



LONG OVERDUE: ALTERNATIVES TO THE PARIS PROTOCOL

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In 1994, the Palestine Liberation Organization and the Israeli government signed the Paris Protocol. It established a “contractual agreement” to formalize economic relations, which had previously been determined by Israel, in the West Bank and Gaza Strip for a period of five years. Despite its expiration 19 years ago, the protocol still constitutes the basis of economic relations and is the framework for the Palestinian Authority’s (PA) economic, monetary, and fiscal conduct.

The trade arrangement, akin to a customs union, in theory allows the free flow of goods between the two sides and agreement on a common external tariff regarding imports. However, the protocol created a customs union in which Israel’s trade policy is imposed on the West Bank and Gaza. And because a customs union does not require the demarcation or elimination of borders, it has enabled Israel to postpone the issue of borders while furthering the containment and colonization of the Occupied Palestinian Territory (OPT).

In violation of the protocol, Israel dictates that goods can only move freely from Israel to the OPT, not vice versa. Israel also restricts the movement of goods within the OPT. Moreover, closure policies and non-tariff barriers restrict foreign trade. The OPT is therefore a captive market for exports from Israel.

The OPT’s Gross Domestic Product is a fraction of that of Israel. The tariff structure required to build a weakened Palestinian economy is very different from one that suits an industrialized economy. Even if the customs union had been implemented as stipulated in the protocol, it would have adversely impacted the Palestinian economy, as it does not cater to its needs.

The protocol formalized a clearance revenue system whereby Israel collects customs duties on imports that are destined for the Palestinian market. While the system grants the PA access to significant resources, it gives Israel power over Palestinian revenue. Israel exploits this control by withholding tax revenues as a punitive measure or to exert political pressure.

Policy recommendations:

- Palestinians could advance a new trade regime, such as a free trade area or a non-discriminatory trade policy.
- A free trade area is the better approach. It allows for unfettered trade between member countries. However, each country has its own trade policy with respect to third-party countries, making economic borders a necessity.

- In a non-discriminatory trade policy the PA would adopt its own trade policy unilaterally without offering or receiving preferential access to or from Israel.
- In another option, a recent study proposed a new tariff structure in line with Palestinian development interests, either through a continuation of the status quo while exploiting the protocol or via a non-discriminatory trade policy based on promoting industrialization.
- For any such options to be fulfilled, a clear-cut Palestinian economic vision and strategy that is guided by a political vision and interest must be developed.