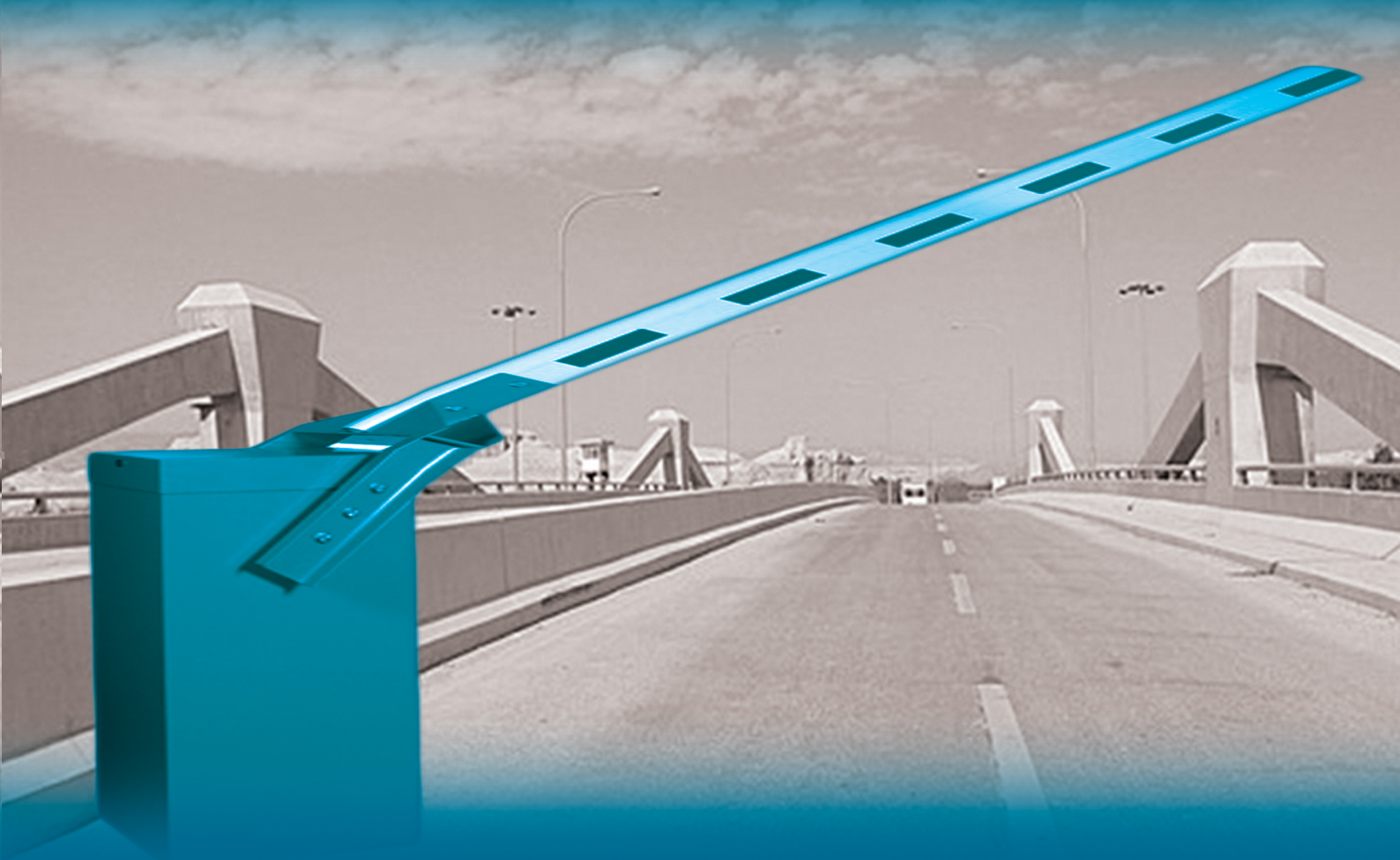




Pre-requisites for King Hussein Bridge as a Gateway to the World



Trade Corridors' Facilitation Project

This Project is Funded by the European Union

October, 2009

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Executive Summary

With the closing of Damya Bridge, the King Hussein Bridge (KHB) is now the only international border crossing in the West Bank. Despite the fact that all trade between Jordan and Palestine has since been diverted to the KHB, the Bridge has been left with insufficient infrastructure and poor management. The following paper aims to present the main aspects of the KHB, identify the impediments to its effective functioning and propose recommendations to improve efficiency and security of trade flow between Jordan and the West Bank. The general background of the Bridge includes its location, operational history, and covers the main trade agreements that pertain to Palestinian businesses and their foreign markets, most specifically the Paris Protocol of 1994.

This paper also explores various obstacles that hamper efficient export and import activity at KHB. These obstacles involve three parties: Israel, Jordan, and the Palestinian National Authority. Recommendations to overcome these identified impediments are also included and their aim is to ease and facilitate the logistical chain through KHB.

LIST OF Acronyms

ASYCUDA	Automated System for Customs Data
PCBS	Palestinian Central Bureau of Statistics
EFTA	European Free Trade Association
EU	European Union
FTA	Free Trade Agreement
JD	Jordanian Dinar
KHB	King Hussein Bridge
PNA	Palestinian National Authority
PLO	Palestinian Liberation Organization
PP	Paris Protocol
WBGS	West Bank and Gaza Strip

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Section One

Historical Background

1.1. Location of King Hussein Bridge

The KHB is located in the Jordan Valley, between Jordan and Palestine.

1.2. Historical Background

The two Palestinian crossings with Jordan are KHB and Damya Bridge (Prince Mohammed Bridge). While Palestinian imports usually enter through KHB, exports leave through Damya Bridge. According to the PCBS (2002), only ten per cent of total Palestinian trade passes through these two crossings. This reflects the fact that Israel is by far the dominant trading partner. Currently, Damya Bridge, which Israel considers a 'closed military zone', is closed for operations, under the Israeli claim that it requires maintenance and re-construction, and all trade between Palestine and Jordan has been diverted to KHB. It is important to note that the Jordanian side considers Damya to be the main commercial crossing point between Palestine and Jordan, while KHB is only a passenger crossing point.

The KHB was built in 1917 in the Jordan Valley connecting the West Bank with Jordan. Currently, the KHB is the only international border crossing in the West Bank. It is also the designated exit/entry point for Palestinians residing in the West Bank, and for those traveling to and from Jordan. The Bridge is located five kilometers east of Jericho City, and spans the ancient River Jordan. It serves West Bank businesses that import

and export to and from Jordan and the greater Middle East region. As of now, the Palestinian side of the border is controlled exclusively by the Israeli Airport Authority.

After the 1967 Six Day War, the Jordan River was set as the border between Jordan on one side and Israel and the Palestinian occupied territory on the other side. KHB was destroyed during the Six Day War, but was replaced in 1968 with a temporary truss-type bridge. In the late 1990s, and subsequent to the Israel-Jordan peace treaty, a new modern paved crossing was constructed, adjacent to the older wooden one, with the aid of the Japanese Government.

Normal operating hours for the passenger terminal are from 8:00 a.m. to 6:00 p.m. on Sunday through Thursday, and from 8:00 a.m. to 2:00 p.m. on Friday and Saturday. Normal operating hours for the commercial cargo terminal are Sunday through Thursday 7:30 a.m. to 6:00 p.m. The Bridge is closed for commercial traffic on Friday, Saturday, and Israeli holidays. Currently, the Bridge is open to passenger and commercial traffic, and is undergoing a trial period with extended operating hours. During this period, the Bridge is open to passengers from 8:00 a.m. to 12 midnight on Sunday through Thursday, and 8:00 a.m. to 3:00 p.m. on Friday and Saturday. The Bridge is open for commercial traffic from 8:00 a.m. to 12 midnight on Sunday through Thursday and is closed on Friday, Saturday and Israeli holidays. However, the commercial terminal has been closing earlier, due to low demand.

Currently, there is an average of 60-70 outgoing and incoming trucks per day. Prior coordination with the Israeli Airport Authority is required for all import and export commercial cargo. The Bridge is equipped with one pallet scanner (installed in 2008) with a limited pallet height capacity of 1.8 meters. The Bridge cannot accommodate container shipments.



Figure 1. Regional Map

1.3 Palestinian Presence at the Passenger and Commercial Terminals

1.3.1 The Passenger Terminal

As part of the Oslo Accords, an agreement was signed to establish a Palestinian National Authority (PNA) presence at the KHB. PNA Customs Officials were deployed at the Bridge for the first time on May 1, 1994. This agreement was ratified by the Israeli Parliament in 1998. The PNA presence at the Passenger Terminal consisted of 14 customs officers, including one supervisor and two deputies with two shifts per day. They participated in the inspection of passengers' luggage and reported directly to their Israeli supervisors. They were not involved in the clearing of commercial merchandise carried in passengers' luggage.

In 1996, PNA customs officials were permitted to clear commercial merchandise carried in passengers' luggage without any Israeli intervention. At the outset of the Intifada in 2000, the Israeli Authority at the Bridge reduced the number of PNA officials at the passenger terminal to only three customs officers. PNA customs was allowed to inspect small luggage and clear commercial merchandise carried in passengers' luggage for items less than 10 kilos in weight– up to 30 March 2002. Since then, this is no longer the case.

1.3.2 Commercial Terminal

The Israeli-Palestinian agreement also allowed for the presence of a PNA customs official at the Commercial Terminal in 1998. This included one shift of four customs officers, which prevented PNA customs officers from having any direct involvement in the cargo clearance process. Israeli customs officers were fully in charge at the Commercial Terminal and Palestinian customs officers were responsible for the following:

- coordinating incoming cargo from the Jordanian side;
- investigating the reason behind refusal of any cargo by the Israeli Customs at the Bridge; and
- receiving a copy of the Israeli Declaration Form and comparing it with incoming cargo (at KHB/Allenby importers must pay customs prior to the arrival of goods).

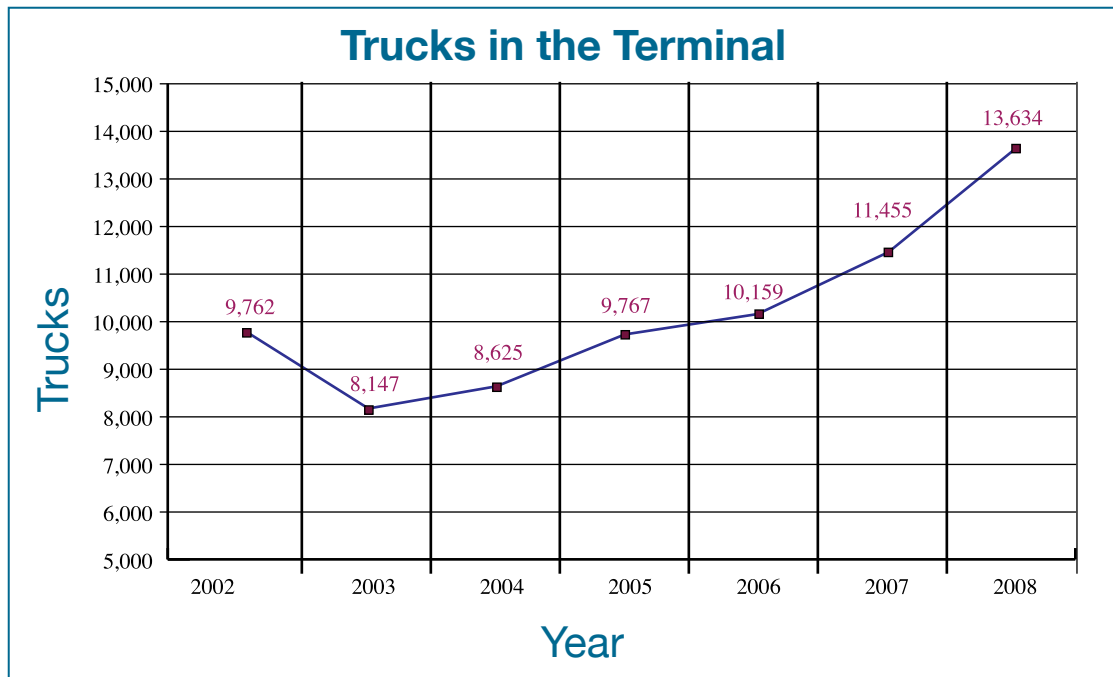
At the beginning of the Intifada till now, the Israeli Authorities at the Bridge banned PNA customs officers from the Bridge.

Section Two

History of Trade Flow at KHB

Despite their inconsistencies and considerable differences, both Israeli and Jordanian statistics show a steady increase in the amount of trade flow through KHB between 2004 and 2008. Because the Israeli Customs refused to release any official statistics on PNA exports through KHB, PalTrade and PSC were only able to obtain various graphs from Israeli presentations and workshops. Figures 1-3 reveal inconsistencies among the data obtained. The year 2008 is a clear example: the number of truckloads passing through KHB range from 14,000 (imports and exports combined, Fig 3) to 14,637, while the Israeli Airport Authority reports a mere 13,634 (Fig. 1). The year 2007 reveals an even greater numeric gap – and in a different order – ranging from 10,733 truckloads (Fig. 2), to 11,455 (Fig. 1), to 12,270 (Fig. 3). Furthermore, the graphs do not follow the same patterns of increase and decrease in trade flow. For the year 2005, Fig 1 and 3 show a significant increase in truckloads from the year 2004, while Fig 2 claims a significant decrease. The actual numbers vary again: Fig 1 and 3 report relatively close numbers of truckloads passing through KHB, while Fig 2 shows more than 2,000 truckloads less.

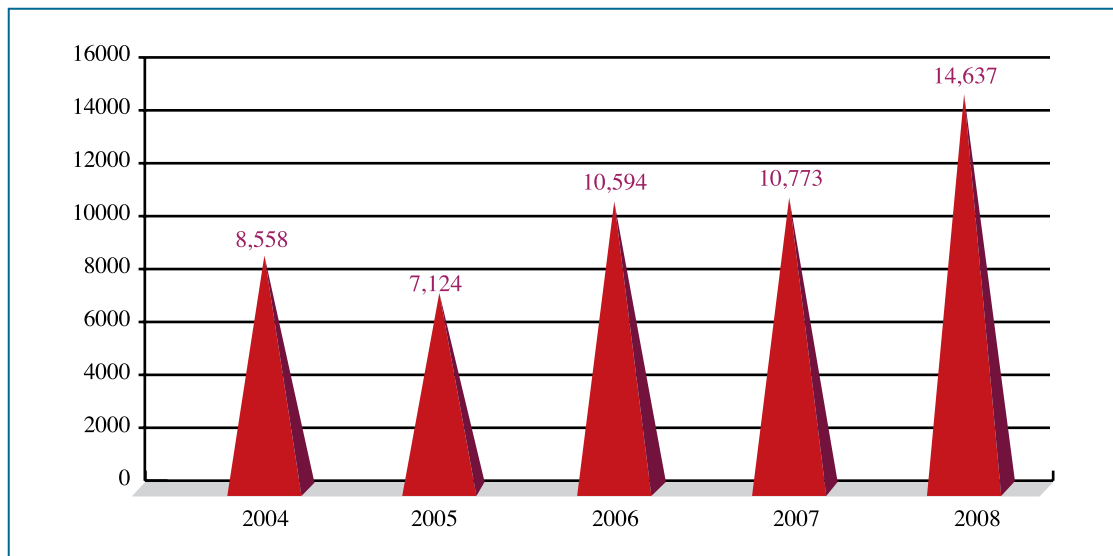
Fig. 1



Source: Israeli Airport Authority

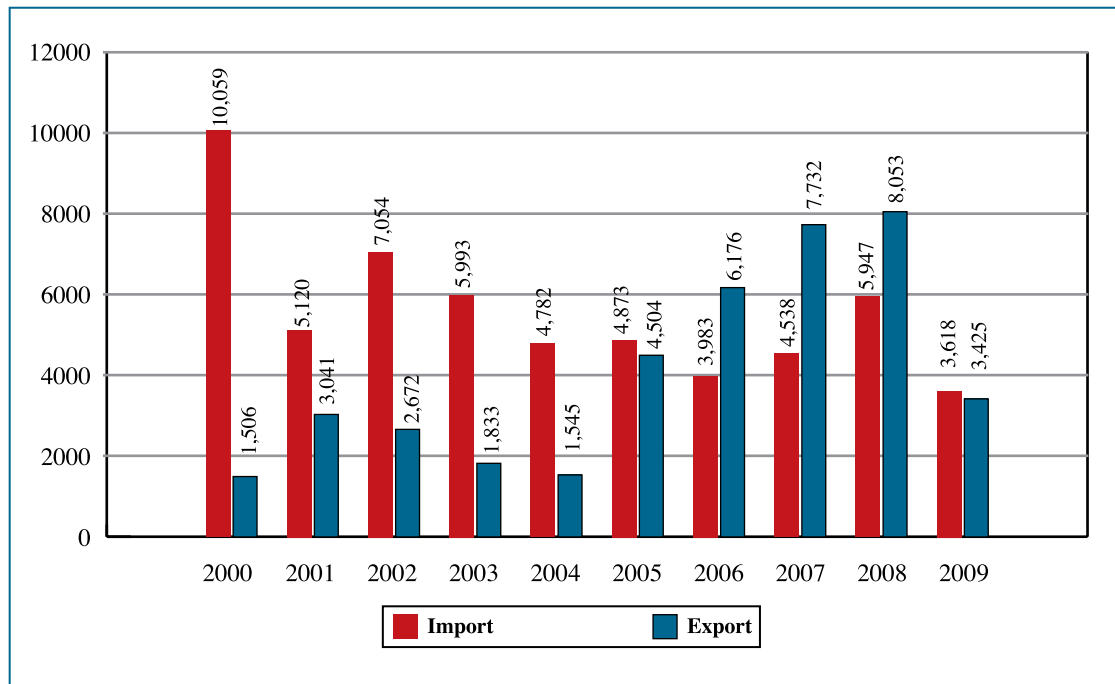
<http://www.iaa.gov.il/Rashat/en-US/Borders/Alenbi/AbouttheTerminal/Statistic/>

Fig. 2



Source: Israeli Customs Presentation

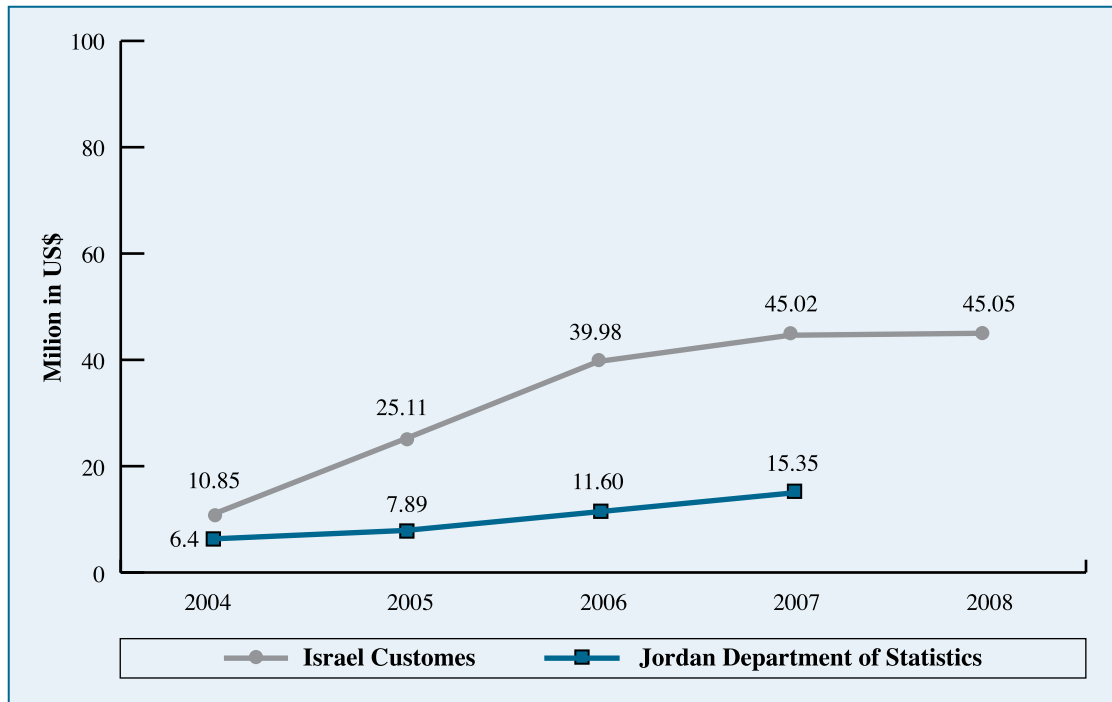
Fig. 3



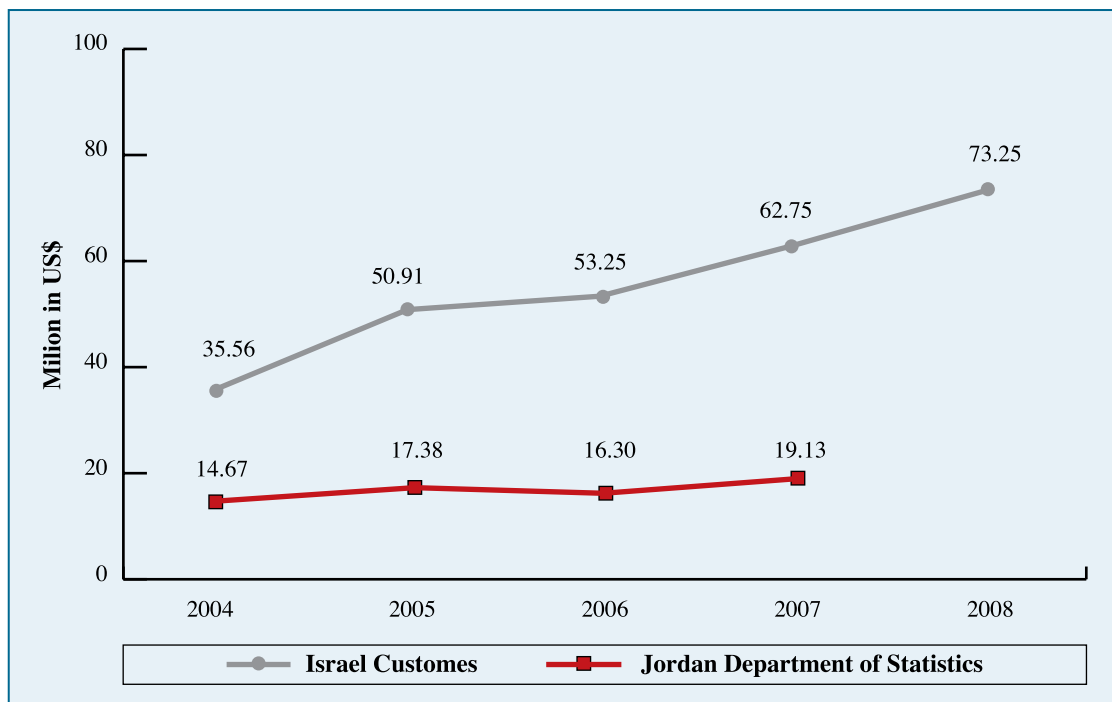
Source: Israeli Customs Presentation

While noting again that the data on export and import trucks was inconsistent among the graphs, the following charts represent the dollar figure for exports and imports:

PNA Exports through K.H.B.



PNA Imports through K.H.B.



Section Three

Trade Agreements

Great Arab Free Trade Area

This agreement gave the Palestinian private sector the opportunity to gain a competitive advantage in Arab countries markets by:

- allowing import of Palestinian goods and products without restrictions on quantity or quality;
- exempting Palestinian goods and products from customs duties.

Economic Agreement between the Palestinian Liberation Organization and Jordan

- The Agreement provides preferential tariffs for goods traded between the WBGS and Jordan.
- Goods in Lists A1, A2, and B entering the WBGS and the agreed upon products entering Jordan are duty free, provided that the import volume does not exceed the pre-determined quotas.

Agreement on Transportation between Israel and Jordan

- The Agreement provides arrangement for transportation of freight between Jordan and areas under the jurisdiction of the PNA.

Section Four

Paris Protocol

4.1 Introduction and Scope of Agreement

The Paris Protocol (PP) is an economic agreement on relations between the government of the State of Israel and the Palestinian Liberation Organization (PLO). The PP was concluded in April 1994, and the Washington Agreement that was signed between the PLO and Israel in September 1995 set the procedures and regulations for governing economic relations between the WBGS and Israel for the interim period.

Bilaterally, the economic agreement states the basic principles of free trade with Israel. As for third party trade, the PP regulates the relations between the WBGS and the rest of the world as follows:

- Palestinian products are not subject to any export restrictions.
- Trade to and from WBGS has full access to Israeli ports of entry and exit.
- Palestinian imports and exports are granted equal treatment at the Israeli ports of entry and exit, and excluded from security measures.
- As for the import policy, the Israeli regulations on customs, purchase tax and standards apply to Palestinian imports with the exception of goods listed in A1, A2 and B . The PNA has the right to apply, within pre-defined quotas, its customs rates, purchase tax and other import charges on those imports. In addition, the PNA has autonomy on importing goods listed in A1 and A2 regardless of Israeli standard requirements.

- A result of applying the Israeli import policy is that bilateral trade agreements between Israel and other parties are considered valid in WBGS. Currently, Palestinian traders can benefit from free trade agreements with Slovakia, Hungary, Turkey and the Czech Republic.
- Israeli import policy prohibits trade with several countries, mainly those that do not have diplomatic relations with Israel, including a number of Arab States. The only exception to the WBGS is represented by imports in list A1, A2 and B.
- The PLO has the freedom to negotiate and conclude trade agreements, for the benefit of the PNA, as long as the same import policy is applied in Israel and the WBGS.

Goods imported under List A1 must be produced locally in Jordan, Egypt or in other Arab Countries.

Goods imported under List A2 can be imported from Arab, Islamic or other countries.

Goods Imported under List B are not subject to quantitative restrictions but are subject to Israeli standards.

4.2 Impact on Palestinian Economy

This protocol affected the Palestinian economy in the following ways:

- Complete dependence on the Israeli economy for its exports and imports.
- Most imports and exports to and from the Palestinian market and foreign markets are executed through Israeli ports, where Israel is in full control over trade movement. In addition, Israel has control over internal Palestinian trade.
- The Palestinian economy maintained the same status before and after the Paris Protocol. An advantage of the Paris Protocol was that it made it possible for the PNA to sign free trade agreements and helped diversify Palestinian trade.

It should be noted that when it was first envisioned, the Paris Protocol was built on reciprocity between the Israelis and the Palestinians. It is obvious that this spirit of the Paris Protocol no longer exists simply because it is not functioning as agreed. Thus, there is an urgent need to explore a new formula that best serves the interests of the Israelis and the Palestinians, where reciprocity is the fundamental basis.

Section Five

Impediments

There are a number of impediments that importers and exporters must face when trying to cross KHB, specifically in terms of its infrastructure, procedures and management. The basic infrastructure needed for normal trade flow is either not present or entirely inadequate at KHB. For example, the project found that the current scanner at KHB cannot handle large objects, thus forcing importers and exporters to send them to other Israeli ports at higher cost. Many goods are damaged as the loading and un-loading area is exposed to the heat and cold. There is also a complete lack of cooling facilities and no secure storage area. In addition, the overall procedures at KHB do nothing to help facilitate trade efficiency or effectiveness. KHB still uses the back-to-back system, does not allow containers to cross to the Jordanian side, and caps the maximum pallet height at a mere 1.8m. In terms of management, the operating hours are not coordinated to match those of the Israeli and Jordanian sides, resulting in long waits and frequent delays. No Palestinian presence is allowed on KHB, even though the Palestinian customs department is ready to take on its management responsibilities, and has begun to implement the ASYCODA system. The combination of these factors have led to increased expenses, damaged cargo, and has limited the variety of what can be considered for import and export. Furthermore, the pressure of traffic on KHB is expected to increase even more with the proposed Agro-Industrial Park.

5.1 The Palestinian Side

Since the PNA has no control over KHB, Palestinian exporters and importers face impediments related to the following:

1. Long waiting-period required for the issue of drug registration certificates (6-18 months) due to the requirements of bioequivalence studies and the handling of foreign and local products by one office. This time consuming process has a direct impact on both the import and export of pharmaceutical products, and greatly limits business opportunities.
2. There is no published guide clarifying the procedures and stating the documents that are required for completion of the import and export process. This results in delay, miscommunication, and increased cost as many of these required documents are not issued on time, or are sent to irrelevant departments.
3. The Palestinian Standards Institute has not established any authorized laboratories capable of handling all the required tests for export and import purposes.
4. The PNA usually takes more than one year to refund Palestinian exporters and importers, i.e. there are customs duties on imported raw materials which have been manufactured for export. Under the Investment Promotion Law, there are also certain products that should be exempt from customs duties, and the PNA is responsible for refunding them. These refunds can also take longer than a year.
5. The PNA has not written/specified any procedures for re-valuation of imports. Furthermore, the current valuers seem to be insufficiently qualified.

5.2 The Israeli Side

The closure of Prince Muhammad Bridge is considered one of the main impediments to Palestinian trade to, from and via Jordan. In the past, the Bridge was designated for Palestinian exports only. Since its closure in 2003, all Palestinian export cargo has been diverted to KHB. (It should be noted that the infrastructure at KHB, which will be discussed later, is inadequate to handle both exports and imports.) As a result, Palestinian trade to, from and via Jordan encounters the following obstacles:

1. Inadequate infrastructure at KHB makes Palestinian businessmen hesitant to use this crossing for export and import:
 - a. The current scanner is insufficient to handle objects that cannot be palletized. As a result, such objects must be sent to other Israeli ports for inspection, adding time and cost to the logistical chain. The transaction cost is increased by US\$750, half going towards a customs escort and the other half for transportation.

- b. No storage or cooling facilities are available, aside from one small and insecure warehouse.
 - c. The current infrastructure of KHB is insufficient for higher volumes of export and import, especially considering that survey results show an expected increase in export and import during 2009 and 2010 by 30per cent and 50per cent respectively. In addition, the neighboring Agro-Industrial Park will become operational in the near future, which will also increase the export demands on KHB.
 - d. The current loading and unloading area is inadequate because of its complete exposure to outdoor conditions. The area itself does not meet the international standards regarding trade terminals.
- 2. The administrative procedures at KHB are hindering normal trade flow:
 - a. The back-to-back system creates multiple hardships for Palestinian businesses, no matter how efficiently it is run. The cross-loading and manual inspections add extra expense and inflict substantial damage to the cargo, not only for perishables, but for all products. In addition to creating delays and uncertainties, the loading and unloading process that takes place during the back-to-back system is itself against international standards. For example, herbs must be kept at a certain temperature during export, but the back-to-back system at KHB does not comply with this requirement. This is especially important during the summer months.
 - b. Containers are not allowed to cross to the Jordanian side to be imported from the Jordanian side. This adds time and costs due to loading and unloading at several stages. Again, it also increases the risk for damage to produce. The lack of containerization also prevents the import or export of certain products, such as furniture.
 - c. The maximum pallet height is restricted to 1.8 m and to one type of product, increasing the transaction costs.
- 3. The PP stipulates that KHB should be managed by both Israel and the PNA, but since 2002 Israel has banned the presence of the PNA from KHB. This has led to:
 - a. a lack of accurate statistics for export and import regarding Palestinian trade flow through KHB;
 - b. a lack of guidelines for export and import via KHB and subsequently no dissemination mechanism for changes in procedures, thus increasing uncertainty;
 - c. a lack of Palestinian point of contact at the Bridge for coordination and enquiries on the status of shipments and crossing procedures.
- 4. Unrecognized trade agreements, signed by the PLO, add cost to the commercial transactions of Palestinian merchants. For instance, Palestinians

importers from Europe are required to pay duties at the bridge when the Euro 1 states that it has been issued pursuant to the PLO and Europe Interim Association Agreement, although that the Interim Association Agreement provides for a zero tariff on such imports. This measure has a direct impact on the Palestinian economy and contributes to the lack of balance in competitiveness between Palestinian and Israeli importers.

5.3 The Jordanian Side

1. The Jordanian Government does not allow containers to cross the border for trans-loading.
2. Jordanian Customs imposes transit fees of JD 73 for goods in transit that cross the border to Aqaba and Umari and JD 40 to Queen Alia International Airport (QAIA).
3. Sometimes on Thursdays, un-cleared cargo must remain at KHB until Sunday, when the Jordan Customs Offices re-open.
4. For certain transit commodities, Jordanian Customs require an escort from the border to transit gateways and back in the opposite direction. They require an escort despite the fact that a bank guarantee has already been issued.
5. At Queen Alia International Airport, exports that require immediate handling (i.e. herbs) take more than two hours to be processed by Royal Jordanian Airlines, the official handling agent.
6. The cost of transportation from KHB to Aqaba is considerably higher than transportation from the West Bank to the Israeli ports.
7. The Jordanian Ministry of Agriculture at KHB requires certain certificates (such as a health certificate) for Palestinian cargo in transit, despite the fact that these documents are not required by the importing countries.

Section Six

Recommendations

KHB is in urgent need of an upgrade in infrastructure. Firstly, the Bridge must be containerized, as this will increase the volume of both export and import passage, will significantly cut the cost per container for export, and will diversify the types of products that can pass through the crossing. In addition, the unsatisfactory palletized scanner should be replaced by a mobile scanner, adequate warehouses and cooling facilities need to be constructed, and the door-to door system of loading and unloading must replace the current back-to-back. Thirdly, international standards for border management should be applied. This includes an establishing consistency of opening hours on both sides of KHB, increasing the operating days to 6 days a week, and finally, the distribution of an administrative procedures guide that is written in a clear and unambiguous fashion.

6.1 For the Palestinian Side

1. A one-stop-shop must be established in order to simplify the current import and export procedures, as there is a severe overlap between the various ministries and departments.
2. The Palestinian Standards Institute should reduce the time required to examine imports in internal or external accredited laboratories.
3. Advanced exemption of customs duties must be introduced for all raw materials used in the manufacturing of exports. (Those importing raw

materials for the manufacture of goods destined for export are presently required to pay customs duties. These duties are refundable, but often the PNA takes over a year to refund the payment.)

4. The government should establish the required mechanisms to pay the private sector its due tax returns and the customs duty refunds levied on imports from the GAFTA within 45 days of importation.
5. Palestinian valuers must be qualified for their task and there must be some assurance that an objective valuation takes place.

6.2 For the Israeli Side

Upgrading of infrastructure and procedures at KHB include:

1. Containerization of KHB to:
 - a. increase the volume of export/import
 - b. reduce costs by \$250-\$300 per container for export
 - c. diversify to other types of products such as furniture and perishables
2. Installment of a mobile scanner along with the current palletized scanner
3. Provision of sufficient and secure warehouses with cooling facilities
4. Replacement of the current back-to-back system by a door-to-door system
5. Implementation of international standards of border management
6. Harmonization of opening hours on both sides of the borders
7. Increase operating days to 6 days a week
8. Unambiguous administrative procedures guide
9. Publication of statistics on the volume and types of goods crossing KHB (both export and import). This will facilitate the identification of infrastructure priorities.
10. Israeli recognition of trade agreements signed by the PLO, most importantly the Great Arab Free Trade Agreement.

6.3 For the Jordanian Side

1. Sign a memorandum of understanding between the Palestinian and Jordanian authorities in order to:
 - a. take advantage of the facilities applicable at the various ports of Jordan
 - b. form a technical team from Jordanian and Palestinian entities, including the private sectors of both countries, which can present technical solutions to the current and growing impediments to trade flow for reducing time and cost and maintaining the quality of products in transit.
2. Set a meeting with the Jordanian Ministry of Transport to allow containers to cross the border for trans-loading to the Israeli side.
3. Set a meeting with both Jordanian Customs and the Ministry of Transport to waive the JD 73 transit fees and the JD 40 customs escort fees on Palestinian cargo.
4. Arrange for Jordanian Customs to be open on Fridays in order to clear cargo that still unprocessed.
5. Discuss and verify the customs escort procedures with Jordanian Customs. This should include a confirmation that goods will be escorted as soon as they are cleared.
6. Discuss the transportation costs between KHB and Aqaba with the Ministry of Transport in Jordan. A joint Jordanian-Palestinian venture company should be designated that can transfer Palestinian shipments to Aqaba at competitive prices.

Conclusion

For any rehabilitation process of the Palestinian economy to take place, It is essential to consider the obstacles to trade flow through KHB. This has become an urgent need, especially after the closure of Damya Bridge and the diversion of all Palestinian trade to KHB. Currently, KHB is the only international border crossing in the West Bank that serves exports and imports both to and from Jordan and other Arab countries. Accordingly, KHB plays a key role in the Palestinian economy and the increase in Israeli restrictions on movement of people and goods after the second Intifada must be addressed. The proposed recommendations represent basic requirements needed to run KHB smoothly. These recommendations are essential until the re-opening of Damya Bridge as the main trade terminal between the West Bank and Jordan.