

Is the Customs Envelope Still Relevant?

In a recent cabinet meeting, Prime Minister Ariel Sharon stated: "...We are leaving Gaza and ending our responsibility over it.." (Benn, Ha'aretz, July 13, 2005).

One of the central issues which will determine whether Israel remains responsible for the Gaza Strip in the aftermath of the Disengagement Plan is the economic regime of Gaza, **in particular the Customs Envelope**.

This issue puts a question on the relevance of the Customs Envelope around the West Bank as well.

What is the Issue?

- Agreements signed during the Interim Period (originally 1994-99) placed political, civil, economic and legal restrictions on the sovereignty of the Palestinian Authority. Therefore, **Israel retained extensive responsibilities** for the territories of the Gaza Strip and the West Bank, even after the establishment of the PA.
- Throughout the Oslo Process, in the *economic* sphere, Israel based its policy on several guidelines:
 - No physical boundaries between the West Bank, Gaza and Israel until the signing of a Permanent Status Agreement;
 - Free movement of goods, services, labor and capital;
 - Limits on the attributes of economic sovereignty of the PA, such as on agreements with third parties or currency; and
 - The permanent status of Israeli-Palestinian economic relations will be established in a Permanent Status Agreement (set for 5/99).
- In this light, the Paris Protocol (4/94) provided for a unique economic and trade regime named **the Customs Envelope**. Accordingly, Israel and the Palestinians would levy identical customs (with limited exceptions) and similar indirect taxes (VAT and other duties) while Israel maintains control of the customs stations, collects revenues and reimburses the Palestinians for their share through the Revenue Clearance Mechanism.
- The Disengagement Plan (6/04) stipulated that **the existing economic arrangements between Israel and the Palestinians would remain in force**.

Why is this important? Why now?

- The **purpose of the Disengagement Plan is to end Israel's responsibility over Gaza** (hereinafter "end of responsibility").
- This objective requires a re-orientation of **all spheres**, which involve Israeli responsibility over Gaza, including economics.
- **Israel has no interest in maintaining the Customs Envelope around Gaza** and can instead collect taxes at the Gazan-Israeli border.

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- Recently, it seems that **maintaining the Customs Envelope in Gaza** has become a Palestinian and international interest / claim:
 - The World Bank and International Monetary Fund (IMF), in the name of economic development, contend that Israel is bound by the Paris Protocol (Eldar, Ha'aretz, June 12, 2005);
 - The PA opposes the creation of a separate customs regime for the West Bank and Gaza Strip, because of fears of negative consequences for the Palestinian economy and suspicions that Israel seeks to break the linkage between Gaza and the West Bank as a single territorial unit.

In other words, ending Israeli economic responsibility over Gaza, can only be realized through an integrated process that includes the West Bank (all-or-nothing situation).

- **These positions imply an inversion in respect to the Customs Envelope –**
 - In the past, *Israel* sought the preservation of the Customs Envelope, whereas the *Palestinians* greater economic independence. The Paris Protocol represents a Palestinian consent to the Israeli position.
 - Currently, the *Palestinians* demand to maintain the Customs Envelope while Israel revisits its relevance as it undermines its objective of ending its responsibility for Gaza.
- Therefore, the threat that Israel might unilaterally withdraw from these economic arrangements **gives Israel a bargaining chip** in its relations with the international community and the Palestinians.

Policy-Options

The goal of ending Israel's responsibility requires a new economic arrangement between Israel and the Palestinians. The possibilities include the following:

- **Agreement with the Palestinians** – i.e. new arrangements that update Israeli-Palestinian economic regime while absolving Israel's responsibility for Gaza.
- **Agreement with the international community** – World Bank, IMF or European Union and subject to Palestinian consent - regarding the transfer of Israel's power and authority to 3rd parties (Krieger, Jerusalem Post, July 13, 2005).
- **Unilateral Israeli steps to dismantle the Customs Envelope -**
 - *During Oslo*, the prospect of reaching a comprehensive agreement and absence of a physical or economic boundary provided the impetus for the Customs Envelope as a provisional economic arrangement;
 - *Currently*, the security fence and the heavy restrictions on movement, the low prospects for a comprehensive agreement and the Disengagement Plan make it illogical.

Israel could consider **annulling the Customs Envelope in the West Bank and the Gaza Strip** and allow for an **economic free movement between the West Bank, Gaza and third countries (not including Israel)**, subject only to security considerations.

The customs border **between Israel and the Palestinians** should be established **along the security fence and on the Israel-Gazan border**.

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Point of View

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- Concepts: "[Upgrading the Political Status of the Palestinian Authority](#)" (in Hebrew) and "[Upgrading the Sovereign Status of the Palestinian Authority](#)" (in Hebrew)
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- Term: "[Disengagement Plan](#)"

End.

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