AHLC Ministerial Meeting

Oslo, 16-17 November 2021

AHLC Work Session 2: Fiscal Issues and Paris Protocol: How to Increase the PA's Revenues

Time: Tuesday 16 November 2021, 15:00 -16.30

Remarks by Dr. John N. Clarke

As we heard in the first session with Ministers Bishara and Freij this morning, the PA faces a dire financial situation resulting from diminished economic growth, a marked decline in donor funding and Israeli deductions from clearance revenue.

Addressing that gap will require structural change and improved economic growth, including – as will be discussed in the next session – in the areas of movement and trade, but can also be supported through the resolution of a number of long discussed but still outstanding fiscal files.

These files will not only assist in closing the PA's immediate budget gap but are also central to the goal of Palestinian economic self-sufficiency, a complement to — but in no way a replacement for — negotiations aimed at achieving a two-state solution.

A range of fiscal files are discussed in the OQ's report to the AHLC and offer both immediate and medium-term impacts.

In the short term, and in keeping with the comments from this morning's session, I would highlight the following three issues:

1. Resolving the dispute over Allenby crossing fees -- which increased from 26 dollars to 40 dollars in 2008 -- and transferring the PA share of crossing fees resulting from this increase;
2. Waiving or significantly reducing the 3% handling fee on clearance revenue transfers. This would generate approximately 220 million shekels a year for the PA;
3. Exempting fuel from Israeli 'blo' and VAT taxes, which will both reduce the overall handling fee charges by some 100 million shekels per year, and provide much-needed liquidity in the Palestinian economy;

Two additional fiscal files have seen progress in recent months, but still require considerable work to bring them to a timely conclusion.

The first is the establishment of an e-VAT system which would eliminate an estimated 100 million dollars of annual leakage. A detailed draft proposal is now under discussion between the parties including as recently as yesterday.

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We encourage them to finalize and agree on this document, and begin the design and development of the required software interface to enable the exchange of information between the two tax authorities, by the end of December.

In parallel, the PA is encouraged to finalize the e-VAT launch plan for its merchants and users, while also working to ensure the long-term sustainability of the system.

The second is the transfer of customs authority which could reduce fiscal leakage by an estimated 53 million dollars per annum according to the World Bank. We have been encouraged by the more detailed discussions we have had with the parties on this issue, as well as our engagement with both Palestinian and Israeli Ministers.

For such an arrangement to proceed, four issues need to be addressed:

1. the goods for inclusion, particularly alcohol and tobacco,
2. the nature and number of customs facilities,
3. the procedures to be agreed, and finally
4. implementation arrangements for any agreement reached.

There has already been progress on key steps needed for customs transfer: working with the EU and the UK, we have supported the PA in its preparatory work to enable these changes, including upgrading ASYCUDA, the PA's automated customs management software, drafting a new customs law and further work on upgrading the regulatory framework.

We are encouraged by this progress on both EVAT and transfer of customs/bonded facilities ideally with mutually agreed benchmarks and timelines for completion. We remain committed to continue working with the parties and international community to that end.

Thank you very much