

**OFFICE OF THE QUARTET REPRESENTATIVE  
(OQR)**

**Report for the Meeting of the Ad Hoc Liaison Committee  
on OQR Action in Support of Palestinian Authority State-  
Building**

**18 September 2011, New York**

## AHLC REPORT: APRIL - SEPT 2011

### Executive Summary

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This report provides an update of the work of the Quartet Representative (QR), Tony Blair, and the Office of the Quartet Representative (OQR) and its partners to support the Palestinian Authority (PA)'s state-building program since the last Ad Hoc Liaison Committee (AHLC) Meeting in April 2011. The main report outlines this work in greater detail, describes the context in which the OQR's work has evolved, and sets out the priorities of the OQR for the coming months.

A report from the QR on implementation of the package of measures agreed with the Government of Israel (GoI) on 4 February 2011 can be found in the Annex to this report.

- **Gaza:** The OQR has continued to promote the easing of access into and out of Gaza so that crucial reconstruction work can take place, Palestinians can access basic services and legitimate business can prosper. During the reporting period, the OQR's primary foci have been: (i) continuing to advocate for the implementation of the Israeli decisions on 4 February 2011 to allow Gazan textile, furniture and agricultural exports to overseas markets and the importation of construction materials for the private sector on a pilot basis. We anticipate construction materials will begin to enter Gaza imminently under this initiative. The OQR continues to raise the need for Gazan goods to access markets in both Israel and the West Bank; (ii) supporting PA and GoI initiatives to expand Gaza's crossing capacity; (iii) promotion of infrastructure recovery projects, particularly in the water and energy sectors; (iv) development of the offshore Gaza Marine gas field; (v) movement of businesspeople through the Erez crossing; (vi) supporting expedited transfers of cash from Palestinian bank branches in Gaza to the West Bank and Israel; and (vi) supporting the expedited approval of official address changes from Gaza to the West Bank for long-term West Bank residents who currently have a Gazan address in the population registry.
- **Movement, Access & Trade Facilitation:** The OQR has continued its work with the GoI and the PA to improve movement and access to, from and within the West Bank and Gaza. To support the PA's program of economic development, the OQR has worked to improve: (i) the capacity of the Allenby Bridge crossing, particularly for the crossing of goods in containers; (ii) Arab-Israeli access to the West Bank; (iii) tourist access within and into and out of the West Bank; and (iv) West Bank goods access, particularly at the Tarqumiya, Sha'ar Ephraim and Jalameh crossings.
- **Private Sector Development:** The OQR's support to the PA's private sector development program has focused on: (i) supporting the construction of four electrical sub-stations in the West Bank, with a particular focus on facilitating the required insurance coverage; (ii) engaging the GoI on the need for systematic changes in the Israeli system governing foreign investment in the Palestinian economy; (iii) assisting in the preparation for PA World Trade Organization accession; (iv) promoting new Palestinian commercial legislation to facilitate economic activity and investment in the PA; (v) in conjunction

with its partners, working to improve PA capacity and legislation establishing food safety standards; (vi) working with the Union of Stone & Marble, other stakeholders and leading companies on a range of issues relating to stone and marble sectoral development; (vii) continuing to advocate for the establishment of a permanent access road to the Rawabi housing development project; and (viii) supporting the development of industrial parks in the PA.

- **Palestinian Use of Area C:** The OQR has focused on three areas: (i) advocating for a moratorium on demolitions; (ii) promoting effective planning for Palestinian communities in Area C, together with UN HABITAT and a range of partners; and (iii) working to improve the Israeli permitting system, including for basic service infrastructure – with the US Government, as agreed with the Gol in the 4 February 2011 package of measures – and for private sector initiatives.
- **East Jerusalem:** The OQR’s primary work foci have been: (i) expanding access to mortgage loans to provide improved housing opportunities to Palestinian East Jerusalemites; (ii) attracting foreign investment to East Jerusalem for small to medium enterprises and landmark development projects as a means to revitalize the local economy; (iii) developing an agenda to expand the number of classrooms for Palestinian children in East Jerusalem; (iv) seeking improved access to East Jerusalem for West Bank hospital staff and for patients with chronic illnesses; and (v) reviving tourism activity and investment in East Jerusalem.
- **Rule of Law:** The OQR has continued to advocate an easing of Israeli restrictions on the PA’s law-and-order operations in the West Bank, support continued capacity-building efforts in Palestinian justice and security sector institutions, and encourage Palestinian-Israeli cooperation in the justice sector. The OQR’s work in this area has been primarily directed at: (i) working with Palestinian and Israeli officials to facilitate improved movement and access for Palestinian judges and prosecutors; (ii) working with the PA and international counterparts to expedite the recruitment of a research team and the execution of a study of the impact of Israeli restrictions on the PA’s criminal justice operations; (iii) continuing to assist cooperation in the justice sector, including efforts to facilitate the work of the Joint Legal Committee; and (iv) continuing to work on assessing and mapping PA police presence and control in the West Bank and identifying obstacles to the development of greater operational and contiguous presence in Areas A and B.
- **Promoting Holy Land Tourism:** The OQR’s support to the Palestinian and Israeli tourism sector has focused on the following areas: (i) the opening of all Bethlehem area checkpoints to Jerusalem for tourism, which is now a permanent measure, and further movement and access measures across the West Bank; (ii) the launch and implementation of a PA-led Bethlehem Masterplan (with USAID); (iii) the return of foreign tourism along the Nativity Route (via the northern West Bank); (iv) the revival of tourism activity and investment in East Jerusalem; (v) exploring avenues for cooperation among Israeli and Palestinian tourism entrepreneurs; and (vi) encouraging a revision of foreign travel advisories on Israel, Jerusalem and the West Bank.

- **Continuity of PA Financing:** Integral to its agenda to support PA development priorities, the OQR has worked to: (i) mobilize timely and predictable donor assistance; (ii) maintain regular monthly transfers of revenues to the PA, which were temporarily suspended by the GoI following the reconciliation announcement between Fatah and Hamas on 4 May 2011; and (iii) facilitate an Israeli-Palestinian mechanism to enhance PA revenue collection, an initiative included in the February 4 2011 package of measures approved by the GoI.

END.

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## AHLC REPORT: SEPTEMBER 2011

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This report provides an update of the work of the Quartet Representative (QR), Tony Blair, and the Office of the Quartet Representative (OQR) and its partners to support the Palestinian Authority (PA)'s state-building program since the last Ad Hoc Liaison Committee (AHLC) meeting in April 2011.

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### *Introductory Message from the QR*

"In my April 2011 report to the AHLC I emphasised that change on the ground is key to providing the most favorable context for Israeli-Palestinian political negotiations to succeed. I believe this is still the case: progress on the ground is even more important today. The timing of this AHLC meeting marks the completion of the Palestinian Authority's two-year statebuilding program. The Palestinian Authority has greatly enhanced its capability to govern and to deliver services in the last two years, building on the solid foundations laid in 2007. There is strong international recognition of the Palestinian Authority's readiness for statehood. But as the World Bank and others note, these gains are now threatened by an acute fiscal crisis and declining economic growth.

"To avert the unraveling of so much progress, it is crucial that the following steps be taken. We need the removal of constraints on the Palestinian economy. Full implementation of the package of measures I agreed with the Government of Israel in February 2011 would make a contribution to this goal. The international community must step up financial support to the Palestinian Authority. In addition, an Israeli decision to allow the legitimate Gazan private sector to transfer their goods to the West Bank and export to Israel, the two main markets for Gazan goods prior to 2007, would help free the economy. Allowing Gazan producers to access international export markets, while welcome, brings few immediate benefits. I also look forward to seeing agreement between the Palestinian Authority and the Government of Israel on improving the collection of clearance revenues for the Palestinian Authority. It is imperative that the Government of Israel continue to forward Palestinian clearance revenues without delay, regardless of the politics.

"My mandate as QR is to continue to work with the Palestinian Authority, the Government of Israel, and our key international partners to promote ground-up change in support of political developments, and to help build the institutions and economy for a future Palestinian state. Since the OQR was formed in 2007 my team and I have continued to work with the Palestinian Authority and the Government of Israel to that end. This objective has continued to inform our eight key workstreams.

"The OQR's focus continues to be on supporting the PA's development and economic recovery program in the West Bank and Gaza by promoting: (i) a continued easing of access into and out

of Gaza so that crucial reconstruction can take place and legitimate business can prosper; (ii) continued donor assistance; (iii) sustained PA reform measures and further Israeli measures to ease movement and access restrictions in the West Bank; (iv) expanded private sector development; (v) enhanced PA security and law enforcement performance and strengthened PA rule of law capabilities; (vi) a transformation of the policy and administrative restrictions in Area C to support livelihoods and enable development; (vii) an improvement in the economic and social conditions of Palestinians living and working in East Jerusalem; and (viii) a more robust tourism sector, which has the potential to be a significant source of economic growth for the future Palestinian state and Israel.”

## Report on OQR Workstreams

### GAZA

The OQR’s recent work on Gaza builds on its four year agenda to support the economic reconstruction and opening of the Gaza Strip, particularly following the end of Operation Cast Lead in January 2009. The initial focus of the OQR’s efforts concentrated on supporting large-scale infrastructure projects (e.g. the North Gaza Emergency Sanitation Project) and the entry of cash into Gaza to maintain the integrity of the formal banking system. The OQR’s work agenda over the last year and a half has focused on trade-related measures to support and expand on the change in Israeli policy on imports, brokered by the QR in June 2010, and the package of economic measures announced by the Israeli Prime Minister and the QR on 4 February 2011 (see the Annex for further details). These measures have supported the entry of thousands of commercial items into Gaza and the import of building materials for internationally sponsored, PA-approved construction projects.

In November 2010, the OQR commissioned, in cooperation with the Palestine Trade Centre (PalTrade) and the Palestinian Federation of Industries (PFI), a study surveying 188 businesses to track development across 11 key manufacturing sectors in Gaza, following the June 2010 change in Israeli policy on imports and the expected implementation of the 4 February 2011 package.<sup>1</sup> The study results indicate that in 11 key manufacturing sectors in Gaza, improvements in employment numbers, production and sales occurred during the period June 2010 to June 2011. However, some sectors, primarily the garment sector, witnessed a retraction in sales due to the inflow of competitive imports from overseas through the crossing with Israel.

A large proportion of manufacturing companies in Gaza (57 percent) reported that they have the production capacity to be ready to export within one month of exports being approved, however, the current Gol policy preventing goods from being exported to Israel or the West Bank is a major obstacle to export growth. Israel and the West Bank have traditionally been the main markets for Gazan exports and very few manufacturers in the Strip have links to other

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<sup>1</sup> The first results of this study are available on the OQR website: [www.quartetrep.org](http://www.quartetrep.org).

markets. The major business constraints in this sector continue to be the unreliable supply of electricity, the unpredictable availability of raw materials and limited access to export markets.

Since April 2011 the OQR's work foci have been:

- **Exports:** Following continued advocacy by the OQR and its partners, on 8 December 2010 the GoI announced its intention to expand the range of exports permitted to leave Gaza. The new range includes agricultural produce and light industrial products, namely garments and furniture. This policy change was also reflected in the GoI package of measures announced on 4 February 2011 and specifically included the textile and furniture sectors in addition to agricultural produce. (See the Annex for further details). In the reporting period, the OQR has advocated implementation of this policy. To date, of the new range of products that can be exported, permission has been given for cherry tomatoes, sweet peppers and potatoes. A few loads of cherry tomatoes and sweet peppers were exported in the last growing season. It is anticipated that potatoes may be exported to Jordan later in September 2011. However, the price differential for potatoes between Jordan and Gaza is currently low and potato exporters risk making a loss. The OQR has worked with COGAT to establish a process that satisfies Israeli phytosanitary concerns. In the area of textiles, the OQR and the UK's DFID are working with a major UK retail chain to make an initial purchase of 4000 knitwear items from a Gaza manufacturer. As soon as this order is confirmed the OQR will seek to have these goods exported.<sup>2</sup> The OQR is also working with other agencies on a plan to help local manufacturers develop skills, design products, and develop marketing strategies to promote Gazan products in new markets.
- **Private Sector Building:** The OQR has been working with PA agencies, the UN and the private sector in Gaza, as well as with COGAT, to allow the transport of aggregates, cement and steel through Kerem Shalom for the rebuilding of factories. Working within Israel's security requirements, the OQR with the UN developed a process to allow the entry into Gaza of construction materials for 10 private sector factories to implement construction works at their businesses, with monitoring of implementation by an international entity. The process has been approved and we anticipate that construction materials will start to enter Gaza before 21 September 2011.
- **Improved Cargo Movement:** The OQR has continued to support PA and GoI initiatives to expand Gaza's crossing capacity. The capacity of the Kerem Shalom crossing has been expanded to process up to 300 truckloads into Gaza per day, which meets the current commercial demand of the private sector. To help facilitate the crossing of aggregates, a new area was built at the Kerem Shalom crossing that can process approximately 80 truckloads per day. To date, this has met the needs of current international projects in Gaza but may not do so in the near future when other approved projects receive funding and begin operations.
- **Promotion of Infrastructure Recovery Projects:** The OQR has worked intensively with the GoI, UN and other international bodies to expedite approval and supply of

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<sup>2</sup> For further details see: <http://www.quartetrep.org/quartet/news-entry/lord-stone-of-blackheath-visits-gaza-with-oqr-and-dfid/>



‘controlled’ construction goods and equipment to infrastructure construction projects, including schools, waste water treatment (e.g. the North Gaza Emergency Sewage Treatment project and UN schools), as well as to energy projects.

- **Development of the Gaza Marine Gas Field:** The OQR has worked closely with the Gol and the PA on initiating a bilateral discussion on the development of the Palestinian offshore gas field. This gas field, once operational, could provide the PA with most of its energy supply and would have significant positive implications for the Palestinian economy and PA fiscal revenues. In the 4 February 2011 package, the Gol announced its readiness to conclude discussions on this issue within a three month period. (See the Annex for further details).
- **Movement of Businesspeople:** Following OQR lobbying, businesspeople and traders are regularly moving through the Erez crossing, the number now being approximately 320 persons per week.
- **Cash Shipments:** The OQR has continued to call for the expedited transfer of cash from Palestinian bank branches in Gaza to the West Bank and the replacement of spoiled cash notes in Gaza to ensure the normal functioning of the formal Gazan banking system.
- **Gaza Addresses:** The Gol agreed on 4 February 2011 to authorize 5,000 residents of the West Bank who currently have a Gazan address in the population registry to change their address to their long-term West Bank residence. The PA submitted the names of 3,725 individuals who wanted to make this change. In the reporting period, the OQR continued to support expedited approval of changes of address for this purpose. To date, the Gol has approved address changes for 2,699 people living in the West Bank. (See the Annex for further details).

### Next Steps:

In the coming months, the OQR will continue to work with the PA, the international community and the Gol to facilitate export development and the importation of construction material. Specifically, the office will continue to engage the Gol to implement the approval of the export of agricultural produce as well as furniture, textiles and garment exports to overseas markets by the 22 potential exporters identified by the PA earlier this year. The OQR will continue to advocate for the approval of exports to Israel and transfer of goods to the West Bank. Furthermore, the OQR will seek a further improvement of the infrastructure and approach roads at the Kerem Shalom crossing, as well as promote enhanced processing efficiencies and longer opening hours at the crossing that can, at low cost, improve capacity.

If the entry into Gaza of construction materials for the 10 private sector factory re-builds is successful, the OQR will work to make this process routine and ongoing. The OQR will continue to promote the entry of materials required for major infrastructure projects in Gaza. In the area of energy and water, the OQR will continue to press for further progress on providing Gaza with new supplies of energy and water as well as on the development of the Palestinian offshore gas field. Further work will be carried out to facilitate changes of address for Gazans with long-term West Bank residency, as agreed by the Gol on 4 February 2011.

Furthermore, the OQR will continue to call for improved freedom of movement of Gazans through the Erez crossing to Israel, the West Bank and elsewhere, and improved movement of people to and from Egypt through Rafah crossing.

### MOVEMENT, ACCESS & TRADE FACILITATION

While there has been significant easing of movement and access restrictions in recent years, both physical and regulatory, restrictions continue to hinder Palestinian economic development and affect nearly all aspects of Palestinian life. In the reporting period, there has been little change to movement restrictions in the West Bank, although a number of initiatives are ongoing, as described below.

To support the PA's program of economic development, the OQR's primary foci in the area of movement and access since April 2011 have been:

- **Allenby Bridge:** During 2010 the OQR secured an extension of operating hours at Allenby Bridge, which has been made permanent. In the last six months the OQR has been working to promote the transfer of goods in containers at this crossing.
- **Arab-Israeli Access to West Bank:** The OQR successfully sought improved access for Arab-Israelis to the West Bank. Improvements were made over Ramadan and the OQR is working to maintain a number of these measures, including the easing of restrictions at Qalqilya. Improved access has resulted in significant economic improvement in the retail sector in northern West Bank cities.
- **Tourist Bus Access:** The OQR has worked to improve access for tourist buses into and out of Bethlehem by increasing the number of checkpoints open for tourist traffic. The office is now focusing on the Jalameh checkpoint in the northern West Bank and opening access through Jordan Valley checkpoints and the north Jericho entrance to ensure reliable and smooth access for tourists. Improvements achieved to date have led to significant improvements for both Palestinian and Israeli operators in the tourist industry.
- **West Bank Goods Access:** The OQR has worked closely with the Israeli authorities and USAID to ensure that improvements are made in the speed and reliability of the handling of goods at the main West Bank goods crossings (Tarqumiya, Sha'ar Ephraim and Jalameh), however, more remains to be done.

#### **Next Steps**

The OQR has continued to discuss the need to improve passenger transit with the GoI at Allenby Bridge and we anticipate that significant improvements will be introduced within the coming months. The OQR will also continue to promote the establishment of infrastructure at the crossing to allow for the transfer of goods in containers. This will require additional equipment to handle containers and an agreement between the GoI, Government of Jordan and the PA on methods of transfer. This initiative is expected to reduce the additional costs to traders resulting from the present 'palletised' system of goods transfer and should open up trade to and from distant markets. The OQR will also seek improvements in passenger access at

the Allenby Bridge crossing by working to introduce efficiencies that can be implemented by and between the Israeli, Palestinian and Jordanian authorities.

As set out above, the OQR will promote the further development of infrastructure and efficient processes for the import and export of goods to and from Gaza to existing and new markets, in keeping with Israeli security concerns.

Furthermore, the OQR will continue to seek improvements in the general ease, speed and reliability of the transfer of goods into and out of the West Bank. In addition to infrastructure changes in the Israeli crossing structure, simplification of Israeli bureaucratic processes, such as those for applying Israeli standards and 'dual-use lists' to goods movement, will enhance reliability and efficiency of goods traffic. In the immediate future the OQR will work to improve truck staging areas on the Palestinian side of each crossing to smooth traffic flows.

### **PRIVATE SECTOR DEVELOPMENT**

The OQR work agenda continues to help foster private sector development as the primary growth engine of the Palestinian economy and employment generator. This agenda has traditionally focused on a wide range of activities, including supporting infrastructure development (i.e. infrastructure critical to private sector enterprise), trade and investment promotion, the growth of strategic business clusters and the development of large iconic economic projects. The importance of this agenda has intensified with signs of economic slowdown in the West Bank economy.

Economic growth in the West Bank has softened in 2011, registering at 4 percent for the first half of 2011, consistent with the low-growth scenario of the International Monetary Fund. Given the slowdown in the West Bank, the IMF has revised downward its economic growth projections for the West Bank and Gaza in 2011 to 5 percent. In the Gaza Strip, growth continues to expand, registering at 28 percent for the first half of 2011. This high rate of growth is to be expected in a post-conflict environment experiencing economic recovery.

To ensure a more robust and sustainable economic recovery in both the West Bank and Gaza, the OQR is continuing to focus its efforts on promoting private sector development. Specifically, the OQR's work has concentrated on: four main workstreams: (i) promoting sectors underpinning private sector enterprise, including telecoms, energy, transport and banking; (ii) catalyzing change in the Palestinian business, trade and investment environment as well as promoting exports; (iii) promoting competitive business clusters, including tourism, stone and marble and information and communications technology (ICT); and (iv) supporting the implementation of large iconic economic projects, including the development of industrial parks.

In the reporting period, the OQR's main areas of work in private sector development have been:

- **Electrical Sub-Stations in the West Bank:** The OQR has coordinated closely with the PA, the Gol and the European Investment Bank on resolving an insurance-related matter for

a USD 44 million project to construct four new electrical sub-stations in the West Bank, which has hitherto prevented implementation of this project. Discussions between all sides are continuing with OQR involvement.

- **Investment Climate:** The OQR has continued to engage the GoI on the need for systemic changes in the Israeli system governing the promotion of foreign investment in the Palestinian economy. Changes in the overall authorizing environment for foreign direct investment, including the issuance of multiple entry visas with longer validity periods for approved investors and businesspeople, are expected to occur in the coming months.
- **World Trade Organization (WTO) Accession:** The OQR continued to participate in meetings of the PA National Task Force and Technical Assistance Team preparing for PA WTO accession.
- **Improving PA Commercial Legal Framework:** In partnership with the Ministry of National Economy and USAID, the OQR initiated a working group at the Ministry to review and promote new commercial legislation to facilitate economic activity and investment in the PA.
- **Palestinian Food Safety:** The OQR worked closely with the PA, the GoI, and its partners, including USAID, the U.S. Special Envoy for the Middle East Peace Process (SEMEP), the EU and the UN to improve PA capacity and legislation setting food safety standards. These steps will eventually ensure consumer safety and increase export potential and sales of food items in East Jerusalem and elsewhere.
- **Stone & Marble Sectoral Development:** The OQR has worked closely with key stakeholders on a range of issues in this sector. These include: assisting the Union of Stone & Marble with the formulation of an industry strategy and organizing a conference for its presentation to the donor community; engagement on Area C permitting and regulatory issues, including the closure of the Beit Fajjar quarrying site; and, in partnership with the Italian Consulate, working with 18 leading companies to create an export consortium to target a partnership with distributors in Italy, the world leader in the stone & marble industry. In addition, the OQR has undertaken a fact-finding process and consultation with Palestinian aggregates producers to understand the issues affecting the adjacent stone gravel sub-sector on the West Bank.
- **Iconic Projects and Industrial Parks:** The OQR and QR continue to advocate for the establishment of a permanent access road to Rawabi – the first planned Palestinian city. The Rawabi development project is creating hundreds of jobs and, when finished, will provide opportunities for affordable home ownership, education and employment. The long-term viability of this project requires facilitation of an access road that will run, in part, through Area C. The OQR also hosted a number of donor coordination meetings for developing industrial zones in the PA. The OQR facilitated a meeting between donors and the Palestinian Minister of National Economy to raise donor concerns and enhance cooperation with the Ministry. Moreover, the OQR coordinated a visit for donors to Israel’s model industrial park (Tefen) in northern Israel to learn from Israel’s experience in this field.
- **Palestinian Work Permits:** The OQR is continuing to follow up on the implementation of the GoI decision in February 2011 to issue an additional 5,250 work permits to Palestinian workers. (See the Annex for further details). The OQR is also working with its partners to examine the economic benefits and costs (both medium- and long-term) of

Palestinian laborers working in the Israeli labor market. In the near future the OQR will review the function and current nature of the crossings used by Palestinian workers with a view to assessing their reliability.

### **Next Steps**

In the coming months, the OQR will continue to work with the PA and key donors to support sectors underpinning private sector enterprise, including the telecoms, banking and energy sectors and the development of industrial parks. The office will continue to promote the Palestinian business and investment environment by investigating the potential for a management institute and/or executive business program in the West Bank, by working with the Gol on changes to the visa system to facilitate greater foreign direct investment and by holding a symposium to address policy instruments that can be used to assist the temporary movement of investors and service suppliers pursuant to trade agreements.

The OQR will continue to work with the Palestinian Ministry of National Economy to address the need for the development of Palestinian commercial legislative infrastructure to help attract foreign investors, facilitate and streamline commercial activities, and to prepare for WTO accession. Furthermore, the team will follow up on the stone sector agenda, including capacity-building at the Union of Stone & Marble, support for an export consortium and a survey of the aggregates industry on the West Bank.

### **PALESTINIAN USE OF AREA C**

During the last six months, the OQR continued to advocate the Gol's implementation of a moratorium on demolitions, drawing on the information and resources of those monitoring demolitions and displacements, in particular OCHA. This objective became increasingly important with a dramatic increase in the number of Palestinians who lost their homes in the first half of 2011.

To address the systemic challenges to obtaining permits and regularizing infrastructure development, the OQR has continued to focus efforts on the promotion of effective planning for Palestinian communities in Area C, together with UN HABITAT and a range of partners. Effective planning provides the basis for sound development and, specifically, enables residential and commercial development in Palestinian populated areas.

The OQR has also worked to improve the Israeli permitting system. With the U.S. Government, the OQR has continued to follow up on the 'fast-tracking' of permits for works at a number of PA priority schools and health clinics in Area C, as agreed with the Gol in the 4 February 2011 package of measures. (See the Annex for further details). Since much of the private sector work in Palestinian populated areas relies on resources in Area C, the OQR has also continued to support private sector initiatives to help contribute to economic development, including through the facilitation of individual permits for the establishment of infrastructure, and the promotion of wider enablement of private sector initiatives, as in the case of the stone &

marble sector, described above.

In Area C, the OQR's primary areas of focus have been:

- **Support for Basic Service infrastructure:** In partnership with SEMEP, the OQR negotiated a process for the 'fast-tracking' of permits for basic service infrastructure at 21 PA priority sites. There have been positive results from the process, which is proceeding faster than previously experienced: of the 21 projects submitted by USAID and UNDP, two permits have been issued and approval for renovation works to be undertaken was given for four sites, two of which have already been completed. The processing of permits for the remaining 15 sites remains on track, largely in line with the timelines provided by COGAT to facilitate most permits within 3-4 months from the submission of construction plans.
- **Support for Planning Initiatives:** The OQR continued to work with a range of partners to improve planning in Area C that is responsive to the needs and aspirations of Palestinian communities.
- **Support for Private Sector Development:** Particularly for the stone & marble sector, the OQR has engaged with the Union of Stone and Marble and COGAT to pursue greater facilitation of Palestinian quarrying activities.

### Next Steps

In the coming months, the OQR will seek permits for the remaining 13 school and clinic sites. Building on this initiative, the OQR will seek to ensure the permitting system is predictable, transparent, efficient and affordable for all basic service and private sector projects. The team will continue to support ongoing planning initiatives that respond to Palestinian needs in Area C, in coordination and cooperation with all partners and relevant parties. Working with its partners, the OQR will seek Israeli facilitation to promote development of key resources in Area C, such as stone and marble, in a sustainable manner.

### EAST JERUSALEM

Conditions in East Jerusalem continue to be difficult for over 280,000 Palestinians living and working in the city. Over two-thirds of this population subsists under the Israeli poverty line. Neighborhoods exhibit urban and economic decay and are disconnected from their natural economic surroundings in the West Bank. A severe crisis in both the housing and education sectors persists.

The OQR's primary areas of focus in East Jerusalem have been:

- **Housing:** The OQR has promoted access to mortgage loans to provide greater housing opportunities to Palestinian East Jerusalemites. These loans will help facilitate the construction of new housing projects. The OQR has worked intensively with local banks and an overseas development organization to finalize such arrangement. The OQR is



also promoting efforts to re-zone and plan neighborhoods in East Jerusalem to improve the living conditions of Palestinian residents.

- **Private Sector Development:** The OQR has further advanced its work on attracting foreign investment to East Jerusalem, and continues to help facilitate approvals for large-scale economic projects in East Jerusalem. One such large-scale investment project - the Addar Commercial Complex - will soon be launched in the heart of East Jerusalem. The OQR believes that potential for foreign investment exists and is therefore developing a structure to try to harness support. Funds would be directed towards small to medium enterprises (SMEs) that form the backbone of the local economy, as well as to landmark development projects.
- **Education:** The OQR continued work on its agenda to expand the number of classrooms for Palestinian children in East Jerusalem to help ameliorate the acute shortage of schools for Palestinian students in the city. The OQR, together with a local NGO specializing in the education sector, will be preparing a package of school expansion projects. The implementation of these construction projects will require outside funding.

### **Next Steps**

In the coming months, the OQR, together with its partners, will launch a program to scale up mortgage loans for Palestinians in East Jerusalem and help facilitate implementation of new housing projects. The team will also continue its work on mobilizing private sector funds for investing in SME activity in East Jerusalem.

Moreover, the OQR will develop its agenda to expand the number of classrooms in East Jerusalem with an expanded set of partners. The OQR is also looking at ways in which tourism in East Jerusalem can be further revived.

### **RULE OF LAW**

Since 2007, improvements in the judicial system have been dramatic. The number of cases filed in the First Instance and Magistrate Courts grew from 52,452 in 2007 to approximately 125,000 in 2010 – an increase of 138 percent. Improved law enforcement accounts for the increase in new criminal cases, but the higher number also reflects growing public confidence in the courts, as reflected by an equally substantial increase in submission of civil disputes to the judiciary. At the same time, after years of large and growing backlogs which had weakened public confidence in the courts, the disposition of cases by the courts over this same three-year period increased by some 185 percent. As a result of various reforms, the judicial system has managed to not only keep pace with this significant expansion of its caseload but also exceed it and simultaneously reduce the backlog. The disposition rate of cases in the Palestinian courts now exceeds that found in most European judicial systems.

Similarly, the ability of the PA to conduct effective law enforcement has dramatically improved, as has communication and cooperation between police and prosecutors. This shift is reflected in an enhanced public sense of security and stability. Continued progress is dependent upon

both continued internal reforms to strengthen the capacity of the PA justice and security sectors, and the easing of Israeli policies that restrict the performance of these sectors.

In this context, the OQR continued to advocate an easing of Israeli restrictions on the PA's law-and-order operations in the West Bank, support continued capacity-building efforts in Palestinian justice and security sector institutions, and encourage Palestinian-Israeli cooperation in the justice sector.

The OQR's primary areas of work in rule of law and security since April 2011 have been:

- **Movement Permits:** The OQR worked with both Palestinian and Israeli officials to facilitate the issuance of movement and access cards for nearly two-thirds of Palestinian judges and prosecutors, and continues to follow up with respect to the processing of requests for the remaining judges and prosecutors.
- **Study on PA's Criminal Justice Operations:** Following the development of a proposal for a study of the impact of Israeli restrictions on the PA's criminal justice operations in coordination with PA institutions as well as UNDP and EUPOL COPPS, the OQR has been working with PA and international counterparts to expedite the recruitment of a research team and the execution of the study.
- **Palestinian-Israeli Cooperation:** The OQR continued to assist cooperation in the justice sector, including efforts to facilitate the work of the Joint Legal Committee.
- **Expanded Police Presence and Operations in Area B:** The OQR continued to work on assessing and mapping PA police presence and control in the West Bank and identifying obstacles to the development of greater operational effectiveness and contiguous presence in Areas A and B.

## Next Steps

In the coming months, the OQR will continue to support the PA to develop a more holistic approach to the rule of law (encompassing both justice and security sectors).

The office will continue to engage with the GoI to improve the ability of PA law-and-order personnel to move and operate within and between areas currently under PA jurisdiction, including with respect to police patrols, criminal investigations, transport of detainees and evidence, and to facilitate the issuance of movement and access cards to all PA judges and prosecutors.

The OQR will support PA efforts to extend PASF presence and operational control in Area B in order to allow for more effective and contiguous law enforcement operations by the PA in areas under its jurisdiction. It will also seek an expansion of PA law enforcement jurisdiction and concomitant operations as warranted beyond Areas A and B.

The OQR will examine the current operations of the PA Civil Defense services, and assess the need for further steps to ensure their ability to carry out their functions effectively throughout areas under PA jurisdiction.



The OQR will continue to encourage further strengthening of PA justice sector institutions, including by immediate implementation of the recent PA decision to activate the new Judicial Police and by improving the system for execution of court judgments. Furthermore, the office will assist all relevant parties in carrying out the research study into the impact of Israeli restrictions on the effective functioning of the PA's justice system, which will for the first time provide empirical data and analysis for use in discussions, notably in the Joint Legal Committee.

The OQR will monitor, advise and follow up, on: (i) implementation of the decision transferring civilian cases from the military courts to the exclusive jurisdiction of the civilian criminal justice system; (ii) efforts to reform the current legal framework of the military justice system and develop the capacity needed to carry out its functions; and (iii) measures to resolve existing jurisdictional ambiguities and conflicts between PA justice sector institutions.

The OQR will encourage the development of improved tools to systematically measure progress in the criminal justice system, such as the collection and dissemination of crime rates in a transparent manner.

More generally, work will continue to support Israeli-Palestinian cooperation in the security and justice sectors, including, in particular, by facilitating the work of the Joint Legal Committee. The OQR will assist efforts to expand the capacity of the relevant PA justice sector institutions to engage more effectively in this process. It will also encourage expanded cooperation by Palestinian and Israeli authorities in the investigation and prosecution of crimes that cross their areas of operation.

### **PROMOTING HOLY LAND TOURISM**

Holy Land tourism has the potential to be a significant source of economic growth for Israel and the future Palestinian state. After a record year in 2010 (3.4 million visitors), numbers have been falling recently as a consequence of the Arab Spring in the wider region. However, the decrease to date (1.5 percent) has been mild in comparison to neighboring countries.

Since April 2011, the OQR's support to the PA's strategic tourism objectives has focused on five areas: (i) removing or easing movement and other restrictions that affect Palestinian and Israeli tourism operators; (ii) creating an improved investment climate for new enterprise; (iii) stimulating strategic Palestinian-Israeli cooperation in the tourism sector; (iv) helping the Palestinians with new initiatives, such as the *'Bethlehem Masterplan'*, *'Time Team in Palestine'*, and a variety of private sector initiatives; and (v) encouraging the international community to assist where it can, including through the revision/updating of international travel advisories.

In the reporting period progress was made in the following areas:

- **Bethlehem Checkpoints:** After an initial trial period of three months, the opening of all Bethlehem area checkpoints to Jerusalem for tourism was made permanent. The OQR has monitored implementation and received positive feedback from tour operators and guides on this measure.

- **Bethlehem Masterplan:** In close cooperation with USAID, the OQR supported the launch and implementation of the PA-led Bethlehem Masterplan, under which the public and private sectors are cooperating to upgrade the tourism experience of Bethlehem in several areas. A conference to evaluate the first results and recommendations took place on 25 July 2011 under the auspices of the PA Minister for Tourism and Antiquities. USAID has extended its support for the Masterplan process by a further 3 months to November 2011.
- **Nativity Route and Jalameh Crossing:** In order to stimulate a return of foreign tourism to the northern West Bank, the OQR, in cooperation with the Gilboa Regional Council, the Jenin Governorate, the Israeli Crossing Points Authority (CPA), and Palestinian and Israeli tourism entrepreneurs, organized a one-day event on the 'Nativity Route' on 15 June 2011. The day included a meeting in Gilboa between all stakeholders and a tour of sites in and around the city of Jenin. The event was followed by a visit by the QR to Nazareth and Jenin on 20 June 2011.<sup>3</sup>

## Next Steps

In the coming months, the OQR will work on the next set of tourism sector priorities for movement and access, including: continuing to monitor access to and from Bethlehem; seeking additional permits for licensed West Bank guides to work in Israel; further encouraging the revival of the Nativity Route in coordination with local stakeholders and donors; opening Jericho's northern entrance; and encouraging initiatives to revive tourism in East Jerusalem.

The OQR will continue to promote a change of (foreign) travel advisories on Israel and the West Bank, many of which do not accord with the reality on the ground. The OQR will also continue to explore ways in which tourism cooperation in the public and/or private sectors can be stepped up by both sides, including amongst other initiatives, a familiarization trip for Israeli tour operators and tourism investors to (new) Palestinian hotels in Ramallah and Bethlehem.

## CONTINUITY OF PA FINANCING

The PA fiscal position relies crucially on external donor financing to cover annual recurrent expenditures. The degree of PA donor reliance has declined in recent years due to greater economic growth and more effective revenue collection. This improvement is largely attributable to PA reform efforts. External support, however, also continues to represent a large share of annual PA financing and is critical for the PA to continue to meet expenditures, including salaries. The total budgeted recurrent deficit in 2011, expected to be financed by outside donors, was reduced to USD 967 million, 13 percent of GDP. This deficit is USD 163 million less than in 2010, when it was 16 percent of GDP.

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<sup>3</sup> For further details see: <http://www.quartetrep.org/quartet/news-entry/quartet-representative-tony-blair-visits-nazareth-and-jenin-travelling-alon/>

Since 1 January 2011, external donors have transferred around USD 471 million to the PA. The IMF estimates the financing gap for the recurrent budget (excluding development projects) for the remainder of 2011 at approximately USD 300 million. If direct budget support does not materialize as budgeted, the consequences for the Palestinian fiscal position and the overall economy could be serious. As a contingency, the PA is contemplating the implementation of a significant austerity plan. Integral to its agenda to support PA development priorities, the OQR has worked to mobilize timely and predictable donor assistance and to facilitate Israeli-Palestinian mechanisms to enhance PA revenue collection. During the reporting period, the OQR's main areas of focus in support of PA financing have been:

- **Mobilizing Donor Support to PA Budget:** Since the AHLC meeting in Brussels in April 2011, the QR and OQR worked to mobilize predictable, timely and adequate assistance from key donors to help the PA meet recurrent expenses and buttress PA reform efforts. The QR recently undertook efforts with regional donors to help facilitate the transfer of funds.
- **Facilitating Greater Revenue Enhancement:** As part of the Gol's package of measures announced on 4 February 2011, the QR and the OQR negotiated the inclusion of a mechanism to identify and agree on new measures to enhance the collection of budgetary revenues for the PA. (See the Annex for further details). Since the reconciliation agreement between Fatah and Hamas, this mechanism was temporarily suspended by the Gol but then re-instated with the help of the OQR.

### Next Steps

The QR will continue to help mobilize required external budgetary assistance to enable the PA to meet its financial obligations and to support private sector development. The OQR will also continue to press both the Israeli and Palestinian Ministries of Finance to continue their technical discussions on ways to increase the budgetary revenues of the PA and to implement the agreements reached at a technical level. The OQR will meet with both sides separately to monitor and report progress to concerned parties.

**Contact:** The OQR team welcomes contact and collaboration with partners and stakeholders. Please visit our website at [www.quartetrep.org](http://www.quartetrep.org), or email us at [info@quartetrep.org](mailto:info@quartetrep.org).

ANNEX

**Quartet Representative's Report on the Implementation of the Package of Measures Agreed  
with the Government of Israel on 4 February 2011**

**September 2011**

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On 4 February 2011, Quartet Representative, Tony Blair, and the Government of Israel (GoI) agreed a package of measures for Gaza, the West Bank and East Jerusalem. The following summary report provides an update on implementation of each measure to date.

Implementation of the package is mixed, with a combination of measures on or behind schedule. The package of measures is modest but, if fully implemented, will have a positive impact on some elements of the Palestinian economy and population, particularly residents of Gaza.

It is clear, however, that if there is to be a genuinely sustainable economy in the West Bank and Gaza, the GoI will need to make significant changes to a number of policies that constrain Palestinian economic growth. It is also necessary for the GoI to extend the range and scope of these measures to have greater impact on the economy and peoples' lives.

**GAZA**

**Energy**

- Preliminary discussions with the Palestinian Authority (PA) on the development of the "Gaza Marine" gas field are to begin immediately and conclude in three months (by 4 May 2011): *no progress*.
  - ❖ The GoI has formally communicated to the PA that it is willing to commence talks and has identified a lead representative. The PA has also identified its team. The two teams have not yet met.
- Subject to agreement on its development, the GoI will allow Gaza Marine gas to fuel the existing and any future power plant in Gaza; it will approve the upgrading of the Gaza power station and the construction of a second power station: *progress is pending agreement on development of Gaza Marine gas field. There has been some progress on facilitating the repair work of the Gaza power station*.
  - ❖ The GoI is allowing the entry of materials and spare parts for the upgrading of the Gaza power station to re-establish capacity of 120MW, an increase of 40MW. This UN project is due to be completed in November 2011.

- The GoI has agreed to make a decision on any applications by the PA to increase the supply of electricity to Gaza from Israeli sources within three months of application: *no action due yet*.
- ❖ The PA and Israeli sources willing to supply electricity to Gaza are still in discussions and an application for GoI approval has not yet been submitted.

### Water and Sanitation

- The GoI has agreed to facilitate PA proposals, supported by the USA and Norway, to facilitate two sets of mobile desalination plants and the construction of larger desalination plants: *no action due yet*.
- ❖ The Palestinian Water Authority (PWA) has developed a new strategic document outlining the water sector priorities for Gaza. The use of desalination plants is included as a crucial step towards sustainable water supply both in the short- and long-term. The GoI has indicated that it will fast-track approvals and is awaiting requests for facilitation.
- The GoI has committed to facilitating the entry of construction materials to enable the following waste water treatment plants to be completed on schedule: Sheikh Ajleen, NGEST, and Khan Yunis: *progress on schedule*.
- ❖ The Sheikh Ajleen and NGEST projects are broadly on track. The Kuwaiti Government has indicated to the UN that it will contribute US\$43m to co-finance the Khan Yunis Waste Water Treatment Plant with the Japanese Government.

### Exports

- The GoI has agreed to permit exports of textiles, furniture and agricultural products from Gaza to international markets by 1 April 2011: *progress behind schedule*.
- ❖ The GoI decided to implement its decision to allow exports of textiles, furniture and agricultural products to international markets to take effect on 1 April 2011. On 12 May 2011 the OQR were told that the process for export was still 'under examination', and it was not until 21 June 2011 that a process was laid out for agricultural products to Jordan. This Israeli policy approval still requires a broader, transparent and reliable implementation mechanism to help enable Gazan manufacturers of furniture and textiles to export their products at the Kerem Shalom crossing to new overseas markets. As most Gazan manufacturers have traditionally sold their products in either the West Bank or Israel, entering new overseas markets will take time.
- ❖ In addition to carnations and strawberries, cherry tomatoes have been exported to European markets with the support of the Dutch Government. Sweet peppers and potatoes have also been permitted, but only limited numbers of the former have been exported due to seasonal and commercial reasons.

- ❖ Approval has been given for potatoes to be exported to Jordan. However, due to the high cost of transport (partially due to GoI phyto-sanitary concerns) and the absence of a price differential between Jordan and Gaza, exports of potatoes are currently not commercially viable.
- ❖ The OQR and the UK Government (DFID) are supporting potential Gazan exporters to secure commercial relationships with international buyers.
- ❖ The volumes that can be exported will remain limited to around ten truckloads per day until a dedicated security scanner is installed at Kerem Shalom. International funding for this scanner is needed.
- The GoI will conclude discussions by 30 April 2011 on whether to allow PA-approved Gazan producers to transfer textiles/furniture to PA institutions in the West Bank: *no progress: to date, the GoI has decided not to allow PA-approved Gazan producers with confirmed orders to transfer these products to the West Bank.*

### Imports

- The GoI will implement a pilot by 1 April 2011, based on discussions with the UN, on a new arrangement to allow PA-approved Gazan private businesses to import construction materials into Gaza: *progress behind schedule but underway.*
- ❖ GoI has given approval to ten Gazan factories to import all necessary construction materials, including those on the dual use list, to Gaza. A mechanism has been agreed between the UN, OQR and GoI to facilitate the initiative, whereby an international entity will monitor implementation of the works. We anticipate construction materials will start to enter Gaza by 21 September 2011.
- ❖ No construction-related items have been removed from the dual use list.

### Construction Projects

- The GoI has agreed to approve 20 new construction projects in Gaza, including internationally funded projects in education, health, housing, infrastructure and environment: *completed.*
- ❖ The GoI approved all 20 PA-endorsed projects and formally notified donors in mid-February. GoI reports that it has approved 149 projects since June 2010.
- The GoI agreed to facilitate entry in February of all aggregates stored at Sofa crossing (estimated at over 70,000+ tons) once sale agreements were reached between relevant international organizations and local merchants: *completed.*
- ❖ Sufa operated from 9 March to 23 April 2011, and processed 57,764 tons in total, the remaining quantity was not up to the necessary standard.

### WEST BANK

### Telecommunications

- The GoI has approved the transfer to Wataniya Telecommunications Company of the outstanding 0.6 MHz, thereby completing the transfer of a total of 1 MHz pending since November 2009: *completed*.
  - ❖ The transfer of the outstanding 0.6 MHz was made mid-February 2011.

### Area C Schools and Health Clinics

- The GoI will prioritize and fast-track the construction/reconstruction of a number of schools and health clinics in Area C. Permits will be issued after the submission of PA requests and plans: *progress on schedule*.
  - ❖ The GoI provided approval in principle for 21 PA-priority projects submitted by the OQR and SEMEP in Area C: two permits have been issued and major rehabilitation works (which do not require permits) at two sites are completed; and major rehabilitation works are underway at another two sites. The remaining 15 permits are being processed on track, with several additional permits expected to be issued in the coming weeks. Overall the processing times are much faster than seen by implementing partners in the past and largely in line with indicative timelines provided.
  - ❖ To support future construction/expansion works at eight schools already planned by UNDP, donor are encouraged to provide \$6.9m in funding.

### Collection of Clearance Revenues

- The GoI agreed to immediately schedule talks with the PA to identify and agree new measures that will enhance the collection of clearance revenues for the PA, with the aim of settling outstanding issues on both sides within three months (i.e. by 4 May 2011): *progress behind schedule*.
  - ❖ The two sides have held meetings and reached agreement, at a technical level, on particular revenue enhancement measures. No agreements have been implemented to date.

### PA Security Presence in Area B

- The GoI has agreed in principle to facilitate the extension of PA security presence to seven towns in Area B, with the aim of agreeing specifics with the PA by 1 March 2011: *progress behind schedule*.
  - ❖ The PA has yet to submit a request to the GoI on where it wants to extend PA security presence.

### West Bank IDs for Gazans Resident in West Bank



- The GoI has agreed to authorize 5,000 residents of the West Bank who currently have Gazan IDs to change their address to the West Bank: *progress on schedule*.
  - ❖ Following an invitation from the GoI to the PA to submit a list of requests, the PA submitted 3,725 IDs. The GoI has approved 2,699 of these to date and is in the process of reviewing the remaining names.

#### **East Jerusalem**

- The GoI has stated that it encourages the implementation of all projects in East Jerusalem that abide by municipal regulations aimed at improving infrastructure, including housing, for Palestinian residents.
  - ❖ The OQR is working with partners to secure finance to ensure mortgage loans are available for new and existing Palestinian housing developments in East Jerusalem.

END.