

*Meeting of the Ad-Hoc Liaison Committee (AHLC)*

*Brussels, 10 May 2022*

*Chair: Minister of Foreign Affairs of Norway Ms Anniken Huitfeldt*

*Host: EU High Representative Mr Josep Borrell Fontelles*

## **CHAIR'S SUMMARY**

The AHLC met in Brussels on 9-10 May 2022. The delegations participated in working sessions led by Germany, the United Kingdom and the Netherlands, as well as two side events, on energy and cancer treatment in Gaza. The Chair thanks the Parties for constructive participation and IMF, OQ, UNSCO and WB for their reports.

The AHLC was established to promote cooperation between the parties and the donor community in support of the two-state solution, development of the Palestinian economy, and institution-building for a Palestinian state.

The Palestinian Authority's financial situation is dire. Full salaries have not been paid to its civil servants since October last year. UNRWA's persistent budget shortfalls is aggravating the situation. The budget contributions from the donors are at an historic low.

At the AHLC meeting in Oslo last November, both Parties expressed willingness to further develop their cooperation with the aim to bring the PA on a sustainable fiscal path, improve the living conditions, and strengthening the institutions. In Brussels, the AHLC took stock of progress in the fiscal and economic areas, in addition to within water and energy. The cooperation between the Parties is progressing better than for a long time. Donors called on the Parties to use the improved dynamics to secure tangible outcomes.

Structural and other known constraints for a sustainable development of the Palestinian economy remain. The partners called on the Parties to implement priority reforms and take measures to further empower the Palestinian Authority including by transferring further sector authority to the PA. They urged for further reforms of their economic ties, and to allow access for Palestinians to their land and resources.

Ahead of the next meeting in September, the partners will work with the Parties to prepare a policy package of the incremental, durable, and meaningful steps with commitments for their implementation. This policy package will build on the outcomes from Brussels.

The working groups gave the following reports, agreed between the parties, from their discussion. The AHLC chair and the working group facilitators will continue to engage locally with the Parties to monitor and help make progress on this working program.

### ***On PA's fiscal prospects and its reform agenda (moderator Germany)***

1. The participants commended the PA's management of the budget, including by temporarily reducing public salaries as a transitory emergency measure.
2. The PA committed to implement major reforms:
  - Reducing the wage bill to 70% of revenues in 2022 and within rational practice standards by end of 2023, including an overhaul of the public sector employment scheme;
  - Revenue reform during 2022-2026, including by reforming the taxation system and combating tax evasion;
  - Specific proposals for reform in key policy areas including the health system, administrative reform, net lending, and subsidies.
3. The broader reform agenda was presented by the PA for the AHLC.
4. The PA invited AHLC members to validate and support the fiscal reform agenda, explore co-financing incentives for early retirement and other transitory measures, and to provide advice on reforms of the social security system including health insurance and pensions.
5. Some AHLC members' expressed readiness to continue to advise the PA's public financial management, engage in intensified monitoring, support a sustainable funding system for the East Jerusalem Hospitals, and use budget support to provide incentives needed for the implementation of the wage bill reform.
6. The PA committed to intensify their discussion on policy reform with the IMF and other partners, as a step towards developing a monitoring framework that includes commitments of all parties

### ***On fiscal files and banking relations (moderator The United Kingdom)***

1. **E-VAT.** IL and the PA commit to resolving the outstanding issues related to the integration of the electronic systems. If the pilot is agreed to be successful by both sides, IL will encourage greater uptake of the electronic mechanism by Israeli

businesses. IL and the PA agree to continue to work in accordance with agreed-to procedures ('Document 4') throughout the pilot. IL and the PA will look to formally sign an agreement on procedures after the pilot ends with the required adjustments according to the pilot results agreed by both sides. IL and the PA agree to review the E-VAT pilot by the end of September 2022 with a view to decide how to proceed towards full implementation, including regulatory requirements to make the system mandatory for all Israeli businesses. The UK commit to providing technical assistance to support the initiative.

2. **Handling fee.** IL and the PA agree to discuss the handling fee on PA fuel purchases at upcoming MOF-to-MOF meetings, with an aspiration for a decision to be made before September 2022.
3. **Allenby Bridge Crossing Fees.** IL and the PA agree to discuss the issue of Allenby Bridge crossing fee revenues, including a mechanism for setting and sharing future crossings fees, with an aspiration for a decision to be made before September 2022.
4. **Transparency.** IL and PA commit to continuing discussions on information to be shared between them, with an aim to share more information on income tax payments and on Gaza.
5. **Customs transfer/bonded warehouses.** IL intend to share a draft MOU with the PA by June 2022. IL and the PA agree to detailed technical level discussions about the MOU including the scope of transfer, procedures and warehouse locations. UK commit to providing technical assistance to support an agreement between the parties.
6. **Electronic payment of salaries to workers in Israel.** IL and the PA commit to continuing the expansion of the electronic bank payments to West Bank Palestinian workers in Israel.
7. **Correspondent Banking.** PA commit to undertaking the MENAFATF assessment, beginning in August 2022. The IMF commit to providing technical support ahead of the assessment and any necessary support required following the evaluation. IL and the PA commit to continuing efforts to establish a long-term solution to the issue of correspondent banking relations, including by ensuring comprehensive discussions between the Bank of Israel (BOI) and the Palestinian Monetary Authority (PMA). UK is willing to work with the IMF to host these discussions.

### ***On water and trade (moderator The Netherlands)***

#### **On water**

1. Israel, the PA and the donors are expected to continue to meet in bilateral, trilateral and multilateral formats to address outstanding issues and implement next steps under the joint water agenda.

2. Donors recognized the water agenda as a catalyser to strengthen water security, mitigate environmental pollution, expand re-use capacity, adapt to climate change and enable socio-economic development.
3. Several strategic projects have been prioritized to be advanced this year as part of a programmatic approach
  - Transboundary wastewater agenda of the Tulkarem east/west project.
  - Enabling drinking water supply systems related to the As Samoua connection point.
  - Implementation of five groundwater wells to mitigate urgent water shortages.
  - Addressing financial needs arising from water sector damage assessments in Gaza.
4. The Chair calls upon the donors to cover outstanding funding gaps for the projects outlined in the joint concept note and in PWAs list of priority projects, and the Parties to proceed with all necessary agreements. Several donors expressed commitment to bridge funding needs.
5. The Chair calls on Israel to provide timely approvals for water infrastructure components, improve transparency on deductions and to move from a project-by-project approach towards programs and pipelines under mutual agreement.
6. PA is expected to realize the aspired infrastructure, sustain progress on the reform agenda while improving capacity and ensuring financial sustainability in the water sector.

### **On trade**

1. The Parties expressed a need and interest in developing a **conveyor** belt at Allenby/KHB to reduce traffic and waiting times at the crossing. The EU expressed an interest in engaging in discussions on this project and the need to link it up with the PPP project on the KHB.
2. Jordan expressed an interest in further developing KHB and expects to sign a **PPP concession** by Q1 2023. Jordan will follow up on the items under the high-level committee with the PA and discuss KHB/Allenby working times with Israel, in coordination with the PA.
3. The Chair calls upon the Parties to further look into the potential benefit of **Direct Transfer between the West Bank and Jordan**. The OQ is ready to assist the Parties with technical analysis.
4. The Parties will work on expanding **containerization** at Allenby/KHB and include 40 ft containers. The UK and the EU expressed readiness to support. The PA and donors expressed the need to allow for unpalletized containerization.

5. The Chair noted the recent positive steps with **material access in Gaza** a.o. in the fishery sector, while highlighting the need to strengthen policy dialogue between the Parties on imports and exports, including on dual lists and the GRM. IL expressed openness to also look at better material access in agriculture, health and industry through the GRM. UNSCO, Germany and others stressed the need for increased transparency and efficiency around material access, including in the GRM.
6. **The Joint Economic Committee** did not take place. The PA reiterated the importance of the JEC and referred to the Chair conclusions of Oslo. The Parties underlined the need for dialogue on free movement of goods and persons, reducing transactions costs and updating the A1, A2 list.

### **On energy (the EU)**

1. On the approval of permits for renewable energy investments in West Bank, parties agreed to meet regularly in an informal set-up facilitated by the Office of the Quartet as from July 2022 and to hold a Dutch led trilateral meeting before September 2022. In parallel the Palestinian Authority will identify new projects amounting to around 200MW by September 2022.
2. On Gas for Gaza, parties agreed to finalize the investment plans for the evacuation and distribution of electricity (Associated Works) with the support of the World Bank and to hold a local donors' outreach event before September 2022 and target a pledging conference in the context of the COP27 in Sharm-Al-Sheik.
3. On Gas for Gaza, Israel will work to finalize the detailed design of the pipeline on Israeli side and confirm the crossing-point before July 2022; while the Palestinian Authority will aim to sign the commercial agreements (GSPA and PPA) by the September 2022 and finalize the framework Hydrocarbon law by November 2022.