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WEST BANK AND GAZA
PALESTINIAN TRADE: WEST BANK ROUTES
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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 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 sources 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 competiveness 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 from 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.

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