Economic Monitoring Report
to the
Ad Hoc Liaison Committee

April 30, 2019

WORLD BANK GROUP
THE WORLD BANK IBRD • IDA | IFC International Finance Corporation | MIGA Multilateral Investment Guarantee Agency

Table of Contents

Figures

Tables

Boxes

Acronyms

AML/CFT	Anti-Money Laundering and Combating Financing of Terrorism
ARIJ	Applied Research Institute–Jerusalem
CBRs	Correspondent Banking Relationships
CLA	Coordination and Liaison Administration
DECA	Defense Export Control Agency
GDP	Gross Domestic Product
GMP	Good Manufacturing Practices
GoI	Government of Israel
GPS	Global Positioning System
GRM	Gaza Reconstruction Mechanism
HPLC	High-performance liquid chromatography
ICT	Information and Communications Technology
IEC	Israeli Electricity Company
IMF	International Monetary Fund
JEDCO	Jerusalem District Electricity Company
LGUs	Local Government Units
MENAFATF	Middle East and North Africa Financial Action Task Force
MIS	Management Information Systems
MoFP	Ministry of Finance and Planning
NORG	National Office for the Reconstruction of Gaza
NPL	Non-Performing Loans
NPK	Nitrogen, Phosphorus, and Potassium
PA	Palestinian Authority
PPA	Purchase Power Agreement
PETL	Palestinian Electricity Transmission Ltd
PCCC	Presidential Committee for Commodities Coordination
PENRA	Palestinian Energy and Natural Resources Authority
PEFA	Public Expenditure and Financial Accountability
PFMI	Public Financial Management Improvement
PMA	Palestine Monetary Authority
PPA	Power Purchase Agreement
RPP	Revenue Protection Program
SMEs	Small-Medium Enterprises
TFA	Trade Facilitation Agreement
UN	United Nations
UPS	Uninterrupted Power Supply
UNCTAD	United Nations Conference on Trade and Development
UNRWA	United Nations Relief and Works Agency
VAT	Value Added Tax
WA	Wassenaar Arrangement
WCO	World Customs Organization
WTO	World Trade Organization

Executive Summary

i. **With the economy stalling on the back of continuing restrictions, and the Palestinian Authority (PA) facing a severe fiscal crisis, the prospects for the Palestinian people are grim.** The constraints imposed by the Government of Israel (GoI) in the West Bank, along with the decade long blockade on Gaza, are hollowing out the productive sectors and have left the economy reliant on consumption-driven growth. The vulnerability of this situation has been exposed by a steep reduction in official transfers and a decline in investment in the recent years. Consequently, real growth in the Palestinian territories in 2018 was a mere 0.9 percent, with a 7 percent contraction in Gaza while growth in the West Bank was less than its average in recent years at 3 percent. Looking forward, growth is expected to average around 1 percent in the coming years, which implies a continuous decline in real per capital income and a further rise in unemployment and poverty.

ii. **While the fiscal performance in 2018 was better than expected, the current stand-off over revenues collected on the PA's behalf by the GoI (clearance revenues) has resulted in a fiscal crisis—further threatening the economic prospects.** As a result of measures by the PA, the fiscal deficit declined by about 1 percentage point of GDP in 2018 compared to 2017. But, with declining budget support, a financing gap of US$400 million persisted after external financing. A GoI decision to make unilateral deductions from clearance revenues of US$138 million in 2019 to offset estimated payments made by the PA to the families of "martyrs and prisoners" has led the PA to reject these transfers altogether. Given that clearance revenues amount to 65 percent of the PA's total revenues or 15 percent of GDP, their absence has forced the PA to adopt significant spending cuts including cutting the wage bill by 30 percent, and curtailing other expenditures including social assistance to the neediest. Coupled with additional borrowing from the local banks, these measures are expected to allow the PA to manage in the first half of 2019. If the problem with the clearance revenues is not resolved, the PA is expected to face a fiscal gap exceeding US$1 billion in 2019 and run considerable arrears to the private sector. This is expected to choke economic activity, threatening to push the West Bank into negative growth. Although additional external aid would help buy time in the short term, it is not possible for aid to replace the lost clearance revenues on an on-going basis. Hence, a resolution to the stand-off over clearance revenues is essential.

iii. **The macro-fiscal developments have resulted in increased risks for the banking sector, whose recent performance is already showing signs of concern.** While the Palestinian banking sector remained profitable in 2018, with the economy stalling, growth in deposits and credit has significantly slowed and non-performing loans have started to increase—a worrying trend given the economic outlook. Adding to this trend, the fiscal crisis has led the PA to signal plans of increasing its direct exposure to the banks, while the salary cuts for employees will put at risk loan servicing by a significant customer base. Another constant cause of concern for the banking system and the Palestinian economy is a possible disruption in Correspondent Banking Relationships (CBRs) between Palestinian banks and their Israeli counterparts due to de-risking by Israeli banks. The indemnities given by the GoI to banks with CBRs were set to expire in May 2019 but have been extended until May 2020. A long-term mechanism for correspondent services is being discussed and should be in place before the indemnities expire.[1]

iv. **The weakening economic activity emphasizes the need for a more sustainable development path for the Palestinian territories in the medium-term.** While growth in recent years has mainly

[1] According to the GoI, the extension of the indemnities is subject to action by the Palestine Monetary Authority to establish a long-term solution and upgrade the Palestinian anti-money laundering and combating financing of terrorism system.

been driven by consumption financed through aid, remittances and bank credit, this cannot sustainably substitute for a weak private environment. Even though the Palestinian economy will not be able to reach its full potential without a final political resolution, actions by the GoI to ease the restrictions and efforts by the PA to accelerate fiscal and economic reforms could significantly improve the economic outlook and fuel private sector activity and investment. The private sector is the only sustainable engine for growth, and the focus should be on removing the constraints and creating the right conditions for it to flourish and create jobs.

v. **One of the major trade restrictions facing the Palestinian economy is limited access to key production inputs, namely those deemed as "dual use".** Dual use goods are products and technologies normally used for civilian purposes, but which may have military applications. Like many other advanced economies, Israel controls its exports of dual use goods. However, when it comes to exports to the Palestinian territories, the GoI enforces additional controls on top of those established by the relevant international treaties. These controls were first reflected in a 2007 law, but the list has since been significantly expanded.

vi. **The restrictions on transfer of dual use goods, as currently implemented, are problematic on several levels.** First, the restrictions do not discriminate sufficiently between legitimate and illicit uses. Second, the procedure for administrating the dual use list is *opaque* and Palestinian businesses do not have the ability to appeal any administrative decisions. Third, the list includes 56 items restricted for both the West Bank and Gaza and an additional 62 items that only apply to Gaza. Further, the definition of certain items on the list is too *broad*. For example, the list includes a category entitled "communications equipment, communications supporting equipment, equipment containing communication functions". The broad and vague nature of the definition means that it affects access to most civilian production lines and spare parts, most medical equipment, and most home appliances.

vii. **With these additional trade restrictions in place, the Palestinian economy is unable to access key production inputs and modern technology, challenging its ability to expand its production frontier and grow in a sustainable manner.** The growth of productivity—the efficiency with which societies combine their people, resources, and tools—is universally recognized as the main driver of the development process. Restrictions on access to dual use goods and machinery severely limit the ability of Palestinian businesses to increase productivity in key sectors. For example, the lack of access to fertilizers of standard concentration is a major limitation to improving productivity in the agriculture sector. The restricted access to various chemicals is an obstacle to a range of manufacturers including pharmaceuticals and dairy producers, while the broad scope of the communications restriction is an impediment to adopting new technology, which has stood in the way of developing the territories' digital economy and has created a large technological gap with neighboring countries. Dual use restrictions also adversely impact the delivery of public infrastructure projects, especially in Gaza, as those require building materials, machinery and chemicals that are considered dual use.

viii. **The economic costs on the Palestinian economy from the dual use list as currently implemented have been shown to be significant.** According to the World Bank, removing dual use restrictions for legitimate businesses would bring about additional cumulative growth of 6 percent to the West Bank economy by 2025, with a bigger impact of about 11 percent in Gaza compared to a scenario with continued restrictions.

ix. **While the longer-term objective should be to align dual use restrictions with international practice, immediate steps can be implemented to benefit legitimate economic activity within existing security parameters.** Short term priorities should focus on streamlining and simplifying the administrative procedures to access dual use goods, while also expanding existing pilot schemes that currently make chemicals available to a limited number of businesses under additional security arrangements. Developing a mechanism to allow farmers controlled access to quality fertilizers is another key priority. Over time, a risk-based approach could be introduced to provide access to dual use goods for legitimate businesses. For instance, Palestinian businesses that have established a strong track record of their ability to safely and securely handle hazardous materials and dual-use goods should be granted access to these goods without the need for cumbersome licensing procedures. In Gaza, this approach could be implemented while ensuring that these goods are not diverted for illicit use either through remote monitoring or physical monitoring by existing UN monitors. In the long term, it is recommended that the GoI adapts its export control dual use list to make it more in line with international best practice. The PA should also conduct efforts to build a credible regime of control and verification and assume responsibility for the control of dual use goods within its jurisdictions.

x. **The main body of the report is organized in two chapters and two supporting annexes.** Chapter I focuses on recent economic developments in the real, fiscal and banking sectors, while providing a near term outlook that highlights critical challenges facing the Palestinian economy. Chapter II looks at the impact of dual use restrictions on specific sectors in both the West Bank and Gazan economies and makes short and long run recommendations that would allow more activity and job creation. Annex 1 assesses the status of the World Bank recommendations to the AHLC meeting over the years, while Annex 2 has details of the dual use restrictions that are currently in place.

Chapter I: Recent Economic Developments

A. Economic Growth

1. **The Palestinian territories witnessed minimal real growth in 2018 due to a steep deterioration in Gaza and a slowdown in the West Bank.** In recent years, the Palestinian economy has mainly been driven by large inflows of transfers as other sources of growth, including private sector activity, have long been hindered by the ongoing system of restrictions imposed by the GoI. These restrictions have kept investment levels extremely low, due to the associated high risk of disruption and discontinuity in projects and trade and have resulted in a deindustrialization of the economy. Inflows of transfers have significantly dropped in recent years and are no longer able to offset the impact of a weak business environment. As a result, the Palestinian economy has been on a declining growth trajectory eventually witnessing 0.9 percent growth in 2018. Given that population growth in the Palestinian territories is around 3 percent, 2018 registered a sizeable decline in the real incomes of Palestinians, resulting in worsening living conditions.

2. **Gaza's economy continued to be in a deep recession during 2018**. According to preliminary data, it contracted by 7 percent year-on-year. Prior to the deep decline over the last two years, the Strip's economy has never taken such a deep downturn that was not conflict-induced. The recent deterioration has clearly exposed Gaza's fragile state with its economic buffers almost fully depleted, following its long-term isolation. Gaza's economy has been kept afloat in recent years, despite its economic isolation, by large transfers of donor aid and spending through the budget of the PA, both of which amounted to 70-80 percent of Gaza's GDP (Gross Domestic Product). However, these two sources have significantly declined during the last two years pushing Gaza into a recession, reflecting large fiscal multipliers in a mostly closed economy operating far below potential.[2] The deterioration was seen in most economic sectors but mainly in construction, and public administration—both of which were Gaza's main drivers of growth in recent years. The economic decline has also led to a rapid deterioration of humanitarian conditions in Gaza.

3. **The West Bank economy has significantly slowed in 2018, reflecting long predicted sustainability concerns**. Real GDP growth declined to 3 percent in 2018—lower than its average in the last few years. The slowdown can be attributed to a decrease in aid inflows and recurring clashes in 2018,[3] which have negatively impacted private sector sentiment. On the production side, the largest slowdown was seen in the public administration sector, while wholesale and retail trade contributed the most to growth.

4. **The unemployment rate in the Palestinian territories continues to rise**. It reached 30.8 percent in 2018, which is 2.4 percentage points higher than its average in 2017. The increase is due to a significant jump in Gaza where 52 percent of those in the labor force were unemployed in 2018 compared to 44.4 percent in 2017. Unemployment amongst Gaza's youth reached 67.4 percent while it was even higher for females, amounting to 70.6 percent. Labor market indicators clearly

[2] Fiscal multipliers are estimates of the short-term impact on output of changes in fiscal policy. This is consistent with research that finds that countries in MENA with high unemployment, fixed exchange rates, and low trade-to-GDP ratios have large fiscal multipliers, implying that exogenous reductions in public spending can have large and negative impacts on output. Consequently, fiscal multipliers in Gaza are likely even larger than those in the West Bank.

[3] In 2018, the United Nations office for The Coordination of Humanitarian Affairs (UNOCHA) recorded a 77 percent increase in violent incidents in the West Bank compared to 2017: https://www.ochaopt.org/content/2018-more-casualties-and-food-insecurity-less-funding-humanitarian-aid

showcase the growing divergence between the West Bank and Gaza economies as unemployment in Gaza was almost three times higher than that in the West Bank where it stood at 17.6 percent in 2018.

5. **Living conditions have deteriorated in recent years, mainly in Gaza**. Around 24 percent of Palestinians lived below the US$5.5 2011 PPP a day poverty line in 2016/17 (latest available data) – 2.9 percentage points higher than in 2011. The gap between the West Bank and Gaza has increased substantially in 2016/17 with 46 percent of the population below the US$5.5 poverty line in Gaza, compared to 9 percent in the West Bank which saw some improvement compared to the last survey in 2011. Monetary living standards in both regions remained fragile. In the West Bank, poverty status is sensitive to even small shocks in household expenditures, while in Gaza any change in social assistance flows can significantly affect the population's wellbeing.

6. **The outlook for the Palestinian territories is worrisome as sources of growth are slowly diminishing**. Under a baseline scenario that assumes a resolution of the clearance revenue stand-off[4] but a continuation of the Israeli restrictive regime, the persistence of the internal divide, and a continued decline in aid, investment levels are not expected to pick up and sources of growth going forward will become extremely limited. As a result, real GDP growth of the Palestinian economy is projected to average around 1 percent between 2019 and 2021. This growth level implies a yearly decline in real per capita income by around 2 percent, and a rise in unemployment and poverty.

7. **Risks to this projection remain significant**. In the West Bank, a downside risk could materialize if the stand-off over clearance revenues is not resolved. Given that these transfers represent 65 percent of total PA revenues and 15 percent of GDP, their absence for the full year would eventually lead to a decline in economic activity pushing the West Bank economy into negative growth as fiscal multipliers are likely large. In Gaza—which has already experienced two years of fiscal retrenchment—remaining transfers through the PA's budget could continue to decline, and if the United Nations Refugee and Works Agency's (UNRWA) funding gap persists, the continuation of fiscal retrenchment could have further negative impact on economic activity, service provision, and social conditions in the Strip. Consequently, the Gaza economy is not expected to recover from the current recession, significantly raising the potential for unrest.

8. **To achieve sustainable economic growth in the Palestinian territories, growth and job creation going forward will need to be private sector driven.** For a small economy, achieving a sustainable growth path depends to a large extent on having a private sector that is able to compete in regional and global markets and increase its exports of goods and services. The private sector is the only sustainable engine for growth, and the focus should be on removing the constraints and creating the right conditions for it to flourish.

[4] Clearance revenues are assumed to start flowing in the second half of the year minus the additional deductions.

Figure 1: Real GDP growth in the Palestinian territories

Source: Palestine Central Bureau of Statistics and WB Staff Calculations.

B. Public Finance

Fiscal performance in 2018

9. **Despite a continued improvement in domestic collections, public revenue dropped in 2018 due to a reduction in clearance revenues.** In 2018, the PA's domestic taxes grew by 9 percent (year-on-year) mainly driven by a pickup in VAT receipts from the Large Taxpayers Unit and the local offices due to the PA's ongoing efforts to widen the tax base and improve administration. Non-tax revenue also performed well, increasing by 10 percent (year-on-year), due to two license payments by a telecoms operator[5] and a lumpsum transfer by the GoI of fees collected from Palestinian workers in Israel.[6] On the other hand, clearance revenues witnessed a sharp drop in 2018, declining by about 8 percent due to lower petroleum purchases from Israel and lower transfers by Israel to offset fiscal leakages[7] compared to the same period in 2017. In total, the PA's public revenues dropped by 5 percent in 2018.

10. **Public spending was reduced by about 8 percent in 2018 mainly following cuts in Gaza**. In fact, the wage bill, the largest spending item, dropped by 16 percent (year-on-year) following recent measures to cut the allowances and wage payments of PA employees in Gaza and a decline in the number of public servants due to early retirements that the PA has been implementing since early 2017. According to figures from the Ministry of Finance and Planning (MoFP), the total number of PA employees dropped by around 23,500 since early 2017. The majority of the drop is in Gaza where around 23 thousand employees have exited the public workforce compared to about 500 in the West Bank. The sharp decrease in spending on the wage bill was partly offset by a 14 percent

[5] PALTEL made a license payment in the amount of NIS107 million in January 2018 and another one in the amount of NIS122 million in June 2018.
[6] The GoI made a transfer in the amount of NIS165 million in June 2018 covering health and equalization fees collected from Palestinian workers over the period July 2017 to April 2018.
[7] Fiscal leakages are fiscal losses witnessed by the PA under the current revenue sharing arrangements instituted by the Paris Protocol between the GoI and the PA.

rise in transfers due to an increase in outlays on pensions. Net lending[8] in 2018 was maintained at its 2017 level as a decline in electricity related costs offset the rise in water net lending—an area that requires urgent action by the PA.

11. **Despite a decline in the deficit, the PA's financing gap after external financing persisted in 2018 mainly due to insufficient budget support and was financed through additional arrears.** The PA's total deficit amounted to US$1.08 billion in 2018 or 7.3 percent of GDP – almost 1 percentage point lower than in 2017. Aid received was US$676 million (US$516 million in budget support, and US$160 million for development financing), resulting in a financing gap of around US$400 million. Notably, aid received in 2018 was 6 percent lower than in 2017 due to lower funding from international donors (see table 1). To fill the gap, the PA resorted to domestic resources, namely arrears to the pension fund and the private sector. Despite repaying some dues from previous years, net accumulation of arrears in 2018 reached US$227 million.

Table 1: Aid to the Palestinian Authority's budget

External Financing (US$ million)	**2017**	**2018**
Budget Support	543	516
a. Arab Donors	145	305
Saudi Arabia	92	222
Algeria	52	27
Qatar	0	0
Oman	0	0
Egypt	1.1	4
Kuwait	0	53
b. International Donors	398	210
PEGASE	240	184
USA	73	0
India	0	0
France	9.2	9
Malaysia	0	0
Turkey	0	6
World Bank	76	10
DPG	30	0
PRDP TF	46	10
Development Financing	175	160
Total	**718**	**676**

Source: PA MoFP.

2019 Fiscal Forecast

12. **With the recent developments around clearance revenues, the fiscal situation in 2019 is highly uncertain.** Following the Israeli decision to make deductions from clearance revenues in the amount of US$138 million in 2019 to offset payments made by the PA to martyrs and prisoners' families,[9] the PA has decided to reject clearance revenue transfers altogether. Given that these transfers comprise around 65 percent of the PA's revenues and 15 percent of GDP, their absence

[8] Deductions made by the GoI from clearance revenues to clear utility bills owed by Palestinian Local Government Units (LGUs) and distribution companies to Israeli suppliers.

[9] This amount represents the Israeli estimate of yearly payments made by the PA to the families of martyrs and prisoners.

has had a severe impact on the fiscal situation. The PA has adopted an emergency cash management plan that includes a number of measures to cope with the drop in revenues including cutting the total wage bill by 30 percent while protecting the lowest earners making a monthly salary of NIS2,000 and below.[10] Only transfers to martyrs and prisoners' families will continue to be fully paid while all other transfers including to the poor will be stopped. All other current and operational spending will be significantly rationed, and development spending will be limited to existing projects only.

13. **In the World Bank's projections for 2019, two scenarios are considered—each of which would have different fiscal and economic implications.** The PA has decided to reject clearance revenue transfers and has developed a plan to cope with the decline in revenues until July when it is hoped that the GoI would revisit its decision to make additional unilateral deductions. If the Israeli decision is indeed revisited, monthly clearance revenue transfers would then be accepted by the PA and it is assumed that transfers that were initially rejected would be retroactively transferred (minus the additional deductions for the period January-July). Under this scenario, the PA is expected to face a challenging fiscal situation in the first half of the year as it will continue to implement the measures mentioned above. But, the fiscal and economic stress would ease in the second half of the year as clearance revenues start flowing and as the fiscal cuts are reversed. Once this happens, full salary payments, transfers to the poor and others to private suppliers would be fully resumed. Given that donor aid to the budget is expected to remain lower than needed at about US$500 million in 2019, the PA's financing gap (after external financing) under this scenario is expected to remain large and approach US$570 million. The majority of the gap would be financed through loans from local banks of about US$470 million, based on the unofficial exposure limit set by the PMA. Under a second scenario where clearance revenue transfers are not resumed, the PA would be forced to continue with the spending cuts mentioned above throughout all of 2019. These cuts would have a severe negative impact on consumption, confidence and economic activity. The PA's financing gap under this scenario is expected to exceed US$1 billion. US$470 million, of which, could be financed through additional borrowing from domestic banks. Notably, this amount of additional borrowing would exhaust the PA's ability to resort to domestic banks in the future until its debt level goes down. If no additional donor aid is identified, the PA would be forced to fill most of the remainder of the gap with arrears to the private sector, which could eventually choke economic activity. Going forward, the priority should be to resolve the clearance revenues stand-off as soon as possible. The PA should also accelerate efforts and work closely with development partners to identify additional external aid as without it, a fiscal and economic crisis cannot be avoided in the absence of clearance revenues.

14. **While the PA needs to further accelerate reforms that align its spending and revenue capacity, in the short-term actions by the PA alone will not be enough to close the financing gap and budget support remains a key source of financing in an environment where fiscal stimulus is still needed to support growth.** The PA has already implemented severe spending cuts to deal with the loss of clearance revenues. A more drastic reduction in PA expenditures in the short term would be harmful to the economy, given the sizable fiscal multipliers, and may also bring about negative social consequences. Donor support during these critical times is essential to enable provision of services to the Palestinian population. Long term fiscal sustainability, however, cannot be achieved without a prudent and stringent fiscal consolidation program by the PA. By necessity, the cuts adopted recently by the PA to deal with the clearance revenue issue have been blunt and across the board – affecting the poor who rely on social assistance. However, going forward, to support a more sustainable fiscal position, the fairness, effectiveness and efficiency of public

[10] According to the emergency plan, monthly PA spending is contingent upon the amount of revenues and other sources of financing available. Once the stand-off is resolved, wage cuts are expected to be reversed.

spending need to be improved through a program that addresses the generous public pension system, civil service reform, and untargeted transfers.

Table 2: Central government fiscal operations 2016-2019

In US$ million	2016 (actual)	2017 (actual)	2018 (actual)	2019 (forecast) Scenario 1	Scenario 2
Net revenues	**3,475**	**3,495**	**3,355**	**3,356**	**1,192**
Gross domestic revenues	1,230	1,151	1,272	1,102	988
Clearance revenues	2,338	2,416	2,254	2,284	219
Tax refunds	93	72	171	30	15
Recurrent expenditure	**4,224**	**4,358**	**4,068**	**4,209**	**2,753**
Wage bill	2,052	2,114	1,798	1,896	1,471
Transfers	1,145	1,190	1,307	1,258	212
Other	1,027	1,054	963	1,055	1070
Recurrent balance	**-749**	**-863**	**-713**	**-853**	**-1,561**
Development spending	**337**	**366**	**363**	**252**	**163**
Overall balance	**-1,086**	**-1,229**	**-1,076**	**-1,104**	**-1,724**
Financing	**1,086**	**1,229**	**1,076**	**1,104**	**1,724**
External financing	765	719	675	537	537
Budget support	607	544	515	506	506
Development financing	158	175	160	31	31
Gap after external financing	**321**	**510**	**401**	**567**	**1,187**
Domestic financing	**332**	**442**	**386**	**470**	**470**
Net domestic Bank financing	-127	85	159	470	470
Arrears	459	357	227	-	-
Other/Unidentified	-15	68	12	97	717
Residual	4	0	3	0	0

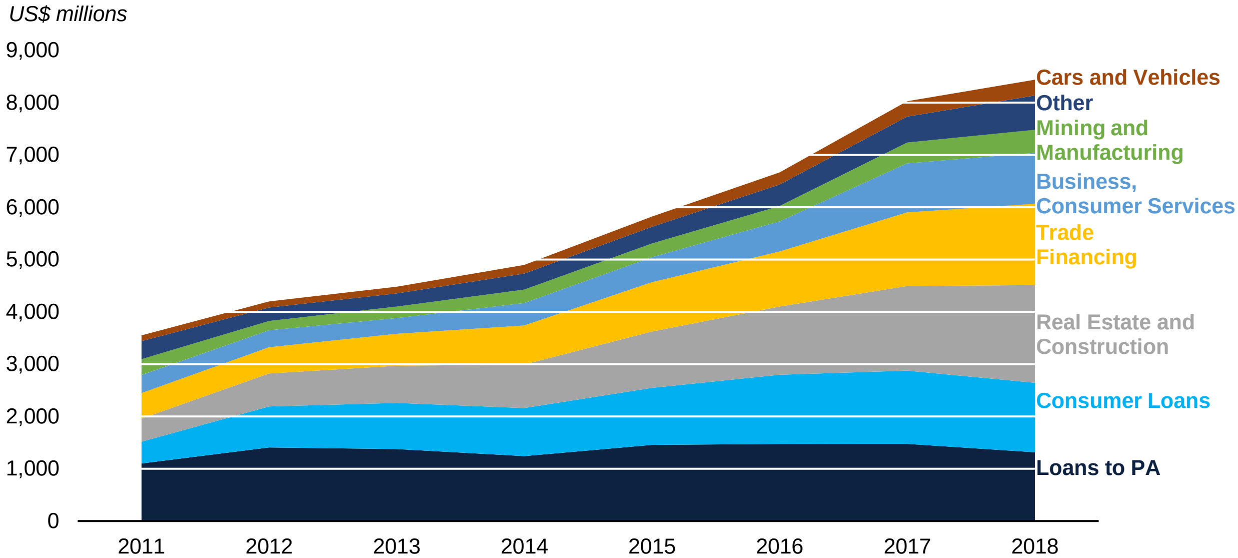
Source: PA MoFP and WB Staff Estimates.
Note: Actuals are on a commitment basis while the 2019 forecast is on a cash basis.

C. Money and Banking

15. **While the Palestinian banking sector remained profitable in 2018, the impact of the economic deterioration is materializing in the banking data.** According to data by the Palestine Monetary Authority (PMA), the banking sector's total net assets grew by one percent in 2018 year-on-year, down from 12 percent in 2017, and reached US$15.5 billion. One of the more worrisome signals of 2018 is the lack of growth in bank deposits, which grew only by one percent down from 12 percent in 2017. Overall growth in direct credit also slowed in 2018, with the bulk of new lending driven by private sector loans, particularly for construction and trade finance while consumer loans declined slightly, contrary to previous years' trends. With the unequal slowdown in credit and deposit growth, the overall credit-to-deposit ratio (historically at 50-60 percent) increased to 69 percent by the end of 2018. Both non-performing loans (NPLs) and classified loans have registered

a sharp increase of approximately 25 percent during 2018, with the NPL ratio exceeding 3 percent. While this NPL ratio is moderate given the context, discussions with several local banks indicated it is likely that the NPL ratio has been dampened through the rescheduling and restructuring of outstanding loans based on PMA guidance issued during 2017, 2018 and 2019. If the underlying causes persist, the delayed impact on NPLs will eventually materialize through further deterioration in the quality of SME and consumer loan portfolios, particularly for banks with a substantial exposure to PA employees.

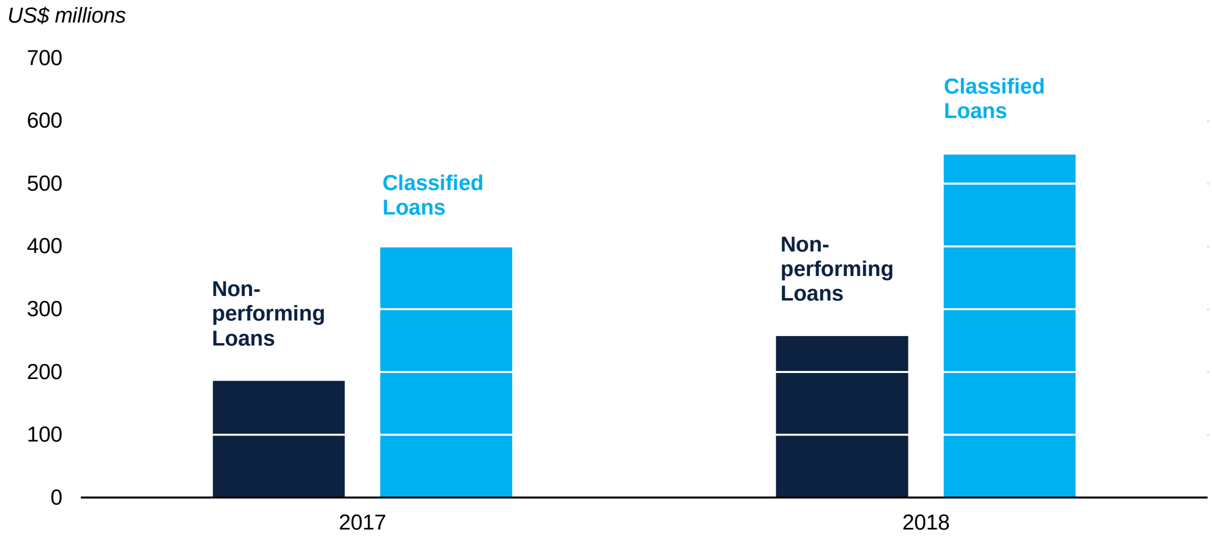
Figure 2: Distribution of credit facilities by economic sector



Source: Palestine Monetary Authority.

16. **In the absence of clearance revenue transfers, the exposure of domestic banks to the PA is expected to increase, significantly undermining the stability of the banking system.** In recent years, the banking sector's credit exposure to the public sector has caused unease. Reliance on bank financing grew steadily, raising concerns over credit concentration risk. In 2017 and 2018, exposure to the PA stabilized at approximately US$1.3-1.4 billion—less than 20 percent of all lending by the banking system. Notably, the moderation in PA exposure also reflects an increase in bank capital, not just the nominal decline in the stock of PA loans. As illustrated in the fiscal discussion above, with the recent PA decision to reject clearance revenue transfers, expectations are that a large part of the resulting fiscal gap will be financed through borrowing from local banks. The proposed increase in PA exposure will unavoidably compound the credit concentration risks faced by local banks - with a potentially destabilizing effect - consequently undermining the soundness of the local banking system. Furthermore, while direct lending to the PA may have moderated in 2018, the banking sector's indirect exposure to the PA remains substantial due to borrowing by PA employees and private sector suppliers. Borrowing by PA employees (relying on future PA salaries for repayment) has been steadily growing since 2014, surpassing direct PA loans for the first time since 2017 and currently stands at US$1.5 billion. When combined, the PA and public employees currently account for over US$2.8 billion, or 34 percent of total gross credit.

Figure 3: Growth in non-performing and classified loans



Source: Palestine Monetary Authority.

17. **The potential negative impact of de-risking by Israeli banks remains a cause for concern.** Citing money-laundering and financing of terrorism concerns, key Israeli banks signaled plans to limit or terminate correspondent banking services to Palestinian Banks in 2016. Such termination of correspondent banking relationships (CBRs) by Israeli banks could have significant economic impact due to the highly interlinked structure of the two banking systems, and the use of Israeli Shekel as the primary currency in the Palestinian economy. In January 2017, the GoI approved an indemnity and immunity package for Israeli banks working with Palestinian banks to alleviate the potential for immediate disruptions to CBRs between the two banking systems. The package, which is a temporary measure was set to expire by the end of May 2019 but has been extended for another year. According to the GoI, the extension is subject to the PMA taking necessary action to develop a long-term solution and also upgrade the anti-money laundering and combating financing of terrorism **(**AML/CFT) system. Alternative CBR arrangements are under review to provide long-term stability and to mitigate the current uncertainty. These proposed long-term measures must be implemented by the PA and the GoI prior to the expiry of the package, otherwise an extension must be secured to maintain stable correspondent services.

18. **The PMA has also been taking steps, with international support, towards upgrading the Palestinian AML/CFT system in line with international practices.** Assistance from the International Monetary Fund has focused on issues related to the legal and regulatory framework, while the World Bank supported the PMA in concluding its first self-assessment of ML/FT risks. The aim is to enhance the ability of relevant AML/CFT stakeholders in the Palestinian territories in identifying, assessing, and understanding the money laundering and terrorism financing risks they face. This exercise is being coordinated by the Financial Follow-up Unit of the PMA, with involvement from the Ministries of Finance and Planning, Justice, Interior, and Foreign Affairs, the Public Prosecutor's Office, Customs Services, and other relevant stakeholders. In parallel to the self-assessment process, the PA requested, and has been granted approval for, an evaluation of its AML/CFT regime by the regional Financial Action Task Force (MENAFATF). The evaluation, currently scheduled to start during 2020, in combination with the self-assessment, represent key milestones towards aligning the PA's AML/CFT systems with international standards. It is worth noting that civil litigation related to financing of terrorism has been recently filed in a United States federal court against three licensed banks operating in Palestine.

Chapter II: Israel's Restrictions on Dual Use Goods in the Palestinian territories

19. **Ongoing restrictions on the Palestinian economy represent the main challenge to sustainable growth.** As mentioned earlier, weakening economic activity in the past year emphasizes the need for a more sustainable growth path, which requires a more positive environment for investment. Even though domestic policy and institutional shortcomings impede the Palestinian economy's productivity, research has shown that the multilayered system of restrictions imposed by the GoI is the main impediment to growth.[11] The business environment in the Palestinian territories has been plagued for years by ongoing restrictions on access to resources, movement of goods and people, and trade. The decade old blockade on Gaza has severely restricted economic activity and isolated its economy. In the West Bank, lack of access to resources, mainly in Area C, a weak trade logistics infrastructure, cumbersome procedures and road closures have resulted in extremely low investment levels and raised overall trade costs. As a result, the Palestinian economy has become stuck in a low-income low-growth trap unable to create jobs for its young population.

20. **This chapter takes a close look at one of the main trade restrictions hampering economic growth in the Palestinian territories, namely on access to dual use goods.** The chapter will start by explaining what dual use goods are, then move on to give examples of specific sectors and industries that are affected by restrictions on their access. It concludes with recommendations that would enable Palestinians to access these goods, while considering Israeli concerns.

A. Background

21. **Dual use goods are defined as products and technologies normally used for civilian purposes, but which may have military applications—hence the international obligation to control their trade.** This derives from a general international obligation to counter the proliferation of weapons of mass destruction (i.e. nuclear, biological and chemical weapons) and of other items with potential military use. It is enshrined in several documents, including the United Nations Security Council Resolution 1540 of 2004, the Chemical Weapons Convention of 1993 and the Biological Weapons Resolution of 1972. Apart from these international treaties, there are also special international regimes; such as the Wassenaar Arrangement (WA) on Export Controls for Conventional Arms and Dual-Use Goods and Technologies, the Nuclear Suppliers Group or the Australia Group. These regimes contribute to the non-proliferation of nuclear, biological or chemical weapons and dual-use items. The control lists stemming from the international treaties and regimes mentioned above have been merged by the European Union into a single control list, maintained as an Annex to the EU's dual-use regulation. Although this list only has force of law within the EU, it has emerged as the de facto 'gold standard' for international control lists, with many countries beyond the EU choosing to use it as a model for their own national control lists.[12]

[11] The World Bank. November 2017. Prospects for Growth and Jobs in The Palestinian Economy: A General Equilibrium Analysis.

[12] As the Word Customs Organization points out in its Strategic Trade Enforcement Guide, because the EU control list integrates the control lists of all four multilateral export control arrangements, which in turn attempt to promote adherence to treaty commitments, the EU consolidated list is a very important strategic goods reference when determining the appropriateness or otherwise of dual use list restrictions or prohibitions.

22. **Like many other advanced economies, the Government of Israel (GoI) controls its exports of dual use goods and chemicals.** Although Israel is not a member of the Australia Group, Missile Technology Control Regime, Nuclear Suppliers Group, or Wassenaar Arrangement, it implements controls informed by these regimes and requires authorizations for all items listed on their control lists.[13]

23. **When it comes to exports to the Palestinian territories, the GoI enforces additional controls through the so called "dual use restrictions," on top of the controls established by the relevant international treaties and regimes and in contradiction to the underpinnings of the customs union in place between Israel and the Palestinian territories.** Israel has unilaterally applied restrictions on access to dual use goods in the Palestinian territories first in 1976 to include a limited number of chemicals and fertilizers that were considered a threat to the Israeli security. The list has been amended over the years to increase the number of items and also lower the maximum allowed concentration levels. In 2004 the list was further expanded to include various materials, machinery, and equipment. Following the 2006 legislative elections that brought Hamas to power, a new decree broadened the range of items subject to restrictions. Finally, the GoI issued a Defense Export Control Law in 2007 (no. 5766-2007) and passed a Military Order in 2008 (no. 5769-2008), signed by the Israeli Minister of Defense at the time (see Annex II), specifying the list of dual use items destined to the Palestinian territories and stating the requirement of a special permitting process and reporting duties for Palestinians to access them. It is worth highlighting that the term "Export Control" is misleading as these restrictions are imposed by the GoI on all products entering the Palestinian economy, and not just only those "exported" from Israel. The law was purportedly created by Israel in 2007 as a way of protecting Israel and Israelis from attacks using ordinance made with material initially intended for commercial and civilian use. Despite the inherent contradiction with the economic rationale and arrangements of the customs union, the Israeli Defense Export Control Order list has been progressively expanded to contain more products deemed as security threats by the GoI.

24. **In its current state, the dual use list enforced by the GoI includes a much larger number of items for Gaza compared to the West Bank.** The current dual use list includes 56 items restricted for both the West Bank and Gaza including fertilizers (6 types), pesticides (2 types), and 23 chemicals in their pure form in addition to 31 types of materials, machinery, and equipment. The list has another 62 items that only apply to Gaza including reinforcing steel, cement, aggregates, insulating panels, timber for furniture manufacture, amongst many others. Gaza traders also report that nearly any item can be deemed dual use at the entry to the Strip, even if it has been imported previously by the same importer with no special controls.

B. An opaque list and a challenging permitting process

25. **The Israeli law establishing the dual use lists has unilaterally created a system regulating the transfer of an extensive range of goods separate from and in addition to normal trade facilitation and regulations.** Some of the goods not allowed into the Palestinian territories are described in the Defense Export Control Order using very broad and general definitions, which enables a blanket ban on key inputs. For example, the dual use list includes a category entitled "communications equipment, communications supporting equipment, equipment containing

[13] The Israeli licensing authority for Missile Technology Control Regime items, Wassenaar Munitions List items, and certain Wassenaar Dual-Use List items destined for military end uses or end users is the Defense Export Control Agency (DECA). Items listed on the Australia Group and Nuclear Suppliers Group Dual-Use lists, as well as Wassenaar Dual-Use items destined for civilian end uses or end users are generally subject to the licensing jurisdiction of the Israeli Ministry of Economy and Industry.

communication functions". The broad and vague nature of the definition means that it affects access to most civilian machinery, equipment spare parts, most medical equipment, and most home appliances. The list also includes a number of chemicals that can be found in everyday products, such as nitric acid in toothpaste, which could potentially limit access to these products as well.

26. **Authorization to access items on the dual use list requires going through a cumbersome permitting process.** Transferring any regulated chemical to the Palestinian territories, even if not on the dual use list, requires obtaining a *dealer permit* from the Israeli Civil Administration—the body administering and coordinating civilian and humanitarian activities in the Palestinian territories. Even though the dealer permit is granted by the Civil Administration, the approval is made at the Israeli Security Agency (Shabak) after carrying out a thorough background check on the requesting party. Obtaining this permit could take months and if rejected, no explanation is provided, according to Palestinian businesses. To get access to dual use items, the process becomes more complicated as an additional *transfer license* is also required. This license requires a special authorization by the Coordinator of Government Activities in the Territories' (COGAT) Exceptions Committee. Approvals from this committee require a long, nontransparent, and unpredictable bureaucratic process, causing delays even for very common consumer products. The transfer license needs to be obtained every time a business wishes to import a shipment of items on the dual use list and is valid for 45 days from the time of its issuance. It specifies the maximum amount of the specific goods allowed. If for any reason the shipment is delayed beyond that time period, a new license must be obtained.

27. **The burden of applying for a dual use permit is revealed by the extent to which it is avoided**. According to COGAT, 95 percent of permit requests for the West Bank are eventually approved, but in 2013, only 126 requests were submitted by fewer than 20 companies. It is likely that Palestinian traders do not rely on the dual use good permit process because they find alternative ways to acquire the materials. In some cases, products included on the dual use list are freely imported from Israeli suppliers by individuals traveling to Israel and buying them in Israeli shops or from Israeli middlemen who bring the goods into the West Bank through checkpoints where, as Israeli citizens, they are rarely questioned, which defeats the law's declared security purpose.

Box 1: Brief description of trade restrictions in Gaza

Restrictions on entry of goods into Gaza have evolved into a regime that differs significantly from the one applied in the West Bank. Following the disengagement from Gaza in 2005, when Israel withdrew its military and civilians from the strip, and after Hamas's takeover in 2007, Israel allowed only a limited list of products and goods to enter the Strip. In 2010, Israel changed its policy and announced that it would allow all goods into Gaza except for a list of items that would require special permission to enter, i.e. the so-called expanded dual-use list. This list includes items that are not normally considered dual use but that Israel is concerned might be used for hostile purposes, i.e. building tunnels or defensive fortifications. Consequently, items such as aggregate, cement and rebar were included in the list. Following the 2014 war, Israel allowed, for the first time since 2007, the entrance of construction materials for the private sector, under the auspices of a mechanism that involves monitoring of final use of the imported items by the United Nations, the so-called Gaza Reconstruction Mechanism (GRM). Amendments were made to the dual-use list in March 2015, when another 48 items were added and cited as restricted from entering the Gaza Strip (but allowed in the West Bank), and in November 2015, when another 13 items were added, including wood planks, UPS components, smoke detectors, asbestos insulation, and heavy machinery (see Annex II for a detailed list).

28. **The situation at entry to Gaza is more complex and subject to far stricter oversight**. First, all items entering Gaza—whether dual use or not—need to go through a process of prior coordination

before they are granted clearance to enter. Second, procedures required by Gaza businesses to access dual use goods were not publicly available for years, which has obviously created challenges. Also, in addition to customs agents and the Israeli army Coordination and Liaison Administration (CLA) officials, officers from the Israeli Security Agency (Shabak) operate at the Gaza border. They have the power to block any Gaza imports if they perceive the shipment as a threat to Israeli security. Even though imports of dual use goods could have already obtained all necessary approvals by the Israeli Ministry of Defense, they are often confiscated at the Karm Abu Salem border crossing[14] by the Israeli intelligence officers. They conduct a four-level security check, including on the characteristics of the importer, intelligence on the importer's family, the importer's company, and the type of product. If one of these aspects does not pass the security check, the shipment is not allowed into Gaza. The status of any of these parameters can change without warning, and the result is importers facing the risk of high costs for storing, clearing, or losing shipments to confiscation. Further, if a discrepancy of any kind is found—no matter how small—between the actual shipment and the documentation, or inaccurately specified documentation, often leads to confiscation of the entire shipment.

29. **Procedures for entry of goods into Gaza depend on the type of good itself and the approval process is fragmented among two different offices; one in the West Bank (Beit El) and one just outside Gaza (Erez).** At present, there are five different streams for goods to enter Gaza:

a) For regular, *non-dual use goods*, no special permits are required, but rather there is a need for a prior coordination of entry via Karm Abu Salem crossing. This coordination involves the Presidential Committee for Commodities Coordination (PCCC) on the PA side, which checks the company's registration and facilities and provides the electronic submission of the request. Once complete, it is transmitted to the CLA Economic Section in Erez and goods generally enter the following day.

b) *Construction materials* were barred from entry in 2007 and since 2014 have only been allowed for projects funded by international organizations or private citizens through the Gaza Reconstruction Mechanism (GRM). The GRM enables the PA and the GoI to approve projects, beneficiaries and vendors of materials for reconstruction, while the UN monitors that the materials have gone to the intended beneficiaries. At present, some 80 percent of cement needed for housing reconstruction has been imported through GRM and estimates are that the remaining material will be imported by mid-2020 in case enough funds are available.[15] Once cleared, the vendor can order materials as needed to be brought in on a regular schedule each week.

c) For *chemicals* on the dual use list, first a *dealer permit* from the CLA Environment Section in Beit El is needed. Once the dealer permit is obtained, a *transfer license* is needed which can be applied for and transfer coordinated between the PCCC with the CLA office in Erez.

d) The same double permit procedure applies to *communications equipment* where the CLA Communication Section in Beit El approves the dealer permit and the CLA office in Erez approves and coordinates the transfer.

e) The Gaza-only dual use list contains a significant number of items that do not require special permits from any Israeli ministry, such as industrial equipment and spare parts, metals, wood, etc., but they still require a *transfer license* from the CLA office in Erez and coordination

[14] Karm Abu Salem is the sole operational commercial crossing for Gaza.

[15] GRM website: http://grm.report

through PCCC. These applications used to take up to a year to get a response, if any, but reportedly this has been reduced to a few months in 2018.

Infrastructure projects in Gaza

30. **The dual use list for Gaza adversely affects the ability to deliver public infrastructure and provide services.** Even small-scale infrastructure investments—like water and electricity network rehabilitation, solid waste management, and other basic municipal services—require several types of goods such as building materials, heavy equipment and construction machinery, electronic equipment, communication equipment, and chemicals. The dual use list in Gaza requires separate approvals for each different type of restricted good making overall project management and coordination difficult resulting in delays and cost overruns. Critically, the implementation of more complex infrastructure investments—such as wastewater treatment plants, sea water desalination facilities, or other utility-scale infrastructure—becomes virtually impossible and extremely costly. In turn, the restrictions affect the availability and cost of basic public services that are critical for economic activity.

31. **An example of a complex infrastructure project whose needs span across the entire dual use list is the North Gaza Wastewater Treatment Plant.** Fragmented approvals for supplies and equipment, including for operation and maintenance, have seriously affected the implementation of infrastructure projects. In the past, the average time for review and approval of goods in lower complexity operations has been four to six months, but delays in approvals, in certain cases, have exceeded years. A prime example is the World Bank financed North Gaza Wastewater Treatment Plant. This project is estimated to have suffered delays of at least four years related to approvals for entry and delivery. This has resulted in additional compensation payments to contractors estimated at a minimum of US$1.6 million. Some of the items included equipment such as a wheel loader that was submitted for approval in May 2012, approved in December 2015, but delivered only in 2018, and chemicals for operations such as hydrogen peroxide and anti-freeze. The construction of the plant was only completed when a strong commitment to completion became a priority for the Israeli authorities, dedicated staff were assigned at the Gaza CLA to follow-up on the review and approval process, and regular coordination directly with the Palestinian implementing agency took place during the last year of project implementation.

C. A view from the ground—the impact of dual use restrictions on legitimate businesses

32. **Dual use restrictions impact the development of almost all economic sectors of the Palestinian economy through increasing costs, decreasing efficiency and limiting productivity by hindering access to new technology.** Restrictions currently in place also add significant risk and uncertainty to the trade process which limits appetite for new investments. Many businesses report hesitancy in modernizing existing product lines as a large number of items currently on the dual use list are vital production inputs. The following section will look at the implications of the dual use restrictions and it is based on discussions carried out by the Bank with representatives from various industries. The discussion will cover sectors impacted in both the West Bank and in Gaza, mainly manufacturing, agriculture and ICT. Given that the Strip's situation is more complicated, the section will provide specific examples and issues related to the Gaza economy separately, whenever possible.

Manufacturing

33. **The manufacturing sector has largely stagnated over the last two decades limiting the Palestinian economy's ability to integrate with modern production chains in regional and international markets.** The growth potential of a small economy depends to a large extent on its

capacity to compete in global markets and increase its exports, but the Palestinian economy has been losing this capacity as the manufacturing sector has stagnated. In relative terms, the share of manufacturing in GDP has dropped from 19 percent in 1994 to around 10 percent currently. This is mainly attributed to the multilayered system of Israeli restrictions including on access to dual use items. Below are examples of some of the industries mostly affected by dual use restrictions.

The pharmaceutical industry

34. **The Palestinian pharmaceutical industry is highly promising, but its development continues to be challenged by Israeli restrictions, including on dual use items - mainly glycerin and hydrogen peroxide.** All Palestinian pharmaceutical manufacturers follow Good Manufacturing Practices (GMP), are ISO 9000 and ISO 14000 certified and export to regional and international markets. However, they all report severe challenges importing key inputs for production, particularly access to glycerin and hydrogen peroxide. Glycerin is a chemical used as a filler/solvent in a number of drugs such as cough syrup. Each Palestinian company in the West Bank is allowed a limited amount of glycerin per year, as determined by the Israel Civil Administration, based on yearly production plans submitted by the companies. This previously set quota significantly limits the companies' ability to make use of other rising opportunities throughout the year, such as bids by the MoH, which represents a significant opportunity loss, according to the companies. Hydrogen peroxide is another important chemical needed by the industry but whose access is severely limited. Hydrogen peroxide is mainly used as an antiseptic in the pharmaceutical industry. The chemical is needed at a 30 percent concentration level for an efficient cleansing process for the machinery. However, according to the dual use list, access is not allowed to hydrogen peroxide above the 18 percent concentration level, which forces the companies to repeat the cleansing process multiple times, severely increasing the costs. Also, the companies report that the GoI rejects requests to import Hydrogen peroxide from abroad which leaves them with no option but to purchase it from Israeli suppliers at a price that is 4-5 times more expensive, significantly adding to their costs. Nine other chemicals such as sulfuric acid and potassium permanganate are also needed by the industry as reagents to conduct chemical analysis. But they are all on the dual use list and most companies have opted for using other, albeit less efficient, chemicals to avoid challenges associated with the process of importing dual use items.

35. **Dual use restrictions also impact the industry's ability to import machinery and introduce new product lines.** Given that most modern machinery needed by the industry has communications equipment in order to enable automation through the use of control panels, their import becomes subject to the dual use list since it imposes a blanket restriction on the transfer of any equipment with a communications function. One of the interviewed companies reports that it had plans to introduce a veterinary pharmaceutical line but the whole project was abandoned due to difficulties and the high costs associated with importing the needed machines. Another company reports that its imported machines were once kept for 11 months at the point of entry to Israel due to the security checks associated with the dual use restrictions, resulting in very high storage costs at the port. As a result, a lot of the companies are extremely hesitant to introduce new product lines or modernize their existing operations, hindering the advancement of the overall industry.

36. **In addition to the above restrictions, the pharmaceutical industry in Gaza faces additional challenges.** In contrast with their counterparts in the West Bank, Gazan pharmaceutical companies cannot get any amount of glycerin, hydrogen peroxide or any compound that contains nitrates. This severely limits their product offering and sustainability. Pharmaceutical manufactures in Gaza not only have to be registered with the authorities in Ramallah, but also with the de-facto authorities in Gaza, necessitating the need to register each medication they produce twice. This significantly increases the costs, especially if the companies opt for substituting any of the ingredients from the original formulation that they can no longer import. Substituting even the non-active ingredients

requires that the entire process of drug certification be completed all over again. Furthermore, standard supplies needed for the manufacturing process itself, such as various epoxy resins for painting of the factory floor, acetone for cleaning, or high-performance liquid chromatography (HPLC) machines needed for testing are either completely unavailable or can only be obtained after year-long delays. At present, the pharmaceutical industry in Gaza is operating at 50 percent of its pre-2006 level.

The dairy industry

37. **The dairy manufacturers are amongst the largest in the food and beverage industry, but dual use restrictions affect their ability to access chemicals needed for sterilization, threatening product quality.** There currently are 41 dairy producers in the West Bank and Gaza capturing 45 percent of the local market share with potential to grow even more if challenges currently imposed by the Israeli restrictions, including on dual use, are eased. Dairy manufacturers need nitric acid to sterilize machinery and equipment. Access to this chemical is denied under the dual use restrictions, so most companies resort to using the less effective alternative, phosphoric acid. This significantly increases their energy costs as one company, for example, ends up consuming 7 tons of gas per day compared to 5 tons needed with nitric acid. Some companies also produce long shelf life milk using aseptic packaging. According to international standards, aseptic packages need to pass through a hydrogen peroxide hot bath of a 30 percent concentration to ensure proper sterilization. As mentioned earlier, this chemical is only allowed at a much lower concentration of below 18 percent. Hence, the companies end up repeating the sterilization process three times a day, which significantly adds to their cost particularly since this process represents more than 5 percent of their total production costs. Lack of access to these chemicals also affects the quality of the products. Since less effective sterilizing agents are used, more preservatives are needed in the products to eliminate the chance of contamination. Notably, after the involvement of third parties and complying with additional Israeli requirements including installing 24-hour surveillance equipment, a couple of companies in the West Bank report that the GoI has granted them approval to access hydrogen peroxide at the 30 percent concentration. Though considered a positive step, this has not been a mainstreamed effort and it only benefitted a very limited number of manufacturers, creating an uneven playing field.

38. **Dairy manufacturers in Gaza suffer from additional challenges as the dual use restrictions also hamper their ability to upgrade their production lines.** Of the dozen or so dairy manufacturers in Gaza, most of the focus is on the production of fresh cheese. Dual use restrictions prevent them from upgrading their production process as they are unable to import new equipment for processing milk, machines for packaging, necessary sanitizers or laboratory equipment for quality control. Given these restrictions, the industry is unable to carry out the necessary investments to meet the needs of the local population. Hence, 70 percent of Gaza's dairy needs are imported from Israel.

39. **The dairy manufacturers report that dual use restrictions put them at a competitive disadvantage with their Israeli counterparts.** As explained above, dual use restrictions result in added costs that the Palestinian companies have to endure while Israeli dairy producers do not face similar challenges. As a result of the higher costs and to be able to compete with Israeli products in terms of consumer prices, the Palestinian dairy producers end up with much lower profit margins of a maximum of 8 percent compared to 25-30 percent for Israeli producers, according to one of the Palestinian companies interviewed. Also, while Israeli products are sold in the West Bank and Gaza markets, Palestinian products are not allowed by the GoI to be exported to the Israeli market

due to concerns regarding standards, which creates another competitive disadvantage for the Palestinian companies.[16]

The food industry

40. **One of the largest challenges faced by the food industry in the West Bank is access to preservatives and chilling agents on the dual use list.** The list hinders access to sodium nitrate, a food additive used as a preservative and color fixative. A processed meat producer reports that his company's requests to import this chemical from abroad have all been rejected, forcing him as well as other producers to resort to buying ready preservative mixes from Israeli suppliers. These mixes, however, are sold at a much higher price resulting in increased costs for the companies. Another issue that the food industry faces is lack of access to ammonium nitrate, a chemical used as a chilling agent. Given that access to this chemical is not allowed, the companies resort to another technology based on glycol gas which is less efficient and more expensive.

41. **The food industry in Gaza, like all manufacturing industries, faces challenges due to the dual use restrictions, and those are compounded by the lack of ability to export.** While there are some 600 establishments in Gaza that operate in the food industry, the majority of them are small bakeries that aim to satisfy the local needs. However, the remaining manufacturers of juices, snacks, sweets and pickled or canned foods are hampered due to the inability to import spare parts, lubricants, disinfectants and other items necessary for their production lines to function property. A single broken ball bearing can put the entire production line out of commission forcing manufacturers to shut down production or cannibalize other production lines for parts. In addition, a ban on export of processed foods from Gaza to the West Bank, let alone Israel, has deprived Gazan factories of a significant market. Despite the formal lifting of export restrictions on Gaza in 2015 following a blanket ban in 2007, no processed foods have been exported. This has created a perverse incentive for some entrepreneurs as they have built new facilities in the West Bank from which they are able to service both the West Bank and Gazan markets.

The stone and marble industry

42. **Despite being one of the most vibrant industries in the West Bank, the future of the stone and marble trade is challenged by the lack of access to machinery and technology.** Palestine's abundance in natural limestone has enabled the creation of a successful stone and marble industry which contributes about 20 percent to Palestinian exports and employs more than 13 percent of the workforce. However, companies in this sector report severe challenges related to outdated technology that hinder their potential. Most Palestinian stone manufacturers use portable chain saw machines to extract stone from the quarries. These machines were first introduced in 1988 after the GoI banned the use of dynamite to quarry stone blocks. In the last few years, Israeli customs at Ashdod Port has confiscated spare parts for these machines, including engines, gears, blade housings, screws and pins, under the perception that these parts can be used for "lathe machines," which are considered dual use items. The companies report that in most cases, the confiscated parts are eventually re-exported, imported under Israeli company names, and eventually transferred to the West Bank. This significantly raises the costs, as fees are paid to middlemen that facilitate the process, and also defeats the dual use law's declared security purpose. Palestinian companies report that the inability to import spare parts and modern machinery puts them at a competitive disadvantage as new cost cutting technology is constantly being introduced in this field, but they are unable to access it.

[16] Palestinian products are usually sold in East Jerusalem but the GoI has, on more than one occasion, over recent years denied them access to this lucrative market.

Agriculture

43. **Agriculture contributes significantly to Palestinian food security and employment; however, the sector has been operating well below potential.** Even though agricultural employment has significantly increased over the last two decades, its relative contribution to GDP dropped by more than two thirds over the same period. The decline in this sector's output and productivity is attributed to restrictions on access to water, agricultural land in Area C and key production inputs on the dual use list including fertilizers.

44. **The restrictions on fertilizers of standard concentration have been the most important limitation for Palestinian agriculture.** Palestinian farmers report that, as in other places around the world, they need fertilizer with the appropriate nitrogen, phosphorus, and potassium (NPK) concentration to maintain soil productivity. In fact, the global agriculture industry relies heavily on the use of NPK fertilizer to meet global food supply and ensure healthy crops.[17] The GoI, however, through the dual use restrictions has lowered the allowed NPK concentration multiple times over the years prohibiting Palestinian farmers from accessing optimal fertilizer mixes. As a result, Palestinian farmers are allowed to import only specific types of fertilizers, which are less effective. This has resulted in lower land productivity in the Palestinian territories amounting to, on average, half that in Jordan and only 43 percent of the yield in Israel, per dunum (1000 square meters), despite nearly identical natural environments.[18]

45. **As a result of the restrictions, Palestinian farmers end up incurring additional costs leaving them unable to compete regionally or internationally.** Due to the specific restrictions on fertilizers, Palestinian farmers face two types of incurred costs: First, direct costs from the use of the alternative fertilizers, since they are costlier per kilogram than a more efficient banned standard fertilizer mix, and greater volumes per dunum are required for optimal fertilization; and second, indirect costs from the long-term loss of land productivity as a result of the less effective composition of the alternative fertilizers, relative to the banned ones.[19] farmers also report problems obtaining licenses for pesticides to protect crops, sulfuric acid for treating irrigation water, and metal pipe for building and repairing greenhouses—often a critical input for high-value export crops. Without access to these inputs, farmers cannot meet European export standards or grow produce that is competitive in regional markets.

46. **In Gaza, as in the West Bank, obtaining adequate fertilizers is a critical issue, in addition to other restrictions.** Given the limited availability of arable land in the Gaza Strip, when land is used for agriculture it is done in an intensive manner. This requires disinfecting the soil prior to planting and using the appropriate fertilizers in order to attain proper crop yield and quality. Both are severely restricted by the Gaza dual use list, leaving farmers with inadequate substitutes that increase costs and lower productivity. Further, the Gaza-specific section of the dual use list bans any metal pipe that is larger than 3.5 centimeters in diameter. Also, plastic sheeting needed for construction of greenhouses is not allowed, which drastically reduces the productivity of farms. This makes the destruction of any greenhouse, which is not uncommon during flare-ups of violence, a permanent loss of productivity for the affected farmers.

---

[17] https://feeco.com/npk-fertilizer-what-is-it-and-how-does-it-work/

[18] United Nations Conference on Trade and Development (UNCTAD). 2015. The Besieged Palestinian Agricultural Sector.

[19] Applied Research Institute–Jerusalem (ARIJ). September 2011. The Economic Costs of Israeli Occupation of the occupied Palestinian territory.

Information and Communications Technology (ICT)

47. **The ICT sector is the backbone of any modern economy, but its transformative potential in the Palestinian territories has been stunted by long lasting restrictions, including on dual use goods.** The role of ICT as a key economic sector in its own right, and as an enabler for the overall economy has been discussed multiple times in the literature. In fact, various studies have shown that having a modern and strong ICT sector greatly contributes to development and social progress.[20] Nevertheless, the Palestinian ICT sector has not been able to fully play this role. Data shows that over the last two decades, the relative size of the ICT sector in the economy has barely grown from 0.1 percent of GDP in 1994 to 4 percent currently, compared to above 12 percent in neighboring Jordan.[21] Moreover, most of the growth witnessed in the ICT sector has been geared towards the domestic market.

48. **Dual use restrictions were initially imposed on the transfer of telecommunications equipment after the outbreak of the second intifada.** In fact, these restrictions were formalized in Israeli law in 2001. Later in 2006, these restrictions were expanded to cover any item with a communications function.[22] This has resulted in severe difficulties in obtaining licenses to transfer ICT equipment into the Palestinian territories.

49. **Dual use restrictions impact the overall quality of telecommunication services in the Palestinian territories as companies struggle to modernize existing infrastructure.** In the West Bank, telecommunications infrastructure consists only of a basic cable network and cellular towers, while the backbone is located in Israel. Although old switches and substations exist in some cities in the West Bank (dating back to before the PA was established in 1994), telecommunications service providers are unable to use them as Israel does not allow the import of spare parts and equipment needed to maintain these switches and substations. Palestinian proposals to establish satellite transmission stations and microwave tower networks to limit dependency on Israeli suppliers have all been rejected by Israel. Moreover, Israel does not allow the transfer of high-capacity microwave equipment that would enable West Bank service providers to expand the number of subscribers on the existing limited bandwidth allocated to Palestinian companies. Instead, West Bank service providers have to invest in an expensive fiber optic network and rely on Israeli companies to increase their transmission capacity. These restrictions impact the overall quality of service that the Palestinian companies offer pushing Palestinian customers in the West Bank to shift to Israeli carriers who provide service throughout much of the West Bank to cover settlements. In Gaza, the situation is even more difficult as importing most telecommunications equipment to modernize exiting infrastructure has been extremely difficult. The long-lasting restrictions on the import of ICT equipment has left the infrastructure of the sector extremely outdated and unable to cater neither to the needs of a modern economy nor the needs of Palestinian citizens and has created a large technological gap with neighboring countries. It has also prevented the Palestinian economy from joining the growing global "digital" wave.

50. **Dual use restrictions also impact the supply of ICT related equipment in the West Bank**. This is mostly due to the dual use regime's complicated and lengthy licensing procedures discussed earlier. Palestinian companies find themselves bidding against Israeli companies that can transfer the same equipment to customers within a much shorter time frame. To compete, they are forced to hold surplus inventories of equipment and spare parts in their warehouses, which creates cash

[20] http://documents.worldbank.org/curated/en/483071468326372732/pdf/277160PAPER0wbwp024.pdf
[21] https://oxfordbusinessgroup.com/overview/building-success-new-sector-roadmap-drive-growth-near-future.
[22] Any equipment with a main or secondary communication function may be included in these categories, for example, personal computers and cellular phones with Bluetooth or Wi-Fi.

flow challenges. Storage and demurrage fees at Israel's ports accumulate while awaiting approval for transfer licenses, which can be requested only after the goods have been paid for and shipped. Obtaining a one-time transfer license for a new type of equipment can take up to 289 days and up to 52 days for equipment that was approved in the past, according to the companies interviewed. By comparison, it takes an Israeli company just 21 days to receive an import license for new equipment, and the license may be valid for several years. Israeli companies can also obtain a transfer license in a matter of hours, and in some cases, no license is required at all. As a result, Palestinian traders either resort to buying merchandise from Israeli suppliers with a markup of 10-15 percent for the efficiency and certainty that sourcing from Israeli suppliers provides or end up significantly reducing their profit margins to be able to compete with Israeli suppliers that don't face similar high costs.

51. **For ICT companies in Gaza, nearly 70-80 percent of the items they potentially could offer are on the dual use list.** These include simple items like ethernet cables, printers and toners, to more sophisticated items like servers or network switches, and uninterrupted power supply (UPS) battery back-ups. While no network (ethernet) cables can be imported through Israel, the local market is supplied though Egypt at twice the cost. No servers were allowed to enter Gaza in the past 5 years. Despite providing detailed Global Positioning System (GPS) coordinates for the intended location of a server at the Ministry of Health, one company has been waiting for three years for a decision as to whether it can be brought in. Similarly, another company has been waiting for 1.5 years for a permit to import a network switch. As companies have to pay deposits or advance payments to suppliers to secure the needed items, the long approval process effectively freezes their working capital. Consequently, most ICT companies in Gaza have shifted from importing new equipment to fixing existing ones for their customers.

Box 2: The impact of trade restrictions on key sectors in Gaza

A Few sectors in Gaza illustrate the adverse effect of dual-use restrictions on legitimate businesses. The wood processing and furniture sector has faced considerable challenges. Prior to 2006, the sector had around 600 workshops employing 6,000 people - making it the second largest sector in terms of employment in the Gaza Strip. During that period, the industry successfully exported 80 percent of its production, primarily to the West bank and Israel. However, with the ban on exports that was imposed in 2007 as part of the blockade in addition to restrictions on the import of dual use goods, the sector declined to less than 10 percent of its pre-2006 capacity. Dual use restrictions have limited the availability of the most essential inputs in the production process, namely wood, paints, lacquers, glues, machinery and spare parts. Restrictions on imports of wood into Gaza started in 2010, but since then the dimensions of the planks allowed to enter have decreased. At one point, only planks that had dimensions less than 1 cm in thickness and less than 5 cm in width could enter Gaza rendering them useless for the wood processing industry. In addition, chemical paints, lacquers and wood hardeners are deemed dual-use and not allowed entry. Coupled with strong international competition, this has had a devastating effect on the industry leading to its near-collapse. According to interviews with industry representatives, by early 2018 only a couple of workshops were able to remain open. While COGAT removed restrictions on export of finished products from Gaza in late-2015, the restrictions on import of raw materials remained, proving counterproductive. Some restrictions were eased in 2017, but the main restriction on the ban on importing wood planks thicker than 5 cm was eased towards the end-2018. While this has been beneficial for the industry with workshops reopening, reclaiming the past markets has been a challenge following a decade long hiatus.

The chemicals industry in the Gaza Strip is on the verge of collapse. The industry includes the following sub-sectors: cosmetics, batteries, detergents, paints, sponge, and rubber manufacturers. As a result of the restrictions, particularly those on dual use, three of the six aforementioned subsectors have ceased to exist in Gaza, namely batteries, paints, and sponge. The corresponding chemicals and materials that are essential inputs to those sub-sectors, and are on the dual use list, are sulfuric acid, alkyds (which are used in resins and paints) and Toluene Diisocyanate (TDI), respectively. The lack of available alternatives or substitutes to these materials in Gaza has led to halting operations by all producers.

The detergents sub-sector has been relatively unaffected by the dual use restrictions but is at imminent risk due to talks about intensifying controls over the chemical compound that features in over 80 percent of the products. This primary ingredient, called LABS (linear alkyl benzene sulfonic acid), is reportedly being investigated by the Israeli authorities to decide whether to effectively ban it. Up until the end of 2018, producers were obtaining the needed permits from the Israeli Ministry of Environment to import LABS (which is the standard procedure for trading in chemicals) even though it is not explicitly listed in the dual use tables. If restrictions on LABS imports are increased, the detergents subsector is expected to completely cease operations.

D. Economic impact of dual use restrictions

52. **Restrictions on trade, including on dual use items, have severely limited export led growth—critical for a small economy—by limiting existing industries and challenging the rise of others.** While there are a number of restrictions that adversely affect economic activity in the Palestinian territories, restrictions on the import of dual use goods bring significant economic costs. According to analysis by the World Bank, relaxing the dual use list would bring about additional cumulative growth of 6 percent to the West Bank economy by 2025, with a bigger impact of about 11 percent in Gaza compared to a baseline scenario.[23] This growth will not only be driven by an expansion in existing industries but also through opening the way for new industries that currently do not exist due to difficulty in accessing key inputs. For this to happen, it would also be important to improve the costly procedures for shipping goods across the border and through Israeli ports (including customs clearance and storage fees, back-to-back truck procedures, and cumbersome inspections) as World Bank analysis shows that they can increase costs by an average of US$538 per shipment.

53. **Crucially, issues of trade restrictions and security are interlinked as violence can lead to restrictions which in turn can lead to more violence.** States and international organizations regularly implement restrictions on trade motivated by security reasons. While the security argument behind these restrictions is straightforward, their economic and political consequences are not as apparent. Trade barriers negatively affect the economy and its efficiency. By reducing economic activity and income, trade restrictions may decrease the opportunity cost of engaging in political violence and increase grievance among the population. As a result, security-motivated trade restrictions can increase threats to security. The extent to which this happens depends on the interaction between the nature of the restrictions and the structure of the affected economies.

E. Dual use items that could have the biggest economic impact

54. **Interviews conducted for this study clearly identified a group of dual use chemicals whose access could significantly improve the situation for Palestinians businesses.** The table below includes items needed for each of the three main sectors affected by dual use restrictions that were evaluated including industry, agriculture and ICT. That said, it is important to note that if

[23] The World Bank. November 2017. Prospects for Growth and Jobs in The Palestinian Economy: A General Equilibrium Analysis.

restrictions were eased allowing the rise of new sectors and industries that currently do not exist, more items currently deemed as dual use will be needed.

Table 3: Most important dual use chemicals needed to improve the economic situation in the West Bank

Items	Purpose	Allowed alternatives	Issues
Fertilizer with NPK levels of 20-20-20 [24] (Banned in 2003)	Maintain soil productivity and ensure healthy crops	16-16-16 (Banned in 2005) 14-14-14 (Banned in 2009) 13-13-13 (Restricted)	Alternative liquid fertilizers are costlier while other powder fertilizers are less efficient raising costs and reducing soil productivity in the long run.
Hydrogen peroxide above 18 percent (Banned)	Antiseptic / sterilizing agent	Hydrogen peroxide below 18 percent (Restricted)	Lower concentration hydrogen peroxide raises health risks and production costs.
Nitric acid (Banned)	Sanitizing agent	Phosphoric acid (Restricted)	Companies must obtain a dealer's permit and transfer licenses for the alternative, phosphoric acid, which is less effective resulting in increased costs.
Glycerin	Solvent for drugs and cosmetics	No alternatives	Companies are only allowed a pre-agreed quantity resulting in lost opportunities.

55. **In addition to chemicals, Palestinian companies also significantly suffer due to the inability to modernize machinery and import spare parts.** Companies in all sectors that were evaluated confirmed the challenges in importing machinery and spare parts as most modern machinery usually has a communications function, which is restricted by the dual use list. Restrictions on importing machinery were cited as a major constraint limiting the companies' ability to utilize modern technology, increase productivity and push forward the economy's production frontier.

56. **In Gaza, the situation is more complicated as many more items are deemed dual use.** In addition to the list of chemicals mentioned above and the restrictions on machinery, improving the situation for Gaza's businesses requires access to a much larger number of items. Very few of the chemicals allowed to enter the West Bank are allowed to enter Gaza. In addition, new restrictions are continuously being updated and expanded and only rarely has the list been shortened or items removed.

[24] The numbers represent the concentration of each component in percent of the total.

F. Recommendations

57. **The control of dual use items derives from a general international obligation to counter the proliferation of weapons of mass destruction; however, the list imposed by the GoI on the Palestinian territories contains broad categories of products going well beyond internationally established best practices**. While the security argument behind these trade restrictions is straightforward for the GoI, these barriers have negatively affected the Palestinian economy and its efficiency and have imposed large costs on Palestinian businesses. Palestinian producers have been trying to deal with these restrictions through substitution, circumvention, or avoidance of specific types of industries that require goods on the dual use list. Nevertheless, the cumulative cost of these restrictions is still too high. Lack of access to chemicals, machinery and modern technology has impacted the economy's ability to grow sustainably and expand its production frontier. With the persistence of these restrictions, the Palestinian economy will continue to be stuck in a low-income low-growth trap, unable to cater to the needs of young Palestinians. This will ultimately result in increased frustration and possibly violence, which defeats the original purpose of these restrictions.

58. **Action is needed now to allow Palestinian businesses to access key inputs needed for the economy to grow, while considering Israeli security concerns.** As mentioned earlier in the report, with the ongoing decline in aid and transfers, the Palestinian economy is running out of steam. In fact, the Bank's projections indicate that incomes will be continuously declining in the medium term, under a status quo scenario. Hence, the need to act now to create additional sources of growth through easing dual use restrictions and allowing the economy to benefit from modern technology. Below are recommendations that aim to provide Palestinian businesses with access to key inputs of production while taking into consideration the security concerns of the GoI. Recommendations are provided separately for the West Bank and for Gaza given the highly different contexts. The recommendations start with actions suggested in the short to medium term followed by others that are part of a longer time frame.

Short-term recommendations

West Bank

59. **On the procedural side, actions could be taken immediately to make licensing of dual use goods in the West Bank more efficient.** Even though the GoI has taken steps in recent years to facilitate the licensing of dual use goods through publishing the dual use list and procedures to access these items online, more can be done. For example, as the procedure stands now, transfer licenses cannot be requested by Palestinian businesses until the goods have already been paid for and shipped, which causes Palestinians to endure large storage fees as the items wait at the point of entry until the license is issued. Similar to Israeli traders, Palestinian businesses should be allowed to submit transfer license requests prior to shipping goods from other countries. Further, a new transfer license is required for every truckload of goods that Palestinians want to import – a process that could be streamlined to allow multiple truckloads under the same license. Amending the dual use list itself to eliminate categories that are broad in definition, such as "communications equipment", and replacing them with more narrowly defined items would be of great benefit as it would ease the current blanket ban that affects most civilian production lines and spare parts, most medical equipment, and most home appliances.

60. **Pilots already implemented in the West Bank to allow access to dual use chemicals—under additional security arrangements—could be expanded to cover more companies.** With the involvement of third parties, several West Bank companies have been granted access to dual use items under the condition to apply additional security arrangements. Such arrangements usually

include storing the chemicals in safe areas connected to surveillance equipment that the GoI has access to 24/7. These efforts have only benefitted a limited number of companies and have not been streamlined. Given that these pilots have been successful in serving the companies while addressing the Israeli security concerns, they could be replicated with a larger number of businesses, including those involved in "Known Trader" programs, given their track record. Such companies should also be issued transfer licenses through a streamlined procedure.

61. **Access to dual use items could be made easier to businesses located in industrial zones in the West Bank**. Given that industrial zones are usually confined to a relatively small geographical area, security arrangements could be set up in these zones to allow a restriction-free economic environment, where dual use items could be accessed. Such arrangements could address the security concerns of the GoI while also benefit companies located in these zones. However, this should not be seen as a long-term solution that would grant a competitive advantage to companies located in industrial zones, but an initial step to help build trust between the parties until a more sustainable and inclusive solution is adopted.

62. **Access to modern machinery and technology could be facilitated for West Bank businesses.** The current blanket restriction on all equipment with a communications function has restricted the ability of Palestinian businesses to access most modern machinery. This, in turn, has hindered their ability to modernize product lines and adopt new technology, which is key for the growth of any economy. The security rationale behind such policy is unclear as, in the absolute majority of cases, it is impossible to extract a communications device from a piece of machinery to use it for military purposes. As a result, this policy should be revised to allow machinery imported by Palestinian businesses to be security cleared at Israeli ports in a short and fixed period of time after the receipt of a transfer license.

63. **Coordination between the PA and the GoI is needed to facilitate access to fertilizers for Palestinian farmers in the West Bank.** Lack of access to potent fertilizers remains one of the key impediments standing in the way of Palestinian agriculture. Hence, an arrangement needs to be put in place to allow Palestinian farmers to access this key input. A suggested mechanism could be through the establishment of a Palestinian entity, possibly co-managed by the Ministry of Interior and the Ministry of Agriculture, whose main role would be to vet farmers and agricultural companies looking to access fertilizers and liaise with the GoI to import them. This entity would also be in charge of distributing the fertilizer and ensuring that it does not get in the wrong hands, as it would be held accountable in case of any security breach.

Gaza

64. **While the GRM has achieved undeniable progress since 2014 in the import of construction materials, the delays, inefficiencies and arbitrary nature of the process should be modified in line with the recently completed review.** The GoI and the PA agreed to review the mechanism in early 2018. The review identified the need to agree on the timeline of approvals, appeals process, removal of limits on the number of companies participating in the mechanism and changes in the rules to allow for greater efficiency (i.e. sale of surplus materials among pre-approved projects and pre-approved vendors). The implementation of recommendations from this review would make the GRM's operations more efficient, predictable and transparent - within existing security parameters.

65. **The current process to administer the Gaza dual use list could also be made more efficient by creating a 'single window' for the entire list.** At present, there is significant fragmentation in the administrative Israeli structure implementing the dual use restrictions. For example, the CLA office at Erez could be staffed appropriately so that it is able to handle the issuance of both dealer permits and transfer licenses for chemicals and equipment. Its physical location would enable traders and

businesspersons to make applications in person and provide additional documentation more easily when needed. Further, at present, there are two computerized systems for submitting requests to import dual use items into Gaza: one for construction related materials (GRM) and one for everything else (PCCC). Once COGAT's review and approval functions at Erez are streamlined, a single window could be set up for the submission and approval of the entire dual use list currently spread between the GRM and PCCC. Further, this 'single window' could significantly facilitate the approval of complex infrastructure projects that require items across different segments of the dual use list.

Medium-term recommendations

West Bank

66. **In the medium term, the GoI should aim to revise the blanket ban approach currently in place to manage the dual use list in the West Bank and replace it with a risk-based approach.** With time, and as more incentives are in place to promote compliance, access to dual use items should be solely based on a risk-based criterion. For instance, all Palestinian businesses in the West Bank that have established a strong track record of their ability to safely and securely handle hazardous materials and dual-use goods should be granted access to these goods immediately without the need for cumbersome licensing procedures. These companies should enjoy streamlined procedures and should not face any delays in accessing dual use chemicals or machinery. PA officials could be in charge of conducting monitoring activities to ensure that dual use items are only serving legitimate businesses.

Gaza

67. **A similar risk-based approach can be set up for Gaza to enable access to dual use items for legitimate businesses and utility operators through greater monitoring and verification.** Once the administrative procedures for a single window submission and approvals have been established, a risk-based classification can be developed based on the dual use item in question, importer and intended final use. This classification can then be used to determine the level of risk involved in the trade transaction and hence, the level of monitoring required. In order to ensure that dual use items are not being diverted for illicit use, either physical or remote monitoring can be implemented. Where physical monitoring is required, existing UN assets could be used to carry out the monitoring and submit reports to the parties. Further, nearly all legitimate companies that have been interviewed and struggling to survive due to the current restrictions have expressed willingness to introduce 24/7 electronic surveillance of their facilities, similar to what has been happening in the West Bank, in exchange for access to needed dual use items. Also, given the relatively small size of Gaza, more sensitive items could be warehoused in Erez or just outside Karm Abu Salem under COGAT's direct supervision and brought into Gaza as needed for the use by legitimate business or utility operators, further mitigating the possibility of diversion for illicit use. This kind of a risk-based system allows legitimate entities access to items for legitimate use while providing assurances that those are not being diverted for illicit purposes.

Long-term recommendations for the West Bank and Gaza

68. **Eventually the management of trade in dual use goods by Israel should follow international best practice.** The Israeli dual use list contains broad categories of products that go well beyond internationally established best practices. As mentioned earlier, the EU consolidated list, which integrates all major exports control lists used internationally, has emerged as the de facto 'gold standard', with many countries beyond the EU-28 choosing to use it as a model for their own national control lists. Therefore, it is recommended that the GoI eventually adapts its export control dual use list to make it more in line with international best practice. This would reduce the non-transparent use of dual use lists which can be perceived as non-tariff barriers.

69. **Further, the robust application and implementation of trading rules outlined in international instruments developed by international organizations, that the GoI is a member of, would also improve trade security.** Israel is a member of the World Trade Organization (WTO) and a party to its primary agreements, which form the legal basis for the liberalization of trade in goods and services. The WTO agreements, the most recent being the Agreement on Trade Facilitation (ATF), include lists of areas and sectors in which countries such as Israel have made specific undertakings to open their markets and reduce customs tariffs and trade barriers. Specifically, the TFA contains provisions for expediting the movement, release and clearance of goods, including goods in transit. The fulfilling of these commitments is of particular relevance to trade between Israel and Palestine as it would aid the flows of Palestinian exports and imports, reduce the costs of Palestinian trade operations, and have a positive impact on the economy as a whole. In addition to WTO commitments, Israel is a member of the World Customs Organization (WCO), which is particularly active in developing global standards for the movement of cargo across international borders. The WCO has developed a framework of customs cross-border security standards with the objective of improving the security of international supply chains across all modes of transport and without impeding the flows of legitimate trade. Israel is in the process of including the standards and guidelines of this SAFE Framework into its trade and security procedures and applying those to trade with the Palestinian territories would bring about significant benefits to the Palestinian economy.

70. **The PA should build its own capacity to meet international standards for controlling and regulating the use of dual use goods.** This is key to credibly assume responsibility for the control of dual use goods within the PA's jurisdictions. This involves adopting key elements of strategic trade control legislation, including administrative and criminal penalties, that are complementary to trade and customs laws. The PA should also work on setting up a licensing authority that would be in charge of drafting licensing procedures for the imports of dual use items and granting licenses. Employees of this authority should receive specialized training on risk management and risk profiling for strategic trade control. The PA should also conduct outreach activities to industries and other actors in the supply chain, such as freight forwarders, shippers, transport agents and other stakeholders to raise awareness about trade control.

Annex I: Stock Take of World Bank Recommendations to the AHLC Meetings Over the Years

72. **The Palestinian economic outlook is worrying, and bold actions are needed by all parties to get the Palestinian economy out of its deteriorating trajectory.** The most necessary actions have been identified in previous reports by the World Bank to the AHLC meeting, but implementation has been limited. In our September 2016 report to the AHLC, a stock take of all previous World Bank recommendations to the meeting was conducted. This exercise was intended to provide a baseline for evaluating progress in achieving the Palestinian territories' development priorities. In addition, it was hoped that it would galvanize the reform efforts of all parties to address the immediate need while setting in place reforms that will deliver over time. In this report, the stock take is updated to show progress since March 2018 using the same three pillars 1) fiscal sustainability, 2) economic development and 3) Gaza reconstruction and recovery. An additional set of recommendations concerning economic development have been included based on the analysis presented in this report.

A. Fiscal Sustainability

73. **While the PA managed to reduce its spending in 2018, more needs to be done on structural reforms that are key to achieving long term fiscal sustainability.** As mentioned earlier in the report, recent measures have been adopted to reduce spending on the wage bill in Gaza, although these have not yet been formalized. Further, the PA needs to adopt a comprehensive plan for civil service reform that also looks at inefficiencies and overstaffing in the West Bank. Parametric reforms are also needed to support the public pension system's sustainability. The Ministry of Health has finalized harmonizing standard procedures for medical referrals and published them online. Sixteen MoUs have so far been signed with service providers to regulate the contractual arrangements for outside medical referrals including 3 with East Jerusalem hospitals, 4 with West Bank hospitals, 2 with medical labs, 6 with Israeli hospitals and 1 with Turkey. Despite these efforts, referral costs continue to rise as the main source of hemorrhage, which is a very generous health insurance system, needs to be reformed. Progress has been made on steps to control electricity net lending – although the problem is increasing with other utility payments, mainly water and sewerage.

74. **A number of administrative reforms have helped support the PA's revenues in 2018, but more needs to be done.** Domestic revenue collections have performed well in 2018 possibly due to the administrative measures introduced to widen the tax base in recent years. These include measures that increased the number of registered taxpayers by more than 20,000 to more than 200,000. Nevertheless, tax avoidance is still widespread, particularly amongst high earning professionals, and the PA needs to focus efforts on this group. While the MoFP submitted to the Cabinet revisions to the income tax law restoring the top income tax bracket of 20 percent, this has not yet been implemented. Progress has however been made on updating fees and charges with a notable recent decision to increase the license fee for petrol stations.

75. **The GoI continued to make one off payments to the PA to offset fiscal leakages in 2018, but a more systematic approach to fully eliminate these losses is yet to be adopted.** The GoI made a transfer in the amount of NIS165 million in June 2018 covering health and equalization fees collected from Palestinian workers over the period July 2017 to April 2018. The GoI reports that since June 2018, these transfers have been made on a monthly basis and it is hoped that a system can be put in place to ensure regular transfers going forward. Efforts should also focus on implementing the Paris Protocol's provisions regarding full information sharing on trade that takes

place between both parties, including Israeli sales to Gaza. Talks have also been underway for some time between the GoI and the PA to initiate the introduction of bonded warehouses for Palestinian imports and the transfer of some customs authority to the PA over the coming years but no progress has been made.

76. **The PA is now starting to take steps to improve the public financial management (PFM) system.** A highlight is the progress on addressing the major delays in the production and audit of financial statements. The audit of the 2012 financial statements was completed in 2017, and the 2013 financial statements' audit was completed in 2018. The 2014 and 2015 audits will be issued jointly in the coming months, and the 2016 and 2017 financial statements should also be audited jointly in 2019. The good progress reflects well on both the MoFP and the State Audit Bureau. The PA has a comprehensive PFM strategy which emphasizes expenditure management and control, accounting, reporting, and procurement. These areas meet the scope of the World Bank's PFM Improvement (PFMI) project which became effective in July 2018. The project aims to strengthen the downstream cycle of the PFM system with emphasis on effective implementation, while also addressing deficiencies in line ministries (education, health and local government). It will also support efforts at procurement modernization. A new DFID funded project is also in its inception phase. An update of the 2013 Public Expenditure and Financial Accountability (PEFA) assessment has also been initiated, which along with the PFM strategy will inform future reform efforts.

77. **Budget support from donors has slightly declined in nominal terms in 2018 and remains insufficient to close the large financing gap.** The decision of Saudi Arabia to resume budget support at US$20 million per month has been critical at a time when other donors have been reducing, or stopping, their assistance. However, the overall decline in aid to the budget remains a concern. As a share of GDP, budget support has fallen from 32 percent in 2008 to 3.5 percent in 2018.

B. Economic Development

78. **The Israeli constraints on movement, access and trade continue to be the main impediment to economic growth in the Palestinian territories.** In particular, restrictions related to Area C and the blockade on Gaza represent the biggest challenges to growth, and their removal can generate momentous economic benefits. Nonetheless, progress in easing these constraints has not yet materialized. Area C continues to be mostly off limits for Palestinians and the number of master plans approved for this Area has not increased since our last reporting. Further progress has been made on the piloting of door to door transport through the West Bank crossings, but the scope of this activity remains limited. Also, restrictions on the movement of goods and people in and out of Gaza have not been eased. Access to dual use inputs key for the development of the economy also continue to be greatly restrained.

79. **At a domestic level, the PA has initiated steps to reduce the cost of doing business and improve the business climate, but these have yet to be fully implemented.** After an extended period of development, the Ministry of National Economy has submitted a revised draft of the Companies Law to the Council of Ministers. Once implemented, the new draft would enable major improvements in the business environment including positively impacting business start-ups, strengthening the rights of minority shareholders, addressing corporate governance principles, and introducing new provisions related to insolvency. Similarly, a draft competition law has been prepared although it has yet to be introduced. With support from the World Bank, the PA has also updated the Law of Crafts and Industries of 1953 to facilitate business licensing through simplifying the approval process and reducing the cost. The amendments were approved by the Cabinet in April 2018, and the relevant instructions have also been issued by the MoH in July 2018. To establish strategic and policy oversight of institutions in land administration, the Cabinet

adopted a draft Amendment to the Palestine Land Authority (PLA) Laws. The amendment calls for the establishment of a Board of Directors that would oversee the operations of the PLA and would facilitate increased transparency in the land sector in line with the ongoing reform process. Further, land registration is proceeding well in the West Bank under the mandate and direction of the Land Water Settlement Commission (LWSC) in cooperation with the local government units.

80. **Recent progress in the energy sector has stalled, and more needs to be done.** The interim Power Purchase Agreement (PPA) signed between the GoI and the PA continues to be successfully implemented. Thanks to this agreement, the Palestinian Electricity Transmission Company (PETL) has started to operate as a wholesale transmission company servicing the Northern West Bank from Jenin substation. A Revenue Protection Program (RPP), along with updated management information systems (MIS) is being rolled out to the distribution companies in the West Bank and Gaza. PENRA is implementing reform measures that are starting to improve collection and payment related performance. However, these developments stand in contrast to the limited progress in other areas. Negotiations on the main PPA for electricity purchases by PETL from the Israeli Electricity Company (IEC) have stalled over multiple issues, including institutional arrangements with PETL, payment guarantees, settlement of the Jerusalem District Electricity Company (JDECO) debt[25] and access to the electricity infrastructure in Area C. Diversification of electricity supply from other neighboring countries needs to be pursued but it is hindered primarily by problems of land access. For instance, restrictions of access and construction in Area C are major obstacles to enable large-scale renewable IPPs but also to build and upgrade interconnectors with Jordan, and security issues in the Sinai reduce the viability of electricity from Egypt. Most urgent, though, is the need to increase energy supply to Gaza. The additional 161kV power line from IEC to Gaza would bring much needed relief and needs to be pursued by all parties as a priority measure.

C. Gaza Reconstruction and Recovery

81. **Most physical damages after the last Gaza war have been fixed, except for housing, but recovery needs remain large and donor funds pledged at the Cairo Conference have been drying up.** Good progress has been made in most sectors, with physical damages repaired. However, the lion share of fully damaged houses is yet to be replaced and recovery needs that go beyond physical destruction remain enormous. Despite some progress in accelerating materials entry through the Gaza Reconstruction Mechanism (GRM), materials remain in short supply and long delays in approval and delivery prevail, particularly for more complex infrastructure projects.

Table 4: Summary of World Bank recommendations to AHLC meetings

Actions	Responsible Party	Progress as of Sept, 2016	Progress as of Apr, 2019
FISCAL SUSTAINABILITY			
Expenditures			
Control the oversized wage bill	PA		
Control medical referrals to Israel	PA		
Control medical referrals to local facilities	PA		
Implement administrative reforms for the pension system	PA		
Implement parametric reforms to restore the pension system's sustainability	PA		
Reduce the size of net lending	PA		

[25]According to the GoI, JDECO debt to the IEC now stands at NIS2 billion.

Actions	Responsible Party	Progress as of Sept, 2016	Progress as of Apr, 2019
Revenues			
Enhance the PA's tax effectiveness in Gaza	PA		
Increase the number of registered large taxpayers	PA		
Strengthen legislation to penalize non-compliant taxpayers	PA		
Revise government fees and charges upwards	PA		
Transfer to the PA fiscal losses accumulated over the years	GoI		
Implement institutional measures to reduce fiscal losses on clearance revenues	PA and GoI		
Public Financial Management			
Improve budget preparation procedures	PA		
Align budget execution with available resources	PA		
Clear the backlog of outstanding financial statements 2012-2015	PA		
Develop systems for monitoring and reporting expenditure arrears	PA		
Budget support			
Provide sizeable, predictable and timely support to the PA's budget	Donors		
<u>ECONOMIC DEVELOPMENT</u>			
Area C			
Expand spatial plans for Palestinian villages in Area C	GoI		
Increase number of building permits approved in Area C	GoI		
Grant approval to Palestinian business projects in Area C	GoI		
The Gaza economy			
Allow exports out of Gaza to reach pre-2007 level	GoI		
Significantly reduce items on restricted dual use list for Gaza	GoI		
Create a unified PA in both the West Bank and in Gaza	PA		
The business climate			
Adopt the Secured Transactions Law & establish a movable asset registry	PA		
Adopt the new Companies Law & the Competition Law	PA		
Accelerate land registration in Areas A and B	PA		
Improve access to finance for SMEs	PA		
Reform the education system to bridge gap between graduates' skills and labor market needs	PA		
Securing energy for development			
Sign an interim PPA to energize the Jenin substation	GoI and PA		
PETL operating on commercial basis	PA		
Diversify electricity supply	GoI and PA		
Access to dual use items			

Actions	Responsible Party	Progress as of Sept, 2016	Progress as of Apr, 2019
Making the process to import dual use goods more transparent	GoI		
Allow access to potent fertilizers in the West Bank	GoI		
Facilitate access to machinery in the West Bank	GoI		
Adopt a risk-based approach in the West Bank and Gaza to control Dual use items	GoI		
Meet international standards for controlling and regulating dual use goods	GoI and PA		
GAZA RECONSTRUCTION AND RECOVERY			
Complete a DNA to guide reconstruction and recovery	PA		
Accelerate disbursements of Cairo Conference pledges	Donors		
Establish and monitor time line indicators for review and approval of dual use items	GoI		
Include delivery monitoring in GRM system	GoI and PA		
Set-up results-based tracking program to monitor recovery	PA		
Establish Gaza import mechanism able to handle long-term recovery needs	GoI and PA		
Strengthen NORG (National Office for the Reconstruction of Gaza) and institutional structure for cross-sector coordination of decentralized recovery planning	PA		
Gaza Development[26]			
Streamline trade procedures at commercial crossing and expand capacity	GoI		
Expand Gaza's fishing zone	GoI		
Implement donor-financed labor-intensive projects	PA, GoI, donors		

Legend

On track

Some progress achieved

No progress

[26] These are additional recommendations that were made in the World Bank's March 2018 report to the AHLC.

Annex II: 2008 Israeli Military Order Specifying the List of Dual Use Goods for the Palestinian territories

Control of Exports Security Order (Controlled Dual-Use Equipment Transferred to the PA Areas), 5769-2008

In my authority under Section (2) of the definition of "controlled dual-use equipment" in Section 2 of the Control of Exports Security Law, 5767-2007, and with the approval of the Knesset Foreign Affairs and Defense Committee, I order as follows:

1. The equipment listed in the first addendum is controlled dual-use equipment relevant to transfer to the Palestinian Civil Jurisdiction Areas in Judea, Samaria and the Gaza Strip.

2. The equipment listed in the second addendum is controlled dual-use equipment relevant to transfer to the Palestinian Civil Jurisdiction Areas in the Gaza Strip only.

First addendum

(Section 1)

Serial No.		Emphasis/other names		Chemical formula
1	Chlorate salts	Potassium chlorate Sodium chlorate		$NaClO_3$ $KClO_3$
2	Perchlorate salts	Potassium perchlorate Sodium perchlorate		$NaClO_4$ $KClO_4$
2a	Perchloric acid	Perchloric acid		$HClO_4$
3	Hydrogen peroxide (at concentration higher than 18%)	Hydrogen peroxide		H_2O_2
4	Nitric acid	Nitric acid		HNO_3
5	Musk xylene	Musk xylol	Musk xylene	$C_{12}H_{15}N_3O_6$
6	Mercury (including mercury for medical purposes)			Hg
7	Hexamine	Methenamine, HMTA		$C_6H_{12}N_4$
8	Potassium permanganate	Potassium salt	Potassium permanganate	$KMnO_4$
9	Sulfuric acid except for carburators	Sulfuric acid Oleum found in finished carburators for vehicles		H_2SO_4
10	Potassium cyanide			KCN
11	Sodium cyanide			NaCN
12	Sulfur			S
13	White/red phosphorus,	Phosphorus Red phosphorus		P

14	Aluminum	Aluminum powder	Al
15	Magnesium powder		Mg
16	Naphthalene		$C_{10}H_8$
17	Fertilizers and chemicals		
	(a) Ammonium nitrate (solid and liquid)		NH_4NO_3
	(b) Fertilizer 13-0-46 (solid and liquid)	Potassium nitrate Potassium Saltpeter, Niter	KNO_3
	(c) Urea (solid and liquid)	carbamide	CH_4N_2O
	(d) Urea nitrate (solid and liquid)		CH4N2O-NO3
	(e) Fertilizer 17-10-27		
	(f) Fertilizer 20-20-20		
	(g) Any solid fertilizer including one of the substances in sub-items (a) to (c)		
18	Nitrous sodium of other metals		
	(a) Sodium Nitrate (in solid form)	Chile saltpeter Chile saltpeter, Soda niter	$NaNO_3$
	(b) Calcium nitrate (in solid form), including with added limestone		$Ca(NO_3)_2$
19	Disinfestation substances		
	(a) Lannate	Methomyl	
	(b) Thionex	Endosulfan	
20	Sodium nitrate		
21	Methyl bromade		CH_3Br
22	Potassium chloride		KCl
23	Formaline	formaldehyde	CH_2O
24	Ethylene glycol		$C_2H_6O_2$
25	Glycerine		$C_3H_8O_3$

26 Platinum, titanium and graphite planks no thicker than 10 cm;

27 Communications equipment, communications supporting equipment, equipment containing communication functions;

28 Equipment that could, while being operated, disrupt communications networks;

29 Infrastructure equipment for communication networks;

30 Lathes (including lathing center machines) for metal removal;

31 Spare parts, equipment and accessory equipment for lathes;

32 Tool machines that serve for one or more of the following purposes: milling, screwing,

tapping and rolling;

33. Casting ovens with heating capacity exceeding 600°C;
34. Aluminum rods with diameters of 50-150 mm.;
35. Metal pipes, with or without seams, with diameters up to 333 mm.
36. Metal globules from 6 mm. in diameter and ball bearings containing metal globules from 6 mm. in diameter;
37. Binocular optical goggles;
38. Telescopes including telescope viewfinders (including markers);
39. Laser range uniforms;
40. Laser markers;
41. Night vision instruments;
42. Underwater cameras and waterproof lenses;
43. Compasses and dedicated orientation instruments including GPS;
44. Diving equipment, including submarine diving compressors and submarine compasses;
45. Jet skis;
46. External submarine motors over 25 HP and parts whose main dedicated use is with the aforesaid motors;
47. Parachutes, wind gliders and gliders;
48. Hot air balloons, blimps, dirigibles, hang gliders, gliders and other nonmotorized airborne vehicles;
49. Instruments and tools to measure gamma rays and x-rays;
50. Instruments and tools for physical or chemical analysis;
51. Telemetric measurement instruments;

52.. Motorized all-terrain vehicles;

53. Weapons and munitions for civilian use such as hunting, diving, fishing and sports, daggers, swords and folding knives over 10 cm;
54. Fire spewing objects or collections of objects or detonators including fireworks;
55. The items that appear on the list as defined by the Control of Exports Security Order (Controlled dual-use equipment), 5768-2007.
56. Uniforms, symbols and tags.

Second addendum

(Section 2)

1. Fertilizers or other mixtures specifically containing KCl at more than 5%;
2. Fibers or woven fabrics including carbon (carbon fibers or graphite fibers), including the following:
   (a) Chopped carbon fibers;
   (b) Carbon roving;
   (c) Carbon strand;
   (d) Carbon fiber tape.
3. Raw materials based on glass fibers, except for simple glass wool for waterproofing for

construction purposes, including:

(a) Chopped glass fibers;

(b) Glass roving;

(c) Glass strand;

(d) Glass fiber tape;

(e) S-Glass;

(f) E-Glass.

4. Watercraft.

5. Fibers or fabrics including polyethylene, known also by the name of Dyneema, except for polyethylene insulation plates as a finished product.

6. Retro detection means.

7. Gas canisters.

8. Drilling equipment.

9. Equipment for drawing water from excavations, except for water pumps designated exclusively for the Water Authority.

10. Vinil ester resins.

11. Epoxy resins.

12. Hardeners for epoxy resins containing amides or amines, including the following materials but with the exception of Sika filling material + hardener:

(a) DETA – diethylenetriamine;

(b) TETA – triethylenetriamine;

(c) AEP – aminoethylpiperazine;

(d) E-100 – Ethyleneamine;

(e) T-403 – jeffamine;

(f) Catalyst 4, 5, 6, 22, 23, 105, 140, 145, 150, 179, 190, 240;

(g) D.E.H 20, 24, 25, 26, 29, 52, 58, 80, 81, 82, 83, 84, 85, 87;

(h) XZ 92740.00

13. Accelerants for vinyl esters, including the following:

(a) DMA – Dimethylaniline;

(b) Cobalt Octoate;

(c) Mekp – Methylethyl Ketone Peroxide;

(d) AAP – Acetyl acetone peroxide;

(e) Cuhp – cumene hydroperoxide.

14. HTPB (hydroxyl-terminated polybutadiene) type M or H.

15. Water purification solutions at concentrations higher than 11%, including hypochlorites (HTH) and bleaches at concentration higher than 11%, except for glass sand for filtering and purification.

16. TDI – Toluene diisocyanate.

17. Portland cement (in bulk or in sacks or in barrels).

18. Natural aggregates, quarry aggregates and all varieties of gravel.

19. Ready concrete.

20. Precast concrete elements or products.
21. Steel elements and/or construction products.
22. Iron for foundations and columns, at any diameter, including wielded steel nets.
23. Steel cables of any width.
24. Molds for construction elements (plastics or galvanized iron).
25. Industrialized molds for casting concrete.
26. Plastic or composite beams more than 4 mm thick.
27. Thermal insulation materials and thermal insulation products except for shingles, plaster glue, building mosaic and stone, plaster siding plates, polyethylene insulation plates, glass wool and insulation fabric against humidity.
28. Blocs (at any width) – concrete; silicate; ytong or its equivalent.
29. Materials for sealing structures, including epoxy or polyurethane elements, except for acrylic silicon, acrylic gun for ceramics as a finished product, plasticine, or BG Bond sealant.
30. Asphalt and its components (Bitumen, emulsion) in aggregate or packaged.
31. Steel elements or framing products for construction, except for galvanized tin up to 0.4 cmw thick.
32. Cast concrete elements and products for drainage over 1 mm. in diameter.
33. Precast units and seaborne containers.
34. Vehicles, excluding private cars and including 4X4 vehicles, two-wheeled vehicles, and mechanical and engineering machinery.
35. Optical equipment, infrared cameras, thermal cameras, and night vision cameras.
36. Gas operated pumps.
37. Electric air inflators.
38. Copper, stainless steel, and aluminum plates, including copper, stainless steel, and aluminum screens, pipes and rods.
39. Electrodes, including pH gauges, graphite electrodes, platinum plated electrodes and MMO electrodes, except for blood test electrodes.
40. Imaging machines including x-ray machines.
41. Pumps suitable for use in polluted water with a capacity of 10 L per minute and up.
42. Vacuum pumps.
43. Various materials for the plastic industry, including polyester, polyurethane and epoxy resin.
44. Magnometer gates.
45. Wielding machine, including wielding electrodes.
46. Metal detector instrument (GPR).
47. Metal pipes, with or without seams, with diameters up to 350 mm.
48. Instruments and tools for physical or chemical analysis, except for blood analysis.
49. Lumber boards, from 1 cm thick and 5 cm wide*.
50. UPS elements*.

∗ Order 5776-2015

51. Plastic boards fortified with fibers of any thickness; plastic boards not fortified with fibers from thickness of 1 cm.*
52. Smoke detectors including radioactive element.*
54. Sodium dichromate.*
55. Barium chloride.*
56. Ammonium chloride.*
57. Castor oil.*
58. Iron oxide.*
59. D.O.A, D.O.P softeners.*
60. Asbestos insulation.*
61. Winches and lifting equipment.*
62. Graphite powder.*

28 Elul, 5768 – September 28 2008

Ehud Barak
Minister of Defense