

**PRESENTATION OF THE RESULTS OF THE
ECONOMIC POLICY PROGRAMME
'TOWARDS AN ECONOMICALLY-VIABLE
PALESTINIAN STATE:
The Regulation of External Trade'**

a DFID-funded meeting

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EXECUTIVE SUMMARIES

Ministry of National Economy, Ramallah
London School of Economics and Political Science

OPENING SESSION

Welcome

Opening Remarks and Speeches

Introduction to the Day

The objective of the meeting is to present the results of the Economic Policy Programme (EPP), which was coordinated by the Palestinian Authority's Ministry of National Economy (MNE) in collaboration with the London School of Economics (LSE) and supported by a team of senior international and local consultants. The programme was funded by the UK Department for International Development (DFID) and formerly by the EU.

The purpose of the EPP was to support the emergence of an economically-viable Palestinian state through equipping the PA / MNE with legal, economic, and technical policy advice on the regulation of foreign trade across four *interrelated* tracks. As mandated by the PA, these tracks covered preparations for:

- economic permanent status negotiations and the transition on the way;
- development of trade policy;
- the establishment of a WTO-compatible sovereign framework for trade to replace the Paris Protocol;
- WTO accession.

The day's presentations aim to set out what was achieved and to provide an understanding of the breadth and coherence of this programme of policy advice - its contribution to PA preparations for a future trade agreement with Israel and to PA efforts to put in place the economic and trade requirements for a workable, WTO-compatible, sovereign trade framework upon Palestinian independence, and its operational applicability during the transition to that goal.

Although statehood is some way off, the Quartet's Road Map, the PA's reform agenda and Israel's proposal to withdraw from Gaza have focussed international attention on the economic areas in which the EPP has been involved, underscoring the immediate relevance and timeliness of EPP work. In view of the volume and interconnectedness of EPP analysis, options and legal texts, it seems to us that the presentation and transfer of knowledge to policymakers, diplomats and donors of what has been achieved and what needs to be done during the transition to statehood is crucial.

Today's presentations, like those at the LSE last November, have been organised with this aim in mind.

Secondly, the results of the programme have been brought together in the EPPIII's draft final report, *Planning for Statehood*. This paper, a compilation of work completed during three phases of the EPP, is founded on and draws from the studies, legal opinion and texts contributed by programme consultants with the support of PA stakeholders. The document, which will be referred to during the presentations, indicates how and where EPP advice and proposals can assist with developing the foundations and framework for a coherent programme of preparations in the economic / trade spheres for an economically-viable Palestinian state and the transition to it. The paper sets out results of the programme and proposals as to what needs to be done, suggesting priorities and sequencing for tasks up to statehood and beyond as well as timescales for their implementation.

SESSION 1

PREPARATIONS FOR NEGOTIATIONS ON ECONOMIC PERMANENT STATUS AND TRANSITIONAL ARRANGEMENTS ON THE WAY

Political uncertainties greatly complicate Palestine's planning of future trade policy options in relation to Israel and the region. It is therefore necessary to prepare different options and building blocks, which may be introduced as of Day One of Statehood in different combinations, either gradually or immediately in order to replace the Paris Protocol regime. This approach should permit Palestine to move towards what will be defined as an optimal regime involving close interdependent economic relations with the State of Israel. The building blocks range from potential sectoral agreements with Israel to a fully-fledged Free Trade Agreement (FTA), covering both goods and services. The legal texts for these options were drafted by EPP III at the request of the Ministry of National Economy (MNE) in a manner compatible with Palestine's future obligations as a potential Member of the WTO and the multilateral trading system. The texts may also be used when preparing for negotiations with other partners in the region.

Option A texts set out self-standing, **sectoral Agreements** that can be put in place as of Day One of independence. These proposals for agreements would ensure that critical economic infrastructure is put in place to support trade with Israel at a basic level. Proposals for such agreements were prepared for the following: TBT /SPS measures, Border Control, Jerusalem and Customs Co-operation, Transit and Labour. EPP III considers these areas of vital importance for the establishment of a viable and sustainable economy in Palestine.

Option B texts set out the elements of a single, limited **Trade Agreement** with Israel that builds on Option A components, but has much wider coverage. Such an agreement reflects enhanced bilateral co-operation in economic relations. The Agreement is based upon MFN and Non-discrimination and does not amount to preferential trade. Special emphasis is placed upon security measures and dispute settlement.

Option C provides the essential building blocks for a modern and fully-fledged **Free Trade Agreement** with Israel, tailored to address the problems specific to Palestine-Israel bilateral relations. The Agreement abolishes all barriers to trade with Israel in goods and services, leading to a high level of integration - but short of building a Customs Union.

SESSION 2

FUTURE TRADE POLICY OPTIONS : NDTP AND KEEPING OPTIONS OPEN FOR AN FTA WITH ISRAEL

Options for a Tariff Policy for Palestine

The programme offers a discussion of two alternative approaches. The first one, based upon economic analysis, concludes in favour of unilateral low-tariff policy applied on an MFN basis. The second option explores the potential for a preferential agreement with the State of Israel, and explores the implications of the first option to this effect.

The **first option** and study provides the economic analysis to underpin options for the design of a future tariff structure for Palestine, a key component of a sovereign trade regime to be implemented upon statehood.

The study takes a broad approach based on economic analysis and draws on international experience where applicable to the Palestinian case. The foundation of an independent, sovereign and viable Palestinian state, with open economic relations based on World Trade Organisation rules, is taken as the study's point of departure, in accordance with guidelines supplied by MOETI (now MNE). It is assumed that preferential trade arrangements with the European Union (EU) and the United States (US) will be maintained, while relations with Israel will be based on Non-Discriminatory Trade Policy (NDTP) or, as a fall-back position, on a Free Trade Agreement (FTA).

Though not examined, the option of a Customs Union (CU) with Israel is another alternative. In terms of the methodology developed in the study, such an option would be quite close to the status quo (with the exception of tariff collection issues), which means that most of the identified efficiency and transfer effects quantified in the case of the alternatives examined in the study would not take place.

Irrespective of the choice of future trade policy, the study proposes that the Palestinian authorities rapidly draw up a clear map for economic development agreed by all economic actors. This would prevent the development of economic activities that may turn out to be unprofitable in the new economic environment following statehood.

Palestine will require a tariff regime that facilitates trade, attracts investment, leads to an efficient allocation of resources and consequently encourages rapid economic growth. The study therefore argues that any future tariff policy should be based on the principles of an open and transparent trade regime, characterised by a low and uniform tariff, the avoidance of non-tariff barriers, and the binding of tariffs in the WTO. This line of reasoning is supported by an examination of relevant characteristics of the Palestinian economy – the importance of trade for small economies, the persistence of high transaction costs, the structure of government revenue, and the existence of large net transfers from abroad.

Using a perfect competition partial equilibrium methodology, the report presents estimates of the welfare effects for Palestine of moving from the current trade arrangements to each of four options (or scenarios) for an open trade regime, each built around a uniform tariff

policy (and maintaining current FTAs with the EU and US). These scenarios are: Scenario 1: a uniform 5% tariff; Scenario 2: a uniform 10% tariff; Scenario 3: free trade (ie, a uniform 0% tariff); and Scenario 4: a 5% tariff but keeping an FTA with Israel. The calculations are based on trade data for 1998.

The ranking of the results indicates that a free trade regime (Scenario 3) would be the best option in terms of economic welfare. A 5% uniform tariff with an FTA with Israel (Scenario 4), ranked second, is found to be superior to the option of a 5% uniform tariff with no FTA (Scenario 1), ranked third. Note that this result does not take account of the implementation costs of an FTA, nor of other political economy factors, which are examined in detail in Annex 1. A uniform 10% tariff is found to be the least preferable of the four options. This overall ranking is found to be robust to changes in assumptions within the adopted methodology.

The adoption of a low and uniform tariff would be likely to have an adverse affect on the agricultural sector, particularly in the absence of an FTA with Israel. The study suggests that the Palestinian authorities would be well advised to mitigate these effects through policies of compensation and retraining rather than through direct support of the agricultural sector. Although an FTA with Israel would in the short-term reduce the adverse impact of trade liberalisation on poverty, the study argues that this would not provide a long-run solution to the problems either of trade policy or of poverty.

The adoption of a simple and open trade regime will help to place trade policy beyond the scope of lobbying, but the study emphasises that low and uniform tariffs do not of themselves ensure the good governance of trade policy. If Palestine is to benefit fully from an open trade regime, contestability must extend throughout all activities, anti-dumping measures should be avoided (although a safeguards law would be advisable), and the formulation of trade policy should be insulated from day-to-day business pressures.

The study argues that Palestine may wish to consider reducing – or at least not increasing – the number of preferential trading arrangements that it is engaged in. Following statehood, these will be very costly in terms of the resources employed in administration, and in some cases negotiation, and in any case would be unlikely to bring any real ‘extra’ market access for Palestinian goods and services.

Finally, the study examines the possibility of implementing a free trade regime (i.e., a zero tariff). In addition to the benefits quantified in the welfare estimates, such a regime would signal a strong commitment to open market policies, remove most incentives for rent-seeking activities and avoid the need for costly Rules of Origin and duty-drawback schemes. In this case it may be wise to introduce some of the required changes gradually – especially for agriculture – but only if the goal of free trade can be defined entirely credibly from the outset.

The report comprises two parts. In the main study arguments are developed without reference to a mass of supporting evidence. This evidence and more detailed arguments are contained in the Annexes. In particular, Annex 3 explains the methodology used in calculating the efficiency consequences of alternative tariff regimes summarised in Chapter V of the main report.

In conclusion: a Non-Discriminatory Trade Policy (NDTP) based upon MFN provides a necessary and WTO-compatible foundation for trade policy for a sovereign Palestinian state. In the absence of international agreements, in particular with the State of Israel, it offers a sound unilateral base, to be implemented on the basis of the Foreign Trade Act of Palestine vis-à-vis all States, including Israel.

NDTP would facilitate Palestine's goal of advancing sovereign goals of economic development and diversification. NDTP would also provide a clear framework for Palestine's WTO Membership. Finally, NDTP based on low or zero tariff rates, would increase administrative efficiencies, and, at least in a pure economic sense, would benefit the Palestinian economy by removing distortions that flow from tariff protection.

The **second option** draws attention to the risks and challenges of NDTP. While recognising its many advantages, the risks of limiting trade relations with Israel to NDTP include Israel's application of tariff barriers and tariffs on 96% of Palestinian export trade, and the neutralisation of any incentive for Israel to negotiate bilateral agreements with Palestine (Sectoral Agreements, Trade Agreement, Free Trade Agreement such as discussed in the previous session), or regional agreements.

The shaping of NDTP policies should take these risks and challenges into account. Policy should be formulated in a manner that encourages negotiations with Israel in key areas and creates incentives to do so beyond accession to the WTO.

What are the implications of implementation at the outset of NDTP tariff and non-tariff policy? A key issue for Palestine would be how to create sufficient incentives in order to keep open the options of reaching necessary sectoral agreements, a comprehensive trade agreement and eventually a Free Trade Agreement with the State of Israel, as well as agreements with other partners in the region. Moreover, how might NDTP be formulated in order to create favourable conditions for negotiating Palestine's accession to the WTO?

Finally, how might a balance be struck between the economic benefits of a uniform, low-tariff NDTP and the political economy of future trade negotiations in the region? Which sectors offer potential for creating incentives for further negotiations in a continuing process of co-operation?

SESSION 3

TOWARDS A SOVEREIGN TRADE FRAMEWORK – THE MAIN COMPONENTS, DOMESTIC LEGISLATION, REFORM AND WTO ACCESSION

Survey

The regulation of foreign economic relations requires a number of essential legislative acts and policies which need to be in place as of statehood and should be prepared. Partly, they can be developed independently from negotiations with other countries, in particular the State of Israel. Partly, they are intertwined and depend on results achieved in future negotiations. The Economic Policy Programme has limited its efforts to acts and policies which are indispensable for the new independent state while leaving other areas, such as the protection of foreign direct investment or of intellectual property, or new regulations of services, to a later stage. These and other legislative acts should eventually be developed and adopted.

Speakers will briefly discuss the following components of the framework: The Foreign Trade Act, border regime and customs, transit, technical barriers to trade including sanitary and phyto-sanitary measures, competition law and government procurement.

The Foreign Trade Act of Palestine

The draft Foreign Trade Act (FTAP) prepared by the EPP provides the legal foundation for regulating and administering foreign trade. It plays an essential role through defining principles as well as jurisdiction to act and to review decisions in the field. The Act unilaterally applies to all imports and exports of goods and services. It does not depend upon the existence of international agreements, but is subject to these to the extent that they are in force for Palestine. Since present proposals for a draft Constitution for Palestine scarcely mention foreign trade affairs, the FTAP fulfils constitutional functions in the field of trade policy.

The Act seeks to implement principles to secure an open market and to limit restrictions on the implementation of legitimate policy goals. It contains principles of non-discrimination (MFN, national treatment), basic restrictions on QRs, proportionality, and transparency. It defines conditions for the application of trade remedies, in particular safeguard measures and measures taken to protect national security.

The Act defines jurisdiction assigned to Palestine's Legislative Council, the President, the Cabinet, the Ministry of National Economy, and special Agencies. Provisions address different functions assigned in the process of treaty negotiations. In particular, the policy input of the Legislative Council and the role of the Cabinet are addressed. The Act provides for the direct application of treaties and for reporting requirements on foreign economic affairs.

The Act addresses the relationship between international and domestic law. It establishes the principle of the supremacy of international agreements, and the principles of direct effect and consistent interpretation. Likewise, other regulations that affect the importation and exportation of goods and services should be applied in a manner consistent with the Act.

The Act defines jurisdiction and the allocation of powers and functions among domestic actors. Administrative responsibilities for trade are mainly vested with the Minister of Economy and Trade (now National Economy), and made subject to judicial review. A special Trade Tribunal or commission is proposed which would provide advisory opinions to courts so requesting. The judgements of the Trade Tribunal are subject to review by the High Constitutional Court of Palestine.

Border Regime and Customs

Irrespective of the trade policy chosen, the Palestinian Authority's Customs Department will need to assume greatly extended responsibilities on Day One of Statehood. By this time Customs will need to have developed its role from a predominantly audit-based monitoring one, to one with direct responsibility for the financial and physical clearance of goods and persons at a customs frontier. During the transition period the greatest challenge to the department's development lies in following a strategy to create and implement minimum standards of operation.

The content and timescale for implementing such a strategy would not be much affected by the trade policy choice - EPP studies show that the procedures and infrastructure required to underpin either a Non-Discriminatory Trade Policy (NDTP) across the board or a Free Trade Agreement (FTA) with Israel could be in place within a timeframe of four years. However, this would depend on an agreed programme of development, local commitment, government support and the provision of major donor investment in institutional capacity building.

As the PA assumptions for the EPP were focussed on the NDTP and FTA options, only limited comment has been made in EPP studies regarding issues surrounding the continuation of the existing quasi Customs Union (CU), or adoption of a full CU with Israel. However, it is believed that much of the procedural change, institutional development and overall reform strategy would be similar to that required by other trade policy options. Key differences for the CU option, when considering both Customs and other border related controls, would relate mainly to the levels of co-operation between the two parties and the amount and location of resources required to administer policy.

Strategies, sequencing and timing for the transition period to Statehood need to take the following into account:

Supporting legislation. In order to provide the legal basis for the administration and enforcement of customs operations, a Customs Act will be required to replace the Paris Protocol. In parallel with MNE / EPP project work, the Ministry of Finance in 2002 requested the German organisation, GTZ, to assist with drafting customs legislation. This draft legislation was reportedly submitted to the PA by GTZ in late 2003.

Institutional capacity building. To implement the Customs Act, Palestine will need to develop straightforward and efficient customs operations, capable of facilitating the flow of

legitimate trade and passengers, while ensuring collection of revenue and the social protection of citizens. The EPP study, *Preparations for Statehood: Trade Policy and Future Customs Administration*, EPPIII 019 (submitted to the MNE and MOF in April 2003), identified the minimum customs institutional requirements for implementing these trade policy options, and suggested strategies as to how new responsibilities and roles might be managed, likely timescales and a work plan for the transitional period to statehood. The study has subsequently been used as a tool by the Ministry of Finance Customs Department when drawing up its Strategy for Development for Customs, and was also shared with the World Bank in Summer 2003.

Building the infrastructure. To manage the border clearance regime under an NDTP or an FTA, Palestine will need clearance facilities and procedures to facilitate revenue collection, anti-smuggling controls, and transit operations, plus special regimes for Jerusalem. The EPP Customs studies outline how the development of infrastructure could be located either on, or near, the perceived border line in order to allow infrastructure development to begin before final agreement has been reached on an exact border definition. As the required infrastructure is likely to take up to four years to build, this activity will most probably form the ‘critical path’ in any strategic planning document.

WCO Membership. Membership of the World Customs Organisation (WCO) would provide the Palestinian Customs Department with guidance, support, and a valuable international forum. Currently Palestine is unable to meet the criteria required for applying for WCO observership and for subsequent accession, but it should try to consolidate its position by continuing to express an interest in the work of the WCO and, where possible, to align the development of the Customs Department with WCO principles and Kyoto standards.

Transit Agreements. On reaching statehood, Palestine must give priority to the development of transit agreements with its neighbours (including Israel) to secure access for goods to Palestinian territory from land routes and air and seaports, in accordance with pertinent international standards and agreements. Palestine should also consider becoming a contracting party to the TIR Convention at the earliest opportunity, and should liaise with the International Road Union (IRU) for guidance on preparing the internal mechanisms required for accession to the Convention, and an early approval of a national body authorised to issue TIR carnets.

Safe Passage. The assumptions that were provided by the PA to underpin EPP work imply that the West Bank and Gaza Strip are to be considered legally contiguous and that movement of goods, people, and means of transport between these Palestinian territories should not be covered by the definition of “traffic in transit”.

Jerusalem. As requested by the PA, EPP work assumes that Palestine and Israel will have mutually- recognised and sovereign capitals in East and West Jerusalem respectively. Palestinian economic and trade policy and the associated border regime will therefore need to take account of the specific needs of Jerusalem. Assuming that Jerusalem will be an Open City where goods and people circulate freely, many functions would need to be undertaken by a joint municipal structure, and special control mechanisms will need to be employed, such as the labeling of goods and the use of number plate readers to monitor the flow of traffic and trade.

Agreement with Israel. Palestine would need to reach agreement with Israel to facilitate trade through customs co-operation involving exchanges of information, the simplification of procedures and the establishment of joint committees to oversee and monitor the operation and implementation of the agreement.

Transit Rules

Transit rights must be an integral part of any package of agreements and rules that Palestine will consider in connection with its overall trade policy strategy because transit will be a critical element of the effort to ensure that independent Palestine is economically viable. In the absence of the right to conduct trade in transit across Israeli territory, Palestine would not be able to conduct trade effectively with its major trading partners. Therefore, from Day One of Palestine's independence, a "sovereign corridor" must connect the Palestinian territories (this is not considered "transit") and Palestine must have the right to trade in transit across Israeli territory.

Although basic rules under the General Agreement on Tariffs and Trade guarantee transit rights to WTO Members, two obvious problems will need to be addressed. First, we assume that Palestine will not be a Member of the World Trade Organisation (WTO) on Day One of its independence; and second, the national security issues that predominate in any debate on transit issues with Israel fall beyond the scope of WTO competence.

EPP work on transit options considers that in light of these specific problems – and the economic stakes involved – special "WTO Plus" rules on transit will be necessary on Day One. Any practical transit agreement will need to shore up the shortcomings of WTO rules and to address the specific problems related to security concerns.

EPP options outline levels of co-operation, ranging from a sectoral transit agreement to transit disciplines under a Free Trade Agreement (FTA). Ultimately, a successful transit agreement can only be possible in the context of high levels of political and technical co-operation between negotiators as well as customs authorities and trade regulators.

TBT and SPS issues

TBT and SPS measures are not taken in order to regulate international trade, but to ensure that products placed on the market do not cause unnecessary risks to human, animal or plant health and life, or to the environment. TBT measures are also used to enhance the efficiency of e.g. production, transports and communications. These measures do, however, have a significant effect on international trade, and specific provisions on these measures are therefore included in virtually all international trade agreements.

For Palestine the most important of such agreements are trade agreements reached with Israel and the WTO Agreements on Technical Barriers to Trade (TBT Agreement) and on the Application of Sanitary and Phytosanitary Measures (SPS Agreement). TBT and SPS issues have thus been taken into account in EPP work on options for a future trade agreement with Israel as well as in the Draft Foreign Trade Act of Palestine.

Far more challenging, however, has been and will be the task of ensuring that relevant Palestinian legislation complies with the pertinent provisions of the TBT and SPS Agreements. To outline the necessary measures to be taken, a Comprehensive Programme for Implementing the WTO TBT and SPS Agreements was prepared and presented to the Ministry of National Economy (MNE). Implementation of this Programme was also initiated within the framework of the EPP as follows.

Work on TBT issues was carried out in co-operation with the Market Access Program (MAP) operated by Development Alternatives Inc. (DAI) and financed by the USAID. It was agreed that the EPP would prepare proposals on the necessary legislative framework and MAP on the institutional and operative development of the Palestine Standards Institute (PSI). As a result the EPP submitted to the MNE a draft Law on Technical Normative Infrastructure covering technical regulations, standards and conformity assessment procedures. The draft was presented to Palestinian stakeholders at a seminar in Ramallah in March 2004 and was well received.

In the field of SPS it was concluded that the most feasible way to proceed would be to draft separate laws on food safety, on animal health and on plant protection. In September 2003 the EPP submitted to the MNE a draft Food Safety Law. Unfortunately, it was not possible to initiate work on laws on animal health or on plant protection within the framework of available time.

Competition Law

A sovereign Palestinian state should be able to regulate conditions of competition within its borders without: (a) deterring investment; or (b) overburdening its administration. As the WTO has no rules or framework for dealing with internal conditions of competition, Palestine has, in effect, a free hand in establishing its competition regime.

A number of specific competition law concerns have been identified, including certain clear abuses of market power by companies operating in or exporting to Palestine and anti-competitive conditions introduced into distribution arrangements.

In addition, after consultation with the Minister of National Economy, it was agreed that provisions were needed to regulate the granting of special or exclusive rights within Palestine, some control over mergers and acquisitions, and a residual right to control other types of anti-competitive acts.

As to abuse of market power and certain anti-competitive agreements, it was felt that these were so clearly against the interests of the Palestinian economy that they should be prohibited. These two prohibitions are supported by private rights of action in relation to both, and a right to impose corrective measures and financial penalties for breach. In addition, the Minister may investigate any other type of anti-competitive activity, but can only use corrective measures and cannot impose financial penalties. Finally, it is made clear that the basic prohibitions will apply to businesses operating under special or exclusive rights granted by Palestine, unless the Minister has provided a prior exemption in relation to such rights. This gives a strong incentive for the granting of special or exclusive rights to be discussed with the Minister.

Finally, a permissive approach is taken to merger control. Rather than requiring prior notification of all mergers over a certain size, the Minister may review certain large mergers affecting Palestine for a period of up to 30 days after it is made public. Businesses will have to come to a view as to whether prior notification will facilitate the merger, or alternatively risk *ex post facto* review.

Public Procurement Law

A sovereign Palestinian state should be able to regulate procurement activities of public bodies within its borders.

While the WTO has a plurilateral agreement, the Agreement on Government Procurement (GPA), regulating procurement between the signatory parties, Palestine is not required to accede to the GPA as a condition of its accession to the WTO. However, certain WTO Members may wish to try to impose accession by Palestine to the GPA as a condition for their agreement to Palestine's accession to the WTO.

Palestine, therefore, has a significant degree of latitude with regard to how it chooses to regulate procurement by public bodies. At the moment, Palestine has two laws that provide a high degree of transparency in procurement, which could, if slightly amended, permit Palestine to accede to the GPA.

However, the fundamental question is how far Palestine needs to open up its procurement activities to third country tenderers. As Palestine is not formally obliged to follow any procurement rules as a condition of accession to the WTO, it may set the degree of openness of the Palestinian procurement system as it wishes.

An integral part of this analysis is whether Palestine wishes to make use of Article V of the GPA, which permits accession by developing countries. If Palestine wishes to accede to the GPA, should it do so on the basis of Article V? Would Palestine's acceptance that it is a developing country and worthy of special and differential treatment send the wrong political message to the international community?

Acronyms

ACP	African, Caribbean and Pacific Group of States
AGOA	African Growth and Opportunity Act
AMU	Arab Maghreb Union
ASYCUDA	Automated System for Customs Data
AVE	Ad Valorem Equivalents
BDV	Brussels Definition of Value
CAC	Codex Alimentarius Commission
CCC	Customs Co-operation Council
DFID	Department for International Development
DSU	Dispute Settlement Understanding
CEEC	Central and Eastern European Countries
CEFTA	Central European Free Trade Agreement
COMESA	Common Market for Eastern and Southern Africa
COO	Certificates of Origin
CRM	Customs Reform and Modernisation programme
CU	Customs Union
CVA	Coefficient of Variation
DFID	Department for International Development
EBA	Everything But Arms [Agreement]
EC	European Communities
EFTA	European Free Trade Association
EIU	Economist Intelligence Unit
EPP	Economic Policy Programme
ERP	Effective Rate of Protection
EU	European Union
EUROMED	Euro-Mediterranean Partnership (Barcelona Process)
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
FTAP	Foreign Trade Act of Palestine
FTIP	Free Trade and Investment Protection Agreement
GAFTA	Greater Arab Free Trade Area
GPA	Agreement on Government Procurement
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GATT 94	General Agreement on Tariffs and Trade 1994
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GNP	Gross National Product
GSP	Generalised System of Preferences
GTZ	Deutsche Gesellschaft fuer Technische Zusammenarbeit
GVC	GATT Valuation Code
HS	Harmonised Commodity Coding System

HTS	Harmonised Tariff Schedule
IAEA	International Atomic Energy Authority
ICC	International Chamber of Commerce
IEC	International Electrotechnical Commission
IMF	International Monetary Fund
ILO	International Labour Organisation
IOE	International Office of Epizootics
IPPC	International Plant Protection Convention
IPR	Intellectual Property Rights
IPR	Inward Processing Relief
ISIC	International Standard Industrial Classification
ISO	International Standards Organisation
ITA	Information Technology Agreement
ITC	International Trade Commission
ITU	International Telecommunications Union
JCT	Joint Transit Committee
JEC	Joint Economic Committee
LDC	Least Developed Country
LSE	London School of Economics
MAS	Palestine Economic Policy Research Institute
MENA	Middle East and North Africa
MFN	Most-Favoured Nation
MIB	Merchandise in Baggage
MNE	Ministry of National Economy
MOET	Ministry of Economy and Trade
MOETI	Ministry of Economy, Trade and Industry
MOF	Ministry of Finance
MOPIC	Ministry of Planning and International Cooperation
NAFTA	North American Free Trade Agreement
NDTP	Non-Discriminatory Trade Policy
NTB	Non-Tariff Barrier
NVNI	Non-Violation Nullification and Impairment
OPR	Outward Processing Relief
OPT	Outward Processing Traffic
PA	Palestinian Authority
PCA	Post-Clearance Audit
PCC	Processing for Customs Control
PECDAR	Palestinian Economic Council for Development and Reconstruction
PLO	Palestine Liberation Organisation
PP	Paris Protocol
PSI	Palestinian Standards Institute
PTA	Preferential Trading Arrangements/Agreements
QR	Quantitative Restriction
RoO	Rules of Origin

ROW	Rest of World
RTA	Regional Trade Agreement
SCM	Subsidies and Countervailing Measures
SDT	Special and Differential Treatment
SITC	Standard International Trade Classification
SOE	Small Open Economy
SPS	Sanitary and Phytosanitary [Measures]
T&C	Textiles & Clothing
TAMA	Importation Rate Uplift
TBT	Technical Barriers to Trade
TC	Trade Creation
TIR	Transports Internationaux Routiers
TPR	Trade Policy Review
TRIPS	Agreement on Trade-Related Aspects of Intellectual Property Rights
UN	United Nations
UNCITRAL	United Nations Commission on International Trade Law
UNCTAD	United Nations Conference on Trade and Development
UNESCO	United Nations Educational, Scientific and Cultural Organisation
UNSCO	Office of the United Nations Special Coordinator in the Occupied Territories
WB	World Bank
WBG	West Bank and Gaza Strip
WCO	World Customs Organisation
WHO	World Health Organisation
WTO	World Trade Organisation

GENERAL GLOSSARY FOLLOWED BY GLOSSARY OF CUSTOMS TERMS

Ad Valorem Equivalent (AVE). A calculation of the level of a specific tariff, which converts a rate expressed as a fixed monetary value per unit of product, into a value expressed as a percentage of the value of the product.

Additive regionalism. The process of establishing a complex system of interlinking PTAs, as opposed to a single all-encompassing regional trade agreement.

Customs Union (CU). A preferential trading arrangement in which partners have no tariff barriers among themselves and share a common external trade policy (including a common external tariff (CET)).

Effective Rate of Protection (ERP). Also known as Effective Rate of Assistance. Used to measure government interventions such as subsidies or purchasing preferences that may influence trade flows without actually restricting flows at the border.

Free Trade Area (FTA). A preferential trading arrangement in which partners have no tariff barriers among themselves, but keep their own external trade policy. This implies that rules must be established to identify origin (RoO) to prevent transshipment via the partner with the low external tariff.

Generalised System of Preferences (GSP). Gives goods from developing countries a preferential margin in the tariff rates they face in the markets of developed countries. Entered into force in 1971. Since then has diminished in importance owing to the general reduction in tariff rates worldwide.

Most-Favoured Nation (MFN). The rule that a country must give each of its trading partners the best treatment it gives to any of them in a given product. In the WTO, MFN is the binding general obligation that any concession must immediately be extended to all other members, with limited exceptions including FTAs or CUs.

Non-tariff barrier (NTB). Any measure that restricts trade that is not a price measure (i.e., a tariff, export tax or export subsidy). Includes licensing requirements, technical norms, safeguard levies, variable import levies, tariff quotas.

Non-discriminatory trade policy (NDTP). A trade policy in which a country adopts an MFN tariff with respect to all of its trading partners, with no preferential arrangements. Note that this study follows MOETI guidelines (see Annex 7) and assumes the continuation of Palestine's Free Trade Agreements with the European Union and the United States.

Outward Processing Traffic (OPT). Describes the situation in which EU firms supply materials, parts or components to Eastern European subcontractors, to be processed or assembled and then reimported into the EU. The EU provides preferential tariff quotas for OPT imports of textile products. (See Annex 1 pp. 16)

Preferential Margin. The difference between the duty that would be paid under a system of preferences in an PTA of some sort and the duty payable on an MFN basis.

Preferential Trading Arrangement (PTA). A trade arrangement under which one party agrees, either unilaterally or through negotiation, to grant one or more other parties preferential treatment in trade in goods or services.

Pass-through coefficient. The rate of transmission of a change in tariff into a change in price.

Price-reaction coefficient. The rate of transmission of a change in the price of a good from partner B into a change in the price of a good from partner A.

Quantitative Restriction (QR). Limit or quota on the amount of a particular product that can be imported or exported during a given period.

Quasi-CU. The term used in this report to describe Palestine's current trade regime which amounts to a CU with Israel except for its own tariff policy for certain restricted categories of products.

Regional Trade Agreement (RTA). An FTA, CU or Common Market consisting of two or more countries.

Rules of Origin (RoO). Laws or regulations applied by governments to determine the country of origin of goods, services or investment. They are used to determine eligibility for a preferential tariff under a PTA.

Small open economy (SOE). Describes an economy that cannot affect the prices at which it trades on world markets, both for imports and for exports.

Tariff escalation. The setting of a tariff in such a way that it rises with the increasing transformation of a product. It is used to favour the import of simple manufactures in order to promote an increase in domestic manufacturing.

Tariffication. Conversion to and binding of tariff equivalents of non-tariff measures.

Technical Barriers to Trade (TBT). All trade regimes have TBTs. The distinguishing characteristic of TBTs is that while they raise costs like tariffs and NTBs, they do not create rents. Avoidable transaction costs on international trade transactions have the same effect. Examples are licensing requirements and standards.

Trade Creation (TC). One of the criteria used for assessment of FTAs or CUs. A preferential reduction in tariffs by a country with respect to a trade partner leads to Trade Creation when the partner was the efficient supplier and was exporting to the country before the tariff reduction.

Trade Diversion (TD). One of the criteria used for assessment of FTAs or CUs. A preferential reduction in tariffs by a country with respect to a trade partner leads to Trade Diversion when there is a shift in the sources of imports from the Rest of the World towards the (inefficient) partner.

Utilisation Rate. The proportion of goods crossing a border between partners in a PTA that are subject to the preferential tariff rate rather than the MFN rate.

GLOSSARY OF COMMON CUSTOMS TERMS

Ad-Valorem Duties And Taxes. Duties and taxes which are calculated on the basis of value;

Audit-Based Control. Measures by which the Customs satisfy themselves as to the accuracy and authenticity of declarations through the examination of the relevant books, records, business systems and commercial data held by persons concerned;

Bond. An undertaking in due legal form, by which a person binds himself to the customs to do or not to do some specific act;

Certificate Of Origin (COO). A specific document identifying the goods, in which the authority or body empowered to issue it certifies expressly that the goods to which the certificate relates originate in specific country. This certificate may also include a declaration by the manufacturer, producer, supplier, exporter, or other competent person;

Container. An article of transport equipment (lift-van, movable tank or other similar structure): fully or partially enclosed to constitute a compartment intended or containing goods, of permanent character and accordingly strong enough to be suitable for repeated use, specially designed to facilitate the carriage of goods, by one or more modes of transport, without intermediate reloading, designed for ready handling, particularly when being transferred from one mode of transport to another, designed to be easy to fill and to empty, and having an internal volume of one cubic metre or more;

Country Of Origin Of Goods. Country in which the goods have been produced or manufactured, according to the criteria laid down for the purposes of application of the customs tariff, of quantitative restrictions or of any other trade;

Customs Approved Route. Any road, railway, waterway and any other route (pipeline, etc.) Which, in accordance with the customs provisions of a state, must be used for the importation, customs transit and exportation of goods;

Customs Duties. Duties laid down in the customs tariff, to which goods are liable on entering or leaving the customs territory;

Customs Frontiers. The boundary of a customs territory;

Customs Law. The statutory and regulatory provisions relating to the importation, exportation, movement or storage of goods, the administration and enforcement of which are specifically charged to the Customs, and any regulations made by the Customs under their statutory powers;

Customs Seal. An assembly consisting of a seal and a fastening which are joined together in a secure manner. Customs seals are affixed in connection with certain customs procedures (customs transit, in particular) generally to prevent or to draw attention to any unauthorized interface with the sealed items.

Customs Territory. The territory in which the Customs law of a Contracting Party applies;

Customs Transit. Customs procedures under which goods are transported under customs control from one customs office to another.

Customs Union. Entity formed by a customs territory replacing two or more territories and having in its ultimate state the following characteristics:

- A common customs tariff and a common harmonized customs legislation for the application of that tariff;
- The absence of any customs duties and charges having equivalent effect in trade between the countries forming the customs union in products originating entirely in those countries or in products of other countries in respect of which import formalities have been complied with custom duties and charges having equivalent effect have been levied or guaranteed and if they have not benefited from a total or partial drawback of such duties and charges;
- The elimination of restrictive regulations of commerce within the customs union.

Customs Warehousing Procedure. Customs procedure under which imported goods are stored under customs control in a designed place (a customs warehouse) without payment of import duties and taxes;

Declaration Of Arrival Or Departure. Any declaration required to be made or produced to the customs authorities upon the arrival or departure of a means of transport by the person responsible for the means of transport or his agent and containing the necessary particulars relating to the means of transport and to the journey, cargo, stores, crew or passengers;

Deposit. A sum of money provisionally paid (french: "consignation") or title deeds, bearer bonds, etc, lodged as security for the payment of such duties, taxes or other sums as may become chargeable;

Drawback Procedure. Customs procedure which, when goods are exported, provides for a refund (total or partial) to be made in respect of the import duties and taxes charged on the goods, or on materials contained in them or used up in their production;

Dual Channel (red/green). Simplified customs control system allowing travellers on arrival to make a customs declaration by choosing between two types of channels. One, identified by green symbols, is for the use of travellers carrying goods in quantities or values not exceeding those admissible duty-free and which are not subject to import prohibition or restriction. The other, identified by red symbols, is for other travellers.

Free Trade Area. Entity formed by the customs territories of an association of states and having in its ultimate state the following characteristic:

- The elimination of customs duties in respects of products of originating in any of the countries of the area, each state retains its customs tariff and customs law, each state of the area remains autonomous in matters of customs and economic policy, trade is based on the application of rules of origin, to take account of the different customs tariffs and prevent deflection of trade, the elimination of restrictive regulations of commerce within the free trade area;

Free Zone. A part of the territory of a state where any goods introduced are generally regarded, insofar as import duties and taxes are concerned, as being outside the customs territory and are not subject to the usual customs control;

Guaranteeing Association. An association which is approved by the customs authorities of a contracting party to an international agreement to guarantee the payment of any sums legally

due, under the terms of this agreement, to the customs authorities of that contracting party, and which is affiliated to a guaranteeing chain;

Guaranty. Undertaking by which the surety assumes obligations towards the customs administration;

Intellectual Property Rights. The rights relating to :

- Literary, artistic and scientific works,
- Performances of performing artists, phonograms and broadcasts,
- Inventions in all fields of human endeavour,
- Scientific discoveries,
- Industrial designs,
- Trademark, service marks and commercial names and designations,
- Protection against unfair competition,
- And all other rights resulting from intellectual activity in the industrial, scientific, literary or artistic fields;

Issuing Association. An association which is approved by the customs authorities to issue ATA, CPD or TIR carnets and which is affiliated directly or indirectly to a guaranteeing chain;

Mutual Administrative Assistance. These are the actions of Customs administration on behalf of or in collaboration with another Customs administration for the proper application of Customs law and for the prevention, investigation and repression of Customs offences;

Quantitative Quota. Any pre-set quantity, authorized for importation or exportation of given goods, during a specified period, beyond which no additional quantity of these goods can be imported or exported;

Relief From Import Duties And Taxes. Clearance of goods for home use free of import, duties and taxes, irrespective of their normal tariff classification or normal liability, provided that they are imported in specified circumstances and for specified purposes;

Rules Of Origin. Specific provisions, developed from principles established by national legislation or international agreements ("origin criteria"), applied by a country to determine the origin of goods;

Seal. A piece of metal or other material used to join together two ends of a fastening in a secure manner;

Security. That which ensures to the satisfaction of the customs that an obligation to the customs will be fulfilled. Security is described as "general" when it ensures that the obligations arising from several operations will be fulfilled;

Specific Duties and Taxes. Duties and taxes which are calculated on the basis of value;

Substantial Transformation Criterion. The criterion according to which origin is determined by regarding as the country of origin the country in which the last substantial manufacturing or processing, deemed sufficient to give the commodity its essential character, has been carried out;

Tariff Classification Of Goods. Determination of the tariff subheading in a tariff nomenclature under which particular goods should be classified;

Tariff Heading (or Subheading). The textual designation in a tariff nomenclature of a single commodity or a single group or related commodities;

Tariff Nomenclature. Any classification on coding system introduced by national administrations or customs or economic unions to the designate commodities or groups of related commodities for customs tariff purposes;

Tariff Quota. Any pre-set value or quantity, authorized for importation or exportation of given goods, during a specific period, with a reduction of the customs duties, and beyond which any additional quantity of these goods can be imported or exported by paying normal customs duties;

Temporary Storage Of Goods. Storing of goods under customs control in premises and enclosed or unenclosed spaces specified by the customs (temporary stores) pending lodgement of the goods declaration;

Third Party. Any person who deals directly with the Customs, for and on behalf of another person, relating to the importation, exportation, movement or storage of goods;

Transshipment. Customs procedure under which goods are transferred under customs control from the importing means of transport to the exporting means of transport within the area of on customs office which is the office of both importation and exportation;

Transit Bond-Note. National customs document providing authority for goods to be conveyed in customs transit without prior payment of import duties and taxes, generally containing all the particulars necessary for assessment, where appropriate, of import duties and taxes, and an undertaking, covered by security, to produce the goods at the customs office of destination with customs seals intact.