

STATE OF PALESTINE: COMPANY PERSPECTIVES

AN ITC SERIES ON
NON-TARIFF MEASURES



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The report on the State of Palestine, part of a series of publications assessing the impact of Non-Tariff Measures (NTMs) on the business sector, aims to increase transparency and help better understand the trade impediments faced by the Palestinian business sector - analyses survey findings and compares them to other sources on NTMs to identify regulatory, procedural and infrastructural obstacles in the State of Palestine; sectors covered include agro-business, leather and footwear, textiles and clothing, stone and marble, handicrafts, wood, furniture and paper, pharmaceuticals, chemicals, manufacture of plastics, and metal and engineering. Includes bibliographical references (p.74).

Descriptors: **State of Palestine, Non-Tariff Measures, SMEs, Trade Policy.**

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English

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Foreword

For the State of Palestine, trade is an important tool for achieving greater economic resilience, development and poverty reduction. In 2011, the International Trade Centre (ITC) joined forces with national partners and stakeholders to actively support the State of Palestine's trade development.

Comprehensive needs assessments have served to identify existing trade obstacles and inform a National Export Strategy setting out how to realize untapped trade and development potential. These assessments include a large-scale business survey on non-tariff measures (NTMs), which in a world of relatively low tariffs have emerged as a major source of trade-related costs.

The report, "State of Palestine: Company perspectives", is the latest in ITC's series of publications on NTMs. It documents business experiences with regulatory and procedural trade obstacles, based on the more than 230 Palestinian exporters surveyed. The report will complement the State of Palestine's National Export Strategy, a roadmap for sustained growth that identifies key potential export sectors and points to specific reforms and institution-building to overcome constraints on export competitiveness.

Palestinian companies encounter manifold challenges in their international business operations. The NTM survey results find that institutional inefficiencies and infrastructural deficits have a significant impact on Palestinian exporters, implying that the State of Palestine has significant scope to facilitate trade for Palestinian businesses independently of the wider political and economic context, which also merits action.

This publication puts the private sector perspective at its centre. It highlights the concerns of Palestinian micro and small enterprises in particular. As a by-product of the survey, the report contains valuable information on the characteristics of Palestinian exporters, for example with respect to ownership by women, turnover or share of exports in total sales.

As such, the report and its recommendations, by adding the private sector voice, should contribute to the design of feasible trade solutions for the State of Palestine as well as to the much wider global discussion on trade facilitation. Going forward, ITC stands ready to accompany the State of Palestine on its way towards "Trade-led prosperity, made in Palestine".

A handwritten signature in black ink, appearing to read 'Arancha González'.

Arancha González
ITC Executive Director

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Abbreviations

Unless otherwise specified, all references to dollars (\$) are to United States dollars, and all references to tons are to metric tons.

The following abbreviations are used:

EFTA	European Free Trade Association
EU	European Union
GAFTA	Greater Arab Free Trade Area
GMP	Good manufacturing practices
HACCP	Hazard analysis and critical control point (certification)
ISO	International Organization for Standardization
ITC	International Trade Centre
LDC	Least developed country
NES	National export strategy
NTM	Non-tariff measure
OECD	Organisation for Economic Co-operation and Development
PSI	Palestinian Standards Institute
SMEs	Small and medium-sized enterprises
SPS	Sanitary and phytosanitary (measures)
TBT	Technical barriers to trade
UNCTAD	United Nations Conference on Trade and Development
VAT	Value-added tax
WTO	World Trade Organization

Executive summary

Introduction

- Compliance with NTMs at reasonable cost is a cornerstone of export success.* In the global context of increasing economic liberalization and a widespread tendency to reduce tariffs, the importance of trade barriers resulting from non-tariff measures (NTMs) has risen in recent decades. Importing countries are implementing more regulations, because consumers are demanding more information about products. Most of these regulations do not have protectionist objectives, but are implemented to protect health or the environment. Compliance with these regulations may be beyond the reach of companies seeking to export, particularly those from emerging, developing and least developed countries. Analyses of the commercial impact of NTMs, as well as technical cooperation with developing countries to build government and business capacities, are becoming increasingly important.
- ITC surveys companies to learn about NTM-related trade impediments.* The International Trade Centre (ITC) is engaged in this research and cooperation. ITC is conducting comprehensive NTM Surveys of companies in developing countries. Gathering information about NTMs from companies engages business people who face trade impediments on a day-to-day basis.
- Surveys look at NTMs as well as procedural obstacles.* NTMs cover a wide range of policies, such as rules of origin, sanitary and phytosanitary measures, certification requirements, and export permits. The ITC Survey focuses on NTMs imposed by the government and on procedural obstacles that hamper compliance with the reported NTMs. The survey also considers inefficiencies in the trade-related business environment.
- Surveys cover over 25 countries, including the State of Palestine.* In close collaboration with local partners, ITC has conducted the NTM Survey in more than 25 countries, including in the State of Palestine. The latter took place between November 2011 and February 2012 and was implemented by the Palestine Trade Centre (PalTrade), the State of Palestine's trade development organization, under the guidance and supervision of ITC. Results from the NTM Survey informed the development of the National Export Strategy, which is a roadmap to boost the country's export sector.

Country context

- The Palestinian economy is fully dependent on the Israeli economy.* The Palestinian economy has been dependent on the Israeli economy for more than 60 years, with low levels of growth and advancement compared to neighbouring countries. The Oslo Accords of 1993, which granted limited autonomy to the State of Palestine, triggered hopes for improvements. However, economic development remains modest, with persistently high levels of unemployment.
- Since 1994, the Paris Protocol has been the reference point for regulating the economic relations between Israel and the State of Palestine. It was designed as an interim agreement (1994–1999), but remains in effect today.
- Movement restrictions hinder economic activity.* Many factors contribute to the stagnation of the Palestinian economy. This report focuses on non-tariff measures and related obstacles to trade. However, it is important to understand the political context, particularly movement restrictions that complicate market access and render delivery dates for goods and services unpredictable.
- Israel is the dominant trading partner for the State of Palestine.* The dominance of Israel as both destination for exports and country of origin of imports calls for the diversification of Palestinian export and import markets. In 2012, out of US\$ 782 million of total Palestinian exports, goods worth US\$ 639 million were exports to Israel. For imports, the value of goods

originating from Israel amounts to US\$ 3.3 billion (out of US\$ 4.6 billion total import value).

There is a de facto customs union between the State of Palestine and Israel.

The Palestinian National Authority has strategically prioritized initiating agreements with partners that already have free trade agreements with Israel to obtain identical or similar preferential treatment for Palestinian exports. Meanwhile, imports from these countries enter the Palestinian market duty free, based on their agreements with Israel. This has resulted in the quasi-unified customs mechanism between Israel and the State of Palestine.

Stone and marble is the most important export sector, followed by agro-food products.

The industrial sector dominates in terms of export activity. The stone and marble industry is the flagship of Palestinian exported goods. In 2012, the stone and marble industry exported goods worth US\$ 147 million, agro-food exports amounted to US\$ 113 million, plastics industry exports reached US\$ 59 million, and furniture industry exports were valued at almost US\$ 64 million (ITC Trade Map, 2012 data).

The State of Palestine formulated a National Export Strategy for 2014–2018 to promote exports and market diversification.

With a view to promote Palestinian exports globally, the Council of Ministers adopted in 2012 a formal decision to formulate a national export strategy (NES). The four strategic objectives of this initiative are to:

- Promote a dynamic business environment enabled by a regulatory environment to support innovation and investment in the export sector;
- Build the capacities of the exporting sector to diversify and penetrate international markets;
- Maximize the contribution of exports to socioeconomic development through enhanced export competitiveness;
- Build and promote the image of the State of Palestine as a supplier of value-added quality products and services.

The NES formulated ambitious quantitative targets for the five-year implementation period, including for the increase in the value of Palestinian exports. These targets can only be reached if existing trade obstacles are addressed.

Non-Tariff Measure Survey methodology and implementation

The NTM survey in the State of Palestine was carried out as part of a wider export development project.

The large-scale company survey on NTMs and related obstacles to trade in the State of Palestine was carried out in 2011-2012 by the Palestine Trade Centre PalTrade and ITC in the framework of the Export Development Project funded by the government of Canada. The objective of the NTM Survey was to help better understand the trade impediments faced by the Palestinian business sector. It was part of a larger survey that also assessed PalTrade services to its clients.

In total, 239 face-to-face interviews were conducted to capture business concerns with non-tariff measures.

The exporter registry for the survey in the State of Palestine was created from various lists of companies – principally PalTrade's export directory and its associated national sources. The NTM Survey only focused on the West Bank. The Survey comprised 239 face-to-face interviews to determine:

- The relevant government-imposed regulation(s) posing a burden;
- The affected products and partner countries;
- The country applying the regulation;
- The reasons the regulation is burdensome;
- The institutions involved in procedural obstacles, if any.

The survey covered 10 geographic regions.

The following sectors were surveyed: agro-business; leather and footwear; textiles and clothing; stone and marble; handicrafts; wood, furniture and

It included all major non-extractive sectors.

paper; pharmaceuticals; chemicals; manufacture of plastics; and metal and engineering. Interviews were held in 10 governorates: Bethlehem, Hebron, Jenin, Jericho, Nablus, Qalqilya, Ramallah, Salfit, Tubas and Tulkarm.

Aggregate results and cross-cutting issues

NTM-related trade obstacles affect 56.5% of the surveyed exporters.

The survey reveals that 56.5% (135 out of 239) of Palestinian exporters are affected by burdensome NTMs or related trade obstacles. This corresponds roughly to the average rate that was found among the countries covered to date by ITC's programme on NTMs. However, the rate of affectedness is significantly higher when compared with other Arab States such as Egypt (37%) and Morocco (33%).

Exporters of agro-food products are the most affected group.

There is a large sector variation in the share of affected exporting companies. The agro-business sector seems particularly impacted, with 71% of companies reporting that they face burdensome NTMs, followed by manufacturers of plastics, and metals and engineering (both 70%). Companies in the handicrafts and in particular the pharmaceuticals sector face fewer problems related to NTMs (41% and 25%, respectively).

Partner countries impose most burdensome NTMs; the remaining ones are domestic or imposed by Israel on Palestinian exports to third countries.

The companies that faced burdensome NTMs in the export process were asked to provide details about each product and trade flow affected, in terms of type of measure encountered and the reasons they struggled to comply. In total, Palestinian exporters reported 402 cases that fall into three main groups:

- Import-related measures applied by countries importing from the State of Palestine (299 cases), and a single case of a transit country measure.
- Export-related measures applied by the Palestinian Authorities (44 cases).
- Export-related measures applied by Israel on Palestinian exports to third countries (58 cases).

Most frequently reported partner countries include Israel, Arab States, European Union countries and the United States.

Pre-shipment inspections, quality-control measures and rules of origin are considered most burdensome.

The most commonly reported import-related NTMs are pre-shipment inspections (31.3% of cases), SPS and TBT measures comprising technical regulations and measures of conformity assessment (22.4 %), and rules of origin (19.2%). Less frequently encountered import-related measures include charges and taxes, quantity control and finance measures.

Most problems relate to procedural obstacles, i.e. the manner in which NTMs are applied or implemented.

The vast majority of the NTMs are linked to procedural obstacles that render compliance with the underlying regulation difficult (91%). However, there are important differences depending on the type of NTM. Technical regulations and quantity-control measures are both considered very strict, without procedural obstacles linked to them. In contrast, measures of conformity assessment, charges and taxes, rules of origin and export-related measures are burdensome mainly (or even entirely) due to associated procedural obstacles. Palestinian exporters reported a total of 528 procedural obstacles.

These include delays, high fees and arbitrary behaviour of officials.

The most frequently reported procedural obstacles are delays (39%), followed by high fees or charges for particular certificates or regulations (29%), and arbitrary behaviour of officials (11%).

Difficulties with foreign NTMs are often rooted in domestic inefficiencies.

Most obstacles are encountered in Israel and at the Israeli border (56%), but also to a large extent in the State of Palestine itself (36%). Palestinian institutions associated with procedural obstacles include the Ministry of National Economy, the Palestinian Standards Institute (PSI) and testing facilities, the Ministry of Finance and the Ministry of Health.

Market access begins at home

The prevailing domestic problems for exporters stem from procedural obstacles and not from the regulations per se.

Non-tariff measures applied by Palestinian authorities

Before a company is able to move products across the border, it must obtain a number of certificates and licences. Grievances with NTMs applied by Palestinian authorities were reported by 20% of those companies that reported burdensome NTMs and about 11% of all companies interviewed in the NTM Survey. With only one exception, the NTMs applied by Palestinian authorities are not perceived as trade obstacles per se, but are rendered burdensome because of procedural obstacles.

Notably, exporters find it cumbersome to obtain export certificates and permits as well as certificates of origin.

Exporters deplore complicated before-the-border procedures and red tape rendering the export process on the Palestinian side of the border time-consuming. In particular, export and foreign trade licensing, as well as health certification, are perceived as unpredictably lengthy procedures.

Insufficient supply of Maqasa forms by the Ministry of Finance – a tax invoice used to settle the revenue from value-added tax between the Palestinian and Israeli tax departments – hinders companies from exporting, and in the desired quantities and with the desired frequency.

Rules of Origin

Problems related to rules and certificates of origin represent almost 19% of the total reported cases during the NTM Survey. A few companies report finding the rules themselves difficult to understand or to comply with.

This is mostly due to complicated procedures, administrative inefficiencies and lack of information.

The majority of problems that companies reported with rules of origin are, however, linked to procedural obstacles, most of which occur in the State of Palestine (85% of cases, related to a total of 108 procedural obstacles).

Exporters say inefficiencies in the administrative procedures related to issuing the certificate of origin lead to unpredictable delays in shipments. The institutions involved in this process do not appear to respect official deadlines. Moreover, companies struggle with high fees associated with the certificate of origin and its limited validity.

The survey results also reveal that not all exporters are well-informed about the prevalent procedures and exceptions.

A regional conundrum, a vicious circle

The 'no-Israeli-input rule' under the rules of origin of the Greater Arab Free Trade Area renders exporting to Arab States problematic for Palestinian companies.

The Greater Arab Free Trade Area (GAFTA) agreement stipulates that to benefit from preferential treatment, products should not comprise any component of Israeli origin. Some countries request a certificate from the shipping line to prove that the vessel did not pass through an Israeli port. This requirement has adverse effects on the possibility for companies in the State of Palestine to export to the Arab world.

Complying with the requirement itself can be difficult as many companies in the State of Palestine source inputs from Israel. Where Israeli inputs are not present, they appear to be suspected. Palestinian exporters lament the lack of trust of other Arab States in Palestinian product origin, even when fully documented. This is aggravated by suspicions that products that entirely originate in Israel or in the Israeli settlements on Palestinian territories may be falsely labelled as being 'made in Palestine' to circumvent import restrictions.

Finally documenting product origin is also rendered challenging when imported inputs are used. In fact, many products destined for the State of Palestine are treated as if they were exported to Israel. A vicious circle emerges when these products serve as input into the production of a good destined for export to an Arab State, as it could be difficult to prove the actual input origin.

Product quality and conformity assessment issues

Few Palestinian firms manage to live up to international standards and obtain the related certification.

The special nature of the Palestinian economy and scarcity of resources greatly affect the capacity of companies, including non-exporting ones, to comply with strict sanitary and phytosanitary measures and technical barriers to trade, mainly due to the lack of adequate internal quality-management systems.

As a result, few Palestinian firms manage to live up to international standards and obtain the related certification – 72% of Palestinian exporters have no quality certification.

Sanitary and phytosanitary and technical barriers to trade measures underlie about 22% of reported NTM cases. The surveyed active Palestinian exporters appear to have more difficulties demonstrating compliance with technical regulations than with the technical requirements themselves. This result is consistent with findings from NTM Surveys in other countries.

Technical requirements

Strict technical requirements imposed by Arab States, the United States or EU countries represent a challenge for Palestinian exporters.

Concerning technical requirements, Palestinian exporters find specifications for the required product characteristics or packaging too complex and deplore strict and time-intensive importer-registration requirements. Only a single case of reported technical requirements concerns a measure applied by Israel. The majority of burdensome technical regulations turn out to be imposed by export destinations with much lower trade flows, including Arab States (namely Jordan and Saudi Arabia), the United States, the Republic of Korea and the United Kingdom.

Conformity assessment

Lack of adequate testing infrastructure, issues of mutual recognition and high cost make cross-border trade difficult even for standard-compliant companies.

The overwhelming majority of quality-related problems reported by Palestinian exporters are associated with measures of conformity assessment, primarily testing requirements. Goods affected range from food products, marble and handicrafts to chemicals and plastic products. Again, a disproportionate share of these challenges is encountered in trade with partner countries other than Israel, predominantly the Gulf countries and other Arab States, European Union members and other developed countries.

Exporters' dominant concern is the lack of adequate testing infrastructure in the State of Palestine. Testing products abroad results in a significant financial and time investment, accompanied by extensive paperwork. Limited validity of test results exacerbates the problems.

Insufficient quality infrastructure also leads to a lack of trust in those test results and certificates, which *can* be issued locally. This occurs even where mutual recognition agreements exist. In the case of Saudi Arabia, companies deplore the systematic lack of recognition, be it of Palestinian or foreign-issued certifications.

The lack of adequate quality-management systems and related infrastructure has negative repercussions for the Palestinian economy in general, beyond

the small group of exporters surveyed. The weak regulatory and legislative framework for quality management implies that the country is inadequately equipped to ensure product quality for goods exported and sold domestically.

Israeli measures impede Palestinian exports

The strongest impediment to exports is measures imposed by Israel on imports from the State of Palestine and on Palestinian exports to third countries.

The strongest impediment to exports is measures imposed by Israel on imports from the State of Palestine and on Palestinian exports to third countries. More than 40% of reported NTM cases relate to these measures, which principally concern inspections, the obligation to pass through specified ports and the 'back-to-back procedure', whereby all products must be offloaded from Palestinian trucks at the border and loaded onto Israeli or Jordanian trucks to continue their journey.

Inspections and the back-to-back procedure result in considerable delays and financial losses.

Considerable delays resulting from inspections and the back-to-back procedure, combined with the financial loss linked to damaged products, overpriced service providers and the formal and informal fees charged for inspections, lead to very high transaction costs, which erodes the competitiveness of Palestinian products. A number of companies reported that they lost customers due to deteriorating border-crossing conditions over the past years. A few companies have stopped exporting altogether.

These cases are only briefly discussed in the report because the influence of the State of Palestine on mitigating these problems is minimal at best. The company testimonies reflect the complex wider business environment in which Palestinian exporters operate.

Challenges with the general business environment

The NTM-related problems occur in a generally very challenging business environment

In addition to NTM-related trade impediments, exporters were asked about challenges with the general business environment in the State of Palestine that affect their companies. Issues mentioned by companies include:

- **Restrictions on the movement of people.** This severely limits the ability of firms to maintain business relations with clients and trade agents as well as foreign inspectors for quality control and certification.
- **Unreliable payments.** Companies report bounced cheques, delayed payments or non-payment from customers.
- **Difficulties to source inputs for production.** Although the NTM Survey focused on exports, many firms alluded to import-related trade obstacles.
- **Access to finance.** Many companies are limited by the lack of access to finance.
- **Inadequate trade-support infrastructure and uncoordinated services.** Many exporters highlight the inadequate trade-support infrastructure, including overlaps and redundancies among institutions and the lack of important services, particularly in the areas of transport and logistics.

As a result of the challenging business environment and NTM-related trade obstacles, export costs are very high.

Key messages

The NTM Survey results reinforce the need to implement the National Export Strategy.

Survey results confirm the negative effect of the limited autonomy of the State of Palestine on trade. However, they also reveal that there is significant room for manoeuvre by Palestinian authorities. This represents an opportunity. It suggests that the State of Palestine can address a number of trade impediments by tackling procedural obstacles in the domestic business environment, thereby facilitating trade rather than trying to change the

The following key messages emerge from the NTM Survey:

- Market access begins at home.

- Information is valuable but often unavailable.

- Quality is key. Proving quality is the heavy door, which is difficult to open even if unlocked.

- Trade agreements are of limited use when they do not work on the ground.

Important steps to create a trade-conducive business environment include improving:

- Institutional efficiency;

- Transparency;

underlying – and more often than not externally imposed – trade rules. The NTM Survey results reinforce the need to implement the National Export Strategy 2014–2018, for which the NTM Survey results served as input.

The following key messages emerge from the survey:

Market access begins at home. The documentation required by Palestinian institutions for exporters to sell abroad and the related procedures are cumbersome, costly and often unclear. There is great scope for action at the national level.

Information is valuable, but often unavailable. Processes may be complicated and lengthy for justifiable reasons. But there is little reason for them to be unclear and non-transparent. Information about market access conditions in (potential) partner countries as well as international product standards and related certifications is unknown or inaccessible to many Palestinian exporters.

Quality is key. Proving quality is the heavy door, which is difficult to open even if unlocked. The NTM Survey results highlight the need to strengthen the national regulatory environment in terms of quality management, compliance and monitoring. A high level of product quality is a necessary condition for market access abroad. However, proving compliance with product-quality standards is an additional challenge due to the lack of testing facilities paired with the lack of recognition of domestically issued certificates.

Trade agreements are of limited use when they do not work on the ground. In practice, the use of preferences by Palestinian firms is low, among others due to difficulties proving product origin (on the export side) and lack of application of preferential regimes by Israeli authorities (on the import side). The survey results suggest that agreements on mutual recognition of quality certificates are more important than new comprehensive trade agreements. Improved documentation of product traceability and origin combined with more efficient certification procedures are also important.

Recommendations – home country issues

The NTM Survey results reveal that the regulatory structure in the State of Palestine could be more conducive for trade. More than one-third of procedural obstacles reported by Palestinian exporters happen before reaching the border. These inefficiencies can be tackled, most of them independently from the continuous conflict.

It is essential to **streamline administrative procedures** associated with obtaining export-related documents and certificates. **Investment in people** is key to improve institutional capacity and efficiency. It is equally important to clearly assign roles within ministries to avoid frequent changes in the designated office or division responsible for issuing licences and certificates.

Palestinian institutions involved in the export process need to **increase their accountability to render trading more predictable in terms of time and cost**, to lower incentives for bribes, and to reduce the margin for the reported arbitrary behaviour of officials. It is recommended that Palestinian agencies publish, regularly update and actively disseminate information on processes, the office or division in charge, official handling deadlines and response times for the different processes, as well as associated fees. Institutions should adopt a tracking system for requests, complaints and other correspondence.

- Inter-agency connectivity;

It is essential to **improve the interconnectedness among the different institutions**. Test results or certificates of origin could automatically be transmitted from the issuing body to other administrations, which would expedite the export process, especially where many different administrative windows are involved. In addition, it may reduce the risk of forgery of documents. This could be a first step towards establishing an efficient one-stop shop for export-related documents. The stakeholder coordination mechanism foreseen by the National Export Strategy will be an important cornerstone for enhanced interagency coordination and information exchange.

- Trade policy and trade facilitation measures;

It is important to **effectively negotiate and implement mutual recognition agreements**, including for quality certification and certificates of origin. There is a risk that existing trade agreements benefit only the partner countries, not the State of Palestine. As a result, it is important to **institutionalize continuous public-private dialogue** to ensure that private-sector priorities and concerns are taken into account in trade policy formulation and negotiations. The stakeholder coordination mechanism foreseen under the National Export Strategy will be a viable platform for this type of dialogue.

The private sector needs to be informed about the potential offered by existing trade agreements, for example through special training devoted to rules of origin and the use of preferences.

The State of Palestine needs to take a much **stronger stance in GAFTA-related cooperation and push for better implementation and further development of the agreement**. It is recommended that the State of Palestine explores with its Arab trading partners ways to improve the recognition of and trust in 'made in Palestine', which would increase the possibility for Palestinian firms to benefit from preferential market access.

It is important for the Ministry of National Economy to **reassess the validity of certificates of origin**. It is recommended that the different agencies involved in issuing certificates of origin implement simplified 'fast-track' procedures.

- The availability and accessibility of trade information.

The NTM Survey reveals the need to **improve information about market access conditions in partner countries**. This pertains to tariffs and, where existing, preferences, as well as to all types of NTMs, including quality requirements and customs procedures.

Palestinian trade support institutions have a key role to **make existing information more accessible to Palestinian companies**, including through **providing synthesised information and targeted training**. Trade support institutions are encouraged to review their offer and pricing of information and training services with respect to accessibility, affordability and usefulness, particularly for micro and small enterprises.

Recommendations – quality and conformity assessment requirements

To tackle issues related to quality and conformity assessment, it is recommended to:

The NTM Survey results highlight the need to **establish a comprehensive national quality-management system**. This includes **efficient market surveillance and enforcement mechanisms**, which create the framework for higher-quality production as well as adequate monitoring of product quality and safety for imported goods.

- *Improve the regulatory framework.*

Palestinian quality and safety standards should be aligned to international standards. Reducing the gap between the quality of products sold domestically and the requirements of partner countries will allow domestically oriented companies to become export-ready more easily when attractive market opportunities emerge.

- *Close company capacity gaps.*

Improvements in the Palestinian regulatory framework are recommended to be accompanied by **systematic programmes to build the capacity of companies**, including existing and potential exporters, in the area of quality management to meet internationally recognized standards.

The government is encouraged to improve the availability and accessibility of training on quality requirements for smaller enterprises and those located outside main cities. **The Palestinian Standards Institute (PSI) should review and/or develop its training offer and ensure effective outreach.** It is also important to **enhance the capacity of trade support institutions in the area of training and advisory services** for enterprises.

It is recommended that the relevant ministries institutionalize regular **training sessions to be provided by international experts and standards bodies**, such as the International Organization for Standardization.

The Ministry of National Economy, with the support of international donors, could consider **creating a financial support mechanism** to support Palestinian businesses, notably micro and small enterprises, to upgrade production processes, traceability and product quality in line with international requirements.

Awareness-raising campaigns could contribute to enhancing private-sector understanding of the necessity and benefits of complying with quality standards, which would contribute towards creating a **national ‘product quality culture’**.

Conformity assessment

- *Develop the conformity assessment infrastructure.*

The lack of adequate conformity-assessment infrastructure is the predominant complaint by active exporters with respect to quality management.

PSI plays a pivotal role. It is the subject of many exporter complaints, primarily related to insufficient capacity and recognition issues. The NES refers to conflicts of interest that paralyze PSI’s effectiveness, efficiency and focus. It identifies the urgent need to **separate the accreditation and testing functions of PSI** and to develop an independent, internationally recognized accreditation body.

Lack of testing facilities in the State of Palestine is a major impediment to trade. It is necessary to improve access for Palestinian businesses to conformity-assessment infrastructure and internationally accredited laboratories. To accomplish this, it is recommended to:

- Assess and map both the testing needs and the existing laboratory capacities in the State of Palestine, Israel and Jordan to **identify existing gaps in the conformity assessment infrastructure, its accessibility in terms of distance and cost, and its international recognition**;
- **Strategically invest in strengthening testing capacities within the State of Palestine** to ensure that testing of priority products can be carried out domestically without threatening the financial sustainability of laboratories;

- Elaborate ways to **render testing and certification affordable** for micro and small enterprises and first-time exporters. Possibilities include direct funding for tests, specific loans to enterprises and subsidies to laboratories.

It is important to **improve transparency about conformity-assessment procedures and cost** for Palestinian certificates and for the most important internationally recognized quality labels such as ISO certifications, hazard analysis and critical control point (HACCP) certification or GlobalG.A.P.

Mutual recognition

- Increase mutual recognition of standards and related conformity assessment and certification.

Improving the domestic conformity assessment infrastructure will help to increase trust in and recognition of Palestinian testing facilities and certifications. It is important to complement this by **negotiating and effectively implementing mutual recognition agreements with the most strategic export destinations.**

The NTM Survey results show that even for the few markets where mutual recognition agreements exist on paper – Algeria, Jordan, Morocco, Sudan and United Arab Emirates – they do not function in practice. The reasons for this malfunction need to be investigated and addressed through bilateral negotiations, for instance.

An **alignment of Palestinian standards with international good practice** would further facilitate efforts to achieve broader recognition of Palestinian testing results and quality certificates.

Recommendations – border controls and inspections

To minimize the negative impact of border clearance processes, it is recommended to:

A few steps could help minimize the negative impact of border clearance processes, including:

- Palestinian authorities are encouraged to continue lobbying for the reinstatement of **a Palestinian customs presence at commercial crossings.**
- It is necessary to **improve the information flow about border crossing impediments** to businesses, including the intensity and frequency of checks, current waiting times and unexpected closures. Information should be disseminated more quickly and systematically.
- It is important to **strengthen logistical assistance to exporters at each border crossing.** Together with the presence of Palestinian customs officers, this will contribute to improving communication with Israeli officers and reduce exporters' reliance on sometimes very costly Israeli brokers for cross-border operations.

- Improve operating times of border crossings.

The NTM Survey results support the National Export Strategy's recommendation to **advocate to the international community to request that borders, especially the King Hussein Bridge, operate 24 hours a day** and to ensure that goods that leave port require no more security checks once they arrive at the border crossing. According to estimates, this could eliminate up to 30% of the extra costs and delays.

Some ways forward

In addition, possible actions to increase Palestinian exports include:

- Targeting high-price segments of markets.

The above recommendations are an avenue to address some of the challenges that Palestinian exporters face on a daily basis. Even if all the proposed actions were implemented, however, Palestinian companies would remain at a disadvantage and be unable to compete on prices.

One of the few ways the State of Palestine could increase exports is by targeting high-price segments in key markets for existing and potential export products. Certification of products as ‘organic’, ‘fair trade’ or ‘bio’ may be another avenue to pursue. Consumers tend to be ready to pay more for these products, which are enjoying a growing market share in many countries. Complying with private voluntary standards is costly and feasibility is closely linked to the issues of product quality discussed above, particularly the accessibility of conformity-assessment infrastructure. A clear national strategy to raise product quality is a prerequisite. Schemes to help producers comply with private standards may be an additional investment worth making.

- Developing a marketing strategy to promote the label ‘made in Palestine’.

A marketing strategy needs to be developed to promote the label ‘made in Palestine’. Consumers may be willing to pay more for a product because they understand the disadvantages that Palestinian producers face. This type of marketing strategy is likely to be most effective in Arab countries and countries with a significant population of Arab origin.

- Exploiting the export potential of services.

Market and product diversification are key to reduce the dependence of the Palestinian economy on the Israeli market as well as the vulnerability to demand shocks for selected goods. Given the restricted movement of people and goods, it is strategically important for the State of Palestine to exploit the export potential provided by trade in services. Developing and promoting the services sector, to the extent that it does not require physical movement of goods and people across the border, can contribute to making the economy less vulnerable to ‘checkpoint-related challenges’ such as those highlighted in this report, which are beyond the direct influence of the Palestinian Authority. The State of Palestine may wish to explore the potential of diversifying from ‘selling goods’ towards increasingly ‘selling ideas’.

It is of utmost priority to implement the National Export Strategy.

Finally, the **implementation of the National Export Strategy** is of utmost priority for laying down a comprehensive and practical approach towards developing Palestinian exports both in goods and services.

Introduction to non-tariff measures

The growing role of non-tariff measures in trade

Over several decades, trade liberalization has been used as a development tool based on evidence that benefits accrue to countries actively engaged in world trade. Multilateral, regional and bilateral trade negotiations as well as non-reciprocal concessions have led to a remarkable reduction in global, average tariff protection. With favourable market access conditions, international trade has soared to previously unseen levels, raising overall welfare and standards of living.

However, the effect of non-tariff measures (NTMs) may undermine the impact of falling tariffs. The sound use of NTMs to ensure consumer health, environmental protection or national security is legitimate and desirable. This said, evidence suggests that many regulations have, intended or unintended, trade-distorting effects, either due to the strictness of the regulation or the way in which they are implemented. NTMs have been negotiated within the General Agreement on Tariffs and Trade and at the World Trade Organization (WTO) since the Tokyo Round (1973–1979) and are increasingly dealt with in regional and bilateral trade agreements. NTMs have gained importance, with many practitioners considering they impede trade more than tariffs.

Being ‘defined by what they are not’,¹ NTMs comprise a myriad of policies other than tariff duties. NTMs are complex legal texts, specific to the product and applying country. As a result, they are more difficult to quantify or compare than tariffs.

NTMs particularly concern exporters and importers in developing and least developed countries (LDCs), which struggle with complex requirements. Firms in these countries often have inadequate domestic trade-related infrastructure and face administrative obstacles. NTMs that would not normally be considered as very restrictive can represent major burdens in LDCs. In addition, the lack of export-support services and insufficient access to information on NTMs put pressure on the international competitiveness of firms. Hence, both NTMs applied by partner countries as well as domestic burdens have an impact on market access and keep companies from seizing the opportunities created by globalization.

Non-tariff measures, classification and other obstacles to trade

Obstacles to trade are a complex and diverse subject. Before going into a detailed analysis, it is worth looking at their terminology and classification.

The concept of an NTM is neutral. NTMs are defined as ‘policy measures, other than customs tariffs, that can potentially have an economic effect on international trade in goods, changing quantities traded, or prices or both’.²

In contrast, the term non-tariff barrier (NTB) implies a negative impact on trade. The Multi-Agency Support Team (MAST) and the Group of Eminent Persons on Non-Tariff Barriers (GNTB) proposed that NTBs be a subset of NTMs with a ‘protectionist or discriminatory intent’.³

Given that legitimate reasons – including the protection of human, animal and plant health – may lead to NTMs, this report avoids making judgements on intentions. The term NTM is generally used. By design, the ITC NTM Survey only captures NTMs that cause major difficulties for trading companies. NTMs analysed in this report are referred to as ‘burdensome NTMs’.

The diversity of NTMs requires a classification system. The ITC NTM Survey is based on an international classification developed by MAST, incorporating minor adaptations to the ITC business survey approach.⁴

¹ Deardorff and Stern (1998).

² Multi Agency Support Team (2009).

³ *Ibid.*

⁴ For further details on MAST NTM classification, see appendix II.

While the actual classification and data collection go into further detail, the following distinctions and terms are used in this report:

- Technical measures refer to product-specific requirements such as tolerance limits of certain substances, labelling standards or transport conditions. They can be subdivided into two major categories:
 - Technical requirements – technical barriers to trade or sanitary and phytosanitary measures;
 - Conformity assessment, like certification or testing procedures needed to demonstrate compliance with underlying requirements.
- Non-technical measures comprise the following categories:
 - Charges, taxes and other para-tariff measures – in addition to customs duties;
 - Quantity control measures such as non-automatic licences or quotas;
 - Pre-shipment inspections and other formalities such as automatic licences;
 - Rules of origin;
 - Finance measures such as terms of payment or exchange rate regulations;
 - Price control measures.

Apart from the aforementioned measures imposed by the importing country, those applied by the exporting country constitute a separate category. It must be noted that NTMs vary widely even within these broad categories.

To provide a richer picture of the problems companies face, the survey also looks at procedural obstacles and at the trade-related business environment.⁵ Procedural obstacles refer to practical challenges directly related to NTMs. Examples include problems caused by the lack of adequate testing facilities to comply with technical measures or excessive paperwork in the administration of licences. Inefficiencies in the trade-related business environment may have similar effects, but occur unrelated to specific NTMs. Examples include delays and costs due to poor infrastructure or inconsistent behaviour of officials at customs or ports.

Why are company perspectives important?

In the literature, different methods have been used to evaluate the effects of NTMs. An early approach employed a concept of incidence with NTM coverage ratios. For example, Laird and Yeats (1990) found a dramatic surge of NTM incidence in developed countries between 1966 and 1986 – a 36% increase for food products and an 82% increase for textiles. These studies rely on extensive databases mapping NTMs per product and applying country. The largest database of official government-reported NTMs used to be the Trade Analysis and Information System (TRAINS) published by the United Nations Conference on Trade and Development (UNCTAD), but data have been incomplete and updates irregular.

In a multi-agency effort, ITC, UNCTAD and the World Bank are collecting data for a new, global NTM database with a focus on TBTs and SPS. The new ITC Market Access Map already features information about NTMs.⁶ However, as complete as such a database may be, it does not reveal the impact of NTMs on the business sector, nor will it provide information about related procedural obstacles.

The two main approaches to evaluating the impact of NTMs include quantification techniques and direct assessment.

In the case of quantification techniques, several academic studies have quantitatively estimated the impact of NTMs on either trade quantities or prices. Such studies have either focused on very specific measures and individual countries⁷ or have statistically estimated the average impact from large samples of countries

⁵ For further details on the systematic classification of procedural obstacles and inefficiencies in the trade-related business environment used in the survey, please refer to appendix III.

⁶ The new Market Access Map is available at <http://www.macmap.org>

⁷ Calvin and Krissoff (1998); Yue, Beghin and Jensen (2006).

and NTMs.⁸ Excellent overviews are provided by Deardorff and Stern (1998) as well as by Ferrantino (2006). These academic articles provide an important insight into the quantitative impacts of NTMs. However, these studies are too specific or too general to deliver a useful picture of NTM protection to the business sector and to national policymakers. Quantitative estimations of the effects of NTMs rarely allow for isolating the impact of NTM regulation itself from related procedural obstacles or inefficiencies in the trade-related business environment.

The second approach to evaluating the impact of NTMs is direct assessment through surveys. The Organisation for Economic Co-operation and Development (OECD) compiled the results of 23 business surveys on NTMs.⁹ Overall, technical measures, additional charges and general customs procedures were identified as the most burdensome trade barriers. It is worth noting that of the 10 categories evaluated, quotas and other quantitative restrictions, an important trade policy instrument only a few decades ago, ranked fifth. While this survey-of-surveys gives a general indication of the business sector's concerns with NTMs, the majority of the surveys covered a restricted set of partner countries and products. In addition, the share of surveys from developing countries was generally low.

The ITC programme on NTMs fills the gap left by these studies because it provides detailed qualitative impact analysis and directly addresses key stakeholders. Launched in 2010, it incorporates large-scale company surveys on NTMs, procedural obstacles and inefficiencies in the trade-related business environment. Furthermore, the ITC NTM Surveys evaluate all major export sectors and all importing partners. To date, surveys were carried out in more than 20 developing and least developed countries. This report presents results of the ITC NTM Survey in the State of Palestine.

The ITC NTM Survey allows companies to directly report the most burdensome NTMs and the way in which these impact their business. Exporters and importers deal with NTMs and other obstacles on a day-to-day basis. They know best the challenges they face, rendering a business perspective on NTMs indispensable. At the government level, an understanding of companies' key concerns with regard to NTMs, procedural obstacles and the trade-related business environment can help define national strategies geared to overcome obstacles to trade.

The report is structured as follows: Chapter 1 provides a brief overview of the Palestinian economy with particular focus on trade and trade policy. Chapter 2 presents the methodology and implementation of the NTM Survey in the State of Palestine. Chapter 3 analyses the results of the survey: after aggregate and cross-cutting results in a first section, the following four sections look at challenges faced by exporters with respect to NTMs applied by Palestinian Authorities and rules of origin (section 2), issues with Greater Arab Free Trade Area (GAFTA) trading partners (section 3), burdensome SPS and TBT measures (section 4), measures applied by Israel on imports from the State of Palestine and on Palestinian exports to third countries (section 5) and the general business environment (section 6). Chapter 4 provides conclusions and recommendations.

⁸ Disdier, Fontagné and Mimouni (2008); Dean et al. (2009); Kee, Nicita and Olarreaga (2008); Kee, Nicita and Olarreaga (2009).

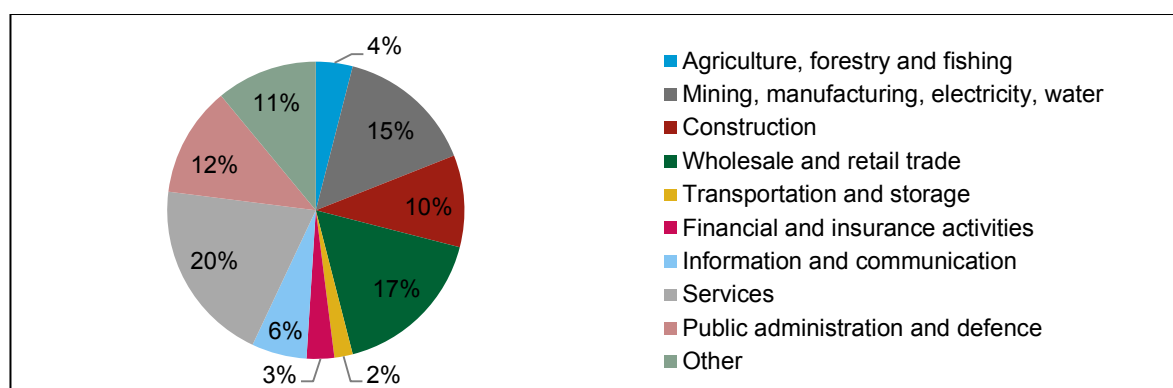
⁹ Organisation for Economic Co-operation and Development (2005).

Chapter 1 Country context

1. Snapshot: General economic situation, poverty and employment

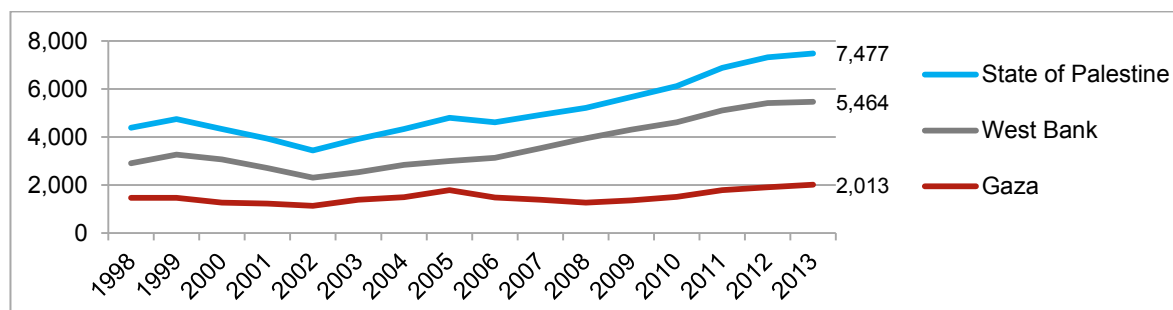
The Palestinian economy has been dependent on the Israeli economy for more than 60 years, with low levels of growth and advancement compared to neighbouring countries. While there has been a decline in the contribution of agriculture to GDP (contributing 4%), and an increase in that of services (20%) and the public sector (12%), the share of industry remains low at around 15% (figure 1). The Oslo Accords of 1993 granting limited autonomy to the State of Palestine triggered hopes for swift, local investment in the private sector and an increase in foreign direct investment. However, these hopes have not been realized. Economic development remains modest, with persistently high levels of unemployment (figures 2 and 3).

Figure 1: Contribution to GDP by economic activity, 2013



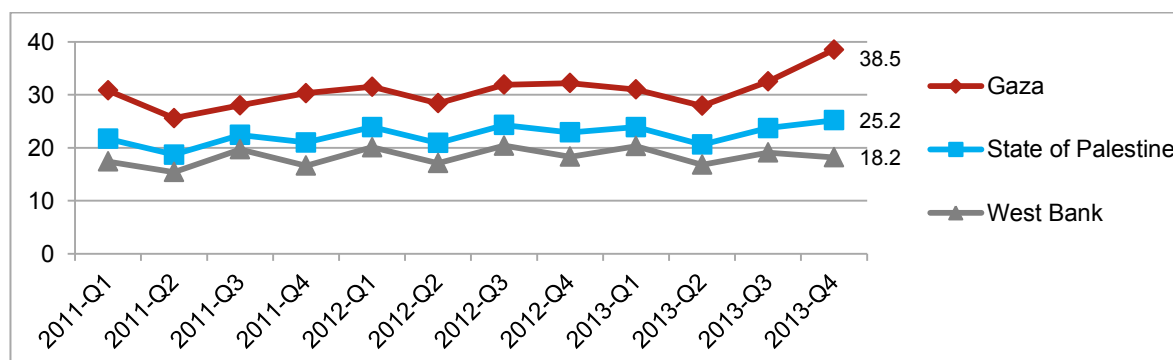
Source: Palestinian Central Bureau of Statistics, 2014.

Figure 2: GDP at constant prices 1999-2013, in US\$ million



Source: Palestinian Central Bureau of Statistics, 2014.

Figure 3: Unemployment rate in the State of Palestine 2011-2013, by quarter (%)



Source: Palestinian Central Bureau of Statistics, 2014.

Many factors contribute to the stagnation of the Palestinian economy. This report focuses on NTMs and related obstacles to trade. However, it is important to understand the political context, particularly movement restrictions that complicate market access and prevent Palestinian businesses from committing to delivery dates for goods and services. Box 1 presents a few examples of the difficult business environment in which Palestinian companies are working.

Box 1. The difficult business environment in the State of Palestine – examples

Territorial fragmentation

The 1995 Oslo interim agreement split the West Bank (and Gaza) into three areas – A, B, and C – with different security and administrative arrangements and authorities. The land area controlled by the Palestinians ('Area A' corresponding to all major population centres and 'Area B' encompassing most rural centres) is fragmented into a multitude of enclaves, with a regime of movement restrictions among them. These enclaves are surrounded by 'Area C', which covers the entire remaining area and is the only contiguous area of the West Bank. Area C is under Israeli control for both security and civilian affairs related to territory, including land administration and planning. It is sparsely populated and underutilized (except by Israeli settlements and reserves), and holds the majority of the land (approximately 59%). East Jerusalem was not classified as Area A, B or C in the Oslo interim agreement and its status was to be resolved in final status negotiations.

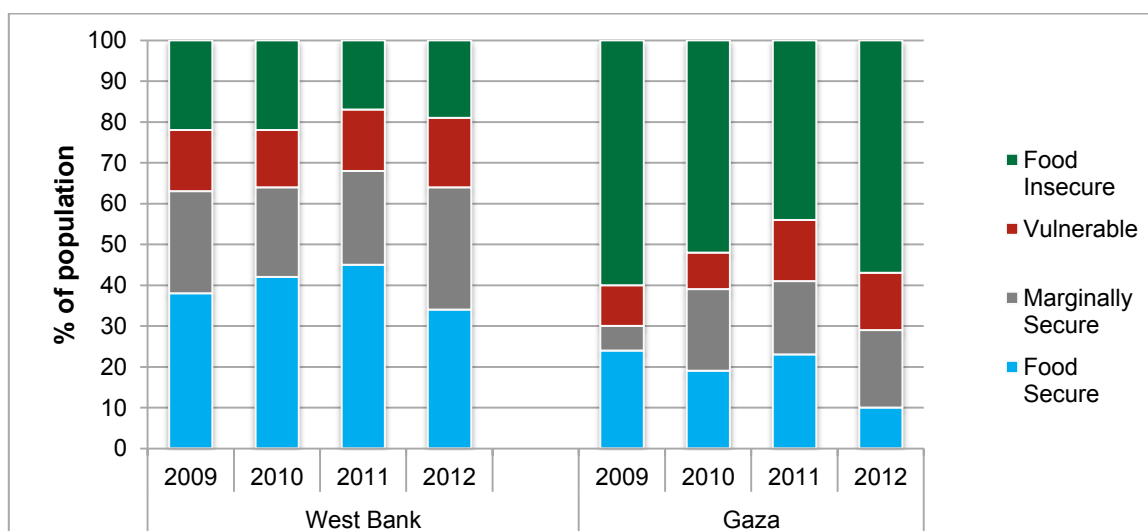
Difficulties for Palestinian businesses to operate in Area C

Palestinian cities and villages are not entirely connected by mobile phone networks because operators are unable to provide the necessary telecommunications infrastructure in Area C. As a result, operators are losing thousands of potential customers. Additionally, Palestinians are denied access to land and water resources in Area C and hence the ability to farm in the Jordan Valley. Palestinian small and medium-sized enterprises (SMEs) are unable to expand ownership of land in Area C because they cannot obtain expansion permits from Israeli authorities. This has led some businesses to relocate abroad.

Source: World Bank (2008; 2012a).

Despite the modest economic growth demonstrated by an increasing GDP, poverty and food insecurity are critical concerns. In 2011, almost 25% of the Palestinian population was living below the poverty line, with approximately 13% living in extreme poverty (PCBS, 2012). While the level of food security improved since 2009, the share of population affected by food insecurity stays at a comparatively high level, especially in Gaza with above 50% of the population suffering from food insecurity, compared to 20% in the West Bank (figure 4).

Figure 4: Food security levels in the State of Palestine, 2009-2012



Source: Palestinian Central Bureau of Statistics, 2012.

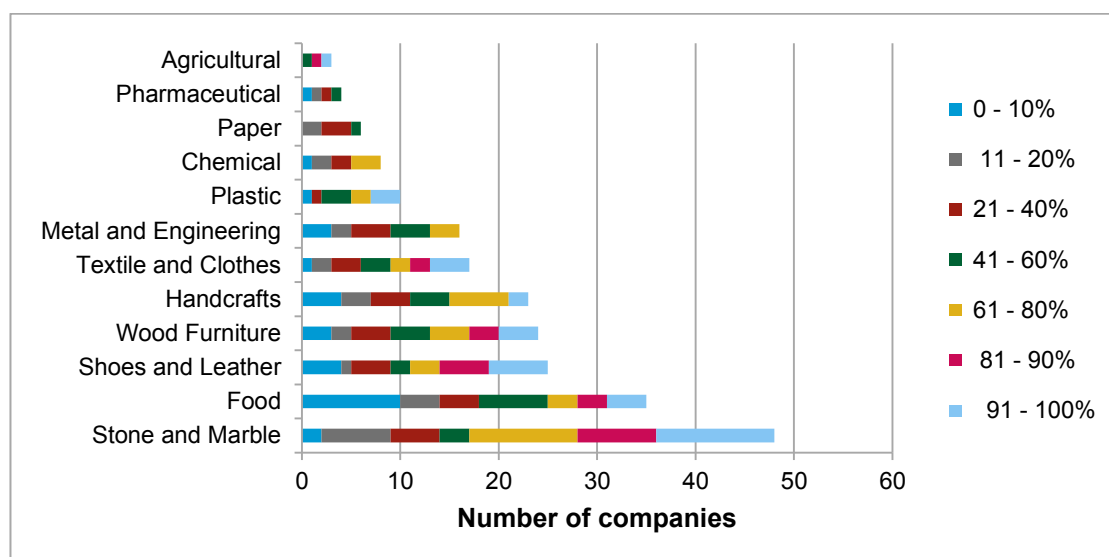
The services sector is the biggest employer in the State of Palestine, contributing to about 36% of employment. The public sector employs 23% of the workforce (39% in Gaza, 16% in the West Bank). The average daily wage for employees in the West Bank is NIS 109.7 (~US\$ 32.2) compared to NIS 63.2 (~US\$ 18.5) in Gaza (2013 data).

Salaried employees constitute 68% of employed workers in the State of Palestine, 18% are self-employed and 8% of the employed are unpaid family members, with the remaining 6% categorized as employers (Palestinian Central Bureau of Statistics labour survey 2013).

2. Aggregate trade patterns

The industrial sector dominates in terms of export activity. The stone and marble industry is the flagship of Palestinian exported goods. More than 10 companies from that industry export at high levels – between 91%-100% of their annual turnover (figure 5). In 2012, the stone and marble industry exported goods worth US\$ 147 million, agro-food exports amounted to US\$ 113 million, plastics industry exports reached US\$ 59 million, and furniture industry exports were valued at almost US\$ 64 million (ITC Trade Map, 2012 data).

Figure 5: Share of exports in annual turnover in industrial companies, by sector

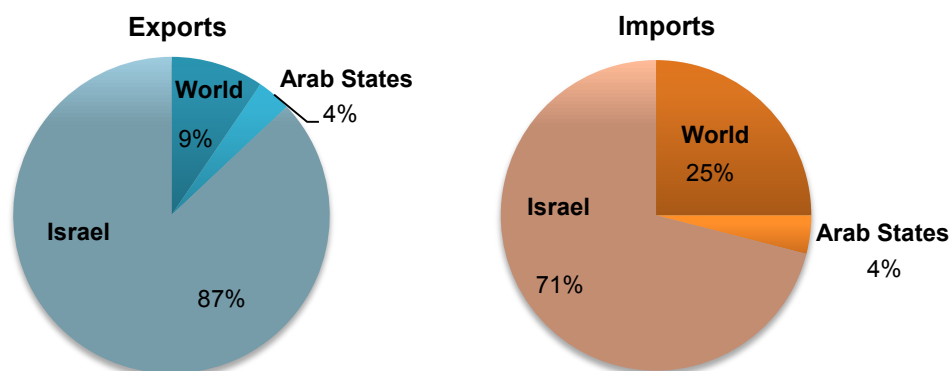


Source: PalTrade survey, 2012.

Israel is the State of Palestine's major trade partner. Figure 6 documents the degree of dependency of the Palestinian economy on the Israeli market. In 2013, registered imports from Israel represented 72.3% of all imports, and registered exports to Israel represented 89.5% of all Palestinian exports. Some sources suggest, however, that official trade figures need to be treated with caution. A 2013 report by the United Nations Conference on Trade and Development (UNCTAD), for example, notes that *'it has been argued that not all Palestinian imports from Israel are goods produced in Israel or meet the rule of origin. A significant portion of these imports are produced in a third country, cleared as Israeli imports before being sold in the State of Palestine as if they had been produced in Israel. They are known as indirect imports [...]* Based on data from the Bank of Israel (2010), UNCTAD assumes that 39 per cent of recorded imports from Israel originate from the Israeli commercial sector, and could therefore be considered indirect imports.¹⁰

The importance of Palestinian external trade with partners other than Israel becomes prominent for the purpose of diversification of trade and the reduction of Palestinian dependence on the Israeli market. Regarding foreign trade, the World Bank emphasizes the need for the Palestinian economy to focus on trade in intermediate goods and on exports of high-value products (World Bank, 2012b).

¹⁰ Report on UNCTAD assistance to the Palestinian people: developments in the economy of the Occupied Palestinian Territory, September 2013; http://unctad.org/meetings/en/SessionalDocuments/tdb60d3_en.pdf (link accessed on 31 October 2014).

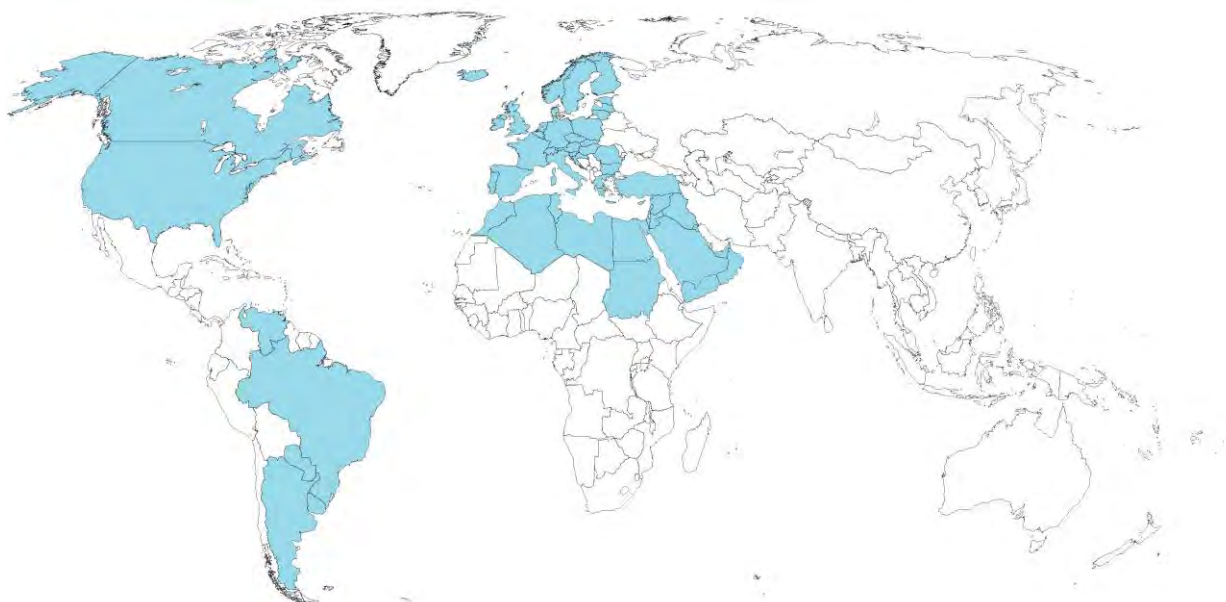
Figure 6: Share of Palestinian exports and imports, by trading partner

Source: ITC Trade Map, data for 2013.

3. Trade policy and market access

Since 1994, the Paris Protocol has been the reference point for regulating the economic relations between Israel and the State of Palestine. It was designed as an interim agreement (1994–1999), but remains in effect today. The Oslo Accords, which incorporate and supersede the Paris Protocol, give the Palestine Liberation Organization (PLO) the right to negotiate and conclude agreements with third parties.

Palestinian foreign trade with partners other than Israel is important for market diversification. The Palestinian National Authority has strategically prioritized initiating agreements with partners that already have free trade agreements with Israel to obtain identical or similar preferential treatment for Palestinian exports. Meanwhile, imports from these countries enter the Palestinian market duty free, based on their agreements with Israel. This has resulted in the quasi-unified customs mechanism between Israel and the State of Palestine.

Figure 7: Countries granting preferential tariffs to the State of Palestine

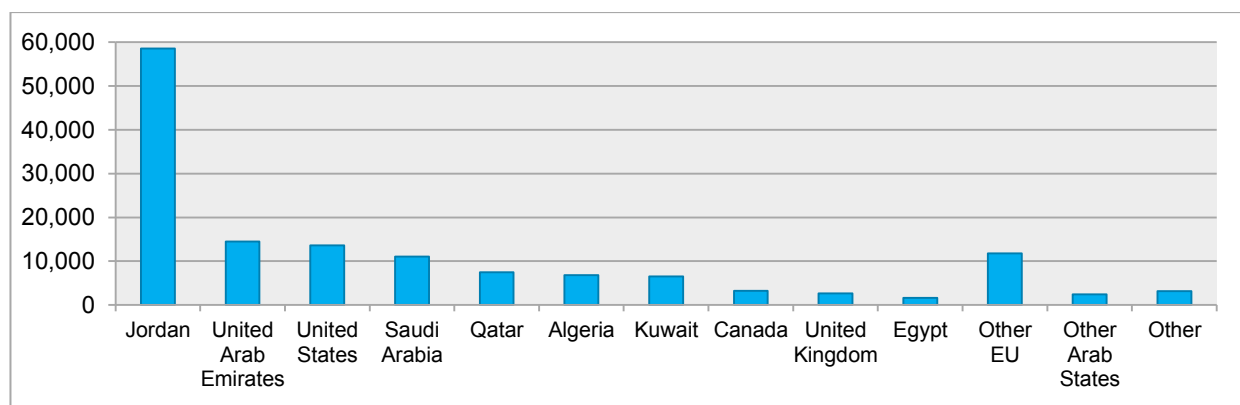
■ Countries granting preferential tariffs to goods originating in the State of Palestine under bilateral agreements and/or non-reciprocal regimes such as the Generalized System of Preferences.

Source: PalTrade illustration (2014).

The State of Palestine has bilateral trade agreements with the European Union (EU), the European Free Trade Association (EFTA), Turkey, the Arab States through GAFTA, the United States, Canada and Israel (figure 7). In addition, it has signed bilateral agreements with the Russian Federation, the People’s Republic of China and Mercosur, which are not yet implemented.

To date, the private sector has largely been unable to use the opportunities provided by these agreements as most enterprises lack international competitiveness. The top three export destinations of Palestinian products, other than Israel, are Jordan, the United Arab Emirates and the United States (figure 8).

Figure 8: Top importers of Palestinian goods other than Israel (US\$ ‘000)



Source: ITC Trade Map, data for 2012.

The State of Palestine’s National Export Strategy

With a view to promote Palestinian exports globally, the Council of Ministers adopted in 2012 a formal decision to formulate a National Export Strategy (NES). Endorsed in April 2014 by the Higher Steering Committee, the NES is the result of a multi-dimensional strategic design process that was participative, collaborative and stakeholder-driven.

The four strategic objectives of this initiative are to:

- Promote a dynamic business environment enabled by a policy and regulatory environment to support innovation and investment in the export sector;
- Build the capacities of the exporting sector to diversify and penetrate international markets;
- Maximize the contribution of exports to socioeconomic development through enhanced export competitiveness;
- Build and promote the image of the State of Palestine as a supplier of value-added quality products and services.

The NES provides a framework to align existing development efforts, both national and donor driven, in the broader context of trade-related technical assistance, to avoid fragmentation and implementation challenges.

A fundamental feature of the NES design process is the public-private partnership and dialogue that guided the NES development at both strategic and operational levels. At the strategic level, the high-level team that oversaw the export strategy development was composed of private and public stakeholders who participated in the strategic design process. At the operational level, the strategy development process hinged on the three rounds of stakeholder consultations held in Ramallah and other important production centres. These consultations had equitable participation between the Palestinian private and public sectors. The NTM Survey results presented in this publication fed into this consultation process.

The export strategy implementation is designed to result in significant socioeconomic benefits to the State of Palestine. This is exemplified in the priority sector selection criterion. The selection took into account the level of socioeconomic participation and contribution of each candidate sector in areas such as employment levels (especially youth and gender employment). The company-level data obtained from the NTM Survey in the State of Palestine provided useful information in this context.

The strategy identified nine priority sectors and four cross-sector functions based on their capacity to contribute to export growth, reduce the trade deficit and generate employment through their current and potential trade performance (table 1).

The national export strategy formulated the following quantitative targets for the five-year implementation period:

- Increase the value of Palestinian exports over the next five years by approximately US\$ 722 million;
- Generate US\$ 483 million in exports of products from priority NES sectors;
- Grow exports of services from priority NES sectors by US\$ 239 million;
- Develop the export sector (products) at an average of 13% per year;
- Generate an overall growth of the export sector (products) of 67%.

These ambitious targets can only be reached if important trade obstacles are addressed. The challenges are multidimensional and stem from a host of both external factors and internal factors. Some of the external factors fall squarely in the political domain.

The NES design process focused on the internal factors, identifying various competitiveness constraints related to supply-side capacity, the business environment, market entry capacity and development aspects. Key among these constraints are the NTM-related trade impediments identified through the ITC business survey on NTMs in the State of Palestine, including complex regulatory environments, quality conditions imposed by the importing country on Palestinian exports, sanitary and phytosanitary conditions, and packaging, labelling and product standards. The following chapters present the survey results in more detail.

Table 1: National export strategy – priority sectors and cross-sector functions

Priority sectors		
1. Stone and marble	2. Olive oil	3. Agro-processed meat
4. Fresh fruits, vegetables and herbs	5. Textiles and garments	6. Footwear and leather
7. Furniture	8. Tourism	9. Information and Communications Technology (ICT)
Priority cross-sector functions		
1. Trade facilitation and logistics	2. Quality management	
3. Access to finance	4. Trade information	

Source: State of Palestine, National Export Strategy 2014–2018.

Chapter 2 Non-Tariff Measure Survey methodology and implementation in the State of Palestine

The large-scale company survey on NTMs and other obstacles to trade in the State of Palestine was carried out by the Palestine Trade Centre PalTrade and ITC in the framework of the Export Development Project funded by the then-Canadian International Development Agency (CIDA, which has in the meanwhile been integrated into the Canadian Department of Foreign Affairs, Trade and Development). The objective of the ITC NTM Survey was to increase transparency and help better understand the trade impediments faced by the Palestinian business sector. The NTM Survey was part of a larger survey that also assessed PalTrade services to its members and non-members.

This chapter provides information on the country-specific survey implementation, the sampling methodology, basic characteristics of the survey sample and an introduction to the approach of analysis. The appendices go into further detail: appendix I explains the global methodology, which is a core part identical in all countries surveyed with the ITC methodology. The method employed in the State of Palestine was adjusted to the country and project context. This chapter highlights these differences. Appendix II on the NTM classification and appendix III on procedural obstacles provide the taxonomy for arranging reported measures into an organized hierarchical system.

1. Timeline and principal counterparts

The survey was implemented by the Palestine Trade Centre (PalTrade), the State of Palestine's trade development organization, under the guidance and supervision of ITC. PalTrade project managers and interviewers received a three-day intensive training by ITC staff on NTMs, the NTM Survey methodology and the questionnaires in October 2011. The training comprised first pilot interviews. The survey itself was carried out between November 2011 and February 2012. Survey data were submitted to ITC for processing and quality control in late April 2012.

The interview period was succeeded by an intensive data quality-control phase during which ITC converted the received data-capturing files into the standard format and verified in detail the survey data obtained, requesting clarification where information was missing or contradictory. The first data review ended in August 2012 with the compilation of first statistics for the analysis.

Data analysis and additional research were carried out jointly by PalTrade and ITC between September 2012 and February 2013, with preliminary results shared during the third stakeholder consultations for the NES in March 2013.

The analysis and research phase highlighted the need for an additional review, particularly of the electronic capturing of the information in the original questionnaires. This review, as well as additional interviews to verify, confirm and/or complement selective information, was carried out by PalTrade March–May 2013 and, after ITC feedback, in August–September 2013.

The final survey database on which this report is based was finalized in January 2014.

2. Sector definition, business registry and sample frame

The general NTM Survey methodology developed by ITC aims to cover all export sectors that account for at least 2% of a country's total export value for trade in goods, excluding minerals and arms. See appendix I for more details, including the 13 standard ITC sectors.

In the State of Palestine, the sector definition was adjusted to account for local specificities, resulting in the following sectors being covered by the NTM Survey:

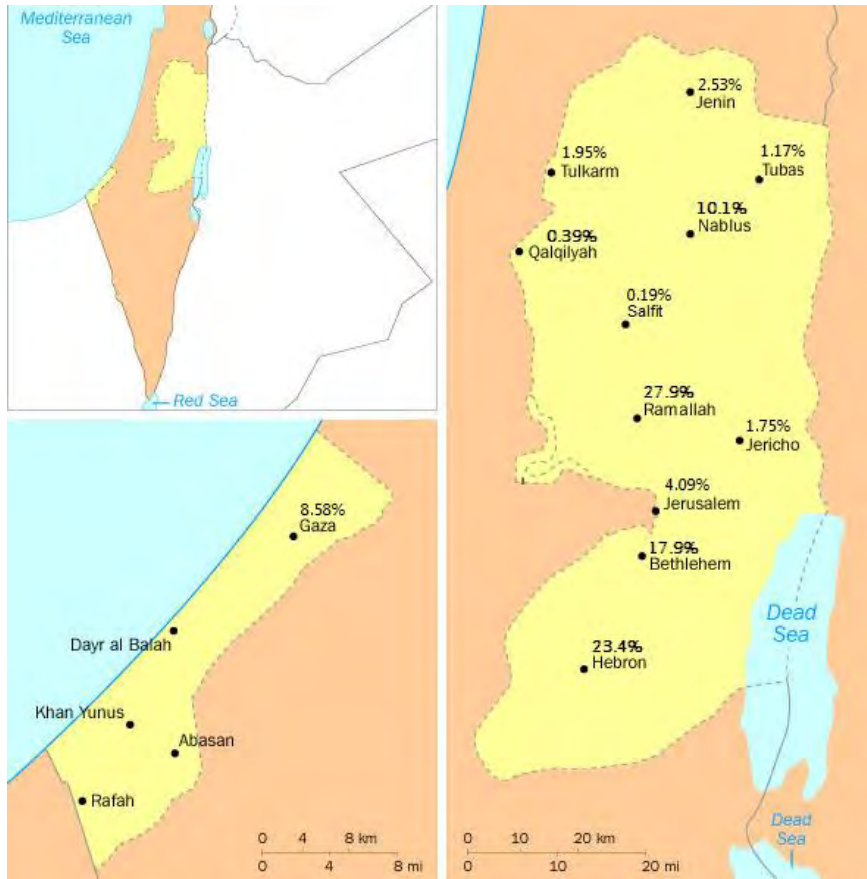
- **Agro-business:** This sector comprises the ITC standard sectors 1 (fresh food and raw agro-based products) and 2 (processed food and agro-based products).

- **Leather and footwear:** This sector comprises the ITC standard sector 6 (leather) as well as selected products from sector 12 (clothing).
- **Textiles and clothing:** This sector combines the ITC standard sectors 4 (yarn, fabrics and textiles) and 12 (clothing), with the exception of footwear (see above) and a few clothing products classified as handicrafts (see below).
- **Stone and marble:** Given the importance of stone and marble for the State of Palestine, this sector was created as a separate one. Products falling in this category are a subset of ITC standard sector 7 (metal and other basic manufacturing).
- **Handicrafts:** This sector is specific to the survey in the State of Palestine. In contrast to the other sectors, it is defined by the companies and their production process rather than the products, with PalTrade defining which companies fall under the category of handicrafts. Products falling into this sector include mostly organic soap, which under the ITC standard methodology would belong to the sector 5 (chemicals), and handmade souvenirs and products of wood, precious metal, textile, ceramics or glass, which would under the standard method belong to sectors 3 (wood, wood products and paper), 7 (metal and other basic manufacturing), 12 (clothing) or 13 (miscellaneous manufacturing).
- **Wood, furniture and paper:** This corresponds to ITC standard sector 3, with the exception of those products classified as 'handicrafts' (see above).
- **Pharmaceuticals:** This sector is a subset of the ITC standard sector 5 (chemicals)
- **Chemicals:** This corresponds to ITC standard sector 5, with the exception of pharmaceuticals and selected products falling under handicrafts (see above).
- **Manufacture of plastics:** This sector regroups plastic products that under the standard ITC methodology would be mostly part of sectors 7 (metal and other basic manufacturing) and 13 (miscellaneous manufacturing).
- **Metal and engineering:** This sector corresponds to ITC standard sector 7, with the exception of stone and marble, manufacture of plastics and selected products falling under handicrafts (see above).

Focusing on these sectors, the exporter registry for the survey in the State of Palestine was created from various lists of companies – principally PalTrade's export directory and its associated national sources. The initial business registry contained 513 companies with contact information (see figure 9 for their geographical distribution), out of which 370 were indicated to be trading goods and the remaining 143 belonging to various services sectors that are beyond the scope of the NTM Survey. A total of 44 companies, all of them producers of goods, were located in Gaza and excluded from the NTM Survey, which focused only on the West Bank.

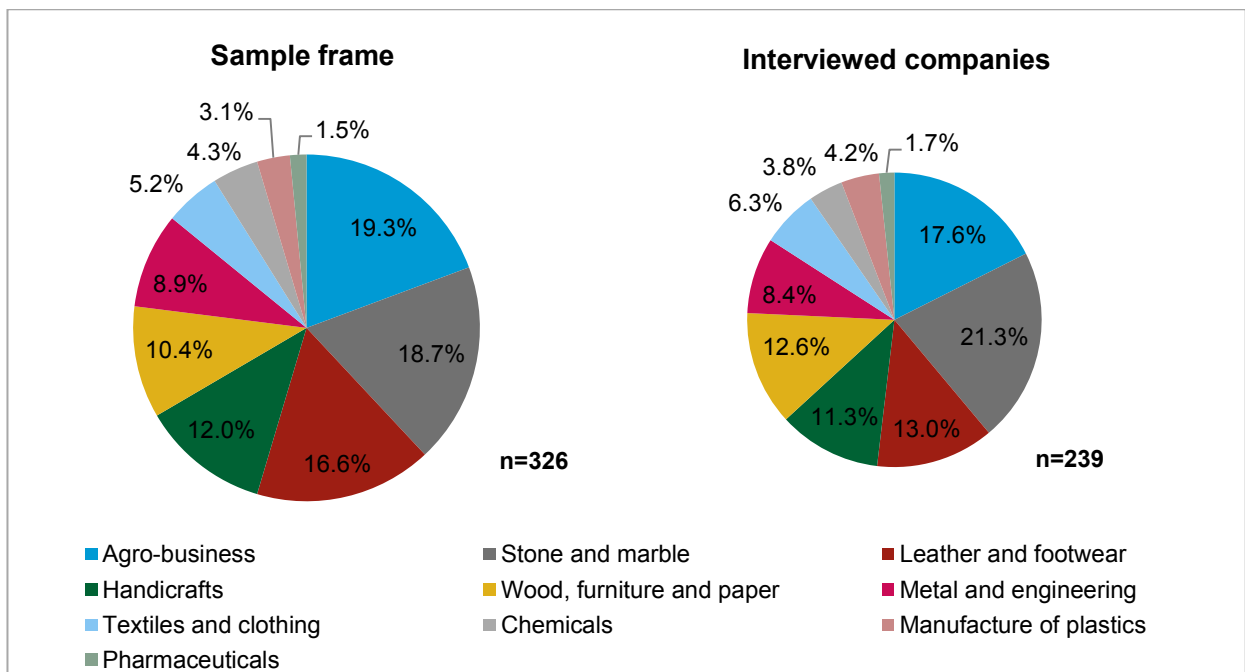
The business registry was corrected with the information obtained through the survey, removing a number of duplicates and companies for which the original information turned out to be erroneous. The latter included companies that were not exporters and a few firms that belonged to the services sector. At the same time, a number of firms were added, which had not been in the original register but whose contact details were obtained during the survey implementation. The final number of goods exporters in the sample frame for the NTM Survey stood at 326. The left panel of figure 10 shows their distribution across sectors.

Figure 9: Geographic distribution of companies from original business registry (n = 513)



Source: PalTrade, 2012.

Figure 10: Sector distribution of companies in the sample frame and the actual sample



Source: ITC/PalTrade business survey on NTMs in the State of Palestine, 2011–2012.

3. Survey process and modalities

The standard ITC survey methodology foresees a 2-step process with first a phone screening stage to identify those companies that have faced burdensome NTMs during the past 12 months; and subsequent in-depth face-to-face interviews with affected companies, which capture at detailed product and partner country level the exact nature of the problem and the underlying reasons (appendix I).

In the State of Palestine, all interviews were carried out face-to-face, combining the two separate sets of questions. This deviation from the global methodology was principally motivated by the length of the questionnaire. As the NTM Survey was combined with a survey on PalTrade services (see introductory paragraph in this chapter), the phone screen questionnaire, directed at all companies, was significantly longer than in other countries. The pilot interviews carried out as part of the training of interviewers and the survey preparation confirmed that this made telephone interviews impracticable.

Interviews were conducted based on ITC questionnaires, which were available in Arabic and English. To reduce the complexity and length of interviews and in line with the focus of the CIDA project, companies were asked about their export activities only. This contrasts with the standard ITC methodology, which also captures the import perspectives.

All interviews were held in Arabic. Typically, the survey respondents were general managers or the company's employee responsible for the export process. The NTM Survey concentrated on companies located in the West Bank only. Due to the concentration of businesses in these areas, over 80% of interviews were held in Hebron, Bethlehem, Nablus and Ramallah. Significantly fewer interviews were carried out in the governorates Tulkarm, Jenin, Salfit, Jericho, Qalqilyah and Tubas.

3.1. Pilot interviews

A decision was made to conduct 20 pilot interviews to examine the questionnaire on four levels: accuracy, time consumption, company reaction and comprehensiveness. The accuracy element of the questionnaire was evaluated by performing quality control on the data-entry process and the logic of the answers. The data were digitalized using SPSS software to build linkages between certain pieces of data (e.g. company size and NTM affectedness) and perform basic statistical analysis.

The interviews ranged from 30 to 60 minutes. The company reaction was studied by looking at representatives' willingness to answer questions, and whether they had any negative reaction to certain questions. The comprehensiveness of the questionnaire was evaluated by asking companies about issues they considered important, and whether they felt the questionnaire adequately examined them.

3.2. Face-to-face interviews

Overall, the NTM Survey includes 239 face-to-face interviews (see right panel of figure 10 for the distribution across sectors). All interviews captured:

- Information about the **respondent** (name, title, responsibilities in the company)
- **Company-level information**, including
 - **Basic information** such as address and sector affiliation, status (i.e. current exporter, former exporter or potential exporter) and the number of years the firm has been in operation;
 - The **size of the firm** in terms of number of employees (disaggregated by sex) and annual turnover;
 - The **intensity of export activities** measured through the share of exports in total sales;
 - **Ownership information** in terms of legal status, gender of the owner and presence of foreign ownership;
 - In addition to the abovementioned variables, which all ITC business surveys on NTMs capture, the survey in the State of Palestine also recorded information about companies' membership in business associations, certification and accreditation.

- **Product and partner country information**, including a list of **all products exported** and for each product, the list of **partner countries** to which the product is exported;
- The companies' **NTM experience**: whether any of their products faced restrictive and burdensome regulations or related obstacles to trade during the last 12 months.

Guided discussion on NTM-related trade obstacles

Subsequently, the subset of those companies that reported to face burdensome regulations was asked additional questions to understand the details of the problems. In a guided discussion, interviewers captured:

- The relevant government-imposed regulation(s) posing a burden;
- The affected products and partner countries;
- The country applying the regulation;
- The reasons the regulation is burdensome;
- The institutions involved in procedural obstacles, if any.

Thanks to the intensive efforts undertaken by PalTrade, all 135 Palestinian companies that reported challenging NTMs agreed to share the details about the problems faced. This is unique in the history of ITC's NTM Surveys, where typically a number of companies refuse to participate in the face-to-face stage of interviews – usually due to time constraints or reservations about sharing sensitive details about experienced trade impediments. As a result, for the NTM Survey in the State of Palestine the company-level information and the affectedness rate as well as the qualitative information obtained through the in-depth discussions are representative.

Business environment and PalTrade services

A last set of questions, which was asked to all companies participating in the survey, related to firms' perspectives of the general trade-related business environment and their opinion of PalTrade services.

4. Data capturing and analysis approach

4.1. Data capturing

As mentioned in the previous section, firms were asked to provide information on their export products at the Harmonized System (HS) 6-digit level code, and, for each of these products, the destination country of exports. Some companies were not able to determine their HS6 code. In such cases, PalTrade would assign it based on the given detailed product descriptions.

For each product-partner trade flow, company representatives were asked to provide detailed information on the NTMs and potential procedural obstacles they encounter. The trained interviewers then captured the category of the NTM as classified in appendix II, the country applying the measure and the authorities causing procedural obstacles. The survey methodology distinguishes between procedural obstacles that are associated with a reported NTM and the trade-related business environment that poses challenges of its own.

Interviewers captured the survey responses on paper. The data were digitalized by a team of dedicated staff at PalTrade headquarters. Data were digitalized using SPSS, as such deviating from the standard ITC data-capturing templates in Excel. The PalTrade data-entry process included checks on the accuracy and the soundness of the answers. Variables (or codes) were created that represented each of the questions; the variables also helped to delineate between the various answer options. These codes, and their associated questions, were printed and kept near the monitor when entering the data. The analysts felt that this process helped to reduce the margin of error during data entry. The soundness of the answers was also briefly examined. For example, a company with no export activity should not have issues with pre-

shipment inspections. Such logical errors were examined and those that occurred often were flagged; analysts paid more attention to error-prone answers.

Data submitted by PalTrade to ITC underwent intensive data quality control, including automated logical tests and manual case-by-case screening of all survey responses to verify completeness and accuracy of the capturing (including comparisons with the original paper-based questionnaires).

4.2. Non-tariff measures cases as basis for data analysis

The data analysis consists of frequency calculations and coverage statistics along several dimensions, including product and sector, main NTM category (e.g. technical measures, quantity control measures, etc.), and company characteristics (e.g. size).

Most frequency and coverage statistics are based on 'cases', the most disaggregated unit of analysis (see appendix I). Every company affected by burdensome regulations reported at least one NTM case and, if relevant, one or several cases of procedural obstacles or challenges associated with the trade-related business environment.

An NTM 'case' is defined by the type of NTM, the country applying it, the product affected by it and the company that reports the measure. For example, should there be three products affected by the same NTM applied by the same partner country and reported by one company, results would include three cases. If two different companies report a single burdensome regulation in a given partner country, it was counted as two cases.

The counting of cases differs depending on whether the NTM is applied by the exporting or importing country. The details of each case, including the actual name of government regulation and its strictness, may vary as regulations mandated by different countries are likely to differ. When the exporting country applies an NTM to a product exported by one company to several countries, this was recorded as a single NTM case because it is considered a single policy.

Cases of procedural obstacles and problems with the business environment are counted in the same way as NTMs. These statistics are provided separately from those of NTMs, even though they are closely related. For example, extended delays (procedural obstacle) may result from pre-shipment inspection requirements (NTM). While procedural obstacles are directly related to a given NTM, inefficiencies in the trade-related business environment occur irrespective of NTMs.

5. Characteristics of interviewed companies

The main objective of ITC NTM Surveys is to identify and analyse existing NTM-related trade impediments as perceived by businesses. However, as a 'side effect' they gather valuable company-level data, which reveals insightful information about the population of exporting companies in the countries surveyed.

The following presents selected statistics about the characteristics of Palestinian exporters, including legal status, export experience, company size, ownership and gender statistics.

5.1. Legal status

Registration of companies in the West Bank falls under the responsibility of the Palestinian Ministry of National Economy and is governed by the Jordanian Companies Law of 1964. Companies doing business in non-autonomous areas of the West Bank are governed by the Israeli Military Order of 1970.¹¹

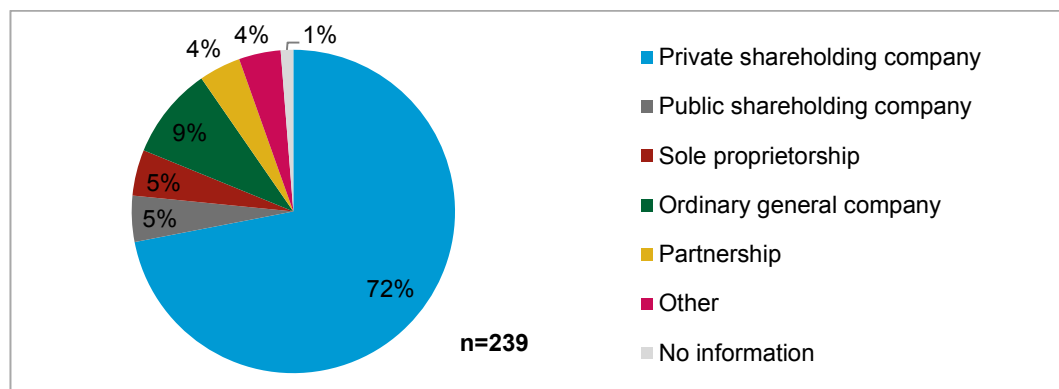
The vast majority of the companies that participated in the NTM Survey are registered as private shareholding companies (72%, figure 11). These are companies with two to 50 private shareholders that

¹¹ Source: Palestinian Investment Promotion Agency (<http://www.pipa.gov.ps/structurs.asp#3>; link accessed on 10 October 2014).

can impose restrictions on the transferability of their shares and are prohibited from offering shares to the public.¹²

Ordinary general companies, a company form in which all partners are considered general partners and are jointly liable for all debts, contracts and obligations of the company¹³, account for the second most frequent legal status among Palestinian companies (9%).

Figure 11: Distribution of exporters by legal status



Source: ITC/PalTrade business survey on NTMs in the State of Palestine, 2011–2012.

Although sole proprietorships are the most common type of business structure in the State of Palestine, with most family-owned establishments being sole proprietorships with licences to operate,¹⁴ only 5% of surveyed companies fall into this category. This is linked to the fact that most of these firms are non-exporting companies, which are not registered. Companies wishing to sell abroad need a business registration to be able to export and are more likely to be categorized as ordinary general companies or private shareholding companies.

Other legal business structures are much less common, with fewer than 5% of companies being registered as public shareholding companies, partnerships or other forms.

5.2. Indicators of ‘experience’: years in operation and export history

The NTM Survey reveals that many Palestinian exporting companies have been operating for a considerable amount of time (figure 12, left panel). More than half of the surveyed companies were established prior to 1995, while only 16% (38 companies) are younger than five years.

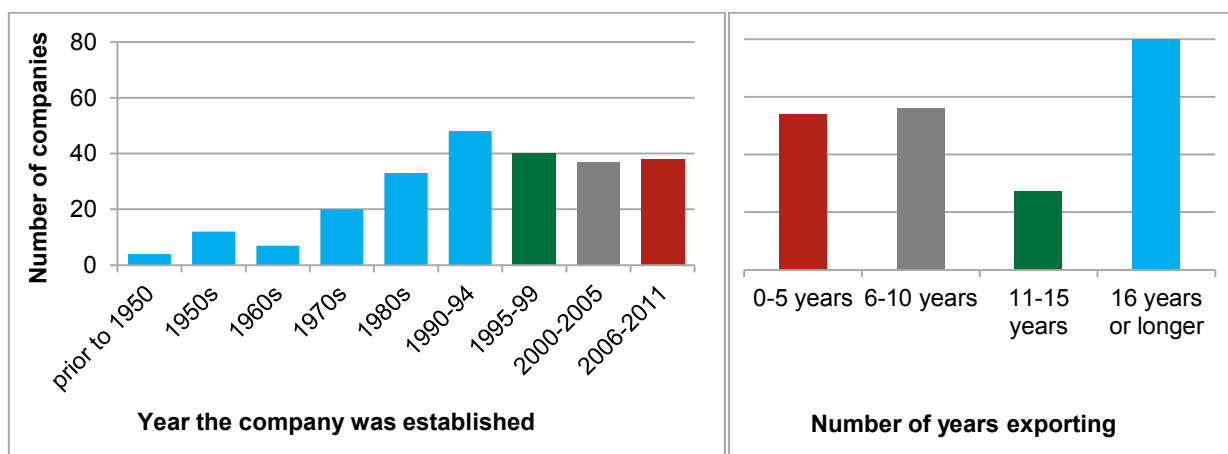
The data also show that in their early years, companies tend to concentrate on the home market with export operations usually starting a number of years after establishment. Nearly 60% of surveyed firms started exporting within the past 15 years, 23% in the five years preceding the survey, while only about one-third have been exporting more than 16 years (figure 12, right panel).

The survey furthermore reveals Palestinian companies’ export intensity by capturing for each exporter the share of exports in total sales. Palestinian exporters are rather homogeneously distributed across the different categories (figure 13). Roughly half of the companies concentrate primarily on the home market with less than 50% of sales being generated by exports whereas the other half is predominantly export-oriented. Women-owned companies seem slightly less export-oriented than men-owned firms; however, the differences are not statistically significant.

¹² Ibid.

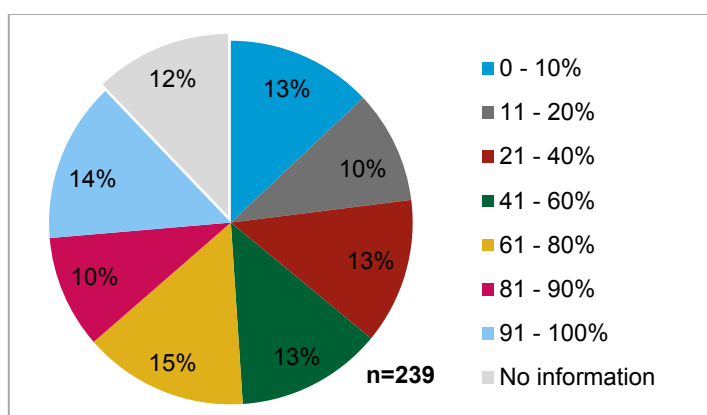
¹³ Ibid.

¹⁴ Ibid.

Figure 12: Number of companies, by year of establishment and number of years exporting

Source: ITC/PalTrade business survey on NTMs in the State of Palestine, 2011–2012.

Note: In total, 239 companies were interviewed. The left panel shows their distribution by year of establishment. The right panel depicts for 217 companies the number of years they had been exporting at the time of the survey. For the remaining 22 companies, information is either unavailable (12) or they had recently stopped exporting, among other reasons, due to NTM-related impediments (10).

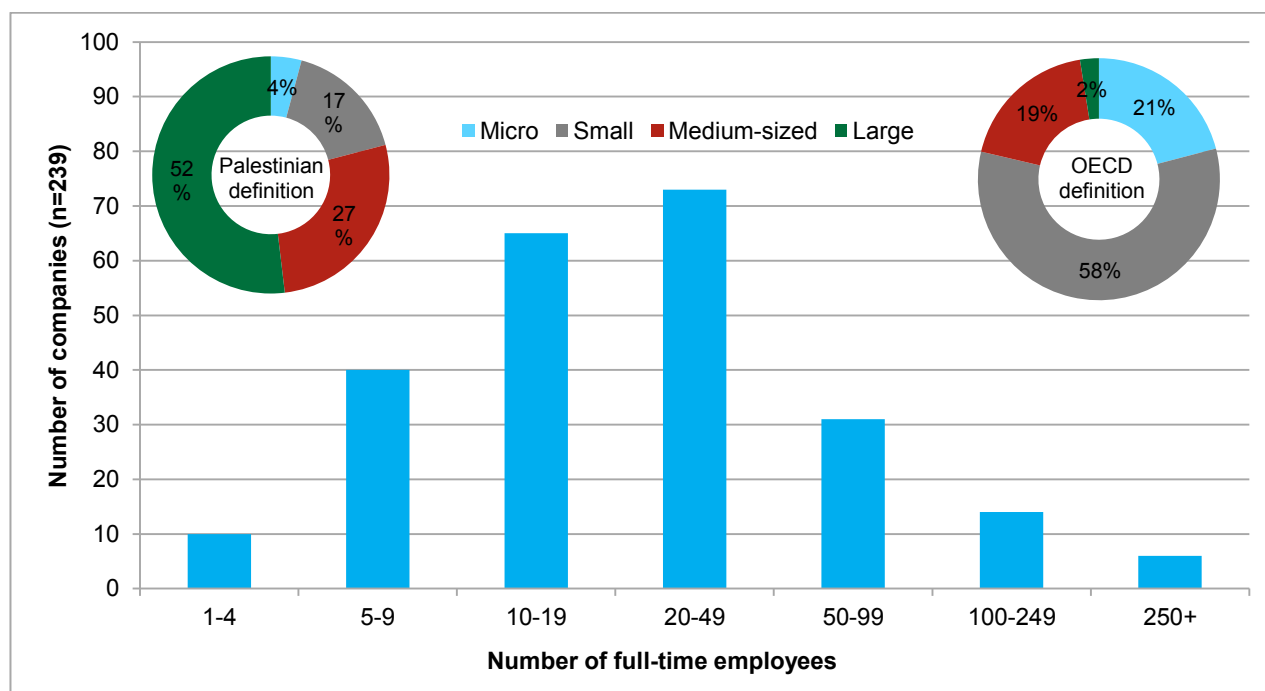
Figure 13: Number of companies, by share of exports in total sales

Source: ITC/PalTrade business survey on NTMs in the State of Palestine, 2011–2012.

5.3. Company size: turnover and number of employees

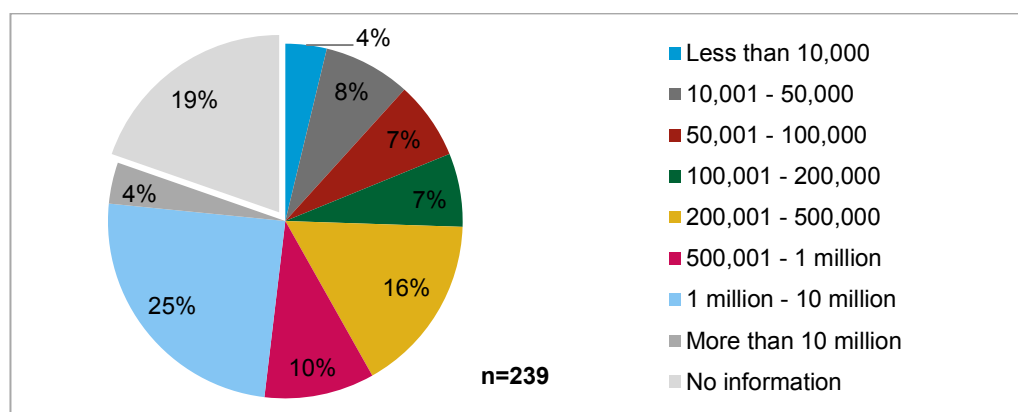
The company size can be measured both by the number of employees and the annual turnover (or a combination of both).

The 239 surveyed exporters in the State of Palestine employ over 9,700 people. Yet, the majority of exporting companies are by OECD standards small or even micro enterprises (figures 14 and 15). On average, exporting firms employ 41 employees, only about one-fifth of companies employ more than 50 people (figure 14) and only isolated exporters have an annual turnover above US\$ 10 million (figure 15). To benchmark, the EU defines as small those companies with annual sales worth less than € 10 million and with fewer than 50 employees.

Figure 14: Distribution of exporters by size

Source: ITC/PalTrade business survey on NTMs in the State of Palestine, 2011–2012.

Note: Both pie charts and the bar chart depict the distribution for the 239 surveyed enterprises. The Palestinian company size definition originates from the Palestinian Ministry of National Economy classification, which defines companies with one-to-four employees as micro enterprises, with five-to-nine employees as small, with 10–19 employees as medium-sized and those with 20 employees or more as large. The OECD definition originates from the EU/OECD classification, which defines as micro enterprises those with one-to-nine employees, as small those with 10–49 employees, as medium-sized those with 50–249 employees and as large those with 250 employees or more.

Figure 15: Distribution of exporters by annual turnover (values in US\$)

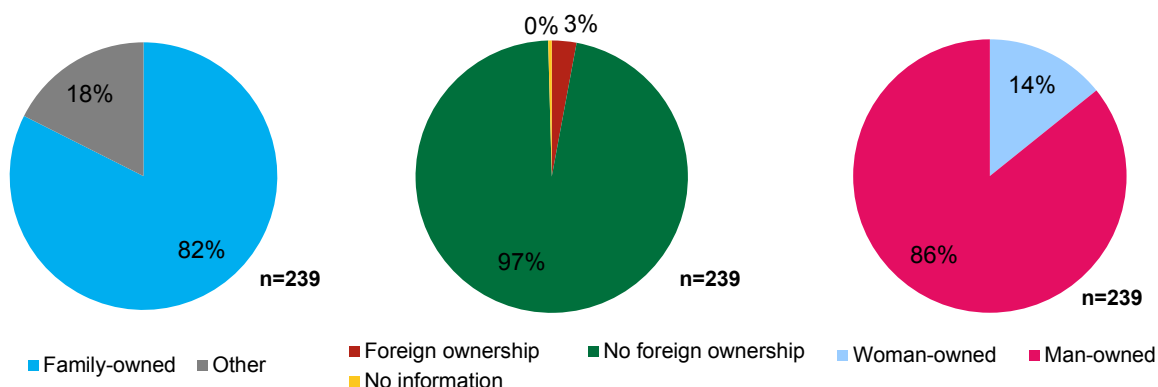
Source: ITC/PalTrade business survey on NTMs in the State of Palestine, 2011–2012.

5.4. Ownership and gender statistics

The typical exporting enterprise in the State of Palestine is family-owned and headed by a man with no foreign ownership involved (left, right and middle panel of figure 16, respectively).

In total, 197 of the 239 surveyed exporting firms are considered 'family-owned'. The data reveal that these companies employ on average four family members full time, with an average number of total employees of 39. As such, family-owned exporting companies tend to be smaller than other companies, which employ on average 48 people.

Figure 16: Ownership structure of exporters in the State of Palestine



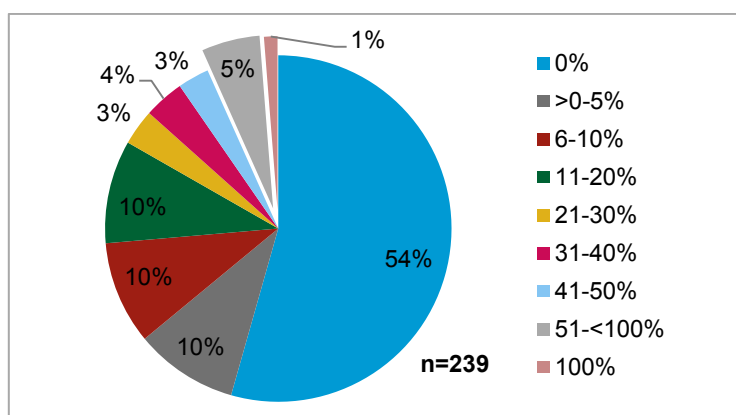
Source: ITC/PalTrade business survey on NTMs in the State of Palestine, 2011–2012.

In all countries surveyed by ITC, exporting businesses owned by a woman are the minority. This is no different in the State of Palestine, where 86% of the 239 surveyed companies are owned by men. Women-owned businesses are distributed across the different sectors. In fact, there are at least two in each of the 10 sectors, which is noteworthy given the low number of women-owned enterprises overall (34), with some ‘concentration’ (six businesses each) in agro-business and the wood, furniture and paper sector.

The average number of employees of women-owned companies is slightly higher than for men-owned companies (42 versus 40). However, this is driven by three exceptionally large companies that are owned by a woman. Only five companies have a workforce larger than 45. Excluding the three largest companies, the average number of employees employed by women-owned exporting firms drops to 21.

The survey data also provide an insight into the composition of exporting firms’ workforce and allows us to determine the female labour force participation in these companies. In the State of Palestine, the share of women in the total number of employees of exporting firms is extremely low, with an overall average of 11.1%. The share is slightly higher for women-owned companies (16.6%) than for their male-owned counterparts (10.2%), providing tentative support for the hypothesis that women are more likely than men to employ other women. In contrast, family or foreign ownership does not seem to affect Palestinian exporters’ share of female employees.

Figure 17: Distribution of exporters by share of women in the total number of employees



Source: ITC/PalTrade business survey on NTMs in the State of Palestine, 2011–2012.

Most exporting businesses in the State of Palestine, namely 54%, do not employ any women at all (figure 17). This is somewhat remarkable as it stands in contrast with the other countries surveyed by ITC. At the

same time, this is a mere reflection of the overall female participation in the labour force in the State of Palestine, which in 2011 stood at 16.6% and as such was lowest among all Arab countries.¹⁵

Accordingly, 84% of surveyed companies report the share of female workforce to be below 20%. For only 6% of companies it exceeds 50% (figure 17). Many of these are in the textiles and clothing industry with some in wood, furniture and paper and agro-business and isolated cases in chemicals and handicrafts.

Generally, sector differences are quite pronounced (table 2). In metal and engineering as well as the plastics industry, all enterprises report a female workforce of less than 10%, with the vast majority not employing any women at all – in the stone and marble sector the female employee share does not exceed 15%. Pharmaceuticals, agro-business and textiles/clothing are the only three sectors where the majority of companies employ women (in the case of pharmaceuticals, it is all four companies).

Table 2: Share of women in total number of employees, by sector

Sector	Number of surveyed exporters	Average share of female employees
Agro-business	42	12.9%
Chemicals	9	24.3%
Handicrafts	27	16.4%
Leather and footwear	31	4.9%
Manufacture of plastics	10	2.1%
Metal and engineering	20	2.3%
Pharmaceuticals	4	41.4%
Stone and marble	51	1.6%
Textiles and clothing	15	40.3%
Wood, furniture and paper	30	12.6%
Total	239	11.1%

Source: ITC/PalTrade business survey on NTMs in the State of Palestine, 2011–2012.

5.5. Other company characteristics

The below summarizes other characteristics of Palestinian exporters as revealed through the NTM Survey.

Membership in associations

- 90% of surveyed companies know PalTrade, the State of Palestine's trade development organization, however, only one-third are PalTrade members.
- Nearly all exporters (95%) are members of the chamber of commerce; 75% are members of a business association or a specialized sector association.

Export development training and export promotion

- About half of the surveyed exporters (46%) have never participated in export promotion activities, international exhibitions, business-to-business meetings or trade missions.
- Only one-third of companies reported to have employees that had in the past participated in export management and development training.

¹⁵ Source: Palestinian Central Bureau of Statistics.

Quality certification

- 72% of exporting firms (172 companies) do not have quality certification. Of these, 76 indicated that they would like to have certification as it would help to facilitate exports. Another 30 companies that are already certified also indicated they are seeking additional certification to improve market access abroad.
- Only 35 companies (15%) have a Palestinian Quality Mark Certificate.
- Seven exporters (3%) report having a Palestinian Monitoring Mark Certificate.
- In total, 13% of exporters (31 companies) hold one or more International Organization for Standardization (ISO) certificates, predominantly ISO 9001/2000 for quality management systems (24 companies) followed by ISO 22000 for food safety (six companies) and ISO 14000 for environmental management (three companies).
- Only three companies hold good manufacturing practices (GMP) certification.
- Only four surveyed exporters report being GlobalG.A.P. certified. GlobalG.A.P. certification is a standard requirement for food producers to access the major retailers in most developed countries, including the European Union and the United States. Without this certification, companies face a significant access barrier to these markets. The low number of Palestinian exporters reporting to be GlobalG.A.P. certified is surprising. According to GlobalG.A.P. statistics, 439 producers in the State of Palestine were listed as certified in 2011.¹⁶ The significant differences in numbers can to some extent be attributed to the fact that the NTM Survey only concentrates on exporting companies in the West Bank (with companies being legally registered entities) rather than all producers in West Bank and Gaza (with the definition of what constitutes one 'producer' potentially differing from the definition of a 'company').
- Other certifications mentioned include country-specific quality certificates (e.g. Israel, Jordan, the Netherlands, the United Kingdom) and isolated cases of certification against private standards, such as 'organic'.
- A total of 106 companies (or 45% of those surveyed) indicated they would like to have (for some: additional) certification. Highest on the 'wish list' are ISO certificates (mostly ISO 9001 and 22000) with 70 mentions, and the Palestinian quality mark certificate and/or foreign certificates (mentioned countries include the People's Republic of China, Germany and the United States), which were mentioned by 45 companies. Much less frequently mentioned desired certificates, with each mentioned fewer than five times, includes GMP, hazard analysis and critical control point (HACCP) certification for food safety, and private standards (including among others 'organic' and 'fair trade' labels or certification of selected meat products as 'halal').

6. Implementation challenges

The major implementation challenge related to the design of the survey, more specifically the deviation from ITC's standard methodology, which was in turn rooted in the structure and exigencies of the project as part of which the survey was carried out. Combining in one single undertaking two surveys, namely the NTM Survey and a survey on business perceptions on PalTrade services, represented a risk.

- The two surveys had different objectives and types of questions, with the 'ideal' respondent profile slightly differing. The lack of focus inherent in covering several topics at once can be both confusing and tiring for respondents.

¹⁶ GlobalG.A.P. Annual Report 2011, available at www.globalgap.org/export/sites/default/content/galleries/documents/120501_Annual_Report_2011_web_en.pdf (link accessed on 7 November 2014). Note that the statistics in the report refer to 'Palestinian territories' – disaggregated statistics for Gaza and West Bank are not available.

- The survey questionnaire was significantly longer than the one used for NTM Surveys in other countries. This had a number of implications: to keep the length of the interviews manageable, it was decided to only concentrate on exports and to disregard the import dimension, which is normally an integral part of the ITC survey methodology and as such captured in all other NTM Surveys carried out thus far. Despite this mitigating action, interviews were time intensive and a number of respondents were unwilling to complete the entire interview.

As a result, some companies only responded to the PalTrade services survey, which had more straightforward multiple choice questions, and opted out of the NTMs questions, which required guided discussions and which interviewers often left for the end of the interview. However, this did not turn out to be a major problem as the final number of completed (NTM) interviews was sufficient to fill the sample quota in most sectors (with the notable exception of the leather and footwear sector, which was four interviews short of reaching the quota, and the chemicals sector, with three 'missing' interviews).

- The survey design affected the data capturing. PalTrade opted for capturing the data in SPSS, the programme that had been used for client surveys PalTrade had conducted in the past. While this is a good solution for capturing company-level information (i.e. one company, one set of information resulting in one 'line' in the database), it is suboptimal for the multi-dimensional data that emerge from the NTM Survey.

In addition to company-level information, NTM Survey data cover information on product-partner country pairs (which may be numerous for an individual company) and for each of these pairs the different NTM cases (which again may exceed one per product-partner country pair). Capturing this information in a single SPSS database results in a massive number of data entry columns, which renders quality control cumbersome. ITC converted the database into the standard Excel-based data-capturing files to be able to run the automated coherence and quality checks and to facilitate the manual case-by-case quality control. The different capturing methods substantially slowed down the data review and complicated the associated communication and data exchanges between PalTrade and ITC.

Finally, language posed a challenge. Interviews were held and recorded on paper in Arabic. However, in absence of adequate programmes and Arabic language skills of data quality controllers at ITC (and to integrate the data from the State of Palestine into the ITC survey database), the data were digitalized in English. This resulted in some information getting 'lost in translation' and required, in addition to verifying the quality of the data and of the underlying interviews, verifying whether the English capturing of the Arabic information was correct. This further impacted the time for data processing and quality control.

Chapter 3 Palestinian companies' experiences with non-tariff measures

This chapter analyses the findings of the NTM Survey in the State of Palestine. Section 1 presents aggregate results showcasing the affected sectors, major problems and their location. A more specific analysis of the most prevalent challenges reported by exporting companies follows. Section 2 summarizes exporters' problems encountered within the State of Palestine. Section 3 briefly discusses issues related to Arab trading partners and the implementation of GAFTA. Section 4 highlights private sector concerns with technical measures, notably SPS and TBT and related conformity assessment measures. Measures imposed by Israel are summarized in section 5. Section 6 presents a number of issues related to the general business environment in the State of Palestine, beyond NTM-related trade impediments. Section 7 presents conclusions.

1. Aggregate results and cross-cutting issues

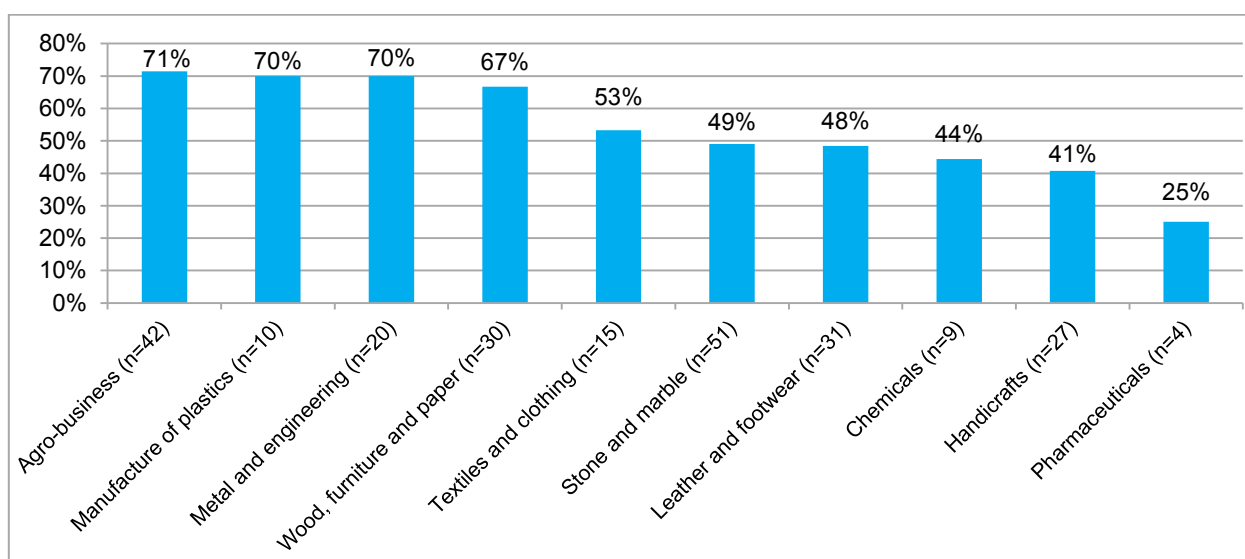
1.1. The share of companies reporting to be affected by burdensome NTMs

The survey reveals that 56.5% (135 out of 239) of Palestinian exporters are affected by burdensome NTMs or related trade obstacles. This corresponds roughly to the average rate that was found among the countries covered to date by the ITC programme on NTMs. The share of affected exporters is much lower than in East Africa, notably Malawi, Kenya and Rwanda, where the affectedness exceeds 70%. However, the affectedness rate is significantly higher when compared with other Arab states such as Egypt (37%) and Morocco (33%). The island states of Mauritius and Trinidad and Tobago stand out with very low shares of exporters facing trade impediments related to NTMs (with 25% and 21%, respectively).

Sectors

The average number of 56.5% disguises a large sector variation in the share of affected exporting companies in the State of Palestine (figure 18). The agro-business sector seems particularly impacted with 71% of companies reporting to face burdensome NTMs, followed by manufacturers of plastics and metals and engineering (both 70%). In contrast, companies in the handicrafts and in particular the pharmaceuticals sector face fewer problems related to NTMs (the share of affected companies being 41% and 25%, respectively).

Figure 18: Share of companies affected by burdensome NTMs, by sector



Source: ITC/PalTrade business survey on NTMs in the State of Palestine, 2011–2012.

Note: Total number of companies interviewed: 239.

The high affectedness of the agro-business sector has to be considered against the background that fresh agricultural products and processed food are exported mainly to developed markets, which apply tight controls on food and feed to ensure the health and well-being of consumers and to protect the environment. Additionally, when transporting food products into Israel (either as a transit point or destination), Israeli authorities often perform inspections at checkpoints that are thorough enough to threaten the integrity of the food product. An example is dairy products taken out of cooling trucks and inspected for extended periods of time in hot weather conditions, breaking the cooling cycle. As a result, agro-business exporters are more likely to be negatively affected by these inspections, which will be dealt with in more detail in section 5 of this chapter.

Company ownership and gender

Affectedness also varies depending on whether a company is owned by a woman. While the number of women-owned companies in the survey (34) is too small to make statistical inferences about affectedness and women ownership, the averages suggest that women-owned businesses are more likely to be affected by burdensome NTMs than other companies: 73.5% of women-owned firms report to face challenging NTMs, versus 53.6% for male-owned businesses. Put differently, the share of affected firms that are women-owned stands at 18.5%, more than double the share for those that report no challenges related to NTMs (8.7%).

Taking a closer look at the firms' employees, it appears that the average share of female employees is slightly higher for affected firms (11.7%) than of those that perceive existing non-tariff measures as not challenging (10.3%).

Family and foreign ownership does not seem to affect the likelihood of finding NTMs burdensome. This said, the number especially of foreign-owned firms in the State of Palestine is too small to draw statistically significant conclusions.

Company size

When disaggregating the degree of affectedness by company size, a counterintuitive result emerges: the share of companies reporting that they face burdensome NTMs increases with company size. This is in line with findings in other countries and is to some extent rooted in the definition of what constitutes an 'affected company'. Each company that reports at least one NTM 'case' for any of its products and partner countries is recorded as affected by burdensome NTMs (see chapter 2, section 4 and appendix I). As a result, the likelihood of facing at least one problem increases with the number of products exported and the number of destination markets, which correlates to company size.

The NTM Survey's definition of affectedness disregards the different *effects* that a single reported problem may have on companies of different sizes. For example, the magnitude of a problem with recognizing a certificate (concerning one product and one country) may be much smaller for a company exporting many products to many destination markets than it is for a small company that only trades this one product with the one partner country, which refuses to recognize the certificate.

Indeed, when looking at the share of Palestinian companies' exports that are impacted by the reported problems, it is close to 100% for 'affected' micro and small enterprises and decreasing with company size. Put differently, micro and small exporting enterprises may be less numerous to report on NTM-related trade impediments, but when they do, the problems tend to affect most if not all of their export operations.

Company age and export intensity

There is no clear pattern in affectedness of firms and their export exposure. Similarly, the probability to face a burdensome NTM does not seem to depend on the age of a company. More 'experienced' Palestinian companies in terms of company age and export intensity do not appear to find NTMs easier to deal with than newer companies or those with a lower export share.

Region

Noteworthy differences in the degree of affectedness exist between governorates (table 3). As such, 80% of Ramallah-based companies reported on burdensome NTMs, while only about half of the exporting firms in Hebron and Bethlehem did so. Nablus has the lowest share of firms affected by NTMs (41%).

Table 3: Share of companies affected by burdensome NTMs, by governorate

Governorate	Number of surveyed companies	Share of affectedness
Jericho	6	83.3%
Ramallah	35	80.0%
Tulkarm	13	61.5%
Salfit	7	57.1%
Hebron	75	56.0%
Bethlehem	45	51.1%
Jenin	8	50.0%
Qalqilya	4	50.0%
Tubas	2	50.0%
Nablus	44	40.9%
TOTAL	239	56.5%

Source: ITC/PalTrade business survey on NTMs in the State of Palestine, 2011–2012.

PalTrade membership

The survey data also reveal differences between PalTrade members and non-members. Interestingly, the share of companies reporting an impact by burdensome NTMs is higher among PalTrade members (64%) than among non-members (53%). Similar results are obtained if one considers those companies that have sought PalTrade services in the past (independently of being a member).

A possible explanation for this counterintuitive result could be that companies that face burdensome NTMs are more likely to seek PalTrade membership and support than those that do not.

Quality certification

Similarly 'odd' results are obtained when disaggregating between companies that possess some kind of quality certification and those that do not (see chapter 2, section 5.5 for more details about the types of certificates held by Palestinian exporters). In principle, one would expect certified companies to be less affected by burdensome NTMs because quality-related concerns are likely to be much smaller for these companies.

Yet, the opposite holds true: 81% of those companies that hold one or more certificates report on burdensome NTMs versus only about half of those that do not possess any certification. This result is hard to explain and may merit further investigation in the framework of a separate study. To some extent, the sector affiliation may be a contributing factor: many certified companies are in the agro-business sector, in which affectedness is generally high (figure 18). As mentioned earlier, exporters of agricultural produce are more severely impacted than others by the border clearance procedures and the lack of storage and cooling facilities at commercial crossings, regardless of whether they hold quality certification. This is discussed in section 5 of this chapter.

1.2. Reported non-tariff measures and procedural obstacles

As described in chapter 2, the companies that indicated facing burdensome NTMs in the export process were asked to provide details about each product and trade flow affected, in terms of type of measure

encountered and the reasons making it difficult to comply with. In total, Palestinian exporters 402 cases¹⁷ that fall into three main groups.

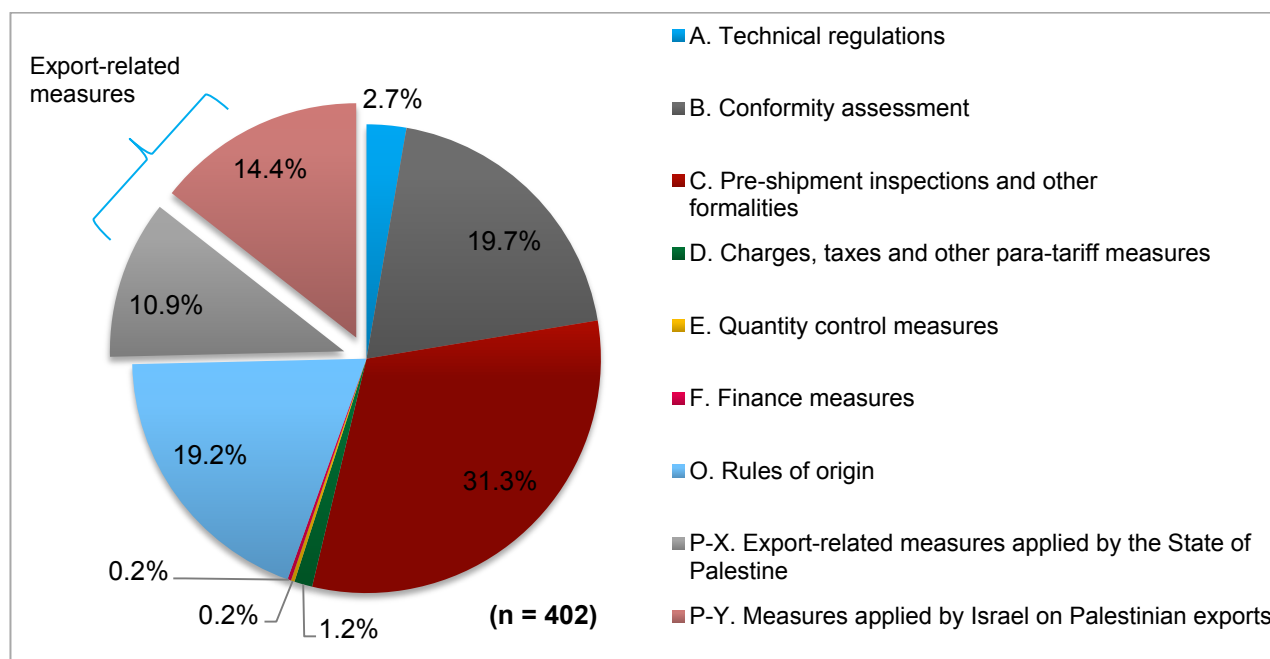
- (1) The first group is associated with the 299 cases of import-related measures applied by countries importing from the State of Palestine, in addition to a single case where a measure was applied by a transit country, creating a total of 300 cases.

The two other groups concern export-related measures and differ in terms of the authorities applying these measures.

- (2) One of these groups represents the 44 cases of export-related measures applied by the Palestinian Authorities;
- (3) The final group comprises the 58 cases of export-related measures applied by Israel on Palestinian exports.

The most commonly reported import-related NTMs applied by partner countries are pre-shipment inspections (31.3% representing 126 out of 402 cases, including the transit case), SPS and TBT measures comprising technical regulations and measures of conformity assessment (22.4 %), and rules of origin (19.2%, figure 19). Other less frequently reported import-related measures include charges and taxes, quantity control and finance measures.

Figure 19: Types of burdensome NTMs faced by Palestinian exporters (% of reported NTM cases)



Source: ITC/PalTrade business survey on NTMs in the State of Palestine, 2011–2012.

As such, the distribution differs from the results in other countries where technical (i.e. SPS and TBT) measures account on average for about half of the NTM cases, with the incidence of non-technical measures, in particular inspection requirements (about 9% of reported cases, excluding export-related measures) being on average much smaller than in the case of the State of Palestine.¹⁸

¹⁷ An NTM 'case' is defined by the type of NTM and the country applying it, the product affected by it and a company reporting the measure. For example, should there be three products affected by the same NTM applied by the same partner country and reported by one company, results would reflect three cases. If two different companies report the same problem (for one country and product), it would count as two cases. See appendix I for more details.

¹⁸ ITC internal calculations.

In contrast, with about 25% of all NTM cases, the share of export-related measures reported by Palestinian exporters is similar to other countries. Yet, fewer than half of these cases concern NTMs applied by Palestinian authorities, with the rest being export-related measures imposed by Israel on Palestinian exports.¹⁹ Export-related measures are usually applied on exports irrespective of the destination of a particular product. As a consequence, their impact is likely to be larger than what the share of ‘cases’ as displayed in figure 19 suggests. It is noteworthy that in the special case of Israel applying regulations on Palestinian exports, inspections once again dominate the NTM cases with 54 out of 58 cases (93%).

Sector differences

Both pre-shipment inspections as well as export-related measures are essentially cross-cutting problems affecting companies from all sectors (with the exception of pharmaceuticals). For exporters of textiles, metal and engineering and wood, furniture and paper, pre-shipment inspections are the predominant concern, with very few cases related to other types of NTMs.

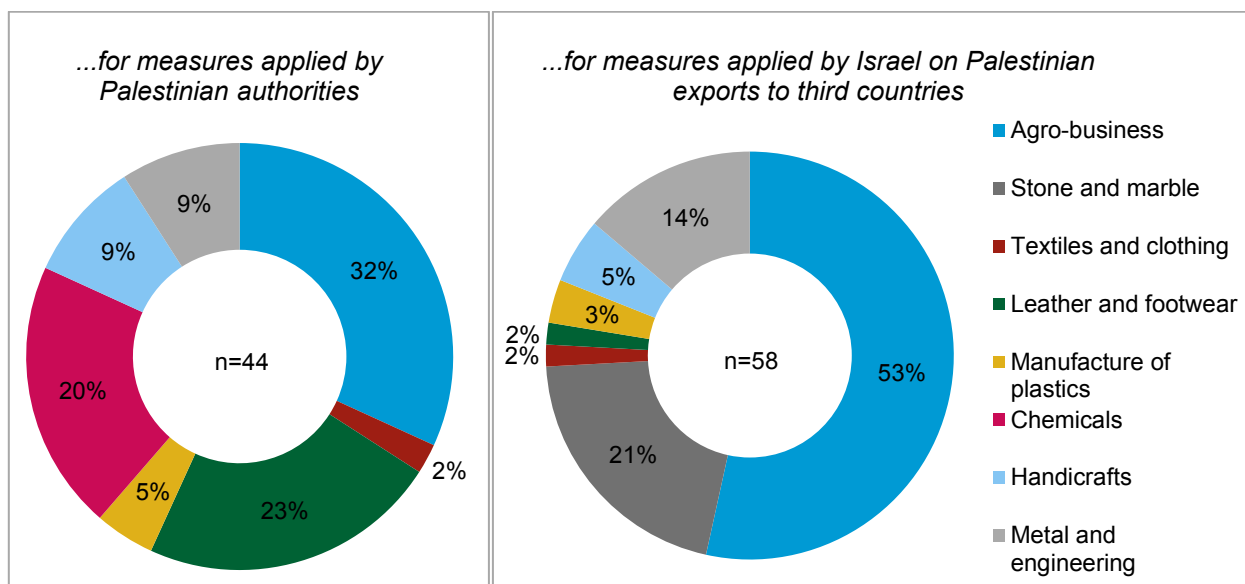
Most cases of SPS and TBT measures are recorded for food products but also affect chemicals, plastics and handcrafts (notably soap producers) as well as exporters of stone and marble. This is not surprising given that these regulations are mostly put in place for reasons of health or environmental protection and thus more likely to affect the above-mentioned sectors.

Rules of origin are mostly reported by exporters in the agro-business and stone and marble sectors. Some cases were also reported from handicraft exporters and metal and engineering. All four cases recorded for the pharmaceuticals sector concern rules of origin.

Export-related measures

For export-related measures, figure 20 summarizes the distribution of cases by sector, reporting them for measures applied by Palestinian authorities and Israel, respectively. This distribution correlates with the export destinations of these sectors’ products: to the extent that a sector’s exports are nearly entirely destined for Israel (e.g. leather and footwear, textiles and clothing, chemicals), they are unlikely to be affected by measures applied by Israel on Palestinian exports to third countries.

Figure 20: NTM cases concerning export-related measures, by sector



Source: ITC/PalTrade business survey on NTMs in the State of Palestine, 2011–2012.

¹⁹ The occurrence of one country restricting / controlling the exports of another is a unique and hence special case in the history of the ITC surveys on NTMs, for which the standard analysis methodology does not provide a clear categorization. For the purpose of this paper (and in contrast to transit country measures, which are typically classified as import-related measures), the cases of burdensome NTMs that are applied by Israel on Palestinian exports are counted as ‘export-related measures’.

However, the distribution is influenced by the number of interviewed companies in each sector and the share of affectedness, as only affected companies will report burdensome NTMs (see figure 18). It is therefore not surprising that most export-related cases concern the agro-business sector, irrespective of where the measure is applied (i.e. Israel or the State of Palestine). Cases in the State of Palestine relate mostly to export certifications and licences, whereas inspections dominate the reported measures applied by Israel. In contrast to most other sectors, notably agro-business, chemicals and leather and footwear, exporters of stone and marble only reported concerns about export-related measures applied by Israel. Export licences or certificates required by the Palestinian authorities do not pose a major problem to this sector as no specific documents are required for manufactured stone products, except for exports of blocks to Jordan. The latter require a formal letter issued by the Palestinian Union of Stone and Marble describing amount and quantity of stone sales within the agreed quantity.

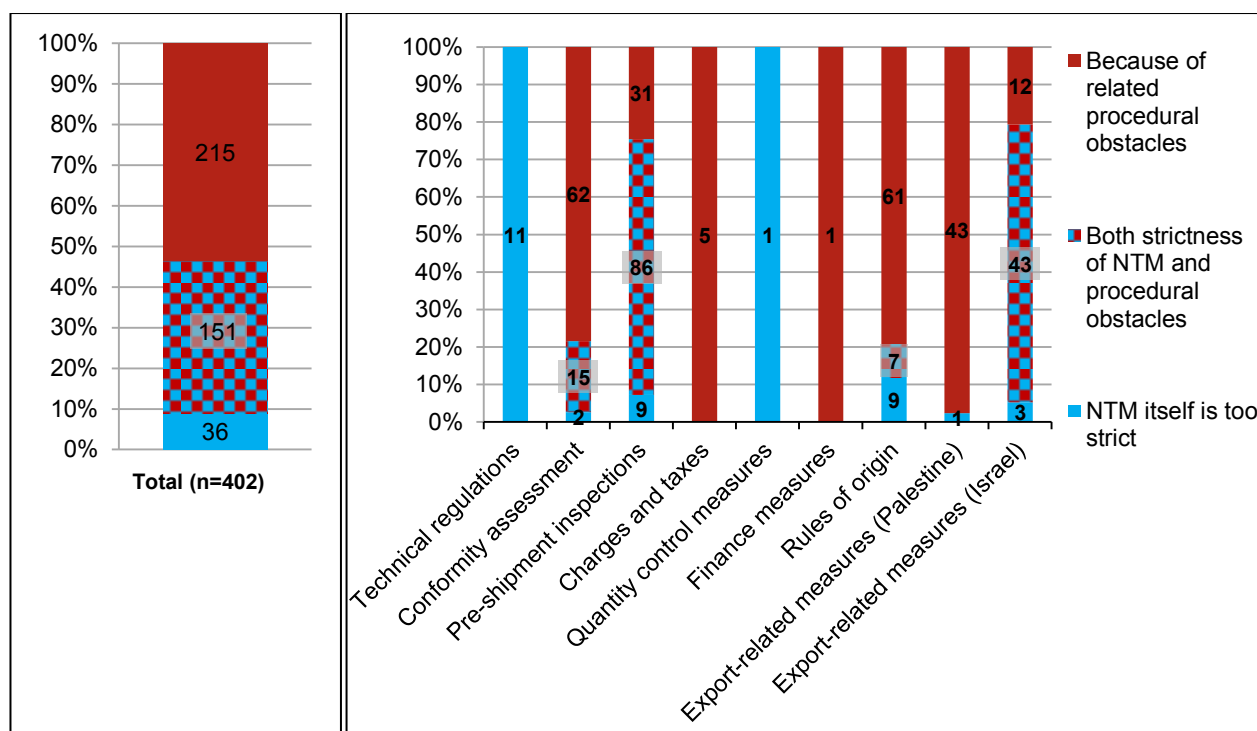
Reasons for non-tariff measures being burdensome

NTMs can pose a problem to exporters for different reasons:

- The regulation itself could be very strict and too difficult to comply with;
- The reason for the problem lies in procedural obstacles that render compliance with the underlying regulation difficult;
- Or both – the NTM is strict and procedural obstacles occur.

Figure 21 reflects the reasons for the different types of NTMs being burdensome. Of the 402 NTM cases, whether export-related or import-related, more than half (53.5%) are considered to be problematic solely due to the procedural obstacles associated with them, and not because of the underlying NTM (left panel of figure 21). About 40% of cases are perceived as burdensome due to both the regulation itself and the associated procedural obstacles, while the remaining 9% are cases of strict NTMs without any related procedural obstacles. Put differently, the vast majority of the NTMs reported by exporters (91%) are linked to procedural obstacles.

Figure 21: Reasons for reported NTM being burdensome, total and by type of measure



Source: ITC/PalTrade business survey on NTMs in the State of Palestine, 2011–2012.

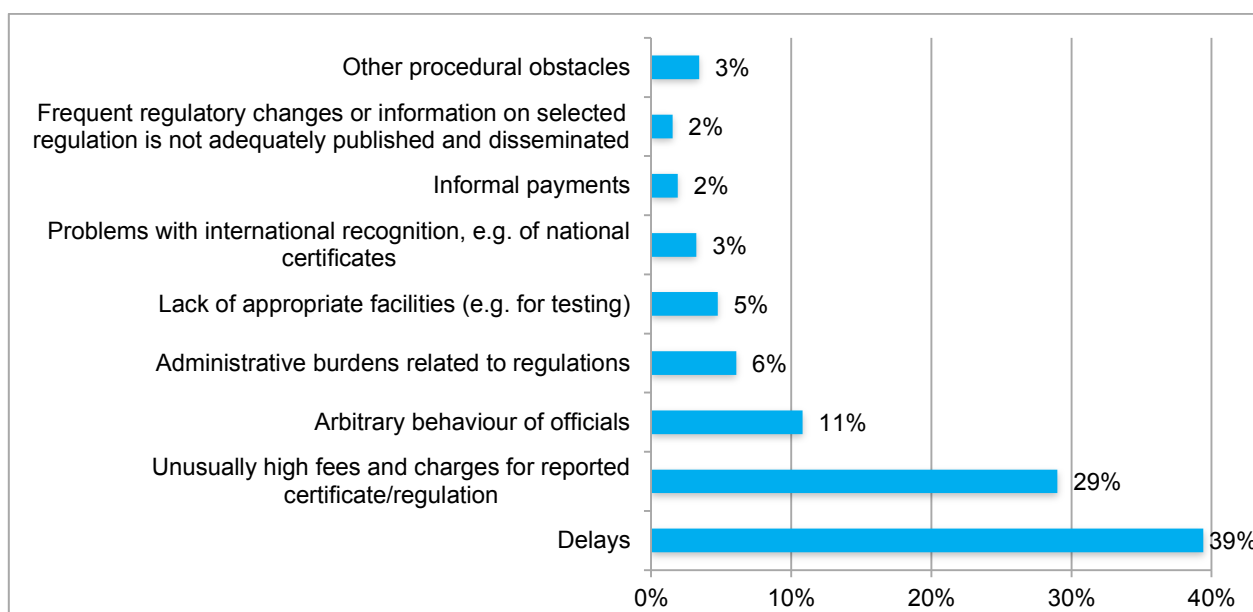
However, there are important differences depending on the type of NTM. Technical regulations and quantity-control measures are both considered very strict, without any procedural obstacles linked to them. In contrast, measures of conformity assessment, charges and taxes, finance measures, and rules of origin are burdensome mainly (or even entirely) due to associated procedural obstacles. In the case of rules of origin, in 61 out of 77 cases the procedural obstacle was considered the burden.

Inspections are the most frequently reported type of NTM. Inspections are largely considered burdensome on their own, but are in many instances also associated with procedural obstacles. This is mirrored by the export-related measures applied by Israel, which also mostly concern inspections. Associated procedural obstacles vary between high costs, delays, theft of products, spoiling of products and arbitrary behaviour by officials.

Export-related measures applied by Palestinian authorities are predominantly burdensome because of procedural obstacles (72.4%), while the underlying NTMs are regarded as nearly unproblematic. Reported procedural obstacles mainly relate to delays and, in some instances, bribery associated with obtaining export certificates and licences.

The most frequently reported procedural obstacles, which are problems related to the manner in which a regulation is applied or implemented, are delays (39%), followed by unusually high fees or charges for particular certificates or regulations (29%), and arbitrary behaviour of officials with regards to a particular regulation (11%, figure 22). Palestinian exporters reported a total of 528 procedural obstacles.

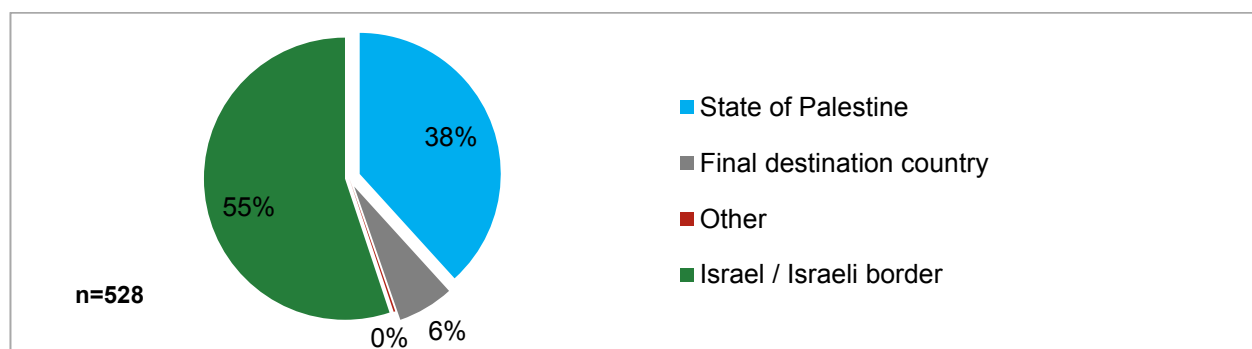
Figure 22: Types of procedural obstacles faced domestically and in partner countries



Source: ITC/PalTrade business survey on NTMs in the State of Palestine, 2011–2012.

Note: Total number of procedural obstacles reported: 528.

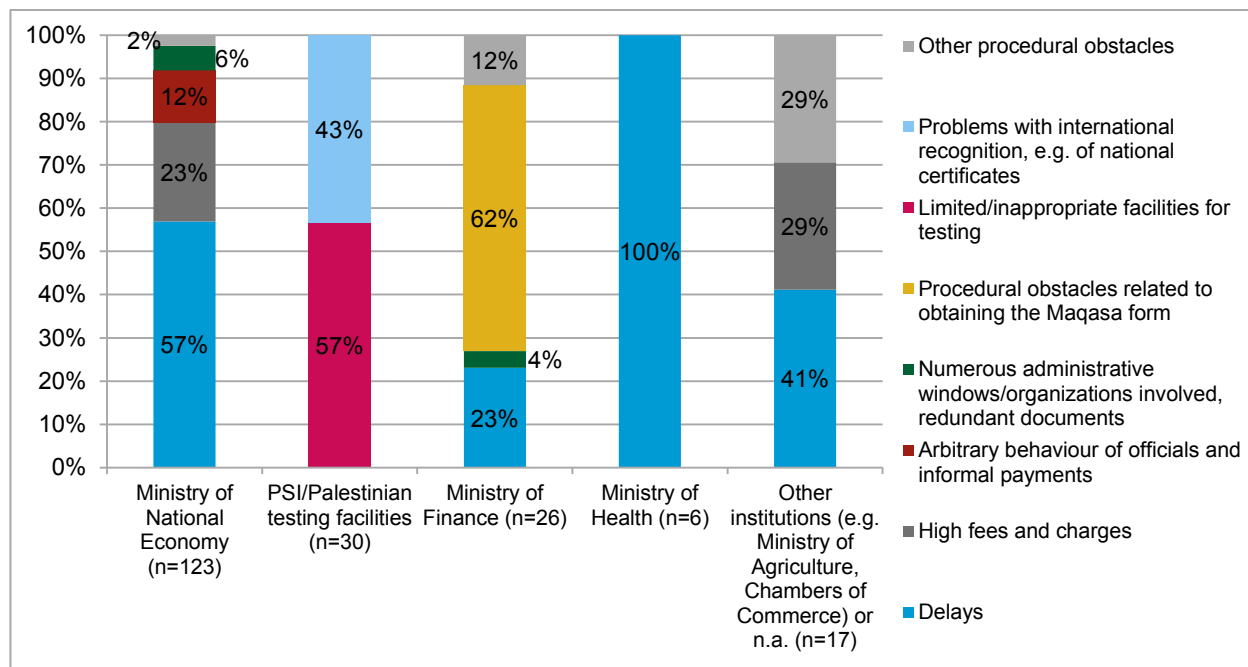
As discussed earlier, most of the reported burdensome NTMs are applied by partner countries and pertain to conformity assessment, pre-shipment inspection and rules of origin. Most of the procedural obstacles are encountered in Israel and at the Israeli border (figure 23), but also to a large extent in the State of Palestine itself. This is noteworthy because procedural obstacles can usually be confronted more effectively than strict NTMs, which often exist for legitimate public welfare reasons (such as the protection of consumer or animal health) or, as is the case for the State of Palestine, for political reasons.

Figure 23: Places where procedural obstacles are encountered

Source: ITC/PalTrade business survey on NTMs in the State of Palestine, 2011–2012.

Figure 24 illustrates the distribution across agencies and types of problems for the procedural obstacles that are encountered in the State of Palestine (202 reported cases). Most procedural obstacles, predominantly delays and high fees and charges, are associated with the Ministry of National Economy (61% of procedural obstacles occurring in the State of Palestine). To a much lesser extent, Palestinian testing facilities were mentioned (15%), mostly because of lack of facilities and problems related to international recognition. The Ministry of Finance (13%) is principally associated with problems related to the Maqasa form, while the less frequently mentioned other institutions, including the Ministry of Health, are primarily associated with delays.

In Israel, procedural obstacles are primarily encountered at the border, airport or other checkpoints and, in some instances, Israeli laboratories.

Figure 24: Distribution of procedural obstacles encountered in the State of Palestine, by institution and type of obstacle

Source: ITC/PalTrade business survey on NTMs in the State of Palestine, 2011–2012.

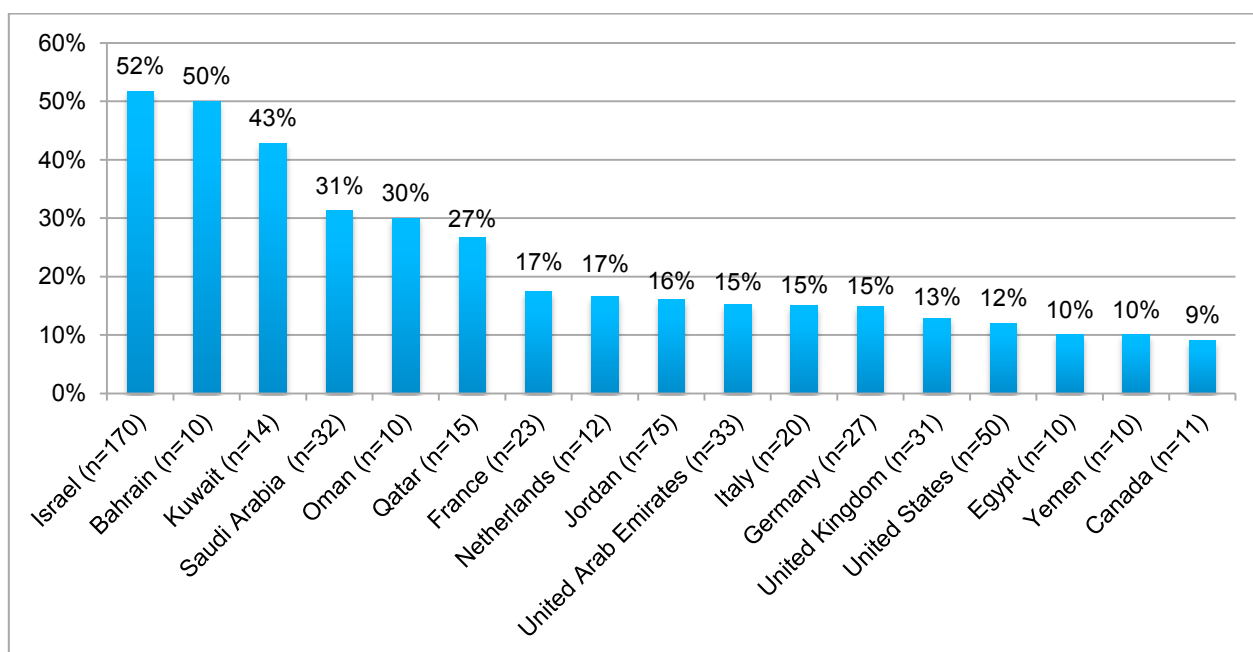
1.3. Most reported partner countries

By design, the survey captured export flows to important markets for Palestinian products more frequently. Almost 85% of all Palestinian goods are exported to Israel, so naturally the majority of surveyed companies (170) export to this destination.

Figure 25 shows the share of affectedness of enterprises for those destinations to which at least 10 interviewed companies export.

Fifty-two per cent of companies exporting to Israel face burdensome NTMs applied by this destination country. In contrast, only 16% of companies exporting to Jordan, the second export destination after Israel (75 companies interviewed), reported burdensome NTMs applied by Jordan. Other partner country regulations frequently reported as burdensome are applied by countries of the Gulf Cooperation Council (GCC), notably Bahrain, Kuwait and Saudi Arabia. In contrast, exporters faced fewer difficulties with regulations applied by the United Kingdom and the United States, two other important export destinations. The Russian Federation, Malaysia and Morocco (not shown in figure 25) stand out as three of the very few countries to which Palestinian companies export, but for which no partner country measure is reported as burdensome.

Figure 25: Share of companies affected by partner country regulations for selected destination markets



Source: ITC/PalTrade business survey on NTMs in the State of Palestine, 2011–2012.

Note: Companies exporting to several countries are counted once for every destination. Hence, the total in this figure exceeds the actual number of interviewed companies. The figure includes those destination markets to which at least 10 interviewed companies export.

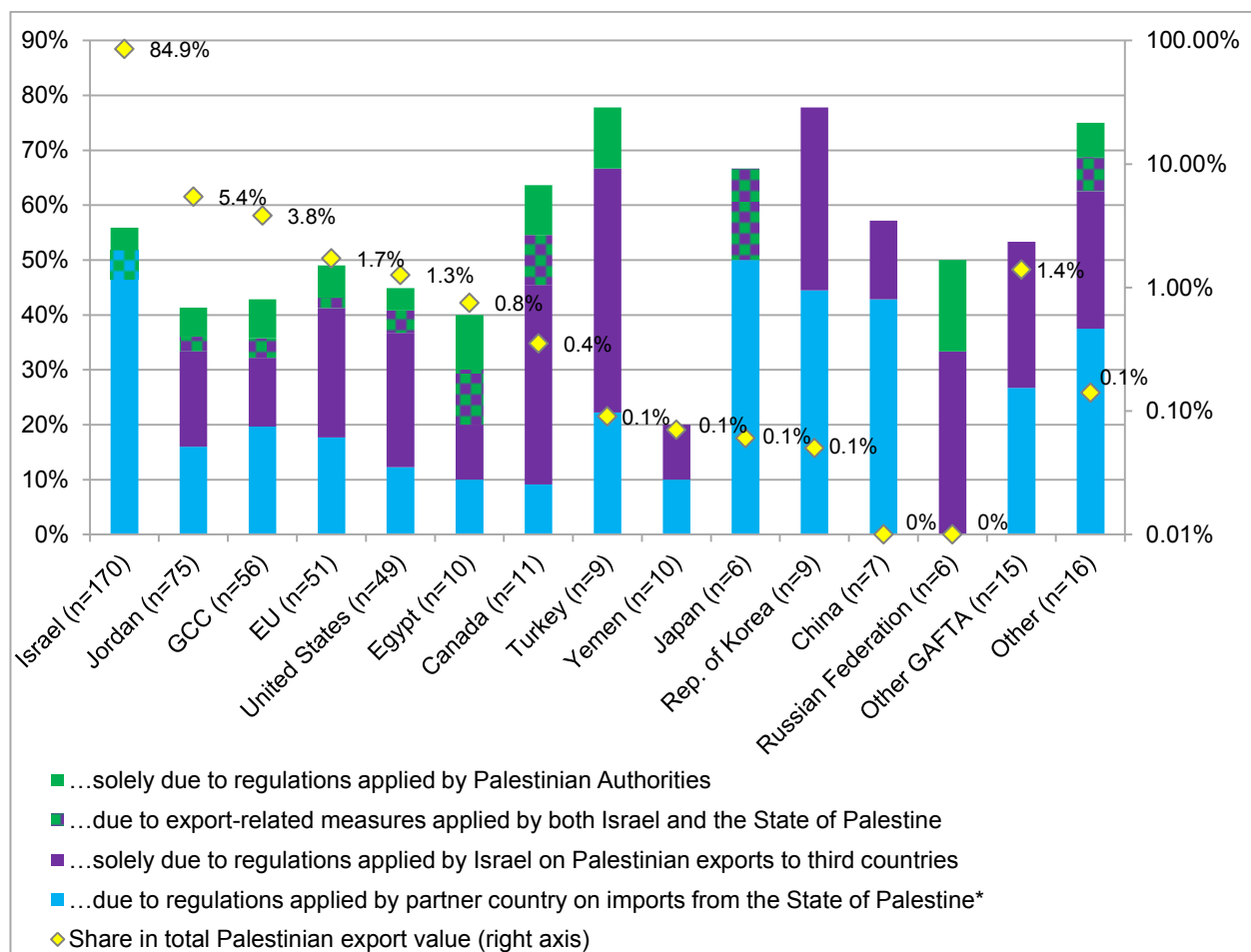
However, companies may not only be affected by partner country regulations, but also by measures applied on exports, either by the Palestinian Authorities or Israel. By solely taking into account NTMs applied by partner countries, figure 25 only gives an incomplete picture of the difficulty for Palestinian exporters to access different partner countries. Figure 26 adds to the percentage of companies affected by partner country regulations (blue bar) those companies that also export to the respective destination but only report problems related to export-related measures (violet and green bar for Israel and Palestine-applied measures, respectively). Countries are ordered by their importance in terms of Palestinian export shares (indicated by the yellow dots with the percentages referring to the right axis of figure 26), i.e. Israel followed by Jordan, GCC countries (aggregate for the group), the European Union (aggregate), the United States and Egypt.

With difficulties concerning export-related measures being accounted for, Canada turns out to be more difficult to access than Israel: seven out of 11 companies exporting to this destination report NTM-related problems, most of them being linked to NTMs applied by Israel or the Palestinian Authorities. The share of affected companies is even higher for exports to Turkey (77%), and partner countries in Asia, namely Japan (67%), the Republic of Korea (78%) and the People's Republic of China (57%). The number of companies interviewed (as well as the actual export share) is much lower for these destinations.

Nevertheless the results suggest that it is rather difficult to penetrate ‘untraditional’ markets beyond Israel and the Arab States. This may be due to the fact that the companies may be lacking information on market access conditions and related export procedures for these markets.

Apart from Canada and Turkey, also market access to the European Union, Jordan and particularly the United States and the Russian Federation are rendered difficult predominantly because of export-related measures. This indicates some scope for action to overcome these obstacles, at least to the extent that they originate in the State of Palestine.

Figure 26: Share of companies affected by burdensome NTMs for selected destination markets



Source: ITC/PalTrade business survey on NTMs in the State of Palestine, 2011–2012. Trade data sourced from ITC Trade Map, data for 2010.

Notes: Companies exporting to several countries are counted once for every destination. Hence, the total in this figure exceeds the actual number of interviewed companies.

* Includes companies that are affected both by export-related measures and partner country regulations on imports.

The country applying the regulation with which an exporter encounters difficulties is not necessarily the country in which the problem occurs. Of the 299 cases concerning NTMs applied by export destination countries, 267 are reportedly difficult because of related procedural obstacles, mainly delays, high fees and arbitrary behaviour of officials. Out of these, only 8% actually occur in partner countries while 36% occur in the State of Palestine and the majority, 56%, are reported to occur in Israel or at the Israeli border (see also figures 22 and 23, where the distribution is indicated for all procedural obstacles, including those linked to export-related measures).

1.4. The export process in the State of Palestine

Appendix IV describes the export process that Palestinian companies must follow to successfully and legally export a product. Added to this are the procedures linked to complying with regulations imposed by product destination countries to the extent that these consider the Palestinian documentation (e.g. related to testing and certification) insufficient. The process depicted in appendix IV is broken into several steps, or elements, and they are alphanumerically coded (e.g. element III-i refers to the process of obtaining a certificate of origin, export licence, a phytosanitary certificate and a commercial invoice for an agricultural product).

2. Market access begins at home – the problem of trade facilitation

This section focuses on those trade impediments that can most feasibly be addressed by Palestinian authorities as they are under the direct influence of Palestinian institutions. The first set of issues concerns the challenges reported by exporters with regards to NTMs applied by Palestinian Authorities. These are discussed in section 2.1. The second set of issues concerns exporter grievances with procedural obstacles in obtaining the certificate of origin. These are presented in section 2.2.

2.1. Non-tariff measures applied by Palestinian authorities

This section examines the export-related measures applied by Palestinian authorities, which Palestinian exporters reported as burdensome. It presents the different requirements imposed by Palestinian authorities on exports and the different entities that enforce these regulations and issue the associated certificates and permits. Then it discusses the reasons behind exporters' grievances with these requirements. The export process is illustrated in appendix IV in the form of a process-flow diagram.

Existing export-related requirements

Before a company is able to move products across the border, it must obtain a number of certificates and licences. The following is a list of export-related documents that need to be officially granted to exporters in the State of Palestine and steps that need to be taken by the exporters, following the sequence presented in the process-flow diagram (steps I-III in appendix IV).

1. Preliminary steps

Each company needs to register (appendix IV, elements I-y and I-z). For most companies, registration is with the relevant governorate's chamber of commerce and at the Ministry of National Economy located in Ramallah, with limited related formalities. According to Ministry of National Economy, each of these steps takes up to one hour to complete.

Pharmaceutical companies need to register at the Ministry of Health located in Ramallah. This is a much longer process which, according to official sources, ranges from 180 to 540 days. The Ministry of Health requires product samples to be sent to laboratories in Egypt or Jordan for bioequivalence testing. For each type or brand of medicine tested, the Ministry of Health charges US\$ 250 for the registration of locally produced medicine, and US\$ 300 for those produced elsewhere.

Once a company is successfully registered, it is eligible to apply for a foreign trade licence, which is required for any kind of exporting to take place. The licence is obtained from the Ministry of National Economy and usually requires one to three weeks to be issued, according to ministry sources (appendix IV, element I-y).

2. Documents other than certificates and licences

Once registered and licensed for trade, companies need a number of additional documents before being able to ship a product abroad (appendix IV, step II). These include commercial invoices, packing lists, insurance forms, products labels and trademarks. While these are standard in international commercial transactions, there is a documentation requirement specific to the State of Palestine, which merits further explanation: the Maqasa, which is essentially a clearing bill (see box 2).

The value-added tax (VAT) on Palestinian imports and exports is collected by the Israeli authorities at border-crossing points. These recorded transactions are submitted to the Palestinian authorities for tracking, exemption and reimbursement purposes. The Ministry of Finance in Palestine monitors the VAT payments as it collects copies of the commercial invoices (or shipment invoices) from Palestinian businesses. The Ministry of Finance then reconciles the values in these invoices with the clearance revenue that it receives from the Israeli authorities. This invoice, known as 'Al-Maqasa', is supplied by Israel. The Ministry of Finance in turn provides these forms to Palestinian exporters for goods and services sold to Israel. The exporters complete the Al-Maqasa forms, which are then signed by each of the individuals involved in the transaction, including the Palestinian merchant and the Israeli customer. Both the seller and buyer keep two copies of the form. Each submits one copy to their respective customs departments. This step is shown in element II-x (appendix IV).

Box 2. The value-added tax invoice (Al-Maqasa)

The Maqasa clearing bill is considered the only way for the Palestinian Ministry of Finance to trace the size and volume of Palestinian trade with Israel and is the main tool to define the Palestinian Treasury's net tax receivables from the Israeli side. The Palestinian Ministry of Finance issues the Maqasa clearing bill to Palestinian exporters, who should in turn deliver a copy to the Israeli importer, whereby the latter channels a copy of the Maqasa clearing bill to the Israeli Ministry of Finance to reimburse the VAT from the Palestinian National Authority (and the other way around for Palestinian imports stemming from Israel). Therefore, the Maqasa process only applies to goods and services that are subject to VAT.

The Maqasa acts as a tax bill. Its use is associated with the exchange of business transactions or services between licensed registered entities from the Israeli side and licensed registered entities from the State of Palestine. Maqasa settles the revenue from the VAT between Palestinian and Israeli Tax Departments. The Value-added Tax Centralized Department (Al-Maqasa Centralized Unit) at the Palestinian Ministry of Finance is in charge of the Maqasa process including attending periodic Maqasa meetings with the Israeli side.

The Maqasa should contain the tax invoice in Arabic, Hebrew or English, the code and name of the licensed registered entity, a clear description of the traded goods or service, the quantity and the unit of measurement as well as the amount of the invoice – with a separate reference to the amount of VAT, specified both numerically and in words. The Israeli authority requests that the Maqasa be issued by the customs department on the day of shipping.

The Maqasa requirement aims at regulating the economic relations and the flow of goods and services between Palestine and Israel, in order to trace the trade volume between the two sides and to limit indirect and informal trade. For monitoring purposes, Palestinian businesses have to submit the Maqasa documents prior to the export process, with only a limited number of shipments included in the same bill. At the same time, the Maqasa serves for the purpose of tax revenue collection for both the Palestinian Treasury and the Israeli Treasury.

Source: Israeli-Palestinian Interim Agreement, Annex V - Protocol on Economic Relations (Supplement to the Protocol on Economic Relations; Maqasa clearing bill effect on tax revenues in Palestine (1995–2005), available at: http://scholar.najah.edu/sites/default/files/all-thesis/influence_of_clearing_on_tax_revenues_in_palestine_from_1995-2005.pdf.

3. Licences and certificates

The **certificate of origin** is an important document as it reveals the country in which the product is made and the value-added associated with the total production cost. The certificate itself is considered as an import-related measure (NTM applied by partner countries). However, it is issued in the exporting country. In the case of the State of Palestine, it is worth mentioning that every company exporting any kind of product needs to have the certificate of origin obtained from and notarized by its governorate's chamber of commerce, and then notarized an additional time, or rather authenticated, from the customs department at the Ministry of Finance. For exporters of agricultural products, a different approach applies for the first time they request a certificate of origin, which is in these cases issued from the Ministry of Agriculture as opposed to the local chamber of commerce. This step is shown in element III-i in appendix IV.

Once registered and its products tested, a **pharmaceutical** company is eligible to apply for a five-year registration certificate, which usually takes seven to 10 days to be issued by the Ministry of Health. Additionally, the company also needs to obtain a sales certificate as well as a medical products

certificate, which are both issued by the Ministry of Health. These two steps are shown in element III-z of the process-flow diagram.

Agricultural companies must obtain an export licence from the Ministry of Agriculture. This licence is similar to the foreign trade licence. The agricultural company must have both licenses. Each export licence issued is only valid for a single shipment. Additionally, if the exported products are seasonal in nature, the company needs to register itself every season, which involves re-registering the company at the Ministry of National Economy and making arrangements for field visits from government health professionals. An agricultural company dealing with plant-based products must obtain a phytosanitary certificate from the Ministry of Agriculture which involves a government health professional conducting a field visit to ensure that the crops are in good condition. Finally, the commercial invoice, the document that lists the products and prices, needs to be notarized at the Ministry of National Economy. This is shown in element III-i.

Exporters dealing with **animal products** need to undergo the same process as exporters of agricultural goods. They must obtain the export licence in addition to the aforementioned foreign trade licence, which applies to any product from any industry. They also need a veterinary certificate. Both of these can be obtained from the Ministry of Agriculture. The veterinary certificate also involves a field visit from a government health professional. This is shown in element III-j of the diagram.

Companies involved in the export of **processed food products** also need to obtain the export licence. However, the licence must be obtained from the Ministry of Health, as opposed to animal and agricultural products which require that the export licence be obtained from the Ministry of Agriculture. Also, a health certificate from the Ministry of Health is required for all processed food products. This certificate can be issued within one week and it involves sending samples to university labs for testing. The test results are then forwarded to the Ministry of Health, which either issues (or denies the issuing of) the certificate accordingly. The testing procedures cost 1,000 NIS per brand or type of processed food product. This is shown in element III-k.

Chemicals companies only need to obtain an export licence from the Ministry of Health, which is shown in element III-l.

Exporter grievances with existing regulations and related procedural obstacles

Grievances with NTMs applied by Palestinian authorities were reported by 20% of those companies that reported burdensome NTMs (27 out of 135) and about 11% of all companies interviewed in the NTM Survey (239). They account for 11 % of NTM cases (see figure 19 in section 1). While this share is not very high, it needs to be borne in mind that during interviews, companies are more likely to mention only the most important obstacles to exporting. It is possible that hindrances at the border with Israel and Jordan, in particular inspections and back-to-back procedures, are perceived as more burdensome than home-applied measures and were hence more likely to be mentioned, which is reflected in the NTM Survey results.

However, this does not imply that problems within Palestinian borders are negligible, especially when taking into consideration that with few exceptions only *active* exporters were surveyed²⁰, i.e. by selection only those that have successfully managed to fulfil the requirements imposed by Palestinian authorities. It is possible that a number of companies, smaller ones in particular, may be deterred from exporting given the number of procedures to follow. However, these companies were not captured in the survey. In light of the above, the percentages may not accurately describe the real importance of these measures in affecting trade.²¹

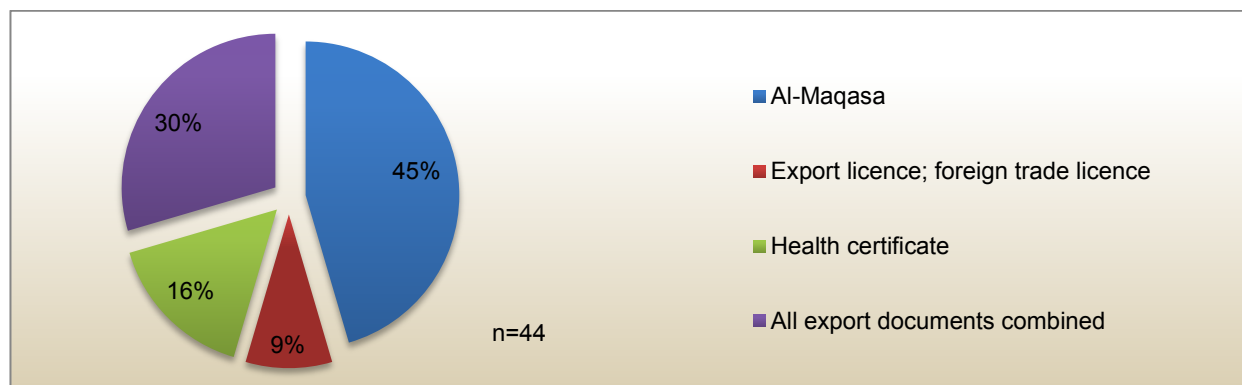
The interviews conducted with enterprises revealed that when it comes to Palestinian export regulations, exporters reported problems primarily with the Maqasa clearance form and fewer issues related to health and other certificates, licences and documents (figure 27). In addition, a number of companies expressed

²⁰ The NTM Survey results include testimonies of a few companies that had recently stopped exporting but had successfully done so in the past.

²¹ The definition of an NTM case differs for import and export-related measures in that the latter does not take into account the partner country dimension, leading to a higher number of cases for import-related measures. As a result, the share of export-related measures in all cases needs to be interpreted with caution. See appendix I for more details on the counting of NTM cases.

concern about the before-the-border export process in general without referring to a specific regulation (13 cases). With only one exception, the NTMs applied by Palestinian authorities are not perceived as trade obstacles per se, but are rendered burdensome because of procedural obstacles.

Figure 27: Reported NTMs applied by Palestinian authorities, by type of requirement



Source: ITC/PalTrade business survey on NTMs in the State of Palestine, 2011–2012.

Complicated before-the-border procedures

Red tape is a common theme that emerged during interviews. The entire process on the Palestinian side of the border is perceived as unnecessarily complicated and time-consuming. Companies shared their frustration particularly about the time needed to obtain the different official papers to export, which is reported to involve significant and unpredictable delays beyond the officially set time limits at the relevant institutions, most notably the Ministry of National Economy.

In one case, a company explicitly criticised the number of certifications required from the Palestinian side, which contributes to the lengthiness of the entire process. Other less frequently reported procedural obstacles include the difficulty of filling in the documents, insufficient transparency of regulations and related procedures, the multitude of administrative windows and informal payments.

A handicrafts company claimed that ministries lacked coherence when dealing with different companies and at different times, thereby failing to abide by their own policies and procedures.

Insufficient supply of Maqasa forms

As mentioned previously, exporters identified the Maqasa form as particularly burdensome. Interestingly, companies unanimously indicated that the problem rested solely in them being provided with the form itself

'We don't get more than three clearing certificates (Al-Maqasa). In Israel they receive an entire book of Maqasa bills while in the Palestinian authority we barely get three bills.'

A Palestinian exporter of footwear (ITC /PalTrade business survey on NTMs in the State of Palestine)

rather than in completing the form, the process of collecting signatures or submitting the form to relevant authorities. According to the interviewees, the customs department in the Ministry of Finance is unwilling to provide exporters with the requested number of Maqasa forms. It appears that companies never obtain more than three forms at once yet the exact number varies from company to company. For example, an agro-business company mentioned that if it had five orders to be delivered (to Israel), the Ministry would only give them two Maqasa forms at most. Another company in the same sector claims to only receive one

'Getting the official papers to export takes too much time.'

'Many certifications are required from the Palestinian side...'

'[Too much] bureaucracy at the Ministry of National Economy...'

'The Ministry of National Economy delays the transactions...'

'[There is] delay in approving all related certificates from the Palestinian side...'

Selected company answers to the question why the regulations applied by the Palestinian authorities are perceived as burdensome (ITC/PalTrade business survey on NTMs in the State of Palestine)

form at a time. A leather and footwear company highlighted that its Israeli counterparts can receive an entire Maqasa form booklet from Israeli authorities, while it would only receive three Maqasa forms at most from the Palestinian Ministry of Finance. This insufficient supply of Maqasa forms is perceived as major trade impediment delaying exports and leading to fewer quantities exported.

According to the views expressed by one exporter, which is echoed by the Ministry of Finance, the insufficient supply of forms is deliberate for fiscal reasons, as the Maqasa allows settling value-added tax earnings between Israel and the State of Palestine. Allegedly, a number of Palestinian companies do not provide the real value of shipment – at times in cooperation with Israeli companies – to disguise the real value of sales to Israel. This leads to differences between, on the one hand, the taxes collected by the Ministry of Finance on Palestinian exports to Israel and, on the other hand, those claimed by Israel for Israeli imports from the State of Palestine, with the latter generally exceeding the former. As a result, the Ministry of Finance limits the number of Maqasa forms in order to keep the thus-resulting fiscal loss under control.

Time-consuming export and foreign trade licensing, as well as health certification

Export and foreign trade licensing, as well as health certification, appear to be overly time-consuming. Two leather and footwear companies, for example, complained about the time associated with obtaining foreign trade licences, which one company reported to take up to 13 days.

Similar cases relate to the health certificates issued by the Ministries of Health and Agriculture. For example, a food exporter reported inconvenient delays to receive the certificate even after sending a sample of the product and completing its testing in an authorized laboratory. Exporters in the same sector also dislike the short validity of such certificates, which reportedly are required to be renewed on a monthly basis.

With respect to the export licences for chemical products, manufacturers were confused about which governmental unit is responsible for issuing the licence, because each time they had to deal with a different office.

Location-specific and product-specific problems

The only case of an NTM being perceived as problematic itself relates to an agro-business company located in Area-C, which despite having undergone all the required procedures did not receive an export authorization from the Ministry of National Economy due to the location of its factory. To overcome this obstacle and obtain the licence, the company is considering opening an office in Area-A as other factories have done for the same reasons. This is perceived as unnecessarily cumbersome and a major impediment for export activities and revenues.

Another company denounced the treatment it is receiving from Ministry of National Economy and Ministry of Finance employees due to the nature of its export product, which is a beverage containing alcohol. However, the company does market an alcohol-free version of the beverage. According to the exporter, ministry officials would intentionally delay issuing the necessary authorizations and documents (including the certificate of origin, which is discussed in a later section) or refuse to help in case of questions or problems.

'Our factory is located in Area-C which is the reasoning behind the denial of our export licence by the Ministry of National Economy. We have undergone all the required procedures (product testing, VAT clearance, tax-exemptions, etc.). We are now planning to open and register an office in Tulkarem (Area-A) to expedite the issuance of the export licence.'

[A company in the agro-business sector \(ITC/PalTrade business survey on NTMs in the State of Palestine\)](#)

2.2. Rules of origin and related procedural obstacles

Problems related to rules and certificates of origin represent almost 19% of the total reported cases during the NTM Survey (77 out of 402 cases, figure 19). Certificates of origin are usually partner country requirements and therefore classified as import-related measures (see appendix II). This said, in the case of the State of Palestine, most problems that companies reported with rules of origin are linked to procedural obstacles occurring in the State of Palestine (85% of cases, related to a total of 108 procedural

obstacles). Only a few problems were linked to the requirement itself (see further below on ‘problems related to companies’ capacity to deal with rules of origin and related certificates’) and issues with partner country recognition (see section 3 on GAFTA-related problems).

Rules of origin cases were reported by companies in four sectors, namely agro-business, stone and marble, handicrafts and pharmaceuticals, with the types of problems reported being similar across these sectors. In terms of partner countries, most cases concern trade with GAFTA Member States (35%) and EU/EFTA countries (32%).

Problems related to companies’ capacity to deal with rules of origin and related certificates

A few isolated cases point to companies’ limited capacity to deal with rules of origin and related certificates. For example, a company in the stone and marble sector finds the EUR1 certificate ‘very complicated’. An exporter of food products laments that re-exports to Jordan are not eligible for preferential treatment when originating from Israel, which demonstrates a lack of understanding of the origin concept in trade agreements.

While the number of cases (9) suggests a low incidence of such problems, it is important to note that the NTM surveys address *active exporters*, i.e. those companies that already successfully brought products across the border. For this reason, the numbers may be understating the dimension of these types of problems for the private sector in general, especially first-time exporters.

‘At many times the EUR1 certificate of origin is rejected by our European counterparts due to the smallest misprint errors or typos.’

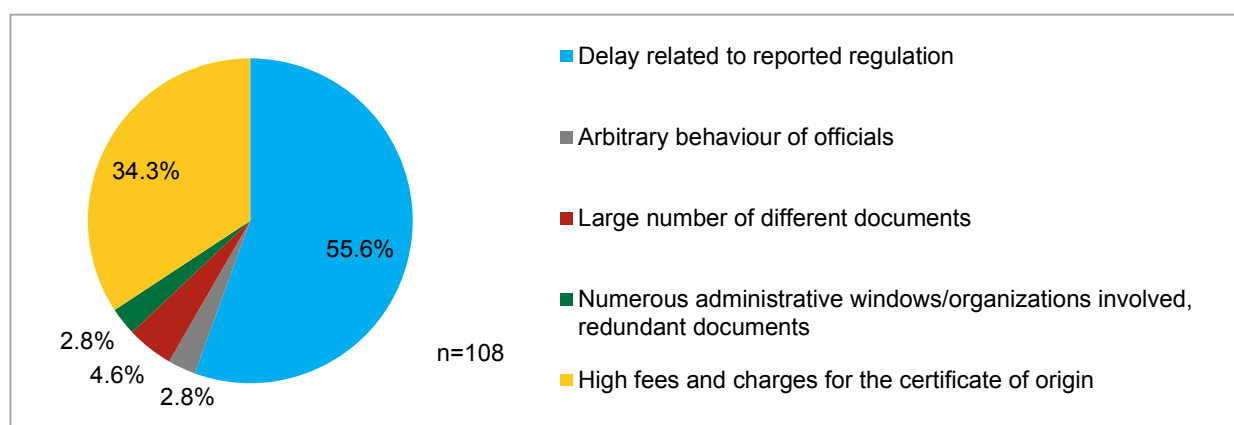
An exporter of stone (ITC/PalTrade business survey on NTMs in the State of Palestine)

Inefficiencies in issuing certificates of origin and limited validity

The main reason for Palestinian exporters’ grievances with rules of origin as reported through the NTM Survey is linked to procedural obstacles (figure 28).

The usual process for obtaining the certificate of origin is illustrated in the export process diagram in appendix IV and more in detail in box 3. A company needs to provide its local chamber of commerce with a commercial invoice, proof of company registration, and the export licence card. The chamber of commerce will charge the company 0.2% of the total value of the export shipment. Subsequently, the exporter needs to have the certificate of origin signed by the customs department at the Ministry of Finance. When exporting to Arab countries, the Ministry of National Economy needs to authenticate the certificate of origin in addition to the usual signatures from the chamber of commerce and customs department at the Ministry of Finance (box 3). The certificate remains valid for 4 months from its issue date. Officially, this entire operation should not take more than one workday, but given that many companies are located outside Ramallah, they may have to undertake a two- to three-hour drive to reach the ministry, which could delay the waiting period by another day.

Figure 28: Palestine-based procedural obstacles associated with rules of origin, by type



Source: ITC/PalTrade business survey on NTMs in the State of Palestine, 2011–2012.

Box 3. Certificates of origin issued in the State of Palestine

For exports to Arab countries

The certificate of origin for Arab countries is the proof that goods are entitled to preferential tariff treatment because they comply with the rules of origin under GAFTA. It is available at the chambers of commerce. Three copies need to be completed: one for the chamber of commerce and two are retained by the exporter. The original certificate accompanies the goods during the clearing procedures in the destination country.

The certificate should include the rule of origin, the name of the products, the name of the exporter/producer, the company registration number and the place of origin of the raw materials.

The chamber of commerce and the Ministry of National Economy must stamp the certificate for the Arab destination countries. At the chamber of commerce, the certificate is stamped on the spot and fees charged at a rate of 0.2% of the value of the invoice. For the stamp at the Ministry of National Economy, which should also be readily obtained, no fees are charged.

The chamber of commerce requires the following documentation to stamp the certificate of origin:

- The commercial invoice
- The corporate registration
- The foreign trade dealing registration

For exports to the European Union and the European Free Trade Association: EUR.1

The free trade agreement signed between the Palestinian Authority and the European Union states that only goods accompanied by a EUR.1 certificate of origin can benefit from duty-free entry. This document is available from the Customs Department at the Ministry of Finance.

The certificate must be typed in English and must include the exporter's signature and seal. The Customs Department must stamp the certificate and is entitled to ascertain the origin of the goods at the firm before stamping the EUR.1. No fees are charged at the Customs Department.

The EUR.1 form is also used when exporting to the European Free Trade Association countries and the same procedure applies.

To grant duty-free treatment, the commercial invoice and the packing list should accompany EUR.1.

- Invoice declaration as substitute for EUR.1: For products whose total value does not exceed € 6,000, an invoice declaration to prove the origin can substitute the EUR.1.
- Approved exporter: Any exporter that has frequent shipments to the European Union can be granted the status of 'approved exporter', which means the EUR.1 certificate can be substituted with an invoice declaration.

For exports to the United States: Form A

The trade arrangement with the United States requires a certificate of origin called Form A to prove that goods are entitled to duty-free treatment in line with the United States rules of origin. To qualify for duty-free treatment, the commercial invoice and the packing list should accompany Form A.

Also attached should be the entrance document (customs form CF7501) and a special permission for direct delivery to the United States (form CF316). Both forms can be obtained free of charge through the forwarder or the clearing agent.

For exports to Canada

The certificate of origin for Canada is the proof that goods are entitled to duty-free treatment when exported to Canada as they comply with Canadian rules of origin. The certificate is a declaration, which needs to be presented to the Canadian Customs Authorities only upon request.

The exporter must fax it to the Canadian importer within the time limit stated by Canadian Customs Authorities. The declaration that the goods originated in the State of Palestine is to be completed and signed by the exporter.

Source: PalTrade website, 'How to Export', available at: <http://www.paltrade.org/en/about-palestine/how-to-export.php>.

According to surveyed exporters, inefficiencies in the administrative procedures related to issuing the certificate of origin lead to unpredictable delays in shipments. Reported delays of up to two weeks are chiefly associated with the Ministry of National Economy and, in a few cases, the respective chambers of commerce.

For example, an agro-business company selling beverages states that it wastes a significant amount of time ‘making redundant visits to several ministries’ to get the required signatures on its certificates of origin. A stone and marble company claims that both the chamber of commerce and the customs department in the Ministry of Finance asks it for ‘new things’ each visit for it to be granted the certificates of origin. Upon further questioning, ‘new things’ appeared to refer to local commercial invoices that are signed and/or verified with a commercial seal. Additionally, the company complained about changing procedures. In the past, the company made a single visit to the Ministry of National Economy.

It now needs to visit its local chamber of commerce and the customs department in the Ministry of Finance to collect the signatures and stamps required for the certificate of origin. This time investment can turn out to be costly. For example, an exporter of olive oil soap reports fiscal penalties imposed by its partners in Jordan due to the delays incurred by the Palestinian ministries.

‘Routine procedures of the ministries are extremely burdensome. We need to head to both the chamber of commerce and the customs department which causes 1 to 2 day delays in our shipment; we receive penalties from our counterparts in the partner countries due to these delays.’

An exporter of soap (ITC/PalTrade business survey on NTMs in the State of Palestine)

High costs

Companies struggle with high fees associated with the certificate of origin. For example, the limited validity of certificates in terms of time or number of shipments obliges exporters to frequently re-apply for certification (e.g. on a monthly basis), which results in more paperwork and high costs. One company explicitly expresses its preference for the ‘old style’ of certificates of origin, which remain valid until a certain quota of exported amounts is reached.

Some companies consider the cost of the certificate itself too high. One exporter claims to be charged US\$ 100 per certificate for authentication. It is unclear whether these reported cost relate to official fees or informal payments. Officially, the chamber of commerce is supposed to charge 0.2% of the total value exported. More than the amount itself, the exporter complains that the costs impose a fiscal burden when added up for the different types of manufactures produced and exported.

Uninformed exporters and delays at institutions

Delays and costs associated with the certificate of origin do exist, and their fiscal and time repercussions are real. However, it should be noted that when exporting to Europe, due to trade agreements, any shipment not exceeding €6,000 in value does not need a certificate of origin – it can be substituted with a verified commercial invoice. Under the trade agreement with the European Union, frequent exporters can obtain the ‘frequent exporter seal’ and add it to their shipments as substitute for origin certificates (box 3).

The survey results reveal that not all exporters are well-informed about the prevalent procedures and exceptions. At the same time, the institutions involved in issuing the certificate of origin do not appear to respect official deadlines.

3. Market access at the regional level: Arab regional integration

A number of cases reported by Palestinian exporters involve trade-related measures applied by GAFTA trading partners. These grievances mirror similar problems reported by exporters in other Arab countries surveyed by ITC – Egypt, Morocco and Tunisia – and are discussed below.

Greater Arab Free Trade Area rules of origin

The GAFTA agreement stipulates that to benefit from preferential treatment, products should not comprise any component of Israeli origin. Some countries request a certificate from the shipping line to prove that

the vessel did not pass through an Israeli port. This requirement has unexpected adverse effects on the possibility for companies in the State of Palestine to export to the Arab world.

The requirement itself can be difficult to comply with. This is a concern not exclusively but especially for companies in the State of Palestine where the vast majority of imports are sourced from Israel.²²

'If we label a product "made in Palestine" we can't send it [Author's note: this is likely due to problems related to inspections] and if we label it (or our customers believe it to be) "made in Israel" they don't buy it.'

[A Palestinian exporter to Arab States \(ITC/PalTrade business survey on NTMs in the State of Palestine\)](#)

In addition, companies exporting to the State of Palestine report that their products are treated as if they were exported to Israel rather than the State of Palestine.^{23,24} This raises the cost of the product as it will not receive preferential treatment under GAFTA. A vicious circle emerges when the product serves as input into the production of a good destined for export to an Arab State. It could prove challenging to document and prove the actual origin of input if it is considered a 're-export' from Israel.

Where Israeli inputs are not present, they appear to be suspected. Palestinian exporters lament the explicit lack of trust of other Arab States in Palestinian product origin. Even when products are 100% 'made in Palestine' and accompanied by the appropriate certificate of origin, many Arab countries suspect Israeli inputs and thus refuse to grant preferential treatment. This is aggravated by suspicions that products that entirely originate in Israel or in the Israeli settlements on Palestinian territories may be falsely labelled as being 'made in Palestine' to circumvent import restrictions.

Taxes and other charges levied on imports

A small number of Palestinian exporters (four companies from three sectors) reported cases of para-tariff measures such as sales taxes applied notably by Jordan on imported goods (figure 19, category D). Due to the trade agreements between Jordan and the State of Palestine, goods that enter Jordan bear zero custom duties. However, the goods are subject to import taxes, which can more than outweigh the advantages of duty-free access. In one case, a wood manufacturer reported to have paid a tax amounting to JD 600 (~US\$ 840) for goods that were only JD 400 (~US\$ 560) in value. Allegedly, the Jordanian officials are often suspicious of the value of goods entered, mistrusting the value stated in the commercial invoices.

4. Product quality and conformity assessment

This section takes a closer look at the sanitary and phytosanitary (SPS) measures and technical barriers to trade (TBT), which underlie about 22% of reported NTM cases (figure 19). As mentioned earlier, Palestinian exporters appear to have more difficulties demonstrating compliance with technical regulations than with the technical requirements themselves. This result is consistent with findings from NTM Surveys in other countries.

This finding is influenced by the survey design, notably the sample frame, which only considers the population of active exporters. For the private sector at large (i.e. including non-exporting producers), technical specifications as well as product quality and performance requirements may be a more significant challenge to them to become 'export-ready' than is suggested by the NTM Survey results presented in this paper. The special nature of the Palestinian economy and scarcity of resources greatly affect the capacity of companies to comply with strict SPS and TBT measures, mainly due to the lack of adequate internal quality management systems. This is confirmed in the most recent National Export Strategy (box 4).

²² Similar problems have been reported by exporters in Egypt.

²³ NTM Survey results in Egypt.

²⁴ In general there seems to be a low recognition by the government of Israel of preferential agreements, which the State of Palestine has concluded with partner countries (see chapter 1). Palestinian importers are often required to pay customs duties despite the existence of preferential agreements and the necessary documentation. (Source: PalTrade).

Box 4. Weak quality management framework affects export competitiveness

The majority of Palestinian enterprises do not have adequate internal quality-management systems, leading to high levels of non-compliance with national and international standards. About 57% of micro, small and medium-sized enterprises (MSMEs) apply standards and only 22% of MSMEs obtain a quality assurance certification proving the quality of their products and their conformity with relevant standards.

The manufacturing process is not linked to quality metrics across the value chain. This is due to the ad hoc manufacturing process followed at firms, as well as the weak skills base and experience in terms of mapping of safety and quality requirements during production cycles. The majority of firms within the priority sectors are MSMEs and family-owned businesses that have historically catered to the domestic market. They have limited experience, information and financial resources to take on the additional risks and investments required to develop a sustainable export relationship.

In general, Palestinian firms follow a reactive approach to quality management due to their low capacity to gauge the value of establishing and enforcing quality control systems. Testing facilities at the enterprise level are basic and substandard. This is due to lack of experience as well as poor business management skills in terms of cost benefit analysis, project management and database management. The unstable political and economic climate and the weak institutional support available across the export value chain further contribute to a weak value proposition for MSMEs to invest in developing efficient quality management systems.

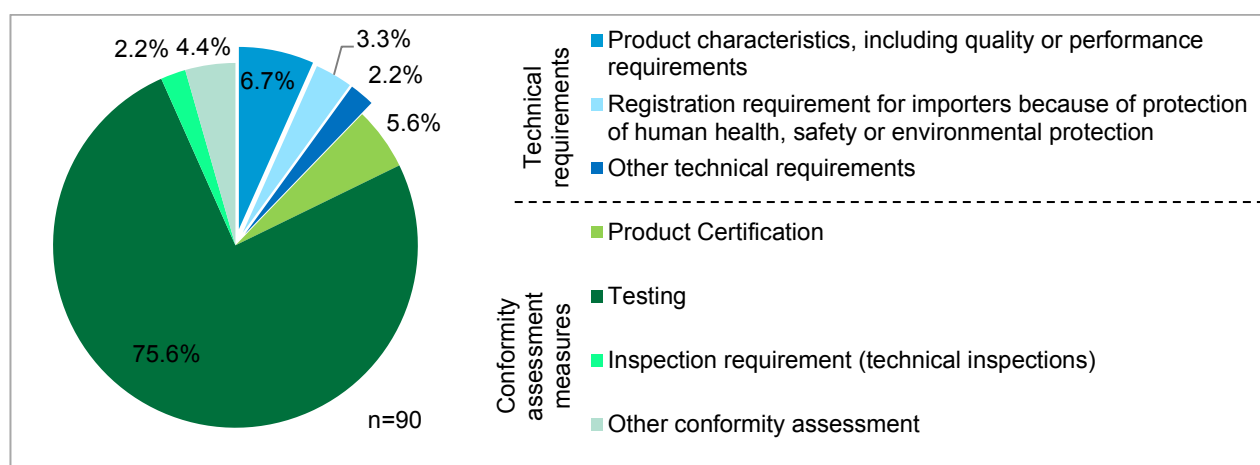
Weak legislation for enforcing the establishment of quality and safety monitoring systems is a significant policy issue. Laws on quality do not designate a single authoritative body to lead the quality management framework. The absence of a single authoritative body to deal with WTO issues related to quality management has also resulted in slow progress. Enforcement is also a challenge. There is an overall lack of enforcement of quality requirements throughout production life cycles of enterprises in the NES priority sectors, due to which a culture of non-compliance has spread within the MSME sector.

Source: State of Palestine, National Export Strategy 2014–2018; International Trade Centre.

As a result, few Palestinian exporters manage to live up to international standards and obtain the related certification. As highlighted in chapter 2, 72% of Palestinian exporters have no quality certification (chapter 2, section 5.5).

When disaggregating the two broad categories of technical requirements and conformity assessment, testing requirements stand out as particularly problematic, with other measures such as product certification or product quality and performance requirements being reported with much lower frequency (figure 29).

Figure 29: Burdensome technical NTMs applied by partner countries to Palestinian exports, by type



Source: ITC/PalTrade business survey on NTMs in the State of Palestine, 2011–2012.

Note: The pie chart presents the share of the different types in the total number of cases of technical NTMs reported (n=90). It corresponds to the two first categories of NTMs presented in figure 19 – technical requirements and conformity assessment.

The agencies associated with procedural obstacles related to technical NTMs are those in charge of testing and certification: notably the Palestinian Standards Institute (PSI), testing laboratories, the Ministry of Health and the Ministry of Agriculture.

The following sections discuss the problems related to companies' capacity to comply with technical regulations (section 1), and issues with product testing and certification (section 2).

4.1. Technical requirements

Reported technical regulations comprise measures regulating product characteristics, importer registration requirements and other technical requirements (see the first three categories in figure 29). All of these requirements are perceived as challenging because of their strictness. Most measures concern food products (olives, honey, olive oil and frozen food) with only isolated cases reported for other products, including marble, the manufacture of plastics and cosmetics.

Just one case concerns a measure applied by Israel. The majority of burdensome technical requirements turn out to be imposed by export destinations with much lower trade flows, including Arab States (namely Jordan and Saudi Arabia), the United States, the Republic of Korea and the United Kingdom. Technical regulations such as the ones mentioned below could be contributing to the low export performance of Palestinian companies to destinations beyond Israel.

Exporters find the specifications for the required product characteristics too complex. Examples include the specifications needed to certify a product as 'organic' in the Republic of Korea and satisfying delta-7-stigmasterol levels for olive oil. Specific bottling requirements in the United Kingdom led a company to incur extra cost in sourcing olive oil bottles from abroad because the required bottles were unavailable in the State of Palestine.

Strict and time-intensive importer-registration requirements were mentioned in relation to Jordan and Saudi Arabia, with one company lamenting that in addition to the original registration, it needed to re-register at the borders when the partner country changed its quality and performance standards. This echoes similar complaints from exporters in other surveyed countries such as Egypt or Morocco.

In one example, a producer of frozen food claimed that Jordan was unwilling to import the company's products due to fears of 'mad cow' disease. The company says Jordan does not consider the State of Palestine as an independent state and associates it with Israel. As a result, products from the State of Palestine are treated the same way as products from Israel. Jordan allegedly justifies its rejection of Palestinian frozen meat products on the basis that mad cow cases have occurred in Israel. Until Israel releases credible information that mad cow infections have been eliminated, the exporter claims that the Jordanians are unwilling to import frozen meat products from the State of Palestine.

Box 5: Inadequate testing infrastructure

Palestinian labs are unable to conduct tests on certain products, which means product samples must be shipped to labs in Israel, Jordan and other countries. Capacity challenges in Palestinian labs include shortages and outdated equipment.

For example, some measurement and calibration equipment is not available for metrology actions to be performed, including particle size machines, frequency and electricity, moist measurements in working conditions and rupture measurements. In addition, there are no internationally accredited testing labs for performing pesticide residue tests, which forces companies to use Israeli labs.

The shortage of certified and internationally accredited testing labs obliges enterprises to send samples to Israel or other countries for testing. The need to transport the samples adds to the time required for export and to costs.

Source: State of Palestine, National Export Strategy 2014–2018.

4.2. Conformity assessment

The overwhelming majority of quality-related problems reported by Palestinian exporters are associated with measures of conformity assessment, primarily testing requirements (figure 29). Products affected range from food products, marble and handicrafts to chemicals and plastic products. Again, a disproportionate share of these challenges is encountered in trade with partner countries other than Israel (for which 12 cases are reported), predominantly the Gulf countries and other Arab States (22 and eight cases, respectively), EU members (18 cases) and other OECD countries (13 cases). In contrast to technical requirements, most conformity assessment measures are rendered challenging by procedural obstacles rather than the strictness of underlying measure itself.

Lack of adequate testing infrastructure, issues of mutual recognition and high cost

Exporters' dominant concern is the lack of adequate testing infrastructure in the State of Palestine. Testing products abroad results in a significant financial and time investment, accompanied by extensive paperwork. Typically, Palestinian firms resort to Israeli labs, even for products destined for third countries, due to geographical proximity and technological development (box 5).

Alternatively, companies may revert to establishing their own testing facilities. An exporter of marble reported to have been explicitly encouraged by the Palestinian Standards Institute to test the products himself.

Insufficient quality infrastructure also leads to a lack of trust in test results and certificates, which *can* be issued locally (see also figure 24, entry for 'PSI/Palestinian testing facilities'). This occurs even where mutual recognition agreements exist, such as with Jordan.

'Saudi Arabia no longer relies on Jordan's institutes for our product certifications since it has established the Saudi Food and Drug Authority (FDA). We matched our product specification with those of TÜV Rheinland's, and the Saudi FDA is still not willing to accept our products.'

An exporter of beauty products
(ITC/PalTrade business survey on
NTMs in the State of Palestine)

Companies deplore the systematic lack of recognition by Saudi Arabia, be it of Palestinian or foreign-issued certifications. An exporter of beauty products claims that since the Saudi Food and Drug Authority was established, product certifications from elsewhere are no longer accepted. As a result, the exporter has problems accessing the Saudi market on the grounds of product quality, although product specifications match with those of TÜV Rheinland.²⁵ Companies must revert to costly Saudi laboratories to obtain what one food exporter describes as 'ever-changing certifications'. Exporters in the State of Palestine are not alone with these grievances, which are reflected in ITC NTM Surveys in other countries, including Arab States and, among others, Thailand.

Re-testing products is also necessary when the validity of test results and certificates is too short. In some reported cases, the testing documents expire before arriving at the final destination and re-issuing is required, which makes the process redundant and inefficient.

In some instances, the tests themselves, whether performed in the State of Palestine or elsewhere, are costly due to complex, and in some cases unique or rare, standards. Reported costs related to testing range from a few hundred to several thousand dollars, which can represent a major impediment to exporting, especially for smaller enterprises.

'We are unable to adequately test our products in the State of Palestine to meet the Japanese standards, and, therefore, we opt to test them in Israel instead which costs 2,000 shekels [~ US\$ 540] for each shipment.'

An exporter of soap (ITC/PalTrade business
survey on NTMs in the State of Palestine)

²⁵ TÜV Rheinland is a global provider of technical, safety and certification services.

Costs are exacerbated by sample testing at the borders with Israel and Jordan. One exporter reports that the Israeli officials at the crossing points regularly ask to test a sample of the marble slabs that are being shipped. Instead of reverting to the small sample that is usually carried by the driver, the officials allegedly insist on having a sample of the actual slabs in the back of the truck tested. According to the exporter this is a burden, because testing damages the product and the slabs are extremely heavy to carry off the truck. This leads to extensive delays. Similar issues reportedly occur at the Jordanian border.

‘Each country asks us to do another test for our product because they don’t trust the Palestinian tests.’

An exporter of Dead Sea products (ITC/PalTrade business survey on NTMs in the State of Palestine)

Product certification, inspection requirements and other issues related to product quality

Product certification and inspection requirements are among the few additional issues related to conformity assessment.

One company reported having problems with the thorough product certification requirements for obtaining special permission to export dairy products to Israel, which, in most cases, is restricted. The procedures involve a number of Israeli agencies, such as the Ministry of Health, the Ministry of Agriculture and third-party labs being supervised by official Israeli veterinary representatives.

Domestically, obtaining the health certification that partner countries require can involve extensive delays. Depending on the export product, the company and the official in charge, it can take a long time to obtain approval of the related documents by the Palestinian Ministry of Health (see also section 2.1).

In another case, a company is struggling to export ice cream to Iraq and Jordan as Jordan allegedly fails to recognize its ISO 22000 certification. According to the exporter, it has used the services of SGS (a well-known ISO auditor) to attain the ISO label. However, the Jordanians have not contracted with SGS to audit the certificates and reject the company’s ISO certification on that basis.

Lengthy and redundant inspections are another complaint voiced by Palestinian companies. According to an exporter of soap to Jordan, unnecessary inspections are carried out even when the company possesses a quality certificate that should be automatically recognized and acknowledged by Jordanian officials, according to an agreement between the two countries.

Lack of transparency of and frequently changing requirements pose problems. For example, a company exporting food products to Saudi Arabia regularly faces problems at the border because of the lack of due notice for changes in product specifications and related certification requirements.

4.3. Conclusions – product quality and conformity assessment

The lack of adequate quality management systems and related infrastructure has repercussions for the Palestinian economy in general, beyond the small group of exporters. The weak regulatory and legislative framework for quality management implies that the country is inadequately equipped to ensure product quality for goods exported and sold domestically.

Domestically sold Palestinian products and imports are outside the scope of this NTM Survey. However, a few concerns were revealed through the questions on the general business environment. For example, competition from imported products represents the top challenge for doing business domestically, according to surveyed firms (see table 4). Companies in the clothing and footwear industry note that competition from foreign exporters operating in the Palestinian market, coupled with poor quality monitoring and compliance and lack of import controls, is eroding the domestic market share of Palestinian firms.

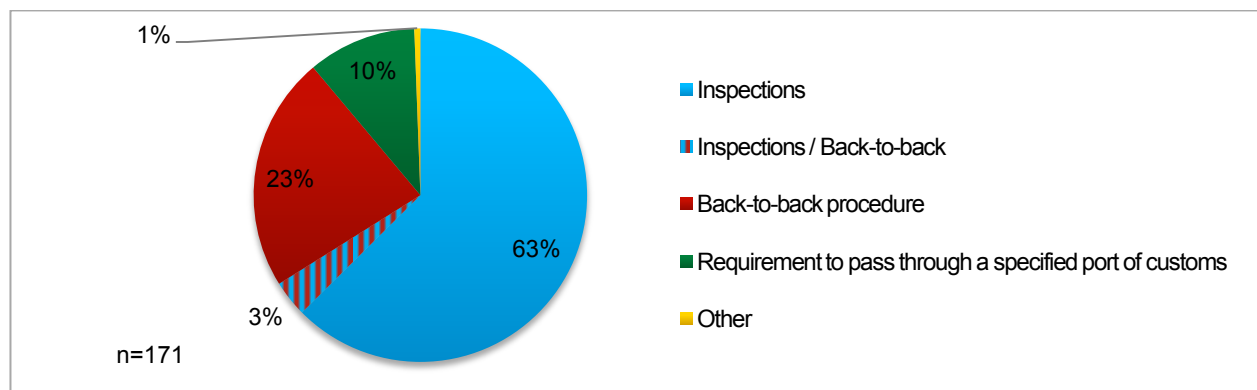
5. Israeli measures imposed on imports from the State of Palestine and on Palestinian exports to third countries

The strongest impediment to Palestinian exports is measures imposed by Israel on both imports from the State of Palestine and on Palestinian exports to third countries (reflected in categories C and P-Y of figure

19). More than 40% of reported NTM cases relate to these measures, which principally concern border inspections, the ‘back-to-back procedure’ (see section 5.2) and the obligation to pass through specified ports (figure 30).

For the purpose of this report, these cases are only briefly discussed because the influence of the State of Palestine on mitigating these problems is minimal at best. The company testimonies reflect the complex wider business environment in which Palestinian exporters operate.

Figure 30: Reported measures encountered at the border with Israel and Jordan, by type



Source: ITC/PalTrade business survey on NTMs in the State of Palestine, 2011–2012.

Note: The pie chart presents the share of the different types of measures applied by Israel on Palestinian exports (n=171). In figure 19, these correspond to the export-related measures imposed by Israel [P-Y] as well as the incidence of pre-shipment inspections and other entry formalities [C] but only to the extent that these are applied by Israel or at the border with Jordan. Excluded from the pie chart are the few cases of burdensome border control and inspection measures imposed by other partner countries, including Lebanon, Turkey, Saudi Arabia and a few European Union countries.

5.1. Lengthy, unpredictable and costly inspections at checkpoints

‘The inspection process itself is hostile. Sometimes dogs sniff our meat. This immediately exposes our goods to bacteria. Matters are made worse as products are exposed to the sun for prolonged periods.’

An exporter of meat
(ITC/PalTrade business survey on
NTMs in the State of Palestine)

The checkpoints that Palestinian companies must pass to ship goods out of the West Bank are a major barrier to exporting. Companies report lengthy and repeated inspection procedures, which lead to unpredictable delays and render exports from the State of Palestine unreliable for international buyers counting on timely delivery.

Problems are exacerbated by the behaviour of officials, which exporters describe as ‘random’. Reported cases include:

- Officials requesting extra checks even when the paperwork is ready and previous inspections have shown everything to be in order;
- Careless handling of products during inspections, which leads to damages or spoiling;
- Behaviour that is interpreted as hostile, for example when officials allegedly insisted on dogs ‘inspecting’ a shipment of fresh meat;
- Neglect of products at checkpoints or airports for extended periods of time, which exporters feel is done purposely to delay the shipment.

‘We cannot directly follow up on the status of our products at the port because we need to hire the services of a liaison. Israeli exporters don’t need to store their products at the ports to wait for inspection, and they don’t need to pay for the use of pallets and other transport equipment.’

An exporter of confectionary
(ITC/PalTrade business survey on
NTMs in the State of Palestine)

Box 6: Border clearance processes and further shipping

After being transported through the West Bank, goods must pass through a commercial crossing to reach either Israel or Jordan. At the border crossings, goods are subject to security checks, which can involve a manual scanner, a physical inspection or a canine check.

- Upon arrival at the terminal the truck driver must register his name at the entrance, and is requested to wait until the Israeli driver is available on the other side of the terminal.
- The driver is subjected to a physical security check that lasts for at least 15 minutes. Then the driver is requested to open the four doors of the truck and the truck cover (if it has one), and switch off the engine.
- The truck goes through the truck scanning machine, where three to five trucks (depending on truck size) are allowed to enter and exit the scanner collectively. Betunia is run by the Israeli Defence Forces and does not have scanners. All cargo is subject to manual inspection by soldiers. In some cases dogs are used.
- In addition to the scanning process, the cargo may have to undergo a second phase of manual inspection. Depending on the crossing and type of cargo, between 15%–60% of cargo is manually inspected. When shipments consist of different materials (e.g. clothes on plastic hangers), the goods are required to be off-loaded at the manual inspection rooms.
- The shipment is loaded on the Israeli truck and resumes its journey on the other side of the crossing.

There is no Palestinian customs presence at the border, so all communication with regards to inquiries and coordination is conducted through Israeli personnel. After being cleared, palletized goods are then transferred from the Palestinian vehicle to an Israeli vehicle, a process known as a back-to-back transfer.

Since the 2005 closure of the Damya Bridge, exporters wishing to move their goods into Jordan have used the King Hussein Bridge. It is currently the only route to Jordan, and is also the West Bank's sole international border. The processes for a border crossing are similar to those used to send goods to Israel. Palletized goods are subjected to security checks, after which they undergo a back-to-back transfer via forklift. The current infrastructure is inadequate for handling containers, and there are a number of restrictions that limit the composition and size of pallets. With the exception of one small warehouse, storage and cooling facilities are also unavailable at the crossing.

Once goods have crossed either the Israeli or Jordanian commercial crossings, they make their way to the main ports and airports. Despite the higher costs associated with security measures, exporters prefer Israeli ports for shipping goods to Europe and North America because of the faster delivery time, more frequent departures and lower shipping costs. However, Palestinian goods are subject to additional security checks before reaching ports. These checks often take a number of days and Palestinian goods are required to arrive at port significantly earlier than their Israeli counterparts, which normally leads to higher demurrage costs for exporters. Even shipments to Asia can be less expensive departing from Israel but, because of its geography, the Jordanian port of Aqaba offers a quicker alternative for transfers to Asia and Arab States.

With regards to air transport, both Ben Gurion (Israel) and Queen Alia (Jordan) airports offer quality services. Although freight charges are lower in Israel, the lower security and transport costs to Queen Alia make it a slightly more economical alternative. Palestinian goods are subject to a number of additional restrictions when using Israeli airports. For example, the goods are not allowed to be carried on passenger planes, which severely limits transport options and frequency.

Source: Cited from: State of Palestine, National Export Strategy 2014–2018, functional strategy on trade logistics and facilitation, pp.10-11. Information based on various sources including: World Bank (2008), West Bank and Gaza Palestinian Trade: West Bank Routes; and Palestinian Shippers' Council (2012), Capacity Development for Facilitating Palestinian Trade: A Study on the Proposed Mobile Scanner at King Hussein Bridge, UNCTAD.

‘The containers have space for 200 cubic meters but the scanner can’t scan more than 160 cubic meters.’

‘The scanner doesn’t work if we put two kinds of products on the truck such as liquid and powder.’

[Palestinian exporters \(ITC/PalTrade business survey on NTMs in the State of Palestine\)](#)

for all products (see ‘requirement to pass through a specified port of customs’ in figure 30), which means some exporters are forced to take an indirect and more costly route for shipping products abroad.

Passing through checkpoints is rendered even more challenging by insufficient working hours. Some exporters complain about checkpoint opening times not exceeding four hours a day and terminals closing for hours or even days without prior notifications. Exporters also deplore border crossings being ill-equipped in terms of infrastructure, notably scanners, which either do not exist or are limited in capacity. For example, scanners at the King Hussein Bridge cannot scan containers, necessitating palletized shipment. This leads to prolonged waiting times, with five to six hours being the rule rather than the exception. Some crossings are not open

5.1. Costly, time-consuming back-to-back procedure

The ‘back-to-back procedure’ is a major impediment at border crossings. All products must be offloaded from Palestinian trucks at the border and loaded onto Israeli or Jordanian trucks to continue their journey. This is because Palestinian vehicles are not allowed to pass through Israel and Jordan.

This procedure is time-intensive and exposes goods, particularly perishable food products and fragile items such as glassware, to substantive risks of damage, especially when handled without proper care. It disproportionately adds to shipping costs. Companies say that they are denied access to competitive transport logistics. Instead, they are forced to use what they consider deliberately overpriced service providers that impose unfair conditions. Anecdotal evidence suggests that the cost of transiting just a few kilometres through Israel from the Palestinian borders to the

‘The cost to reach Ashdod port is more expensive than delivering our products from Ashdod to the final export destination.’

[A Palestinian company exporting to Malaysia and the United States \(ITC/PalTrade business survey on NTMs in the State of Palestine\)](#)

nearest port or airport can easily exceed the value of the entire shipment.

‘There’s a limit to the number of plastic pipes that a truck can actually carry, and the shippers that we must use sometimes cost more than the total value of the products that we’re transporting.’

‘We pay NIS 1,000 for the truck and we fill it with 15 tons but the Israelis pay NIS 500 and fill it with 20 tons.’

[Palestinian exporters \(ITC/PalTrade business survey on NTMs in the State of Palestine\)](#)

Considerable delays resulting from inspections and the back-to-back procedure, combined with the financial loss linked to damaged products, overpriced service providers and the formal and informal fees charged for inspections, lead to very high transaction costs, which erodes the competitiveness of Palestinian products (see box 6). A number of companies reported that they have lost customers due to deteriorating border-crossing conditions over the past years. A few companies have stopped exporting altogether.

6. Challenges with the general business environment

The NTM Survey focused primarily on trade obstacles linked to government regulations on Palestinian exports. However, the survey captured a number of exporter grievances beyond those formally classified as ‘NTM cases’ as presented in this paper. Exporters were asked about challenges with the general business environment in the State of Palestine that affect their companies. The results are summarized in table 4. A number of issues also came up during the guided discussions on NTMs. Some of these are taken up below.

Table 4: Exporters' perceptions of the general business environment in the State of Palestine

Type of challenge	Share of companies evaluating the issue as important or very important
Unfair competition with imported goods	73.6%
High cost of electricity and water	72.0%
Road blocks and checkpoints	71.5%
Limited or lack of access to trade finance services	54.4%
Limited transportation system, e.g. poor roads	46.4%
Poor intellectual property rights protection e.g. breach of copyright, patents, trademarks	44.8%
Lack of coordination among the different ministries	43.5%
Lack of accredited testing laboratories	38.9%
Time delays in procedures at public institutions	37.7%
Lack of (well-trained) personnel in public institutions	35.1%
Complex clearance mechanism, e.g. at customs	32.6%
Lack of storage facilities, including cooling	31.8%
Lack of access to information on export regulations	31.4%
Low security level for persons and goods	31.0%
Problems with water supply (relevant for production)	30.1%
Lack of accessible business-oriented legal support	30.1%
Lack of access to inputs for production	28.0%
Problems with electricity supply, e.g. electricity cuts	28.0%
Ineffective legal enforcement, e.g. contract enforcement, dispute settlement	28.0%
Fees collected by the different ministries providing services to the private sector	28.0%
Lack of electronic procedures in public institutions	25.5%
Inconsistent/arbitrary behaviour of officials	24.3%
Corruption, e.g. bribes	19.2%
Absence of harmonized product/industry standards	18.8%
Other technological constraints, e.g. limited access to information and communication technologies	15.1%

Source: ITC/PalTrade business survey on NTMs in the State of Palestine, 2011–2012.

Note: Based on answers of 239 companies to the question: 'Do you face any of the listed challenges related to the business environment in your home country? Please specify based on importance (1 = very important, 5 = not important).'

Restrictions on the movement of people limits business opportunities

Palestinians, with the exception of those living in annexed parts of Jerusalem, cannot enter Jerusalem or Israel without a permit. Many exporters complain they cannot receive these permits any longer and fewer are being granted. This severely limits the possibility of companies to maintain business relations with clients and trade agents in Israel, the biggest market for Palestinian products. One company reported that as a consequence of being denied entry visas, sales in the Israeli market dropped by 70%.

Similarly, buyers from abroad have limited access to the State of Palestine. Exporters report that Israel on requires an invitation for importers or potential customers to be able to visit Palestinian factories, but does not accept invitations issued by the Palestinian companies. This negatively impacts the ability of Palestinian companies to maintain existing client relations and to reach out to new customers and markets.

Restrictions on the movement of people also affect the feasibility of bringing in foreign inspectors for quality control and certification, with adverse effects on the possibility of Palestinian firms to obtain internationally recognized quality certification (see chapter 3, section 4 as well as chapter 2, section 5.5).

Unreliable payments

Another issue frequently highlighted by Palestinian exporters concerns problems receiving payment from clients. Companies report bounced cheques, delayed payments or non-payment from customers in Israel and occasionally from customers in the United States, Turkey and the United Arab Emirates. Interviewees claim that buyers deliberately take advantage of the political situation knowing that Palestinian companies have limited means to appeal and enforce their right to payment. As a result, some Palestinian companies mistrust foreign buyers and ask for high deposits or advance payments, which renders doing business with Palestinian companies less attractive from the international buyers' perspective.

Difficulties to source inputs for production

Although the NTM Survey focused on exports, many companies alluded to import-related trade obstacles. Companies mentioned suffering from the high cost of sourcing raw materials. Some inputs are reported to be very difficult or impossible to obtain because of border controls and bans imposed by Israel. This reportedly increases production costs and adds to the competitive disadvantage of Palestinian companies (see in the context the table in box 7).

Access to finance

Many companies in the State of Palestine are limited by the lack of access to finance. Exporters complain about the absence or limited efficiency of microfinance institutions. Collateral requirements are reportedly difficult to meet for several reasons, including because the current legal framework does not allow movable assets to be used as collateral.

Inadequate trade support infrastructure and uncoordinated services

Many exporters highlight the inadequate trade support infrastructure. They report overlaps and redundancies among ministries, different trade support institutions and other supporting agencies, which creates confusion and delays. They also report a lack of important services, particularly in the areas of transport and logistics. The 'ease' of exporting is further worsened by the poor development of hard infrastructure in the State of Palestine: nearly half of interviewed exporters find the limited transportation system an important or very important challenge (table 4).

7. Concluding observations

The survey results discussed in this chapter provide evidence for the enormous challenges that Palestinian businesses face in accessing foreign markets. Government regulations, imposed by Palestinian authorities, Israel or third countries, and general issues in the trade-related business environment render exporting a costly – and for many businesses impossible – undertaking. See box 7 for some examples.

Box 7: Palestinian companies face high trade costs

PalTrade research highlights massive differences in export cost between Palestinian and Israeli exporters. Differences include:

- Palestinians must often use two different means of transportation. If Palestinian exporters containerize in the West Bank, containers can be filled only to 90% to leave space for security checks.
- If goods are containerized at ports, exporters must cover the loading cost.
- Palestinian exporters are required to send their goods to the ports three days in advance to perform security checks.
- This implies storage fees of around US\$ 250 to US\$ 300 per shipment.
- Additional costs are associated with crossing fees (e.g. US\$ 83 at Betunia crossing) and sometimes towing cost related to security checks.
- The high cost of fuel, electricity and water in the State of Palestine exacerbate the problems.

Further evidence for the high transaction cost is given by the World Bank Doing Business indicators. Taking into consideration the cost for export documentation and domestic transportation, the data estimates that it costs Palestinian companies nearly three times as much as it costs for Israeli companies and more than double the export costs in Jordan.

	Rank	Documents to export (number)	Time to export (days)	Cost to export (US\$ per container)	Documents to import (number)	Time to import (days)	Cost to import (US\$ per container)
West Bank and Gaza	130	6	23	1,750	6	38	1,425
Jordan	54	5	12	825	7	15	1,235
Israel	12	4	10	620	4	10	565
Middle East & North Africa		6	19.4	1,166	7.8	23.8	1,307
OECD high-income countries		3.8	10.5	1,080	4.3	9.6	1,100

Source (table): World Bank, Doing business indicators on trading across borders, 2014. Note: 'Rank' refers to the country rank for the trading across borders indicator.

Source (text): PalTrade.

Chapter 4 Conclusions and recommendations

The previous chapter provided a thorough overview of the experiences of Palestinian businesses with non-tariff measures and related trade obstacles. Private sector concerns with NTMs are manifold and not limited to the strictness of regulations themselves. Many trade obstacles identified through the NTM Survey relate to procedural obstacles. Survey results confirm the negative effect of the dependency on Israel and the limited autonomy of the State of Palestine vis-à-vis trade.

However, the NTM Survey results also reveal that there is significant room for manoeuvre within the sphere of influence of Palestinian authorities. This represents an opportunity. It suggests that the State of Palestine can address a number of trade impediments by tackling procedural obstacles in the domestic business environment thereby facilitating trade rather than trying to change the underlying – and more often than not externally imposed – trade rules.

The NTM Survey results reinforce the need to implement the recent National Export Strategy 2014–2018, for which the NTM Survey results served as input.

The following key messages emerge from the survey:

- **Market access begins at home.** The documentation required by Palestinian institutions for exporters to sell abroad and the related procedures are cumbersome, costly and often unclear. The survey results underscore that there is great scope for action at the national level.
- **Information is valuable but often unavailable.** Processes may be complicated and lengthy for justifiable reasons. But there is little reason for them to be unclear and non-transparent. Providing information contributes to more efficient processes and reduced trade costs by rendering cross-border business transactions more predictable in terms of time and cost. Information about market access conditions in (potential) partner countries as well as international product standards and related certifications are unknown or inaccessible to many Palestinian exporters.
- **Quality is key. *Proving* quality is the heavy door, which is difficult to open even if unlocked.** Compliance with partner country quality requirements is key to exporting. This remains a challenge for active exporters, but likely even more so for non-exporting producers. The NTM Survey results highlight the need to strengthen the national regulatory environment in terms of quality management, compliance and monitoring. A high level of product quality is a necessary condition for market access abroad. However, *proving* compliance with product quality standards is an important additional trade impediment due to the lack of testing facilities paired with the lack of recognition of certificates that are issued domestically.
- **Trade agreements are of limited use when they do not work on the ground.** Concluding trade agreements is one thing, being able to implement and take advantage of them is another. In practice, the use of preferences by Palestinian businesses is low due to a number of factors, including proving product origin (on the export side) and lack of application of preferential regimes by Israeli authorities (on the import side). The survey results suggest that more important than new comprehensive trade agreements are agreements on mutual recognition of quality certificates. Also important are improved documentation of product traceability and origin combined with more efficient certification procedures.

The following presents more specific recommendations related to the challenges identified by the NTM Survey. Where relevant, reference is made to the more detailed and comprehensive points of action recommended in the national export strategy (see boxes 8, 9 and 10).

‘Home-country issues’ – institutional efficiency, trade facilitation and trade policy

The NTM Survey results highlight that the regulatory structure in the State of Palestine could be more conducive for trade. More than one-third of procedural obstacles reported by Palestinian exporters happen ‘at home’, i.e. before reaching the border. These inefficiencies can be tackled, most of them independently

from the continuous conflict. The different stakeholders in the State of Palestine have a significant scope for action to facilitate trade for Palestinian businesses.

Institutional efficiency

A significant number of challenges reported by exporters concern problems with export-related measures applied by Palestinian authorities (chiefly the Ministry of National Economy and partly the Ministry of Finance), in particular licences, certificates of origin and the Maqasa form. The challenges relate mainly to procedural obstacles as opposed to the measures themselves, with the number of needed documents reported to be high and the lengthy process to obtain licences and certificates of origin. Survey results highlight the limited capacity to handle requests for these documents, unclear and inefficient procedures, as well as high turnover of staff responsible for issuing them.

It is essential to **streamline administrative procedures associated with obtaining export-related documents and certificates**. To the extent feasible, the necessary infrastructure should be developed to enable electronic requests and submission of documents as well as storage of information, which would eliminate the necessity to duplicate and re-submit still valid documents. The entire export process before the border (see appendix IV) should be reviewed and simplified where possible. It is important for the State of Palestine to start implementing a **one-stop-shop for exports**, especially for the agro-business sector.

Surveyed exporters recognize that many problems are linked to human resource constraints. **Investment in people** is key to improve institutional capacity and efficiency. Sufficient and well-trained staff in the different public institutions involved in the export and import process, including ministries and the standards institute, and reduced staff turnovers will contribute to decreasing delays related to administrative processes and inconsistencies in decision making. It is equally important to **clearly assign roles within ministries** to avoid frequent changes in the designated office or division responsible for issuing documents, licences and certificates.

With respect to the Maqasa, it is essential that exporters obtain these forms in sufficient numbers given the importance of Israel as export destination. Restrictions on the quantity of forms should only apply to those companies that have been shown to under-declare the real value of shipments. This will enhance fairness and will avoid penalizing exporters that correctly declare their consignments. A Palestinian customs presence at commercial border crossings (see recommendations on border controls below) will allow to better check for transgressions regarding the shipment value.

Transparency

Palestinian institutions involved in the export process need to **increase their accountability** to render trading more predictable in terms of time and cost, to lower incentives for bribes and to reduce the margin for the reported 'arbitrary behaviour' of officials.

It is recommended that Palestinian agencies, particularly the Ministry of National Economy, the Ministry of Health, the Ministry of Agriculture and the Palestinian Standards Institute, **publish, regularly update and actively disseminate information on processes, the office or division in charge, official handling deadlines and response times** for the different processes **as well as associated fees**.

In parallel, institutions should adopt a **tracking system** for requests, complaints and other correspondence. This would allow companies to stay informed about the handling of their requests. At the same time, such a system would provide valuable statistics for institutions, which would enable them to better monitor the quality and speed of handling requests and inquiries, and to take corrective action where needed.

Inter-agency connectivity

As the export process diagram in appendix IV shows, it is counterproductive for the different agencies to work in isolation as they all form an integral part of the export process. It is essential to improve the **interconnectedness among the different institutions**. Test results or certificates of origin could automatically be transmitted from the issuing body to other administrations, which would expedite the export process, especially where many different administrative windows are involved. In addition, it may

reduce the risk of forgery of documents. This could be a first step towards establishing an efficient **one-stop shop** for export-related documents.

The **stakeholder coordination mechanism** foreseen by the National Export Strategy will be an important cornerstone for enhanced inter-agency coordination and information exchange.

Trade policy and trade facilitation measures

With regards to **trade policy formulation and trade agreement negotiations**, it is important to effectively negotiate and implement mutual recognition, including for quality certification (see also quality-related recommendations below) and certificates of origin. Past trade agreements appear to have been signed with little involvement of the private sector and consumer groups. This has adverse effects as only a few companies can actually benefit from these agreements. The recent efforts led by PalTrade and the Ministry of National Economy on assessing trade agreements with a focus on deep integration issues is a step in the right direction. Recommendations stemming from this initiative should be followed up and mechanisms should be laid down to resolve issues identified with partner countries.

Because the use of preference is very low, there is a risk that existing agreements benefit only the partner countries, not the State of Palestine. As a result, it is important to **institutionalize continuous public-private dialogue** to ensure that private sector priorities and concerns are taken into account in trade policy formulation and negotiations. The **stakeholder coordination mechanism** foreseen under the National Export Strategy will be a viable platform for this type of dialogue.

Box 8: The National Export Strategy's vision for trade facilitation and logistics

The vision of the State of Palestine National Export Strategy 2014–2018 in the area of trade facilitation and logistics is to achieve 'a responsive trade facilitation and logistics function powering Palestinian export growth'. To achieve this vision will require:

1. Strengthened dialogue among all concerned parties to increase coordination and fulfilment of expectations on various fronts;
2. Development of a national single window to provide exporters with relevant and updated information on export procedures, regulations, operations and changes, and in the process reduce expenditure of time, money and effort for Palestinian exporters;
3. Improved human capital and strengthened organizational set-up within enterprises, so as to formalize and develop expertise in trade logistics, and realize efficiency gains through reduced delays and costs;
4. Streamlined administrative procedures (documentation, charges, processes and elimination of domestic obstacles) through the introduction of comprehensive e-government initiatives that are implemented at all ministries and based on best practices followed globally;
5. Development of innovative solutions through rigorous research conducted at the cross-sector level, focusing on identifying new export routes and transport mechanisms that would result in efficiency gains for exporters.

Source: State of Palestine, National Export Strategy 2014–2018, functional strategy on trade logistics and facilitation.

It is important to **inform the private sector about the potential offered by existing trade agreements**, for example through special training devoted to rules of origin and the use of preferences. Training could be offered by the Ministry of National Economy officials, for example trade negotiators, in collaboration with PalTrade, trade support institutions and chambers of commerce. Existing training should be extended to ensure wide outreach, specifically to smaller enterprises and potential exporters.

The State of Palestine should take a much stronger stance in GAFTA-related cooperation and push for better implementation and further development of the agreement. For economic development in general, and trade development in particular, the State of Palestine stands much to gain from Arab regional integration. However, to date, potential benefits from GAFTA membership have not been realized. It is recommended that the State of Palestine explores with its Arab trading partners ways to improve the

recognition of and trust in ‘made in Palestine’, which would increase the possibility of Palestinian businesses to *de facto* benefit from preferential market access.

It is important for the Ministry of National Economy to **reassess the validity of certificates of origin** and to consider extending their validity. In many countries, certificates are valid for two years. It is recommended that the different agencies involved in issuing certificates of origin (see box 3) implement **simplified ‘fast-track’ procedures** in cases where the same product is repeatedly exported by the same company within a reasonably short period of time.

Trade information

The NTM Survey reveals the need to **improve information about market access conditions in partner countries**. This pertains to tariffs and, where existing, preferences, as well as to all types of NTMs, including quality requirements and customs procedures. Existing tools and databases such as the data on tariffs and NTMs contained ITC’s Market Access Map²⁶ can be a valuable starting point.

A noteworthy initiative is the recently established ITC-led EuroMed Trade and Investment Facilitation Mechanism (TIFM), which will contribute to addressing information gaps with respect to partner countries in the Mediterranean, including the European Union. The project works to **establish a comprehensive trade information portal on market access conditions, regulations and related procedures**, following the model of portals in other regions such as the EU Export Helpdesk. The portal will be available among others in Arabic. It is complemented by a network of national enquiry points that will serve as focal points for questions regarding their country’s market access conditions.²⁷

Box 9: The National Export Strategy’s vision for trade information

The vision of the State of Palestine National Export Strategy 2014–2018 in the area of trade information is to ‘establish a trade information architecture, supported by the government, trade support institutions and the private sector, for easy and timely access to a wide range of trade information sources.’ To achieve this vision will require:

1. A clearly visible network of trade information providers, with improved coordination and collaboration and with limited gaps and redundancies;
2. Detailed information about countries of destination – specific sectors, markets and products – in relation to Palestinian trade, provided through an easily accessible platform;
3. Improved capacity at the enterprise level to leverage existing sources of trade information and synergise information sources to their advantage.

Source: State of Palestine, National Export Strategy 2014–2018, functional strategy on trade information.

Successfully closing information gaps also relies on a country’s capacity to process the wealth of data and information in a user-friendly way. **Palestinian trade support institutions have a key role to make existing information more accessible to Palestinian companies**, including through **providing synthesised information and targeted trainings** (see box 9). Trade support institutions should review their offer and costing of information and training services with respect to accessibility, affordability and usefulness, particularly for micro and small enterprises.

An example of targeted, synthesised information is the **Arab States guide on customs procedures** planned under a new project funded by USAID, which is specifically designed to address NTM-related obstacles to intra-Arab trade. The guide will outline the different processes and documents needed for customs clearance in GAFTA member countries. This will allow Palestinian businesses to be better prepared for border clearance in Arab destination markets.

²⁶ www.macmap.org

²⁷ For more information on TIFM, see <http://www.intracen.org/euromed/> (website accessed in 8 August 2014).

Quality and conformity assessment requirements

The recommendations below sketch the broad lines for action in the area of quality management in the State of Palestine. The NTM Survey results fully support the comprehensive recommendations related to quality management as presented in the National Export Strategy (see box 10).

Regulatory framework

The State of Palestine's regulatory framework for quality management is insufficient, with weak enforcement of existing legislation. The NTM Survey results highlight the need to **establish a comprehensive national quality-management system**, including **efficient market surveillance and enforcement mechanisms**, which creates the framework for higher-quality production as well as adequate monitoring of product quality and safety for imported goods.

To the extent feasible, **Palestinian quality and safety standards should be aligned to international standards**. Reducing the gap between the quality of products sold domestically and the requirements of partner countries will allow domestically oriented companies to become export-ready more easily when attractive market opportunities emerge.

Closing company 'capacity gaps'

Legislation is of limited use if companies are unable to meet the set standards. The NTM Survey results point to exporters' limited capacity to comply with strict quality and safety requirements imposed by trading partner countries. These capacity gaps are likely to be more pronounced for non-exporting producers.

Improvements in the Palestinian regulatory framework are recommended to be accompanied by **systematic programmes to build the capacity of companies**, including existing and potential exporters, in the area of quality management to meet internationally recognized standards.

The government should improve the availability and accessibility of training on quality requirements for smaller enterprises and those located outside main cities. **The Palestinian Standards Institute should review and/or develop its training offer and ensure effective outreach**, particularly to micro and small enterprises. Training could be offered in collaboration with trade promotion institutions and private sector associations. The aim should be to significantly increase the share of companies with a Palestinian Quality or Monitoring Mark Certificate, which chapter 2 has shown to be low among surveyed exporters.

It is important to **enhance the capacity of trade support institutions in the area of training and advisory services** for enterprises.

In addition, it is essential that the relevant ministries, namely the Ministry of National Economy, the Ministry of Health and Ministry of Agriculture, institutionalize regular **training sessions to be provided by international experts and standards bodies**, such as the International Organization for Standardization. A 'twinning programme' could be established, whereby the standards body of selected strategic partner countries train Palestinian companies on their national quality requirements. **Direct capacity building on specific quality requirements from buyers** to existing or potential exporters of the demanded products could complement these efforts. Evidently, the feasibility of these suggestions depends upon the possibility of foreign experts and buyers to enter the State of Palestine.

In addition to training, the Ministry of National Economy, with the support of international donors, could consider **creating a financial support mechanism** to help Palestinian businesses, notably micro and small enterprises, to upgrade production processes, traceability and product quality in line with international requirements.

Awareness-raising campaigns could contribute to enhancing private sector understanding of the necessity and benefits of complying with quality standards, which would contribute towards creating a **national 'product quality culture'** to support the quality-management vision articulated in the National Export Strategy (box 10).

Conformity assessment

According to the NTM Survey results, the lack of adequate conformity assessment infrastructure in the State of Palestine is the predominant complaint of active exporters with respect to quality management. Even if companies produce in conformity with strict product quality and safety standards imposed by destination markets, they have difficulties to prove this compliance.

The Palestinian Standards Institute plays a pivotal role. It is the subject of many exporter complaints, primarily related to insufficient capacity and recognition issues. The need to **invest in people** is also relevant for the Palestinian Standards Institute, which suffers from a lack of human resources to cope with its mandate and the demand for its services.

The National Export Strategy refers to conflicts of interest that paralyze the Palestinian Standards Institute's effectiveness, efficiency and focus. It identifies the urgent need to **separate the accreditation and testing functions of the Palestinian Standards Institute** and to develop an independent, internationally recognized accreditation body.

Lack of testing facilities in the State of Palestine is a major impediment to trade. It is necessary to improve access for Palestinian businesses to conformity assessment infrastructure and internationally accredited laboratories. To accomplish this, it is recommended to

- Assess and map both the testing needs and the existing laboratory capacities in the State of Palestine, Israel and Jordan to **identify existing gaps in the conformity assessment infrastructure, its accessibility in terms of distance and cost and its international recognition** (accreditation);
- **Strategically invest in strengthening testing capacities within the State of Palestine** to ensure that testing of priority products can be carried out domestically without threatening the financial sustainability of laboratories.
- Elaborate ways to **render testing and certification affordable** for micro and small enterprises and first-time exporters. Possibilities include direct funding for tests, specific loans to enterprises and subsidies to laboratories.

It is important to **improve transparency about conformity-assessment procedures and cost** for Palestinian certificates and but also for the most important internationally recognized quality labels such as ISO certifications, HACCP, GlobalG.A.P. and GMP.

Mutual recognition

Improving the domestic conformity assessment infrastructure will help to increase trust in and recognition of Palestinian testing facilities and certifications.

It is important to complement this by **negotiating and effectively implementing mutual recognition agreements with the most strategic export destinations**. An example is an agreement on conformity assessment and acceptance (ACAA) with the European Union. Such agreements would avoid costly duplication of testing and certification. It is recommended to take advantage of the platforms provided for by the existing trade agreements, most importantly GAFTA, to advance this agenda.

The NTM Survey results show that even for the few markets where mutual recognition agreements exist on paper – Algeria, Jordan, Morocco, Sudan and United Arab Emirates – they do not function in practice. The reasons for this malfunction need to be investigated and addressed, among other means with the help of bilateral negotiations.

An **alignment of Palestinian standards with international good practice** would further facilitate efforts to achieve broader recognition of Palestinian testing results and quality certificates.

Box 10: The National Export Strategy's vision for quality management

The vision of the State of Palestine National Export Strategy 2014–2018 in the area of quality management is to achieve 'an established and recognized quality infrastructure that proves compliance with health, safety, environmental and quality standards set by partner trading countries to gain and maintain access to these markets.' To achieve this vision will require:

1. Strengthening legal systems that will empower institutions and professional organizations to govern, regulate, inspect and control the quality of products and services, using properly established and accredited testing laboratories;
2. Developing a product classification system for Palestinian products and services. A product and service classification system will constitute the basic building blocks upon which standardization, testing and inspection will be carried out. This system is expected to substantially decrease the effort required for standardization, and decrease the lead time for accessing global markets;
3. Updating and strengthening lab infrastructure. Lab infrastructure will be developed to provide effective service quickly and at a reasonable price;
4. Improving producer and consumer awareness of quality metrics. This will be undertaken in parallel with other efforts in the area of improving consumer protection;
5. Enhancing quality-management infrastructure at the source – the enterprise level. Through training workshops and seminars, local manufacturers and service providers will be exposed to the latest and most effective tools to enhance the quality of their products and services, which will enable them to stay ahead of the competition;
6. Creating a national accreditation system, independent of PSI, with the primary mandate to provide accreditation to service providers in the area of standards development, inspection, certifying and lab testing;
7. Establishing a quality management policy. The current quality management framework in the State of Palestine suffers greatly from the lack of coordination among all parties involved in establishing, setting, enforcing and monitoring quality management system regulations. Efforts will be focused on creating the basic building blocks, including a proper framework, hierarchy, responsibility and reporting matrix.

Source: State of Palestine, National Export Strategy 2014–2018, functional strategy on quality management.

Border controls and inspections

The strongest impediment to Palestinian exports is measures imposed by Israel, particularly border controls and inspections. However, the ability of the State of Palestine to solve these problems is very limited. For example, pre-shipment inspections would be a potential solution to reduce delays at the border with Israel, but are unlikely to be established.

Nonetheless, there are a few actions that could contribute to minimizing the negative impact of border clearance processes. The following recommendations focus on these actions. The strategy on trade facilitation and logistics outlined in the National Export Strategy presents further details and suggestions.

A Palestinian presence at commercial border crossings

A fundamental problem resides in the lack of Palestinian customs presence at border crossings. The joint supervision at Israeli-Palestinian borders stipulated in the Oslo Accords was suspended during the Second Intifada (2000–2005) and has not been reintroduced.

Palestinian authorities are encouraged to continue lobbying for **reinstating a Palestinian customs presence at commercial crossings**. A joint framework for Palestinian customs agents to operate at the Jordanian border could reduce some of the trade logistics challenges.

It is also necessary to **improve the information flow about border-crossing** impediments to businesses, including the intensity and frequency of checks, current waiting times and unexpected closures.

Information should be disseminated more quickly and systematically. The NTM Survey results support the need, which is also articulated in the National Export Strategy, to **establish an information service or office to serve as a focal point for real-time information on delays and closures**. At the same time, an **alert system** could be created to systematically inform all exporters by email or SMS of impediments as they occur. This will not reduce delays or prevent closures from happening, but it could mitigate some of their negative effects in terms of business planning, notably the predictability of the time needed to cross the border.

It is important to **strengthen logistical assistance to exporters at each border crossing**. Together with the presence of Palestinian customs officers this will contribute to improving communication with Israeli officers and reduce exporters' reliance on sometimes very costly Israeli brokers for cross-border operations. The National Export Strategy as a first step recommends establishing more comprehensive logistics hubs as service centres at borders to provide a number of basic export services, including overnight storage in some cases through renting areas in and around crossings, packaging, palletizing products in accordance with international requirements, brokerage, freight forwarding and transportation.²⁸

Operating times

In addition to unpredictability, generally insufficient service times at border crossings have been reported as an important constraint to Palestinian exports and imports. The NTM Survey results support the National Export Strategy's recommendation to **advocate to the international community to request that borders**, especially the King Hussein Bridge, **operate 24 hours a day** and to ensure that goods that leave port require no more security checks once they arrive at the border crossing. According to estimates, this could eliminate up to 30% of the extra costs and delays.

The Palestinian authorities are encouraged to continue their efforts to **re-open the Prince Mohammed/Bisan Bridge** as an alternative to the King Hussein Bridge. It is important to implement the national position reached on establishing a joint logistic centre at Prince Mohammed/Bisan Bridge.²⁹

Some ways forward

These recommendations are an avenue to address some of the challenges that Palestinian exporters face on a daily basis. Even if all the proposed actions were implemented, however, Palestinian companies would remain at a disadvantage and continue to be unable to compete in prices for products, such as olive oil, that are vastly similar to those produced by neighbouring countries with much better market access worldwide.

Trade in goods: the importance of market segmentation

One of the few ways the State of Palestine could increase exports is by targeting high-price segments in target markets for existing and potential export products. For example, this could be achieved through collaborating with luxury brands, which have customers that are ready to pay for the brand name more than the pure value of inputs. ITC's Ethical Fashion Initiative, which links producers in marginalized communities to fashion brands, serves as example in the clothing sector.³⁰

Certification of products as 'organic', 'fair trade' or 'bio' may be another avenue to pursue. Consumers tend to be ready to pay more for these products, which are enjoying a growing market share in many countries. Complying with private voluntary standards is costly and feasibility is closely linked to the issues of product quality discussed above, particularly the accessibility of conformity assessment infrastructure. A clear national strategy to raise product quality is a prerequisite. Schemes to help producers comply with private standards may be an additional investment worth making.

²⁸ Operational objective 3.3, State of Palestine National Export Strategy 2014–2018, functional strategy on trade logistics and facilitation.

²⁹ PalTrade Position Paper on the establishment of a dry port in the Jericho area, and the required facilities and necessary improvement at Al Karameh/King Hussein Bridge to accommodate the use of containers, May 2013. Available at: <http://www.paltrade.org/upload/multimedia/admin/2014/08/53f19537c7809.pdf> (link accessed on 3 February 2015).

³⁰ Refer to <http://www.intracen.org/itc/projects/ethical-fashion/> for more information.

It will be important to develop a marketing strategy to promote the label 'made in Palestine'. Consumers may be willing to pay more for a product because they understand the disadvantages that Palestinian producers face. This type of marketing strategy is likely to be most effective in Arab countries and countries with a significant population of Arab origin, for example in the European Union.

Trade in services

Market and product diversification is key to reduce the dependence of the Palestinian economy on the Israeli market as well as the vulnerability to demand shocks for selected products. The NTM Survey focused on trade in goods, and the results point to a number of ways better market access for Palestinian products abroad could be achieved. The report would, however, not be complete without a reference to trade in services.

Given the restricted movement of people and goods, it is strategically important for the State of Palestine to exploit the export potential provided by trade in services, notably for supply mode 1 (cross border).³¹ Developing and promoting the services sector, to the extent that it does not require physical movement of goods and people across the border, can contribute to making the economy less vulnerable to 'checkpoint-related challenges' such as those highlighted in this report,³² which are beyond the direct influence of the Palestinian Authority. The State of Palestine may wish to explore the potential of diversifying from 'selling goods' towards increasingly 'selling ideas'.

Implementation of the National Export Strategy

Finally, the implementation of the National Export Strategy is of utmost priority for laying down a comprehensive and practical approach towards developing Palestinian exports both in goods and services. It is important that stakeholders have an integrated approach towards supporting the implementation of this national strategy.

³¹ Refer to http://www.wto.org/english/tratop_e/serv_e/cbt_course_e/c1s3p1_e.htm for more information about the different modes of supply.

³² See chapter 3, section 5.

Appendix I Global methodology of the non-tariff measure surveys

Non-tariff measure surveys

Since 2010,³³ ITC completed large-scale company-level surveys on burdensome non-tariff measures and related trade obstacles (NTM Surveys hereafter) in over 25 developing and least-developed countries on all continents.³⁴ The main objective of the survey is to capture how businesses perceive burdensome NTMs and other obstacles to trade at a most detailed level – by product and partner country.

All surveys are based on a global methodology consisting of a core part and a country-specific part. The core part of the NTM Survey methodology described in this appendix is identical in all survey countries, enabling cross-country analyses and comparison. The country-specific part allows flexibility in addressing the requirements and needs of each participating country. The country-specific aspects and the particularities of the survey implementation in the State of Palestine are covered in chapter 2 of this report.

Scope and coverage of the non-tariff measure surveys

The objective of the NTM Survey requires a representative sample allowing for the extrapolation of the survey results to the country level. To achieve this objective, the survey covers at least 90% of the total export value of each participating country, excluding minerals and arms. The economy is divided into 13 sectors; all sectors with more than a 2% share in total exports are included in the survey.

The NTM Survey sectors are defined as follows:

1. Fresh food and raw agro-based products
2. Processed food and agro-based products
3. Wood, wood products and paper
4. Yarn, fabrics and textiles
5. Chemicals
6. Leather
7. Metal and other basic manufacturing
8. Non-electric machinery
9. Computers, telecommunications, consumer electronics
10. Electronic components
11. Transport equipment
12. Clothing
13. Miscellaneous manufacturing

Companies trading arms and minerals are excluded. The export of minerals is generally not subject to trade barriers due to a high demand and the specificities of trade undertaken by large multinational companies.

³³ The work started in 2006, when the Secretary-General of the United Nations Conference on Trade and Development (UNCTAD) established the Group of Eminent Persons on Non-Tariff Barriers. The main purpose of GNTB is to discuss definition, classification, collection and quantification of non-tariff barriers – to identify data requirements, and consequently advance understanding of NTMs and their impact on trade. To carry out the technical work of the GNTB, a Multi-Agency Support Team (MAST) was set up. Since then, ITC is advancing the work on NTMs in three directions. First, ITC has contributed to the international classification of non-tariff measures (NTM classification) that was finalized in November 2009 and updated in 2012. Second, ITC undertakes NTM Surveys in developing countries using the NTM classification. Third, ITC, UNCTAD and the World Bank jointly collect and catalogue official regulations on NTMs applied by importing markets (developed and developing). This provides a complete picture of NTMs as official regulations serve as a baseline for the analysis, and the surveys identify the impact of the measures on enterprises and consequently on international trade.

³⁴ Pilot NTM Surveys were carried out in cooperation with UNCTAD in 2008–2009 in Brazil, Chile, India, the Philippines, Thailand, Tunisia and Uganda. The pilot surveys provided a wealth of materials allowing for the significant improvement to both the NTMs classification and the NTM Survey methodology. Since then, ITC has implemented NTM Surveys based on the new methodology in 25 developing and least developed countries.

The NTM Surveys are undertaken among companies exporting and importing goods. Companies trading services are excluded, as a survey on NTMs in services would require a different approach and methodology. Yet, the NTM Survey includes companies specializing in the export-import process and services, such as agents, brokers, forwarding companies (referred to as ‘trading agents’ for brevity). These companies can be viewed as service companies as they provide trade logistics services. The answers provided by trading agents are in most cases analysed separately from the answers of the companies that export their own products.

The NTM Surveys cover legally registered companies of all sizes and types of ownership. Depending on country size and geography, one to four geographic regions with high concentrations of economic activities (high number of firms) are included in the sample.

Two-step approach

The representatives of the surveyed companies, generally export/import specialists or senior-level managers, are asked to report trade-related problems experienced by their companies in the preceding year and representing a serious impediment for their operations. To identify companies that experience burdensome NTMs, the survey process consists of telephone interviews with all companies in the sample (step 1) and face-to-face interviews undertaken with the companies that reported difficulties with NTMs during the telephone interviews (step 2).

Step 1: Telephone interviews

The first step includes short telephone interviews. Telephone interviews consist of questions identifying the main sector of activity of the companies and the direction of trade (export or import). The respondents are then asked whether their companies have experienced burdensome NTMs. If a company does not report any issues with NTMs, the telephone interview is terminated. Companies that report difficulties with NTMs are invited to participate in an in-depth face-to-face interview, and the time and place for this interview is scheduled before ending the telephone interview.

Step 2: Face-to-face interviews

The face-to-face interviews are required to obtain all the details of burdensome NTMs and other obstacles at the product and partner country level. These interviews are conducted face-to-face due to the complexity of the issues related to NTMs. Face-to-face interactions with experienced interviewers help to ensure that respondents correctly understand the purpose and the coverage of the survey and accurately classify their responses in accordance with predefined categories.

The questionnaire used to structure the face-to-face interviews consists of three main parts. The first part covers the characteristics of the companies: number of employees, turnover and share of exports in total sales, whether the company exports their own products or represents a trading agent providing export services to domestic producers.

The second part is dedicated to exporting and importing activities of the company, with all trade products and partner countries recorded. During this process, the interviewer also identifies all products affected by burdensome regulations and countries applying these regulations.

During the third part of the interview, each problem is recorded in detail. A trained interviewer helps respondents identify the relevant government-imposed regulations, affected products (6-digit level of the Harmonized System – HS), the partner country exporting or importing these products, and the country applying the regulation (it can be partner, transit or home country).

Each burdensome measure (regulation) is classified according to the NTMs classification, an international taxonomy of NTMs consisting of more than 200 specific measures grouped into 16 categories (see appendix II). The NTMs classification is the core of the survey, making it possible to apply a uniform and systematic approach to recording and analysing burdensome NTMs in countries with very idiosyncratic trade policies and approaches to NTMs.

The face-to-face questionnaire captures not only the type of burdensome NTMs, but also the nature of the problem (so-called procedural obstacles [POs] explaining why measures represent an impediment), the place where each obstacle takes place, and the agencies involved, if any. For example an importing country can require the fumigation of containers (an NTM applied by the partner country), but fumigation facilities are expensive in the exporting country, resulting in a significant increase in export costs for the company (procedural obstacles located in the home country). The companies can also report generic problems not related to any regulation, but affecting their export or import, such as corruption and lack of export infrastructure. These issues are referred to as problems related to business environment (see appendix III).

Local survey company

Both telephone and face-to-face interviews are carried out by a local partner selected through a competitive bidding procedure. The partner is most often a company specializing in surveys. Generally, the NTM Surveys are undertaken in local languages. The telephone interviews are recorded either by a Computer Assisted Telephone Interview system, computer spreadsheets or on paper. The face-to-face interviews are initially captured using paper-based interviewer-led questionnaires that are then digitalized by the partner company using a spreadsheet-based system developed by ITC.

Open-ended discussions

During the surveys of companies and when preparing the report, open-ended discussions are held with national experts and stakeholders, for example trade support institutions and sector/export associations. These discussions provide further insights, quality check and validation of the survey results. The participants review the main findings of the NTM Survey and help to explain the reasons for the prevalence of the certain issues and their possible solutions.

The open-ended discussions are carried out by the survey company, a partner in another local organization or university or by graduate students participating in the special fellowship organized in cooperation with Columbia University in the United States.

Confidentiality

The NTM Survey is confidential. Confidentiality of the data is paramount to ensure the greatest degree of participation, integrity and confidence in the quality of the data. The paper-based and electronically captured data are transmitted to ITC at the end of the survey.

Sampling technique

The selection of companies for the telephone interviews of the NTM Survey is based on the stratified random sampling. In a stratified random sample, all population units are first clustered into homogeneous groups ('strata'), according to some predefined characteristics, chosen to be related to the major variables being studied. In the case of the NTM Surveys, companies are stratified by sector, as the type and incidence of NTMs are often product-specific. Then simple random samples are selected within each sector.

The NTM Surveys aim to be representative at the country level. A sufficiently large number of enterprises should be interviewed within each export sector to ensure that the share of enterprises experiencing burdensome NTMs is estimated correctly and can be extrapolated to the entire sector. To achieve this

objective, a sample size for the telephone interviews with exporting companies is determined independently for each export sector.³⁵

For importing companies, the sample size is defined at the country level. The sample size for importing companies can be smaller than the sample size for exporters, mainly for two reasons. First, the interviewed exporting companies are often involved in the importation of intermediate products and provide reports on their experiences with NTMs as both exporters and importers. Second, problems experienced by importing companies are generally linked to domestic regulations required by the home country. Even with a small sample size for importing companies, the effort is made to obtain a representative sample by import sectors and the size of the companies.

Exporting companies have difficulties with both domestic regulations and regulations applied by partner countries that import their products. Although the sample size is not stratified by company export destinations, a large sample size permits a good selection of reports related to various export markets (regulations applied by partner countries). By design, large trading partners are mentioned more often during the survey, simply because it is more likely that the randomly selected company would be exporting to one of the major importing countries.

The sample size for face-to-face interviews depends on the results of the telephone interviews.

Average sample size

The number of successfully completed telephone interviews can range from 150 to 1,000, with subsequent 100 to 350 face-to-face interviews with exporting and importing companies. The number of telephone interviews is mainly driven by the size and the structure of the economy, availability and quality of the business register and the response rate. The sample size for the face-to-face interviews depends on the number of affected companies and their willingness to participate in the face-to-face interviews.

Survey data analysis

The analysis of the survey data consists of constructing frequency and coverage statistics along several dimensions, including product and sector, NTMs and their main NTM categories (e.g. technical measures, quantity control measures), and various characteristics of the surveyed companies (e.g. size and degree of foreign ownership).

The frequency and coverage statistics are based on 'cases'. A case is the most disaggregated data unit of the survey. By construction, each company participating in a face-to-face interview reports at least one case of burdensome NTMs, and, if relevant, related procedural obstacles and problems with the trade-related business environment.

³⁵ The sample size depends on the number of exporting companies per sector and on the assumptions regarding the share of exporting companies that are affected by NTMs in the actual population of this sector. The calculation of a sample size is based on the equation below (developed by Cochran, W. G. 1963. *Sampling Techniques*, 2nd Edition, New York: John Wiley and Sons, Inc) to yield a representative sample for proportions in large populations (based on the assumption of normal distribution).

$$n_o = \frac{t^2 * p(1-p)}{d^2}$$

Where

n_o : Sample size for large populations

t : t-value for selected margin of error (d). In the case of the NTM Survey 95% confidence interval is accepted, so t-value is 1.96.

p : The estimated proportion of an attribute that is present in the population. In the case of the NTM Survey, it is a proportion of companies that experience burdensome NTMs. As this proportion is not known prior to the survey, the most conservative estimate leading to a large sample size is employed, that is $p=0.5$.

d : Acceptable margin of error for the proportion being estimated. In other words, a margin of error that the researcher is willing to accept. In the case of NTM Survey $d=0.1$.

Source: Cochran, W. G. 1963. *Sampling Techniques*, 2nd Edition, New York: John Wiley and Sons, Inc.

Each case of each company consists of one NTM (a government-mandated regulation, for example an SPS certificate), one product affected by this NTM, and partner country applying the reported NTM. For example, if three products are affected by the same NTM applied by the same partner country and reported by one company, the results would include three cases. If two different companies report the same problem, it would be counted as two cases.

The scenario where several partner countries apply the same type of measure is recorded as several cases. The details of each case (e.g. the name of the government regulations and its strictness) can vary, as regulations mandated by different countries are likely to differ. However, if the home country of the interviewed companies applies an NTM to a product exported by a company to several countries, the scenario will be recorded as a single NTM case. Furthermore, when an interviewed company both exports and imports, and reports cases related to both activities, it is included in the analysis two times: once for the analysis of exports and once for the analysis of imports. The distinction is summarized in the table below.

Dimensions of an NTM case

Country applying the measure Dimensions	Home country (where survey is conducted)	Partner countries (where goods are exported to or imported from) and transit countries
Reporting company	X	X
Affected product (HS 6-digit code or national tariff line)	X	X
Applied NTM (measure-level code from the NTM classification)	X	X
Trade flow (export or import)	X	X
Partner country applying the measure		X

Cases of procedural obstacles and problems with business environments are counted in the same way as NTM cases. The statistics are provided separately from NTMs, even though in certain instances they are closely related. For example, delays can be caused by PSI requirements. As many of the procedural obstacles and problems with business environment are not product-specific, the statistics are constructed along two dimensions: type of obstacles and country where they occur, as well as agencies involved.

Enhancing local capacities

The NTM Surveys enhance national capacities by transmitting skills and knowledge to a local partner company. ITC does not implement the surveys, but guides and supports a local survey company and experts.

Before the start of the NTM Survey, the local partner company, including project managers and interviewers, are fully trained on the different aspects of the NTMs, the international NTM classification, and the ITC NTM Survey methodology. ITC representatives stay in the country for the launch of the survey and initial interviews and remain in contact with the local partner during the entire duration of the survey, usually around six months, to ensure a high quality of survey implementation. ITC experts closely follow the work of the partner company, providing a regular feedback on the quality of the captured data (including classification of NTMs) and the general development of the survey, helping the local partner to overcome any possible problems.

ITC also helps to construct a business register (list of exporting and importing companies with contact details), which remains at the disposal of the survey company and national stakeholders. The business register is a critical part of any company-level survey, but unfortunately it is often unavailable, even in the advanced developing countries. ITC puts much time, effort and resources into constructing a national business register of exporting and importing companies. The initial information is obtained with the help of national authorities and other stakeholders (e.g. sectoral associations). In cases where it is not available from government sources or a sectoral association, ITC purchases information from third companies and in certain cases digitalizes it from paper sources. The information from various sources is then processed and merged into a comprehensive list of exporting and importing companies.

As a result, upon completion of the NTM Survey, the local partner company is fully capable of independently implementing a follow-up survey or other company-level surveys as it is equipped with the business register and has received training on the survey, trade and NTM-related issues.

Caveats

The utmost effort is made to ensure the representativeness and the high quality of the survey results, yet several caveats must be kept in mind.

First, the NTM surveys generate perception data, as the respondents are asked to report burdensome regulations representing a serious impediment to their exports or imports. The respondents may have different scales for judging what constitutes an impediment. The differences may further intensify when the results of the surveys are compared across countries, stemming from cultural, political, social, economic and linguistic differences. Furthermore, some inconsistency may be possible among interviewers (e.g. related to matching reported measures against the codes of the NTM classification) due to the complex and idiosyncratic nature of NTMs.

Second, in many countries, a systematic business register covering all sectors is unavailable or incomplete. As a result, it may be difficult to ensure random sampling within each sector, and a sufficient rate of participation in smaller sectors. Whenever this is the case, the survey limitations are explicitly provided in the corresponding report.

Finally, certain NTM issues are not likely to be known by the exporting and importing companies. For example, exporters may not know the demand-side constraints behind the borders, e.g. 'buy domestic' campaigns. Furthermore, the scope of the survey is limited to legally operating companies, and does not include unrecorded trade, e.g. shuttle traders.

Survey findings

The findings of each NTM Survey are presented and discussed at a stakeholder workshop. The workshop brings together government officials, experts, companies, donors, non-governmental organizations (NGOs) and academics. It fosters a dialogue on NTM issues and helps identify possible solutions to the problems experienced by exporting and importing companies.

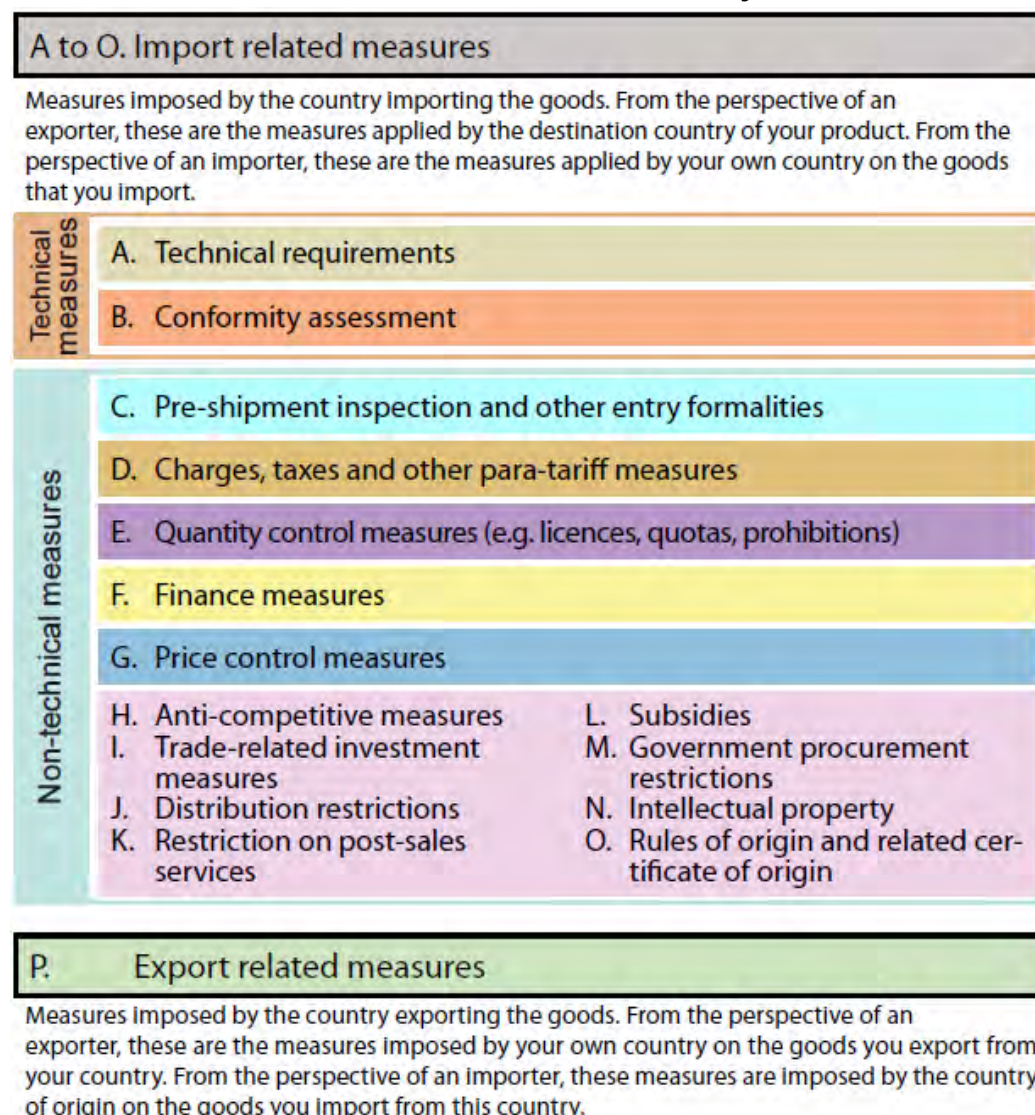
The NTM Survey results serve as a diagnostic tool for identifying and solving predominant problems. This can be realized at the national or international level. The survey findings can also serve as a basis for designing projects to address the problems identified and for supporting fundraising activities.

Appendix II Non-tariff measures classification

Importing countries are very idiosyncratic in the ways they apply non-tariff measures. This called for an international taxonomy of NTMs, which was prepared by the Multi-Agency Support Team (MAST), a group of technical experts from eight international organizations, including the Food and Agriculture Organization, the International Monetary Fund, the International Trade Centre, the Organisation for Economic Co-operation and Development, the United Nations Conference on Trade and Development, the United Nations Industrial Development Organization, the World Bank and the World Trade Organization. The NTM classification was finalized in November 2009 and updated in 2012. It is used to collect, classify, analyse and disseminate information on NTMs received from official sources, e.g. government regulations; and for working with perception-based data, e.g. surveys of companies.

The NTM classification differentiates measures according to 16 chapters (denoted by alphabetical letters), each comprising 'sub-branches' (1-digit), 'twigs' (2-digits) and 'leaves' (3-digits). This classification drew upon the existing, but outdated, UNCTAD Coding System of Trade Control Measures, and has been modified and expanded by adding various categories of measures to reflect current trading conditions.

The structure of the NTM classification for ITC surveys



Source: International Trade Centre, NTM classification adapted for ITC surveys, January 2012 (unpublished document).

Chapter A on technical regulations refers to product-related requirements. They are legally binding and set by the country where the product is exported to (or imported from). They define the product characteristics, technical specification of a product or the production processes and post-production treatment and also include the applicable administrative provisions, with which compliance is mandatory.

Chapter B on conformity assessment refers to technical procedures – such as testing, inspection, certification and traceability – which confirms and controls that product, fulfils the requirements laid down in technical regulations. Conformity assessments are requirements determining that a process or a product meets the relevant regulation and fulfils the relevant requirements.

Chapter C on pre-shipment inspection and other entry formalities refers to the practice of checking, consigning, monitoring and controlling shipment of goods before or at entry into the destination country – i.e. inspection, quarantine, etc.

Chapter D on charges, taxes and other para-tariff measures refers to measures other than customs tariffs that increase the cost of imports in a similar manner, i.e. by a fixed percentage or by a fixed amount, calculated respectively on the basis on the value and the quantity. Five groups are distinguished: customs surcharges; service charges; additional taxes and charges; internal taxes and charges levied on imports; and customs valuation.

Chapter E on quantity control measures refers to measures restraining the quantity of imports of any particular good, from all sources or from specified sources of supply, either through restrictive licensing, fixing of a predetermined quota or through prohibitions.

Chapter F on finance measures refers to measures that are intended to regulate the access to and cost of foreign exchange for imports and define the terms of payment. They may increase import costs in the same manner as tariff measures.

Chapter G on price control measures includes measures implemented to control the prices of imported articles in order to: support the domestic price of certain products when the import price of these goods is lower; establish the domestic price of certain products because of price fluctuation in domestic markets, or price instability in a foreign market; and counteract the damage resulting from the occurrence of 'unfair' foreign trade practices.

Chapter H on anti-competitive measures refers to measures that are intended to grant exclusive or special preferences or privileges to one or more limited groups of economic operators.

Chapter I on trade-related investment measures refers to measures that restrict investment by requesting local content, or requesting that investment be related to export to balance imports.

Chapter J on distribution restrictions refers to restrictive measures related to the internal distribution of imported products.

Chapter K on restrictions on post-sales services refers to measures restricting the provision of post-sales services in the importing country by producers of exported goods.

Chapter L on subsidies includes measures related to financial contributions by a government or government body to a production structure, be it a particular industry or company, such as direct or potential transfer of funds (e.g. grants, loans, equity infusions), payments to a funding mechanism and income or price support.

Chapter M on government procurement restrictions refers to measures controlling the purchase of goods by government agencies, generally by preferring national providers.

Chapter N on intellectual property refers to measures related to intellectual property rights in trade. Intellectual property legislation covers patents, trademarks, industrial designs, layout designs of integrated circuits, copyright, geographical indications and trade secrets.

Chapter O on rules of origin covers laws, regulations and administrative determinations of general application applied by the governments of importing countries to determine the country of origin of goods.

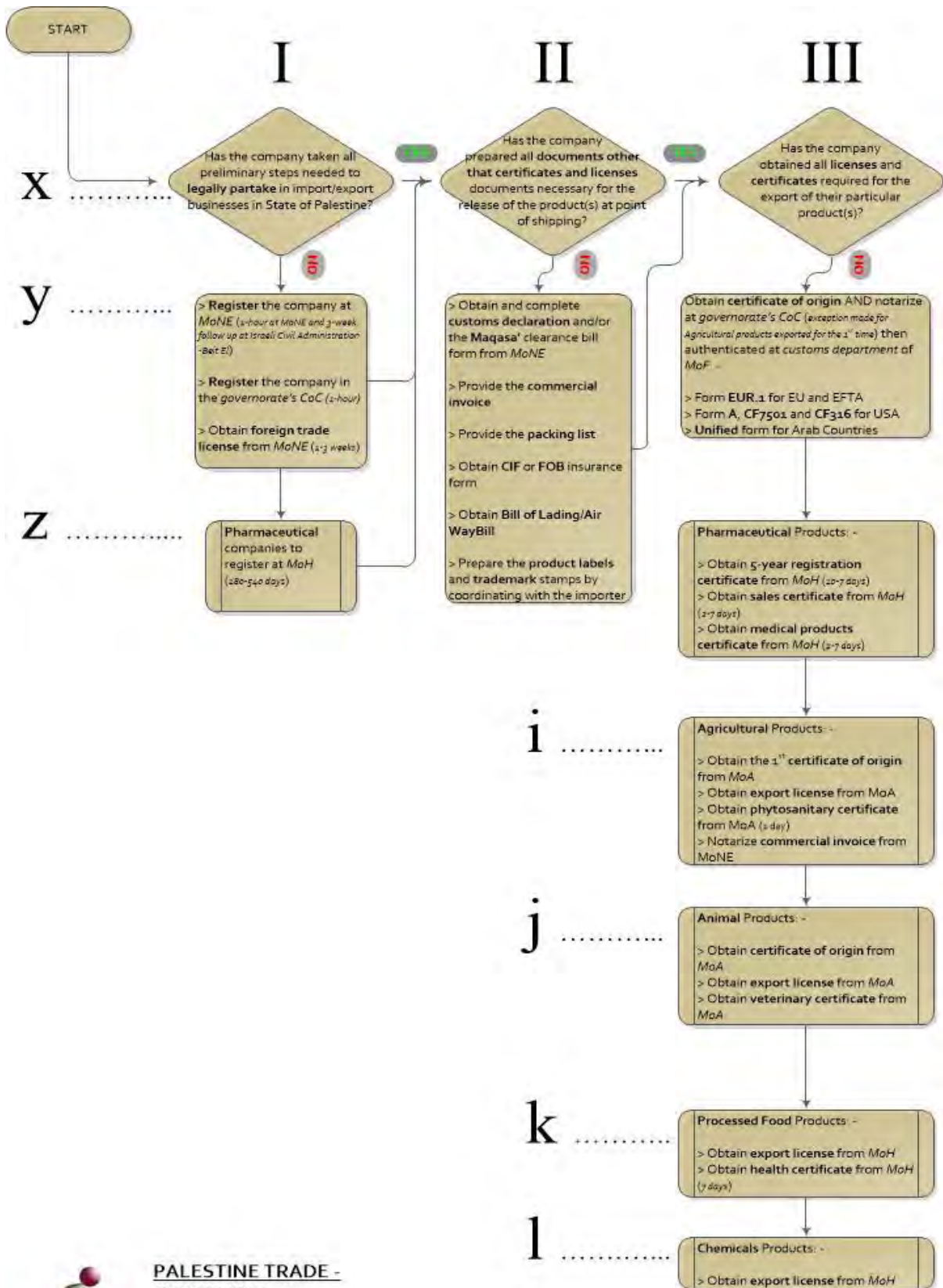
Chapter P on export-related measures encompasses all measures that countries apply to their exports. It includes export taxes, export quotas or export prohibitions, among others.

Appendix III Procedural obstacles

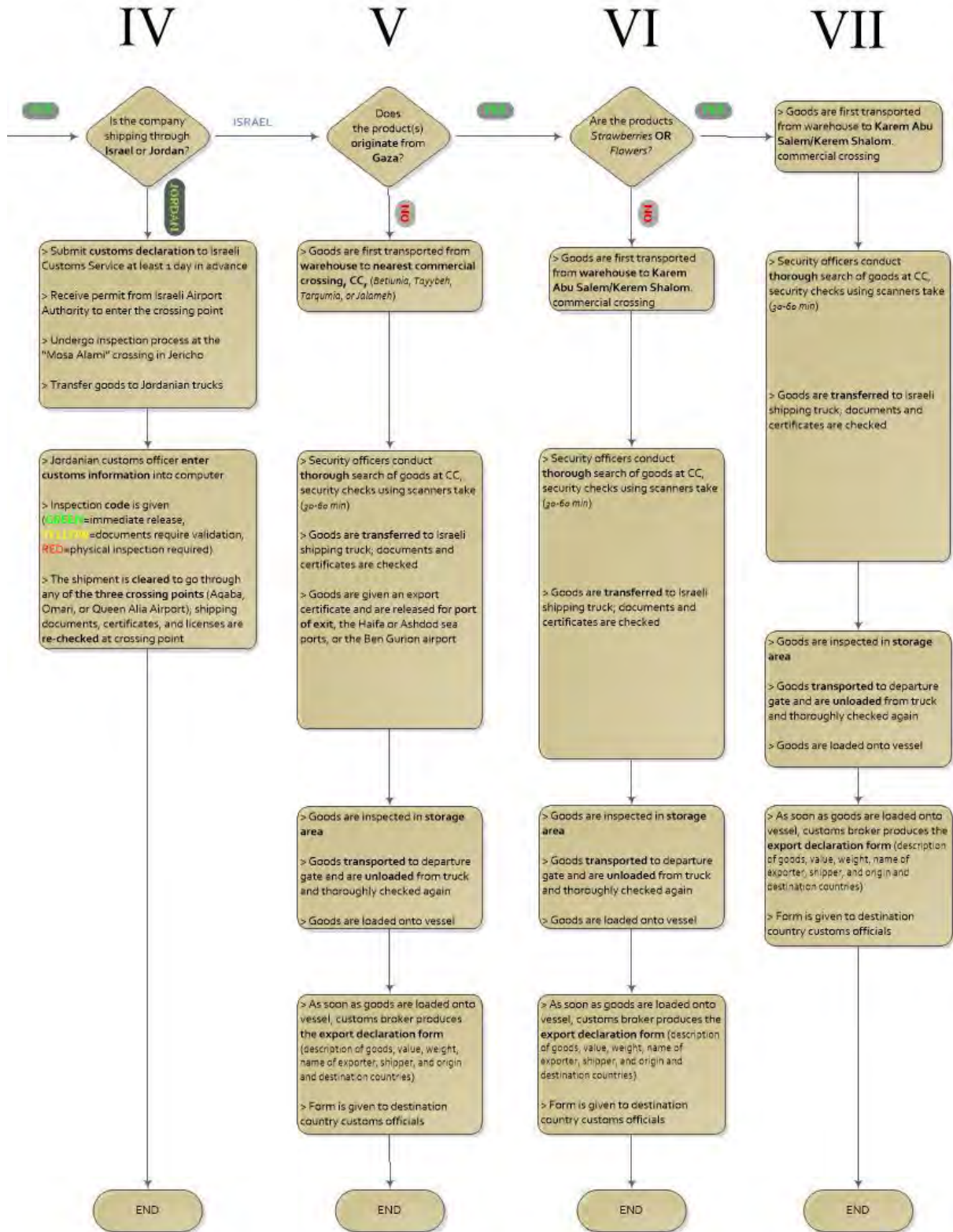
List of procedural obstacles (POs) related to compliance with non-tariff measures

A	Administrative burdens related to regulations	A1. Large number of different documents A2. Documentation is difficult to fill out A3. Difficulties with translation of documents from or into other languages A4. Numerous administrative windows/organizations involved, redundant documents
B	Information/transparency issues	B1. Information on selected regulation is not adequately published and disseminated B2. No due notice for changes in selected regulation and related procedures B3. Selected regulation changes frequently B4. Requirements and processes differ from information published
C	Discriminating behaviour of officials	C1. Arbitrary behaviour of officials regarding classification and valuation of the reported product C2. Arbitrary behaviour of officials with regards to the reported regulation
D	Time constraints	D1. Delay related to reported regulation D2. Deadlines set for completion of requirements are too short
E	Informal or unusually high payment	E1. Unusually high fees and charges for reported certificate/regulation E2. Informal payment, e.g. bribes for reported certificate/regulation
F	Lack of sector-specific facilities	F1. Limited/inappropriate facilities for testing F2. Limited/inappropriate facilities for sector-specific transport and storage, e.g. cold storage, refrigerated trucks F3. Other limited/inappropriate facilities, related to reported certificate/regulation
G	Lack of recognition/accreditations	G1. Facilities lacking international accreditation/recognition G2. Other problems with international recognition, e.g. lack of recognition of national certificates
H	Other	H1. Other procedural obstacles, please specify

Appendix IV The export process in the State of Palestine



PALESTINE TRADE - EXPORTING
Exporting Process-flow Diagram for Palestinian Businesses



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