

MINUTES

Meetings of the Economic Working Group
Palestinian-Israeli Permanent Status Negotiations
National Emergency Training Center, Emmitsburg, Maryland

16 July 2000, 9:00am

Attendees: Palestinian: Maher al-Masri (MM), Imad Abyad (IA),
Omar Dajani (OD)
American: Jake Wallace(JW), Nicole Rothstein (NR)
Israeli: Avi Ben-Bassat (ABB), Oded Eran (OE),
Bari Bar Zion (BBZ), Tal Noiman (TN)

ABB: About a week ago, we had our first discussions about the economic relationship between the two new entities. Let's resume where we left off.

MM: Yes. We were talking about how these relations should be based on internationally recognized standards and that an FTA would be the approach.

Let's address concepts one by one. I think we have the same vision about how this relationship would proceed. Regarding trade, WTO standards and principles would be applied. Regarding the movement of labor, Avi mentioned last week that there would be a law passed in the Knesset giving preferential treatment to Palestinian laborers

ABB: The law was already passed. It barred discrimination between Palestinians and other foreign workers. Now the other foreign workers must pay taxes, etc. ?

JW: Perhaps we should go issue by issue. Should we start with trade? A

MM: The flow of trade should not be obstructed. Existing barriers should be abolished, and no new barriers should be erected.

ABB: OK. Maybe. But we should discuss the border. We need an effective economic border. There must be tools to control movement of goods from one side to the other, because, in an FTA, each side should be able to fix its trade policy vis-à-vis third countries. We need customs stations, etc. There should be control over all roads between one side and the other side. We should fix the principle that all merchandise should pass through certain customs stations. We should determine how many routes will pass through the border and how many customs stations there will be. In some areas we need a fence – some open areas require it or other tools with which both sides can monitor movement. ?

a. status
b. control
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MM: We agree that each State will need its own trade policy and trade regime. We also agree that the border should be effective. But let's not get into details about how many border station there will be, etc. We should bear in mind that trade should be as smooth as possible; we don't want to regress.

Stations could be called customs stations or clearing houses. They will be used only for 3rd party imports and goods requiring health or safety inspection. For local production, we envision some sort of electronic process – quick would be good. We don't want a long queue of trucks.

We can then agree whether the stations would be directly on the border or half a kilometer away. That is a technical issue that should be addressed.

ABB: I agree, but we must also take into account that outside of this room they're also discussing security, etc. (3)

Another issue to take into account is source of origin for Palestinian goods. In many cases, just part of the good was produced in the area. There must be a principle of source of origin.

MM: Yes, correct.

OE: Can't we use WTO practices here?

MM: There's more than one model. We can check it at the border point and then again at the final destination. There is quite a high profile of data regarding what is an Israeli-produced product.

Regarding security, the element of security post-Paris Protocol has damaged our relationship. Security exceptions should be in accordance with accepted standards. Actions should be commensurate to the size of the problem. Security people must recognize that other dimensions of the relationship could be adversely affected by onerous security procedures. And this will be true not just of Israel, but also of Palestine.

ABB: I'm not a security expert, so I don't know which checks, etc. would be appropriate. The philosophy/concept, though, is to try to have as much free trade as possible. We can instruct our security people to make an effort not to obstruct trade.

MM: I'm no security expert, either. But there are WTO provisions that provide general parameters. In a dispute settlement mechanism (3), this will be addressed more concretely. There should be compensation for procedural abuses, etc.

JW: Is the understanding on both sides that if there's an agreement, the Palestinians will become members of the WTO? (2)

MM: Yes. We seek that – but this is not the issue. There are certain particularities between two parties that must be handled bilaterally. Not all WTO articles are clear and can be measured as such. But there are flexible standards against which behavior can be judged – to evaluate proportionality.

OE: First, at the last meeting in Jerusalem, we said that if the Palestinians decide to apply to the WTO we'll have no objection.

what about
standards?

Second, regarding security, I agree that the important issue is to have free flow subject to rule of origin checks and minimum security. In this area, I think that the international community can assist us. What will expedite things is the proper equipment.

JW: You may want to put into your principles a joint request to this effect.

OE: I've seen elsewhere that if you have equipment, a lot of problems may be removed.

ABB: But I don't think we should have a principle of compensation for security abuses. Who can judge what is appropriate? The main idea behind security checks is a fear of terror acts. There will not be disproportional examinations. If both sides fight terror, the examinations will be easier.

MM: I wasn't talking about examinations, which can be handled technologically. I was talking about actions like closing the borders. If we're going to agree to an FTA, we have to have a dispute resolution mechanism. Maybe it would involve a third party. This has to be able to impose mandatory rules. And someone has to pay.

OE: Let's say there's a spate of 15 cases of explosives that arrive on the same day from different places. Wouldn't any state close the border.

MM: We're talking about *proportionality*. Retaliatory measures are not appropriate in our new trade relationship. If you apply technical barriers to trade, and a neutral body determines they were arbitrary, then you have to pay compensation.

OE: Did you envisage negative lists? ??

MM: Maybe, but we don't have it to present.

BBZ: We're not prepared to address it either.

JW: One area where there's convergence is the WTO. It provides a structure. For example, if there's a dispute between the U.S. and Japan, they can take it to Geneva.

ABB: Our concern regarding security is greater than in other countries.

IA: Perhaps the U.S.-Mexico comparison is more apt.

ABB: But I don't want to talk about compensation.

MM: I'm not talking about compensation, I'm talking about security exceptions.

JW: Let's move on to services? (7)

MM: In the services sector, we have to move gradually toward liberalization. There are three components: (1) workers, (2) business, and (3) other sectors such as insurance, finance, etc. [Note from OD: I'm not sure if this is correctly transcribed.]

check
compared
to WTO

OE: Avi is suggesting we do it in a subsequent agreement.

MM: What we can suggest is gradual liberalization. Internationally speaking, this sector is not as liberalized.

ABB: No problems in the financial arena. This is already done. But we should look at other areas – insurance, telecom, electricity, water.

We also need to note that we'll continue with the current regime until the establishment of an effective economic border. (8) transition aug

MM: It's not just the border. There are other issues – institution-building in the context of a final status agreement. Many steps are required to implement. It should not be construed that if there's no agreement on borders, there's no FTA. There must be an effort to move forward. We need a checklist and timetable.

There will be a gradual application until the full regime can be implemented.

ABB: Fiscal issues are also important. One of the ideas behind the FTA is that each side can fix its own independent tax policy. But, on the other hand, it would be better – though it's not a must – to harmonize the tax policy, mainly in regard to durables. (1)

MM: We agree that harmonization would be good in some areas.

ABB: Another issue is the clearance system. We think in the future there will be no need for a clearance system. There may be some exceptions. For example, a Palestinian import passing through Ashdod. But that can be dealt with through transit arrangements and bonded areas. It may take you more time to build your own tax collection system. We can adjust the schedule accordingly.

1) in a way
2) specific fact
3) businessmen

MM: We should also talk about transit.

ABB: Yes, it must be enabled. It's very important.

[Break.]

JW: Do you want to agree on chapter headings.

MM: We'd like to discuss labor. There should be free and unencumbered access for labor and the full array of benefits.

We seek preferential treatment in the labor market in terms of entry and employment, i.e., access. That is, Palestinians should be given priority vs. foreigners. We should not have fewer rights than any other foreign workers.

ABB: The first principle is that each side must fix its own policy. If each side fixes its own policy, natural factors will favor the Palestinians. It was the case that taxes on foreigners were lower; that's no longer the case. The market will do this job better than an agreement between us.

MM: I agree that that is the trend. All I want to see is preferential access.

IA: We're really seeking MFN in the labor market.

OE: By the way, we have a policy against labor agreements.

ABB: I'd like to think about the idea, but 3 initial comments:

(1) We're not thrilled with the phenomenon of 3rd party foreign workers in Israel. The new policy is to limit these numbers. So I don't anticipate preferential treatment being given to any other country.

(2) Usually, we talk about Palestinians working in Israel. But for the future, we should talk about reciprocity. For instance, Israelis have technical expertise to offer.

MM: Yes, absolutely.

ABB: (3) Other factors will also affect this – for example, security. But I hope that will not affect the situation in the future.

In addition, only half of 120,000 Palestinian workers in Israel have a license. We need to share a policy of enforcement. We should try to legalize them.

OD: Are you talking about enforcement or legalization?

ABB: Both.

MM: We need to institutionalize labor flows. Not only are there ⁽⁴⁾ illegal workers, but also there are those working under unfair conditions ⁽⁵⁾

ABB: There's a need for enforcement.

MM: Once we devise a system, we'll enforce it.

ABB: Other issues? ⁽⁵⁾

MM: Standards Harmonization is important. Coordination is too. We should come to a point where standards in both countries are acceptable to both – or the products are appropriately labeled.

ABB: This is similar to tax policy. It requires similar wording. Do you have a standards institute?

MM: Yes. It coordinates with yours.

BBZ: Some other issues with economic aspects that should be addressed in the CAPS are:

1. agriculture/fishing
2. industrial estates
3. industry and trade
4. insurance
5. telecommunications and post
6. tourism
7. transportation
8. border crossings, customs stations, etc.

Maybe the FAPS would list the issues in a non-exclusive way.

MM: Also protection of investments, double taxation, etc. must be addressed.

One last issue is ^(e) compensation for the use of our resources during the occupation.

ABB: I don't think there's a reason for the Palestinian side to open this issue. There's no reason for us to compensate the Palestinians. If you see such reasons, and you'd like to discuss it, the other camp is the right place to raise it.

Another issue is how we deal with disputes. We think the right mechanism is the JEC.

MM: Ha!

TN: The JEC has been very effective. It has resolved all of the disputes.

OD: And it's only taken three years!

MM: The JEC is not the mechanism that we have in mind. It is a creature of the Paris Protocol.

[Some extended discussion, not transcribed.]

JW: (To Ben-Bassat) Is your issue with having a dispute resolution mechanism or with the involvement of third parties?

ABB: 3rd parties.

MM: As long as the mechanism is *binding*, we're OK with it.

JW: Maybe we can try to find a bilateral mechanism that's binding.

MM: That is unlikely.

JW: In general there does seem to be a lot of agreement here. Perhaps each side can put together a short draft – 1-2 pages. And we can try to sit down to draft a joint document this afternoon.