

**OFFICE OF THE QUARTET REPRESENTATIVE
(OQR)**

**Report for the Meeting of the Ad Hoc Liaison Committee
On OQR Action in Support of Palestinian Authority State-
Building**

13 April 2011, Brussels

AHLC REPORT: APRIL 2011

Executive Summary

This report provides an update on the work of the Quartet Representative (QR), Tony Blair, and the Office of the Quartet Representative (OQR) and its partners to support the Palestinian Authority (PA)'s state-building program since the last Ad Hoc Liaison Committee (AHLC) meeting in September 2010. The main report outlines this work in greater detail, describes the context in which the OQR's work has evolved, and sets out the priorities of the OQR for the coming months.

A report from the QR on implementation of the package of measures agreed with the Government of Israel (GoI) on 4 February 2011 can be found in the Annex to this report.

- **Gaza:** The OQR has continued to promote the easing of access into and out of Gaza so that crucial reconstruction work can take place, Palestinians can access institutions and services freely, and legitimate business can prosper. The package of economic measures announced by the Israeli Prime Minister and the QR on 4 February 2011 included significant measures for the Gaza Strip, including: (i) export of some categories of finished products; (ii) import of construction materials for the private sector; and (iii) approvals for major infrastructure projects in the Gaza Strip, including containerized water desalination units.
- **Movement, Access & Trade Facilitation:** The OQR has continued its work with the GoI and the PA to improve movement and access to, from and within the West Bank and Gaza to ease these restrictions. To support the PA's program of economic development, the OQR's primary areas of focus have been on improving: (i) the crossing capacity of Allenby Bridge; (ii) Arab Israeli access to the West Bank; (iii) tourist bus access into and out of Bethlehem; (iv) West Bank internal movement; and (iv) the speed and reliability of the handling of goods at the main West Bank goods crossings.
- **Private Sector Development:** OQR support to the PA's private sector development program since September 2010 has consisted of four main foci: (i) promoting sectors underpinning private sector enterprise, including telecoms, energy, transport and banking; (ii) catalyzing change in the Palestinian business, trade and investment environment as well as promoting exports; (iii) promoting competitive business clusters, including tourism, stone and marble and information and communications technology (ICT); and (iv) supporting the implementation of large iconic economic projects, including the development of industrial parks.
- **Palestinian Use of Area C:** The OQR has continued to promote initiatives that support access to and development of Area C and, in particular, towards enabling residential and commercial development in Palestinian populated areas and supporting improvement in basic service infrastructure in partnership with the Palestinian Ministry of Health and

Palestinian Ministry of Education and Higher Education and with the U.S. Special Envoy for the Middle East Peace Process (SEMPEP). The Israeli Coordinator of Government Activities in the Territories (CoGAT) has granted approval for a number of these projects, which will be implemented by the United Nations Development Program (UNDP), USAID and other partners.

- **East Jerusalem:** The OQR's primary areas of focus have been: (i) expanding access to mortgage loans to provide improved housing opportunities to Palestinian East Jerusalemites; (ii) raising funds for investment in East Jerusalem to be channeled towards small to medium enterprises as a means to revitalize the local economy; (iii) developing an agenda for building new schools for Palestinian children in East Jerusalem; and (iv) seeking improved access to East Jerusalem for West Bank hospital staff and patients with chronic illnesses.
- **Rule of Law:** The OQR continued to focus on easing Israeli restrictions on the PA's law-and-order operations in the West Bank, supporting continued capacity-building efforts in Palestinian justice sector institutions, and encouraging Palestinian-Israeli co-operation in the justice sector. Recent areas of work include: (i) working with Palestinian and Israeli officials to facilitate issuance of movement and access cards for Palestinian judges and prosecutors; (ii) developing a proposal for a study on the impact of Israeli restrictions on the PA's criminal justice operations in co-ordination with PA institutions as well as UNDP and EUPOL COPPS; and (iii) continuing to assist co-operation in the justice sector, including efforts to facilitate the work of the Joint Legal Committee.
- **Promoting Holy Land Tourism:** The OQR's support to the PA's strategic tourism objectives has focused on: (i) successfully lobbying for the opening of all Bethlehem area checkpoints to Jerusalem for tourism; (ii) supporting the launch of a PA-led Bethlehem Action Plan to upgrade the tourism experience in Bethlehem, in close co-operation with USAID; and (iii) encouraging the international community to assist where it can, including through the revision/updating of international travel advisories.
- **Continuity of PA Financing:** As part of its agenda to support PA development priorities, the OQR has worked to mobilize timely and predictable donor assistance and to facilitate an Israeli-Palestinian mechanism to enhance PA revenue collection.

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A report from the QR on implementation of the package of measures agreed with the Government of Israel (Gol) on 4 February 2011 can be found in the Annex to this report.

Introductory Message from the QR

"My belief is that facilitating change on the ground is key to providing the most favorable context for Israeli-Palestinian political negotiations to succeed. My mandate as QR is to work with PA, the Gol, and our key international partners to promote ground-up change in support of political developments, and to help build the institutions and economy for a future Palestinian state. Since the OQR was formed in 2007 my team and I have continued to work with the PA and the Gol to that end. This objective has continued to inform our eight key workstreams.

It is clear that since 2007 the PA has greatly enhanced its capability to govern and to deliver services. The PA's achievements have been substantial, as has been recognized by the international community. In its report to the AHLC, the World Bank notes, as it did in its report in September 2010, that if the PA maintains its performance in institution-building and delivery of public services, it is well-positioned for the establishment of a state in the near future. Likewise, the IMF, in its current report, notes that the PA's sound economic policies and sound management of public finances are at the standard expected of a state.

Since September 2010, the OQR's focus has been on supporting the PA's development and economic recovery program in the West Bank and Gaza by promoting: (i) a continued easing of access into and out of Gaza so that crucial reconstruction can take place and legitimate business can prosper; (ii) continued donor assistance; (iii) sustained PA reform measures and further Israeli measures to ease movement and access restrictions; (iv) expanded private sector development; (v) enhanced PA security and law enforcement performance and strengthened PA rule of law capabilities; (vi) a transformation of the policy restrictions in Area C; (vii) an improvement in the economic and social conditions of Palestinians living and working in East Jerusalem; and (viii) a more robust tourism sector, which has the potential to be a significant source of economic growth for the future Palestinian state and Israel."

Report on OQR Workstreams

GAZA

Since September 2010, the OQR has continued to work for the easing of access into and out of Gaza so that crucial reconstruction work can take place, Palestinians can access institutions and services freely, and legitimate business can prosper. The package of economic measures announced by the Israeli Prime Minister and the QR on 4 February 2011 included significant measures for the Gaza Strip, including export of finished products, import of construction materials and approvals for major infrastructure projects in the Gaza Strip, including containerized water desalination units. Full details of the 4 February 2011 package can be found in the Annex. The OQR's work in Gaza has focused on measures to support and expand on the change in Israeli policy on imports, brokered by the QR in June 2010. That policy allows for the entry of thousands of new commercial items into Gaza and facilitates the implementation of PA-approved construction projects. The OQR notes the recent tensions and conflict in Gaza and the potential adverse impact of continued actions, especially the rocket attacks, on future progress. In order for progress to continue, it is crucial that the security situation remains calm and that the level of tension and violence witnessed in recent weeks does not recur.

In November 2010, in co-operation with the Palestine Trade Centre (PalTrade) and the Palestinian Federation of Industries (PFI), the OQR commissioned a study surveying 188 businesses to track development across 11 key manufacturing sectors in Gaza following the June 2010 change in Israeli policy on imports and the expected implementation of the 4 February 2011 package.¹The first results of the study indicate that, in the second half of 2010, the manufacturing sector in Gaza witnessed improvements in sales, with the largest growth occurring in the food, handicrafts and chemical sectors. These changes can be attributed to the increased entry of industrial inputs from Israel. Although the majority of industrial sectors experienced positive improvements in sales, some sectors-primarily the garment sector - witnessed a retraction in sales, due to the inflow of competitive imports from overseas through the crossing with Israel. Average employment levels in the manufacturing sector in Gaza increased slightly following mid-June 2010. The recent uptick in average sales notwithstanding, January 2011 sales figures represent only 58 percent of sales in June 2005.

A large proportion of manufacturing companies in Gaza (57 percent) report that they are ready to export within one month. The major business constraints continue to be the unreliable supply of electricity, the unpredictable availability of raw materials and the limited access to export markets. Access to finance and equipment were cited as secondary impediments and the availability of adequate facilities (buildings), skilled employees and technical assistance were not considered major business restrictions.

The OQR's primary areas of work focus have been:

¹ The first results of this study are available on the OQR website: www.quartetrep.org.

- **Exports:** Following continued advocacy by the OQR and its partners, on 8 December 2010 the GoI announced its intention to expand the range of exports permitted to leave Gaza. The new range includes agricultural produce and light industrial products. Since then, the OQR has worked closely with the GoI, the PA and private sector institutions to start exporting furniture, textiles and garments to external markets. A list of 22 potential exporters was recently submitted by the PA to the GoI for approval. DFID and USAID are supporting these exporters in identifying overseas markets. Separately, the Dutch Government, the OQR and other partners continued to lobby for an expansion in exports of agricultural produce to European markets, resulting in the export of approximately ten million carnations, 400 tons of strawberries, seven tons of cherry tomatoes and six tons of bell peppers between 28 November 2010 and 3 April 2011.
- **Improved Cargo Movement:** The OQR has continued to support PA and GoI initiatives to expand Gaza's crossing capacity. The capacity of the Kerem Shalom crossing has been expanded to process up to 300 truckloads per day, meeting the current commercial demand of the private sector. Demand will, however, rise as a broader range of exports are permitted to leave Gaza, with additional project approvals, and as additional construction materials are permitted to enter Gaza. To help facilitate the crossing of aggregates specifically, a new area is being prepared at the Kerem Shalom crossing to process approximately 100 truckloads per day. The new area is expected to be operational by mid-April 2011.
- **Movement of Businesspeople:** Following continued OQR lobbying, the number of businesspeople and traders moving through the Erez crossing has increased significantly. In the nine months between June 2010 and March 2011, the number increased from approximately 20-25 to approximately 320 persons per week.
- **Cash Shipments:** The OQR has continued to call for the expedited transfer of cash from Palestinian bank branches in Gaza to the West Bank and Israel to ensure normal functioning of the formal banking system in Gaza. This resulted in the transfer of NIS 150 million from Gaza to the West Bank in November 2010 and also resulted in the replacement of NIS 80 million of spoiled bank notes through the Bank of Israel in March 2011.

Next Steps:

In the coming months, the OQR will work with the PA, the international community and the GoI to facilitate the completion of infrastructure required at the Kerem Shalom crossing to help meet demand, including from the export and import of reconstruction materials, and to seek the export of furniture and textile products to external markets, and the export of PA-approved purchases from qualified suppliers in Gaza to the West Bank. The team will support the PA and the UN's initiative to facilitate the entry into Gaza of construction materials for the private sector to revitalize this sector; as well as the entry of materials required for major infrastructure projects in Gaza, including containerized desalination units.

Furthermore, the OQR will continue to call for improved freedom of movement of Gazans through the Erez crossing to Israel, the West Bank and elsewhere, and the entry of telecommunications equipment into Gaza for private sector telecom providers (including PaITel and Wataniya) to enable them to maintain, upgrade and establish their services. The team will

also seek the continued transfer of cash of different currencies in/out of Gaza by legitimate Gaza banks.

MOVEMENT, ACCESS & TRADE FACILITATION

Movement and access restrictions, both physical and regulatory, continue to hinder Palestinian economic development and affect nearly all aspects of Palestinian life. In particular, Palestinians cite hindrances to their movement to, from and within the West Bank and Gaza and their treatment at the hands of Israeli crossing authorities and personnel as a major source of both frustration and humiliation. The OQR has continued its work with the GoI, PA and governorates to improve movement and access to, from and within the West Bank and Gaza to ease these restrictions.

In the past five years there have been gradual improvements in movement and access as roadblocks have been lifted and some checkpoints removed. These changes have been made possible by improvements in security and the rule of law delivered by the PA. This process accelerated from the beginning of 2009 and has recently continued in several areas of the West Bank. This has been paralleled by road improvements funded by the international community under the planning control of the Palestinian Ministry of Public Works and Housing. The removal of some of the physical constraints on movement, an easing of the regulatory regime at those that remain as well as road rehabilitation have resulted in improvements in movement between major Palestinian population centers, and access to land and services for the populations of many smaller communities. It should be noted that some road improvements have the effect of institutionalizing existing detours and make for longer travel for Palestinians.

Goods movement into Gaza has improved, with the GoI undertaking to ease restrictions on imports and exports in the coming months. Palestinian Ministry of National Economy staff in Gaza work with importers and the IDF to coordinate goods in and out of the Gaza Strip. Access has been improved significantly for tourists to Bethlehem. Moreover, an easing of the access regime at some internal West Bank checkpoints has improved traffic flows at key bottlenecks.

To support the PA's program of economic development, the OQR's primary areas of focus have been:

- **Allenby Bridge:** The OQR secured the extension of operating hours at Allenby Bridge for the crossing of people and goods. The team has also lobbied to permit the transfer of goods in containers at Allenby Bridge. The OQR commissioned a survey of importers and exporters currently using the Allenby Bridge, the results of which supported this lobbying endeavor. Details remain to be finalized, however it is likely that container transfer will be operational by the first half of 2012.
- **Arab Israeli Access to West Bank:** The OQR successfully sought improved access for Arab Israelis to the West Bank. Due to measures implemented in September 2010, access improvements were made, and have continued to be made, allowing for greater access to Jenin, Qalqilya, Nablus and Tulkarm in the last quarter of 2010.
- **Tourist Bus Access:** The OQR has worked to improve access for tourist buses into and out of Bethlehem by increasing the number of checkpoints open for tourist

traffic. All of the main checkpoints into Bethlehem – Rachel’s Tomb, Tunnels and Mazmouriya – are now open for tourists, significantly improving the speed and reliability of access. All three checkpoints were open by February 2011, resulting in an immediate and marked improvement in tourist access in time for the 2011 Easter and summer seasons.

- **West Bank Internal Access:** The OQR successfully lobbied for the removal or easing of a number of obstacles to West Bank internal movement, including: (i) markedly reducing the regime at the Huwarra checkpoint at the southern entrance of Nablus city and allowing trucks through this checkpoint, thereby drastically reducing access delays; (ii) the removal of several road blocks on secondary roads that have had a significant effect on lives and livelihoods of village people who live nearby; and (iii) the opening of an approach road to the Tulkarm crossing for trucks allowing them to bypass the city of Tulkarm.
- **West Bank Goods Access:** The OQR has worked closely with the Israeli Crossing Points Administration and USAID to ensure that improvements are made in the speed and reliability of the handling of goods at the main West Bank goods crossings (Tarqumiya, Sha’ar Ephraim and Jalameh), however more remains to be done.

The OQR’s recent work on movement and access has supported its previous efforts to ease restrictions to, from and within the West Bank and Gaza. Such efforts resulted in: (i) the opening of the Adh-Dhahariya roadblock in 2010, allowing direct access to Hebron’s commercial and social services for 30,000 residents of communities south of the city; (ii) the opening of other major roadblocks near Hebron, including Al Fahas and Halhul between 2008 and 2010; (iii) the opening of roadblocks around Nablus, including, Beit Ibba, Shave Shomron and Sara, between 2008 and 2009, that are allowing ease of access into Nablus and the strengthening of its economy; and (iv) the opening of ‘Crossing 104’ in 2010 to allow Arab-Israelis direct access to Tulkarm and its economy at weekends.

Next Steps

In the coming months, the OQR will continue to promote the establishment of infrastructure and processes at the Allenby Bridge crossing to allow for the transfer of goods in containers. The OQR will also seek improvements in passenger access at the Allenby Bridge crossing by working to introduce efficiencies that can be implemented by and between the Israeli, Palestinian and Jordanian authorities.

The OQR will continue to promote improvements in the efficiency of applying Israeli standards and ‘dual-use lists’ to goods movement to the West Bank and Gaza. It will also promote the further development of infrastructure and efficient processes for the import and export of goods to and from Gaza to existing and new markets, in keeping with Israeli security concerns. See the ‘Gaza’ section above for further details.

Furthermore, the OQR will continue to seek improvements in the ease, speed and reliability of the transfer of goods into and out of the West Bank and will promote an improvement in access within and into and out of the West Bank for tourists, with a focus on access for tourist buses to the Jordan Valley and regularizing tourist access at the Jalameh crossing.

PRIVATE SECTOR DEVELOPMENT

Economic recovery continued in the Occupied Palestinian Territory in 2010, with real GDP growth estimated at nine percent in 2010. Unemployment dropped to 23.4 percent (from 24.5 percent in 2009). Poverty levels dropped from 31.2 percent in 2007 to 21.9 percent in 2009.

OQR support to the PA's private sector development program since September 2010 has consisted of four main foci: (i) promoting sectors underpinning private sector enterprise including telecoms, energy, transport and banking; (ii) catalyzing change in the Palestinian business, trade and investment environment as well as promoting exports; (iii) promoting competitive business clusters, including tourism, stone and marble and information and communications technology (ICT); and (iv) supporting the implementation of large iconic economic projects, including the development of industrial parks.

The OQR's main areas of work in private sector development have been:

- **Palestinian Food Safety:** The OQR worked closely with the PA, the Gol, and its partners, including USAID, SEMEP, the EU and the UN to improve PA capacity and legislation setting food safety standards. This will eventually ensure consumer safety, increase export potential and will support an Israeli decision, announced in early January 2011, to grant an indefinite waiver of restrictions on Palestinian meat and dairy products entering Jerusalem.
- **Stone & Marble Round-Table:** The OQR worked closely with the PA, USAID, the Union of Stone & Marble and the Palestine Polytechnic University to start facilitating the development of a national industry strategy and identify key impediments to industry development.
- **Palestinian Work Permits:** In partnership with the PA's Ministry of Civil Affairs, the OQR advocated for an increase in the number of work permits issued to Palestinian laborers seeking to work in Israel, resulting in a decision by the Gol in January 2011 to issue an additional 5,250 work permits to Palestinian workers.
- **Telecommunications Sector:** The OQR secured the remaining 0.6 megahertz of electromagnetic spectrum for use by the Wataniya mobile phone operator, the second Palestinian telephone mobile operator in the West Bank.
- **Investment Climate:** In partnership with the Palestine Investment Promotion Agency and the Ministry of National Economy, the OQR developed a policy note and engaged in high-level discussions on the need for systemic changes in the Israeli system governing the promotion of foreign investment in the Palestinian economy. Changes in the overall authorizing environment for foreign direct investment, including the issuance of multiple entry visas with longer validity periods for approved investors and businesspeople, are expected to occur in the coming months.
- **Industrial Parks:** The OQR has supported the PA, donors and private investors to promote the development of planned industrial parks in Bethlehem, Jericho and Jenin. An OQR team worked with the Bethlehem Park development company to identify requirements for an effective movement and access arrangement for their manufactured products.

The OQR's work in private sector development focused on building on key achievements in this sector, including the opening of the Jalameh crossing in November 2009 between Israel and the northern West Bank, which allowed for ease of access for Arab Israeli visitors and which continues to result in a significant injection of funds into the local economy. Moreover, the release of 0.6 megahertz of electromagnetic spectrum for Wataniya follows the initial release of 0.4 megahertz of electromagnetic spectrum for the launch of Wataniya in November 2009, which the OQR also helped facilitate, in order to increase competition and boost investment in the Palestinian economy.

Next Steps

In the coming months, the OQR will continue to work with the PA and key donors to support sectors underpinning private sector enterprise, including the telecoms, banking and energy sectors. The team will continue to promote the business and investment environment by investigating the potential for a management institute and/or executive business program in the West Bank, by working with the GoI on changes to the visa system to facilitate greater foreign direct investment and by holding a symposium to address policy instruments that can be used to assist the temporary movement of investors and service suppliers in the context of trade agreements.

The OQR will continue to work with the PA Ministry of National Economy to address the need for the development of Palestinian commercial legislative infrastructure to help attract foreign investors, facilitate and streamline commercial activities, and to prepare for WTO accession. Furthermore, the team will follow up on the recommendations made at the Stone and Marble Round-table, including initiatives relating to the permitting of quarries, investment, exports, environmental issues, and the development of a broader strategic framework for the sector.

PALESTINIAN USE OF AREA C

Access to and development of Area C – approximately 62 percent of the West Bank, under full Israeli administrative and security control as per the Oslo Accords -- remains vital for sustained Palestinian economic development and for Palestinian livelihoods. Since September 2010, the OQR has promoted initiatives that seek to support this objective. The OQR has focused, with a range of partners, on planning for Palestinians that would enable residential and commercial development in Palestinian populated areas. The OQR has also continued to support private sector initiatives to help contribute to economic development. Recognizing that access to basic services requires significant improvement, the OQR supports improved facilitation of basic service infrastructure. As part of the package of measures brokered by the OQR with the GoI on 4 February 2011, the GoI has committed to fast-tracking construction/reconstruction of a number of schools and health clinics in Area C, based on a list of PA priorities submitted by the U.S. and the OQR. This is important to ensure that the Israeli administrative system— specifically regarding planning and permitting - is more responsive to Palestinian needs. Permit processes are known to be lengthy and time consuming, undermining investment and development in this critical area. Without permits, Palestinian structures remain at risk of demolition, which has a

serious impact on the security and livelihoods of Palestinians. Full details of the 4 February 2011 package can be found in the Annex.

The OQR's primary areas of focus have been:

- **Support for Basic Service infrastructure:** In partnership with the Palestinian Ministry of Health and Education and Higher Education and together with the U.S. Special Envoy for the Middle East Peace Process (SEMEP), the OQR conveyed the PA's lists of priority health and education infrastructure needs in Area C to the Israeli Coordinator of Government Activities in the Territories (CoGAT). In response, CoGAT has granted preliminary approval for a number of these projects – which will be implemented by the United Nations Development Program (UNDP) and USAID and other partners - with indicative timelines for issuance of permits once applications are submitted.
- **Support for Planning Initiatives:** The OQR continued to work with a range of partners towards improving planning in Area C that is responsive to the needs and aspirations of Palestinian communities.

The OQR's work in Area C supports greater Palestinian access to and development of this integral part of the West Bank. The team's work since September 2010 has aimed to build on earlier breakthroughs in Area C, such as a five-month moratorium on demolitions secured in 2008 and facilitation of some infrastructure development for communities.

Next Steps

In the coming months, the OQR will continue to follow up on the issuance of permits for basic service infrastructure. The team will continue to support the ongoing planning initiatives that respond to Palestinian needs in Area C, in coordination and co-operation with all partners and relevant parties. The team will also continue to work with the PA and partners to define other priority areas in support of livelihoods and development, which require facilitation in Area C. In particular, the OQR will seek greater facilitation of stone and marble priorities, towards the development of resources in this important sector.

EAST JERUSALEM

Since September 2010, conditions in East Jerusalem continue to be difficult for over 250,000 Palestinians living and working in the city. Over two-thirds of this population subsists under the Israeli poverty line. Their neighborhoods exhibit urban and economic decay and are disconnected from their natural economic surroundings in the West Bank. A severe crisis in both the housing and education sectors persists.

The OQR's primary areas of focus in East Jerusalem have been:

- **Housing:** The OQR worked on expanding access to mortgage loans to provide greater housing opportunities to Palestinian East Jerusalemites. These loans will help facilitate

the construction of new housing projects. The OQR has worked intensively with local banks to negotiate such an arrangement.

- **Private Sector Development:** The OQR worked with international investors from the private sector and the donor community in an attempt to raise funds for investment in East Jerusalem. Funding would be channeled towards small to medium enterprises (SMEs) as a means to revitalize the local economy.
- **Education:** The OQR continued working on an agenda to build new schools for Palestinian children in East Jerusalem to help ameliorate the acute shortage of classrooms for Palestinian students in the city.
- **Hospital Services:** The OQR consulted with the East Jerusalem Hospital Network and the Government of Israel on ways to improve access for West Bank hospital staff and patients with chronic illnesses.

The OQR's work in East Jerusalem is intended to support its continuing efforts to improve living standards in East Jerusalem and enhance commercial interaction between East Jerusalemites and West Bankers. The OQR's work on hospital services builds on the team's work with the East Jerusalem Hospital Network (EJHN) and the World Health Organization to draft a 'Protocol on Access and Movement for Health Services', which outlines a system of procedures for all EJHN hospital staff and patients.

Next Steps

In the coming months the OQR, together with its partners, will launch a program to scale up mortgage loans for Palestinians in East Jerusalem and help facilitate implementation of new housing projects. The team will also continue its work on mobilizing private sector funds for investing in SME activity in East Jerusalem.

Moreover, the OQR will develop its agenda to build new schools in East Jerusalem with an expanded set of partners (in the private and NGO sectors). Work with the GoI to streamline access by West Bank hospital staff and chronic patients to East Jerusalem hospitals will also continue.

RULE OF LAW

Government in accordance with the rule of law is critical for a future democratic Palestinian state. The PA is demonstrating that it can provide security for Palestinians, maintain public order, ensure that disputes, whether domestic or commercial, can be resolved in an efficient and independent judicial forum, meet its international obligations (including those contained in the Roadmap), and govern in accordance with the law.

Improvements in the judicial system have been dramatic, particularly with respect to caseload management. The number of cases filed in the First Instance and Magistrate Courts grew from 52,452 in 2007 to approximately 125,000 in 2010 – an increase of 138 percent. Improved law enforcement accounts for the increase in new criminal cases, but the higher number also reflects growing public confidence in the courts, as reflected by an equally substantial increase in submission of civil disputes to the judiciary. At the same time, after years of large and

growing backlogs that had weakened public confidence in the courts, the disposition of cases by the courts over this same three-year period increased by 293 percent. As a result of various reforms, the judicial system has managed not only to keep pace with this significant expansion of its caseload but also exceed it and simultaneously reduce the backlog.

In this context, the OQR has continued to focus on easing Israeli restrictions on the PA's law-and-order operations in the West Bank, supporting continued capacity-building efforts in Palestinian justice sector institutions, and encouraging Palestinian-Israeli co-operation in the justice sector.

The OQR's primary areas of work in rule of law and security since September 2010 have been:

- **Movement Permits:** The OQR worked with both Palestinian and Israeli officials to facilitate the issuance of movement and access cards for Palestinian judges and prosecutors.
- **Study on PA's Criminal Justice Operations:** The OQR developed a proposal for a study of the impact of Israeli restrictions on the PA's criminal justice operations, in co-ordination with PA institutions as well as UNDP and EUPOL COPPS.
- **Palestinian-Israeli Co-operation:** The OQR continued to assist co-operation in the justice sector, including efforts to facilitate the work of the Joint Legal Committee.

The OQR's work on rule of law and security aims to build on earlier achievements in strengthening the PA's security control in areas under its authority. Such achievements include the issuance by the Gol of movement and access cards to most Palestinian judges in order to facilitate their movement within the West Bank.

Next Steps

In the coming months the OQR will continue to support the PA's work to develop a more comprehensive and effective approach to the Rule of Law (encompassing both justice and security sectors). The team will continue to engage with the Gol on the need to allow PA law-and-order officials greater freedom to move and operate within and between areas under PA jurisdiction, including freedom to transport detainees and evidence, and on the issuance of "movement and access cards" to all PA judges and prosecutors.

The OQR will support PA requests to extend security presence and operational control in Area B (see Annex for more detail), by easing movement restrictions on police patrols, in order to allow for more effective and contiguous law enforcement operations by the PA in areas under its jurisdiction. It will also seek an expansion of PA law enforcement jurisdiction and concomitant operations as warranted beyond Areas A and B.

Furthermore, the OQR will encourage further strengthening of PA justice sector institutions, including by beginning deployment of the new Judicial Police. The OQR will work with PA counterparts and international partners on launching a research study into the impact of Israeli restrictions on the effective functioning of the PA's justice system and will continue to support Israeli-Palestinian co-operation in the security and justice sectors, including, in particular, by

facilitating the work of the Joint Legal Committee. Among the key issues to be addressed in the Joint Legal Committee is improving legal co-operation between PA and Gol officials in the investigation and prosecution of crimes committed in the West Bank by Israeli ID holders.

PROMOTING HOLY LAND TOURISM

Holy Land tourism has the potential to be a significant source of economic growth for Israel and the future Palestinian state. Since 2007, tourism has recovered strongly from the steep decline earlier in the decade. This recovery was based on a combination of factors. Outside the tourism sector itself, the PA's performance in the security sector was instrumental in achieving overall stability across the West Bank where some of the main Holy Land tourism sites are located. Consequently, most foreign travel advisories improved. Israel reduced a variety of access and movement restrictions, including some which hitherto had seriously constrained tourism. Within the sector, the PA Ministry of Tourism and Antiquities and the private sector invested heavily in marketing efforts abroad and in site development and new infrastructure at home. A variety of donors, including USAID, French, German and Italian aid agencies have helped this effort through a wide variety of projects. On the Israeli side, the Ministry and private sector also significantly invested in recapturing key markets through vigorous marketing campaigns abroad. In 2007, the overall number of visitors to the Holy Land had risen to 2.3 million, still 400,000 visitors below the record year of 2000. The year 2010, however, was a new record year for both the Israeli and Palestinian tourism sectors, with 3.4 million visitors overall.

Since September 2010, the OQR's support to the PA's strategic tourism objectives has focused on five areas: (i) removing or easing movement and other restrictions that affect Palestinian and Israeli tourism operators; (ii) creating an improved investment climate for new enterprise; (iii) stimulating strategic Palestinian-Israeli co-operation in the tourism sector; (iv) helping the Palestinians with new initiatives, such as the '*Bethlehem Action Plan*' and '*Time Team in Palestine*' (see below for details); and (v) encouraging the international community to assist where it can, including through the revision/updating of international travel advisories.

The OQR's primary areas of focus in the tourism sector have been:

- **Bethlehem Checkpoints:** The OQR successfully lobbied for the opening of all Bethlehem area checkpoints to Jerusalem for tourism. Please refer to 'Movement, Access and Trade Facilitation' above for further details.
- **Bethlehem Action Plan:** In close co-operation with USAID, the OQR supported the launch of a PA-led Bethlehem Action Plan, under which the public and private sectors will co-operate to upgrade the tourism experience of Bethlehem in several areas.
- **UK Time Team:** Discussions have advanced for the highly successful UK *Time Team* television program on archeology and heritage to produce a *Time Team* Special on Palestine, which will promote the historic and religious tourism opportunities of Palestine.
- **Travel Advisories:** The OQR has successfully secured a positive revision/update of several international travel advisories with regard to Israel, the West Bank and Jerusalem.

The OQR's current workstreams in tourism support its other efforts to work with both the private and public sectors to encourage positive change on the ground. The opening of the Jalameh crossing in 2009 enabled the entry of foreign tourists and thousands of people from the Galilee to the northern West Bank (over 7500 cars cross on average each weekend). The OQR is seeking to build on this by developing the "Footsteps of Christ" route running from Nazareth through the Jalameh crossing to Jenin, Nablus and on to Jericho, Bethlehem and Jerusalem. The recent opening of further checkpoints into Bethlehem has significantly aided this strategy.

Next Steps

In the coming months the OQR will work on the next set of tourism sector priorities in terms of movement and access, including continuing to monitor access to and from Bethlehem, seeking additional permits for licensed West Bank guides to work in Israel, facilitating the revival of the "Footsteps of Christ" route and opening Jericho's northern entrance.

The OQR will continue to explore ways in which tourism co-operation in the public and/or private sectors can be stepped up by both sides, including in the areas of Jenin and Gilboa and with a focus on shared heritage.

The OQR will also explore the potential opportunities of (and current barriers to) Islamic pilgrimage as a growing niche market in tourism.

CONTINUITY OF PA FINANCING

The PA fiscal position relies crucially on external donor financing to cover annual recurrent expenditures. The degree of PA donor reliance has declined in recent years due to greater economic growth and more effective revenue collection. This is attributable to PA reform efforts. However, external support also continues to represent a large share of annual PA financing. The total budgeted recurrent deficit in 2011, expected to be financed by outside donors, has been reduced to USD 967 million, 13 percent of GDP. This deficit is USD 163 million less than in 2010, when it was 16 percent of GDP.

During the first quarter of 2011, donor budget support amounted to USD 161 million, approximately USD 80 million less than expected. As part of its agenda to support PA development priorities, the OQR has worked to mobilize timely and predictable donor assistance and to facilitate Israeli-Palestinian mechanisms to enhance PA revenue collection.

Since September 2010 the OQR's main areas of focus in support of PA financing have been:

- **Facilitating Budgetary Support:** Before and during the AHLC meeting in New York in September 2010 the QR and OQR worked to mobilize predictable, timely and adequate assistance from key donors to help buttress PA reform efforts. Budgetary assistance provided to the PA during Q4 2010 and Q1 2011 was as follows:

- **Arab States:** USD 167.5
- **Other International Donors:** USD 454m

- **Facilitating Greater Revenue Enhancement:** As part of the GoI's package of easing measures announced in February 2011, the QR and the OQR negotiated the inclusion of a mechanism to identify and agree on new measures to enhance the collection of budgetary revenues. Please see the Annex for further details. Subsequent to the release of the package, the Palestinian and Israeli Ministries of Finance have met several times and agreed on a set of agenda items. These items include the enhancement of PA budgetary revenues relating to: (i) exit fees at border crossings (Allenby Bridge); (ii) VAT, import taxes and customs duties; and (iii) lower tax administration fees charges by the GOI.

Next Steps

The QR will continue to help mobilize the necessary external budgetary assistance to enable the PA to meet its financial obligations and to support private sector development. The OQR will continue to track the discussions and agreements of the Ministries of Finance on the mechanisms to increase the budgetary revenues of the PA. The OQR will meet with both sides separately to monitor and report progress to concerned parties.

Contact: The OQR team welcomes contact and collaboration with partners and stakeholders. Please visit our website at www.quartetrep.org, or email us at info@quartetrep.org.

ANNEX

Quartet Representative's Report on the Implementation of the Package of Measures Agreed with the Government of Israel on 4 February 2011

On 4 February 2011, Quartet Representative, Tony Blair, and the Government of Israel (GoI) agreed a package of measures for Gaza, the West Bank and East Jerusalem. The following summary report provides an update on implementation of each measure to date.

Implementation of the package is generally on schedule, with a few exceptions. The package of measures is modest but, if fully implemented, will have a positive impact on some elements of the Palestinian economy and population, particularly residents of Gaza.

It is clear, however, that if there is to be a genuinely sustainable economy in the West Bank and Gaza, the GoI will need to make significant changes to a number of policies that constrain Palestinian economic growth. It is also necessary for the GoI to extend the range and scope of these measures to have greater impact on the economy and peoples' lives.

GAZA

Energy

- Preliminary discussions with the Palestinian Authority (PA) on the development of the "Gaza Marine" gas field are to begin immediately and conclude in three months (by 4 May 2011): *progress behind schedule*.
 - ❖ The GoI has formally communicated to the PA that it is willing to commence talks and has identified a lead representative. The PA has also identified its team. The two teams have not yet met.
- Subject to agreement on its development, the GoI will allow Gaza Marine gas to fuel the existing and any future power plant in Gaza; it will approve the upgrading of the Gaza power station and the construction of a second power station: *no action due yet (pending agreement on development of Gaza Marine gas field)*.
- The GoI has agreed to make a decision on any applications by the PA to increase the supply of electricity to Gaza from Israeli sources within three months of application: *no action due yet*.
 - ❖ The PA and the private Israeli company willing to supply electricity to Gaza are still in discussions and an application for GoI approval has not yet been submitted.

- ❖ More generally, on the upgrading of the supply of electricity to Gaza, the GoI is facilitating a UN-implemented project to upgrade the capacity of Gaza's single power station by 40MW, from 80MW to 120MW. This is due to be completed by November 2011.

Water and Sanitation

- The GoI has agreed to facilitate PA proposals, supported by the USA and Norway, to facilitate two sets of mobile desalination plants and the construction of larger desalination plants: *no action due yet*.
 - ❖ At the AHLC, the PA will present parts of its Gaza water strategy, listing projects that require funding and facilitation. The GoI has indicated that it will fast-track approvals and is awaiting requests for facilitation.
- The GoI has committed to facilitating the entry of construction materials to enable the following water treatment plants to be completed on schedule: Sheikh Ajleen, NGEST, and Khan Yunis: *progress on schedule*.
 - ❖ The Sheikh Ajleen and NGEST projects are broadly on track. Khan Yunis requires additional international funding, which the UN and OQR are seeking, before construction can begin.

Exports

- The GoI has agreed to permit exports of textiles, furniture and agricultural products from Gaza to international markets by 1 April 2011: *progress on schedule*.
 - ❖ In addition to carnations and strawberries and with the support of the Dutch Government, cherry tomatoes are now being exported to European markets. Bell peppers and potatoes have also been permitted, but only limited numbers of the former have been exported due to commercial reasons.
 - ❖ The GoI is currently reviewing a PA-submitted list of 22 furniture and textile manufacturers who, with support of DFID, are ready to export internationally. We expect that exports of these products will begin later in April or early May. Additionally, the GoI is reviewing a list of seven potential exporters of agricultural products. Likewise, we expect these exports to begin late April or in early May. The GoI has also indicated its willingness to allow exports of agricultural products and textiles to Jordan.
 - ❖ The volumes that can be exported will remain limited to around ten truckloads per day until a dedicated security scanner is installed at Kerem Shalom. International funding for this scanner is needed.

- The GoI will conclude discussions by 30 April 2011 on whether to allow PA-approved Gazan producers to transfer textiles/furniture to PA-approved West Bank purchasers: *no action due yet*.
 - ❖ The GoI has indicated that it will facilitate exports of garments and furniture destined for the West Bank to fulfill official PA orders in the coming weeks. The PA is compiling a list of official orders.

Imports

- The GoI will implement a pilot by 1 April 2011, based on discussions with the UN, on a new arrangement to allow PA-approved Gazan private businesses to import construction materials into Gaza: *progress behind schedule*.
 - ❖ The OQR anticipates that the GoI will remove several construction-related items from the dual use list.
 - ❖ In response to a request by the PA, the GoI will give approval to ten Gazan factories that have received EC reconstruction grants to import all necessary construction materials, including those on the dual use list, to Gaza. Discussions between the GoI and the UN are still ongoing regarding a supervision mechanism.

Construction Projects

- The GoI has agreed to approve 20 new construction projects in Gaza, including education, health, housing, infrastructure and environment projects: *completed*.
 - ❖ The GoI approved all 20 PA-endorsed projects and formally notified donors in mid-February. GoI has now approved 121 projects since June 2010.
- The GoI agreed to facilitate entry in February of all aggregates stored at Sofa (estimated at over 40,000+ tons) once sale agreements were reached between relevant international organizations and local merchants: *completed*.
 - ❖ 53,000 ton of aggregates have been transferred to international organizations and their contractors in Gaza to date. It is possible that a further 20,000 tons will be transferred in the coming weeks.

WEST BANK

Telecommunications

- The GoI has approved the transfer to Wataniya Telecommunications Company of the outstanding 0.6 MHz, thereby completing the transfer of a total of 1 MHz pending since November 2009: *completed*.
 - ❖ The transfer of the outstanding 0.6 MHz was made mid-February 2011.

Area C Schools and Health Clinics

- The GoI will prioritize and fast-track the construction/reconstruction of a number of schools and health clinics in Area C. Permits will be issued after the submission of PA requests and plans: *progress on schedule*.
 - ❖ The GoI has indicated that, for 21 of the PA-priority projects submitted by the OQR and SEMEP in Area C: (i) a permit for nine locations is expected within a month after applications are submitted; and (ii) for the remaining 12 locations, the GoI will seek to provide a permit within 3-4 months of application.

Collection of Clearance Revenues

- The GoI agreed to immediately schedule talks with the PA to identify and agree new measures that will enhance the collection of clearance revenues for the PA, with the aim of settling outstanding issues on both sides within three months (i.e. by 4 May 2011): *progress behind schedule*.
 - ❖ The Parties held one senior level meeting followed by two technical meetings but no agreements have been reached to date.

PA Security Presence in Area B

- The GoI has agreed in principle to facilitate the extension of PA security presence to seven towns in Area B, with the aim of agreeing specifics with the PA by 1 March 2011: *progress behind schedule*.
 - ❖ The GoI and the PA met on 8 March 2011. The PA is preparing its response to the GoI's invitation to submit its request.

West Bank IDs for Gazans Resident in West Bank

- The GoI has agreed to authorize 5,000 residents of the West Bank who currently have Gazan IDs to change their address to the West Bank: *progress on schedule*.
 - ❖ Following an invitation from the GoI to the PA to submit a list of requests, the PA submitted 3,725 IDs. The GoI has approved 299 of these to date and is in the process of reviewing the remaining names.

East Jerusalem

- The GoI has stated that it encourages the implementation of all projects in East Jerusalem that abide by municipal regulations aimed at improving infrastructure, including housing, for Palestinian residents.

- ❖ The OQR is working with partners to secure finance to ensure mortgage loans are available for new and existing Palestinian housing developments in East Jerusalem.

ADDITIONAL MEASURE NOT IN THE PACKAGE

- The GoI granted 5,250 permits for Palestinians to work in Israel (4,000 in the construction industry and 1,250 in agriculture).

END.