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Palestinian Trade: West Bank Routes

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WEIGHTS AND MEASURES

Metric System

ACRONYMS AND ABBREVIATIONS

CPA	Crossing Point Authority
ECF	Economic Cooperation Foundation
GACB	General Administration of Crossings and Borders
GOI	Government of Israel
IDF	Israeli Defense Force
PA	Palestinian Authority
Paltrade	Palestinian Trade Center
PCBS	Palestinian Central Bureau of Statistics
WBG	West Bank and Gaza

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Palestinian Trade: West Bank Routes

EXECUTIVE SUMMARY

i. West Bank and Gaza (WBG) is a small, resource poor economy. Consequently, its growth depends on maintaining open trade with its neighbors. Trade flows are nearly 85% of GDP with the vast majority - probably around 90% - with Israel.¹ However, because of the deteriorating security situation, the Government of Israel (GOI) has increasingly imposed restrictions and closures that impede trade. In addition, changes in the Israeli economy have reduced the market for traditional Palestinian products.² Though the Israeli economy will remain WBG's main trading partner for some time to come, future growth will depend upon Palestinian enterprises being able to reach beyond Israel and access new markets in the rest of the world.

ii. In a previous paper, the World Bank analyzed the logistics of trade corridors from Gaza through Egypt as an alternative to sending exports via Israel. This paper extends this work and examines the viability of different trade routes from the West Bank. Another earlier paper describes the complex agglomeration of physical obstacles, administrative barriers and permit policies that Israel uses to restrict movement in the West Bank. This paper also builds on this work by quantifying some of the resulting costs. West Bank enterprises have essentially two options to access the world market: (a) out through Israeli ports or airport; and (b) across the Jordan River and out through Jordan ports or airport. While, it is also possible to send goods across Israel and through Egypt, this route is currently uneconomical.

iii. To access the wider world market, Palestinian enterprises must first face the challenge of moving within the West Bank itself. The numerous Israeli road blocks, closed areas, restricted roads and growing settlements have cut the Palestinian communities into isolated cantons, which raise transportation costs and significantly limits the ability of Palestinian enterprises to achieve economies of scale.³ To develop a better understanding of how the current level of internal restrictions affect transportation costs, the World Bank commissioned the Palestine Trade Center (PalTrade) to conduct two rounds of surveys of companies engaged in transport between June and September 2007. The surveys targeted transport companies or enterprises actively engaged in the transport of their own goods.

iv. The survey results indicate that the increasing restrictions on movement of goods and services in the West Bank have a negative effect on at least three dimensions. First, they increase transport costs directly through higher costs of labor and equipment, and indirectly by increasing transaction costs associated with delays at checkpoints. Second, by reducing trade volumes, they induce low levels of capacity utilization of the current truck fleet, which

¹ There are no accurate statistics for trade with Israel. Since the borders with the West Bank are porous, much of the trade takes place informally and is not reported. However best estimates suggest that trade with Israel accounts for anywhere from 85%-90% of total trade flows.

² See the World Bank's 2006 Investment Climate Assessment for a discussion of the changing relationship between the Israeli and Palestinian private sector.

³ See World Bank 2007 for a detailed description of restrictions in the West Bank.

results in high fixed costs per kilometer. Third, they introduce high levels of uncertainty that prevent Palestinian firms from entering the international market, which demands guaranteed delivery times.

v. In addition to the internal movement restrictions, GOI has recently constructed commercial crossing points in their Separation Barrier that have the potential to become another serious constraint to Palestinian businesses. Once the Separation Barrier is complete, all Palestinian commercial traffic will have to move through the Commercial Crossings using a back-to-back system similar to the one used for Gaza. The GOI has stated that the Barrier and Crossings will allow a relaxation of the internal movement restrictions. However, the terminals are almost fully operational and internal restrictions have actually increased. Consequently, the Commercial Crossings have become an additional layer, over and above the existing restrictions.

vi. Mindful of the delays and corruption previously experienced at the Karni crossing for Gaza, the GOI has stated that they will not allow the crossings to become a “bottleneck” to trade. To this end, they have established a civilian run Crossing Point Authority (CPA) and have committed to expanding the facilities as necessary to ensure that there are no queues at the terminals and that all vehicles will move through the Crossing points in 30 to 60 minutes.

vii. In January 2008, the World Bank commissioned PalTrade to begin monitoring four of the biggest crossings. The monitors have not observed any long queues or any of the severe corruption previously experienced at the Karni. However, because the other routes out of the West Bank have not yet been completely closed, many Palestinian shippers are able to avoid the crossings by using Israeli registered trucks. Consequently, the Commercial Crossings in some areas are currently handling only a fraction of total traffic between the West Bank and Israel. For example, a recent study by the Economic Cooperation Foundation found that Tarqumiya, the southern Crossing, was handling only 15% of total traffic in the southern portion of the West Bank including Hebron. Despite this, the average time to process a shipment out of the Palestinian areas is much higher than the CPA’s target. Counting the time spent waiting to enter the terminal, in June 2008, the average for all crossings was about one hour and 58 minutes. Once the GOI completes the Barrier and completely eliminates the ability of Palestinian shippers to use Israeli trucks, the traffic and the delays at the Crossing can be expected to rise. In addition, the restricted working hours make it impossible for Palestinian enterprises to make just in time shipments.

viii. The establishment of the Commercial Crossings and the requirement for back-to-back transfers creates yet another hardship for Palestinian businesses, no matter how efficiently they are run. In addition to creating delays and uncertainties, the Crossings also result in substantial damage to goods when they are cross loaded or manually inspected. Many goods, such as furniture, cannot be palletized, which leads to handling damage. The Crossings lack the equipment to handle very heavy goods or fragile goods like glass. There are no facilities for cold storage for perishables and the CPA has no plans to establish any, even though Palestinian shippers report that currently perishable goods can be left in the heat for hours waiting to enter the terminals. In addition, most of the inspection stations are not sheltered from the weather.

ix. As trade with and through Israel becomes more difficult, Palestinian enterprises must look outwards to the rest of the world for new opportunities. Currently, most trade goes through Israeli ports and Ben Gurion Airport. However, as Jordan improves the facilities at Queen Alia Airport and the Port of Aqaba, the Jordan route is becoming more attractive.

x. Israeli ports offer less expensive and faster shipping to destinations in Europe and North America. And even with the additional burden of the Commercial Crossings, the Israeli security requirements do not increase costs enough to remove this advantage. However, for shipments to Asia, the Port of Aqaba offers less expensive and slightly faster service. This route will become even more economical as the Port of Aqaba continues to improve and attracts more ships.

xi. Queen Alia Airport near Amman now offers service almost on par with Ben Gurion. Though air freight costs are higher at Queen Alia, the cost of ground transportation to Ben Gurion and its high security fees make Queen Alia more competitive for sending large air shipments to many destinations. There are fewer flights from Queen Alia than from Ben Gurion Airport. However Israeli security requirements restrict most Palestinian shipments to cargo aircraft and prohibit them from flying on passenger aircraft. Consequently, the disadvantage of fewer flights from Queen Alia is not that serious and Palestinian shippers are increasingly interested in using the airport in Jordan but are deterred by the difficulties of crossing the Allenby Bridge.

xii. For shipments to the Arab Gulf, the most cost effective way is by land across Jordan. However, all routes through Jordan, whether it is through Queen Alia, the Port of Aqaba or overland are constrained by operations at the Allenby Bridge. Exports through Allenby require back-to-back transfer of pallets; containers may not be used. The loading and unloading not only raises costs but, as at the Commercial Crossings, can lead to significant damage to goods. There are no cold storage facilities at Allenby and the loading and unloading areas are not protected from the weather. Given that the crossing takes four to eight hours this significantly limits the shipment of perishable goods. The Bridge crossing is not open during Israeli holidays, the Israeli weekend or in the evening. The restricted hours make it difficult for shippers to meet the just in time shipping schedules that are required to be internationally competitive in many sectors.

xiii. Israel generally does not scan exported goods, however on the Jordanian side they are subject to a risk management system that is cumbersome and leads to a high rate of physical inspection. All imports across the Allenby Bridge must be transferred through the back-to-back system and scanned by Israeli security. Containers are also not allowed for imports and pallets must be small enough to fit into the scanners. Cargo that can not be scanned in the small scanners at the Bridge must be trucked to Ashdod port at the shipper's expense for scanning. The back-to-back system significantly raises costs of imports and discourages the use of Allenby for imports. This in turn forces Palestinian importers to either source their goods through Israeli middle import through Israel where they also suffer delays and high security costs.

xiv. As long as the internal barriers exist and exports and imports are forced to go through a system of back-to back transfer, the Palestinian private sector is unlikely to prosper.

However, there are a number of steps that could still be taken to improve operations under the current Israeli security regime.

xv. Improving operations at Allenby Bridge is a priority. Ideally operation of the Allenby crossing would be transferred to the Palestinian Authority (PA) so that it can control the border of a future Palestinian state and coordinate directly with Jordanian authorities. However, this is unlikely in the current political context. Consequently, the GOI should look for ways to increase the efficiency of the crossing, provide sheltered areas for cross loading and obtain larger scanners to help speed crossings and limit damage. Extending the working hours would allow Palestinian enterprises to be more responsive to buyers' delivery schedules. The use of containers would also greatly enhance the competitiveness of Palestinian exports.

xvi. Palestinian shippers have recommended that a secure logistics center be considered for the West Bank side of the Bridge. This center could not only provide storage and shelter for goods but provide an area where containers could be stuffed with Palestinian exports while meeting Israeli security needs. Palestinian shippers argue that eliminating the need to transfer goods to Jordanian trucks to send them across the bridge before putting them into containers, would make the Jordan route much more economical for most goods.

xvii. Successfully operating the Commercial Crossings or the Allenby Bridge requires close coordination between the Israelis and Palestinians. At this time, there is no Palestinian counterpart active at the Crossings or the Bridge. Therefore, it is imperative that the PA develop the capacity of the General Administration of Crossings and Borders (GACB) and for the GOI to provide its officials access so they can coordinate the Palestinian side of the crossings and borders. However, the PA must limit the GACB so that it facilitates crossings but does not grow so much that it becomes an impediment to traders as border authorities have done in so many other countries.

xviii. Finally, it is unlikely that Israel will be able to meet the demand at the Commercial Crossings or an improved Allenby Bridge without instituting some form of risk management system that allows cargo from trusted shippers to flow through without extensive checks. This is standard practice at most borders but Israel's security regime currently does not allow for it. However, the CPA is studying the border operations in other countries to see what they can learn from them to improve operations at the Commercial Crossings.

I. INTRODUCTION

1. West Bank and Gaza (WBG) is a small, resource poor and underdeveloped economy next to much larger and in the case of Israel, a much more developed economy. Consequently, its growth depends on maintaining open trade with its neighbors. Trade flows are nearly 85% of GDP, with imports of goods and services representing over 80% of total flows and exports around 20%. The vast majority of trade - probably around 90% - is with Israel.⁴ However, because of the deteriorating security situation Israel has increasingly imposed restrictions to movement of goods and people. In addition, changes in the Israeli economy have reduced the market for traditional Palestinian products.⁵ Thus, future growth will depend upon Palestinian enterprises being able to reach beyond Israel and access new markets in the rest of the world.

2. In light of this, in a previous paper, the World Bank analyzed the logistics of trade corridors from Gaza through Egypt as an alternative to moving goods through Israel. This paper picks up where the previous work left off and examines the viability of different trade routes for the West Bank. It also builds on another earlier paper by trying to quantify some of the costs of the complex system of Israeli physical obstacles, administrative barriers and permit policies that restrict movement in the West Bank. West Bank enterprises have essentially two options to access the world market: (i) out through Israeli ports or airport; and (ii) across the Jordan River and out through Jordan ports or airport. It is also possible to send goods across Israel and through Egypt. However, high costs make this uncompetitive except for goods destined for Egypt.

3. When Israel occupied the West Bank in 1967, it initiated a policy of “open bridges and no fences”.⁶ Israel maintained the bridge link with Jordan in hopes that Jordan would take Palestinian agriculture output that Israel did not want competing with its own agriculture products and that Palestinian industry could supply the greater Arab market via Jordan. While Jordan did provide a market for significant amounts of Palestinian agriculture output, exports of services and industrial products were extremely limited. Jordan enforced the Arab boycott of Israel against Palestinian products and in addition took measures to protect its own industry. Israel also instituted barriers to protect domestic industry, which prevented Palestinian producers from accessing many inputs at world prices. In addition, Israeli security measures made it prohibitively expensive to import most goods across the bridge.

4. The second aspect of the occupation policies was “integration”, whereby Israel sought to remove all barriers between the Israeli and Palestinian economies. Palestinian income levels rose dramatically as thousands of workers found employment in Israel. However, little

⁴ There are no accurate statistics for trade with Israel. Since the borders with the West Bank are porous, much of the trade takes place informally and is not reported. However best estimates suggest that trade with Israel accounts for anywhere from 85%-90% of total trade flows.

⁵ See the World Bank's 2006 Investment Climate Assessment for a discussion of the changing relationship between the Israeli and Palestinian private sector.

⁶ For a discussion of Israel's economic policies under the occupation see Arnon, A., and J. Weinblatt. 2001. “Sovereignty and Economic Development: The Case of Israel and Palestine”. The Economic Journal. 111 (June): F291-F308.

capital flowed back into the West Bank and local investment was curtailed by occupation policies. One area where Palestinian industry did see significant growth was in sub-contracting arrangements between Israeli and Palestinian enterprises. These were for labor intensive goods such as garments and footwear and were often between an Israeli producer and a number of Palestinian micro-enterprises. By the eve of the Oslo accords, the occupied Palestinian territories had become completely dependent upon Israel and had limited economic relations with other countries. Nearly 60 percent of the West Bank's exports and more than 90 percent of imports were to and from Israel and the trade deficit was nearly 45 percent of GDP.⁷

5. Following the advent of the second *intifada* in late 2000, the GOI moved to reduce the number of Palestinians allowed to work in Israel and its settlements with an announced goal of completely ending all Palestinian employment in Israel. GOI also instituted strict security measures that made it increasingly difficult to move goods both within the West Bank and out into Israel and other neighboring countries. At the same time, the labor intensive products produced by Palestinian enterprises have been steadily losing their competitiveness as Israel has reduced protection and opened its market to imports from low cost countries in Asia and elsewhere. These combined factors make it clear that though Israel will undoubtedly remain the West Bank's main trading partner for the foreseeable future, ultimately, in order for the Palestinian economy to grow, Palestinian businesses will have to break the almost complete dependence on Israel and access the wider world markets. To this end, the PA has signed a number of agreements that provide Palestinian goods preferential entry into other markets. However, for Palestinian enterprises to take full advantage of these preferences there must be significant improvements in trade logistics and a relaxation of Israeli's strict security regime.

II. MOVEMENT INSIDE THE WEST BANK

6. To access the wider world market, Palestinian enterprises first face the challenge of moving within the West Bank itself. The numerous Israeli road blocks, closed areas, restricted roads and growing settlements have cut the Palestinian communities into isolated cantons, which significantly raises transportation costs and limits the ability of Palestinian enterprises to achieve economies of scale.⁸ The closure regime's most pernicious effect is the level of uncertainty it creates. Because shippers cannot accurately predict how long it will take to move their goods, they cannot commit to delivery times and consequently are unable to enter the most lucrative export markets. As a result of the restrictions, internal trade has declined and external trade has also undoubtedly been affected. The 2006 Investment Climate Assessment found that in 2000 nearly 60% of West Bank enterprises made a significant share of their sales outside of their home city but by 2006 this number had dropped to less than 40%. The Palestinian Central Bureau of Statistics (PCBS) also reports a decline in the number of establishments engaged in internal trade in the overall Palestinian territory; from 49,491 in 2004 to 43,912 in 2006.⁹

⁷ Arnon and Wienblatt 2001.

⁸ World Bank 2007; *Movement and Access Restrictions in the West Bank: Uncertainty and Inefficiency in The Palestinian Economy*.

⁹ www.pcbs.gov.ps

Transport Logistics

7. Transport logistics is one of the main determinants of enterprise competitiveness and has a direct impact on the rate of investment and growth of the economy. To develop a better understanding of how the current level of restrictions affect transportation costs within the West Bank, the World Bank commissioned the Palestine Trade Center (PalTrade) to conduct two rounds of surveys of companies engaged in transport between June and September 2007. The surveys targeted transport companies or enterprises actively engaged in the transport of their own goods. Together, they control 239 vehicles ranging in size from 4 to 18 wheels. Companies were selected to cover main routes used for internal trade in the West Bank: Hebron-Jenin, Hebron-Allenby, Ramallah-Nablus, and Ramallah-Jerusalem.

8. All routes chosen are high traffic routes. In terms of movement, the Ramallah-Jerusalem route represents the highest level of restrictions but it is also a route that provides access to one of the most important destination of goods and services; Jerusalem. This route forces trucks to pass through the crossing point at Betunia, which requires back-to-back transfers and will be discussed in more detail in a later section. Hebron-Allenby is a route connecting a major city and production center in the West Bank, with the only point of exit of exports through Jordan, the Allenby Bridge. Hebron-Jenin and Nablus-Ramallah routes connect major cities inside the West Bank. Table 1 presents the description of each route as well as the distances traveled in kilometers under the direct route, which is closed to Palestinian trucks, and the route currently used. For the Ramallah-Jerusalem the route Palestinian trucks must take the commercial crossing at Betunia, which requires back-to-back transfer.

Table 1: Routes Included in the Survey

Route	Direct Distance (Km)	Current Route (Km)	% Increase	Route Description
Hebron-Jenin	143	200	40	Hebron-Asioun-Bethlehem-Ma'ale-Za'tara-Jenin
Hebron-Allenby	70	77	10	Hebron-Asioun-Bethlehem-Ma'ale-Jericho
Ramallah-Nablus	50	61	22	Ramallah-Atara-Za'tara-Huwara-Nablus
Ramallah-Jerusalem	19	25	32	Ramallah-Betunia-Jerusalem

9. The survey results indicate that the increasing restrictions on movement of goods and services in the West Bank have a negative effect on at least three dimensions of trade activity. First, they increase transport costs directly by raising the cost of inputs and equipment, and indirectly by increasing transaction costs, including the time wasted taking less efficient alternative routes and the time for complying with procedures at checkpoints. Second, they induce low levels of utilization of the current truck fleet, by reducing trade volumes for an existing level of capacity; the result is high fixed costs per kilometer. Third, they introduce

high levels of uncertainty that prevent accurate planning, efficient allocation of resources and in some cases stop transactions from happening at all.

10. The increase in direct and indirect costs imposed by the restrictions on movement of goods and services is first reflected in higher labor transport costs. Constraints on trucks carrying cargo in the form of stationary and flying checkpoints, requirements for back-to-back transfers of cargo at selected locations, closure of main roads to Palestinian registered trucks, and restrictions on road maintenance activities within the West Bank result in long transit times.¹⁰ As shown in Table 2, transport labor costs per kilometer composed mostly of the driver's salary, are considerably higher on all routes when comparing routes with and without delays.¹¹

Table 2: Labor Costs per Km*

Route	Current Labor Cost (NIS/Km)	Labor Cost No Delays (NIS/Km)	% Increase
Hebron-Jenin	0.35	0.23	34.3%
Hebron-Allenby	0.65	0.31	52.3%
Ramallah-Nablus	0.42	0.21	50.0%
Ramallah-Jerusalem	1.49	0.45	69.8%

* Labor costs computed on the basis of the combination of trucks as observed in the survey

Table 3: Travel Times Under Current Conditions and Conditions with no Delays

Route	Average Time under Current Conditions (hrs)	Average Time No Delays (hrs)	% Increase
Hebron-Jenin	4.05	2.05	98%
Hebron-Allenby	2.50	0.80	210%
Ramallah-Nablus	2.13	1.13	88%
Ramallah-Jerusalem	1.68	0.36	366%

Computed with direct information from the survey

11. The increase in labor cost due to the restrictions is explained by the longer transit time required on each route. Results from the two waves of the survey provide a measure of the effect of the restrictions by quantifying the delays introduced in the transport of goods and services. As shown in Table 3, transit times are almost doubled in two of the selected routes, Ramallah-Nablus and Hebron-Jenin, and in the case of the route between Ramallah and Jerusalem travel times are four times higher than under no restrictions. The large differential in travel time on the latter route is the result of shippers on this route either having to go

¹⁰ Palestinians are forbidden to travel in sections of many vital roads. Some examples of forbidden routes are route 443 that connects Ramallah and several villages, route 557, route 90 (the main north-south route in the Jordan Valley), and route 60 between Ad-Dhairiya and Hebron

¹¹ Labor costs per km are computed by allocating the wages of drivers into the proportion of their monthly time spent traveling each route.

through the Betunia crossing or travel long distances to use a crossing in another region and then return to the Jerusalem area.

12. Compared to neighboring Jordan, trucking costs are higher in the West Bank because the low level of capacity utilization of the fleet translates into higher fixed costs per kilometer. Several factors explain this low level of utilization of the installed capacity for transport in the West Bank. First, the Israeli restrictions force Palestinian truckers to use longer alternative routes. This combined with the uncertainty created by the checkpoints, restricts most shippers to making only one trip a day on most routes, even though the short distances should allow multiple trips. This leaves their fleet idle for much of the time. Second, the road conditions on the alternative routes that Palestinians must take are often unsuited for commercial cargo; in many instances routes cross residential areas and long detours on poor roads are necessary to avoid checkpoints or border crossings, which not only increases time but adds to maintenance costs. Third, the requirements on cargo imposed for security purposes, such as the mandatory use of palettes and back-to-back transfers at selected locations, lead to fewer loads per truck. Finally, the fragmentation of the economy of the West Bank and the ever increasing difficulties to access external markets reduces overall demand for shipping, lowering volumes and increasing costs.

13. Direct survey results provide evidence of the low levels of utilization of the fleet. The most commonly utilized trucks among the companies interviewed are 6-wheel trucks with an average annual level of utilization of 44,000 km. Larger, 18-wheel trucks, are less common and when used they reach even lower levels of utilization; on average only 37,600km per year. By Comparison, in Jordan average annual utilization was closer to 100,000km.¹² This indicates that the confluence of decaying demand and the compulsory use of alternative side-roads has had an influence in the choice of fleet by Palestinian producers as well as on its efficiency.

14. Transport variable costs, namely fuel, tires and maintenance, are also comparatively higher in the West Bank than in Jordan. According to the survey information, fuel cost is more than double the cost in neighboring Jordan and the cost of tires is 70% higher in the West Bank. Higher variable costs coupled with higher fixed costs per kilometer induced by the restrictions on movement result in high costs per kilometer on each of the four routes examined in the survey. Table 4 presents cost per kilometer on all four routes for each of the most commonly used type of trucks in the West Bank: 4-wheel, 6-wheel and 18-wheel trucks. As a reference, in Jordan the cost per km for an 18-wheel truck at the level of utilization assumed for this computation (60,000 km per year) is US \$0.74 per km. This comparison is actually quite conservative because as mentioned above the survey evidence indicates that the levels of utilization of 18-wheel trucks in the West Bank are actually lower than 60,000 km per year.

¹² World Bank interviews with Jordanian trucking companies.

Table 4: Transport costs per km

Route	4-wheel truck (US\$/Km)	6-wheel truck (US\$/Km)	18-wheel truck (US\$/Km)
Hebron-Jenin	0.93	1.48	2.69
Hebron-Allenby	0.81	1.32	2.39
Ramallah-Nablus	0.51	0.93	1.61
Ramallah-Jerusalem	0.57	1.01	1.77

15. The third effect of the movement restrictions on the transport of goods and services in the West Bank economy is the increase in the level of uncertainty under which transactions take place. Road closures without announcement, flying checking points, unexpected variations on the requirements on cargo and on the restrictions on movement of vehicles and individuals lead to inefficient allocation of resources, losses due to inability to deliver on time, and waste of resources waiting and trying to predict uncertain outcomes. Table 5 presents direct evidence from the survey of the uncertainty introduced in travel time: the difference in the average time to transit a route between a “good day” and a “bad day” more than doubles the duration of the trip. Such high levels of uncertainty induce businesses to avoid taking risks and reduce incentives for innovation and growth.

Table 5: Transit Duration in Good and Bad Days

Route	Average Time in Good Day	Average Time in Bad Day	Dispersion
Hebron-Jenin	3.60	7.40	3.80
Hebron-Allenby	2.20	4.60	2.40
Ramallah-Nablus	1.34	3.88	2.53
Ramallah-Jerusalem	1.28	3.15	1.88

Computed with information from the survey

16. Traders are unable to predict whether it will be a good day or a bad day because the distinction is related to the security conditions and the number of checkpoints and road closures they would have to face. Under these circumstances it is difficult to make business plans and exploit market opportunities. Not knowing if a product can be delivered on time to the market destination can in many cases preclude a transaction from taking place altogether. Anecdotal evidence from interviews indicates that this has been the case in many instances, especially for perishable goods. In these cases, losses have to be assumed by the Palestinian producer as there are currently no insurance mechanisms that compensate for delays due to closures or checkpoints.

17. The results of the trucking survey are similar to the findings of a Palestinian Central Bureau of Statistics (PCBS) survey on the movement of people within the West Bank.¹³ This survey found that because of the Israeli restrictions, the travel time and distance for Palestinians moving between major cities increased dramatically after the beginning of the *intifadah* in 2000. For example, the distance between the center of Bethlehem and Ramallah more than doubled from 23.5km to 50km. Likewise, the distance between Ramallah and

¹³ “Connectivity Survey Between Palestinian Governates, Mid June, 2006 Main Findings, PCBS July 2006

Tulkarem rose from 76km to 95km. The increase in time and distance was reflected in prices. Transport fares for individuals traveling between cities in the West Bank rose by 123% between September 2000 and June 2006, far outstripping the rate of inflation.

18. The internal closures and movement restrictions imposed in the West Bank, mostly for the security of the expanding settlements, have significantly raised trade logistic costs, which in turn has resulted in shrinking the already small domestic Palestinian market. If Palestinian producers are going to achieve minimum efficient scale, not only will they have to take advantage of the entire local market but must also be able to access highly competitive international markets. But this will not be possible on a large scale under the prevailing conditions due to the high cost of internal transport.

III. ACCESS TO AND THROUGH ISRAEL

19. Israel is, and will remain for the foreseeable future, the West Bank's major trading partner. It is also the major route through which Palestinian exports reach the rest of the world. Thus, crossing into Israel is a key component of trade logistics for West Bank enterprises. Until 2000, goods and people flowed easily between Israel and the West Bank, however, with the deteriorating security situation, Israel introduced ever increasing restrictions. Now, no Palestinian licensed vehicles are allowed to enter Israel and Israeli licensed vehicles are not supposed to enter Palestinian controlled territory. However, this latter restriction is not yet fully enforced and many Palestinian shippers continue to use trucks with Israeli licenses to transport goods from the West Bank to Israel. But this is rapidly changing.

In 2005, the GOI issued a report stating that:

*"Israeli security forces will transfer the bulk of their monitoring and control efforts from checkpoints inside the West Bank and the Gaza Strip to crossing points along the revised route of the security fence. This will mean a sharp reduction in the number of roadblocks and barriers within the Gaza Strip and the West Bank, alongside the construction of new terminals and crossing points between Palestinian-controlled areas and Israel."*¹⁴

20. With this the GOI began to construct commercial crossing points in their Separation Barrier for the movement of people and commercial goods into and out of the Palestinian controlled areas. The construction of these new terminals is linked with the construction of the Separation Barrier; as sections of the Barrier are completed, the new commercial terminals are set up along its route with the goal of channeling all Israeli/Palestinian trade in goods through the Commercial Crossings once the Barrier is complete.¹⁵ At the time of this report, this process is nearing completion, with the six planned Commercial Crossings described in the

¹⁴ "ISRAELI ASSISTANCE STEPS AND HUMANITARIAN MEASURES TOWARDS THE PALESTINIANS: Following the Palestinian Elections and the Sharm el-Sheikh Summit." Israeli Ministry of Foreign Affairs, May 2005.

¹⁵ The Separation Barrier is designed to enhance Israel's security by preventing Palestinians from moving into Israeli controlled areas. In most places the Barrier runs inside the Green line and encompasses about 10% of pre -1967 West Bank. Because of this the International Court of Justice has ruled it illegal.

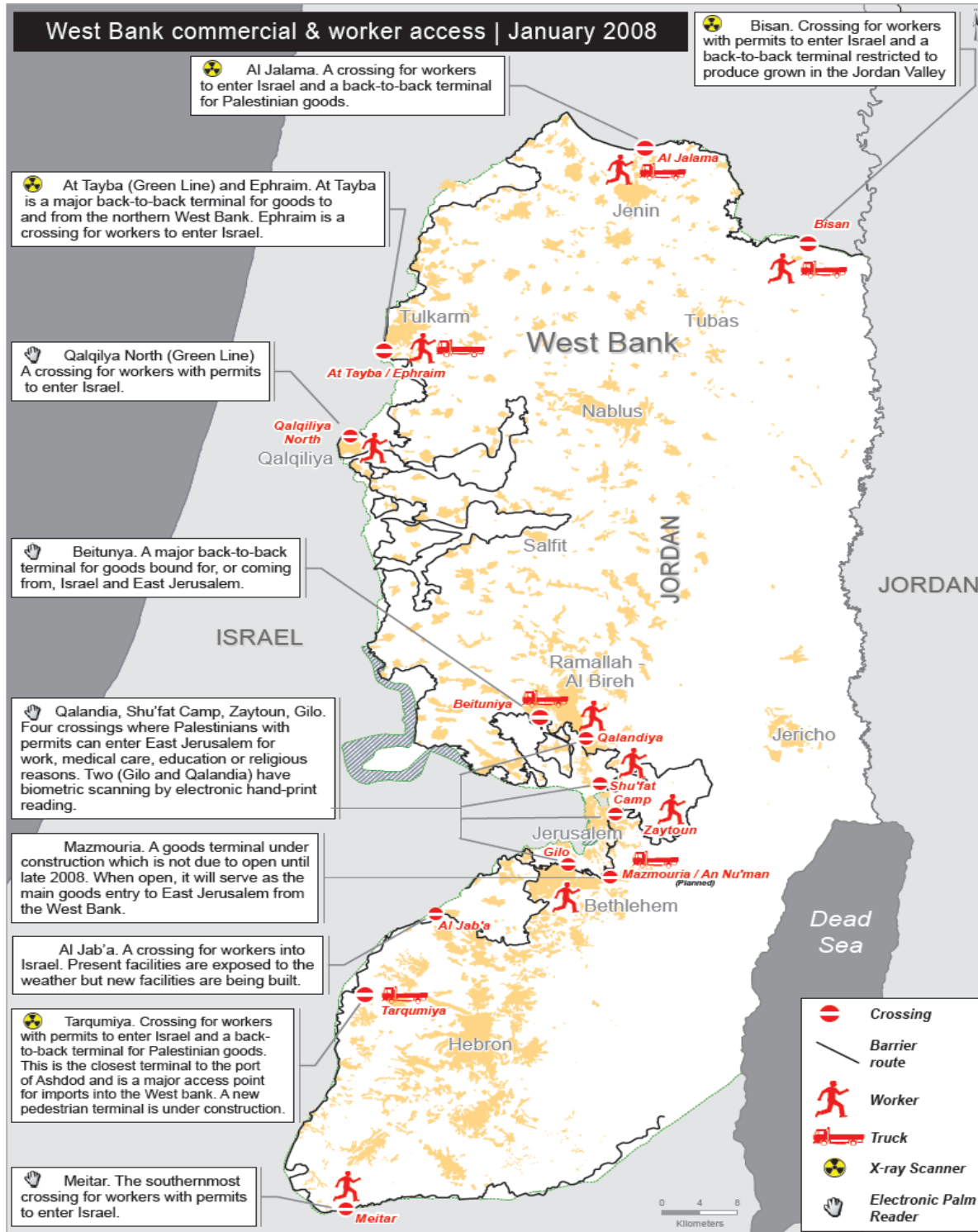
report, and some additional smaller crossings, currently operational. The Commercial Crossings, Bardala/ Bet Shean, Jalameh, Irtah/ Sha'ar Ephraim, and Tarqumia have all been established and the Beitunia commercial checkpoint continues to be operated by the Israeli Defense Force (IDF) near Ramallah. The planned crossing point of Mazmouria near Bethlehem is still to be completed.¹⁶ Though the crossings have been built and are operational, the promised reduction in internal movement restrictions has not materialized and restrictions have in fact increased.¹⁷ Consequently, the new crossings are an additional layer of restrictions over and above the internal restrictions and thus add to the costs and delays faced by Palestinian shippers.

21. The Commercial Crossing points require back-to-back transfers, where goods are inspected by Israeli security and then transferred from trucks originating on one side to trucks on the other side to continue their journey. Mindful of the delays and corruption experienced at the Karni crossing for Gaza, the GOI has stated that they will not allow the crossings to become a “bottleneck” to trade. According to the Crossing Point Administration (CPA) established by the Israeli Ministry of Defense (IMOD), the Crossings will ensure Israeli security while at the same time adapting to Palestinian economic needs. The CPA will manage most of the terminals in the West bank and Gaza but a few will remain under the control of the IDF or the Israeli Airports Authority. The Israeli Ministry of Defense’s stated goal is to “civilianize” crossing operations and eventually shift all crossings under the CPA management. The CPA operates the crossings with the IMOD/ CPA staff managing private subcontractors who undertake routine logistics and handling of goods at the terminals.

22. During the period prior to complete closure of alternative routes, the CPA is working hard to increase Palestinian confidence that the crossings are reliable and will not hinder trade. To this end, the CPA has committed to ensuring that there are no long queues at the terminals and that any vehicle undergoing a standard check (i.e. inspection by scanner only and no manual checks) will have a processing time of 30-60 minutes once they enter the terminal. The CPA is studying the expected demand and has vowed to increase capacity enough to handle any increase in demand by a combination of extending operating hours, increasing the amount of equipment and improving operating procedures. For example, they have already determined the need for an additional scanner at the Tarqumia crossing to accommodate expected demand when all alternative routes are closed. In addition, they are researching a method of trailer exchange that would obviate the need for back-to-back transfers. The CPA is also investigating “known trader” systems employed in other countries to see if they might be appropriate for the West Bank.

¹⁶ Beitunia is a crossing between Ramallah and Jerusalem and as such is well inside the 1967 Green line.

¹⁷ The number of closure obstacles reported by OCHA rose from 566 in September 2007 to 607 in April 2008. This figure does not include checkpoints placed on the Green Line, flying checkpoints and the Barrier. OCHA reports a slight deterioration in the overall access situation in the West Bank in the first half of 2008 based on the number of obstacles, prohibitions on the use of roads, the increase in curfews and long queues of Palestinians at crossings.



Source: <http://www.ochaopt.org/documents/Commercial%20Crossings%20V5.pdf>

Current operations, delays and capacity

23. The specific procedures for transferring goods vary from one crossing point to another; however, the basic procedure is the same for all (Box 1). For goods moving from the West Bank to Israel, palletized cargo is transferred from a Palestinian vehicle to an Israeli vehicle by forklift after undergoing a security inspection using a mobile scanner. Additional manual or canine inspection is used where deemed necessary. For goods incoming to the West Bank from Israel, the cargo is transferred in the same manner but without any security inspection for most goods.¹⁸

24. In January 2008, the World Bank commissioned PalTrade to begin monitoring four of the biggest crossings: Jalameh, Irtah/ Sha'ar Ephraim, Tarqumia and Beitunia. To date the results have been mixed. The monitors have not observed any long queues and since trucks do not need to reserve slots in advance, there have not been the severe problems with corruption experienced at Karni. However, the average time to process a shipment out of the Palestinian areas is much higher than the 30-60 minutes cited by the CPA. Counting the time spent waiting to enter the terminal, in June 2008, the average for all crossings was about one hour and 58 minutes (Table 6). For cargo that did not have to undergo manual inspections the average total time, at one hour and 44 minutes, was still above the CPA's target.

**Table 6: Crossing Times for Selected Crossing: May 2008
(From Entry to Exit of Crossing)**

	Average	Min.	Max.
Taybeh/Shar'ar Ephraim	1:25	1:00	2:05
Tarqumia	1:56	1:10	3:00
Betunia	2:09	1:00	5:30

Source: Paltrade monitoring estimates

* No monitors are allowed outside of Jalameh crossing.

**Table 7: Crossing Times for Selected Crossing: June 2008
(From Entry to Exit of Crossing)**

	Average	Min.	Max.
Taybeh/Shar'ar Ephraim	1:31	0:50	4:20
Tarqumia	2:15	1:00	3:30
Betunia	2:09	0:42	3:30

Source: Paltrade monitoring estimates

* No monitors are allowed outside of Jalameh crossing. Consequently, estimates are based on phone interviews and are not comparable.

25. The most important question is whether the crossings will have the capacity to accommodate the demand without imposing a large burden on Palestinian enterprises. Unfortunately, there are no reliable estimates of the volume of traffic between the entire West

¹⁸ Some incoming cargoes are inspected, e.g. flour, sugar, some liquids. In addition there are random inspections.

Bank and Israel. Since much of the traffic is trucks with Israeli plates that do not use the Commercial Crossings, there is no way to accurately measure it. The Israeli Coordinator of Government Activities in the Territories (COGAT) recently estimated that in the first half of 2008, on average, around 1700 trucks per day crossed both ways. Though this includes settler traffic that will not have to be inspected, it is so far above the total average for the four crossings that are being monitored by PalTrade – less than 350 per day – that it suggests that much Palestinian traffic still manages to avoid the crossings.

Table 8: Trade Activity: Outgoing and Incoming Truck Movement

Terminal	Taybeh		Tarqumia		Betunia	
Commercial Movement	Outgoing	Incoming	Outgoing	Incoming	Outgoing	Incoming
Total Truckloads	6422	7832	6040	15615	5612	7474
Actual average truckloads per day	47	58	40	106	40	51
Actual average truckloads per hour	6	8	5	12	6	7
Maximum truckloads per day	84	77	69	179	71	77
Minimum truckloads per day	2	19	12	3	8	9

Source: Paltrade monitoring estimates

26. Recently, the Economic Cooperation Foundation (ECF) undertook a study to estimate the flow of trucks between Israel and the southern West Bank.¹⁹ This work relied on field monitors counting trucks at all crossing points and provides by far the most accurate picture available. The ECF study found that only 15% of traffic in the Southern West Bank currently passes through Tarqumia Crossing and less than half of this uses the back-to-back facilities. Nearly 45% of the traffic went through the tunnel crossings between Beit Jala and Gilo; a route that should be unavailable to Palestinian trade once the Barrier is complete. Despite handling only a fraction of the actual traffic, the average waiting time for Palestinian trucks at Tarqumia in the ECF study was 1.5 hours, which ECF estimates adds at least 15% to the cost of shipping goods. To the extent that there is a similar wait on the other side the cost is even higher.

27. The official operating hours for most crossings are 8 AM to 5 PM, Sunday through Thursday and 8 AM until 2 PM on Fridays.²⁰ Because trucks must complete the back-to-back process before closing, few enter after 3 PM effectively limiting available daily crossing hours to seven. In addition, shipments cleared from Israeli ports in the afternoon that do not reach the Crossings by 3 PM must be stored overnight in Israel at a high cost to the shipper. Crossings are closed on Saturdays and Israeli holidays. In the month of May, they were open for 25 days. The fact that the crossings are not open every day impairs the ability of Palestinian enterprises to enter the international market, which demands short turn around times and just in time delivery. This is especially important for the specialized, high value goods that Palestinian enterprises must move towards to compensate for the high cost of production.

¹⁹ “A Survey of Freight Traffic Between Israel and the Southern West Bank and the Tarqumia Crossing in Particular”, Unpublished report by Yaakov Garb, March 2008

²⁰ The Bardala/Bet Shean crossing is closed Friday and Saturday and is only designated for export for agricultural goods, not imports.

28. The crossing process not only creates delays and uncertainties, but also leads to substantial damages to goods when they are cross loaded or manually inspected. Not all goods, such as furniture, can be palletized, which can result in significant damage during the process of back-to-back loading. The Crossings lack the necessary equipment and facilities to handle certain heavy, banded goods such as steel bars and fragile goods like glass. There are no facilities for cold storage for perishables and there are no plans to establish any since the CPA believes that crossing times will average only about 45 minutes. However, Palestinian shippers report that currently it is not unusual for perishable goods to be left in the heat for two hours or more while waiting to enter the terminals. In addition, most of the inspection stations are not sheltered from the weather.

Box 1: Export Procedures at West Bank Commercial Crossings

- Upon arrival at the terminal, the truck driver is requested to register his name at the entrance, and is requested to wait until the Israeli driver is available on the other side of the terminal.
- The driver is subject to physical security check which lasts for at least 15 minutes. Then the driver is requested to open the four doors of the truck and the truck cover (if it has one), and switch off the engine.
- The truck is requested to cross through the truck scanning machine, where three to five trucks (depending on the truck size) are allowed to enter and exit the scanner collectively. Beitunia is run by the IDF and does not have scanners. All cargo is subject to manual inspection by soldiers and in some cases dogs are used.
- In addition to the scanning process, the cargo may have to undergo a second phase of manual inspection. Depending on the Crossing and type of cargo, 15%-60% of cargo is manually inspected. When shipments consist of different materials (example: the clothes and its plastic hanger), the goods are required to be off-loaded at the manual inspection rooms.
- The shipment is up-loaded on the Israeli truck, and resumes its journey on the other side of the crossing.

Source: PalTrade Crossings Monitoring Reports

29. Israeli authorities have not instituted a “known trader” system or any type of risk management system though there is discussion on what a “known trader” system might look like. All outgoing shipments are subject to full inspection by scanners and in some crossings as much as 60% are subject to additional manual inspections depending on the cargoes. Beitunia is a unique case. This crossing is well inside the Green line and is operated by soldiers from the IDF. There are no scanners and all cargo is subject to physical inspection leading to substantial delays and significant damage. Consequently, shippers go to great lengths to avoid this crossing and use the alternative routes in and out of Ramallah that are still available.

Box 2: Obstacles Reported by Palestinian Shippers at Commercial Crossing

- There is no official dissemination system/body for any changes in procedures or crossing requirements. Likewise, there is no official unified body for shippers to direct complaints to, in case of damages.
- The access roads and waiting areas for some crossings are inadequate for use by heavy trucks. The roads go through built up areas and are in poor condition causing heavy wear on trucks.
- The exchange of money and invoices takes place at a side room through a tiny slot (about 2 cm height), which hampers the passing of small amounts of money, invoices, and documents. In addition, the lack of face-to-face contact makes it difficult to sort out discrepancies at the crossing itself.
- Restricting traders to use pallets that have a maximum height of 1.6 meters, obliges companies to use more trucks than necessary increasing costs and time.
- Back-to-back operations are performed in an open area. Refrigerated goods are obliged to be offloaded into open inspection stations, and inspections can take as long as five hours, which can result in substantial damage to perishables.
- Electrical appliances are not allowed to re-enter into Israel for maintenance through some crossings, even after presenting all warranty documents, requiring the shipper to take them long distances to alternate crossings.
- Limited working hours and days are insufficient, preventing shippers from making just in time deliveries.

Source: Paltrade Crossings Monitoring Report

30. Efficient operation of the crossings requires coordination between all parties involved. Currently, the PA is not involved and none of its personnel are permitted into the crossings. However, the PA has been working to establish a General Administration of Crossings and Borders (GACB) and a decree and draft law have been submitted to the President's Office. In the meantime, the PA, through the Joint Economic Committee and in particular the Customs and Border Crossings Department, has been engaged with the GOI on the issue of the crossing points. While the PA has focused efforts on the Allenby Bridge, it has also expressed willingness to engage on the Jalameh, Sha'ar Ephraim, and Tarqumiya crossing points, conditioning their cooperation on the understanding that these crossing points do not represent any territorial borders.²¹ However, at this time there are no government officials helping to coordinate the Palestinian side of the Crossings.

31. The introduction of the commercial crossing points as the only conduit for Israeli-Palestinian trade and moving away from direct movement of goods is creating an additional

²¹ While Tarqumiya and Sha'ar Ephraim are also not located on the 1948 Armistice Line, the Palestinian Authority has essentially agreed to engage on these Commercial Crossings with the provision that they do not recognize their locations as territorial borders. Furthermore, USAID and other donors who have been involved in or expressed willingness to support the development of the Commercial Crossings have not been willing to engage at those crossings disputed by the PA.

layer of costs and delays for trade not only between Israel and the West Bank, but for West Bank goods that transit Israel to the rest of the world (Box 2). This additional layer will make it even more difficult for Palestinian goods to be competitive in the world market where on-time delivery and short turn around times are increasingly demanded. The impact this will have on Palestinian economic development is difficult to quantify, particularly in light of the already depressed economic situation resulting from the economic restrictions and security requirements imposed by the GOI as well as the lack of reliable information on Israeli-Palestinian trade volumes. However, preliminary estimates indicate that the Commercial Crossings will need to be operated at high levels of efficiency and some will need to be expanded in order to avoid delays, queues, and corruption of the type previously seen at the Karni/ Al-Montar commercial crossing between Gaza and Israel.

IV. EXTERNAL ROUTES

32. To access the world market, Palestinian enterprises can send their goods through Israel, Jordan or Egypt. Currently, the logistical challenges and Israeli security measures render the Egyptian route uneconomical and it is rarely used. Israel currently provides the most economical and best services, so despite the onerous security requirements, the majority of shippers send their goods through Israel. This is particularly true for West bound shipments to Europe and North America. However, local shippers report that a combination of the establishment of the West Bank Commercial Crossings, tighter Israeli security requirements and improving services in Jordan has begun to shift traffic towards the Jordan route.

Table 9: Indicative Costs* of Sea freight from West Bank To Selected Destinations (USD)

DESTINATIONS	PORTS - 20' DV CONTAINER		
	Haifa	Ashdod	Aqaba
Antwerp	1,600.00	1,551.00	2,560.00
New York	3,166.00	3,117.00	4,150.00
Canada	3,436.00	3,422.00	4,795.00
Port Kelang	1,549.00	1,535.00	2,150.00
Singapore	1,520.00	1,506.00	2,100.00
Shanghai	1,520.00	1,506.00	2,150.00
Dubai	2,801.00	2,790.00	2,350.00

Source: Interviews with local freight forwarders

* Include all costs including port charges, inland shipping costs, etc.

33. For sea shipments to North America and Europe, Israeli ports offer a significant advantage in terms of time and cost despite the high internal transport costs imposed by Israeli security measures. At the time this paper was prepared, on average, it could cost approximately US\$700 to send a container from the West Bank to the ports of Haifa or Ashdod and the goods could be damaged in the process of back-to-back transfers. But, even with these costs, Palestinian shippers report that it remains close to US\$1,000 less expensive

to send a container from Israel to Europe than from the Jordanian port of Aqaba (Table 9). In addition, Israel offers the advantage of more frequent sailings and only half the sailing time (Table 10). Because Israel is served by a number of large vessels, shipping costs to Asia are also lower, but it takes longer.

34. Palestinian shippers face a number of constraints accessing Israeli ports. In addition to the internal West Bank check points and Commercial Crossings, Palestinian goods are subject to additional checks inside Israel. Palestinian shipments must arrive in the port at least one and often more than one day earlier than Israeli goods for security screening. All Palestinian shipments are subject to scanning and many are manually searched as well. By comparison, Israeli shipments are only occasionally scanned and almost never manually searched. If all of the paper work is in order and there are no questions, the scanning and searches should take only a day. However, there are often discrepancies and since it is difficult for Palestinian businessmen to travel to Israel in person, most rely on Israeli agents, which can be difficult to resolve problems quickly. In the 2006 Investment Climate Survey, Palestinian businesses reported that it took on average six days to clear exports, which suggests that in many cases it takes much longer than a day to clear security and customs. Despite this, Israel remains the best option for most sea shipments.

Table 10: Estimated Transit Times to Selected Destinations

	Ashdod	Haifa	Aqaba
Antwerp	9	9	20
New York	19	19	35-40
Canada	16	19	35-45
Port Kelang	27	27	24
Singapore	19	19	14
Shanghai	28	28	20
Dubai	25	25	12

Source: Local freight forwarder estimate

35. For air shipments, Israel's advantages are less clear. Ben Gurion Airport offers more flights to Europe and North America than Queen Alia in Jordan. Ben Gurion also has better facilities and offers a slightly shorter route, though the facilities and services are improving rapidly at Queen Alia. However, total costs, including inland transportation charges, are marginally higher at Ben Gurion and again, Israeli security requirements create a difficult burden. Actual freight costs at Queen Alia are generally substantially higher than at Ben Gurion, but when fuel and security surcharges are added in, shipping through Queen Alia becomes slightly less expensive for large shipments (Table 11). In May 2008, fuel and security charges per metric ton were US\$360 and US\$1,150 at Queen Alia and Ben Gurion respectively.

Table 11: Indicative Airfreight Costs/1000kg from West Bank* To Selected Destinations (USD)

	Queen Alia	Ben Gurion
Amsterdam	3,308	3,435
New York	2,158	2,335
London	2,018	2,085
Frankfurt	2,018	2,235
Brussels	2,018	2,235
Kuala Lumpur	2,012	3,235
Singapore	2,040	3,235
Shanghai	2,540	3,035
Dubai	2,540	3,035

Source: Interviews with local freight forwarders

* Cost include inland transport costs of \$600 to Jordan and \$230 to Ben Gurion

36. As with sea freight, Palestinian shippers face security related constraints when sending cargo through Ben Gurion. Palestinian freight is generally forbidden from being carried on passenger aircraft and must use freight aircraft, which significantly limits available flights. Also, as with sea freight, Palestinian cargo is subject to scanning and manual searches and any discrepancies can lead to long delays since Palestinians with West Bank identification cards are not allowed to access the airport. However, notwithstanding these constraints, most Palestinian shippers currently view Ben Gurion as a better option than Queen Alia because of the better service, easier access and more frequent flights. However, Palestinian shippers indicate that with the improvements in infrastructure and tightening of the Israeli security restrictions, Queen Alia is now more competitive than Ben Gurion for air shipments over 250kg and more shippers are switching to Queen Alia despite the difficulties crossing the Allenby Bridge.

The Allenby Bridge and Accessing Jordan

37. All Palestinian products moving to or from Jordan must cross the Allenby Bridge, which is a cumbersome and inefficient process that adds to the cost of shipping and discourages West Bank shippers from using the Jordan routes. Cargo is required to be downloaded from Palestinian trucks, inspected and then uploaded onto Jordanian trucks. This process typically takes 4-8 hours but can be much longer if there are any problems. Containers are not supported and all cargo must be on small pallets.

38. For imports, into the West Bank, all cargo is carefully scanned and some of it is manually searched by Israeli security. The scanners at Allenby are small and can not handle large cargo. The size of the pallet depends on the type of good, but the largest pallet can only be 1.6 m high and for more dense articles, the pallets must be even smaller. Shippers report that for some items that must be reconfigured into very small loads for scanning, the handling costs are higher than the actual charges for transportation. Very large cargo that cannot be accommodated by scanners at the bridge is taken to Ashdod port – at the shipper’s expense – for scanning, which is a significant cost and delay.

39. For outgoing cargo, Israeli security only occasionally searches the cargo before it is put on Jordanian trucks. In Jordan, Customs assigns all goods into green, red or yellow lanes (no inspection, document inspection and cargo inspection) depending on the level of risk and shipments are inspected jointly by customs, the military and security. Red cargo is subject to 100% physical inspection and because Jordan uses a relatively unsophisticated risk management system, there is a high level of manual inspections. While both Jordan and the PA utilize the Asycuda system for customs processing, there is no linkage since Israel, which is the intermediary, does not use this system and is reluctant to share data.

40. The cross loading and manual inspections not only create delays but lead to damaged goods and precludes the shipment of fragile cargoes. Though the inspection area where imports are scanned is air conditioned, trucks queue and all cross loading operations take place in an open area. There is no provision for protection of perishables and the border authorities can require the trucks to remain in the open area for an extended period if there are “problems with the customs documentation.” In addition the Israeli authorities require notification of the arrival of the cargo at the crossing at least one day in advance.

41. Goods destined for Jordan are moved to an inland clearance facility where the goods are checked again. For this movement, the customs broker must provide a customs bond and the truck is sealed and driven to the inland customs facility as part of an informal convoy, with customs officers accompanying those trucks having high value cargoes. At the inland facility, the seal is checked and there is a second application of the green-yellow-red lane inspection regime. While it is unlikely that the goods will be subjected to a physical inspection at both the border and the inland facility, this redundant system guarantees that a very high percentage of the cargoes are physically inspected.

42. Transit cargo moving through Jordan is treated as a temporary admission. At the bridge, the cargo is subject to the same risk assessment as cargo destined for Jordan and goods assigned to the red category are manually inspected. The customs broker must provide a bond, the truck is sealed and the driver of the transit vehicle surrender his passport. The vehicle then proceeds to the designated exit crossing as part of a convoy. Upon arrival, the truck seals are rechecked at the exit point and the driver’s passport is returned. The account of the shipper/consignee is debited for the amount of duties and taxes and this is balanced by a credit given at the time the cargo arrives at the exit point. The maximum period for temporary admission is six months, after which the shipper/corridor must pay the outstanding duties and taxes. For high-value goods, customs may require an escort for the goods transiting Jordan. They have been moved in informal convoys supervised by the national police but it is reported that it will soon be traveling in formal convoys under supervision of the Jordanian customs. For transit cargo destined to the Gulf, the seals are checked at the Saudi border and the truck continues to the other side of the border where the Saudi customs again inspect the cargo.

43. The difficult and complicated procedures for crossing the border reduce the usefulness of Jordan as an outlet for Palestinian goods. The lack of cold storage and requirement to conduct back-to-back cross loading prevents the export of sensitive, high value agricultural products such as cherry tomatoes and peppers. Likewise, conditions at the border make it difficult to import or export pharmaceuticals and medical equipment, that require a

temperature controlled, dust free environment. However, more robust products such as potatoes, cauliflower and carrots can be sent across and through to the Gulf using refrigerated trucks on both sides of the border.

44. For very time-sensitive crops such as flowers and herbs, it is necessary to ship the goods by air and as discussed above, Queen Alia offers competitive rates and service. In fact, for shipments to the Gulf and Asia, the Jordanian airport is significantly less expensive. However, because of conditions at the bridge, most Palestinian shippers continue to use Ben Gurion with shipments controlled by Israeli traders in order to obtain expedited service. In the first half of 2008, there were some successful shipments of herbs and pharmaceuticals across the bridge and through Queen Alia. But these were specially coordinated and are not the norm.

45. Similar to the Commercial Crossings in the West Bank, the restricted opening hours and limited capacity of Allenby crossing is a constraint to Palestinian trade. The Israeli side operates only five days a week, closes on Israeli holidays and can remain open from 8 a.m. to 6 p.m. if required. However, since it can take several hours to send a cargo across, most shippers try and avoid Thursdays in case they are unable to complete the crossing before it closes. Israeli authorities state that Allenby can handle 70 export trucks and 50-60 import trucks per day, but this includes marble exports, which require a cursory inspection in the open area. Currently, there are on average only about 30 trucks of imports and 30-40 trucks of exports moving through each day. However, this low demand reflects the difficulty in crossing and not the lack of Palestinian shippers wanting access to the world markets. Given the limited capacity, lack of cold storage and protected facilities, risk of damage from inspections on both sides and the uncertainty of how long it will take to cross, the Allenby Bridge is not perceived as a good option by most Palestinian shippers unless their goods are destined to Jordan or the Gulf.

Port of Aqaba

46. The Port of Aqaba is the closest Arab port to the West Bank and offers a modern, privately run facility that provides access to the international shipping routes. The port has served primarily as a feeder port with calls by vessels that carry containers transhipped at Jeddah, Aden, Salalah or the Gulf ports. However, a number of lines, including Maersk, Evergreen, APL and the Hapag Lloyd/Wan Hai consortium, have begun making calls with mother vessels. These provide weekly services for their Far East-Red Sea service. They call at other regional ports including Sokhna, Jeddah and Salalah and provide transshipment services to Europe and North America via Jeddah or elsewhere in the Red Sea. With growth steady at about 12% a year, Aqaba is expected to attract more direct calls in the future. Typical sailing times from Aqaba are 2-3 weeks to Singapore, 3-4 weeks to China, 2-3 weeks to the Gulf, 2-3 weeks to Northern Europe and 3-4 weeks to North America.

47. Port operations have vastly improved in recent years but there are still a number of inefficiencies that affect exports from the West Bank. One of the biggest is the high cost for stuffing and unstuffing containers within the port; an estimated 280 JD per 40 foot container. For goods being imported into the West Bank & Gaza through Aqaba, because Israeli scanners at Allenby can only accept pallets, containers must be unstuffed either at the port or

the Jordanian side of the border and then palletized for movement across through Israeli security. The trade-off is between a costly unstuffing in the port or transporting a container to the border and returning it empty. The choice depends on the total costs, which varies with the density of the cargo and the possibility of returning the empty box to Amman rather than to Aqaba. In late 2007, the cost for trucking from Aqaba to Allenby Bridge was around US\$31 per ton. With an average 40 foot container load of 23 tons this gives a cost of about US\$700. The movement to the West Bank adds around another US\$450-500.

48. Cargo clearance procedures for imports through Aqaba are slow due in part to inefficiencies of terminal operations. Contributing to the delays is the inspection regime, which though based on risk profiles and green, yellow, and red, results in a relatively high proportion of goods being physically inspected. Added to this is the time in port while the declaration is being filed (there is no provision for pre-clearance), and the time required to move the cargo to the location where it is inspected. As a result, goods require at least two days in port and generally require 3-4 days to be cleared.

49. Shipments through Egyptian ports are not economical for West Bank shippers because of additional road transport costs and the added border crossing with its delays and informal payments.²² Shipping through Port Said would require a land movement through Tarqumia Crossing and Nitzanna and then across Northern Egypt or, if this is too difficult, a trip down through Aqaba to Nuweiba and up along the canal. Both involve a transit movement through Egypt and a combination of trucking services. The sailing time and freight rates from Egypt are comparable to those for Haifa. The latter are slightly higher but the difference is much less than the difference in land transport costs. The Israeli ports also provide a rapid service to Europe through Trieste, which would provide a 5-6 days savings over shipment through Port Said to an inland destination in Western Europe. Consequently, the main competition for West Bank shipping is between the Israeli ports and Aqaba.

50. As discussed above, Israeli ports are both less expensive and faster for shipments to North America and Europe. They are less expensive but slower for cargo to Asia. However, for flows from Asia in the primary westbound direction, Aqaba can offer significant savings relative to Haifa since the latter must compete for container space of vessels with shipments directed towards Europe, while Aqaba is served by routes that do not continue through Suez. Aqaba could have a competitive advantage for Asian imports even when considering the time and cost for handling at the port and Jordan border. Under current arrangements, it is possible to move a container load from an Israeli port to a West Bank destination in 2-3 days versus 4-5 days from Aqaba. Since the trucking and unstuffing costs are similar, the route through Aqaba offers a savings because of the lower cost of the sea freight. However, this cost advantage may not be enough to offset the uncertainties at the Allenby Bridge or to move shippers to develop new relationships in Jordan. But if movement between Israeli ports and the West Bank becomes more difficult while Aqaba services improve, West Bank importers may turn to Aqaba for shipments from Asia despite the costs imposed by the Allenby Bridge crossing.

²² Egypt could be the best option for shipments from Gaza as discussed in the recent World Bank technical report "Potential Alternatives for Palestinian Trade: Developing the Rafah Trade Corridor" March 2007.

Access to the Gulf

51. The Arab Gulf countries are a large and potentially lucrative market for Palestinian products. But they are hard to access since Israel does not have direct trade relations with the countries in the region. By far, the best way for Palestinian goods to reach the Gulf is by road across Jordan to Saudi Arabia, then along the Persian Gulf; a total distance of over 2,500 km. The travel time is four days but total transit time is six to seven days when the border crossings are factored in. Based on quotes from early 2007, the price for a truck from the West Bank to Dubai was about \$1,500 and about \$2,200 for a refrigerated truck. For a loaded return trip, the transport cost for a normal truck would be \$2500-\$3000.²³

52. This route has a significant advantage relative to a sea shipment via the port of Aqaba. The cost for truck transport from the West Bank to Aqaba and the port charges taken together would be US\$1,000-1,200 when the cost of stuffing the container is included. The ocean freight for a 40 feet container to the Gulf is about US\$500-750 and to this would be added handling charges at the receiving port as well as the costs for trucking the cargo inland to its final destination. The total travel time, including the time in Aqaba port for stuffing and waiting to be loaded on the vessel would be 13-15 days. The significant advantage of the all-road route also applies for shipments from the Gulf to the West Bank. Both the trucking rates and the freight rates are higher for a westbound movement. This explains why neither West Bank nor Jordanian shippers use Aqaba for shipments to/from the Gulf.

V. IMPROVING WEST BANK ACCESS

53. The main bottlenecks to trade between the West Bank and the outside world are the internal movement restrictions, the Commercial Crossings and the inefficient operation of the Allenby Bridge. If Palestinian enterprises are going to have any chance to successfully penetrate the international market, all of these issues must be addressed, while at the same time not jeopardizing Israel's security. Improved trade logistics will increase the competitiveness of Palestinian goods, which is necessary if Palestinian enterprises are to achieve efficient scale and move toward higher value added products.

54. The internal movement restrictions and internal closures raise costs and create high levels of uncertainty. As long as they continue to grow in scale and intensity, many potential Palestinian exports will not be able to enter the international market. Most of the growth of the internal restrictions is tied to providing security to the expanding settler population and is consequently a difficult political issue. However, the GOI has committed to relaxing the restrictions as the security situation improves and any hope for reviving the Palestinian private sector depends upon this pledge being carried out.

55. The Commercial Crossings have the potential to become a significant constraint to the already burdened Palestinian private sector in the West Bank. Regardless of the routing of trade with the rest of the world, these crossings are critical since they are the only commercial access points between the West Bank and Israel, its main market and supplier. The CPA has stated that the Crossings will ensure Israeli security without harming the Palestinian economy.

²³ All cost and time estimates in this section are drawn from interviews with regional shippers in late 2007.

However, as the Separation Barrier is completed and all traffic is forced to use the Crossings it is hard to imagine them not becoming a severe impediment to trade unless there is a significant and rapid increase in their capacity and ability to handle cargoes without damage. Currently, there are no long queues at the Crossings and there have been few reports of corruption. However, it appears that though the Crossings are handling only a portion of the traffic between the West Bank and Israel, the crossing times are averaging nearly two hours; substantially above the 60 minute maximum promised by the CPA. In addition, the restricted working hours hamper the ability of Palestinian firms to meet delivery schedules.

56. It is unlikely that any system of back-to-back loading will not jeopardize the competitiveness of Palestinian products. But if the Crossings are going to handle the expected traffic without constraining economic activity, the GOI will have to invest more in building their capacity, including adding more scanners and covered facilities, developing facilities to allow the use of containers, improving the roads and waiting areas and enhancing procedures. It is difficult to imagine that the Crossings can achieve the necessary through-put without introducing some form of risk management system that allows cargo from trusted shippers to flow through without extensive checks. In addition, the operating hours and days should be extended to allow Palestinian exporters to meet unexpected demands for immediate shipment. Successfully operating the Crossings will require close coordination between the Israelis and Palestinians. Therefore, it is important that the PA develop the capacity of the GACB and coordinate with the GOI on efficiently operating the Crossings. However, the PA should take a minimalist approach to the GACB. It must have enough capacity to facilitate crossings but not grow so much that it becomes a source of corruption and a large impediment to traders as border authorities have done in so many other countries.

57. As Israel tightens its security regime and makes it more difficult to pass through Israel, the Allenby Bridge outlet will take on increased importance and it is vital to both increase its capacity and its efficiency. Improving operations at Allenby would reduce inland transportation costs and significantly increase both the competitiveness of Palestinian products in the Arab Gulf and make Aqaba port a cost competitive alternative to the Israeli ports. Improved handling facilities would also encourage a greater use of Queen Alia Airport for fragile goods and time sensitive shipments. In addition, better processes and facilities at Allenby would lower the cost of imported inputs and reduce the need for Palestinian producers to import through Israeli middlemen.

58. Ideally operation of the Allenby crossing would be transferred to the PA so that it can control the border of a future Palestinian state and coordinate directly with Jordanian authorities. This should make it possible to reduce the crossing time, accommodate trailer exchange, the through movement of trucks and shipment by container. However, there is little chance that a political agreement will be reached to give the PA control of the Allenby crossing. Nevertheless, there are still a number of actions that can be taken that will improve the efficiency of operations and increase the competitiveness of Palestinian products including:

- Extending opening hours to accommodate expected increases in demand and to allow just in time delivery.

- Increase the amount of handling equipment. Currently, the equipment moves between exports and import. Dedicated equipment for each would allow exports and imports to flow simultaneously.
- Provide cold storage facilities.
- Obtain high resolution scanners that can handle containers on the Israeli side. Current scanners force shippers to break cargo into very small pallets, which adds substantially to the handling costs.
- Introduce a risk management system on the Israeli side.

59. Palestinian shippers have floated the idea of a logistics center on the Israeli side of the bridge. Such a facility would provide cold storage and a place to hold cargo until it can cross. Most importantly, it could provide a secure location where containers could be brought from Jordan and stuffed with Palestinian goods. Palestinian shippers estimate that stuffing containers on the West Bank and eliminating the requirement to send cargo across the bridge on Jordanian trucks before loading into containers on the Jordanian side, could reduce the cost of sending a container load of goods from the West Bank to Aqaba by as much as US\$250-400; enough to make the Port of Aqaba and Queen Alia Airport clearly competitive with Israeli ports and Ben Gurion airport.

60. In addition to increasing the efficiency of Allenby, Palestinian exports could be assisted by reopening the Damya Bridge crossing, which previously operated north of Allenby Bridge. This would require renovating the facilities and possibly replacing the bridge. But given the limited capacity of Allenby and the possible increase in traffic resulting from full operation of the Commercial Crossings, opening a second crossing point would be well worth the costs if its procedures are efficient enough to attract enough traffic.