



State of Israel

Measures Taken by Israel in Support of Developing the Palestinian Economy and Socio-Economic Structure

**Report of the Government of Israel to
the Ad Hoc Liaison Committee (AHLC)**

Brussels, April 13, 2011

Executive Summary

In 2010, the Palestinian economy continued to grow at a quick pace, with economic growth reaching 9.3%, due to a very quick recovery of the Gaza economy (15%), accompanied by continued growth of the West Bank economy (8%¹). The PA's GDP in 2010 amounted to USD 5,728 million, and the GDP per capita increased by 6.1%, in comparison to the previous year.² Israeli policy in the West Bank and Gaza contributed significantly to this growth. Increased Palestinian sales to Israel, a higher volume of commercial goods shipped from the West Bank via the land crossings to Israel and abroad, growing numbers of tourists visiting the West Bank, and increased construction, are all additional indications of the growth of the Palestinian economy.

Israel wishes to resume peace negotiations with the PA, with the aim of reaching a bilateral agreement for a two-state solution. Israel lent its support to efforts led by the international community to implement projects and build capacity and institutions in various fields.

Israel expanded its professional dialogue with the PA in a variety of areas, aiming to upgrade: Palestinian financial services, water and sewage infrastructure, the legal system and the rule of law, agriculture, and the electricity network, inter alia. These steps were accompanied by intensified security coordination between the authorities on both sides, seeking greater security and improved institutional capacity. Still, the terror attacks following the resumption of peace negotiations last September, the horrific terror attacks of the last few weeks in Itamar and Jerusalem, and the barrage of missiles now being launched against civilians in southern Israel, all serve as painful reminders of just how distant real security remains.

Last June, Israel eased its policy towards the Gaza Strip. The immediate implementation of the policy is reflected in economic growth of 15% in Gaza.

¹ According to the IMF.

² Compared to USD 5,241 in 2009. Source: Palestinian Central Bureau of Statistics.

It is clear that there is no humanitarian crisis in Gaza; there are established mechanisms, available to all, to ship both humanitarian aid and commercial goods into Gaza. Israel has approved 121 projects led by the international community, and the flow of all commercial and humanitarian goods³ continues. Israel has upgraded the infrastructure and capacity of Kerem Shalom crossing far beyond actual needs. More people are exiting Gaza for humanitarian or commercial reasons and exports have been increased. Israel wishes to implement additional measures, including agreements between Prime Minister Netanyahu and Quartet representative Tony Blair.

Israel is gravely concerned about the escalation in security threats from Gaza, and the increasing number of terrorist rocket and mortar shell attacks, targeting densely populated civilian areas within Israel. The recent interception of the vessel "Victoria," on March 15th, which was carrying tons of illegal arms and ammunition to Gaza, and the ongoing smuggling of weapons through the tunnels, signal proliferation efforts by Hamas, sponsored by Iran.

Israeli soldier **Gilad Shalit** has been held in captivity in the Gaza Strip, for nearly five years, without the most basic rights. The International Community must undertake greater efforts to bring about his immediate and unconditional release.

This Report provides information on Israeli policy in the West Bank and Gaza, and its implementation, in the following chapters:

- Chapter One **Economic Growth in the West Bank: Israeli Measures**
- Chapter Two **Israeli-Palestinian Cooperation to Upgrade the Water and Sewage Infrastructure in the West Bank and Gaza, and Infrastructure in Other Sectors**
- Chapter Three **Security**
- Chapter Four **Governmental Cooperation in the Civil Sector**
- Chapter Five **Implementation of Israel's Policy towards the Gaza Strip**

³ With the exception of dual use materials and construction materials for the private sector.

Chapter One

Economic Growth in the West Bank – Israeli Measures

Economic Situation in the West Bank

The past few years have marked consistent economic growth in the West Bank. This trend continued in 2010 with enhanced economic growth and development. The steps and measures implemented by Israel during 2010 have contributed to the growth of the Palestinian economy and to an improved standard of living for the Palestinian population. Today, there is freedom of movement throughout the West Bank, trade with Israel is growing, and all economic indicators show improvement.

Economic Indicators

The following are some of the main economic indicators for 2010:

- Growth data for 2010 show an 8% growth rate.⁴
- The West Bank GDP for 2010 amounted to USD 4,381.4 million.⁵
- Growth continued to be fueled by public expenditure (which led the increasing demands) that is still heavily reliant on foreign aid. Growth was encouraged by stable security conditions, accompanied by a surge in activity in the construction and trade sectors.
- The construction sector continued to demonstrate strong performance, there was a 23% increase in the number of building permits issued by the PA in the West Bank.⁶
- The banking sector witnessed a significant increase in deposits (approximately 14%), profits and employment. However, the sector is still highly exposed to public sector debt and employees.⁷

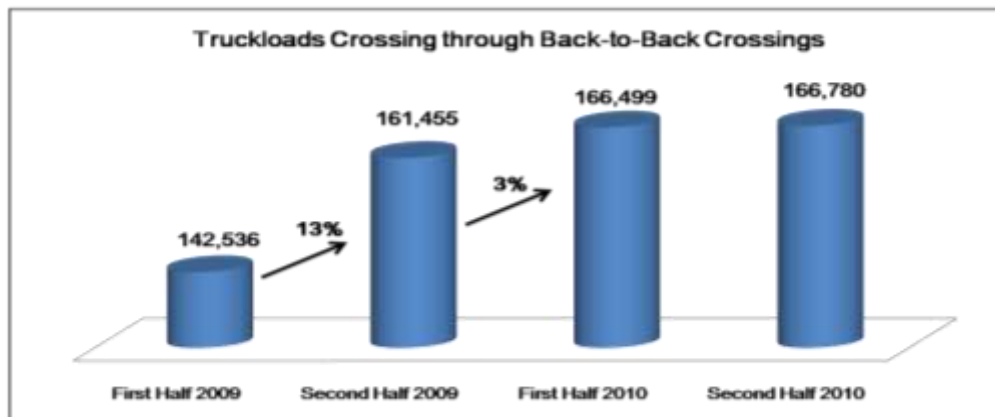
⁴ Source: IMF

⁵ Source: Palestinian Central Bureau of Statistics.

⁶ Source: Palestinian Central Bureau of Statistics.

⁷ Source: Palestinian Ministry of Finance. By the end of 2009, the ratio of credit per GDP was estimated at 43%. (Source: Palestinian Monetary Authority and Palestinian Central Bureau of Statistics)

- There was an approximately 10% rise in the number of trucks crossing at back-to-back crossings, compared to 2009, as illustrated in the table below.⁸



- There was a dramatic increase in the construction of new neighborhoods, malls, cinemas, and parks: there was a 4% rise in the consumption of cement in the West Bank.⁹
- There was a 4% increase in the quantity of fuel and diesel transferred to the West Bank in 2010 (582 million liters in 2010 compared to 560 million in 2009).¹⁰
- Employment in the West Bank continued to improve slowly. The unemployment rate in the fourth quarter of 2010 was 16.9%, about 1.2% lower than its level in the parallel quarter in 2009 and 2.9% lower than its level in the parallel quarter of 2008.¹¹
- There was a sharp, 38% increase in the import of vehicles into the West Bank, compared to 2009.¹² This is a result as well as an indication of the significant improvement of access and movement in the West Bank.
- The increase in exports from the West Bank is illustrated by the numbers of export trucks passing through Tarqumiya Crossing on a daily basis, which reached 241 in October 2010¹³
- In Allenby Bridge, in 2010 there was 13% increase in number of passengers, 10% increase of transfer of commercial goods and 11% increase in number of vehicles crossing the Bridge.

⁸ Source: Land Crossing Management Authority

⁹ Source: COGAT

¹⁰ Source: COGAT

¹¹ Source: Palestinian Central Bureau of Statistics.

¹² Source: COGAT

¹³ Source: Land Crossing Management Authority

Palestinians Employed by Israeli Employers

In 2010, Palestinian employment in Israel increased, and the average daily salary increased, due to an expansion of Palestinian employment by Israeli employers (legal employment only). In 2010, there was a 5.4% increase in the number of Palestinians employed by Israeli employers, compared to 2009. At present, about 50,000 permits have been issued for the legal employment of Palestinians in Israel and the settlements¹⁴. Furthermore, recently a decision was made to issue an additional 5,250 permits for workers in the construction and agriculture sectors. It seems that not all permits are utilized – and according to the PCBS only about 35,000 Palestinians work with permits in Israel and the settlements. In addition, approximately 15,000 Palestinians are employed without permits in Israel and the settlements.¹⁵ Palestinian employment in Israeli settlements and industrial areas in the West Bank in 2010, as reported to Israel's Social Security, amounted to about 10,000 jobs, and reported income amounted to approximately NIS 400 million.¹⁶

The average wage for 2010 was approximately NIS 160 per working day. In 2010, wages increased in comparison to previous years, despite a drop in daily working hours, leading to an increase in the hourly wage rate. The increase in Palestinian employment in the Israeli economy, and the increase in wages, are reflected in an increase in payments in respect of Palestinian employment in the Israeli economy, which reached an estimated USD 920 million, approximately 21% of the West Bank's GDP.¹⁷

Trade with Israel

2010 marked stronger economic ties between the West Bank and Israel, and increased trade between them, as demonstrated by the following table¹⁸:

Overall Trade between Israel and the PA 2006 - 2010 (Millions of USD)

	Purchases from and via Israel			Sales to and via Israel				Total Trade
	Goods	Services	Total	Goods	Services	Labor Services	Total	Total
2007	2,604.1	363	2,967.1	530.5	177.5	575.1	1,283.1	4250.2
2008	3,255.6	419.9	3,675.5	566.4	222.3	836.8	1,625.5	5301
2009	2,756.9	405.6	3,162.5	411.7	193.4	749.4	1,354.5	4517
2010	3,092.9	437.2	3,530.1	491.2	199	919.4	1,609.6	5139.7

¹⁴ average permits that were in force per month.

¹⁵ Source: COGAT. The PCBS divides Palestinians working in Israel to three categories: 1) with permits (30,000); 2) without permits (15,000); and 3) with an Israeli ID or foreign passport (32,000) (these numbers are quarterly averages).

¹⁶ Source: Bank of Israel

¹⁷ According to the Bank of Israel, it appears that the increase in the average wage for Palestinian workers in the Israeli market resulted from an increase in the number of legal workers, who earn more than illegal workers, particularly those working within Israel (Source: Israel Bureau of Statistics).

¹⁸ Source: Israel Bureau of Statistics

Netanyahu- Blair Package – Agreements related to West Bank

On February 4, 2011, a package of measures was agreed between Prime Minister Netanyahu and Quartet Representative Blair. This package is comprised of a range of measures **in the West Bank and Gaza**, to increase economic activity on the ground, signaling Israel's willingness to resume the bilateral negotiations with the Palestinian Authority. Below is information on the measures relating to the West Bank, and their implementation status. **Information regarding measures for Gaza appears in Chapter Five of this Report, below.**

Telecommunications

The Gol approved the transfer to Wataniya Telecom Company of frequencies pending since November 2009, and has already transferred to the PA all the remaining agreed frequencies (4.8 megahertz), completing its commitment to the PA. However, the PA has not yet fulfilled its commitments according to the agreement regarding Wataniya.

Area C Schools and Health Clinics

The Gol has committed to prioritizing and fast-tracking the construction and renovation of a number of schools and health clinics in Area C, from the lists submitted by the OQR and SEMEP. Permits will be issued after formal submission of PA requests and plans. Thus far, 15 projects (out of 31 submitted) have been granted preliminary approval, in accordance with data supplied by the OQR and SEMEP. The Civil Administration is currently in the process of holding professional meetings with the Quartet and Mitchell teams, in order to advance these projects¹⁹.

Collection of Clearance Revenues

The Gol has committed to immediately schedule talks with the PA to identify and agree on new measures to enhance collection of clearance revenues for the PA, with the aim of settling outstanding issues on both sides within three months. Since February 14, several meetings have already been held between MOF officials from both sides.²⁰

PA Security Presence in Area B

The Gol has agreed in principle to facilitate the extension of PA security presence to seven towns in Area B, with the aim of agreeing on specifics with the PA by March 1, 2011. On March 8 a meeting between the Commander of the IDF Central Command and the commanders of the Palestinian Security forces took place. The Palestinian side announced that they are preparing a list of seven new police stations to be built. The list has not yet been submitted.²¹

¹⁹ Source: COGAT

²⁰ See additional information in chapter Four.

²¹ Source: COGAT

West Bank IDs for Gazans residing in West Bank

The Gol has agreed to authorize 5,000 West Bank residents who currently hold Gazan IDs to change their address for ID purposes to the West Bank. A list of names (3,725) has been submitted to Israel by the PA for review, and is currently being processed.

Israeli Measures to Increase Economic Activity

There have been intensive efforts to upgrade the facilities of the commercial crossings between Israel and the West Bank: in the framework of the biennial budget for 2011-2012, the Gol increased its investment in the Crossings Authority by NIS 120 million over two years. The budget of the Crossings Authority will stand at NIS 230 million in 2011 and a projected NIS 232 million in 2012, compared to NIS 167 million in 2009²². **At present, the capacity of all commercial crossings is greater than actual demand, while the passage time through the crossings has been cut dramatically. No fees are charged for the passage of commercial goods, vehicles or passengers.**²³

The following are some of the additional measures adopted in 2010²⁴:

- There was a **4% increase in the number of trade permits issued** in 2010. **46,934 commercial permits** were issued to Palestinian merchants for entry into Israel, compared to 44,962 in 2009.
- **607 Business Person Certificates (BMC)** were issued, easing the movement of key Palestinian business people.
- The number of truckloads of stone and marble authorized to pass through the "Minharot" crossing via Jerusalem was doubled from 75 to 150.
- Visas were issued for foreign investors to enter the West Bank.

Tourism ²⁵

During 2010, there was substantial growth in the tourism sector, which witnessed a 49% increase in the number of domestic and foreign tourists compared to 2009. Statistics from the Palestinian Central Bureau of Statistics

²² The budget in 2010 was NIS 260 million. In 2010, NIS 90 million was invested in upgrading the crossings, including Kerem Shalom.

²³ Source: Ministry of Finance, Land Crossing Management Authority

²⁴ Source: COGAT

²⁵ Most of the information is based on COGAT reports, unless indicated otherwise.

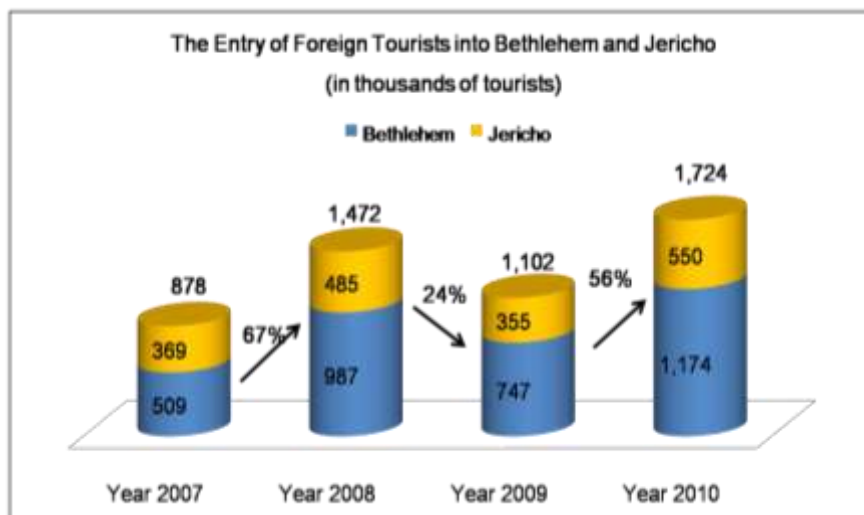
for the fourth quarter of 2010 show an increase in hotel occupancy of approximately 12%, compared to the same period in 2009.

- For the first time since 2000, 200 Israeli tour guides were allowed to enter Bethlehem and Jericho, at the PA's request, a step that led to a substantial increase in the numbers of tourists entering PA territory.

The following annual figures for 2010 (in comparison to 2009) reflect this trend:

- Foreign tourism in the Bethlehem area increased by 57% , reaching 1.1 million visitors.
- Foreign tourism in the Jericho area increased by 55% in 2010, reaching 550,000.

The following table illustrates foreign tourism in Bethlehem and Jericho from 2007 until 2010:



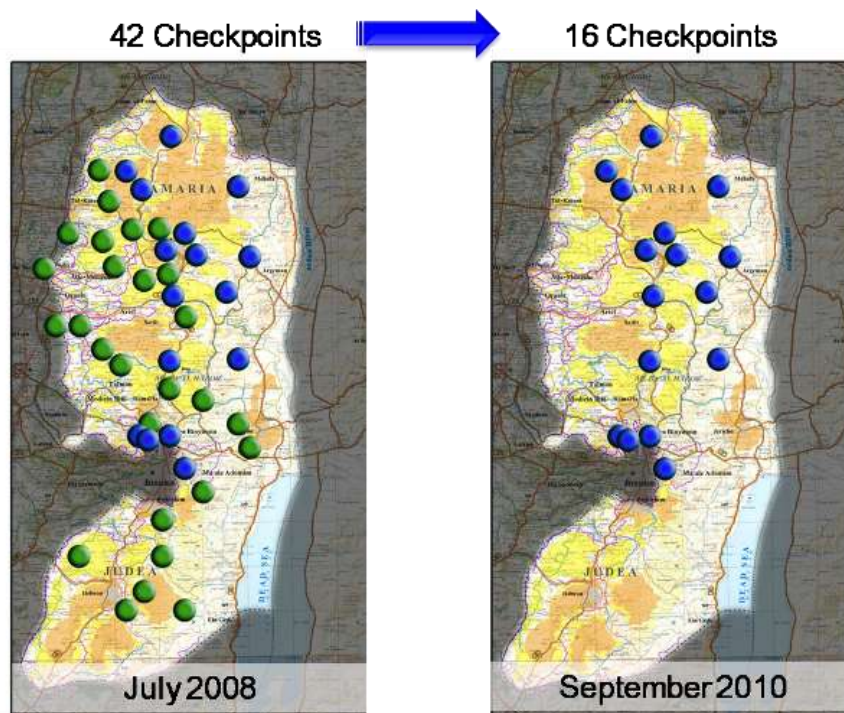
94 hotels currently operate throughout the West Bank, and in 2010 the PA took steps to promote plans for 8 new hotels in Bethlehem, and two in Ramallah.²⁶

²⁶ Source: Palestinian Central Bureau of Statistics

Supporting the Palestinian Economy – Israeli Measures to Facilitate Access and Movement ²⁷

In 2010, movement in the West Bank became smoother and quicker, due to further Israeli measures in this area:

- 98 roadblocks have been removed throughout the West Bank.
- Roads have been opened, including a number of roads in the Hebron and Ramallah districts.
- The 443 Highway was opened to Palestinian traffic.
- The hours of operation at the land crossings and checkpoints were extended and infrastructure at the land crossings was upgraded.
- A pilot to extend working hours at the Allenby Bridge was made permanent in 2010, contributing for an increased volume of traffic.²⁸
- There are 16 checkpoints, most of them operating under "normally open" status (see diagram below²⁹).



- Working hours were extended at the following crossings: Ramallah DCO (now open until 24:00), Te'enim (Jubara) (now open until 24:00), Awarta (now open until 22:00), and Tarkumiya.
- A public transportation lane was opened at the Qalandiya crossing.

²⁷ Most of the information is based on COGAT reports, unless indicated otherwise.

²⁸ Source: Israel's Airport Authority

²⁹ Source: COGAT

- The working hours at the Eyal and Ephraim crossings were changed to facilitate the movement of workers employed in Israel.
- Upgrade of the Ephraim Crossing cut crossing times for trucks in half³⁰
- Extension of working hours at the Tarqumiya crossing enabled a 14% rise in the number of trucks passing through the crossing in 2010.

Permits were issued in 2010 to facilitate movement between Israel and the West Bank, including:

- 651,734 permits were issued for entry into Israel, a 42% increase compared to 2009. This, in addition to extension of the permits' validity.
- 200 VIP certificates were allocated to the PA in 2010.
- More than 46,000 commercial permits were issued to merchants for entry into Israel.
- 511 cards were issued to ease the movement of public officials in the West Bank.
- Approximately 23,000 foreign nationals who were in the West Bank illegally received authorization to remain in the West Bank, for humanitarian reasons.

Steps to Facilitate Entry of Israeli Arabs to West Bank³¹

As mentioned above, in 2010 over four million entries of Israeli Arabs to cities in the West Bank were recorded. The following are a number of steps taken by Israel to facilitate this:

- The entry of Israeli Arabs to Palestinian cities was approved.
- Jalame crossing was opened for the passage of vehicles, enabling ever increasing numbers of Israeli Arab vehicles to enter the West Bank. This measure had a dramatic economic impact on the economy of Jenin and other Palestinian cities. Every weekend, more than 5,000 vehicles pass through the crossing.³²
- Working hours at the Jalame, Rikhan and Shaked crossings were extended to midnight for the movement of Israeli Arabs.
- The crossings at Tulkarem were opened during weekends for the entry of Israeli Arabs, shortening travel times.

³⁰ Source: Land Crossing Management Authority

³¹ Most of the information is based on COGAT reports, unless indicated otherwise.

³² Source: Land Crossing Management Authority

Chapter Two

Israeli-Palestinian Cooperation to Upgrade the Water and Sewage Infrastructure in the West Bank and Gaza, and Infrastructure in Other Sectors³³

General

Israel is taking care to fulfill its part in the water sector, and has actually placed at the disposal of the Palestinian Authority a much larger amount of water than is required under the Interim Agreement (Annex III, Appendix 1, Article 40). According to the Agreement, the direct supply from Israel to the Palestinians in the West Bank (in addition to water the Palestinians produce themselves) must amount to 31 million cubic meters, but Israel actually supplies the Palestinians with 52 million cubic meters. In contrast, the Palestinians are drilling new wells in violation of the Agreement and do almost nothing to deal with their sewage, which flows into the rivers, much of which flows into Israel.

Dialogue between Water Authorities

In 2010 there was an improvement in cooperation and dialogue between the Israel Water Authority and the Palestinian Water Authority³⁴. The following are some prominent examples:

- A decision was reached to increase the frequency of trilateral working meetings, held together with the US, to once every three months instead of once every six months. However, the meeting that was scheduled for April 7, 2011 was postponed at the request of the Palestinians, who asked for more time to prepare.
- The procedure for quick approval of emergency projects, by fax, continues to be implemented.
- As of August 30, 2010, 61 projects had been approved by the Joint Water Committee.³⁵
- Israel agreed, in a special session of the JWC, to approve the construction of a pipeline that will drain sewage in the Zimmer River (which flows down into the Alexander River - the sewage flows Westward

³³ All of the information regarding the water sector included in this chapter was provided by the Israel Water Authority (unless indicated otherwise).

³⁴ hereinafter: PWA

³⁵ hereinafter: JWC

from Nablus and Tulkarm), and will transport the sewage to the Israeli sewage purification facility at Yad Hannah.

- Two training courses were held for Palestinians and Jordanians, within the framework of MEDRC-PWA CoE (Middle East Desalination Research Center – Palestinian Water Authority Center of Excellence)³⁶, to train personnel in desalination and treatment of sewage. An additional course on desalination is planned for the beginning of May, for senior employees of the Palestinian and Jordanian Water Authorities.
- A number of meetings were held within the regional cooperation framework EXACT (Executive Action Team (EXACT) Multilateral Working Group on Water Resources³⁷) for establishing a joint regional data bank on water. Israel, Jordan, and the Palestinians are the main participants in this cooperation framework, alongside a number of donor countries: the United States, the Netherlands, Italy, the European Union and Norway.
- Israel has expressed willingness to help the Palestinians solve the problematic water situation in the Gaza Strip. A number of joint discussions have been held on this matter, including within the last three trilateral meetings, as well as during a meeting of the quadrilateral technical team (involving Israel, the Palestinians, the United States, and Norway) that was recently established in order to find solutions for the crisis.

Items Remaining on JWC Agenda

There are a number of items on the agenda, for which the Palestinians have responsibility:

- About 34 projects for constructing sewage purification facilities, most of them still in the initial examination and planning stages (only two have reached implementation stage- one in Nablus and the other in the

³⁶ The mission of MEDRC is to contribute to the achievement of peace and stability in the Middle East and North Africa by promoting and supporting the use of desalination to satisfy the needs of the people of this region for available, affordable, clean fresh water for human use and economic development. This is done through the advancement of desalination technology, education in the technology and training in its use, technology transfer, technical assistance, and building cooperation between nations to form the joint projects and international relationships necessary to meet the needs for fresh water. (<http://www.medrc.org/index.cfm?area=about>)

³⁷ Multilateral working groups to advance the Middle East Peace Process were formed in January 1992. One of these groups, the Multilateral Working Group on Water Resources, endorsed the Water Data Banks Project in November 1994. The Water Data Banks Project consists of a series of specific actions to be taken by the Israelis, Jordanians, and Palestinians that are designed to foster the adoption of common, standardized data collection and storage techniques among the Parties, improve the quality of the water resources data collected in the region, and to improve communication among the scientific community in the region. (<http://www.exact-me.org/>)

Northern Gaza Strip). Most of the projects have Israeli - Palestinian agreement, yet donors have not yet been identified.

- The Palestinians need to complete reforms required to upgrade the Palestinian water system. In that framework, they are supposed to start installing pumping meters that will control in real time. This will enable evaluation of actual production and will be a necessary and important component in considering approval for drilling new wells and rehabilitating existing ones.
- In the coming days, the Palestinian Water Authority is expected to complete a comprehensive feasibility study regarding options for dealing with the water crisis in the Gaza Strip, which continues to be severe. After completing the study and choosing the appropriate options, there will be a meeting of the quadrilateral technical team to identify means of implementation.
- One of the main factors causing the water shortage in the Palestinian Authority is the condition of the infrastructure for conveying water, which loses at least 33% of the supplied water. Investment in reducing the loss of water is relatively easy and its contribution to the Palestinian water system would be immediate and significant.
- Despite this, it is noteworthy that the reliability of the water supply in Palestinian cities in the West Bank is definitely reasonable, and that all-in-all the level of water supply in the West Bank is better than in most countries in the Middle East.

Water and Sewage in the **West Bank**³⁸

Water Sector Development

1. In 2010 the Civil Administration Water Department approved the following projects:
 - Six major water pipelines and network systems (serving more than 11 Palestinian towns and villages). Four projects are in progress.
 - The drilling of five new well sites with immediate effect (as well as 15 other sites in the Eastern Aquifer). Four projects are in progress.
 - The construction of five new filling points.

³⁸ See also the reports of the Civil Administration.

- Rehabilitation of seven water cisterns used for water harvesting. Four projects are in progress.
2. Eleven new water projects were submitted to the Water Department for permission in the fourth quarter of 2010, including four wells, four water reservoirs and three water trunk lines systems.
 3. The statutory process of permission for the Dir Samit reservoir (which is part of a USAID funded project) in the Hebron district has progressed, and a public notice was published in the Palestinian press in October 2010. A permit for this important project is scheduled to be issued in the first quarter of 2011.

Additional Projects include³⁹:

- USAID built a water reservoir at a school in the Hebron sector.
- Wells in Jenin are currently being updated by the Red Cross.
- USAID and the Red Cross are implementing projects to connect 11 villages in the Nablus area to the water network, through six pipelines.
- Four water drillings in the Agreed Reserve (southern Judea) have been approved and are now in progress.
- Approval has been granted for the update of water drillings in the Jericho area by the FAO (Food and Agriculture Organization of the United Nations), but work has not yet begun.

Sewage Sector Projects

A number of projects in the sewage sector are in different stages:

1. The construction of the Dir Sharaf Waste Water Treatment Plant⁴⁰ began in March 2011 and is expected to be completed by the end of 2012. This plant will treat the wastewater of Nablus City, currently flowing through the Zimer Wadi (stream), culminating in the Mediterranean. The project is funded by the German Development Bank (KfW).
2. The Civil Administration is currently reviewing a feasibility study submitted for the Bitunia WWTP in January 2011. The Civil Administration is expected to respond to the feasibility study in the coming weeks, and will recommend the submission of a building permit request and an environmental impact assessment report for the proposed project.

³⁹ Source: COGAT

⁴⁰ Hereinafter: WWTP

3. Three additional WWTP projects have been approved by the Civil Administration and no further permits are needed: in Hebron, Salfit and East Nablus.
4. Following approval by the Joint Water Committee of the Tulkarem Waste Water Network project in December 2010, the Civil Administration is expected to issue a permit order in the coming months.

Additional sewage projects include⁴¹:

- **Southern Judeaea Waste Disposal Site** – A project to construct a waste disposal site in the Hebron and Bethlehem areas, by the PA and the World Bank, at a cost of approximately \$23 million. The project has been approved and is undergoing the permit process. Construction is expected to begin in the second half of 2011.
- **Deir Debwan (Ramon) Waste Disposal Site** - A project to construct a waste disposal site in the Ramallah area, at a cost of €25 million. KFW has been involved in the project, which is currently in the advanced planning stage, since 2005.

Water and Sewage in **Gaza**

The water sector in the Gaza Strip continues to grapple with difficult circumstances. This situation results, in addition to the drought, from continued excessive pumping by the Palestinians, over an extended period of time, of a volume which is double the natural cycle of the coastal aquifer in Gaza. However, there is close coordination and cooperation between representatives of the PWA and the IDF and COGAT, to facilitate solutions in this area.

Israel has taken a number of steps to help mitigate this situation⁴²:

1. Throughout 2010, Israel maintained a supply of 5 million cubic meters annually (MCM/Y) of water to the Gaza Strip.
2. Over the course of the year, 321 truckloads of equipment for water and sewage networks were transferred to the Gaza Strip.
3. 4,136 tons of hypochlorite were transferred to Gaza for the purification of drinking water (128 truckloads).
4. Israel supported the travel of PWA representatives to conferences, meetings, and tours in order to promote the improvement of the water economy in the Gaza Strip.

⁴¹ Source: COGAT

⁴² Source: COGAT

So far, 28 projects in the fields of water and sewage have been approved in Gaza, as illustrated by the table below⁴³:

<p>11 USAID Projects</p>	<p>6 Wastewater Network Installation Projects. Rehabilitation of a Wastewater Pump Station in Beit Lahia. Installation of two main pipelines for two areas in Khan Yunis. Construction of a Water Reservoir and a Booster Station in Khan Yunis. Digging of a Water Well – project was cancelled by the organization. Rehabilitation of a Rainwater Reservoir – project was cancelled by the organization.</p>
<p>8 UNDP Projects</p>	<p>Establishment of a Wastewater Purification Facility in Khan Yunis. Supplying pumps to water wells. 3 Bridge Rehabilitation Projects. Construction of Deir Al Balah Sea Water Desalination Plant. Establishment of a Laboratory for Monitoring the Quality of the Water Supply in the Gaza Strip.</p>
<p>3 UNRWA Projects</p>	<p>Upgrade of the Sewage Pumping Station in Tel Sultan – project completed. Two projects for the completion of drainage and sewage networks</p>
<p>3 World Bank Projects</p>	<p>Water Well Project in Rafah – project completed. Completion of a sewage pumping project – project completed. Establishment of a Wastewater Purification Facility in Northern Gaza (Stage B) – project being implemented</p>
<p>2 ICRC Projects</p>	<p>Upgrade of the Wastewater Purification Facility in Rafah – project completed. Upgrade of the Wastewater Purification Facility in Khan Yunis.</p>
<p>One KFW Project</p>	<p>Upgrade of the Wastewater Purification Facility in Sheikh Ijleen – project being implemented.</p>

The main sewage projects in the Gaza Strip are as follows⁴⁴:

- 5. Waste Water Treatment Plant in Beit Lahiya in the Northern Gaza Strip** - This project is managed by the World Bank. Work on the second stage of the project continues, and the entry of materials is being carried out as planned. Furthermore, there have been coordination meetings between both sides to examine scenarios in case of a possible collapse of the waste water treatment plant facility, and relevant solutions.

⁴³ Source: COGAT

⁴⁴ Source: Israel Water Authority

6. **Waste Water Treatment Plant in Sheikh Ajalin and the sludge facility in Al-Bourej** - Work to upgrade the waste water treatment plant in Sheikh Ajalin continues as planned. At the same time, the Palestinians have begun to plan the sludge facility in Al-Bourej. This facility is intended to absorb about 25% of the sludge that will remain from the sewage purification facility in Sheikh Ajalin. Israel hopes that in the future a proper waste water treatment plant facility will be built in Al-Bourej as well, in keeping with the original plan of the German Bank for Development (KFW).
7. **Waste Water Treatment Plant in Rafiah** - At the beginning of 2011, the construction of the waste water treatment plant in Rafiah was completed, carried out by the Red Cross.
8. **Waste Water Treatment Plant in Khan Yunis** - This is not being implemented due to lack of funding.

Israeli Efforts to Support Infrastructure Projects in Other Sectors⁴⁵

The following is an outline of activities to improve infrastructure in the West Bank, in additional sectors⁴⁶:

Electricity

- There has been a 12% increase in the number of electricity plans approved in 2010, compared to 2009 (102 plans in 2010 compared to 90 in 2009).
- Four Palestinian villages were connected to the electricity grid in 2010 (Shufa village in the Jenin area, Arbuna village in the Ephraim area, Khan at-Tawani village in the Hebron area, and Um Rihan).
- Approval was granted for the connection of Hirbat Tawani to the electricity and water networks.
- Contracts between parties for the EIB Project are being finalized. This project will enable the upgrading of Palestinian electricity consumption in the West Bank from 500 megawatts to 860 megawatts. Within the project,

⁴⁵ Source: COGAT

⁴⁶ For measures to improve infrastructure in Gaza, see Chapter Five below.

four secondary power stations will be built in the Jenin, Nablus, Ramallah, and Hebron areas. The project is a joint effort of the Palestinian Electricity Authority, the Israel Electricity Corporation, and the European Investment Bank (EIB), and its estimated cost is approximately €100 million.

Other Infrastructure Projects⁴⁷

- As a goodwill gesture, permission was granted to build a fence for the approved Muqibla Industrial Zone just 250m from the Security Fence. The Palestinians have yet to arrange the acquisition of land for this purpose.
- In 2010, approval was granted for the rehabilitation of 21 roads, funded by USAID. Rehabilitation of 26 additional roads is currently underway.
- Twenty-one roads were approved for paving and repairing.

⁴⁷ Source: COGAT

Chapter Three

Security

General

Maintaining security and preventing terrorism is critical, in order to promote stability, peace and economic development in the region. Despite improved security coordination and the relative calm throughout the year, immediately upon resumption of peace negotiations with the PA in September 2010, a number of terrorist attacks were carried out in the West Bank, serving as a painful reminder of the challenge faced by both the Israeli and Palestinian security forces. Several months later, on March 11, 2011, in a horrific terrorist attack, five members of the Fogel family of Itamar (the parents, aged 36 and 35, two sons, aged 11 and 4, and a 3-month-old baby girl) were brutally murdered while sleeping. Less than two weeks later, on March 23, 2011, terror struck again when there was a bombing at the International Convention Center in Jerusalem, at the entrance to the city, killing a British tourist and injuring 28. These events constituted a disturbing escalation in terrorist activities, and threaten to jeopardize progress attained thus far.

Even during the period of relative calm, the threat of terrorism hovered over the area. During 2010, 463 terror attacks occurred in or emanated from the West Bank. Five Israelis were killed by gunfire in the West Bank, and a foreign citizen was stabbed to death in a terror attack in Beit Shemesh (which is in the center of the country). In the beginning of 2011 (from January 1 to March 7), 112 terror attacks occurred in or emanated from the West Bank.⁴⁸

Security Coordination⁴⁹

Security coordination between Israel and the PA was broadened in 2010 - there was a 118% rise in the coordination of activity with the Palestinian police (2,968 instances of coordination in 2010 compared to 1,297 in 2009). Hundreds of joint meetings took place on various levels, contributing to stability, enhancing the daily lives of the Palestinian population, and fostering a sense of security among the population.

In addition, Palestinian police and security force operations in the West Bank expanded, and the forces operate continuously, 24 hours a day, throughout the West Bank. The professionalism and skills of the Palestinian security forces

⁴⁸ Source: Israel Security Agency

⁴⁹ Source: COGAT

continued to increase in 2010, supported by the international community. 52 Palestinian police stations are currently operational, scattered throughout the West Bank, and seven additional stations have been approved.

Improved cooperation is reflected by the following figures:

- In 2010, 686 joint bilateral meetings were held, a 26% increase compared to 2009.
- Periodic joint meetings are held between Palestinian security officials and their Israeli counterparts, including the General in Command, the Division Commander, and the Head of the Civil Administration.
- Joint committee meetings and joint seminars were held:
 - Two joint police committees were set up to deal with crime, stolen vehicles, drugs, and forgery.
 - A joint civil defense gathering was held.
 - Two joint police seminars were organized on the subject of forensic evidence, trade and theft of antiquities, the phenomenon of vehicle theft, and community policing.
- Palestinian security forces escorted 623 Israelis, who entered Area A by mistake, out of the area.
- The freedom of operation for Palestinian police was expanded, particularly at night and, among other places, in the Ephraim, Nablus, Jenin, and Hebron areas.
- Training activities in Jordan were facilitated (two national security battalions departed for training in Jordan and approval was granted for the departure of 200 civil defense policemen for training in Jordan).
- Approval was granted for the transfer of equipment to the Palestinian security forces.

Chapter Four

Governmental Cooperation in the Civil Sector⁵⁰

Fiscal Cooperation⁵¹

With a view to advancing various aspects of the monthly accounts between the Finance Ministries of Israel and the Palestinian Authority, the parties decided to establish a Joint Working Team, to conduct an economic dialogue aimed at examining the different issues and proposing agreed ways to improve the accounting mechanism, as well as laying a better foundation for the economic relations between Israel and the Palestinian Authority.

The team, which met for the first time on February 14, 2011 is headed by the Palestinian Authority Accountant General, and the Director of the Israel Customs Directorate. It was agreed that the Prime Minister and Finance Minister of the Palestinian Authority, and the Director General of the Israeli Finance Ministry, would oversee the team's work and follow up on its output every few months. Over the past two months, the team has met several times.

Cooperation between the Israeli and Palestinian Customs Authorities⁵²

Professional Capacity Building Assistance

Israel Customs Directorate⁵³ supports the capacity building of the Palestinian Authority Customs and Excise (hereinafter: PACE), and views it both as an important internal matter for PACE, as well as a vital aspect of improving future cooperation between the customs administrations of both sides. ICD considers itself an active partner of PACE, and is willing to assist PACE with its professional capacity building.

This assistance is carried out through a number of channels:

1. Several professional educational programs and training seminars for PACE officials, organized by ICD professionals and funded by USAID, were held in January and April 2010.
2. Pursuant to the agreement in force, ICD transfers to the PA taxes collected for importation into Palestinian territories. Since May 2008, the

⁵⁰ In 2010, several meetings were held between the then Israeli Minister of Industry and Trade Ben Eliezer and the Palestinian Minister of National Economy Hassan Abu Libde.

⁵¹ Source: Ministry of Finance

⁵² Source: Ministry of Finance

⁵³ Hereinafter: ICD

ICD transfers to PACE, on a monthly basis, deficits collected from PA importers over the course of post audit control. During 2010, ICD transferred to PACE NIS 27.8 Million, in respect of deficits collected from PA importers. Concurrently, a computerized transmission is sent to PACE of the deficits set for Palestinian importers, which ICD was not able to collect, due to lack of accessibility to the PA territories. The independent collection of deficits is an essential stage in the professional capacity building of PACE.⁵⁴

3. In 2009 an Israeli-Palestinian team was established for the coordination of procedures and Israeli-Palestinian computer interfaces. Regarding procedures, the sides have reached special arrangements regarding the taxation of vehicles intended for the PA. In addition, the PA's request to exempt foreign investors and disabled Palestinians from importation taxes is currently being examined. With regard to computer interface, Israel Customs in the upcoming months is expected to operate a computer interface which will allow ICD to transmit electronically, on a daily basis, the information stored in the importation entries of Palestinian importers. Additional applications are being considered.

Other Cooperation between Customs Authorities

1. Joint working procedures have been formulated by the customs authorities to enable the release of goods from customs control under the various conditions of conditional exemption, through coordination and cooperation between the two customs administrations.
2. Cooperation with the private sector: In the coming months, a meeting of Palestinian businessmen (both importers and exporters) with representatives of ICD is expected to be held at the Ashdod port, funded and accompanied by USAID. The meeting is scheduled to include a panel on various customs issues. An additional meeting of Palestinian businessmen (both importers and exporters) with representatives of ICD is expected to be held at the Allenby Bridge crossing during 2011, similar to meetings that took place throughout 2009.

⁵⁴ Furthermore, beginning in February 2010, ICD gave PACE full responsibility for handling deficits from the importation of vehicles into the PA territories. This is currently being implemented as a pilot for a trial period.

Cooperation between the VAT Liaison and the PA Unit⁵⁵

The VAT Liaison and the PA Unit cooperate actively. Cooperation includes:

1. Monthly Clearance Meetings between representatives of Israel and the PA to determine amounts to be transferred - in the framework of these meetings, each side brings up matters that it wishes to discuss. In addition, pre-clearance preparatory meetings are held on a regular basis between the sides, in the middle of each month.
2. In addition to the abovementioned clearance meetings and related activities, bilateral cooperation includes assistance in conducting verifications, including submitting investigation materials to the other side, as well in any other matter raised by one of the sides.
3. Implementation of the Large Dealer Arrangement.⁵⁶
4. Training in VAT for Palestinian Tax Officials - the Israeli Tax Authority has prepared a professional training program for Palestinian VAT officials, similar to training courses given to Palestinian customs officials by ICD. The initiative to organize this training program is based on the common interest of three parties: the U.S. Government, the Palestinian VAT Authority and the Israel Tax Authority. In March 2011, an advanced VAT training course was held. This training program was planned and authorized by the professional representatives of both sides and was approved by the Director of the Palestinian VAT Authority.

⁵⁵ Source: Ministry of Finance

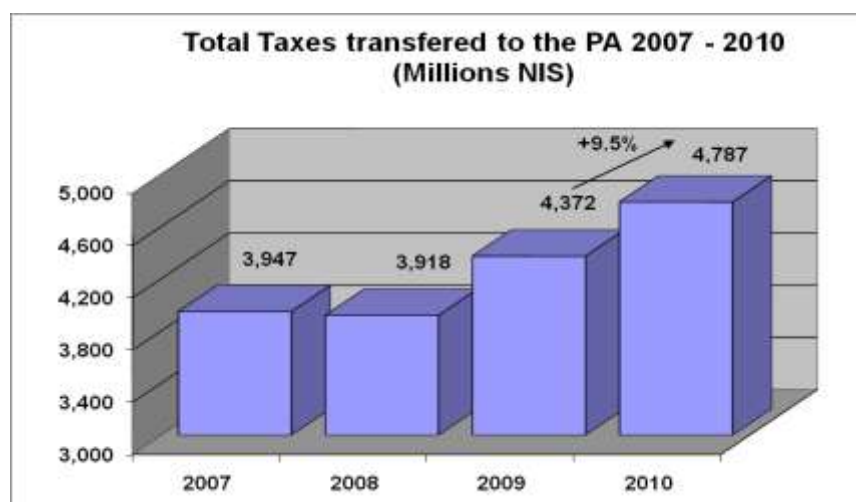
⁵⁶ An arrangement mutually agreed by the sides in to facilitate trade between sides by waiving the use of PA VAT invoices, while the goods are accompanied by a shipping certificate only. Clearance is conducted at the end of each month by presenting one centralized tax invoice for the sales of each month. As per the request of the Palestinians, several years ago, three large Palestinian dealers were added to the arrangement. It should be noted that this arrangement is not included in the Economic Agreement between the State of Israel and the PA and is not legally binding. This arrangement allows the transfer of goods from PA territories using a shipping certificate instead of PA tax invoices as required by the Value Added Tax Law. During a meeting which took place on May 31, 2009 between the Director General of the Israel Tax Authority and the Director General of the PA Tax Authority, the PA's request to add an additional 5 Palestinian dealers to the arrangement was accepted. This arrangement benefits the PA authorities, since the clearance includes tax amounts exceeding NIS 25 million per month, constituting 20% of the amount of taxes from invoices requested by the Palestinians.

Transfer of Tax Clearance Revenues⁵⁷

Cooperation between the ministries of finance of Israel and the Palestinian Authority includes the regular transfer of tax clearance revenues to the Palestinian Ministry of Finance by the Israeli Ministry of Finance. These transfers have been made on a **consistent monthly basis** since July 2007. Revenues transferred constitute one of the PA's primary sources of income, and are indispensable, together with budget support provided by donors and local tax collection, in enabling the PA to sustain operations, including payment of public sector salaries and private sector contracts. The following tables illustrate transfers since 2007:

Transfer of Tax Clearance Revenues 2007 - 2010 (Millions of NIS)

Year	Purchase Tax	VAT	Fuel Excise	Import Taxes	Total Taxes	
2007	23	1,439	1,222	1,263	3,947	
2008	13	1,366	1,226	1,313	3,918	
2009	15	1,377	1,457	1,523	4,372	
2010	14	1,503	1,640	1,630	4,787	
total for 2007-2010	65	5,685	5,545	5,729	17,024	
% increase 2010/2009		-6.7%	9.2%	12.6%	7.0%	9.5%

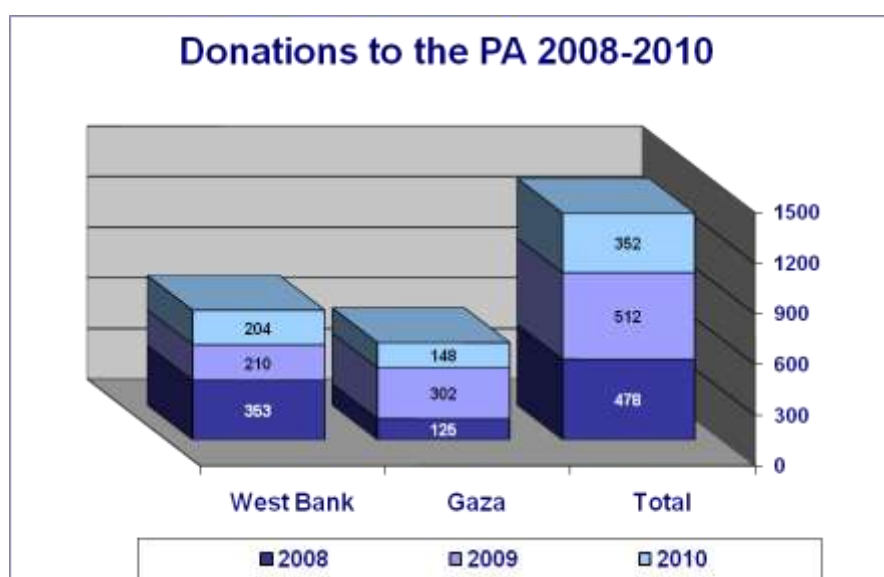


⁵⁷ Source: Ministry of Finance

Clearance of Donations to the PA⁵⁸

The Israel Customs Directorate handles shipments containing contributions to the PA, including implementation of the exemption from import taxes. In 2010, 352 donation shipments to the PA were cleared from Israeli regional customs stations (mainly Ashdod). Fifty two percent of the donation shipments were medicines and medical equipment, 15% were vehicles including cars, ambulances and trucks and 9% were food donations. The overall volume of donations for 2010 was 33% less than in 2009.

It should be noted that, while in 2008, 74% the donations were intended for the West Bank and 26% were destined for Gaza, in 2009 this ratio was reversed, as 59% of donations were destined for Gaza and 41% for the West Bank. In 2010, the distribution of donations to the PA between Gaza and the West Bank returned to the 2008 trend, as donations destined for the West Bank constituted 58%, and 42% was destined for Gaza. The above is demonstrated by the following table:



⁵⁸ Source: Ministry of Finance

Cooperation in the Agricultural Sector⁵⁹

The Israeli Minister of Agriculture met recently with her Palestinian counterpart and together they opened "Agro Mashov" agricultural exhibition in Tel Aviv. Palestinian agronomists and hundreds of Palestinian visitors visited the exhibition.

Palestinian and Israeli authorities began cooperation to help PA veterinary services comply with OIE (World Organization for Animal Health) standards, thereby improving the quality of animal products from the West Bank, and enabling the continuation of their sale in Jerusalem.

Exchange visits were conducted between veterinarians and professionals from the Israeli and Palestinian Veterinary Services, including visits to Palestinian factories in Hebron and other parts of the West Bank, and a professional tour of a dairy factory belonging to one of the leading Israeli dairy producers. Vaccines from Israel are supplied to the PA, according to PA requests.

In 2010, professional gatherings and tours in Israel were organized for representatives from the PA Ministry of Agriculture and farmers in the fields of plant protection, forestry, tending to livestock, exportation, and olive production.

Medical Cooperation⁶⁰

Israel takes steps to facilitate the Palestinian population's humanitarian needs in the medical field. In 2010, 175,151 permits were issued to patients from the West Bank seeking medical care in Israel and those accompanying them, a 1.3% increase compared to 2009. In addition, a number of internship projects for Palestinian doctors in Israeli hospitals continued, and 117 meetings were held in Israeli hospitals for medical teams from the West Bank.

Legal Cooperation⁶¹

The Israeli and Palestinian ministries of justice conduct ongoing cooperation through the heads of legal assistance on both sides, and through the Joint Legal Committee (a committee established under the Oslo Accords). The Joint Legal Committee serves as a forum for Israel and the Palestinians to discuss and cooperate on practical legal issues of mutual importance. The

⁵⁹ Source: COGAT, Ministry of Agriculture

⁶⁰ Source: COGAT

⁶¹ Source: Ministry of Justice

Committee is headed, on the Israeli side, by the Director General of the Ministry of Justice, and on the Palestinian side by the Deputy Minister of Justice, and consists of professional Israeli and Palestinian participants.

During 2010, there was increased cooperation between the ministries – and relatively regular meetings of the Joint Legal Committee. In addition to the regular meetings of the Joint Legal Committee, there were also enhanced meetings between the heads of legal assistance. Furthermore, at the December 27, 2010 meeting of the Joint Legal Committee, a special sub-committee was established to formulate mutually agreed working procedures in the area of transfer of evidence and detainees, to facilitate the day-to-day handling of these issues. The sub-committee met for the first time on February 14, 2011.

The latest meeting of the Joint Legal Committee, which was scheduled for February 21, 2011, was cancelled by the Palestinian side, due, according to the Ministry of Justice's understanding, to changes in the Palestinian Government. The meetings have not resumed since. Israel's Ministry of Justice views bilateral legal cooperation as a matter of importance to both sides, and for the benefit of both populations. The Ministry looks forward to the resumption of the work of the Joint Legal Committee.

Cooperation between the Bank of Israel and the Palestinian Monetary Authority⁶²

The Bank of Israel (BoI) has been working with the Palestine Monetary Authority (PMA) to smooth banking relations between the respective economies, subject to security concerns, Israeli anti-terror-financing legal requirements, and international standards. These requirements combined with the low profitability of business relations with Palestinian banks have induced Israeli commercial banks to limit their commercial relations with Palestinian banks. Specifically, they do not conduct business with branches located in the territory controlled by Hamas (the Gaza Strip). Therefore, the GoI has recently arranged for the transfer of a large NIS cash shipment from the Gaza Strip to the West Bank at the request of the PMA .

Israeli banks have also become increasingly reluctant to handle cash transfers from Palestinian banks. At the same time, West Bank residents have begun to deposit increasing amounts of cash in West Bank banks due to the improvement in the security situation. This evolution generated large amounts of excess cash in the West Bank. The BoI and the PMA cooperated in transferring the excess cash to Israel. Specifically, since August 2009 the BoI, in coordination with the GoI, has arranged cash transfers totaling about NIS 2 billion from the West Bank to Israel. In addition, the BoI and the PMA are finalizing an agreement to regularize these transfers. The BoI and the GoI also cooperated with the PMA in finding solutions for other problems that arose from time to time in Palestinian banks, such as depositing cash surpluses and exchanging worn and unfit banknotes.

⁶² Source: Bank of Israel (BoI)

Chapter Five

Implementation of Israel's Policy Towards the Gaza Strip

Introduction

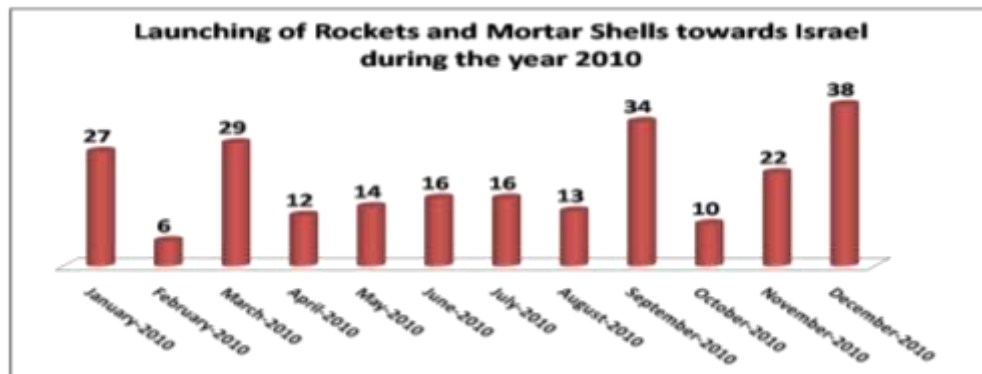
On June 20, 2010, Israel's Security Cabinet adopted a decision signaling a new civilian policy towards Gaza, with the objective of improving the residents' quality of life. This, despite the continuation of terror attacks by Hamas, which brutally seized control over the Gaza Strip in 2007. Since the Security Cabinet's June 2010 decision, the new civilian policy has been implemented, creating an improved reality on the ground.

The economic and humanitarian recovery resulting from the decision is reflected in the **15% growth in GDP in 2010⁶³**. **It is clear that there is no humanitarian crisis in Gaza:** there is an ongoing flow of commercial goods to the Strip, and there is movement of people for humanitarian or business purposes, as well as visits by foreign representatives, in accordance with established procedures, via the Kerem Shalom and Erez crossings.

The Security Threat from Gaza

Since June 2007, the Gaza Strip has been controlled by Hamas, a terrorist organization supported by Iran, which continues to constitute a security threat to thousands of Israeli citizens, and refuses to recognize the three conditions set forth by the Quartet: recognition of Israel, cessation of terrorism, acceptance of the agreements previously concluded between the Israeli and Palestinian sides.

Throughout 2010 and the beginning of 2011, Hamas strengthened its rule as it continued to perpetrate deliberate terror attacks against densely populated civilian areas in Israel⁶⁴. **In 2010, more than 230 rockets and mortar shells were launched at Israeli towns, communities, and the land crossings, as demonstrated by the table below⁶⁵:**



⁶³ According to the IMF.

⁶⁴ Source: Israel Security Agency

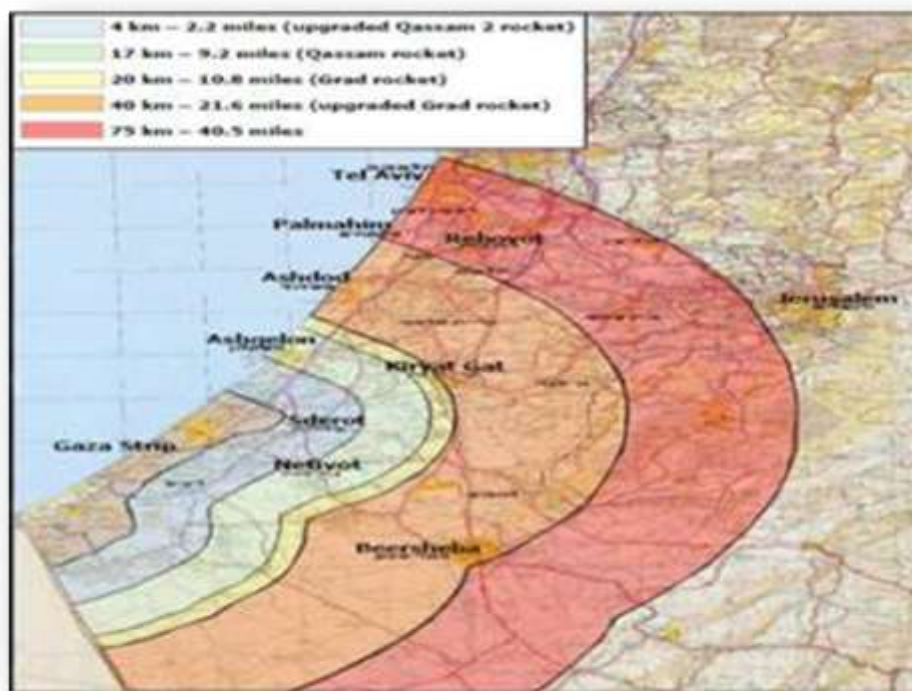
⁶⁵ Source: COGAT

Weapons continue to be smuggled into the Gaza Strip via the tunnels through Egypt and via the sea. On March 15, 2011, the Israel Navy intercepted the Gaza bound merchant ship "Victoria".⁶⁶ Investigations revealed that the arms were of Iranian origin and were intended for use by terrorists in the Gaza Strip.⁶⁷

During the first few months of 2011, there has been a disturbing escalation in security threats and attacks against Israeli citizens, due to an ongoing barrage of rockets, missiles and mortar shells, aimed at densely populated areas within Israel. Since the beginning of 2011, 62 rockets and 134 mortar shells were launched against Israel from the Gaza Strip.⁶⁸

This escalation in terrorist activity violates stability in the area, and should be condemned by the international community.

The following diagram, illustrating the shooting range of missiles from Gaza, demonstrates the danger posed to Israel's civilian population as a result of the upgraded terrorist military capacity of Hamas⁶⁹.



⁶⁶ Onboard this ship there were approximately 25 tons of illegal arms and ammunition. Included in the cache were six NASR-1 missiles, the Iranian version of the sophisticated C-704 surface-to-sea missile

⁶⁷ Source: IDF Military Strategic Information Section

⁶⁸ Source: Israel Security Agency, as of March 31, 2011.

⁶⁹ Source: The Meir Amit Intelligence and Terrorism Information Center.

Israel's Policy towards the Gaza Strip

The aforementioned June 20, 2010 Security Cabinet Decision is comprised of the following elements⁷⁰:

- Publication of a list of controlled items. **All items that are not on the list are allowed into the Gaza Strip freely.** The list was published on July 5th 2010.⁷¹
- Upgrading and expansion of the capacity of the commercial land crossings.
- Expansion of internationally-sponsored and monitored humanitarian projects.

On December 8, 2010, the Israeli Security Cabinet adopted a decision on additional measures to expedite gradual increased exports from the Gaza Strip, thereby boosting its economy.⁷²

Netanyahu-Blair Package – Agreements related to Gaza⁷³

In February 2011, Quartet Representative Tony Blair and Prime Minister Netanyahu agreed on a package of measures, which included measures for Gaza. These measures included Israeli agreement, following a Palestinian request, to begin discussions on the development of the "Gaza Marine" gas field. In addition, the Package included, inter alia: measures in the area of water, sewage and desalination facilities, upgrading of the Gaza power station and other measures to increase the supply of energy electricity, expansion of exports and private sector imports and approval of 20 additional construction projects implemented by the international community and transfer of 40,000 tons of aggregates through Sufa crossing.

At present, implementation of a number of measures included in the package has progressed, as follows:

- 51,243 tons of aggregates have been shipped into Gaza, including more than 10,000 tons for the World Bank waste water treatment plant project in Beit Lahiya⁷⁴.

⁷⁰ The Full text of the Decision can be found at:
http://www.mfa.gov.il/MFA/Government/Communiques/2010/Prime_Minister_Office_statement_20-Jun-2010.htm

⁷¹ This list is transparent and can be found on the websites of the Prime Minister's Office and the Ministry of Foreign Affairs:
http://www.mfa.gov.il/MFA/HumanitarianAid/Palestinians/Lists_Controlled_Entry_Items_4-Jul-2010.htm The list of controlled items is based solely on security considerations, chief among them the ability of terrorist organizations to use the items to perpetrate terrorist activities and to develop, produce, or upgrade rockets and explosives whose purpose is to harm the citizens of the State of Israel.

⁷² <http://www.pmo.gov.il/PMOEng/Communication/Spokesman/2010/12/spokedes081210.htm>

⁷³ See chapter One for information on agreements in the Package related to the West Bank

⁷⁴ Updated to March 10, 2011.

- Approval letters were sent to the different implementing agencies regarding the 20 additional construction projects.⁷⁵ This brings the number of approved projects for implementation in Gaza up to 121.
- In accordance with the package, cherry tomatoes and bell peppers were exported alongside the continued export of strawberries and flowers, in larger volumes than previously. The possibility of expanding exports is currently under consideration (see detail below, in section on Exports from Gaza).
- In the area of electricity supply, a UNDP project is underway and is expected to be completed by November 2011 (it will increase the output of the power plant from 60MV to 100MV). The PA has not yet submitted requests for projects in this field, but in the coming weeks a meeting is expected to be held between COGAT and the Palestinian Energy Authority, to advance this matter.⁷⁶
- In the area of water supply, meetings are currently being held with the US and Norway, in order to facilitate proposals to establish desalination plants. Concrete proposals have not yet been submitted on this matter.⁷⁷
- Several water treatment projects have been approved – the projects in Sheikh Ajleen and the Northern Gaza Strip are progressing according to plan. Funding has not yet been found for the project in Khan Yunis.⁷⁸
- With regard to imports for the private sector, Israel is currently conducting discussions with the UN about a pilot which will enable the transfer of inputs for private sector construction to the Strip, under UN supervision.⁷⁹

Implementation of the Israeli Policy

Throughout 2010 (and the beginning of 2011), Israeli authorities have taken steps to immediately implement the Policy. The following section outlines the Policy's impact on different sectors:

Establishment of Two Bilateral Palestinian – Israeli Teams

Two joint bilateral teams have been established with the PA, to facilitate implementation of the Policy: the Committee to Promote Projects – headed by COGAT and the Palestinian Prime Minister, Salam Fayyad; and the Committee for the Expansion of Land Crossing Activities – headed by COGAT and the Palestinian Minister for Civil Affairs.

Throughout 2010, COGAT maintained contact with representatives of the international community, the PA and the business community. Hundreds of meetings took place at the Erez Coordination and Liaison Administration to

⁷⁵ As of February 16, 2011.

⁷⁶ Source: COGAT

⁷⁷ Source: COGAT

⁷⁸ Source: COGAT

⁷⁹ Source: COGAT

determine and meet the needs of the population in Gaza, with an emphasis on coordinating the movement of people and goods through the land crossings.

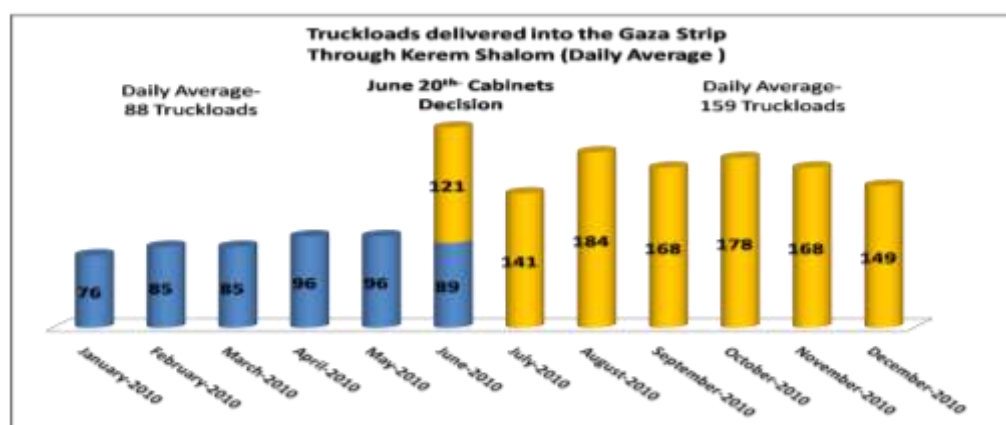
Upgrading the Commercial Crossings – Increased Volume of Trade

Kerem Shalom Crossing

Intensive efforts and NIS 55 million were invested in 2010 to upgrade the capacity of Kerem Shalom crossing.⁸⁰ Currently, the capacity stands at 300-350 truckloads a day, each truck carrying a double load (the equivalent of 600 trucks - the capacity of Karni in 2005)⁸¹. **This capacity is far beyond actual use.**

The average daily number of truckloads during the second half of 2010 was 159 truckloads, compared to 88 in the first half. Following the June 20 cabinet decision, the total number of truckloads in the second half of 2010 was doubled the number during the first half of the year.

The daily average number of truckloads delivered through Kerem Shalom in 2010 is illustrated by the following table⁸²:



In the second half of 2011, the crossing's capacity is expected to reach 400 trucks a day.

The expansion of operations at Kerem Shalom included the following:

⁸⁰ Source: Land Crossing Management Authority

⁸¹ Source: COGAT – In practice, capacity has reached, and even exceeded the levels formerly at Karni Crossing.

⁸² Source: COGAT

- The Land Crossings Management Authority has led the improvement of infrastructure on **both sides** of Kerem Shalom Crossing.
- **On the Israeli side of the crossing:** the site's area was expanded to 7,000 sq. meters (about 1.7 acres), hours of operation were extended, manpower was increased, and procedures were streamlined.
- **On the Palestinian side of the crossing,** the site was expanded by 12,000 sq. meters (almost 3 acres), access roads were widened, and a lighting system was installed. To enable this, over 8,000 tons of aggregates and 5,000 tons of asphalt were transferred to the Palestinian side of the crossing.

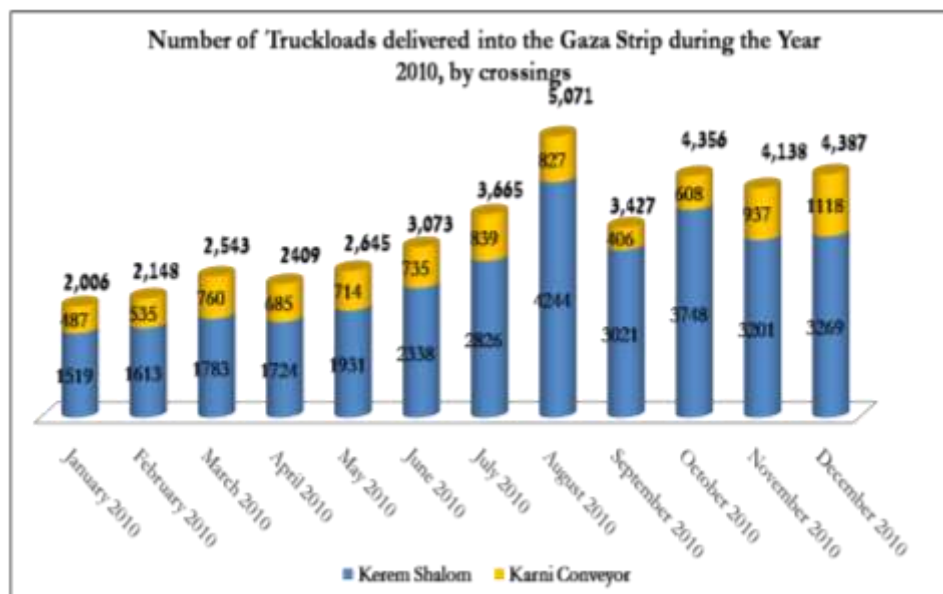
The functions previously performed by the Karni conveyor belt were recently transferred to Kerem Shalom. A small conveyor belt has been installed and is currently being used for transfer of grains in bulk. A back to back area for the transfer of aggregates will start operating in the coming days. In the second half of 2011 a larger conveyor belt is expected to be installed

Karni Conveyor Belt

The daily average number of truckloads delivered through Karni Conveyor belt in 2010 was 91. Prior to implementation of the new policy (June 20, 2010), the daily average was 82.5 truckloads, and afterwards the daily average increased to 98 truckloads.

The Karni Conveyor belt operated two days a week only, due to security considerations. Recently, all of its functions were transferred to the Kerem Shalom crossing, where they are carried out five days a week.

The number of truckloads entering the Gaza Strip, in **Kerem Shalom and Karni**, during 2010 is illustrated by the following table⁸³:



⁸³ Source: COGAT

The daily average of truckloads in 2010 was 163, a 43% increase in comparison to the daily average of truckloads in 2009. In 2010, 37,913 tons were transferred into Gaza, equivalent to a 1% increase in comparison to 2009. In 2010, 599 private vehicles were transferred into Gaza, as well as raw materials, electrical appliances and furniture, inter alia.

Exports from Gaza

On December 8, 2010, the Security Cabinet adopted a decision on additional measures to expedite gradual increased exports from the Gaza Strip. In accordance with the Decision, the Defense Minister approved increased agricultural exportation to European markets. In this context, 367.5 tons of strawberries (184 truckloads) and 8,893,678 flowers (91 truckloads) have been exported from Gaza since the beginning of the season. In addition, the export of bell peppers was permitted on December 26, 2010 (six tons have been exported in three truckloads thus far⁸⁴). Cherry tomatoes have also been exported (6.5 ton in 4 truckloads). Between 30 and 40 trucks of agricultural exports exit Gaza each week.⁸⁵

In accordance with an agreement reached between the Quartet Representative Blair and Prime Minister Netanyahu, and based on the Cabinet decision, exports from Gaza will gradually be expanded to include textiles and furniture⁸⁶. Quantities exported will be increased following installation of a dedicated scanner, to be provided by the international community by June 1, 2011.

Projects Implemented by the International Community

As of the beginning of March 2011, there are 121 approved projects. Within the implementation of the new policy, a joint coordination and supervision mechanism has been established for the implementation of internationally funded humanitarian projects, to coordinate, supervise and carry out such projects, while monitoring construction materials entering the Gaza Strip. Coordination and supervision mechanisms are needed in order to ensure that raw materials do not reach the wrong hands. Israel continues to view the PA as its main partner in coordinating the Policy towards the Gaza Strip.

The breakdown of the different projects is the following: Education 37, water and sewage 29, Health 14, Housing 9, Agriculture 17, Welfare 4, International Organization facilities 4, Electricity 2, Miscellaneous 5.

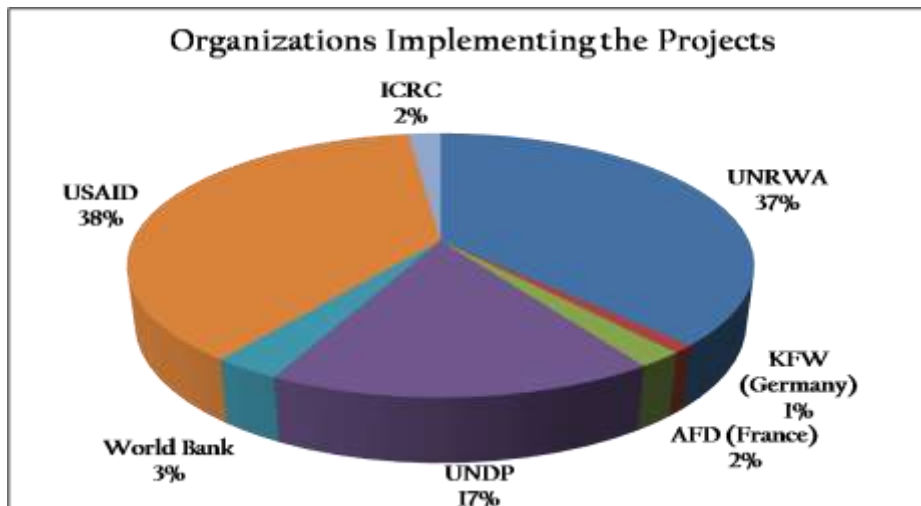
⁸⁴ The export of bell peppers was terminated by the Europeans, because the quality of the peppers did not meet European standards.

⁸⁵ Source: COGAT

⁸⁶ To be sent abroad and for use by official PA institutions.

In addition to the above, since the beginning of 2010, 55,056 tons (1,723 truckloads) of building materials have been transferred for use in these projects.⁸⁷

The following table indicates the organizations implementing the projects:



As mentioned above, large volumes of aggregates were shipped into the Gaza Strip in the beginning of 2011. As of April 1, 97,687 tons of aggregates had been shipped into Gaza.

Aggregates from the Sufa Site

In the beginning of March 2011, an agreement was reached between UNRWA and the Gazan owners of aggregates stuck at the Sufa site since Operation "Cast Lead". Under this agreement, UNRWA will purchase 40,000 tons of aggregates (from among 70,000 located at the site).

Israel authorized the exceptional opening of the fence at the Sufa site (which is not an official crossing and operated unofficially until November 2008), in order to make possible the shipment of the aforementioned materials into Gaza. This measure was part of the Netanyahu-Blair Package. As of March 31, 51,243 tons were transferred into Gaza through Sufa. According to UN officials, the volume of construction materials expected to enter the Gaza Strip through the Sufa site within the current set of shipments will meet the construction needs of the UN organizations for at least six months.

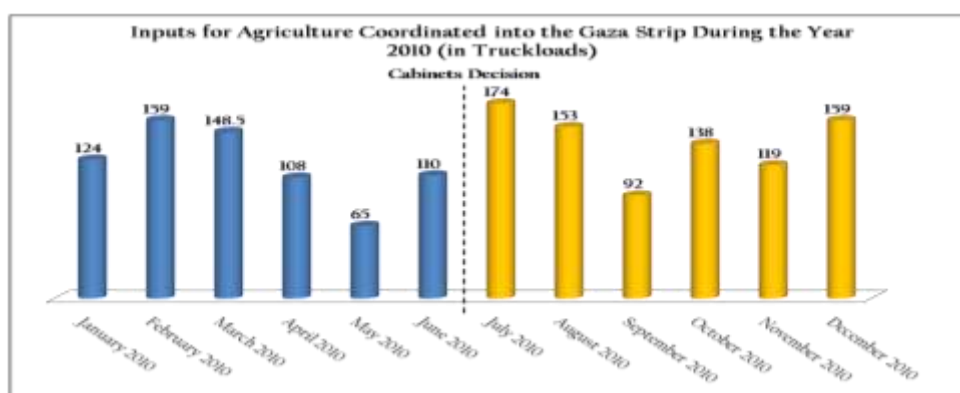
It should be noted that an additional 10,000 tons of aggregates for roads and between 7,000 – 14,000 tons for construction are still located at the site.

⁸⁷ Source: COGAT

Negotiations are currently underway regarding these aggregates, with the Palestinian merchants who purchased them from plants in Israel several years ago. Once the negotiations have been completed, the aggregates will be transferred to Gaza. Additional aggregates located at the site are not suitable (according to UNRWA) for use in projects.⁸⁸

Agriculture

In 2010, there was a significant increase in agricultural activity in the Gaza Strip. The entry of 26,022 tons (1,458 truckloads) of agricultural inputs into the Strip was coordinated, as illustrated by the table below.⁸⁹ This constitutes an 87% increase compared to 2009,



In addition, at the PA's request, Israel helped farmers in the Gaza Strip deal with the "Tuta Absoluta" virus, which was discovered there.

Throughout the year, professionals from Gaza attended professional seminars and conferences in Israel, including:

- 30 farmers participated in an agricultural exhibition at a farm in the Arava region;
- 19 cultivators of flowers from the Gaza Strip went on a professional tour of Beit Dagan;
- 30 farmers participated in a professional workshop on growing strawberries.

Furthermore, 13 agricultural projects implemented by the international community were approved.

⁸⁸ Source: COGAT

⁸⁹ Source: COGAT

Telecommunications⁹⁰

In the course of 2010, 61 truckloads of equipment for telecommunications networks were transferred into the Gaza Strip. In this context, over 500,000 SIM cards and 1.5 million pre-paid cards were transferred into Gaza.

Electricity⁹¹

Throughout 2010, Israel maintained the supply of electricity to the Gaza Strip. Additionally, 83 truckloads of supplies for the maintenance of the electricity network in Gaza were transferred, including 16 truckloads of equipment for maintenance work carried out by Siemens on the Power Station.

The transfer of diesel for the Power Station was also carried out, according to PA requests. In 2010, 70,876,781 liters of diesel were transferred to the Power Station. This represents a 36% decrease in the amount of diesel transferred to the Power Station, due to an internal financial dispute between the PA and Hamas.

Two projects were approved the upgrade the electricity network in the Gaza Strip, and they will be implemented by the UNDP. The projects will increase the Power Station's transmission capacity by 40 Mega Watts.

Movement of people

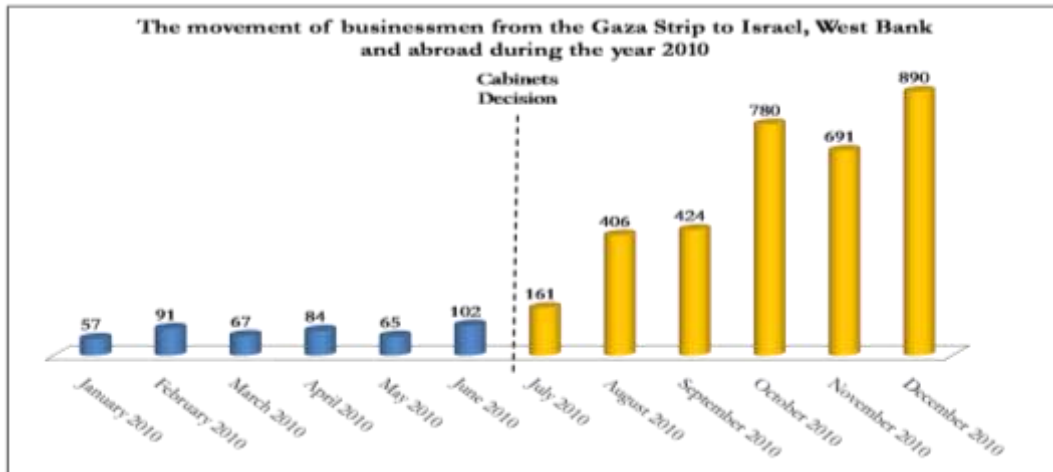
In 2010, there was increased movement of persons to and from the Strip, due to steps taken to facilitate this. The following data illustrate the level of movement and the aforementioned steps⁹²:

- There was a 16% increase in the number of people exiting the Strip in 2010.
- 227 students who received scholarships exited the Gaza Strip for academic studies abroad.
- 4000 merchants and businessmen traveled from Gaza to Israel.
- During 2010, 3,818 businessmen exited the Gaza Strip for Israel, the West Bank, and abroad.

⁹⁰ Source: COGAT

⁹¹ Source: COGAT

⁹² Source: COGAT



Representatives of the international community entered the Gaza Strip in 2010.

607 diplomatic delegations visited the Gaza Strip in 2010, an increase of 44% compared to 2009. Over 177,000 individual crossings by international organization employees were registered at Erez Crossing in 2010.

In 2010, senior international officials visited the Gaza Strip and/or the crossings in order to evaluate firsthand the humanitarian situation and the implementation of the civil policy. Among the visitors were the EU High Representative for Foreign Affairs and Security Policy, Catherine Ashton, the Quartet Representative, PM Tony Blair; US Special Envoy Senator George Mitchell; and the foreign ministers of Germany, Italy, Norway, Finland, and Malta.

Steps to Promote Private Sector Growth

In 2010, there was a 75% increase in the number of private sector truckloads entering the Gaza Strip. In order to promote private sector growth, raw materials can be shipped into Gaza, and an average of 250 businessmen leave Gaza each week.

As stated above, based on the Netanyahu-Blair Package, Israel and the PA will work on a pilot project for the entry of construction materials for the private sector in Gaza. Discussions with the UN on this matter are currently underway.

Furthermore, as mentioned above, permits for the exit of businessmen from Gaza also constitute a substantial factor in strengthening the private sector.

Transfer of Funds to Gaza

- In 2010, over NIS 807 million was transferred to Gaza for the payment of wages and to fund the ongoing activities of international aid organizations and PA employees.
- At the PA's request, a total of NIS 464 million was transferred from banks in Gaza to banks in Israel and the West Bank.
- There was an ongoing transfer of funds to UNRWA and Red Cross.
- **Transfer of Israeli National Insurance Payments to Beneficiaries in Gaza:** In the end of 2010, Israel resumed payment of Israel National Insurance benefits to beneficiaries in Gaza who worked in Israel. The transfer of payments had stopped due to the severing of correspondence ties between Israeli banks and branches of Palestinian banks in Gaza. A special arrangement was reached between the sides in order to enable the resumption of payments, through the Palestinian banking system. In the first payment, in October 2010, NIS 13 million was transferred to beneficiaries.⁹³ So far, more than 580 beneficiaries have received payments, totaling NIS one million per month.⁹⁴
- In addition, an arrangement has recently been reached to enable the payment of pensions to Palestinians who were employed in Israel (116 beneficiaries). Thus far, payments have been transferred to 92 beneficiaries, amounting to NIS 1.66 million (procedures to enable payment to the remaining beneficiaries are currently underway – the Israeli side is waiting to receive the necessary documentation from the Palestinian Monetary Authority.⁹⁵

The captive Israeli soldier, Gilad Shalit, who was abducted from Israeli soil, has been held illegally by Hamas for nearly five years. Throughout his captivity, he has not been allowed a single visit by any international representative. Israel calls for his immediate and unconditional release.

⁹³Source: Bank of Israel

⁹⁴Source: COGAT

⁹⁵Source: COGAT