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POTENTIAL ALTERNATIVES FOR PALESTINIAN TRADE:

DEVELOPING THE RAFAH TRADE CORRIDOR

Executive Summary

i. Beginning in December 2004, when all parties (including the Government of Israel (GoI) and the Palestinian Authority (PA)) agreed that Palestinian economic revival was essential, that it required a major dismantling of today's closure regime and that closure needed to be addressed from several perspectives at once, the World Bank has played a leading role in providing balanced analysis and proposals which draw on the Bank's worldwide experience in trade facilitation, but are realistic in the context of the Israeli-Palestinian situation. In today's environment of confrontation and heightened risk, movement and access controls have increased and earlier relaxations have been reversed. However, the relationship between Palestinian economic revival and stability and Israeli security remain unarguable and of fundamental importance to both societies' well-being. This paper explores the need and viability of opening up alternative trade routes for the Palestinian economy beyond those controlled by GoI with an analysis of the economic, logistical and political feasibility of using the Rafah border crossing in Gaza as part of a new trade corridor for the transit of Palestinian exports through Egypt.

ii. The Bank believes that using Rafah as a trade corridor to ship goods from Gaza to Egypt's efficient and privately managed container terminal at the entrance to the Suez Canal and to Cairo International Airport can provide competitive trade logistics in terms of performance and at a cost generally equivalent to or less than Israel's ports and airports. The legal underpinnings for using Rafah for transit trade are in place including the *Agreement on Movement and Access* approved by GoI, the PA and US which specifically allows for Rafah to be used for exports immediately and the *Arab League Agreement on Transit* which allows for duty-free transit of Palestinian goods through Egypt. To make the corridor operational requires relatively straightforward procedures for a secure supply chain at the Rafah terminal and transit protocols to be agreed between the Palestinian and Egyptian Governments, with the support of the European border monitors currently at Rafah.

iii. Critically, this trade corridor would offer the Palestinians direct access to the Gulf and Europe which are potentially the most lucrative markets for Palestinian exports. Given the significant contraction of Palestinian exports since 2000, WBG's relatively high cost structure and the competitive nature of global trade, only by accessing these markets directly and making full use of the generous trade agreements provided to WBG by Europe and the Arab League, will Palestinian producers capture enough value-added to grow the economy even if the borders with Israel become more efficient and transparent.

iv. The development of the trade route through Egypt is also expected to provide both short and long term benefits for the Egyptian economy. In the short term, there will be an increase in the demand for trucking and other transport and logistics services to service the transit cargo. As the trade corridor develops, the trading activities will generate related economic activity in northern Sinai including the possibility of joint production and processing activities along this corridor.

v. Opening the Rafah Corridor is complimentary to ongoing efforts to improve the border crossings with Israel, particularly at Karni. An effective Rafah corridor is likely, in fact, to help speed improvements at Karni since it will introduce competition to what has been a fully monopolistic border operation. Producers in Gaza can then decide on which crossing to use depending on market needs or in response to when a specific security threat at a crossing may dictate its temporary closure. The West Bank economy is larger than the Gazan economy and producers there also need direct access to the world market. An efficient and reliable crossing and trade corridor through Jordan would provide similar advantages of direct market access from the West Bank.¹ Likewise, progress on the Palestinian port and airport as provided for under the *AMA* should begin in order to provide other alternatives for reaching third country markets.

vi. It is suggested that the development of the Rafah corridor take a phased approach beginning with specially arranged demonstration shipments to jump start operations and then expanding these activities as systems and procedures are instituted and improved. Necessary infrastructure and construction would proceed apace to support the agreed procedures and to appropriately meet demand as it grows. At the start, Rafah would be used only for exports in transit. Such operations have very limited security issues and do not impact the existing quasi-Customs union between WBG and Israel as embodied in the Oslo Accords. The independent EU monitors at Rafah, EUBAM, have expressed willingness to include the handling of goods in their third party mandate. Egyptian authorities have also indicated their support for Palestinian transit trade.

vii. The success of the Rafah corridor is dependent on establishing practices and procedures which, while sensitive to legitimate security and

economic concerns and minimizing risks, are appropriate and focused on facilitating efficient and reliable trade. Ample expertise in putting in place international best practice is available and the World Bank and the EC, among others, are prepared to assist in this regard. An immediate reopening of Rafah for passengers, and a return to normal and reliable operations at the crossing, as mandated by the AMA and practiced from November 2005 to June 2006, must be restored and respected. The border crossing should be a conflict-free zone where all parties in the region recognize the importance to the Palestinian and Egyptian economies and the well-being of the Gazan population of maintaining an efficient, reliable and corruption free trade corridor.

viii. This paper covers the following four key issues: (i) Palestinian Trade Against the Background of Global Trade Expansion; (ii) Trade Logistics and Performance Using Egyptian Gateways; (iii) Establishing the Border Terminal Operations and Transit Protocols, and (iv) Conclusions and Next Steps. The paper incorporates views and feedback provided to the authors during a series of presentations and discussions of the main concepts with a wide range of private sector, government and donor stakeholders in WBG and Israel in January and March 2007.

¹ For a Jordanian Corridor to be successful it is crucial that Israel reverse the current policy of restricting access of the Palestinian population to the Jordan Valley since this would add significant uncertainty in reaching a Jordan transit corridor.

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