



State of Israel

Measures Taken by Israel in Support of Developing the Palestinian Economy and Socio-Economic Structure

**Report of the Government of
Israel to the Ad Hoc Liaison
Committee (AHLC)**

New-York, September 21, 2010

Chapter One

Economic Growth in the West Bank and Israeli Measures

ECONOMIC SITUATION IN THE WEST BANK

General

1. During the first half of 2010, the West Bank continued to undergo significant economic recovery. **The macroeconomic situation continued to improve in the West Bank and Gaza, with solid economic growth registered so far in 2010. Real GDP growth in the first half of 2010 (compared to the first half of 2009) is estimated by the IMF at 9 percent for the West Bank and 16 percent for Gaza.**¹ The continuation of the positive trends reported in 2009 and 2008 is also due to measures taken by Israel to support economic activity, improvements in the security situation in the West Bank, the continued financial support of the international community to the Palestinian Authority and increased foreign investment.
2. The following indicators reflect the growth in economic activity:
 - There was persistent growth in manufacturing, trade, and financial services, as reflected in Table 1 below.
 - There has been a continued decline in unemployment. In the first quarter of 2010, unemployment decreased by 3%

¹ Source: IMF

Given the uncertain prospect for further easing of trade controls in the remainder of the year, the IMF's conservative projection for real GDP growth for the WBG in 2010 stands at 8 percent.

in comparison to the first quarter of 2009.²

- Growth was recorded in the tourism sector in the West Bank. For example, between June 2009 and March 2010, the number of guests staying in hotels rose by 13.7%, the average number of nights spent in hotels rose by 11.8%, and occupancy rates rose by 10.6%, to 32.7%. During the second quarter of 2010, the total number of guests was recorded at 140,009.³ In particular, a significant increase in tourism was recorded in Bethlehem and Jericho. For example, in the first half of 2010, external tourism in these two cities amounted to 824,000, in comparison to 441,000 in the first half of 2009.⁴
- In the first half of 2010, Israel transferred to the Palestinian Authority 2,299 million NIS, compared to 2,029 million NIS in the parallel period of 2009 and 1,865 million NIS in the parallel period in 2008. An additional 350 million NIS was transferred at the beginning of September 2010. The estimated amount to be transferred for the whole of 2010 is 4,598 million NIS, compared with 4,372 million NIS⁵ in 2009, and 3,918 million NIS in 2008.
- Growth in the field of construction reached more than 20% in the first

² Source: COGAT

³ As reported in a PCBS study of 94 hotels operating at the end of the second quarter of 2010.

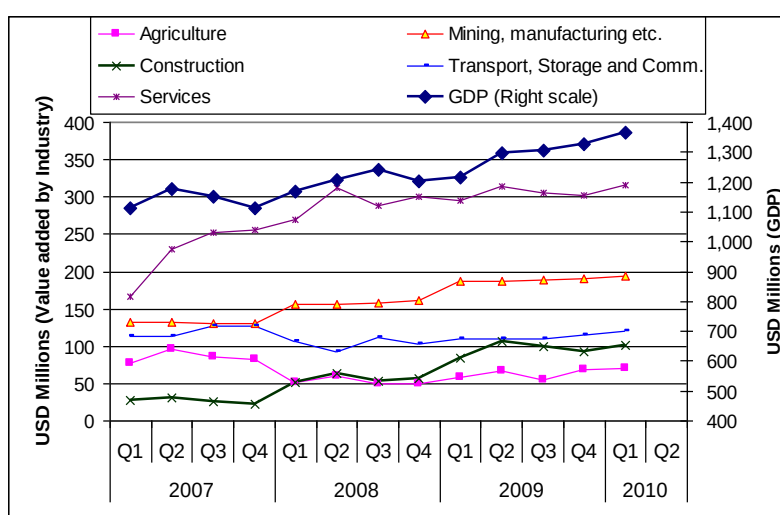
⁴ Source: COGAT

⁵ After the aforementioned deduction of payments.

quarter of 2010 (in comparison to the parallel quarter in 2009).⁶

- The numbers of vehicles imported to the Palestinian Authority increased dramatically in the months January to August 2010 compared to the corresponding period in 2009, from 854 vehicles in the corresponding period in 2009 to 2093 vehicles in 2010 (a 145.08% increase).⁷

Table 1: Palestinian GDP by Industry



Employment

3. General

Figures on employment in the West Bank demonstrate a positive trend. There has been a continued decline in unemployment. In the first quarter of 2010, unemployment decreased by 3% in comparison to the first quarter of 2009.⁸ Palestinian estimates regarding the labor market in the West Bank point to a continued improvement in the economy of the area—the unemployment rate declined to

⁶ Source: Palestinian Central Bureau of Statistics

⁷ Source: Israel Airports Authority

⁸ Source: COGAT

15.2 % in the second quarter of 2010, its lowest level in three years. In comparison, it should be noted for example that in the first quarter of 2008, the unemployment rate in the West Bank was 19%.⁹

4. Palestinian Employment in the Israeli Economy

In the first half of 2010, the increase in Palestinian employment in Israel and the Israeli settlements in the West Bank continued.¹⁰ The most notable feature of the increase was the constant rise in the number of Palestinian identity card holders with work permits employed, while employment of Palestinians without permits was at a standstill and even declined slightly. The average daily nominal wage also increased steadily in 2009 and the first quarter of 2010, with a slight drop in the second quarter of 2010 (See table 2 below).¹¹

The increase in the employment of permit holders derives from the increase in permits to work in Israel and may also be partly due to increased use of the permits to work in the Israeli settlements in the West Bank. Nevertheless, the change in the composition of permit holders and non-permit-holders working in the Israeli economy may well explain the increase in the average daily nominal wage that occurred despite the 8% percent drop in the number of hours worked per week between 2008 and the first half of 2009.¹²

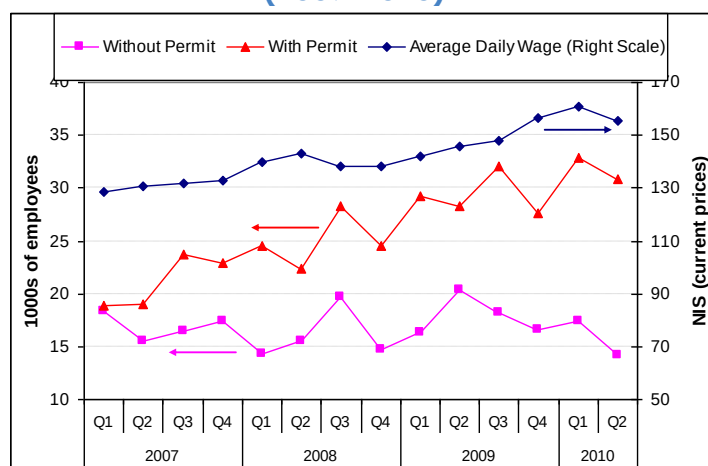
⁹ Source: Palestinian Central Bureau of Statistics

¹⁰ Source: Palestinian Labor Force Surveys

¹¹ Source: Bank of Israel

¹² Another plausible explanation for the increase in the wage is the increase in the wage of residents of East Jerusalem who are included in the average daily wage published by the Palestinian CBS.

**Table 2: Palestinian Employment in the Israeli Economy
(2007-2010)¹³**



Banking

5. In the first half of 2010, deposits of Palestinian banks in Israeli banks continued to increase rapidly, reaching more than NIS 1.6 billion. This increase was an extension of the upward trend evident in 2007–09. The growth in deposits may be due to the higher level of liquidity in the Palestinian economy and the high interest rate on the Shekel compared with that on other currencies, or it may be due to the increased volume of business between the two economies.^{14, 15}

¹³ Estimates of workers with permits and those without include Palestinians with Palestinian I.Ds, and do not include Palestinians with Israeli I.Ds or foreign passports, the great majority of which live in East Jerusalem. The average daily wage published by the Palestinian CBS includes holders of Israeli I.Ds and foreign passports, including residents of East Jerusalem who are not included in this review.

Source: Palestinian CBS, Labor Force Surveys.

¹⁴ Source: Bank of Israel

¹⁵ The amount of deposits declined in the past, in the first years of the *Intifada* (2002–03) and in 2005–06, following the third-party claim against the Israeli banks because of intervention in the transfer of terrorist funds. At the same time, foreign currency deposits of the Palestinian banks continued to follow a downward trend, reaching less than NIS 100 million. This low level reflects the switch, in the 1990s, of foreign currency activity by the Palestinian banks from the Israeli banks to direct dealing with foreign banks.

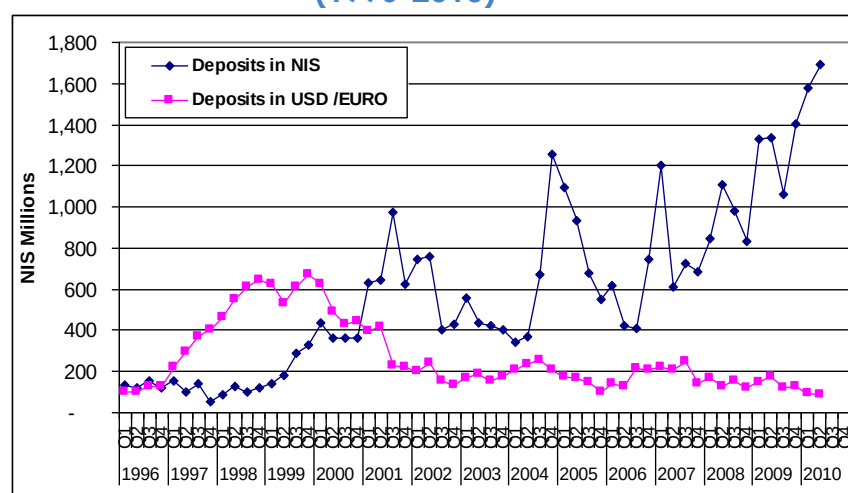
6. The Bank of Israel (BoI) has been working with the Palestine Monetary Authority (PMA) to establish smooth banking relations between the respective economies subject to security concerns and international standards prohibiting the financing of terrorism. These international standards—the implication of which was seen in legal action taken against an Israeli bank abroad for an alleged indirect breach of anti-terrorism-financing regulations—combined with the low profitability of business relations with Palestinian banks, induce Israeli commercial banks to limit their relations with Palestinian banks. Specifically, they do not conduct business with branches located in the territory controlled by Hamas—the Gaza Strip— in line with other financial institutions that comply with the international regulations prohibiting the financing of terrorism.

This situation resulted in large NIS cash surpluses accumulated by West Bank banks, which the BoI and the PMA cooperated in absorbing.

Specifically, since August 2009, the BoI in coordination with the GoI has arranged transfers totaling about NIS 1 billion in cash from the West Bank to Israel as an extraordinary measure. These transfers are evident in the increase in the NIS deposits of Palestinian banks in Israeli banks (Table 3). In addition, the BoI and the PMA are negotiating an agreement whereby certain amounts of excess NIS cash are regularly deposited in Israeli banks. The BoI and the GoI were also involved in finding solutions for other problems that have arisen from time to time in Palestinian banks, such as exchanging worn banknotes.¹⁶

¹⁶ Source: Bank of Israel

**Table 3: Deposits of Palestinian Banks in Israeli Banks
(1996-2010)¹⁷**



Trade with Israel

7. Trade between Israel and the West bank continued to grow in the first half of 2010. The following table demonstrates the levels of trade between Israel and the Palestinian Authority from 2006 to 2010:

**Table 4: Volume of Trade between Israel and the PA¹⁸
Sales to the PA and Purchases from the PA
in Millions of NIS**

Year	Volume of Purchases from the PA	Volume of Sales to the PA	Volume of trade between Israel and the PA
2006	1,961	10,206	12,168
2007	2,426	10,458	12,884
2008	2,555	11,613	14,168
2009	2,163	11,431	13,594
2010 ¹⁹	2,425	11,791	14,216

8. Trade de facto with the Palestinian Authority during the first half of 2010, compared with the first

¹⁷ Source: Bank of Israel

¹⁸ Source: Ministry of Finance

¹⁹ The estimate for 2010 is based on actual sales and purchases during the first half of 2010.

half of previous years, also indicates growth, as follows:

Table 5: Volume of Trade between Israel and the PA²⁰
Sales to the PA and Purchases from the PA
in Millions of NIS

Half	Volume of Purchases from the PA	Volume of Sales to the PA	Volume of trade between Israel and the PA
1/2007	1,177	4,861	6,038
2/2007	1,248	5,594	6,842
1/2008	1,308	5,995	7,303
2/2008	1,247	5,615	6,862
1/2009	1,043	5,455	6,498
2/2009	1,117	5,975	7,092
1/2010	1,212	5,895	7,108

9. Data regarding the movement of people, vehicles and commercial goods through the crossings between Israel and the West Bank during the first half of 2010 were as follows:

- The **daily** average of pedestrians entering Israel from the West Bank numbered 17,350.
- The **daily** average of vehicles entering Israel numbered 21,420.
- The **daily** average movement of goods numbered 1,340.²¹

Data from previous years, compiled on a yearly basis, indicate that in 2009, the movement of goods through the crossings amounted to 304,000 shipments. In addition, 6.8 million entries and exits of pedestrians were recorded in 2009.

²⁰ Source: Ministry of Finance

²¹ Source: Land Crossings Authority

It should be noted that at the crossings managed by the Crossings Management Authority,²² a 57% increase was recorded in the number of entries of Palestinian pedestrians into Israel in 2009, reaching 6,825,247 in 2009, compared to 4,340,362 in 2008.²³

Yearly data from 2010 is not yet available. However, if the current trend reflected in the daily estimates cited above continues, an overall increase is expected in comparison to 2009.

Israeli – Palestinian Fiscal Cooperation²⁴

10. Since mid-2007, there has been close cooperation between the ministries of finance of Israel and the Palestinian Authority. This cooperation includes the regular transfer of tax clearance revenues to the Palestinian Ministry of Finance by the Israeli Ministry of Finance, which has been carried out on a **consistent monthly basis** since July 2007²⁵. These revenues constitute one of the PA's primary sources of income, and are indispensable, together with budget support provided by donors and local tax collection, in enabling the PA to sustain operations, including payment of public sector salaries and private sector contracts.

²² Most of the crossings, not including the Jerusalem area.

²³ Source: Crossings Management Authority

²⁴ Source: Ministry of Finance

²⁵ Payments due to Israeli companies for utilities including water, electricity and sewage, as well as healthcare, which are provided to the Palestinians in the West Bank and Gaza by Israeli companies, are partially deducted each month directly from the tax clearance revenues transferred. Usually, the timing and amounts of these deductions are agreed in advance with the Palestinians.

11. **In the first half of 2010, Israel transferred to the Palestinian Authority 2,299 million NIS,** compared to 2,029 in the parallel period in 2009 and 1,865 million NIS in the parallel period in 2008. The estimated amount for the whole year 2010 is 4,598 million NIS, compared with 4,372 million NIS transferred by Israel to the Palestinian Authority²⁶ in 2009, and 3,918 million NIS in 2008. In the beginning of September, Israel transferred an additional 350 million NIS. **This increased amount constitutes another indicator of growth in the Palestinian Authority's economic activity.** See Tables 6 and 7, below:

Table 6: Transfer of Tax Clearance Revenues (Million NIS)²⁷

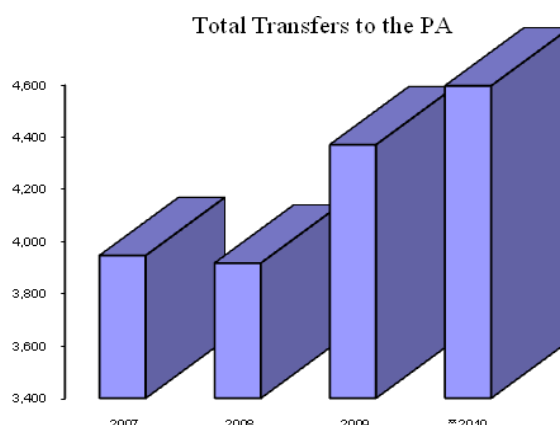
Subject	2005	2006	2007	2008	2009	2010²⁸
Import taxes	1,263	1,179	1,263	1,313	1,523	1,534
Local taxes (V.A.T + purchase tax)	1,275	1,146	1,462	1,379	1,382	1,488
Excise	862	983	1,222	1,226	1,457	1,576
Total Taxes	3,400	3,308	3,947	3,918	4,372	4,598

²⁶ After the aforementioned deduction of payments.

²⁷ Source: Ministry of Finance

²⁸ The estimate for 2010 is based on actual tax revenues transferred in the first half of 2010.

Table 7: Transfer of Tax Clearance Revenues²⁹



Tourism

12. The second half of 2009 and the beginning of 2010 witnessed growth in the tourism sector in the West Bank. Data reported by the Palestinian Central Bureau of Statistics indicate an increase in guests in Palestinian hotels between June 2009 and March 2010. During this period, the number of guests staying in hotels rose by 13.7%, the average number of nights spent in hotels rose 11.8%, and occupancy rates rose 10.6% to 32.7%. During the second quarter of 2010, the total number of guests was recorded at 140,009.³⁰

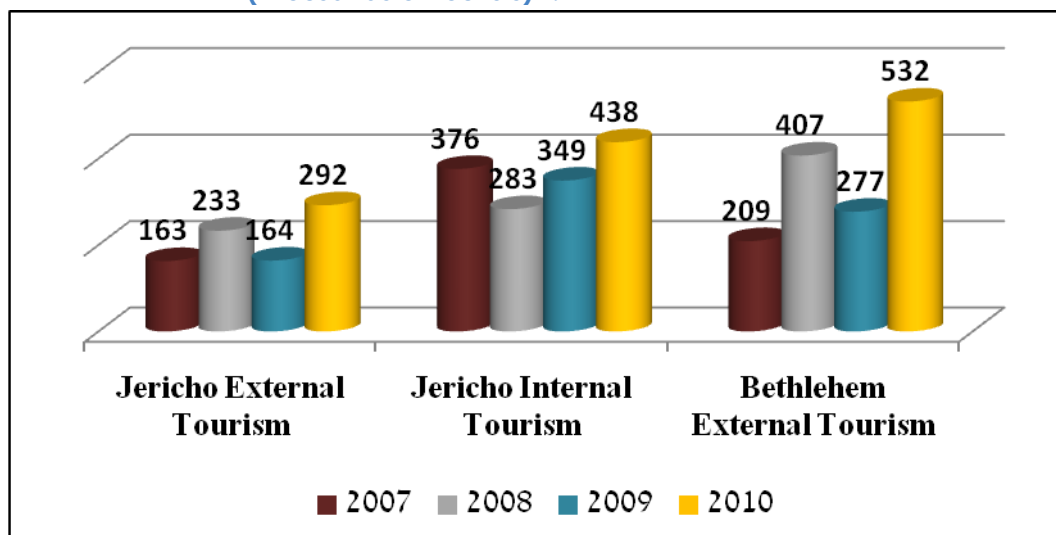
13. In Bethlehem and Jericho, there was a sharp increase in the number of tourists visiting in the first half of 2010, as reflected in table 8, below:

²⁹ Source: Ministry of Finance

³⁰ As reported in a PCBS study of 94 hotels operating at the end of the second quarter of 2010.

Table 8: Tourism Figures - Bethlehem and Jericho

(Thousands of Tourists)³¹:



Economic Conferences and Events

14. Since 2008, there has been a resurgence of conferences and special events in the West Bank, a trend welcomed by Israel, which has taken steps to facilitate the success of these events. Among the events held³²:

- Investment convention in Bethlehem (May 2008).
- Economic convention in Nablus (November 2008).
- Physicians convention in Jericho (April 2009).
- "Business and Fortune" exhibition in Al-Bireh (June 2009).
- Trade fair in Nablus (July 2009).

³¹ Source: COGAT

³² Source: COGAT

- "Local industrials" exhibition in Hebron (July 2009).
- High-tech convention in Ramallah (November 2009).
- Motor-mobile race in Jericho (November 2009).
- Visit of Palestinian Importers to Haifa port (March 2009).
- Professional seminar for 30 agriculturists on olives - organized by the Civil Administration (March 2010).
- Investment convention in Bethlehem (June 2010).

External Palestinian Trade through the Allenby Bridge

15. In order to increase the import and export of merchandise and the flow of passengers to Jordan, and at the request of the Palestinians, Israel extended the operating hours of the Allenby Bridge crossing for passengers and merchandise, and the crossing is now open continuously from 8:00 through 24:00. The extension of the crossing's operating hours began as a pilot which ran initially until February 2010, and has recently become permanent.

According to official Palestinian sources, by September 2009, the extension of the bridge's operating hours had already saved the Palestinian economy between 50-100 million shekels.³³

16. Data regarding the movement of commercial goods and passengers in 2009 and the beginning of 2010 indicate an increase in activity:

³³ Joint Economic Committee meeting, September 2, 2009.

- From January – August 2010, 1,173,505 passengers passed through the Allenby Bridge, compared to 1,037,695 during the corresponding period in 2009, **an increase of 13.09%.**
- The number of vehicles passing through the crossing follows this pattern, reaching 6,333 during the first seven months of 2010, compared to 5,450 during the corresponding period of 2009, **an increase of 16.2%.**
- The volume of commercial goods passing through the bridge during these periods decreased, amounting to 8,558 shipments in the beginning of 2010, in comparison to 9,333 in the corresponding period in 2009, a decrease of 8.3%.³⁴

Israeli Measures to Facilitate Palestinian Business Activity

17. A number of measures have been adopted by Israel in order to help facilitate increased Palestinian business activity. These measures are designed to enable increased access for businesspeople who generate significant income, and include:

- Trade Permits for Entry to Israel: In the first half of 2010, 22,910 permits were issued, compared to 20,503 permits in the first half of 2009, **an 11% increase in the number of permits issued.**
- An additional 400 permits were approved as a result of increased trade volume in the Nablus area.

³⁴ Source: Israel Airports Authority

- Approval was granted for an additional 500 merchants from the West Bank to enter Israel.
- 517 new BMC Cards were issued to Palestinian businessmen.
- The number of marble and stone laden trucks which are enabled to cross through tunnel checkpoints was doubled from 75 to 150.
- There was a 10% increase in the number of employment days in Israel, in comparison to the first half of 2010.

Israeli Measures to Improve Capacity at Commercial Crossings

18. Israel dedicated intensive efforts to upgrade and improve the capacity of the **commercial crossings** as follows:

- Extension of operating hours at the **Allenby Bridge** Terminal, for the passage of goods and pedestrians. The Terminal is now open from 8:00 through 24:00.
- A project to install weigh stations at all agricultural gates was completed. The project was funded by the Civil Administration at an estimated cost of 400,000 NIS.
- Extension of the operating hours at Gilboa crossing until 24:00.
- Extension of entry hours for Israeli Arabs to the Jenin area until 24:00.
- Extension of operating hours at Tarqumia crossing. Previously the crossing was

open from 7:30 to 17:00, and the hours have been extended to 6:00 to 19:30.

- Extension of the operating hours of Jalameh crossing. The crossing is now open from 8:00 through 19:00. On Saturdays the crossing is open until 20:00, and during the month of Ramadan it is open until 24:00.
- Main commercial crossings are being upgraded in 2010, including plans to enlarge the Shaar Efrayim and Gilboa crossings at an estimated cost of 8 million NIS. Work is in progress and includes the expansion of examination areas, adding additional lanes, and enlarging parking spaces.
- There are also plans to build fueling stations at the Tarkumiya and Shaar Efrayim crossings, but implementation is dependant upon Palestinian Authority cooperation.

Israeli Efforts to Support Infrastructure Projects³⁵

19.A number of infrastructure projects are currently in different stages of implementation in the West Bank. These projects will help improve the standard of living for the local population. The following is a brief description of some of the main projects in this area:

Environmental Infrastructure Projects:

- South West Bank Waste Disposal Site - this project, funded by the World Bank at an estimated cost of 23 million USD, will construct a waste disposal site for around 700,000 inhabitants in the areas

³⁵ Source: COGAT

of Bethlehem and Hebron. Work on the project is expected to commence in 2011.

- Ramallah (Dir Debuan) Waste Disposal Site – within this project, a waste disposal site will be constructed near Ramallah. The project, funded by KFW, will cost approximately 15 million Euros. Project plans have been submitted to the Civil Administration for approval, and the Civil Administration is waiting for a revised plan from the Germans.
- Nablus Waste Water Treatment Plant – within this project, a waste water treatment plant to serve Nablus and the surrounding areas will be constructed, at an estimated cost of 25 million Euros, funded by KFW. At the end of June 2009, the relevant construction permits (initially issued in 2006) were renewed, but the project has not yet been implemented. At this stage, the project awaits implementation by KFW.
- North West Bank (Zahrat al-Finjan) Waste Disposal Site – this project, which has already been completed, constructed a waste disposal site to serve inhabitants of Jenin, Tulkarem, Qalqilya and Nablus, enabling the closure of 90 pirate sites. The project was funded by the World Bank, at a cost of approximately 10 million USD.
- Umm Reihan Sewage Project – this project aims to connect Umm Reihan village to the sewage system. The project is funded by Japan and the Peres Center for Peace. Thus far, five households in the village have been connected. The project is currently suspended due to budgetary problems.

- Tulkarem Waste Water Treatment Plant - within this project, a waste water treatment plant will be constructed to serve Nablus and Tulkarem, at an estimated cost of 20 million Euros, funded by KFW. The project was approved by the Joint Water Committee in 2005, but the Palestinians have not yet submitted the necessary documentation for implementation. Implementation of the project is still being negotiated by the relevant parties, due to disagreements about the solution for sewage.
- Salfit Waste Water Treatment Plant - a waste water treatment plant will be constructed to serve Salfit and the surrounding areas, funded by KFW. The project is currently stalled, due to matters between the Palestinians and KFW.
- Beitounia Waste Water Treatment Plant – two waste water treatment plants will be constructed to serve 400,000 residents in Beitounia, and part of Ramallah. The project is funded by KFW, at an estimated cost of 20 million Euros. The project was approved by the Joint Water Committee in 2006, but project plans have not yet been submitted.

Roads:

- In 2009, 10 roads were upgraded by USAID (in Areas B and C - in Jericho, Hebron, Bethlehem, Nablus and Ramallah).
- In 2010, an additional 18 road upgrades are being implemented by USAID.
- In June 2010, approval was granted for work to upgrade an agricultural road in the Arava (ICRC).

Public Facilities:

- Steps are being taken to enable the construction of a council hall in Jiftlik, funded by JICA³⁶. Building permits have been submitted to the head of Jiftlik Council and JICA representatives.
- Approval has been granted for the construction of 5 schools in the West Bank.
- In 2009, 10 schools were constructed, financed by USAID. Construction of an additional four schools has been approved.

Energy - Electricity Infrastructure

Upgrading the electricity infrastructure in the West Bank is a priority shared by Israel, the Palestinians, and the international community. Under the Interim Agreement, an ongoing dialogue is held between the parties on energy issues. The Israeli and Palestinian energy authorities hold regular meetings, attended by representatives of the Ministry of Infrastructure, COGAT, and the Israel Electric Corporation, on the Israeli side, and the Palestinian Energy Authority, on the Palestinian side.

An electricity project, funded by the European Investment Bank (EIB) is currently being finalized between the Israel Electric Corporation, the Palestinian Energy Authority and the EIB. Under this project, **four electricity sub-stations will be constructed, in Jenin, Ramallah, Nablus and Hebron**, at an estimated cost of 100 million Euros. This project will substantially increase the electricity capacities of the West Bank, and will

³⁶ Japan International Cooperation Agency

enable development in a wide range of sectors.

Supporting the Palestinian Economy – Israeli Measures to Facilitate Access and Movement ³⁷

20. In spite of continued security threats, and due to Israel's desire to ease the movement and access of Palestinian civilians on the ground, combined with improved Israeli-Palestinian security coordination, since the end of 2007, Israel has taken a number of measures. Israel has dramatically reduced the number of checkpoints, from 41 in July 2007 to 16 today³⁸, and has removed hundreds of roadblocks. **Since April 2008, 409 roadblocks have been removed throughout the West Bank.**³⁹ As a result of these Israeli measures, movement between different areas in the West Bank is now smoother and quicker. Palestinians and their vehicles cross through fewer checkpoints, most of them operating as "normally open"⁴⁰, when moving between key cities and from north to south in the West Bank. The improvement on the ground is reflected clearly by different economic indicators, as reported in the second paragraph of this chapter.

³⁷ Checkpoints and roadblocks have proven to be effective tools for preventing and intercepting terrorist attacks, enabling the confiscation of weapons and the detainment of terrorists and wanted individuals. In many cases, the checkpoints serve as a last line of defense against terrorists, and provide the security forces more time to intercept the attack and stop it before it reaches its civilian target.

³⁸ In June 2009, Israel removed five central checkpoints: in Jericho, Kalkilya and Bir Zeit, as well as a checkpoint connecting Kalkilya, Jenin and Tulkarem with Nablus, and a checkpoint enabling unhindered access from Jericho and the Northern parts of the West Bank to Ramallah. The number of checkpoints as of (the beginning of 2010) had been down to 14, and two new checkpoints were added as a result of the opening of Road 443 to Palestinian traffic.

³⁹ On August 31, 2010, four civilians were killed in a terrorist attack perpetrated on Highway Number 60, a central artery where a number of checkpoints were removed over the past few years.

⁴⁰ Open around the clock, seven days a week.

21. Complementary measures have been taken by Israel to facilitate and ease the movement of Palestinians, as follows⁴¹:

- Since the beginning of 2010, 60 roadblocks have been removed.
- Roads have been opened to Palestinian traffic, including Road Number 443. The Daharia Junction has also been opened for traffic.
- Palestinians move freely to Azun Atme.
- Just 16 checkpoints remain in the West Bank, all operating as "normally open".
- At the request of parties within the Palestinian tourism sector, approval was given for 50 Israeli tour guides and bus drivers to enter Bethlehem and Jericho. This measure has increased the overall number of tour busses and tourists entering the West Bank.
- Approval for Israeli Arabs to enter all Palestinian cities and to access the West Bank through all crossings.
- Facilitation of movement at crossings, including: extension of operating hours at Awarta checkpoint until 22:00 (instead of 20:00), permanent extension of operating hours at the Allenby Bridge (now open from 8:00 – 24:00).
- Extension of the operating hours at Gilboa crossing until 24:00.
- Extension of operating hours at Tarqumia crossing. Previously the crossing was open from 7:30 to 17:00, and the hours have been extended to 6:00 to 19:30.
- Extension of the operating hours of Jalameh crossing. The crossing is now

⁴¹ Source: COGAT

open from 8:00 through 19:00. On Saturdays the crossing is open until 20:00, and during the month of Ramadan it is open until 24:00.

22. In addition, increased numbers of permits have been issued to ease the movement of Palestinians, as follows:

- 50% increase in permits issued to enter Israel.
- 400% increase in permits issued for Friday prayers at the Temple Mount.
- Approval of 500 stay permits for PA employees from Gaza.
- 12% increase in the number of permits issued for Palestinian patients to receive medical treatment in hospitals in Israel.⁴² In the first half of 2010, a total of 82,058 permits were issued, 14,675 for children.
- 164 VIP1 & VIP2 cards were issued for the year 2010.
- 481 movement cards were issued to senior Palestinian officials in the West Bank.
- Permission for VIP and BMC Card holders and accompanying family members to use crossings previously restricted to Israeli citizens (without prior coordination).

⁴² Including East Jerusalem.

Chapter Two

Israel's Cabinet Decision on the Civilian Policy towards Gaza – Principles and Implementation

Israel's Cabinet Decision (June 20, 2010)⁴³

On June 20, 2010, Israel's Security Cabinet adopted a decision signaling a new civilian policy towards Gaza. The text of the Decision is as follows:

"Israel's policy is to protect its citizens against terror, rocket and other attacks from Gaza. In seeking to keep weapons and war materiel out of Gaza while liberalizing the system by which civilian goods enter Gaza, the Government of Israel has decided to implement the following steps as quickly as possible:

- 1. Publish a list of items not permitted into Gaza that is limited to weapons and war materiel, including problematic dual-use items. All items not on this list will be permitted to enter Gaza.*
- 2. Enable and expand the inflow of dual-use construction materials for approved PA-authorized projects (schools, health facilities, water, sanitation, etc.) that are under international supervision and for housing projects such as the U.N. housing development being completed at Khan Yunis. Israel intends to accelerate the approval of such projects in accordance with accepted mechanisms and procedures.*
- 3. Expand operations at the existing operating land crossings, thereby enabling the processing of a significantly greater volume of goods through the crossings and the expansion of economic activity.*
- 4. Add substantial capacity at the existing*

⁴³http://www.mfa.gov.il/MFA/Government/Communiques/2010/Prime_Minister_Office_statement_20-Jun-2010.htm

operating land crossings and, as more processing capacity becomes necessary and when security concerns are fully addressed, open additional land crossings.

5. Streamline the policy of permitting the entry and exit of people for humanitarian and medical reasons and that of employees of international aid organizations that are recognized by the GOI. As conditions improve, Israel will consider additional ways to facilitate the movement of people to and from Gaza.

6. Israel will continue to facilitate the expeditious inspection and delivery of goods bound for Gaza through the port of Ashdod. Israel welcomes cooperation and coordination with its international and regional partners in implementing this policy and will continue to discuss with them additional ways to advance this policy.

The current security regime for Gaza will be maintained. Israel reiterates that along with the U.S., EU and others, it considers Hamas a terrorist organization. The international community must insist on a strict adherence to the Quartet principles regarding Hamas.

Hamas took over Gaza and turned it into a hostile territory from which Hamas prepares and carries out attacks against Israel and its citizens.

The Israel Defense Forces will continue to prevent the flow into and out of Gaza of terrorist operatives, weapons, war material and dual use items which enhance the military capability of Hamas and other terrorist groups in Gaza. Israel calls on the international community to stop the smuggling of weapons and war materials into Gaza.

Gilad Shalit is approaching four years in captivity. The international community should join Israel in strongly condemning those who

hold him captive and in redoubling their efforts to secure his immediate release.⁴⁴"

The new policy is based on the following elements:

- Publication of a list of controlled items. **All items that are not on the list are allowed into the Gaza Strip freely, with no need for any special permit.**
- Upgrading and expansion of the capacity of the land commercial crossings.
- Expansion of internationally-sponsored and monitored humanitarian projects.

Immediately following the adoption of the Security Cabinet Decision, Israel commenced the rapid implementation of its different elements, creating a new reality of the ground.

Implementing the Cabinet Decision

The following are a number of steps taken to implement the decision:

1. List of Controlled Items:

The list of items that need special permission to enter the Gaza Strip was officially made public at a press conference held at the Ministry of Foreign Affairs with the Coordinator of Government Activities in the Territories on July 5, 2010. This list is transparent and can be found on the websites of the Prime Minister's Office⁴⁵ and the Ministry of Foreign Affairs⁴⁶. The list will be updated periodically. The list is comprised of two groups of items:

- The first group of items consists of all those materials that are forbidden under

⁴⁴<http://www.pmo.gov.il/PMOEng/Communication/Spokesman/2010/06/spokemediniyut206010.htm>

⁴⁵www.pmo.gov.il/PMOEng/Communication/Spokesman/2010/07/spokegaza050710.htm

⁴⁶http://www.mfa.gov.il/MFA/HumanitarianAid/Palestinians/Lists_Controlled_Entry_Items_4-Jul-2010.htm

all circumstances, including within Israel, covering two categories: arms and munitions, and missile equipment.

- The second group of items on the list consists of dual-use goods and items, which are liable to be used, alongside their civilian uses, for the development, production, installation or enhancement of military capabilities and terrorist capacities.

Construction materials are to be allowed entry into Gaza only for PA-authorized projects implemented and monitored by the international community. While such items are liable to be used for military purposes by Hamas (building bunkers, fortifying positions and digging tunnels), Israel permits their entry into Gaza so as to facilitate construction projects in Gaza, when they are authorized by the PA and implemented and monitored by the international community.

Items not on the list are allowed into the Gaza Strip freely, with no need for any special permit.

2. Approved Projects:

Construction materials and equipment for approved projects continue to flow into the Gaza Strip. There are 45 such projects: 14 were approved at the beginning of the year, before the implementation of the new policy, and 31 were approved thereafter. As a rule, projects in the areas of water, sewage infrastructure, education, housing, health and welfare, receive approval.

Of the fourteen approved projects, five have been completed, and five have been fully approved and are in different stages of implementation. Another three projects are in different coordination stages, and one project has been cancelled.

The aforementioned additional 31 new projects, which have received approval and sponsorship, are as follows:

- 12 UN Projects – including expansion and renovation of schools, and construction of two UNRWA clinics with Japanese funding.
- 17 USAID projects – in the areas of education, health, community centers and preschools. 17 USAID projects were approved by COGAT in the aforementioned areas, one was cancelled by USAID.
- Red Cross project– wastewater treatment plant in Rafah.
- Belgian Government project – renovation of the cardiology ward at the European Hospital.

In a few cases, international projects that have already been approved have difficulty finding funding.

Additional projects will be considered in the future.

3. Projects Implemented:

Alongside the aforementioned approved projects, a number of projects have already been fully implemented or are currently underway. These projects include:

- The **pumping station in Tel Sultan**, a UN project, completed in the end of May 2010.
- **The construction of 151 residential units in Khan Yunis, a UN project.** All construction materials have been delivered, and work is due to be completed by the end of September.
- **Delivery of containers to serve as classrooms**, a UN project. Almost all of

the containers (111 out of 113 approved) have been delivered. The UN is not yet ready to deliver the remaining two containers.

- **Summer camps run by UNRWA**, which ended on 5 August, received all of their equipment on time.
- **Two USAID projects** have begun: construction of 900 greenhouses and 600 family-owned agricultural plots has been approved and is under implementation: equipment has entered the Gaza Strip, through coordination with USAID.
- **Renovation of the Al-Quds Hospital:** construction materials for this project continue to be shipped into Gaza. Medical equipment has been approved and will enter the Gaza Strip upon completion of construction.
- **North Gaza Sewage Treatment Plant in Beit Lahiya:** materials have begun flowing into Gaza for the implementation of the second stage of the World Bank project.
- **Sheikh Ajleen Sewage Plant:** in mid-September, equipment for the KFW project began entering the Strip.

Coordination between international organizations and COGAT for the delivery of materials and equipment for other projects continues.

4. Commercial Land Crossings:

As mentioned above, a key element of the Security Cabinet Decision which is currently being implemented is the upgrading and expansion of the capacity of the commercial land crossings. Israel is committed to providing adequate facilities at the crossings to Gaza, in order to enable implementation of the

government policy. Thus far, the following steps have been taken:

General:

- Three crossings are currently operating: Erez (passengers), Karni (the conveyor belt for shipments of aggregates and grains) and Kerem Shalom (commercial goods including cooking gas and fuels).
- Crossings infrastructures are being adapted to meet the demand resulting from the new government policy vis-à-vis the Gaza Strip. The impact of this work is already being felt, with increased capacity at the commercial crossings.
- The number of truckloads delivered to the Gaza Strip continues to increase on a daily basis. In July, there was a 19% increase in the amount of goods entering Gaza – 3,665 trucks via Kerem Shalom and Karni, carrying a total of 82,701 tons of goods.⁴⁷
- In August, 5071 trucks entered the Gaza Strip through Kerem Shalom, carrying a total of 110,682 tons of a wide array of goods.⁴⁸
- Not only has the number of trucks increased, but most of them now carry double the volume of trucks that entered Gaza in previous years.

Kerem Shalom:

- Traffic has increased significantly. The number of trucks coordinated with the PA normally reaches the current maximum capacity of 250 trucks a day. In practice, not all of the trucks coordinated with the PA actually arrive; on most days, 200 or more trucks arrive.⁴⁹

⁴⁷ Source: COGAT

⁴⁸ Source: Land Crossings Authority

⁴⁹ Since the month of Ramadan started (August 11) there has been a decline in the number of trucks coordinated by the PA.

- Work to upgrade the capacity of the crossing is ongoing on both sides – on the Israeli side by the Land Crossings Authority, and on the Palestinian side by the PA. On the Israeli side, work to double the capacity of Kerem Shalom will continue until 2011. **The immediate goal was to enable 250 trucks a day and that goal has been achieved. Expansion work is continuing in order to reach the goal of 300 trucks a day by the end of 2010, and 400 trucks daily during the first half of 2011.**
- In addition, the communities close to Kerem Shalom crossing have plans to build a crossing support infrastructure (such as bonded warehouses) that will aid in the operation of the crossing as traffic increases in the future.
- Work is being done on a lighting system to enable the crossing to operate even later.
- In addition to food and other commercial goods, the delivery of fuel and cooking gas also continues via Kerem Shalom.
- Work procedures have been adopted to alleviate the increasing goods traffic from the West Bank to the Gaza Strip via the Tarqumiya Crossing.

Karni Conveyer:

- The conveyer is used for bulk goods (building aggregates, grains and beans). The goods that pass through the Karni conveyer are equivalent to 120 truckloads a day (up from 80 before the Cabinet Decision). The conveyer currently operates two days a week, due to security constraints. In the future, the conveyer may be moved to Kerem Shalom.

Table 9: Merchandise Traffic to the Gaza Strip

(Numbers of Truckloads)⁵⁰

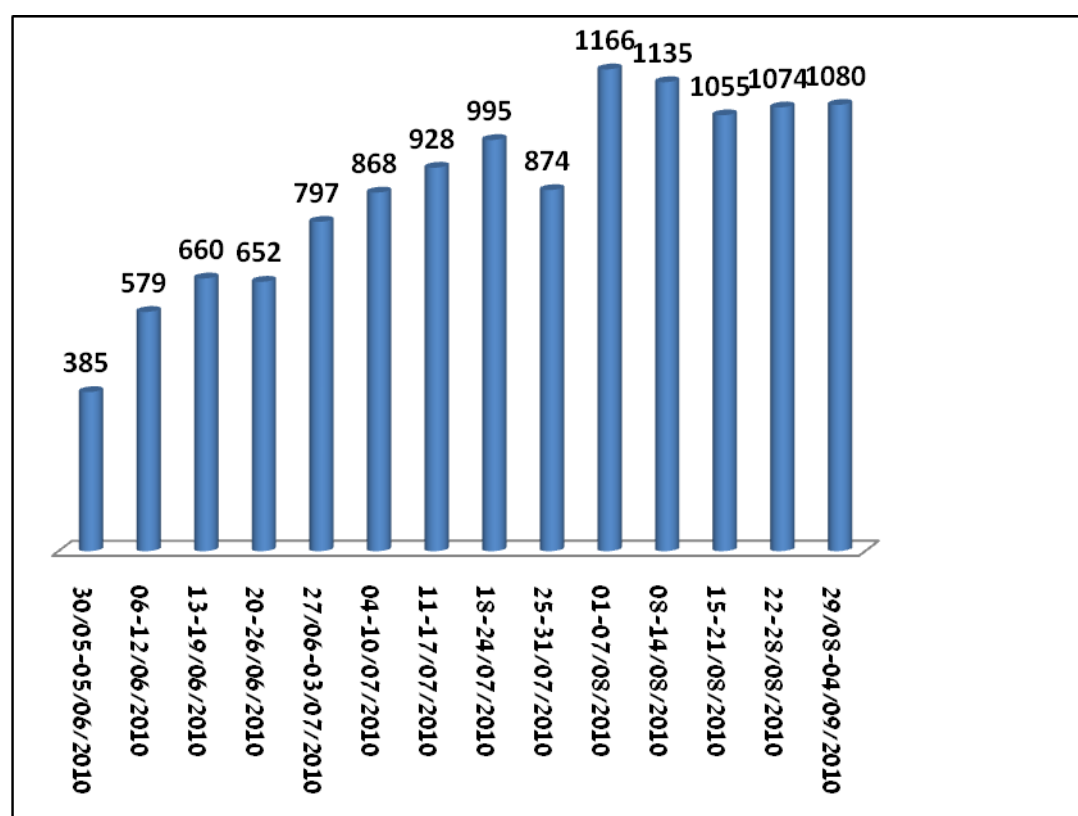
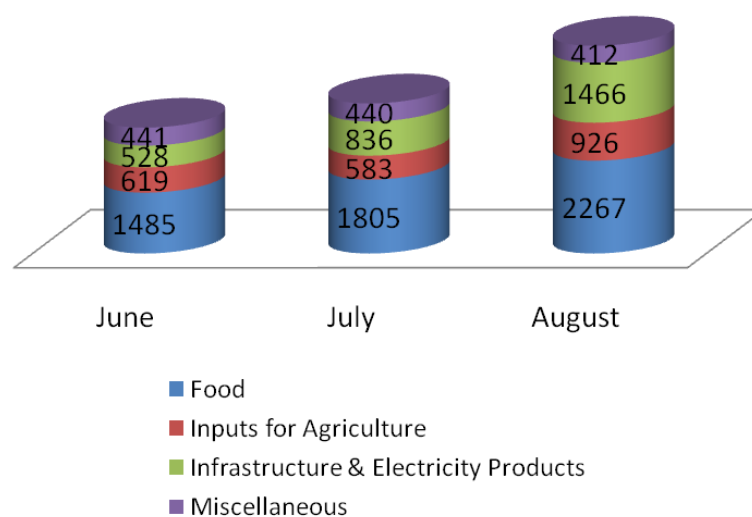


Table 10: Distribution of Goods Entering the Strip

(Numbers of Trucks)⁵¹



⁵⁰ Source: COGAT

⁵¹ Source: COGAT

5. Cooperation with the Palestinian Authority

Steps have been taken to increase cooperation with the Palestinian Authority in implementing the Security Cabinet Decision, including the establishment of two bilateral working groups:

- A joint COGAT - PA team established to promote projects funded and supervised by the international community.
- A team comprised of COGAT, the MOD Crossings Authority on the Israeli side, and representatives of the Palestinian Civil Committee and the Palestinian Crossings Authority, on the PA side, established in order to enhance the capacity of the existing operational crossings.

These groups hold regular meetings. COGAT maintains direct contact with the Office for Civilian Affairs and the Palestinian Crossings Authority pertaining to two subjects:

- Upgrade of the Palestinian side of Kerem Shalom crossing – development of an additional 36,000 sq. meters (8.9 acres), including paving an access road to the crossing from the Palestinian side. Work began on July 4 and is continuing.
- Ongoing dialogue with delegates from PM Fayyad's office concerning PA coordination of various projects.

6. Movement of Passengers

In July, 2338 residents left the Gaza Strip for Israel, the West Bank, or abroad (a total of 2,457 exit permits were granted, among them 161 businessmen (BMC holders). 924 international staff members entered or left the Gaza Strip in July. In July, several senior international figures visited the Gaza Strip,

including EU High Representative Catherine Ashton and 62 diplomatic delegations⁵². Four international organizations visited the Palestinian side of the Kerem Shalom crossing. The Foreign Minister of Norway visited Gaza on August 16⁵³.

In August, 2457 residents left the Gaza Strip for Israel, including 1531 patients and companions and 406 businessmen. 796 foreign citizens, diplomats and others exited Israel.⁵⁴

7. Cash Transfers

In addition to the above measures, steps have been taken to facilitate the transfer of cash to the Gaza Strip. In July 2010, NIS100 million were transferred to the Gaza Strip to pay PA employees' salaries and for other PA needs. NIS 31.5 million in worn-out bank notes was replaced.

8. Maintenance of Humanitarian Infrastructures

Furthermore, measures have been taken to facilitate the maintenance of humanitarian infrastructures, as follows:

- In July, the supply of electricity and water from Israel was maintained.
- In July, 4,140,046 liters of heavy diesel fuel were delivered for the Gaza power station (19.6% more than in June 2010). The amount is determined by the PA, which pays the suppliers directly. In addition, 3,230 tons of cooking gas, 76,438 liters of gasoline, and 345,646 liters of diesel fuel for transportation were delivered to the Gaza Strip.

⁵² UN Secretary General visited Gaza on March 2010.

⁵³ Source: COGAT

⁵⁴ Source: COGAT

- In August, 5,519,921 liters of heavy diesel fuel were delivered for the Gaza power station, alongside 299,544 liters of fuel for transportation and 3,433 tons of gas.⁵⁵
- In August, four truckloads of equipment for the water infrastructure were delivered, as per the request of the Palestinian Water Authority.
- In August, nine truckloads of equipment and spare parts for the power station were delivered, as per the request of the Palestinian Energy Authority.

9. Ongoing Monthly Transfer of International Aid (July - August 2010)⁵⁶

- In July and August, a total of 22 donation requests for the Gaza Strip were approved.
- In July and August, a total of 599 truckloads were delivered to the Gaza Strip by the international community.
- In July, the Jordanian field hospital staff was replaced, and supplies were transferred to the hospital, according to Jordanian requests.

⁵⁵ Source: COGAT

⁵⁶ Source: COGAT

