The Portland Trust

PALESTINIAN ECONOMIC BULLETIN

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Main reports

The Palestinian Prime Minister's Office issued a statement on 20 November announcing that the compliance with the Social Security Law, which took legal effect in its first phase on 1 November, will not be mandatory until mid-January 2019.

Sharakat Investment Fund and the Palestine Industrial Investment Company signed an agreement on 17 October 2018 to establish an animal feed plant in the Hebron Governorate.

On 10 October 2018, the Qatar Fund for Development pledged $150m in humanitarian aid to alleviate the humanitarian crisis in Gaza.

On 25 October, the Palestinian Monetary Authority and the Central Bank of Israel agreed on a new mechanism to facilitate bank transactions between Palestinian and Israeli banks

The Palestinian National Authority's Report to the Ad Hoc Liaison Committee

On 27 September, in advance of the Ad Hoc Liaison Committee (AHLC)[1] meeting in New York, the Palestinian National Authority (PNA) submitted its report on the status of the Palestinian economy entitled: "Stopping Fiscal Leakages".[2] The report reiterated the PNA's call for an end to the longstanding restrictions and related arrangements to the implementation of the Protocol on Economic Relations between the Government of Israel (GoI) and the Palestine Liberation Organisation (PLO) also known as the Paris Protocol, signed in Paris on 29 April 1994 and subsequent accords. The report estimates the PNA's fiscal leakages resulting from these restrictions at around $350m per year (~29.2% of the PNA's expected budget deficit in 2018).

Leakages resulting from lack of control over Area C

Pursuant to the Paris Protocol and related accords, the GoI is authorised to levy and collect VAT and income tax and deduct Israeli businesses' income accrued or derived in Area C in line with the Palestinian tax code and transfer such funds to the PNA. The report estimates that around 2,000 Israeli businesses and individuals currently operate in and derive income frim Area C. It further states that in 2000, the GoI ceased all tax transfers and stopped informing the PNA about Israeli commercial activities in Area C. The report estimates accumulated unpaid taxes and fees from Area C since 2000 at around $360m (or 35% of the PNA's 2018 projected budget deficit).

Leakages resulting from "handling fees"

Under Article III of the Paris Protocol, the GoI is required to transfer to the PNA the customs, excise and value added tax (VAT) - i.e. "clearance revenues" - collected on goods the destination of which is within areas under PNA jurisdiction. According to the Protocol[3], the GoI is authorised to deduct a 3% "handling fee" in exchange for its processing of these funds.

The report states that the PNA has consistently called for lowering the handling fee, citing that the fee does not reflect the actual costs incurred by the GoI. Based on the recommendation by the World Bank Group (WBG)[4], the PNA calls for this fee to be set at 0.6% to reflect the share that Palestinian imports comprise of Israel's total import cost. The report estimates that since 2006, the PNA has lost around $540m in revenue (or 48% of its 2018 projected budget deficit) due to handling fees imposed on merchandise trade.

Leakages resulting from fees on fuel purchases

Since the establishment of the PNA in 1994, Palestine has imported fuel through Israeli companies. According to the report, between 1994 and 1996, the GoI transferred the

1 A 15-member committee which serves as the principal policy-level coordination mechanism for development assistance to the Palestinian people.
2 http://www.lacs.ps/documentsShow.aspx?ATT_ID=36702
3 Annex V: Economic Relations Protocol – Supplement to the Protocol on Economic Relations. https://bit.ly/2glwovH
4 https://bit.ly/2r67wgL