have not yet been found.** An example is poultry meat. Before it is possible to export to the Community the infrastructure needs to be better developed, with slaughterhouses, product standardisation etc. Here, in order to

support its case, the Palestinian side might indicate figures of current annual production and annual consumption, and the annual surplus theoretically available for export now or in the near future. It might also explain how the necessary infrastructure will be provided in the future.

- **Production is due to begin, because of new investment.** An example here is the investment in "Anthurium flowers" by the Jericho Green Company in the Jordan Valley; production is beginning and it may be possible to export in the very near future. The 2.2 ha of greenhouses are forecast to produce 1.5-1.6 million flowers per year.

The Palestinian side might provide figures for the size of investments and expected production and exports, and an estimate of the percentage that could go to the Community.

2.10 It is to be noted, however, that a letter along the lines drafted above should be regarded as a technical matter and be treated procedurally as such. It should be part of the technical documentation to be handed to the EC experts. I insisted on this point with the experts from the Ministry of Agriculture. If anybody in the Palestinian Authority wishes to add written messages of a political nature to the Community, these should be put in a separate appropriate formal text.

Formulating an evolutionary clause

2.11 I discussed the issue of an evolutionary clause with Samir Huleileh. I suggested that with the draft Interim Agreement covering only the next five years, a clause could be inserted, permitting the Palestinians to obtain the requested quantities (Annexes I and II) by pre-determined annual stages. There are no precedents for such a clause in other Mediterranean agreements (except a provision in the Israeli agreement that permits, in a few cases, an automatic 3% annual increase in quantities). However, the Palestinian draft agreement was itself rather peculiar, in that it was an interim one and its trade provisions were only stipulated for five years.

Mr Huleileh seemed interested. I developed this idea because experts from the Ministry of Agriculture were open to the "staging" mechanism and had agreed "stages" for three products as listed below:

Product	Final Quantity	Intermediate steps
strawberries	4000 T	1997: 2000 1998: 3000
flowers	4000 T	1997: 3000
jams etc. of strawberries frozen strawberries, strawberry juice	1500	1997: 500 1998: 1000

3. Challenging the degree of the EU discretionary power.

3.1 This subject was not discussed. Two suggestions are contained in the report on the June workshop. These may be of value **if and when** the EC negotiator refuses the increase in quantities requested by the Palestinian side as proposed above.

4. Other issues

4.1 One issue has been frequently raised as a matter of concern by a great number of my interlocutors, including the Minister for Agriculture himself: the issue of standards - health, minimum quality etc. It is true that this matter is increasingly important to those involved in international trade. The Palestinian side knows very little about all this, and will certainly need to be properly briefed. The most frequent request is for a copy of the legal text setting out all the standards. I do not think the question is easy to solve. But I think this is a genuine need that we should find some means of satisfying.

Alberto de Pascale
October, 1996

Alberto de Pascale

Mr Alberto de Pascale, Italian national, graduated in Jurisprudence from the University of Rome. In 1961 he joined the European Commission and worked for most of his career with commercial questions including agricultural trade issues. He also has extensive experience as a trade negotiator. During the 1980s, he participated in bilateral negotiations involving the United States, Canada, Australia, Argentina and Brazil as well as in the GATT negotiations - the Uruguay-Round. In September 1988, he was appointed Chief of the GATT Affairs and OECD Division in DGI with responsibility for preparing the European Community's negotiating positions. As a member of the Commission's Steering Group Uruguay Round, he represented the Community in negotiations in Geneva on several occasions. Since May 1995, Mr de Pascale has been working with a number of universities on political and commercial issues, in particular with the universities of Padova and SEU of Perugia.

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Annexes

- Annex I** Preferential concessions envisaged in Protocol No.1, where the PA is requesting an increase in quantity.
- Annex II** Supplementary list of preferential concessions requested by the PA.
- Annex III** Mission of Alberto de Pascale September 16-24, 1996: Record of discussions.

Annex I Preferential concessions envisaged in Protocol No.1,
where the PA is requesting an increase in quantity.

Annex inserted manually, available in hard copy version
of this document

Annex II Supplementary list of preferential concessions requested
by the PA.

Annex inserted manually, available in hard copy version
of this document

ANNEX III

Mission of Alberto de Pascale to the West Bank and Gaza Strip September 16-24, 1996

RECORD OF DISCUSSIONS

Monday, September 16, 1996

Arrive Jerusalem

Tuesday, September 17, 1996

8.30 Samir Huleileh, Assistant Under Secretary, Ministry of Economy and Trade

Discussion of mission programme

10.00 Mansour Klfah, Director General for Marketing, Ministry of Agriculture

10.30 Ministry of Agriculture (El Bireh)

Discussion of lists of Palestinian requests. Present:

Mansour Klfah (Director General for Marketing)

Fuad Jaber (Marketing)

Mustapha Barakat (Manager, Jordan Valley Cooperative and Grading House)

Jihad Hadad, (Storage and Cooling responsibilities)

Jawad Hidmi (Poultry Department)

Khalil Qannam, Ministry of Agriculture

12.30 Abdul Jawad Saleh, Minister of Agriculture

Discussion: scope of mission; minister expressed concern over difficulties in obtaining EC financial aid for creation/improvement of trade/export infrastructure

13.30 Continuation of 10.30 meeting

p.m Bettina Muscheidt (ECTAO), American Colony. Short briefing

Wednesday, September 18

8.30 Ministry of Agriculture, Ramallah (El-Bireh)

Continuation of discussion of lists of Palestinian requests with the above team

14.30 Return American Colony

Thursday September 19

9.00 Ministry of Agriculture local office (Jericho)

Ahmed K. Alami, Director Local Office
Mansour Klfah (Ministry of Agriculture)
Khaled A. Atout (Ministry of Agriculture)

Discussions on Jordan Valley agricultural production: JV advantage: out of season production; disadvantage: problems of increasing salinity

10.30 Visit Jericho Green Company to view flower-producing greenhouses; new investment.

Guide: Mohammed Nabhan (General Manager, Jericho Green Company) and his team

Note: Greenhouse:2.2ha, producing 1.5-1.6mn "Vogels" Anthuriums, on the basis of young plants (covered by copyright) imported from the Netherlands. Equals 10% of world production. 10% of production is for local market. The rest for export to Egypt, Israel, the Gulf and EC.

12.00 Visit to Jeftlik (north of Jericho)

Tour local grading and packing house and Mr Imad Kamhaoui's fruit and vegetable farm (haricots, cucumbers, squash, eggplant etc.). One of the biggest around Jeftlik. Israeli and Palestinian farms close to each other in Jordan Valley. Water resources "equitable" management a problem here.

4.00 Return to American Colony via Nablus

Friday, September 20

8.00 Leave for GAZA STRIP with Mr Klfah

10.30 Visit Bentlahz Agriculture Cooperative - producing flowers and strawberries.

Mr Rizek Abu Alima Abu Sufran, General Manager

Note: 5,000 dunums. Produces 2,500 tonnes strawberries. Exports mainly through the channel of Israeli Agrexco. Sticker "Palestinian origin" is now provided to him by Agrexco, but not for all transactions.

13.00 Arrive Palestine Hotel

18.00 Pre-arranged meeting with local officials cancelled

20.00 Dinner De Pascale (host) with Mr Klfah

Saturday, September 21

8.00 Ministry of Agriculture building, Gaza

Mahmoud Abu Samra, General Director (with responsibility for the Gaza Strip)

Mohammed Rayes, General Director (Vegetable sector)

Nimer M. Ayesh, Director (Flowers)

Mohammed A. Rahman, Director (Vegetables)

Kamal Sayegh, Director (Marketing)

Tariq M. Saqr, Director General (Fisheries)

Checked the lists of requests. Discussed the terms of the "technical letter" to be sent to the negotiator, containing figures and fair estimation of exports.

13.30 Taxi to EREZ. De Pascale transits. Mr Klfah is unable to pass. All checkpoints closed to Palestinians from 16.00 the previous day, one day in advance of scheduled time

15.45 Arrive American Colony

Sunday, September 22

13.00 Meetings postponed. Mr Klfah unable to return to West Bank until late morning.

Monday, September 23

10.30 Mr Klfah and team, Ministry of Agriculture, Ramallah

Finalisation of lists

12.00 Minister of Agriculture

Discussion: problem of standards, funding, international aid, agricultural infrastructure, notably grading, packaging, quality control stations

13.30 Samir Huleileh, Assistant Under Secretary, Ministry of Economy and Trade

Present: Muna Bamieh and Mansour Klfah

Debriefing on mission's results. Copy of the list manuscript is handed to Mr Huleileh

14.00 To American Colony

20.00 Bettina Muscheidt, ECTAO

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Tuesday, September 29

9.00 Telephone contact with Mr Huleileh re: the lists
12.30 Leave for Ben Gurion Airport