



Middle East Bridges – Private Sector Initiative

Erez Industrial Estate Pilot Study: An Implementation Plan



EASTWEST INSTITUTE

Bridging Divides

Middle East Bridges Program Mission

The Middle East Bridges Program aims to promote peace and security, sustainable growth, rule of law and good governance as vital components of the region's development. The Program is a long-term confidence-building initiative to facilitate dialogue and constructive relations within the region and between the West and the Middle East. Middle East Bridges draws upon experiences, instruments and concepts that have been successfully tested in the East-West context, using these where applicable in the unique political and economic conditions of the Middle East region.

Middle East Bridges – Private Sector Initiative

The Middle East Bridges – Private Sector Initiative (MEB – PSI) aims to promote economic development in the Palestinian Territories in the wake of an Israeli withdrawal from Gaza and the northern West Bank. There are three main and complementary components of the project: 1) Disengagement facilitation; 2) Economic reconstruction; and, 3) Investment promotion.

MEB – PSI's disengagement facilitation track initially aims to forge working level contacts between the two parties in order to discuss the assets to be transferred and other modalities relevant to the disengagement. The project's economic reconstruction component focuses on supporting a receptive environment for the Palestinian private sector, specifically in relation to the rehabilitation of industrial estates in Gaza. Finally, the investment promotion track will focus on mobilizing international donor and private sector resources in the aim of creating an important and early basis for sustainable economic growth in the Palestinian Territories.

Middle East Bridges Dialogues Project

The Dialogues Project is aimed at bringing together people who do not normally speak to each other to “think outside of the box” in addressing key issues, and to do this in a discreet off-the-record, peaceful and secure setting. Meetings have been organized along three tracks, including the “Thinker's,” “Russian” and “Political” tracks, and, taken together, they have covered a large part of the Israeli center- and far- right as well as Palestinians representing constituencies inside the Palestinian Territories and the larger diaspora. The value and impact of each meeting has been 1) de-demonization on a personal level since many participants had never engaged with the other side; 2) better understanding of the other's and one's own fears, perceptions and positions; and/or 3) new and better-developed ways of addressing final status issues.



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The Services Group, Inc. (TSG) is an international economic development consulting firm based in Arlington, Virginia, USA. TSG provides clients with technical expertise in the analysis, design, and development of industrial estates and free trade zones. TSG has particular expertise in designing master plans for industrial estate, drafting WTO-compliant free zone regime laws, and developing implementation and marketing plans for the development and operation of special economic zones and industrial estates. The company's range of expertise also includes policy advisory services in economic, trade, and investment to increase a country or region's competitiveness and facilitate export-oriented economic growth. Over the past 20 years, TSG has worked with both private clients and international donors such as the World Bank, USAID, DFID, and others to implement over 600 projects in more than 120 countries, including Israel and the Palestinian Territories. From 1998 to 2004, TSG worked closely on projects with USAID and the Palestinian Authority to establish an industrial estate and free zone regime in the West Bank and Gaza. The firm identified potential sites for industrial estates, and provided support to the Gaza Industrial Estate through PIEFZA. TSG also provided advice to the PA on instituting reform among ministries and government agencies.



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Letter from the Chairmen

The EastWest Institute is pleased to present this study, our second on creating jobs through re-opening the industrial parks of Gaza. For there to be stability and peace following Israel's planned disengagement from Gaza and the northern West Bank, immediate attention must be paid to job creation. This project emerged from a two-year EWI effort bringing significant Palestinians together with representatives of the governing authorities in Israel. It is published on the eve of the onset of the disengagement with the hope that it will contribute in a practical way to making successful the disengagement process and the subsequent development of the area.

The Government of Israel's decision to disengage from Gaza and other Palestinian areas is a historic event. If successful it could well mark a turning point in the long and tragic conflict between Israelis and Palestinians, and constitute a milestone on the road to just and lasting peace. If it fails, it could actually widen the divide, throwing the conflict back several years. This could have serious consequences not only for the Middle East, but also for the whole world.

The EastWest Institute has been addressing dangerous fault lines and bridging divides for twenty-five years. Few regions in the world today are as ridden with conflict as the Middle East. Our efforts in the EWI Middle East Bridges Program seek to support peace and stability as well as to promote good governance, the rule of law and sustainable development in the region through focused projects.

The Private Sector Initiative of the EWI Middle East Bridges Program is geared towards facilitating the planning for economic rehabilitation in the Palestinian territories after disengagement. The objective is to promote concrete and practical steps which encourage job creation in the region, as well as cooperation between Israelis and Palestinians to create a viable and enabling economic environment.

Economic development in the Palestinian areas is a key to progress and eventual success in the peace process. Only secure and uninterrupted access to the outside world can give the Palestinians a real opportunity to take responsibility for their own future. It is encouraging that the Government of Israel has made it known that Palestinian economic development is a matter of Israeli national security.

This second study examines in further detail the importance of industrial estates as productive elements of the Palestinian economy. As such, the Erez Industrial Estate plays a key role in many respects, both substantive and symbolic. Through its location on the gateway to Gaza, its history of cooperation between Israelis and Palestinians, and its capacity for development Erez is in a unique position to develop into a successful example of Palestinian economic development and serious Israeli-Palestinian cooperation.

To make Erez a success now requires serious focus and bold political measures from both sides. The handover process has been in the planning for months, and the EastWest Institute has been fortunate to have been engaged with the parties in supporting this process. As a concrete contribution to this process, the present paper discusses practical and political measures to be taken from the day of the handover and in the short and medium term perspective thereafter.

In our previous paper, **The Erez & Gaza Industrial Estates: Catalysts for Development**, we have already provided our framework for the economic policy and regulatory actions that the PA needs to focus on to ensure not only a rapid revitalization of the industrial estates in Gaza and the West Bank, but also to facilitate broader and rapid private sector investment in the economy. These broader steps remain a necessary condition for ensuring the most rapid and comprehensive revitalization of the industrial estates.

It is our hope that this current paper will assist the parties in the necessary steps on this difficult road and in creating an economic environment that will make the Erez Industrial Estate a catalyst for dynamic economic development, effectively attracting business interests from all over the world and providing an example for the whole region of what can be done with political will and good governance.

We welcome your comments at meb@ewi.info.

Sincerely yours,



George F. Russell, Jr.
Co-Chairman of the
Board of Directors
EastWest Institute



Martti Ahtisaari
Co-Chairman of the
Board of Directors
EastWest Institute

Foreword

In April 2005 the EastWest Institute presented its first study on the topic of the industrial estates in the Palestinian areas, **The Erez and Gaza Industrial Estates: Catalysts for Development**. The idea that the EWI should focus on economic development in Gaza after an Israeli withdrawal was first conceived at a dialogue meeting between Israelis and Palestinians in Europe early in 2004. It was further developed in subsequent discussions with the “Chicago Ten,” a group of business leaders representing all three Abrahamic faiths, bonded by their desire for a lasting peace in the Middle East.

To review the problems associated with economic development under occupation the EWI convened a seminar in New York in April 2004 that addressed and exposed the difficulties of making economic progress in the absence of a comprehensive political solution. After the seminar contacts were intensified with the Palestinian Authority and the Government of Israel, as well as with business leaders from both sides.

The EWI was approached late last fall by the parties to assist in bringing them together to discuss the modalities of disengagement, particularly as regards the industrial estates and their role in economic cooperation between the parties. Since then the Institute has been engaged in efforts to promote direct talks between the parties to coordinate the technical aspects of disengagement, and we noticed with great satisfaction that such talks have now begun a few months ago.

We were convinced at an early stage that the idea to focus on the industrial estates was not only practical but doable. The theme of our first study was to examine the role of the industrial estates as catalysts for economic development, focusing on the Gaza-based border industrial

estates. We felt that the revitalization of the estates could make a substantive and immediate contribution to the alleviation of the current massive unemployment in Gaza. At the same time, addressing the questions connected with these border-based industrial estates offered a way to begin a dialogue that could lead to discussions on broader and more politically sensitive issues related to sovereignty, ownership, access, security and governance.

The first study was written by a team composed of EWI staff and senior economic consultants. The study built upon the work done by a number of involved actors, first and foremost the World Bank, but also others, such as the fine work done by the Portland Trust in London as well as the organized Palestinian private sector.

The conclusions of this first EWI study centered around two issues: on the one hand the role of access, and on the other, the importance of good governance. That study noted that there was a widespread consensus that, given a peaceful and enabling environment that is predictable and receptive to investment, the potential for economic growth in the Palestinian areas is substantial. It was further noted that success in the efforts to develop the industrial estates was only likely with a parallel focus on the longer-term policy and regulatory perspectives needed to create a viable economy in the West Bank and Gaza.

We were greatly encouraged by the reception to our first study --by the parties themselves and the lead international actors, as well as by the business communities on both sides. A principal conclusion of our first report was the need to undertake an immediate, action-oriented study on the feasibility of a restructuring and development of, first the Erez Industrial Estate in Gaza, to be used as a pilot for other industrial estates in Gaza and the West Bank.

The basis of this current study flows from the argument that industrial estates in both the West Bank and Gaza offer promising opportunities in support of economic rehabilitation. They are a source of employment-generation and a catalyst for the development of the establishment of export-based industries; they can, moreover, be a focal point for both domestic and international investment. Importantly, the estates present an opportunity to urgently address, through practical means, sensitive policy issues such as economic access and local governance arrangements, which are the main concerns of domestic and international investors. The Industrial Estates, like the Palestinian economy as a whole, will require a border regime and security arrangements that will stimulate the process of economic recovery and growth rather than result in impediments.¹

The objective of the present study is to close the gap in the understanding of the existing situation at the Erez Industrial Estate, to assess the short and medium term needs of the estate, and to propose an implementation plan for meeting the identified needs after its transfer to the Palestinian Authority.

To mobilize the necessary expertise EWI turned to The Services Group, a U.S. based consulting firm, with wide and long-ranging experience in the Middle East, and particularly with the Israeli-Palestinian situation, with important engagements with the World Bank and others. The resulting report is the product of The Services Group, but is in all its aspects endorsed by the EWI.

The most important conclusions from this study further reinforce the thinking presented in the first EWI study: The question of access is the key issue. Without a satisfactory solution to this issue prospects for economic development in the Erez Industrial Estate, as well as for the Palestinian areas as a whole appear bleak. A new balance has to be struck between security and access, a balance which takes into account economic needs, technological advances, as well as political realities.

Among the key findings of this study is that "Under the right circumstances, the Erez Industrial Estate can represent an opportunity to provide additional industrial infrastructure to potential users at a relatively low marginal cost. The most important required circumstances are efficient and predictable access of Erez Industrial Estate's manufactured

goods and services to the external marketplace – Israel and beyond; sound management and marketing of the Erez Industrial Estates; and the ability of enterprise owners, investors, managers and customers irrespective of nationality to visit and work in their place of business."

This conclusion is equally valid for the Palestinian areas as a whole. Thus the case of Erez and how challenges there are being met, questions addressed, and problems solved, may affect the entire range of issues characterizing not only the economic, but also the political, situation between Israelis and Palestinians. This is why EWI has focused its very limited resources on this particular issue.

We believe that this study will need to be followed up by a more detailed feasibility study on the Erez Industrial Estate, that will provide a broader and more visionary look at the longer-term prospects for the estate and for a more detailed look at the financial and investment implications of this longer-term view. Parallel efforts will be needed for other industrial estates in the West Bank, such as in Jalameh, and in Gaza.

Such practical studies could then provide a sound basis for investment conferences to be held when circumstances permit. Hence, the preparatory work prescribed in this study is essential if jobs are to be created. When we started this project, few thought the industrial estates could be revived. These studies demonstrate that they can be a major element of creating jobs and bringing stability to Gaza after disengagement. To do so now requires that the international development institutions such as the International Finance Corporation (IFC), with a mandate of focusing on private sector development, become involved. The EastWest Institute has once again served as a catalyst and others such as the IFC have a comparative advantage in future stages of this work.

The two EWI studies taken together form a credible foundation for major financial players to move ahead and use the industrial parks as one of the early tools for creating jobs in Gaza.

Throughout this project, EWI has cooperated with the Palestinian National Authority and the Government of Israel, as well as with other key actors, such as the Special Envoy of the Quartet for Disengagement, Mr. James D. Wolfensohn, and the World Bank, the Al Mustaqbal

1) For a fuller discussion of the reasons why to focus on Gaza-based industrial estates, please reference *Erez and Gaza Industrial Estates: Catalysts for Development*. EastWest Institute. April 2005.

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Foundation, the Economic Cooperation Foundation, the Chicago Ten and the Chicago Council on Foreign Relations, the Aspen Institute, the Federation of German Wholesale and Foreign Trade (BGA) and a number of other institutions and individuals that operate both regionally and globally, and many of whom are listed in the Appendices to this Report. We are deeply grateful for all the support they have given us and for all the time spent with us over the past months in the efforts to carry this project forward.

The present study and the Middle East Bridges Program itself builds upon support from the Swedish Ministry for Foreign Affairs, which has provided “seed funding” for the whole project together with the Shelby Cullom Davis Foundation Julie Wrigley and a number of generous family foundations and individuals from the United States. The EWI expresses its thanks again to all with particular acknowledgement to the Swedish government whose generous support has made our whole MEB Private Sector Initiative possible.

The current project and this publication are due to the timely and generous support of our Chairman, George F. Russell, Jr. and the Russell Family Foundation, this study would never have been possible given the urgent need for a funding base. We are most grateful.

We hope that this study will contribute to the process of reopening the industrial estates, and thus to creating jobs. If it – or elements of it – could serve as a rough guideline for the parties in determining future actions we think the effort has been worthwhile. We firmly believe in an open, transparent and legitimate process in proceeding with tackling these issues, and if our efforts could contribute to this we would be proud.

And we have noticed that more and more actors in the region and elsewhere have come to the same conclusion. We have registered with particular satisfaction that the Palestinian Authority, and specifically the Minister of National Economy, Mr. Mazen Sinokrot, has underlined the importance of the industrial estates, and singled out Erez as a priority pilot case in the development of the Palestinian economy, as well as for Palestinian – Israeli cooperation.

As our Chairmen note in their opening words, we welcome your feedback at meb@ewi.info.



John Edwin Mroz
President and CEO
EastWest Institute

Mathias Mossberg
Ambassador and Vice President
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EastWest Institute

August 4, 2005

Executive Summary

A previous study by the EastWest Institute in April 2005 concluded that industrial estates offer promising opportunities for economic rehabilitation, employment regeneration, the development of export-based industries, and provide a focal point for domestic and international investment in the Palestinian Territories.

This report outlines the next practical steps to be taken by stakeholders in the Erez Industrial Estate (EIE) following the Israeli withdrawal from the Gaza Strip. It takes inventory of the current situation at the EIE, determines the key requirements for the preservation and reactivation of the EIE during a 4-6 month Transition Phase and the following 2-3 year Development Phase after Israeli withdrawal, outlines solutions for development and management in the medium and long terms, and provides an implementation plan for actions subsequent to disengagement.

Transfer of Assets

The transfer of the 63-hectare EIE (43 hectares developed and 20 hectares for expansion) represents a significant opportunity on several fronts – economic development and job creation in northern Gaza, the use of small-scale operations as test cases for solving larger security and trade facilitation issues between the Palestinian Authority and government of Israel, and the re-energizing of the Palestinian Authority's industrial estate development program at reasonable marginal costs. The opportunity relies to some degree on circumstances and timely actions outside of the control of the Palestinian Authority, and is vulnerable to setbacks such as lack of infrastructure, and a lack of reliable and robust cross-border access for the goods and people required to run an industrial estate, including Israeli and international investors, managers, customers, and suppliers.

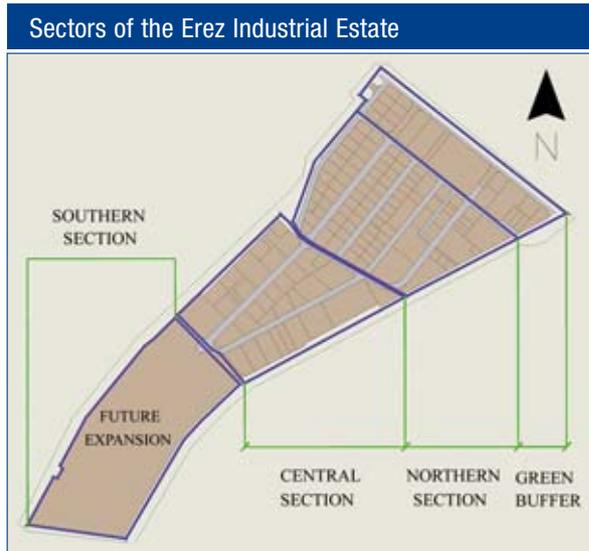
Current Status of the EIE

Complexion of Current Operations

The EIE is currently administered by the Israeli Department of Defense Office of Coordination and Liaison. Management is contracted out to the private sector firm, Industrial Buildings Corporation Ltd. The EIE benefits from guaranteed access to Israeli and international markets and inexpensive Palestinian labor. Businesses in place prior to the cessation of operations were concentrated in several sectors including textiles, plastics and chemicals, wood and furniture, metal goods, and service and repair shops. In 2003, prior to the decline in number of firms present in the EIE, 201 businesses were located in the EIE, of which approximately equal numbers were Israeli and Palestinian. In the short term after disengagement, Israel-based investors, suppliers, and customers will no longer have access to their investments or customers in the EIE due to proposed restrictions on Israeli citizens traveling into Gaza. Access to the Palestinian labor force will remain, and goods from the EIE will be able to use a Gaza certificate of origin.

Industrial Estate Layout

The EIE is trisected geographically into northern, central, and southern areas. There are currently no zoning restrictions separating businesses that require sanitary conditions, like food processors, from manufacturing operations like metal shops. The northern areas in the EIE date back to the 1970s. Small businesses, workshops, and garages densely populate this area; some structures, however, are in disrepair and need improvement. Palestinian owners and renters are concentrated in this section of the EIE. The center section of the EIE dates to the 1980s and is characterized by mixed building types. The southern sector of the EIE is currently undeveloped.



State of Industrial Infrastructure

The EIE as it is being transferred is an operational industrial estate in need of rehabilitation. The basic infrastructure is sound, but the environment, buildings and some infrastructural elements are in need of immediate upgrading. Most of the facilities necessary for operation are already present in the EIE. The EIE contains fully serviced industrial buildings connected to storm water drainage systems, waste removal pipes, and high quality electrical, water, and telecommunications supplies. The quality of roads in the EIE is adequate, but external connections to Israel, the West Bank, and the rest of Gaza need improvement. Electricity is currently provided by the IEC, which would most likely need to be maintained in the short term. Telecommunications and water supplies are in good condition, but downstream waste treatment facilities are inadequate.

State of the Environment

The EIE suffers from environmental pollution, and abatement measures must be addressed by the Palestinian Authority over time as the estate becomes operational. Many of the existing buildings contain asbestos roofs are unsafe working environments. There are also hazardous chemicals used and stored on the premises, and removal systems for industrial and sanitary waste are poor. Liquid waste has in the past been discharged into Wadi Hanon, and the wadi flow now blocked at the Israeli border.

Current Legal Regime

Prior to Israeli disengagement, the EIE has operated under a mixed legal regime due to uncertainties surrounding the status of Gaza and the EIE under Israeli occupation. Though firms have operated under Israeli law, they are also

subject IDF military orders. Labor rules, however, follow old Egyptian laws, and environmental restrictions have not been enforced. The disengagement will bring the EIE under the standardized legal regime set by the Palestinian Authority's Industrial Estates and Free Zones Law. Issues such as land titling, utility service requirements, the movement of people and goods, and incentive schemes must be quickly resolved upon disengagement so that potential investors and producers can commence operations.

Development Requirements of the Erez Industrial Estate

Goals

A set of medium-term goals were adopted for the EIE including a goal of reaching 2003 levels of employment (i.e. 5,000 direct jobs) by the year 2007, and employment of 7,000 by 2009

Transition Phase

During a six-month 'Transition' phase, the EIE is expected to operate under limited capacity. At this time, a new industrial estate Interim Management Team under the direction of PIEFZA would establish a development plan for the EIE, and communicate with the Gol on a number of legal, financial, administrative, transportation, and access issues. This team would be led by a person with established credentials who would become the focal point for the initial efforts at re-establishing the EIE. Pedestrian and vehicle entrances would also be designed and secured according to a coherent temporary access strategy. Technical solutions would be found to address non-functioning infrastructure and to provide immediate solutions to issues with these systems such as the blocked liquid waste outlet at the Israeli border, and current non-separation of industrial and sanitary waste. Detailed surveys of existing buildings including infrastructure systems would be performed; and an additional survey would address asbestos levels. Electrical power supplies would be secured and water systems maintained.

During the Transition phase, PIEFZA would move forward with the tendering process for contracting a private manager/developer to operate the EIE. This process normally takes about six months, and it is recommended that PIEFZA seek outside donor-funded technical assistance for this purpose. PIEFZA should commence the developer search in September 2005, and by the end of the Transition phase in January 2006, a private manager/developer should be named.

Accepting that the EIE will require a new identity, mode of operation, and an alignment of stakeholder interest if it is to develop post disengagement, an EIE Task Force would be formed, consisting of the Palestinian and Israeli public and private sectors, an international agency as an impartial third party, and representatives of the nearby local communities. The Task Force would focus on operational issues to benefit the EIE, especially issues of access for goods and personnel, and on improving market access for the EIE.

Development Phase

The development phase of the EIE will commence upon signing of a concession contract with a private management/development firm or consortium, or within 6 months of receiving the assets from the GOI, whichever is soonest. The manager/developer's first task, in cooperation with PIEFZA, will be to re-brand the EIE and begin marketing the usable industrial land and building space.

The EIE will require legal and regulatory regimes that enable it to compete for investors and tenants on an equal footing with its international competition. This requires that an internationally competitive system of commercial law in areas such as contracts, companies law, and bankruptcy be in place throughout West Bank/Gaza, including a court and enforcement system that is fully capable of implementing and enforcing the legal regime. The negotiation of favorable market access agreements will also be important during the Development phase.

The northern sector of the EIE will likely be used by Palestinian businesses, and would not lend itself to extensive rebuilding. Rehabilitation will likely be limited to exterior facades, signage, and landscaping. The southern section of the EIE is the location where intensive new design and work can occur; as such, it should be designated for foreign investors and new corporate clients that require an operating environment that meets international standards. New zoning requirements and environmental regulations for monitoring and compliance should also be introduced and enforced by PIEFZA. Asbestos identified in transition period surveys should be removed. Capital investments to be made during the Development phase would address improvements to the roads connecting the EIE to the outside, waste water treatment upgrades, and offsite storm water system rehabilitation. The overall cost of most of the improvements required in the Transition and Development Phases are estimated at between US\$5m and US\$7m, excluding building upgrading and environmental remediation costs, but including asbestos removal.

Conclusions

The overall conclusions that can be drawn for the development of the EIE include the following.

1. Both the government of Israel and Palestinian Authority wish to see the EIE develop as an industrial estate capable of generating employment and economic opportunities.
2. Immediate resumption of operations in the EIE will depend on recapturing some of the former Israeli and Palestinian businesses in the zone.
3. The most important factor to a healthy future for the EIE are efficient and predictable access by workers and investors alike. Palestinian control of the entry process into the zone is likely to significantly increase the potential number of workers who would be available to work at EIE businesses. However, the prevention of Israeli investors, suppliers, managers, and customers from entering the zone would stymie both investment and flow of goods into and out of the EIE.
4. To achieve viable access, the EIE will have to receive special status and treatment by both the PA and Gol including a dedicated and inclusive means of bilateral collaboration and the appointment of competent parties to oversee and support the required policy regime and operational environment.
5. The EIE will always remain vulnerable to the threat of disruption while the current state of conflict in the West Bank and Gaza prevails. The operational systems will need to be robust and able to respond to such disruptions.
6. The window of opportunity for the development of the EIE is narrow, but the potential benefits of success cover more than just the EIE. Success at the EIE could be replicated elsewhere along the Green Line, generating a much wider benefit.

1. Introduction

Background

Figure 1.1: Signage at Erez Entrance



This study is a follow-on to the EastWest Institute's (EWI) **Gaza and Erez Industrial Estates: Catalysts for Development**,¹ which provided a framework for addressing the role of those industrial estates in facilitating economic recovery in the Palestinian Territories. The report was prepared in consultation with the Palestinian Authority and government of Israel, and many other public and private sector actors in the region. It concluded that industrial estates in the West Bank and Gaza offer promising opportunities in support of economic rehabilitation, and are a source of employment generation and a catalyst to the development of export-based industries. They are also focal point for both domestic and international investment.

This follow-on report recommends the practical next steps that should be taken by stakeholders in the Erez Industrial Estate (EIE) following the upcoming Israeli withdrawal from the Gaza Strip. It includes recommendations on the restructuring of the EIE, the development of the assets and existing resources at EIE, and the required border regime and security arrangements that will stimulate process of

economic recovery and growth at the EIE, thus creating business opportunities for Palestinians and Israelis.

This study has four objectives.

1. To take inventory of current situation at Erez, including issues of infrastructure, access, legal regime, and institutional management.
2. To outline key requirements related to transfer of ownership and redeployment of assets during a Transition phase following disengagement by Israel.
3. To outline solutions for the development and management of the EIE in the medium and long terms.
4. To provide an implementation plan to move forward subsequent to disengagement.

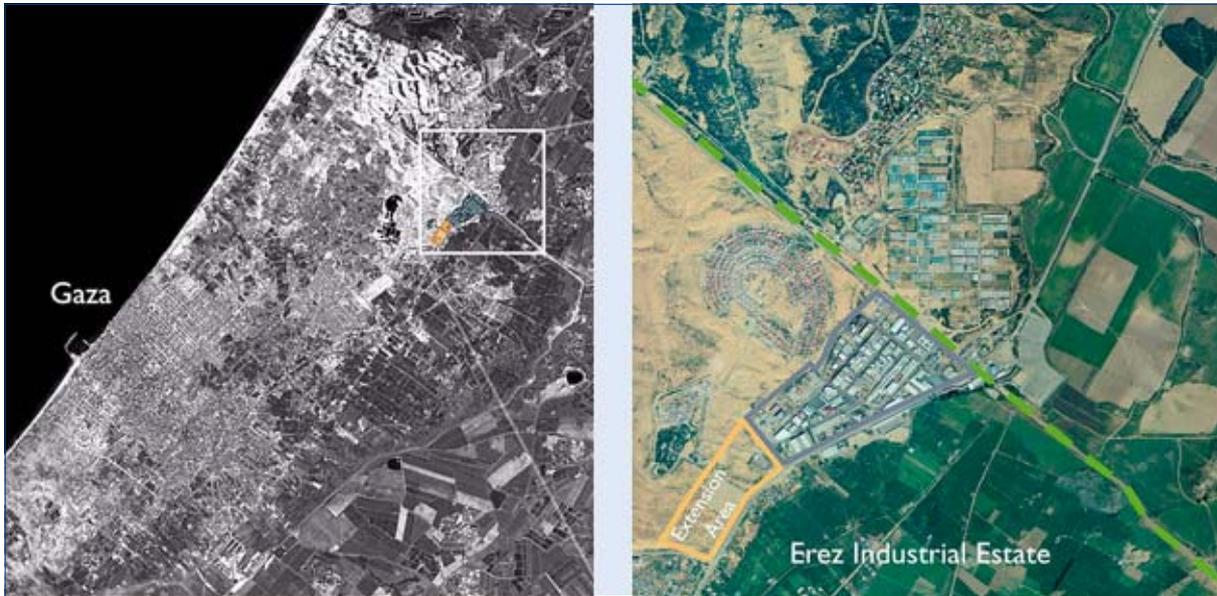
The EastWest Institute's Middle East Bridges (MEB) program aims to promote peace and security, sustainable growth, rule of law, and good governance as vital components of region's development. Activities include promoting economic development in Gaza and West Bank—disengagement facilitation, economic reconstruction, and investment promotion. We believe successful implementation of the broad thrust of the recommendations of this report should be followed by a broader and visionary longer-term feasibility study that develops further the true promise of the Estates and provides a fuller analysis of its financial needs and implications.

The report has been prepared for EWI by The Services Group, Inc. of Arlington, Virginia. TSG has been deeply involved in the development of industrial estates and similar initiatives in West Bank and Gaza (WBG) since 1996. During this time the firm has undertaken both long-term and short-term assignments for the World Bank and USAID, and has continuously maintained a presence in the Palestinian Territories and Israel between 1998 and 2004.

1) The report was released by EWI in April 2005.

The Erez Industrial Estate

Figure 1.2: Location of the Erez Industrial Estate



The Erez Industrial Estate² was established in 1970s and is located on the northern tip of Gaza Strip. It expanded over time to cover about 47 hectares just inside Palestinian territory. It is next to Erez Crossing, about two kilometers away from the town of Beit Hanon, five kilometers from Beit Lahia and Jabalia and is less than 40 kilometers from Ashdod Port. The EIE is currently controlled and managed by the Israeli Defense Force (IDF), and as part of the disengagement plan the EIE will pass to full Palestinian control.

For many years, the zone provided employment to Palestinian workers in Gaza and investment opportunities for Palestinian and Israeli businesses. Plans to extend EIE by 20 hectares were discontinued in early 2005. Prior to April 2004, Israeli and Palestinian investors benefited from guaranteed access to Israeli and international markets, and relatively inexpensive Palestinian labor.

At the height of activity in 2003, 201 industries were active in EIE³. Of the 201 companies, 101 companies employing 1,845 workers were owned by Palestinians, 98 companies employing about 3,100 workers were owned by Israelis and there were 2 Palestinian/Israeli joint ventures em-

ploying about 50 workers. All of this activity has ceased since 2003, due primarily to restrictions on Palestinian workers entering the EIE in 2004 in the wake of a suicide bombing at the workers' entrance to the estate, and then due to the departure of all Israeli companies prior to the upcoming disengagement. The remaining Palestinian companies (between 25 and 40 companies, depending on the definition of "remaining") have ceased operations due to the recent denial of entry of their 400 workers for security reasons.

The mix of industries at the EIE in 2003 included apparel manufacturing, plastics, chemicals, woodworking and furniture making, metal fabrication shops, and many services and repair shops and garages aimed at the local Israeli market.

The attraction for companies establishing at the EIE included access to a skilled Palestinian workforce at much lower cost than the equivalent in Israel, a relatively lax environmental and labor regime, and free access to the Israeli market for products and services. This mix was in high demand, with a 20 hectare expansion of the EIE planned as recently as 2003.

2) In this report for consistency with the previous EWI report on Gaza and Erez Industrial Estates we use the term "Erez Industrial Estate" (EIE). In various publications reviewed and during consultations with various entities for this study, the EIE was also referred to as "Erez Industrial Park", and "Erez Industrial Zone".

3) Source: COGAT briefing, May 2005

Structure of This Report

This report first looks at the existing situation (Chapter 2 – Current Status of the Erez Industrial Estate) under a variety of headings: institutional arrangements, infrastructure and buildings, environment, access and security, and legal status. Looking ahead, we then examine the development requirements of the EIE (Chapter 3) by setting out the prerequisites for EIE to remain operational after disengagement, and using some demand assumptions we plan how to meet those prerequisites over two time periods: a transitional phase where the immediate survival needs of the EIE are met, and a development phase where the hard work of industrial estate development and operation is carried out. Chapter 4 then wraps these phases into an implementation plan for the EIE.

2. Current Status of the Erez Industrial Estate

In order to be able to plan the most effective way to preserve and develop the EIE in the future, it is important to know the current physical composition of the EIE, and the legal and institutional framework within which it operates. To this end we conducted a survey of several aspects of the EIE: the institutional arrangements in the EIE, its physical infrastructure, the quality of its environment, access and security arrangements, and the legal regime applying in the EIE.¹ This information is used to assess the potential of the EIE moving forward, and to identify the critical requirements that must be in place moving ahead.

Institutional Arrangements

The EIE is currently administered by the Israeli Department of Defense Office of Coordination and Liaison (MATAK). All land related transactions were conducted with the Israeli Land Administration (ILA). MATAK awarded a management contract to a private sector firm, Industrial Buildings Corporation Ltd. (IBC) to undertake the day-to-day management activities of the Estate, and to lease (through ILA) land and MATAK constructed buildings to entrepreneurs. IBC management consists of a director, an executive assistant also responsible for bookkeeping, an electrical technician, and a water technician. The team is supported by ten maintenance workers. The Director and the Executive Assistant are Israelis. The rest of the staff members are Palestinians. IBC headquarters support the field team in functions such as accounting, finance, contracts and legal affairs, and marketing. Other services such as garbage collection, security, and large construction projects are outsourced to other firms.

The annual budget for managing the EIE is around NIS 3.5 million (approximately US\$ 770,000) for the past few years. Revenues are generated primarily from adminis-

trative fees (15 percent of collected property tax and 18 percent of collected rent).

With the Israeli disengagement from Gaza Strip, the EIE will be added to the PA's portfolio of industrial estates in the West Bank and Gaza Strip, which are managed by the Palestinian Industrial Estates and Free Zones Authority (PIEFZA). This has been confirmed in a cabinet decision by the PA in late July, 2005. PIEFZA is the institution responsible for developing and supervising the national program of industrial estates and in Palestinian territories on behalf of the Palestinian Authority. Established in the late 1990s, PIEFZA operates under the Industrial Estates and Industrial Free Zones Law (Law No. 10 of 1998). Accordingly, PIEFZA is mandated with developing industrial estates, appropriate policies, regulating industrial properties, and awarding management and development contracts to industrial zone operators.

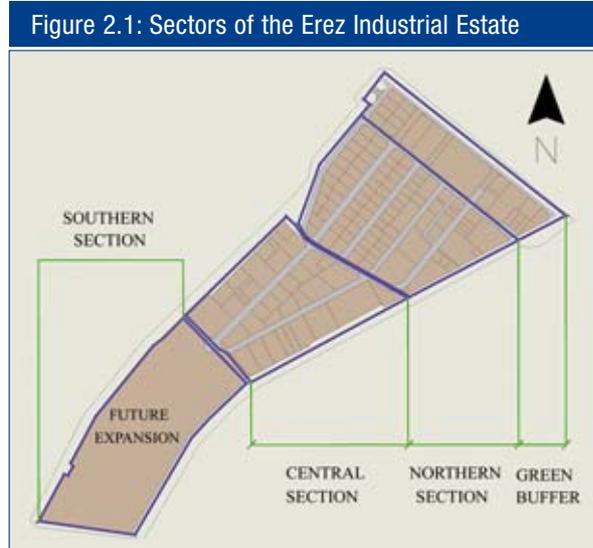
PIEFZA has assumed the role of a regulator, not operator, of industrial estates in the West Bank and Gaza strip, a role that is clearly stated in Law No. 10 of 1998. This private sector participation model was implemented in the development and management of the Gaza Industrial Estate (GIE) and Jenin Industrial Estate (JIE). The Palestinian Industrial Estates Development Company (PIEDCO) is the private developer and management company of the GIE as per a management contract awarded by PIEFZA. The Northern International and Industrial Company (NIIC) is the developer and manager of the JIE.

PIEFZA's plan for the management and development of EIE is to regulate and monitor the industrial estate, while awarding a management contract to a private sector firm or consortium. This aspect is discussed in more detail in Chapter 3 of this report.

1) Sources for the information in this chapter include the documents listed in Appendix D, field interviews with GOI and PA officials, Palestinian and Israeli businesses, local and international organizations active in the region, site visits to EIE, GIE, Erez Crossing, Karni Crossing, and focus group discussions with stakeholders.

Layout and Zoning of EIE

The total developed area of the EIE is 45 hectares². The industrial estate is divided into three sectors, as illustrated in Figure 2.1



Northern Sector. The northern sector was built the 1970s and is categorized by dense, mostly small businesses, workshops, and garages. Some of the structures are old and in disrepair. Most of the Palestinian owners and renters in the EIE are located in this northern section of the industrial estate. It is assumed that these tenants will remain in their present locations upon handover of the EIE to the PA in August 2005. Therefore, this sector will not likely undergo intensive rebuilding so as not to disrupt Palestinian businesses that will remain.

Center Sector. The center sector of the EIE was built in the 1980s, and includes a combination of construction types and finishes. This sector has the potential to become a transition area between old building and layout concepts to new planning models, and can absorb new building and user types. This sector should be targeted for immediate upgrading of buildings and utilities upon Israeli disengagement.

Southern Sector. The southern sector consists of 19.7 hectares of undeveloped land. This area would be best designated for foreign investments and other potential tenants seeking an appealing operating environment consistent with international standards. The southern sector can either be developed and operated as an independent industrial or commercial park, or be integrated into the existing EIE.

Green Buffer. The area designated as the Green Buffer in Figure 2.1 is currently mostly occupied by official MATAK and IDF facilities, and according to MATAK will be demolished prior to disengagement due to its proximity to the border with Israel.

Building Structures

The EIE consists of a mix of new and old buildings in various conditions. Buildings are typically constructed by one of three methods, as outlined below.

Concrete Structures. The EIE contains several types of concrete buildings. These include prefabricated industrial buildings clad in marble or other stone (Figure 2.2) and poured-in-situ concrete structures constructed with concrete masonry unit (CMU) walls (Figure 2.3). The concrete struc-

Figure 2.2: Prefabricated Industrial Building



Figure 2.3: In-situ Concrete Structure



2) Source: COGAT. The area of the currently developed EIE is reported as 43 and 47 hectares at different times. We are assuming the smaller number, although the exact area of the EIE should be determined through a land survey which is outside the scope of this study.

Figure 2.4a: Light Metal Frame Structure



Figure 2.4b: Combination Construction



tures in the EIE are three or four floor buildings, and typically cost about US\$550/m² to construct at today's rates in Israel. Construction of the same building in Gaza may cost less.

Light Metal Frame Structures. Small-scale workshops and garages are often housed in light metal frame buildings that utilize sheet metal cladding (Figure 2.4a). Metal frame buildings typically cost about US\$180/m² to construct at today's rates in Israel. Construction of the same building in Gaza may cost less.

Combination Construction Structures. Buildings in the EIE are also constructed using a combination of styles and techniques (Figure 2.4b) with metal cladding and roofing on a CMU base.

While a detailed inventory was not taken of each building type, it is estimated³ that approximately 35% of the floor space developed in the EIE at present consists of the concrete buildings, which are mostly in good condition. The remaining 65% consists of the metal frame and combination construction buildings, and are in medium to poor condition. As outlined above, for this reason it is recommended that development of the EIE start in the central section, where the concrete buildings are located.

Zoning and Land Use

While building licenses are granted to companies in the EIE by the Israeli Ministry of the Interior who coordinates with all required Israeli agencies such as Police, Fire, Health, Employment, Transport, Environment, Building Licensing etc. the results have been poor in planning and zoning terms. Companies within the EIE are not grouped or zoned according to user type, and tenants are not required to landscape their properties. Landscaping, for

Figure 2.5: Lack of Zoning, Service Entries, or Logistics Infrastructure



instance, normally accounts for about 15 percent of a land plot area, according to internationally accepted industrial estate development norms. No land use master plan exists to provide architectural or land-use guidelines such as common façade styles, signage, street furniture, or zoning to separate 'clean' users—food processing factories, for instance—from dirtier industries such as sawmills or repair garages.

The land use plan in force in the EIE allows a floor area of up to 210% of site area to be built on any site to a maximum height of 14m and up to a total of 3 stories – but these requirements have been exceeded at times. The setback requirements at the front of buildings vary from 0m to 7m, and there are no landscaping requirements. There is inadequate provision for service entrances and logistics services.

3) Estimate by TSG engineer after visual inspection

Figure 2.6: Distribution of Current Uses in the EIE

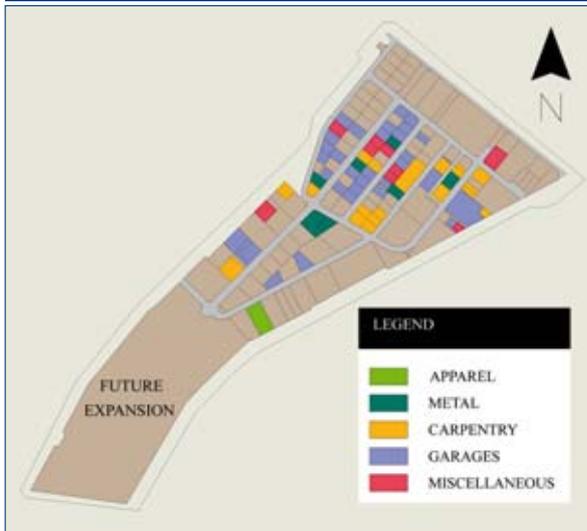
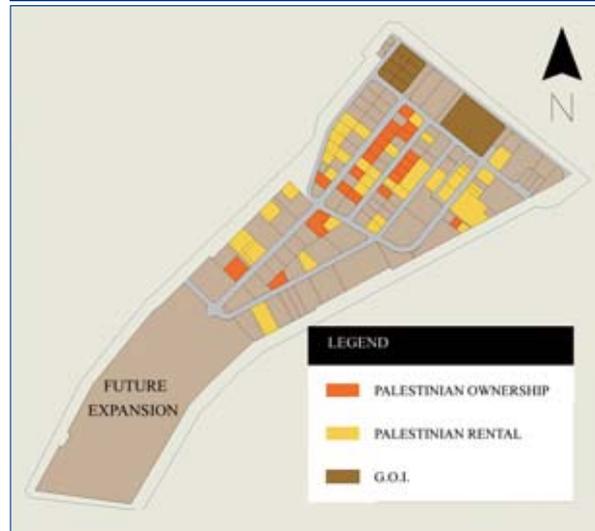


Figure 2.7: Palestinian Owners/Tenants Remaining in the EIE



The map in Figure 2.6 shows the location of various industries within the EIE as they exist in July 2005 i.e. the remaining Palestinian businesses⁴. These are mostly businesses involved in carpentry, apparel, metal works, and garage services. Figure 2.7 indicates the status of the same businesses from the perspective of the interest they were granted in the EIE by MATAK. This is the interest that they may choose to pursue with the PA after disengagement, although as will be discussed in the Legal section of this chapter, the PA has indicated that it will not entertain any claims from any entity on the basis of what the PA considers to be illegal land rights granted by GOI.

On-Site and Off-Site Infrastructure

We examined the land, buildings, and other infrastructure within the EIE, including off-site utility and access connections to the industrial estate. The following observations on the EIE's infrastructure provide an informed estimate of the current and potential use and capacity of the EIE for future tenants and users. This assessment is not intended to be a comprehensive and authoritative inspection sufficient for asset valuation.

The EIE has the following infrastructure available to it:

- Full road network with street lighting
- Electrical power supply
- Telecommunication facilities and networks
- Potable water system and network
- Storm water drainage network
- Wastewater collection network

Each element is considered separately below.

Road Network

The EIE is connected by highway or primary roads to Israel, West Bank, and the rest of Gaza. Ignoring for a moment the uncertainties of being able to access it, the road network on the Israeli side of the green line is in good condition. The internal roads in Gaza are not, especially the highway leading to the Karni-Muntar crossing, which could turn out to be the EIE's only route to the Israeli market if alternative arrangements are not made for direct access for EIE traffic at Erez.

The existing road network within the EIE was found to be in good condition. Main roads are a reasonable width—between 15 to 22 meters—to accommodate heavy trucks, and some roads including pedestrian sidewalks. Minor roads within the EIE are between 5 and 11 meters wide.

The EIE, however, has no allowance for a secondary service road system allowing access to operational yards. All logistical tasks such as loading and unloading, storage, and solid waste disposal are done at the front of buildings. This creates conflicts with all street-front functions such as building entrances and facades, landscaping, pedestrian circulation, vehicular traffic, and street parking.

No substantial parking amenities are in existence. Most workers arrive by buses and proceed by foot from the entrance checkpoints to their respective places of employment. Israeli parking code regulations mandate one parking stall for every 100 square meters, warranting creation of parking for 1,220 cars. These regulations, however, were not enforced in the EIE.

4) These were not operational in July 2005 when this report was written, and it is not clear that they will be able to resume operations after disengagement.

Figure 2.8: Interior Roads



Figure 2.9a: Exterior Roads



Electrical Power

The EIE is supplied by the Israeli Electricity Corporation (IEC). This is part of the IEC power supply to the northern Gaza Strip, and EIE tenants are individually metered and charged directly by the IEC. The charge is approx. US\$0.10 per kilowatt hour. The yearly power load when the industrial estate was fully operational in 2003 was about 74 million kilowatt hours per year, indicating an installed capacity of approximately 1 million to 2 million megawatts in the EIE at the time. Electricity lines within the EIE are indicated by the yellow lines in Figure 2.9. The electricity network is believed to be in good condition and it can serve the existing and future needs of EIE.

Nordan Technologies Ltd, an Independent Power Producer (IPP) has operated at the EIE since 1995 with a station capacity of about 15 megawatts, and provides the IEC with electricity during peak hours. The IPP technology is based on Open Cycle Gas Turbine, where fuel trucks supply the IPP with its fuel needs.

The station step-up transformer capacity is 18 megawatts, with four generator units of 15 to 16 megawatt capacity. Two units are in good condition, and two require overhaul. Originally it ran off natural gas from a nearby well, but the source has been depleted.

At the time of writing (July 2005), Nordan Technologies were interested in selling the plant to the PA. The value of the power plant in situ is estimated at⁵ between US\$ 7 million and US\$ 8 million, however, Nordan Technologies indicated that they would accept considerably less than this if the plant would stay in place. The outcome of discussions between Nordan and the PA, if any, were unknown at the time of writing.

The PA has prepared a master plan for power supply to the Gaza Strip that includes links with both the Israeli and Egyptian power networks. However, in the short term, IEC is the only available supplier into northern Gaza Strip. The PA

Figure 2.9b: Electricity Lines in the Erez Industrial state

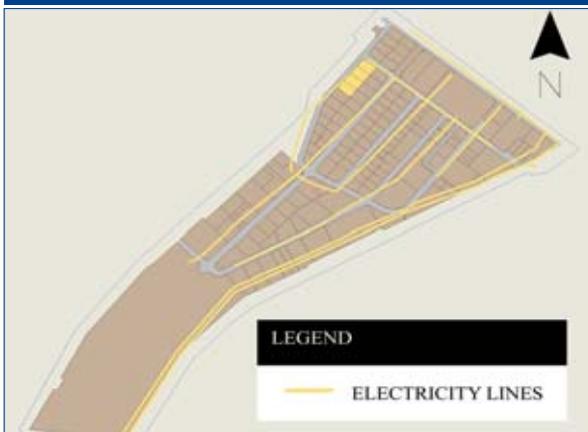


Figure 2.10: IPP Power Station in the EIE



5) Nordan Technologies estimate

position is to obtain a commitment from the IEC to continue electricity supply to the EIE. The alternative is very expensive, and would entail the expansion of the Palestinian power network to the northern Gaza Strip, including generation, substations, transformers, and transmission networks.

On-Site Water Supply Network

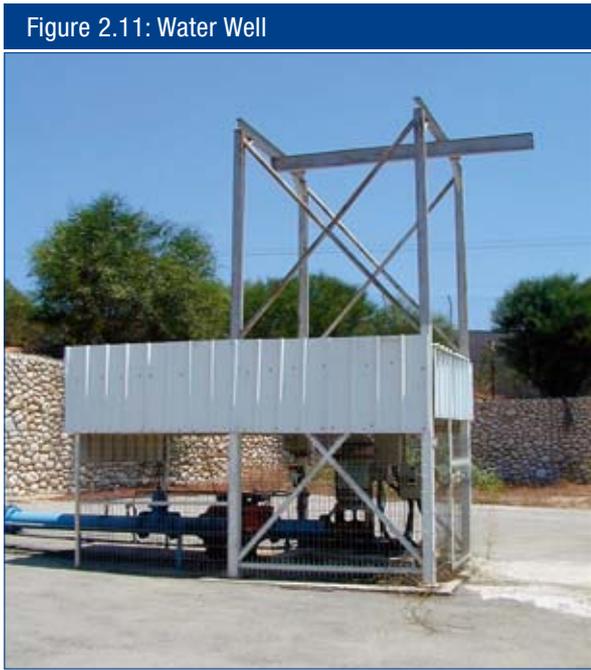
Water is a scarce natural resource in the Gaza Strip, with most of the water for Gaza City originating from an aquifer in the Northern Governorate. The extraction of groundwater from the aquifer currently exceeds the aquifer recharge rate. As a consequence, over-pumping has led to reduced groundwater levels and intrusion of seawater, contaminating the aquifer and increasing groundwater salinity. Moreover, the Gaza Strip aquifer is very close to the surface—between 10 and 120 meters—making it vulnerable to contamination from uncontrolled discharge of sewage and agricultural and industrial activities. The excessive use of pesticides and fertilizers and inadequate solid waste management are other sources of water pollution. Considering the high population growth rate in the Gaza Strip, the situation is expected to worsen in the future.

The EIE is independent of the regional water supply system, with all local consumption being catered for by two on-site groundwater wells and pumps. In contrast to the overall situation in northern Gaza, the well water meets the accepted international quality standards and Palestinian Water Quality Standards for potable water, with low levels of salinity. The Carling Brewery was considering establishing a plant at the EIE to take advantage of the high quality water. This could be a future consideration for potential investors.

Total water consumption when the EIE was fully operational was 276,000 cubic meters per year. Almost 50% of this water went as cooling water to the power plant. The high consumption for this use was a result of the cooling system not being a fully closed system, thus consuming large quantities of water. Water utility fees are NIS 2.5 (US\$ 0.55) per cubic meter, with an additional NIS 1.0 (US\$ 0.22) per cubic meter as a sewage treatment charge. At present, only one groundwater well is in operation due to present low demand, which is less than the peak demands seen in 2002 and 2003. The second well has remained out of operation due to the low demand but is operated once a month for maintenance. The two wells and pumps supply capacity is as follows.

- Well at Lot No. 7.** 60 cubic meters per hour
- Well at Lot No. 152.** 180 cubic meters per hour

The total capacity of both wells is about 240 cubic meters per hour, of which approximately 50 to 60 cubic meters



per hour are used during working hours. A 50-meter water reservoir tower is located on Lot No. 145 that holds 450 cubic meters.

Water distribution lines within the EIE are indicated in Figure 2.12. The water piping and distribution system within the EIE is in good condition, and water losses amount only to 6% to 8%, which is a normal percentage for such a system. Losses are mostly attributed to water theft rather than system leakage. The Northern Sector has an underground water distribution network consisting of concrete pipes. Underground distribution in the Center Sector, however, consists of cast iron pipes internally lined with concrete. Feeder lines to all buildings are constructed of PVC piping. The fire protection network and hydrants are all made of steel piping.

Sanitary Sewerage Network

The EIE has a wastewater collection system that is in good condition. Sewerage lines are indicated in Figure 2.13 For the most part, all factories have appropriate pre-treatment and connecting systems. Exceptions are several car mechanic workshops that do not have oil separators. Access to the sewerage system is offered as part of the land plot development fees charged to EIE tenants.

The 2003 EIE sewer loads, based on yearly water supplies, and the characteristics of the industry located at EIE in 2003 were approximately 41,000 cubic meters per year for the electrical power station, and approximately 110,000 cubic meters per year for the other activities on the estate, giving a total of approximately 151,000 cubic meters per year.

Figure 2.12: Erez Industrial Estate Water Distribution Network

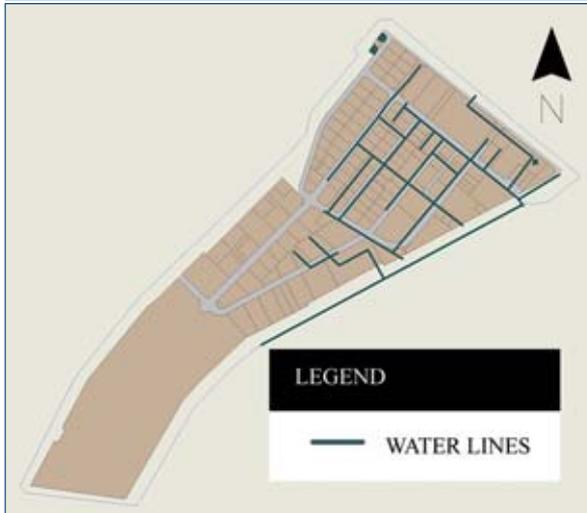


Figure 2.13: Sewerage Network in the EIE



The sewer pump capacity is about 500,000 cubic meters per year. However, the installed pump is currently not operational. The underground sewer in the Northern Sector consists of concrete pipes. In the Center Sector of the EIE, cast iron pipes lined internally with a concrete layer constitute the underground sewerage collection system. Raw effluent leaves all buildings through PVC piping.

Off-Site Wastewater

There is presently no system for wastewater treatment other than whatever pre-treatment individual companies perform at their factories. Wastewater effluent flows from the EIE into Wadi Hanon in northern Gaza, which flows north into Israel. The adjacent Israeli city councils have blocked the flow from the wadi several times, and Israeli authorities would like the raw effluent treated within the Palestinian jurisdiction.

Effluent load was about 400 to 650 cubic meters per day several years ago when the number of workers in the EIE was around 5,000. Currently, with only about 400 workers remaining in the industrial estate, wastewater flow is minimal.

Telecommunications Infrastructure

Telecommunications services within the EIE are owned and provided by Bezek, a private Israeli firm. The networks are in good operational condition.

Storm Water Collection System

The EIE's storm water collection system is a surface free-flow system that terminates at a low collection inlet (pictured in Figure 2.14) located adjacent to the exterior east fence at the center of the park, across from Lot No.

#8. Through a pipe, water is directed to the other side of the EIE fence and into Wadi Hanon. The drainage system is indicated in Figure 2.15.

Rainfall quantities are quite substantial for the region at about 700 to 800 millimeters per year. The rainy winter season lasts for four months. During winter the system should be able to discharge 130 cubic meters per hour from the existing 470,000-square meter developed area. However, the end of the discharge pipe into Wadi Hanon has been sealed and the system is currently inoperative.

Solid and Hazardous Waste Disposal in the EIE

EIE's current management company, Industrial Buildings Ltd., has been contracted to collect and dispose of the solid waste generated by EIE tenants. Approximately 20 to 30 EIE users use or store hazardous materials. Other companies, including garages and car mechanics have created oil pollution issues in the industrial estate. Oil separation facilities have been installed by all but four facilities requiring them. There was no evidence to be found⁶ that any special monitoring procedures applied to these companies.

Half of the EIE's annual operating budget of US\$ 400,000 is earmarked for solid waste disposal. Arrangements are in place for high toxic hazardous by-products to be transported to Ramat Khovav in the Negev Desert near Beershiba. Other compounds are transported to Daim. Future EIE management will need to require that specific information and data related to the quantity and quality of hazardous materials, disposal methods, classification of industries, and specific operations within the EIE.

6) As revealed in company interviews

Figure 2.14: Storm Water Collection Inlet Figure



Figure 2.15: EIE Drainage System



Solid and Hazardous Waste Disposal in the Gaza Strip

There are three landfill sites in the Gaza Strip—one each in Gaza City, Middle Governorate, and Northern Governorate. Gaza City also contains a hazardous solid waste landfill that serves the whole Gaza Strip. The Gaza landfill lies in southeastern Gaza, and is approximately 140 dunums (140,000 square meters). This landfill could be considered after disengagement for disposal of solid waste generated in EIE, but disposal of hazardous waste is another matter.

The Gaza Landfill includes a hazardous waste section that aims to separate hazardous waste such as dangerous chemicals, heavy metals, and medical waste. The hazardous section is located at the entrance gate of the solid waste landfill, and includes an area the size of five dunums (5,000 square meters). Municipal regulations require that hazardous waste be separated from non-hazardous waste by the generator. Hazardous wastes are required to be packaged for separate collection by municipal vehicles dedicated to the collection of hazardous wastes. The disposal fees for hazardous waste disposal at the Gaza Landfill are NIS 250 (US\$ 65).

Environment

We visually inspected the facilities at the EIE in order to assess the overall environmental conditions. The resulting analysis in no way constitutes an environmental impact assessment or even a full environmental baseline assessment, which will almost certainly be required prior to further development of EIE.

Environmental Regulation

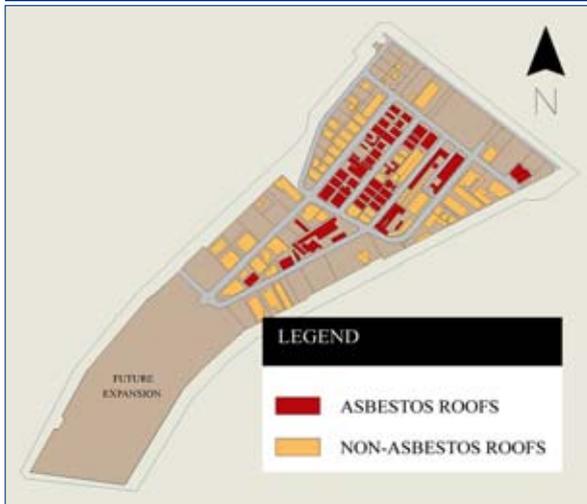
The EIE falls outside the normal legal and regulatory mandate of the Israeli Ministry of Environment. The environmental inspections and reviews conducted by MATAK in conjunction with the Israeli Ministry of the Interior and Ministry of the Environment are not systematic and do not comply with internationally accepted standard procedures. Rather, problems are identified and corrective measures are considered and sometimes taken, but the IDF makes determining decision, if any. Two galvanizing plants were ordered to close down two years ago due to their negative environmental impacts. It appears, however, that in practice environmental screening is not a prerequisite for a company to locate in the industrial estate.

Asbestos Construction

Twenty-eight⁷ of the structures within the EIE are constructed with asbestos roofs, which represents somewhere between 30% and 50% of the roof area on site. Figure 2.16 indicates the asbestos roofs. The remainder of the buildings are almost equally distributed between concrete roofs and metal cladding roofs. It should be noted that asbestos products can impose health risks on workers in the facilities, and a major hazard can be created when buildings are dismantled and released asbestos material becomes airborne. It is important to develop an inventory of asbestos buildings in the EIE, evaluate the conditions and level of hazard, and estimate the costs associated with dismantling and proper off-site disposal of materials.

7) Source: MATAK. However there is some discrepancy between the list of buildings indicated by MATAK on a map and the number of buildings quoted. For our purposes we assume that the number is between 28 and 40, and represents between 30% and 50% of the roofs in the EIE, pending a survey.

Figure 2.16: Distribution of Buildings with Asbestos Roofs



Air Quality

In the past, serious air quality issues have been associated with the EIE's power plant generator. The plant was permitted on the basis that gas would be used for electricity generation. However, a fuel oil processor has been installed instead. The plant has serious emissions problems and is known to emit foul odors. According to the environmental coordinator, air filters have been installed recently, but there are still issues, particularly when the environmental inspectors are not on site. Data and analyses of stack emissions were made available in Hebrew. However, there is no continuous monitoring of stack emissions at the EIE. The power plant issue may be moot for EIE in the event that it is dismantled and taken off site. If it remains, it should be further investigated.

Hazardous Chemical Use and Storage

Galvanizing plants in the EIE are cause for some environmental concerns. These issues relate to the environmental pollution related to the galvanization processes and the on-site use and storage of chemical and hazardous material. This also imposes health and occupational hazards on the workers of their plants.

Occupational Health

There is very little monitoring and enforcement related to public and occupational health in the EIE. No studies are available related to work-related injuries or fatalities, or the short and long-term impacts of working under asbestos roofs in the industrial estate. However, from initial visits it seems that general hygiene and environmental conditions are not to internationally accepted standards. This could potentially deter international investors from locating in the EIE, particularly those that must meet environmental and

Figure 2.17: Samples of Industrial Waste in EIE

Item	Quantity Checked (mg/l)	Findings
Cod	50	284
Natural Oils	1.5	10
Fecal Coliform	3,000	430,000
Phosphors	1	3.39

Figure 2.18: Site of the Beit Lahia Treatment Plant



labor standards required to export to North America, E.U., or other markets.

Industrial Waste and Waste Treatment

There is no separation between sanitary and industrial waste disposal in the EIE. Regulations in Gaza require such separation, and this issue must be addressed subsequent to the handover of the EIE to the PA. The following is a short table of industrial waste that was sampled in the EIE.

The Beit Lahia wastewater treatment plant is located about 1.5 kilometers east of Beit Lahia in the northern part of Gaza near one of the finest groundwater aquifers in Gaza. High levels of nitrate were recently detected from the aquifer. Excess polluted influent is likely responsible for the deterioration of the water quality of the aquifer.

The Beit Lahia treatment plant has been in operation since 1973, and is one of the plants inherited by the PA from the GOI in the wake of the Oslo Accords. Due to rapid population growth and lack of funding to rehabilitate the plant, the sewage influent has been constantly overflowing the daily designed capacity of 10,000 cubic meters. The actual sewage influent is closer to 12,000 to 14,000 cubic meters per day. Less than 30 percent of the influent is currently treated.

Figure 2. 19: Access Points to EIE



Figure 2.20: Main Entrance to Erez Industrial Estate



The disposal of EIE sewage to the existing Beit Lahia plant is very risky since the plant is already overloaded and the effluent is a major risk to the neighboring community. There is currently no disposal of the effluent, which has accumulated around the treatment plant.

The World Bank is in the process of finalizing plans for a new treatment plant in the eastern part of the Northern Governorate. This plant will have a designed capacity of 35,000 cubic meters per day, and is expected to be fully loaded by the year 2012. The new treatment plant is expected to be operational by the end of 2007, and will be able to handle any domestic-type sewage from EIE up to its capacity.

Crossings and Security

In considering the current and future access possibilities for the Erez Industrial Estate, it is useful to look at all of the transport connections at and near the estate. First, the three points of access directly to the Erez Industrial Estate are described, and then the nearby Gaza/Israel passenger crossing point is described. These are illustrated in the Figure 2.19 below.

Main Entrance to Erez Industrial Estate

This entrance is manned by the IDF and is for people and goods coming from and going to Israel. There is a nominal cargo and personnel security check at this gate, consistent with the level of security required at a large multi-tenanted industrial facility in a sensitive location. Since the EIE is essentially under GOI control there are no “back-to-back” shipping requirements or customs procedures required of carried out at this gate.

This gate handled approximately 70 trucks per day each way in 2003 when the EIE was producing about US\$250m of product and employed about 5,000 people⁸. Many of these trucks were small so this load does not represent the equivalent of 70 containers a day. About 400 people came to EIE from Israel on a daily basis, mostly business owners and Israeli workers so passenger traffic through the main entrance to the EIE was always light. There is another more secure entrance to the IDF facilities on EIE further north from the main entrance, but this did not provide public access. Prior to disengagement day the EIE main gates will be closed and the block of buildings adjacent to the northeastern wall of the estate, where the entrances are, will be demolished by the IDF to provide an open space next to the green line within the EIE.

The Palestinian Workers' Entrance

This entrance at the south of the EIE was the means of access for the 5,000 workers who held permits to work in the EIE prior to 2004, when an attack by a suicide bomber provoked the closure of the entrance for 186 days. Gradually in 2004 and 2005, first the Palestinian owners of businesses in EIE and then about 400 Palestinian workers (aged 35 and above) were allowed to enter EIE from Gaza. The entrance was closed again in July 2005 for 2 weeks because of security incidents nearby.

This entrance will remain open after disengagement but the IDF facilities there will be demolished. It can be configured to become a fully fledged passenger and goods entrance in the future.

8) Source: COGAT, May 2005

Figure 2.21: Palestinian Workers' Entrance



The Erez Crossing from Gaza to Israel

The main crossing from Gaza to Israel is at the Erez Crossing point. Approximately 5,000 Palestinian workers pass through the crossing each way daily. Gol was planning to increase the number of work permits issued to Palestinians to 10,000 at the end of June 2005, of which 3,000 workers would be allowed to stay in Israel overnight from Sunday-Thursday. No goods pass through the Erez Crossing.

At an earlier time when work permits were not as restricted, some 15,000 workers passed through Erez. The configuration of the checkpoint and volume of passengers created significant processing delays and resultant hardships.

Gol is extensively active in upgrading the Israeli side of the Erez Crossing (both passenger and goods) as well as 34 non-agricultural West Bank crossings under the Security Fence Project. This is being implemented unilaterally by the Gol and until very recently with little or no official engagement in the process by the PA. The PA disputes the position of the crossing point under construction at Erez, alleging that the new facilities are being constructed on Palestinian land. Gol is also planning to deploy new biometric technologies at the Erez pedestrian crossing point for security purposes.

The IDF currently manages security at the Erez pedestrian crossing point to and from Israel. At least three categories of passengers use what is considered a temporary Erez crossing between Gaza and Israel: 1) Palestinian workers with work permits; 2) Israelis who live in the settlement adjacent to EIE; and 3) "VIPs" (Diplomats, NGOs, businesspersons, etc.). Other Israelis are no longer allowed to enter Gaza.

In order to pass through the checkpoint between Erez and Israel, Palestinian workers are funneled through a long concrete and gated passageway until they reach a checkpoint security booth where they show IDF soldiers identification cards for ID verification. This is matched and recorded using a reference database. A worker can be held up for long periods if there is a problem with the ID card or if it does not match with the database record. Returning workers go through the same process in reverse and this same process was applied at the EIE workers' entrance.

For foreign citizens the procedure is different. Diplomats and Consuls accredited to Israel, representatives of government aid organizations, U.N. bodies, the International Committee of the Red Cross, the World Bank, ECTAO, and the IMF can cross with special identity cards requiring no prior coordination, but advance notice to COGAT is advised. Members of these organizations who do not have an identity card need to coordinate their first visit five days in advance. Subsequent visits do not require coordination. All business people not with official or international organizations must coordinate their visits 5 days in advance. No Israelis are allowed to enter Gaza at present, and according to COGAT and the NSC will not be allowed to enter after disengagement.

Hand carried goods are not inspected by IDF en route to Gaza. Goods coming back into Israel are scanned.

The New Terminal at Erez (Under Construction)

No formal PA-Gol agreement yet exists on the exact location of the Gaza-Israel border at Erez. MoD, under the Security Fence Project, is constructing a new passenger terminal on what Gol considers is Israeli territory, north of what is being used at present by the IDF as the Gaza-Israel border at the current crossing point. As with the West Bank-Israel crossing terminal at Sha'are Ephraim, the new Erez-Israel

Figure 2.22: New Erez Passenger Terminal under Construction (June 2005)



Figure 2.23: Concept for new Gol Erez Passenger Terminal



terminal will have state-of-the-art biometric systems in place, including sensors to read facial dimensions and hand geometry, that will be capable of processing 15,000-20,000 Palestinian workers daily, (although Gol has previously reported that all Palestinian work permits will be eliminated by 2008.) Figure 2.22 shows this terminal under construction.

The projected processing capacity is 5,000 pedestrians per hour. It is planned by the crossing designers that increased efficiencies will eliminate the current need for workers to arrive as early as 0200hrs, as total processing time will be less than 1 hour. The concept for the Erez Passenger Terminal is illustrated in Figure 2.23

The current plan by the Gol for cargo at Erez is to develop a state-of-the-art container terminal with container-scanners and tamper-proof container seals. Phase I is estimated to take between 1 and 2 years to complete. It will be able to process 200 containers daily and will utilize state-of-the-art container scanning technologies. A second phase could make the Erez-Israel terminal an alternative to the Karni crossing. GOI plans to completely rehabilitate Karni in 3-4 years.

GOI also plans to establish a rail link at the new Erez Cargo terminal to transport cargo to through Ashkelon to Ashdod. According to COGAT, this rail link could also be used as a link to a proposed safe passage route between Erez and Tarquimya for cargo and pedestrians. The requirements for a link between Gaza and The West Bank are currently being examined by the World Bank and others.

Legal Status

Considerable work by the World Bank and other organizations have analyzed the legal status of the EIE and other assets scheduled for handover to the PA. This section summarizes the current and possible future legal status of the EIE, and its connections to Israeli and Palestinian infrastructure.

Legal and Regulatory Foundations of the Erez Industrial Estate

Proper legal and regulatory foundations are crucial for the long-term success of the Erez Industrial Estate. Industrial zones do not exist outside the bounds of laws. They therefore must be carefully situated within both their internal legal regime and within the broader legal regime of the territory in which they exist.

Prior to Israeli disengagement, the EIE has operated within a unique legal milieu which has arisen as a result of the political uncertainties surrounding the territory of Gaza. The withdrawal of Israel from Gaza and the establishment of ownership of by the PA allows for the EIE to begin to operate under a standardized legal regime set out under the PA's Industrial Estates and Free Zones Law (IEFZL). It will nonetheless require further efforts to develop a set of legal rules for EIE that allow it, not only to operate and continue in the short term, but also to prosper in the longer term.

For the EIE to be successful in the future, the legal potpourri existing under the pre-disengagement scenario must be replaced with a cohesive, credible, and comprehensive set of laws and regulations that allows the zone to be managed and marketed to potential investors as an attractive environment for doing business. Fortunately, a good beginning is already in place. PIEFZA, and the IEFZL law and regulations under which it operates, provide a valuable starting point for the eventual full legal normalization of the EIE. It is nonetheless the case that the existing legal regime under extant Palestinian law can be improved to more efficiently and successfully operate EIE in the medium to long term

Current Legal Status in Erez: Murky and Inadequate

The EIE sits within Gaza, over which Israel has exercised authority and legal control for the past several decades. Gaza, and hence the EIE, are classified as within Area A under the Oslo Accords. This designation implies a high-

er degree of control for the PA and some relinquishment of control over the EIE. However, Israel has treated the EIE as a part of its sovereign jurisdiction and has claimed ownership and responsibility for operation at all times prior to disengagement. Firms operating within the EIE are registered and pay taxes as Israeli firms, and operate under and are subject to the corpus of Israeli law, supplemented by IDF Military Orders. These instruments are unilateral and the latter in particular, can change the status of important aspects of EIE operations without significant notice and in a highly detrimental manner. Rules regarding access of Palestinian labor to the estate for example, have been made more restrictive by Order at several points. The exception to the norm of Israeli law has been lack of the jurisdiction of Israeli environmental and labor laws in the EIE, or at least the failure to enforce such.

In addition to Israeli law, elements of EIE operations are also under the ambit of old Egyptian laws. Labor rules for example, fall into this category. While a Palestinian law (IEFZL) and agency (PIEFZA) exist for dealing with industrial estates, they have no recognized jurisdiction by Israel law. The EIE, as part of Gaza, also falls under the purview of the Interim Agreement and the Paris Protocol thereof. This is significant in particular with reference to the market access provisions of the agreement. Article IX, for example provides for “free movement of industrial goods free of any restrictions...between the two sides...”. This right however is “subject to each side’s legislation”.: Article VII commits both sides to “attempt to maintain the normality of the movement of labor between them”. Of course, these provisions provide ample room for maneuver, but do at least give a basis for negotiating efforts aimed at more specific EIE commitments by the PA and Israel.

As indicated in a recent World Bank Technical Paper, “The ambiguous administrative status of the EIE has allowed it to operate outside both Palestinian and Israeli regulatory oversight.” This legal ambiguity has resulted in an operational environment inside EIE, which lacks some of the normal regulatory and procedural safeguards which are found in industrial zones around the world. Procedural regulations for some important operational elements—such as environmental controls—are either missing or ignored and enforcement is lax.

Land Titling

Firms operating in the EIE operate as owners or lessees under Israeli-authorized titles or leases issued by the EIE operator. Land ownership in the zone is not currently registered under any system. Much of the administration of the zone is handled by IBC, a private sector firm, under

the auspices of MATAK. The system of determining title to the land is subject both to the uncertainties of the disputed nature of the territory and the lack of an international standard system of title and registry. Given these uncertainties, owners of businesses operating in the EIE prior to disengagement had neither security of access to their businesses nor undisputed tenure on the land. The PA has indicated that it will not recognize the ownership rights given to Palestinian businesses under what it considers to be an illegal occupation. Providing for continued operation by these pre-disengagement “owners” will be a central challenge for PIEFZA. Compensation for these owners from Israel may also need to be addressed bilaterally or through other legal means.

Utility Services

Concerns also prevail with respect to the provision of utility services in the EIE. The area operates almost exclusively using essential services provided by Israeli suppliers. Arrangements for these services are often not transparent and are subject to unilateral pre-emption by these suppliers or under Military Order. This poses significant security of supply issues from EIE businesses in the volatile political environment between Israel and the PA

Movement of People and Goods

Goods manufactured in the EIE are manufactured to comply with Israeli standards and, if destined for export, are labeled with Israeli origin markings. This would cause particular problems with respect to access under preferential trade arrangements to which the Palestinian Authority is a party, but EIE production is almost exclusively destined for Israel to which there is open movement for production and inputs of the EIE. Any reduction of this easy access to and from the Israeli market would be a primary concern for future EIE tenants and businesses.

The PA currently operates in a de facto customs union with Israel and thus also has little ability to influence import regulations for any goods entering EIE from abroad. Currently, almost all tariffs and regulations of international trade for West Bank/Gaza are set by Israel and trade policy is determined by the Gol. Future possible changes in the trade regime open up the possibility of a free trade arrangement between Israel and the PA which would allow the PA the ability to set its own trade policy, conceivably providing improved access for some EIE inputs as well as new preferential market access provisions for EIE manufacturers with states with whom the PA can negotiate them.

Incentive Schemes

Many industrial zones internationally provide incentives in the form of tax abatements, infrastructure or other inducements to investors. In the case of EIE labor and cost advantages have been sufficient inducement for the zone to operate. EIE currently does not provide any other type of incentive, but in future these may be necessary to attract international investment. After transfer of EIE the legal regime for these incentives is available under IEFZL as already noted.

The current legal regime for the EIE is confusing and uncertain, neither of which are desirable in an area which seeks to attract investment. Formal legal structures are lacking in many important areas and unilateral, opaque and unpredictable processes and rules dominate. Future development of the zone will depend to some measure on correcting these problems. With handover of EIE this situation will change as the zone falls exclusively under the IEFZL/PIEFZA legal framework. The IEFZL regime provides a solid legal basis for continuing operations, but it cannot be effective without adequate arrangements for access of EIE goods to markets and access of investors and customers to the EIE. Such arrangements will need to be negotiated between the parties but are crucial to the viability of the EIE.

3. Development Requirements of the Erez Industrial Estate

Prerequisites

It is clear from the past performance of the Erez Industrial Estate that under some set of circumstances there is a rational business case for industries to locate there who wish to service regional markets and beyond. The EIE, under those circumstances, has the potential to become a viable tract of serviced commercial industrial land attractive to Palestinian, Israeli, and international investors. In looking ahead at the development requirements of the EIE, we are first going to set out what we consider to be essential prerequisites for its operation. These have already been identified in previous World Bank studies as well as the EastWest Institute's own work on the industrial estates in Gaza.

The EIE will be well poised if the political will to make EIE succeed exists. The Gol and PA must cooperate to ensure that goods flow efficiently in and out of the EIE, and that stakeholders have access to the EIE.

If the following prerequisites are not met, then the EIE will enjoy little competitive advantage.

- Efficient, predictable flow of goods in and out of the EIE to the markets of Israel, West Bank, and beyond
- Political will from the PA and Gol to collaborate and develop workable solutions regarding inspections, customs, taxation, and provision of utilities
- Access of EIE stakeholders to their properties, businesses, employees, suppliers, and customers—facilitated by both the PA and Gol.

Demand Assumptions and Scenarios

Before doing that, however, it is useful to consider what our goals are, and what would constitute future success for the EIE.

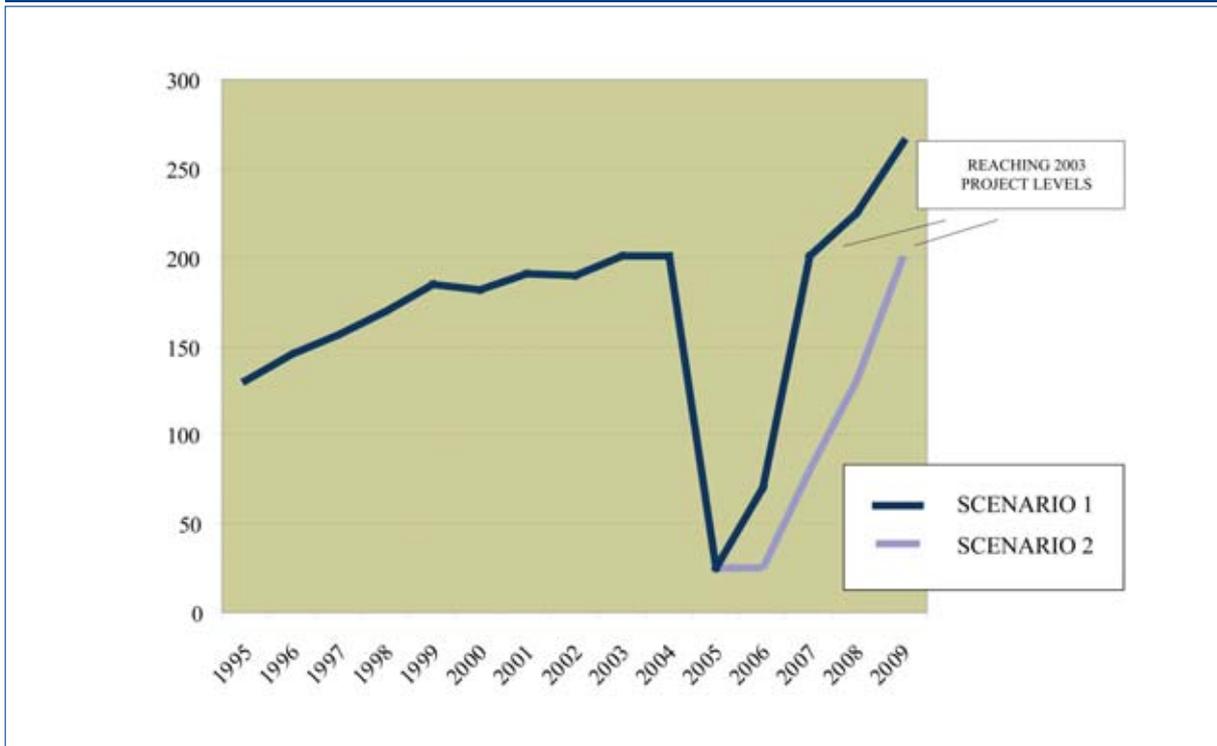
Looking at the future for EIE, it is possible to envisage three levels of development potential emerging depending on the circumstances that will prevail post disengagement. These are:

Level 1 – Stagnation. The EIE is handed over, and no satisfactory agreements can be reached on the prerequisites described above. Goods from the EIE have to go through the Karni crossing point, access into the EIE for investors and customers alike is at best difficult, and at worst non-existent, and the previous enterprises in the EIE have access to neither their traditional markets or their property. Infrastructure works haltingly, and the operation of the EIE stays with PIEFZA because no private sector manager is attracted to the prospects of the EIE. Over time the EIE fills with local enterprises spilling over from Gaza City and who can tolerate the circumstances because they are used to operating under these hardships in Gaza.

Level 2 – Foundation. The EIE is promptly secured by PIEFZA, and work begins on finding an a developer/operator with good connections to the market and credentials that will further the development prospects for the EIE. The PA and GOI agree on opening a special access at Erez for EIE goods and personnel. There are restrictions initially but as a track record is established and processes that have been put in place measure and document the situation on the ground, the connections of EIE with the marketplace work reliably. Some of the previous occupants of the EIE return, and new market linkages are formed with regional markets and investors through the joint efforts of PIEFZA and the developer/manager.

Level 3 – Takeoff. The EIE operates as it did before but under PA/third party control, and therefore gaining access to more markets unavailable under the previous regime.

Figure 3.1: Investment Project Outlook Scenarios



The Israeli services market is open to EIE as well as the market for manufactured goods. Producers based in Erez are able to target international as well as Israeli demand. Logistics centers begin to set up in EIE because of its location, manufacturing base and access characteristics.

A reasonable measure of success for the EIE post disengagement would be signified by starting on Level 2 – Foundation, and moving steadily towards Level 3 – Takeoff. Starting at Level 1 – Stagnation would make it very difficult to get to Level 2 in the first place. By starting at Level 1, the character of EIE post disengagement would be set and difficult to reverse later on. Thus for the EIE to ever achieve its full potential as a force for economic development in Gaza – a fundamental goal of both parties – the implementation plan must firmly aim for a Level 2 start, with a strong leaning towards Level 3.

Demand Assessment

In December 2004, the World Bank assessed the future outlook of the EIE, making assumptions and projections about future growth of the industrial estate. The report identified the primary industries and types of investors that would likely locate in the EIE.

Based on a set of circumstances close to the “Foundation” Scenario above, it is assumed that the EIE will return within

four years to the year 2003 levels of investment, in terms of the number of businesses. Figure 3.1 illustrates the number of companies that were located in the EIE, and shows two possible growth scenarios. The severe dip in 2005 occurred when workers were denied access prior to disengagement, and the departure of Israeli-owned firms as a direct consequence of disengagement.

According to the World Bank report, industries most likely to locate in the EIE include apparel, furniture, metalworking, food and beverage processing, plastic injection, footwear, and mechanic workshops. Potential sources of investment include Palestinian and Israeli businesspersons in the short and medium terms. Investments in the longer term may come from other Arab countries, Europe, and Diaspora Palestinians.

Employment in the EIE increased from 2,000 workers in 1995 to about 5,000 in 2003. The numbers of Palestinian daily workers entering the EIE dropped from about 5,000 to less than 600 after May 30, 2004, when the industrial estate was reopened after a closure due to a security incident in April 2004 and entry criteria were altered. Employment has subsequently dropped to about 400 in 2005.

The main objective of re-operating EIZ is to bring unemployed Palestinians who are available, and trained to work in the EIZ back to their jobs and reduce unemployment.

Figure 3.2: Employment in the Erez Industrial Estate

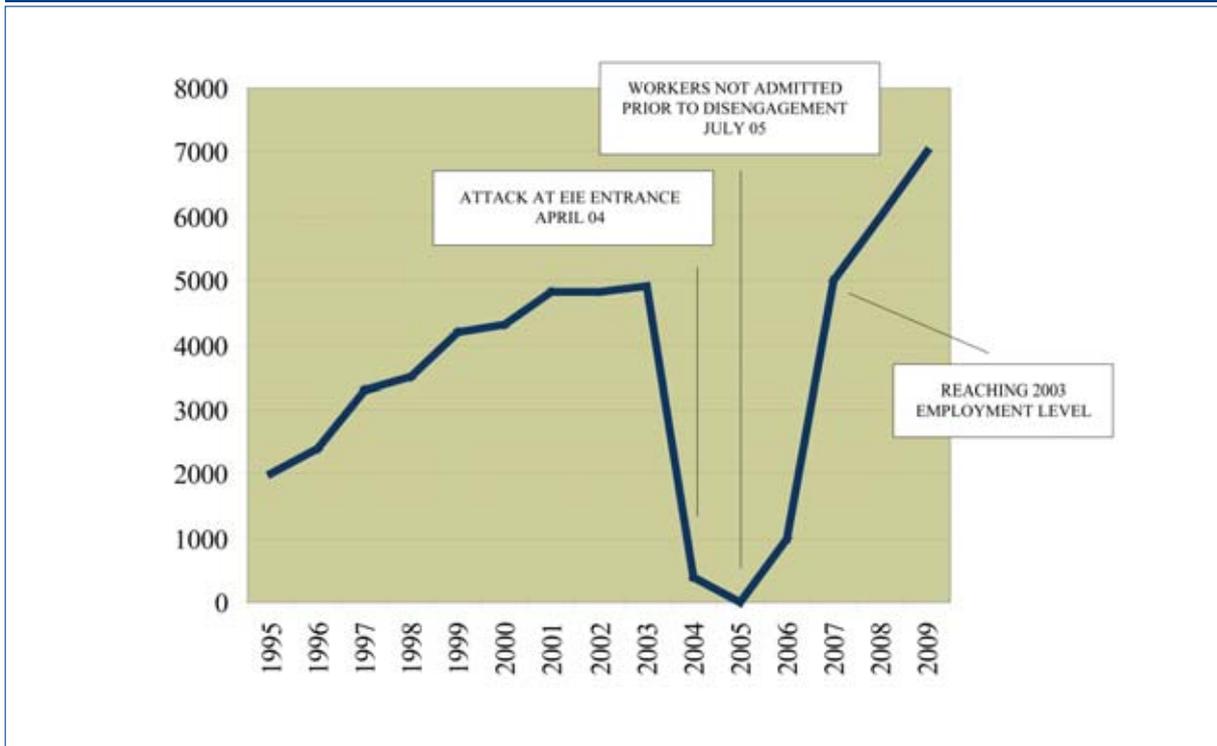


Figure 3.2 illustrates our assumption that employment levels will return to their 2003 level within two years, and climb to 7,000 employees by 2009, provided that a viable operating environment is established by the Gol and PA for the EIE. This number in 2009 would just bring the situation to a point where the pre-intefada growth rates would have brought the EIE had they continued.

The EIE's estimated maximum building volume when fully built (including the extension) is as follows.

Industry	$331,700 \text{ m}^2 \times 60\% \times 3 \text{ storeys} = 597,060 \text{ m}^2$
Commercial	$93,800 \text{ m}^2 \times 60\% \times 2 \text{ storeys} = 112,560 \text{ m}^2$
Public Buildings	$32,500 \text{ m}^2 \times 60\% \times 3 \text{ storeys} = 58,500 \text{ m}^2$
Technical Installations	$6,500 \text{ m}^2 \times 60\% \times 1 \text{ storey} = 3,900 \text{ m}^2$
Total	770,202 m²

The expansion described above represents a relative growth of 38 percent of the existing industrial estate. Assuming the same baseline demands are maintained, the following are the required annual utility loads.

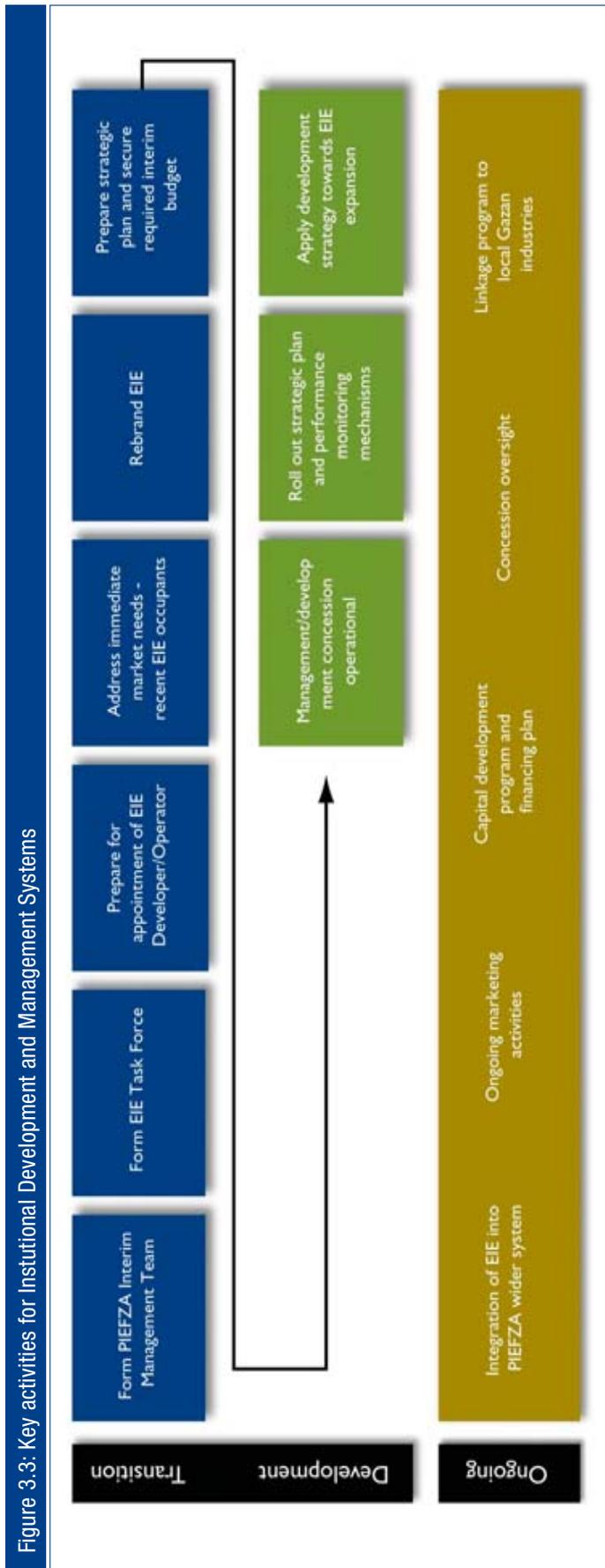
Electrical Power	$74\text{M. kwh} \times 1.38 = 102 \text{ million kwh}$
Water Supply	$276,000 \text{ m}^3 \times 1.38 = 380,880 \text{ m}^3$
Wastewater Collection (Sewerage)	$151,800 \text{ m}^3 \times 1.38 = 209,484 \text{ m}^3$
Storm Water System	$130 \text{ m}^3/\text{hr} \times 1.38 = 179,400 \text{ m}^3/\text{yr}$

This indicates that the systems in the EIE could be expanded to accommodate the level of activity likely to be generated in the short to medium term, and that the marginal cost for providing this additional space is low.

The following section examines the steps required to allow the possibility of this demand scenario to unfold over the next 4 years. These steps are divided into two phases. First is the Transition Phase where immediate and urgent matters are taken care of, and the course is set for the following years. Then comes the Development Phase where the hard work of rebuilding the economic base at EIE is undertaken in earnest.

Transition Phase

Once Israeli disengagement from Gaza is complete and the PA has taken possession of the EIE, it is assumed that the long-term intention of the PA will be to maintain the EIE as a major industrial park and as an employment nucleus for the Gaza Strip. We assessed the likely needs of the EIE during an initial short to medium-term transition period, during which the industrial estate would likely operate under limited capacity. During that period, new industrial estate administration under the direction of PIEFZA would establish a development plan for the EIE, and communicate with the Gol on a number of legal, financial, administrative, transportation, and access issues.



The PA should use the Transition phase to arrive at operative final design decisions and technical future solutions to non-functioning infrastructure systems identified in Chapter 2 of this report. These systems include: wastewater management, storm water collection, solid and hazardous waste disposal, and decisions regarding the continued provision of services by Israeli providers (i.e. electricity and telecommunications). The period should also be used to provide for immediate solutions for those systems in light of the following.

- Upcoming winter season
- Blocking of Wadi Hanon at the Israeli border
- Designs that take into consideration the separation of the storm water system from the waste water systems and the separation of fluid sanitary waste from fluid industrial waste systems

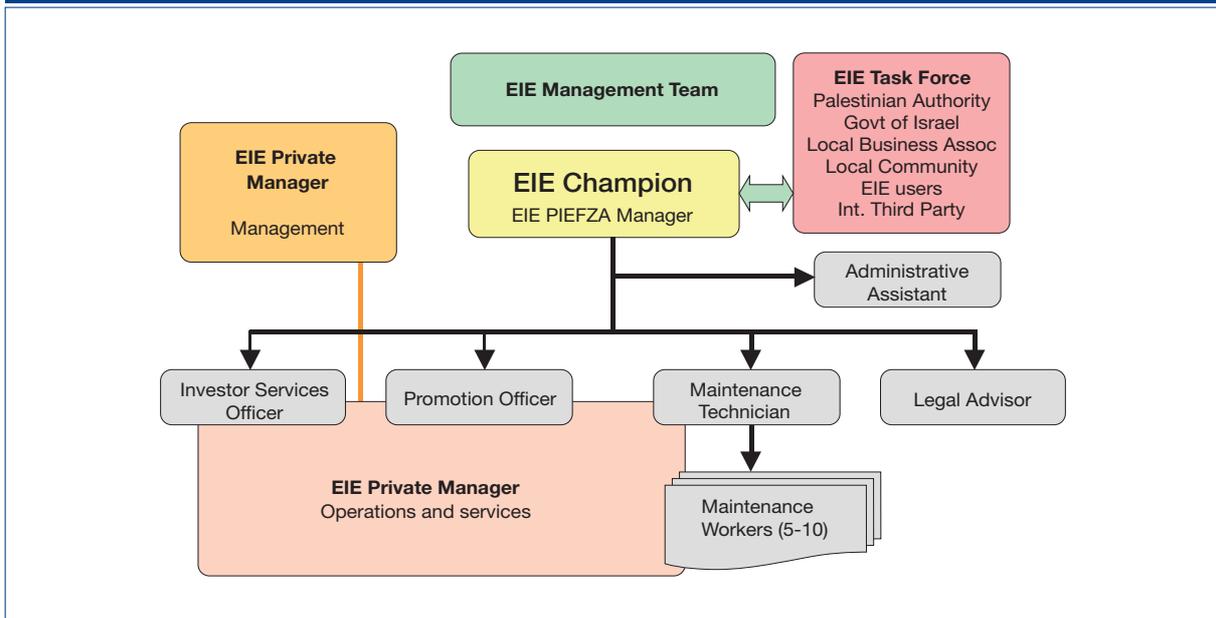
TSG assumes that the EIE's capacity during the Transition phase will stand at about 20 percent of 2002-2003 levels with employment of 1,000 workers. Companies that remain and reactivate some of their workers will require a functioning industrial estate with working infrastructure and amenities. Our assumption is that the limited capacity will need to stand at 20% of the 2002/2003 capacity, or up to 1,000 workers on-site.

This section introduces the minimal requirements needed to operate the EIE during the Transitional phase, which is estimated to last two to four months from disengagement. At the beginning of each main heading we will use a simple graphic to indicate the key actions that are needed in this and future phases. This will provide a context for our discussions. All of the key actions are then gathered together in Chapter 4 – Implementation Plan.

Institutional Development

The PA Council of Ministers has already taken the actions necessary to declare the EIE as an industrial estate under the Industrial Estates and Industrial Free Zones Law (Law No 10 of 1998). This gives the EIE the same legal structure governing all other industrial estates and free zones in the West Bank and Gaza, operating under the control and authority of PIEFZA. Moving forward, there are three strategies available for managing EIE.

Figure 3.4: Proposed Organizational Structure of EIE Management



Strategy 1. PIEFZA will be directly responsible for the management of the EIE post- disengagement and will continue to do so for the long term. This is not good practice, and runs contrary to the intention of the law. See also Appendix C on Industrial Estate Concessions.

Strategy 2. PIEFZA will sell the EIE to a property development company and will only be responsible for regulating business operations within the EIE. If pursued, this option may materialize in the long term and may be the simplest option for PIEFZA from an operational point of view. On the other hand, this scenario will most likely face a number of legal impediments related to property titling, zoning, and future development of the EIE.

Strategy 3. PIEFZA will award a concession contract for a private sector firm to manage and develop the EIE, while retaining its role act as a regulator.

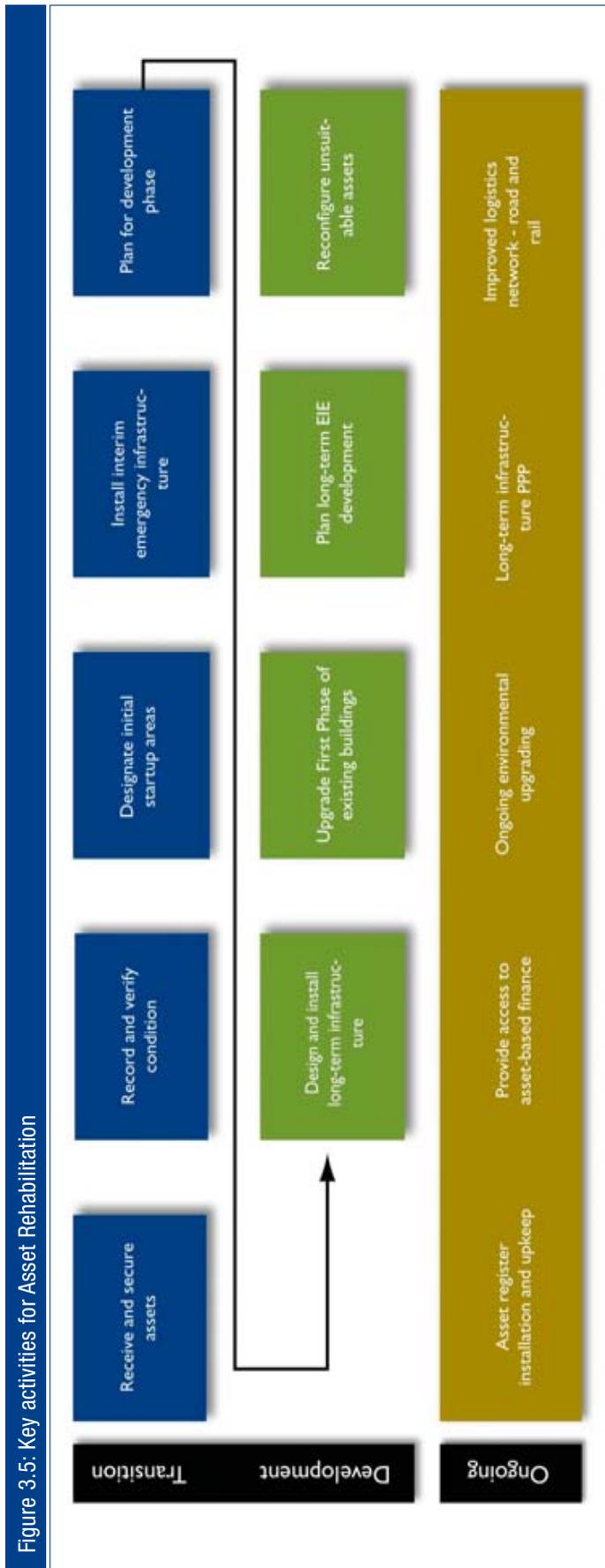
We recommend that the PA pursue Strategy 3, described above, freeing PIEFZA to engage on the many policy issues that will arise in the operation of the EIE, and providing a private sector engine for growth at the heart of the EIE. The concession should be granted in a transparent manner consistent with market principles. This process will ensure that the managing partner will be best able to carry out management responsibilities and motivated to do so. It will also reassure investors, showing the market that the EIE will be a model of good governance in Gaza.

Immediate institutional needs necessary to ensure continued operations at the EIE include the *formation of*

an Interim Management Team (IMT) under PIEFZA's Operations Management Directorate. The remit of the team should be clearly in line with the structure proposed in Figure 3.4 below, where the responsibilities of other actors are also recognized. The duties of the Interim Management Team will shift as the EIE commences operations and as the *third party developer/operator* comes on line. The IMT should see its role over time (a 12-18 month period) as providing the public service aspect of EIE – the “one Stop Shop” and investor aftercare aspects, while leaving the operational aspects of the EIE (including marketing and promotion) to the private sector developer/operator. This is reflected in the overlap between the parties in Figure 3.4.

The EIE Manager appointed by PIEFZA will have to assume the role of *Champion* of the EIE. In that respect, he or she should be a figure that is well known to the stakeholders, have good credentials, and be able to bring leadership, diplomacy and authority to the position. This is not an ordinary industrial estate regime management position – it carries a high profile and level of responsibility.

Finally, there is an element required to help manage the complex relationships that will be needed moving forward on a collaborative basis. Given that the revival of the EIE post engagement needs a series of urgent and coordinated actions we recommend that an *EIE Task Force* be formed immediately with the responsibility of taking practical steps on the ground to resolve the main issues facing the EIE – mainly those concerned with access, security and governance. The Task Force would have amongst its



members representatives from the Palestinian and Israeli public and private sectors, local and international business associations, the local community, a trusted and technically qualified third party to act as an impartial adviser and to provide both parties with some oversight, and a representative of the EIE industries. The remit of the Task Force would be to resolve in a practical way any obstacles to the development of the EIE. Members would also carry back to their organizations or communities the message that all parties are trying to create something of human value and thus solicit support from their constituency, whoever that might be.

Looking at the IMT itself, it should at minimum consist of the following.

- **Champion and Estate Manager** — To lead the effort on behalf of PIEFZA, and to personally ensure that the other aspects of the management structure are put in place: the Private Developer/Operator, and the EIE Task Force.
- **Investor Services Officer** — Will ensure that the “One Stop Shop” concept as envisaged by PIEFZA comes to bear on the potential investors and developers at the EIE. Later on he or she will work closely with the developer/operator to ensure that the full range of services (regulatory and commercial) are being provided to the EIE enterprise.
- **Promotion Officer** — Will be responsible for the marketing strategy of the EIE, in concert with PIEFZA’s strategy and the marketing plan of the developer/operator.
- **Legal Advisor/Officer** — Will be responsible for assisting the EIE to navigate its way through the myriad of legal issues facing it post disengagement, and on an ongoing basis.
- **Maintenance Technician** — Will be responsible for ensuring that the vital pieces of equipment in the EIE are kept in running order. Eventually the technician will become responsible for overseeing the maintenance aspects of the developer/operator concession.
- **Maintenance Workers (5-10)** — Will ensure that immediate maintenance needs are met, and will undertake any initial upgrading work required immediately.
- **Administrative Assistant** — Will run the office in the EIE

Prepare for Appointment of Developer/Operator (also known as Private Manager)

The steps required for this activity are described in Appendix C. It should be done in an open and transparent manner consistent with market principles. The managing party will therefore be well able to carry out its operational responsibilities and will be well-motivated to do so; a signal will also be sent to the market that the EIE will be professionally managed.

Re-engage the Market and Re-brand the EIE

The recently departed investors from EIE represent a potential source of re-investment, and should be approached, as well as other potential customers on PIEFZA's list of investors. In parallel the EIE should be re-branded in order to signal that there is a new regime and that the promoter of the EIE is in business.

Strategic Planning

While the transition phase will not provide enough time to conduct a full strategic plan for the EIE, it is important in the early days to agree upon a few strategic directions to take. There will be many unsolicited approaches to the EIE, and the IMT must be able to use some basic agreed policies to distinguish between them, and to accord priorities. This prioritization will also allow a budget to be drawn up so that the EIE can be properly funded for its initial period.

Land

It is imperative that the EIE be immediately secured with durable fencing, and patrolled by Palestinian security guards. This is to avoid vandalism and theft during a time when the PA and PIEFZA are making decisions regarding the control, development, and operation of the zone. Thus, safety, security, and property protection stand as the immediate priorities for the EIE. This action and others related to asset rehabilitation are discussed below.

Buildings

It is important that during the Transition phase, a thorough survey and inventory of each building and its existing systems be performed, including electrical, mechanical, HVAC, waste pre-treatment, etc. PIEFZA should undertake an intensive cleanup of all debris, garbage, and leftover machinery and tools of departed businesses.

A separate survey should immediately assess the levels of asbestos in each building. It is important that this analysis be conducted by qualified environmental engineers to develop an inventory of asbestos, and estimate the costs associated with abatement and proper off-site disposals of the materials.

Electrical Power

At the time of writing (July 2005), the IPP facility was in the process of being dismantled. The position of the PA is to obtain a commitment from the IEC to continue electrical power supply to the EIE. The alternative is very expensive and would include the expansion of the Palestinian Network in the northern Gaza Strip including generation, substations, transformers, and transmission systems. The issue of power supply for the EIE should continue to be discussed and negotiated as part of the northern Gaza power supply, and in relation with the "to-be evacuated" Israeli settlements. The arrangements with the IEC should be finalized. Decisions should be made regarding the power tariff system as well as future installations and maintenance.

Water Supply Network

The existing groundwater supply of 240 cubic meters per day from the one operational well meets the current demand for water in the EIE, and is expected to continue to meet demand for several years. During the Transition phase, the PA should undertake ongoing maintenance of the existing water supply system. Minimal investment is required for the water system, but some rehabilitation may be required for pumps and wells. Data on wells were not available from Israel, but an estimated US\$ 50,000 to US\$ 70,000 would be required for maintenance and rehabilitation in the short term.

During the Transition phase, the PA should undertake a study to measure the pressure and flow of water in buildings in order to enable fire protection in the future. The study should include the pressure and flow requirements of existing buildings as well as requirements for projected future growth.

Sewerage System

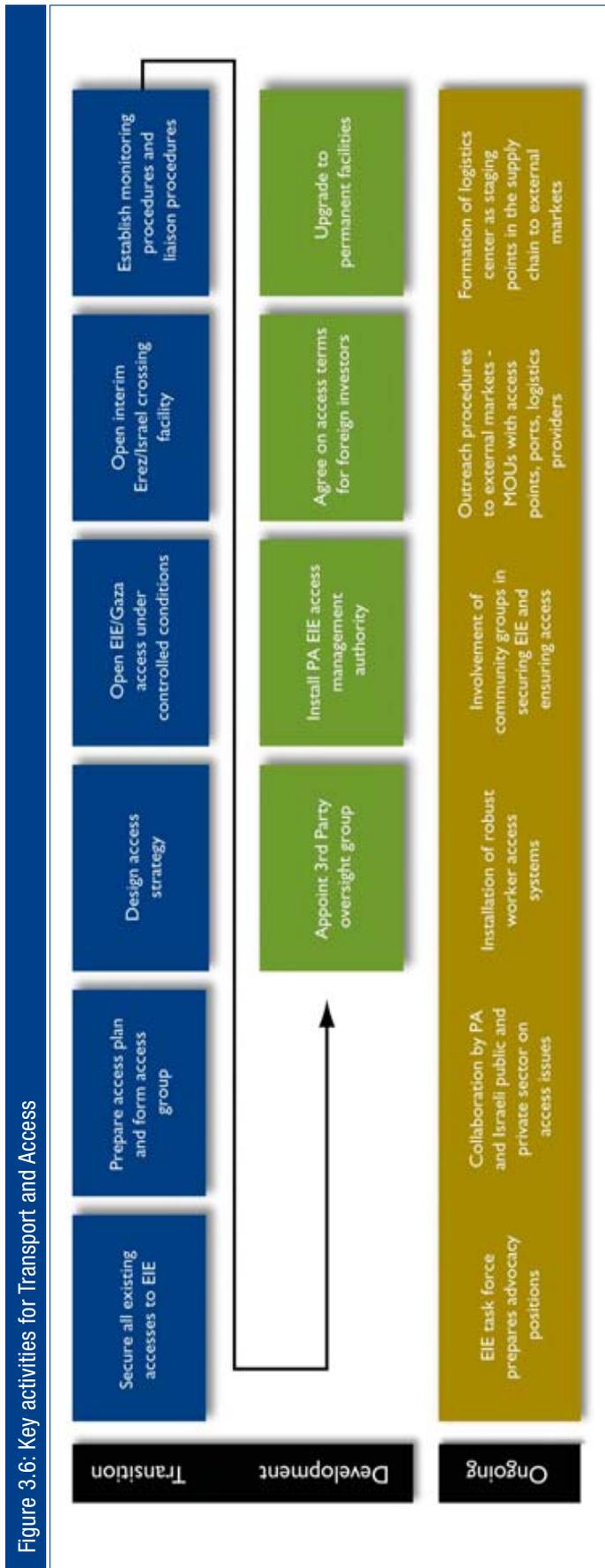
The required wastewater capacity during the Transition phase is estimated at 2,000 cubic meters per month. The current system is able to collect the wastewater but has no place to put it. The PA should arrange for an interim solution for the EIE's wastewater needs, such as constructing a modular unit for wastewater collection.

Storm Water

The storm water sewer network is in workable condition, and additional development or investment is not needed during the Transition phase.

Solid and Hazardous Waste Disposal

The PA should arrange for disposal of solid waste generated by the EIE to a certified waste disposal site in



Gaza, and establish a system to ensure that hazardous materials are separated from non-hazardous waste. Currently half of EIE’s annual operating budget—US\$ 400,000—is dedicated to solid waste disposal. Thus, PIEFZA should appropriately budget for this in their master development plan.

Monitoring and enforcement procedures should be developed during this interim phase to deal with all the environmental and industrial waste implications. In addition to the disposal of the asbestos mentioned above, the PA should address additional concerns related to public and occupational health. These include occupational health and worker safety, on-site storage of chemical and hazardous material, galvanization processes, oil pollution, air pollution, and potential pollution of underground environmental resources.

Road System

No immediate requirements other than regular maintenance and cleanup exist for the EIE’s road system. However, vehicular and pedestrian entrance points should be immediately determined and appropriately secured and guarded.

Access to Transportation

The greatest bottlenecks to advancing or at least maintaining EIE’s operations are security and market access. The GOI is constructing new facilities and plans to privatize and standardize the management of the adjacent Erez crossing point operations on the Israeli side. We are unaware of any PA plans for the Palestinian side of the border, due to the PA’s position that the facilities under construction and being planned by GOI are illegally located. Movement of goods and people are considered separately below.

Goods

If the EIE is to have any hope of operation, it is important that efficient access for goods is provided almost immediately after withdrawal. Given that any new permanent cargo facility (including the new container terminal) at Erez will take 1 – 2 years to become operational, there are only three possible scenarios for the movement of goods between EIE (now operating as part of Gaza) and Israel and vice-versa.

1. Maintain the current situation at the EIE. This would involve the parties reaching agreement on the provision and nature of a security environment within the EIE that would meet the requirements of GOI for goods entering Israel and for the PA for goods entering Gaza. In the short to medium term, it is unrealistic to believe that reaching and implementing such an agreement would be possible without a preceding period where trust is built on both sides and a track record established. And even then that presupposes both parties would be able to find a technical solution that was acceptable on a policy level – also extremely unlikely in the immediate wake of disengagement.

One such solution that was discussed with all parties was the idea of using a third party to perform pre-shipment inspections of goods on site at the EIE, and to use the same third party to screen the workforce entering the EIE. While the idea held some interest for both parties it was difficult pin down who such a third party might be. The only option worth pursuing in this regard is a third party solution. A private sector security company, such as a joint venture between Palestinians, Israelis, and/or third country nationals – would be acceptable to the PA and might be acceptable to GOI. This alternative would provide a financial incentive to succeed, as opposed to a political incentive. This idea could also be pursued by the Task Force in conjunction with solution 3 below.

2. Use the Karni crossing point. The issues, delays and uncertainty at Karni have been thoroughly explored in the documents listed in the bibliography to this report. While GOI has been reporting improvements in waiting times in recent weeks, it remains clear that the Karni crossing still suffers from major shortcomings and that in this circumstance export costs for EIE businesses would increase very significantly. Post disengagement all agricultural produce from Gaza will have to pass through the Karni crossing including any production from returned settlements, further exacerbating the matter. The Karni crossing itself cannot handle increased export and import traffic, and GIE businesses and other firms depending on Karni would likely be adversely affected because of longer delays and higher costs.

3. Use an interim dedicated crossing at Erez for the low volumes of goods expected from the EIE initially, while installing in parallel more permanent arrangements as the volume grows and expedited procedures for crossing are worked out between the parties. Use the dedicated character of the crossing to test and prove the procedures. This is the recommended option for

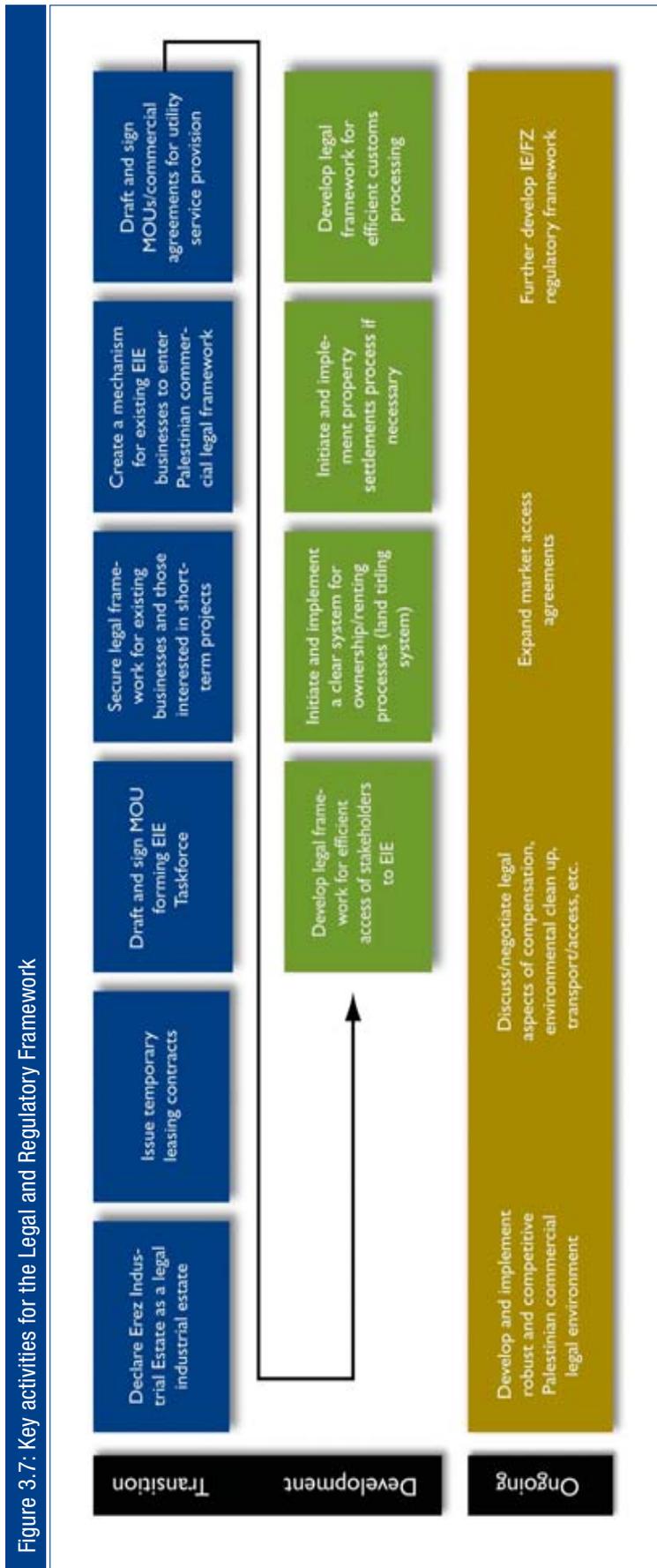
several reasons. First, it is the solution that will most likely be accepted by both parties – the GOI has plans to begin construction of a temporary dedicated terminal close to the EIE. Second, it allows a period within which to build a track record in isolation from other events at other crossing points. Third, if increased and verified on-site security could be provided in the EIE in a manner acceptable to both parties (possibly through the use of a third party), then the dedicated crossing could be operated almost as freely as the previous arrangement at EIE before disengagement.

People

There are two issues with the access of people to the EIE. First there is the issue of the control of access to the EIE in a way that ensures the safety and wellbeing of the users and employees of the estate and the normal commercial security of the property there. Second, there is the issue of access by non-Gazans to the EIE, and more specifically the special case of potential Israeli investors.

In the first case, if it turns out that the “price” of gaining freedom of movement for goods and investors across the green line is the imposition of a tough, third-party audited screening system for people entering the EIE, then this is a policy matter for both the PA (who must decide if such a scheme would be practically and politically acceptable) and the GOI (who would have to decide to what extent they are willing to allow the third party system to impact upon their own security procedures). In practical terms, such a solution will take time to evolve, and the transition period is probably too short for anything but agreement in principle to try a process. Such a solution would have to be supported by an international organization such as the World Bank or the IMF, both in terms of supporting the arrangements technically and lending credibility to the process. So a practical goal for the transition phase would be to line up the support of the international organizations, and to have the Task Force agree, with donor support, to look at a pilot process that over time could migrate towards free, pre-inspected, movement of goods based on stringent security measures within the EIE.

In the second case of access for non-Gazans, especially Israelis, to the EIE, this will take time, once the dust of disengagement has settled. There have been exceptions to Israeli exclusion orders before, according to the NSC, and there is room to explore this again moving forward. However, it is worth noting that of the 15 or so Israeli companies interviewed, all indicated that adequate security arrangements are a pre-condition for even considering going back into the EIE post disengagement.



The immediate actions required on these issues at the Transition Phase are as follows.

PIEFZA must *immediately secure the EIE against intrusion* and any unlawful presence. Apart from the property protection aspect, this will send a strong message to all stakeholders that PIEFZA intends to maintain and develop the EIE, and that there will not be a “free-for-all” access situation there. The access question is important enough for the EIE Task Force to form a smaller technical group on access issues – called the *Access Group*. This group can immediately begin designing an *access strategy* prior to the formal opening of the EIE.

Then the EIE access to Gaza and the special Erez/Israel cargo crossing will be *opened under controlled conditions* and low volume flow, while at the same time the Task Force will suggest and implement *monitoring procedures* for the crossings to allow the performance of the crossings from a trade facilitation perspective to be observed. This information will inform the Task Force discussions and plans moving forward.

Legal Regime Requirements

Given the current legal regime outlined in Chapter 2, it is apparent that a number of steps will need to be taken following the transfer of the EIE from Israeli to Palestinian control and operation. Ideally, this transfer should be spelled out in a document between the two parties making clear that control and ownership of the EIE are being conveyed and accepted. The PA has already passed a decree placing the EIE under the control of PIEFZA, and Israel has enacted unilateral disengagement legislation, so this should be an adequate legal basis for moving the zone to Palestinian control.

With the transfer of control it will also be necessary to ensure that both the EIE and the businesses that operate within it are subject to the general body of Palestinian law and are properly authorized under the relevant statutes and regulations to establish and do business in the zone. Bringing the EIE itself under the Industrial Estates and Free Zones Law¹ (IEFZL) will allow for the provision of appropriate incentives, if any, to investors and provide the framework for “normalization” to a more efficient and transparent operational and regulatory environment.

The IEFZL presents a workable legal regime under which PIEFZA can take control of the EIE and begin to seek private developers. The Law allows PIEFZA to recommend the designation of an area as an industrial estate to the Council of Ministers, who may accept or reject it within 30 days. The PIEFZA board is then empowered under Article 22 to grant concessions for development to a private or public-private developer. The developer is given a fixed-term concession that empowers it to develop, market, maintain and operate the estate under the terms of the concession agreement and in consultation with the Board of PIEFZA. The Law also provides for regulations to be developed and implemented and to date regulations exist which cover issues such as fees, building licenses and operation certificates. As discussed below, further regulations will be necessary as development proceeds.

In the future it may also be necessary to obtain more secure access to services such as water, electricity, and telecommunications. As long as the EIE is dependent on Israeli suppliers for these services their provision could best be secured through purpose-built MOUs and commercial agreements that specifically apply to the EIE. The present legal agreements will cease after disengagement and although Israel has committed in its disengagement plan to maintain provision of power and telecommunications services, more secure access could be obtained through the negotiation between the Parties of utility service agreements for EIE, where necessary.

For businesses, “normalization” will involve at a minimum, proper business registration under Palestinian law and the issuance of industrial free zone certificates under the (IEFZL). Businesses will also be subject to the general body of Palestinian commercial law and accordingly, further development of commercial law, as well as a court system and judiciary enabled to deal with commercial law issues, will be an ongoing need in West Bank/Gaza in general.

This development, or lack thereof, will directly impact businesses operating in EIE and accordingly, progressive reform and development of commercial law and enforcement will be key facilitators of development in the EIE.

After withdrawal, issues of ownership and title to property will need to be clarified and formalized both as between new or existing businesses operating in the EIE and as between the PA and any pre-1967 ownership claimants who may emerge.

For new or existing owners or lessees formal systems of land titling and registration will ultimately need to be applied in the zone and new owners provided with clear title documents which establish boundaries and extinguish any prior claims. At present the PA will grant EIE land to PIEFZA on a long lease, but at some point in the future there may be a desire to convey ownership to an eventual developer or others. A proto-regime for this type of formalization already exists under the Palestinian Land Authority, which has undertaken extensive surveys throughout Gaza. This process has not included registration or the formalization of documentation however, both of which should be developed as early as possible. In the interim, steps should be taken to improve ownership and lessee formalization within the EIE, and to bring both within the Palestinian land registry system as it develops. Temporary leasing or ownership documents for businesses operating in the zone should be considered until a more formal system is fully operational.

Pre-1967 ownership claims by Palestinians could present a complex problem given the likelihood of unclear documentary titles and possible claims based on agricultural or other use of the land. While it is possible, as the PA believes, that these lands were public prior to takeover by Israel—and, accordingly, no claimants will emerge—claims may nonetheless arise through use or other means. It would seem wise to prepare for this eventuality.

Several options exist for dealing with these issues. Most efficiently, the EIE could be included in the scope of the Custodian Law currently under development by the PA. A more cumbersome alternative would be the enactment of a separate legal framework for the adjudication of these claims and the determination of any possible compensation from the PA. This would also require a transparent and credible adjudication body appointed or designated to hear claims and determine ownership and potential compensation. This approach would also need to be coupled with a sunset date

1) Palestinian Authority Law No.10/1998

for all claims and extinguishment of individual claims following adjudication or compensation in order to convey clear title. This process would need to extend well beyond the Transition phase and into the Development phase of the EIE.

The PA has taken the position that it will not acknowledge any legal ownership by Palestinian businesses in the EIE under the Israeli regime. Despite this, some of the existing businesses that have operated in the EIE in the past should be allowed to continue to operate in the zone. This could be dealt with through the IEFZL Chapter 7 mechanism of issuance of operating certificates to those who wish to continue. Operating certificates under IEFZL and its regulations do not convey ownership and should not in any way indicate PA compliance or acquiescence to ownership rights acquired under the Israeli regime. Certificates could be easily amended to so specify if necessary. Post-disengagement a new, Palestinian, legal regime applies to these businesses which requires new business registrations and permissions to operate. The status of these businesses in the EIE arises de novo as a result of the IEFZL operational certificate, irrespective of previous status.

In general the Transition phase following disengagement should be used to incorporate the EIE and its businesses into the Palestinian legal framework and secure and formalize, to the extent possible, relationships with Israel and third-party service providers.

Development Phase

Once the Transition Phase has passed, the formal and informal structures for moving ahead on a solid basis should be in place. The main strategic directions for the EIE should be determined, and the Development Phase will concentrate on rolling out a development program for the EIE over a period 2-3 years.

Institutional Development Requirements

PIEFZA and the EIE Management Operator should coordinate very closely with PA agencies that are involved in the processes of disengagement and transfer of assets. While the PA disengagement technical team and working groups will be responsible for financial and legal aspects of the transfer of assets, PIEFZA and EIE Management Team will take the lead on operational and management aspects of the industrial estate.

Short-Term Institutional Development Needs. In the short term, PIEFZA's main focus should be on a longer term management solution for EIE, such as awarding a management and development contract for a private

sector firm or consortium. At present, a number of local and regional private sector groups have shown interest in managing and developing EIE, namely PIEDCO and the Ankara Forum. Therefore the institutional need for this period is to assign a team with legal, financial, contractual, and promotion expertise to follow the process through. The team will be formed from the existing PIEFZA personnel especially in terms of legal and contractual professionals. On the other hand, it is recommended that PIEFZA seek technical assistance from reputable international organizations to support this activity especially for the provision of financial and privatization support.

Medium to Long-Term Institutional Development Needs.

It is estimated that the process of awarding a management and development contract for EIE will take place through a period of six to twelve months – see Appendix C. Throughout the transaction process the team of legal, financial, and contractual personnel will continue to support PIEFZA and EIE Management Team. Typically, EIE Management Team will continue assuming their management roles during this period.

After that, PIEFZA's roles and responsibilities will change significantly. PIEFZA's main role will be as a regulator of IEs in WBG and the role of the EIE Management Team will change to providing the public sector impetus and guidance to the strategic development of the EIE. The private sector manager/developer will assume the responsibility of managing and promoting the EIE and developing necessary onsite infrastructure. At this stage the political and security situations at EIE will have become clearer and hence EIE marketing activities should be initiated. EIE manager/developer will be the main party responsible for marketing EIE. However, PIEFZA will continue to promote the industrial estates/free zones regime in WBG. Additionally, the EIE and PIEFZA should coordinate promotion strategies and activities with PIPA and PalTrade.

Summary of Roles and Responsibilities. Roles and responsibilities of the different institutions in terms of management, development, and promotion of EIE are summarized as follows

1. PA/Council of Ministers

- Declaration of EIE as an IE immediately post disengagement
- Transfer of EIE assets from Gol to PIEFZA

2. PIEFZA

- Ensuring the continued operation at EIE post disengagement

- Management of EIE in the immediate and short terms. Form an EIE Management Team
- Regulation of the Palestinian industrial estates/free zones regime
- Promotion of all industrial estates and free zones in WBG including EIE
- Development of off-site infrastructure and coordinating development of this infrastructure with local communities, agencies, and other interested stakeholders
- Award a management/development contract for a private sector firm/consortium
- Coordinate with other institutions that are responsible for the management, promotion, and development of EIE, e.g. PIPA

3. Private Sector Manager/Developer

- Management of EIE
- Promotion of EIE
- Development of on-site infrastructure
- Security

4. PIPA

- Investment marketing in partnership.
- Promotion of WBG business opportunities locally, regionally and internationally. This includes marketing opportunities at EIE in partnership with the private sector Manager/Developer and/or PIEFZA

5. PalTrade

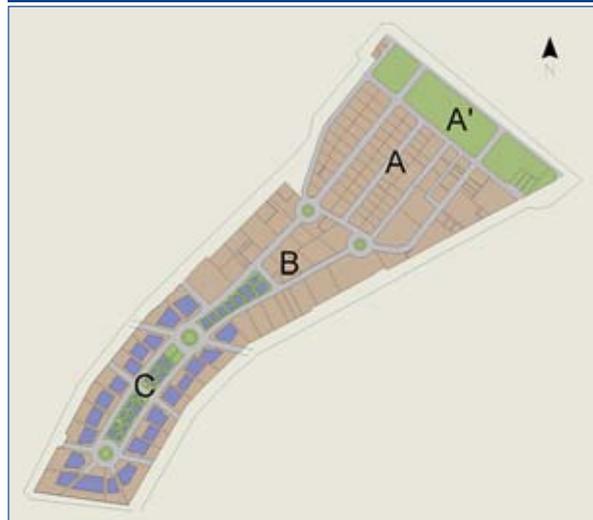
- Export promotion in partnership with the private sector Manager/Developer, PIEFZA, and/or EIE businesses
- Assessment of industry mix—in coordination with PIEFZA and PIPA
- Capacity building of PIEFZA and EIE enterprises on export marketing

Asset Management

This section discusses the likely needs of the EIE in terms of space, facilities, and infrastructure upgrades and development over the next five to ten years. It is assumed that development can commence once the EIE is physically secured and some business and factory operations have once again commenced in the zone. Each sector of the EIE is considered in Figure 3.8 below.

The Northern Sector (A). Most of the Palestinian owners and renters are located in the Northern sector of the park. It is assumed that they will remain in their present locations. Therefore, that sector will not lend itself to undergo intensive rebuilding and the treatment will be limited to rehabilitation of the facades, street furniture, signage etc.

Figure 3.8: EIE Expansion Site Utilization Study



Section A' is introduced in Figure 3.8 as a green landscaped buffer. The buffer is located in the area previously occupied by MATAK and IDF installations. Incidentally, it correlates with the initial site development plan from the late 1970s.

The Center Sector (B). This sector will become the transition area between old concepts to new ones. It can absorb new building types and new users, and should be targeted for immediate upgrading of buildings and utilities.

The Southern Sector (C). Future expansion, not yet developed is where intensive new design and site work will take place. This area should be designated for foreign investors and new corporate clients desiring an appealing operating environment with international standard buildings and infrastructure. It can either be developed independently, or integrated into the existing EIE.

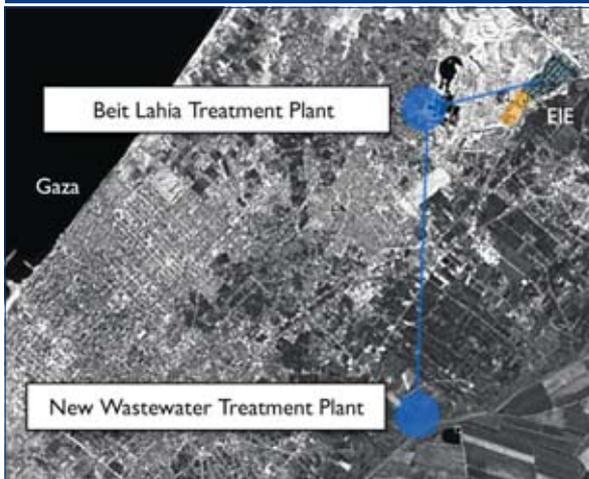
Zoning

The EIE's current zoning and land use plans date to the 1970s. Thus, new zoning and ordinances should be introduced to provide for a modern industrial park, and corresponding to a development program and master plan that will reflect the PA's long-term relevant vision for the EIE. Site coverage, setbacks, landscaping, parking, loading, back yards, and other land use factors should be established and enforced. Landscaping should be added to the EIE, to eventually encompass common utility areas as well as 15 percent of each land plot.

Asbestos Abatement

The inhalation of asbestos fibers by workers can cause serious diseases to the lungs and other organs, and symptoms often do not show up until long after an individual has been

Figure 3.9: Location of the Beit Lahia Treatment Plant



subjected to repeated exposure. The asbestos fibers are too small for the naked eye to see and smokers are at a higher risk of developing some asbestos-related diseases.

Obtaining accurate figures for the cost of disposing of asbestos is extremely difficult because each building has different quantities of the material and different specifications, in addition to different treatment and disposal process. In addition to this, the cost of labor in different counties will vary widely. However, using case studies found in the UK's, 'Amendment to the Control of Asbestos at Work Regulations 1987 and ACOP Regulatory Impact Assessment', it is anticipated that the cost of removal of asbestos is around US\$64 per square meter.

The estimated costs for the removal of asbestos buildings in the EIE are estimated as follows.

Total industrial floor area	174,000 m ²
Total industrial roof area (75%)	130,000m ²
Asbestos roofs (30-50%)	39,150 – 65,250m ²
Estimated cost for removal of Asbestos roofs @ US\$ 64/m²	US\$ 2.5m – 4.2m

It should be noted that not all of the asbestos will need to be removed immediately, and this cost can be spread out over a 2-3 year EIE refurbishment period.

New Building Types

In order to turn the EIE into a sustainable, diversified industrial park with the potential to attract new investors, it is imperative to introduce buildings that cater to new types of businesses and users. Warehouses, distribution facilities, offices, commercial buildings, printing facilities, etc. will all require different design approaches that, in turn, will translate into additional building types, better traffic

and circulation systems, and upgraded utilities. Buildings should be planned to cater to the local environment and prevailing thermal conditions.

Road Network

There exists a medium to long-term need to rehabilitate the highway to the Karni-Muntar crossing, as well as work out safe passage for businesspersons traveling from the West Bank to the EIE.

Within the EIE, the existing road system is in reasonable shape. Improvements, however, are required to ease logistical tasks such as loading, unloading, storage, and waste disposal. Pedestrian and vehicular circulation, as well as parking facilities should be studied and improved.

Waste Water Treatment Upgrades

TSG expects employment in the EIE to increase from a present 400 workers to 3,000 within two years. This will result in an extra 200 cubic meters of wastewater each day. Two kilometers separate the EIE from the existing treatment plant in Beit Lahia. A 25-centimeter pipe could take effluents from the EIE to the Beit Lahia Treatment Plant. However, Beit Lahia does not provide a workable option, since it is currently overloaded. The World Bank, however, will possibly fund a new wastewater treatment plant in the Gaza Strip, but that will not be operational until 2007.

In the short and medium term, therefore, rehabilitation of EIE's on-site sewage collection network—estimated around US\$ 500,000—and construction of an on-site modular wastewater treatment plant with a capacity of 200 cubic meters per day—costing US\$ 200,000—is needed. The modular treatment plant would consist of infiltration ponds. Wastewater would not be treated to the extent that it would be useable for irrigation. However, the treated effluent would be treated to the extent allowable for disposal in the wadis according to PA standards for treated wastewater. This, therefore, is a temporary waste treatment solution.

When the new World Bank treatment plant is operational in 2007, the EIE can then be connected to the new plant via the Beit Lahia Treatment Plant. The new plant is five kilometers from the new plant. The wastewater would first have to be pre-treated to meet PA standards for industrial wastewater. Pumping stations would need to transfer the wastewater due to uphill gradients from the EIE to the Beit Lahia plant, and from the Beit Lahia plant to the new treatment plant. A line previously planned by Israel could connect the EIE directly to Beit Lahia, with the estimated cost of the connection at US\$ 1.3 million.

Storm Water System Improvements

Off-site storm water infrastructure needs to be rehabilitated, expanded, and maintained in the medium term. The minimum required investment to accomplish this is estimated at US\$500,000.

Industrial Solid and Hazardous Waste Management

The operator of the EIE should put arrangements in place for collection and disposal of solid waste and hazardous materials destined for the solid waste landfill in Gaza City. EIE factories that produce solid waste should be monitored by the EIE operator to ensure that collected solid wastes are compliant with standards for disposal in the Gaza Landfill.

Power Supply

The PA position is to obtain a commitment from the IEC to continue supply at the EIE as part of the Northern Gaza Strip arrangements. The alternative is very expensive and would include the expansion of the Palestinian Network in the north Gaza Strip including generation, substations, transformers, and transmission systems.

The Ministry of Energy should develop and implement a power supply master plan for the EIE and entire Gaza Strip that deals with these issues.

Environmental Requirements for Monitoring and Compliance

The EIE has no history of effective environmental management or compliance with environmental regulations. Environmental inspections and reviews should be performed regularly to make sure that existing operations comply with standard procedures. Environmental screening procedures should be followed more formally for eligibility to enter the EIZ and immediate actions should be taken to close down any factories that do not comply with environmental procedures or that impact the environment negatively.

There are three levels of required environmental monitoring, with Figure 3.10 highlighting the role of each institution for various quality parameters.

Self Monitoring. The environmental permits granted to industries operating at the EIE specify the environmental conditions and their self-monitoring obligations. Industries carry out their own self monitoring or outsource it to a third party. Self monitoring is performed by a permit holder within the EIE.

Compliance Monitoring. Compliance monitoring is usually performed by the permit issuer with the objective of verifying the compliance of the permit holder with the permit conditions and Palestinian environmental standards.

Enforcement. At present it is the responsibility of the party that performs environmental compliance monitoring to enforce the environmental conditions and Palestinian environmental standards. Tools for enforcement include monetary penalties commensurate with occurring or likely damages to the environment on one level, reaching the level of permit revocation, civil court, and criminal court action under severe cases of damage or destruction.

The relationship between PIEFZA and the Environmental Quality Authority (EQA) in monitoring EIE activities should be examined, as well as EQA's relationship to other authorities such as the Ministry of Health, Ministry of Labor, and Civil Defense.

Environmental monitoring should proceed with the following objectives.

- Compliance with standard indicated in the environmental manual and PIEFZA environmental procedures as follows
- Impacts on human health
- Impacts on soil
- Impacts on groundwater
- Compliance with Gaza municipal wastewater treatment plant influent quality.

Strengthening overall environmental management is a key part of the industrial sector. Building the capacity of PIEFZA in monitoring and inspection of its clients investors is crucial, and encouraging and educating the investors in the EIE in environmental management by raising their awareness and demonstrating advantages of effective environmental management is complementary to the process. Training and environmental awareness should be designed and provided to the investors and operators at the EIE.

Access and Transport

Assuming that a post-disengagement EIE will attract more diverse FDI, it is expected that markets for Palestinian-produced goods will also become more diverse, meaning that third country market access must also be considered in the Development Phase. For logistics purposes (physical handling costs, time lost, security and the like) container shipping could essentially eliminate "back-to-back" forklift transfers of cargo pallets, currently required at most Palestinian-Israeli crossing points.

Figure 3.10: Role of Institutions in Monitoring and Enforcement of Environmental Regulations

Activity	Self Monitoring	Inspection & Compliance Monitoring	Enforcement
<i>Individual Tenants</i>			
Air Emissions	Tenant	PIEFZA	PIEFZA
Noise	Tenant	PIEFZA	PIEFZA
Wastewater	Tenant	PIEFZA	PIEFZA
Solid and Hazardous Waste	Tenant	PIEFZA	PIEFZA
<i>The Whole GIE</i>			
Air emissions at GIE border	PIEFZA	EQA	EQA
Noise at GIE border	PIEFZA	EQA	EQA
WW effluent from GIE	PIEFZA	GM	GM
WW effluent from WWTP	GM	EQA	EQA
Desalination plant concentrate	PIEFZA	EQA	EQA
Storm water	PIEFZA	EQA	EQA
Solid waste dumping	Operator (contract with GM)	EQA	EQA
Solid hazardous waste handing & disposal	Operator (contract with GM)	EQA	EQA

A freight consolidation terminal at EIE post-disengagement could facilitate container shipping, pre-shipment inspections, and security. A freight consolidation terminal could be constructed adjacent to the future passenger crossing terminal. Until practical agreements are reached concerning “back-to-back” and “door-to-door” shipments, a suggested approach is to move cargo through a PA-Gol security and customs at a freight consolidation terminal, containerized and then hitched to an Israeli tractor.

Gol apparently recognizes EIE’s post-disengagement potential. Its border crossing plans include container scanning facilities that essentially would become a container terminal with a capacity of 200 containers per day. Since a secure border is in the interests of both parties, that container facility should be a joint facility. The imminent need for a container facility at the Gaza-Israel border at Erez is also coupled with a potential future customs requirement that may evolve out of possible changes to the customs union between the PA and GOI.

The container border facility should be pursued as a joint PA-Gol operation. Otherwise, we will see the development of separate facilities that will carry excessive planning, construction, equipment and operations costs and result in continued unnecessary shipping delays and increased costs of doing business. Each delaying obstacle provides a greater chance to subvert and corrupt.

Legal Regime Requirements

In the longer term, the EIE will require legal and regulatory regimes that enable it to compete for investors and ten-

ants on an equal footing with its international competition. This requires that an internationally competitive system of commercial law in areas such as contracts, companies law, and bankruptcy be in place throughout West Bank/Gaza, including a court and enforcement system that is fully capable of implementing and enforcing the legal regime. Similarly it would be beneficial to the EIE if the PA continues to negotiate and implement market liberalization and access agreements bilaterally, regionally and multilaterally. Development of the EIE specifically in this area could also be facilitated by the addition of customs processing facilities at EIE in order to expedite movement of goods in and out of the zone.

As noted above in the ‘Transition Phase’ section, it will also be necessary to resolve and formalize land ownership questions within the EIE and this process will extend into the development phase. It is also likely that the evolution and development of the system of commercial law in West Bank/Gaza in general will provide new means of improving business confidence in the EIE as well. For example, the further development of commercial arbitration systems would enhance the attractiveness of investments in the EIE. Similarly, bringing the EIE into the IEFZL rubric will allow for the granting of appropriate incentives to investors, which will need to be refined and developed as surrounding circumstance change and the zone progresses and grows.

Movement of both goods and persons into and out of EIE is a critical component of its success. From a legal perspective, any arrangements must be negotiated between the parties and embodied in enforceable agreements

between Israel and the PA. Effective means of settling disputes concerning EIE access and operations under these agreements must also be available and clearly defined as to scope, operation and authority. These could operate either through third parties such as Egypt, or possibly an international commercial organization, or by joint committees of the parties. These committees would need to be comprised of fair representation from both sides and have broadly acknowledged adjudicative powers to decide access related disputes and enforce their decisions. Such committees could be composed of experts in commercial practices from both sides. Reliable and credible legal mechanisms of this sort are critical to the ability of the EIE to provide a viable business environment to potential investors.

To operate in an efficient and business-like manner, the EIE will also require the embodiment of many of its procedures in the form of regulations and formalized standard operating procedures. These may include access procedures, labor, taxation as well as others. While these regulations do not currently exist, IEFZL provides clear authority for the issuance of them and development of these rules will provide both improved efficiency and transparency for investors

Overlaying all of these issues will be the necessity of a set of negotiations between the PA and Israel. These negotiations may proceed on a single track or separately but must be envisioned to include eventual agreements covering a range of issues such as compensation, environmental concerns, ingress and egress of people and goods, trade and customs administration and operation. Negotiations should take as a starting point the relevant principles set out in the Paris Protocol—for example, the provisions on labor and access—and then proceed to agree to a set of MOUs setting out the specific principles under which EIE can be successful. These would include performance standards from both sides, transparency provisions, agreed exchanges of information, notification requirements and commitments to fairness and conduct in a manner which will facilitate the economic operation of the zone. As time passes more specific agreements could be agreed which would provide for detailed protocols of access and entry and exit for people and goods. To the extent that more rapid progress may be made on some of these issues in the context of the EIE specifically, it is to be hoped that the EIE could serve as a catalyst to resolving broader questions in the relationship

Conclusions

The overall conclusions that can be drawn for the development of the EIE post disengagement are as follows:

1. Although the EIE is being transferred to the PA under GOI's unilateral disengagement from the Gaza Strip, both sides wish it to achieve its potential as an economic unit capable of generating significant employment and economic opportunities in Gaza. Prior performance of the EIE indicates that, under the right circumstances, this can happen again.
2. The EIE as it is being transferred is an operational but run-down industrial estate in need of upgrading in many forms. The basic infrastructure is sound, but the environment, buildings and some infrastructural elements are in need of immediate upgrading. However, it is expected to be capable of operating as a unit when it is transferred. Since all economic activities have ceased at Erez as a prelude to disengagement, immediate resumption of operations will depend on recapturing some of the former EIE enterprises, both Palestinian and Israeli.
3. The business case for enterprises to locate in the EIE is changed profoundly by the new circumstances that will prevail at the EIE. In the short term, Israel-based customers for services at the retail level will no longer be able to avail of the EIE due to announced restrictions on Israeli citizens traveling into Gaza. Goods may not flow as freely into Israel as before, or inputs flow into the EIE. Access to the Palestinian labor force will remain as before; but, in practice, Palestinian control of the entry process is likely to significantly increase the potential number of workers who would actually be available. Additionally, goods from EIE will be able to use a Gaza certificate of origin.
4. Under the right circumstances, the EIE represents an opportunity to provide additional industrial infrastructure to potential users at a relatively low marginal cost. The most important required circumstances are efficient and predictable access of EIE manufactured goods and services to the external marketplace – Israel and beyond; sound management and marketing of the EIE; and the ability of enterprise owners, investors, managers and customers irrespective of nationality to visit and work in their place of business.

- 5.** To achieve these circumstances, the EIE will have to receive special status and treatment by both the PA and GOI including a dedicated and inclusive means of bi-lateral collaboration and the appointment of competent third parties to oversee and support the required policy regime and operational environment. It will also require strong and dedicated leadership on the part of the PA to carry forward the necessary policy and operational reforms, and to build investor confidence. All stakeholders, including business and community groups must support the initiative if it is to succeed.
- 6.** Even given a favorable policy and operational environment, the EIE will always remain vulnerable to the threat of disruption while the current state of conflict in the West Bank and Gaza prevails. The operational systems will need to be robust and able to respond to such disruptions – a departure from the current unpredictable environment at other crossing points and industrial estates.
- 7.** The benefits that could accrue if the EIE were energized in this way could include getting back to the employment levels of 2003 (5,000 direct jobs) and possibly significantly more within a period of 2 to 3 years.

In summary, the transfer of the EIE represents a significant but fleeting opportunity on several fronts – economic development and job creation in northern Gaza, the use of small-scale operations as test-beds for solving larger security and trade facilitation issues between the PA and GOI, and the re-energizing of the PA's industrial estate development program at a reasonable marginal cost. The opportunity is fleeting because it relies to some degree on circumstances and timely actions outside of the control of the PA and that can only be availed of now. It is also vulnerable to a major setback at any time. A "business as usual" approach to the EIE will result in minimal incremental economic activity coming to the EIE in the short to medium term. Overall, there is a path on which both the Palestinian and Israeli public and private sectors, together with other interested third parties and community groups, can embark upon that will keep the opportunity available. This path of collaboration is the one that we recommend.

Recommendations

Recommendations that are made in the course of this Chapter are summarized below		
Document reference	Recommendation	Responsible Party
Demand Assumptions	Set goal for EIE to begin at the Foundation level (a level of performance that requires special treatment for EIE especially with respect to access for goods and people, moving on towards the Takeoff level over time.	PA, GOI including the support of the business relevant communities and international community
Transition Phase introduction	Use the Transition Phase (2-4 months) to arrive at final design decisions and solutions to non-functioning infrastructure	PIEFZA, Engineering design team, international community TA.
Transition Phase- Institutional Development	Award a concession contract for a private sector firm to manage and develop the EIE, while retaining role as a regulator.	PIEFZA
Transition Phase- Access to Transportation	An interim dedicated crossing at Erez should be established while more permanent solutions are negotiated. A third party group acceptable to both sides could operate this crossing.	PA, GOI, third party
Transition Phase- Access to Transportation	Secure the EIE against intrusion, and then re-open under controlled conditions.	PIEFZA
Development Phase- Wastewater Treatment Upgrades	Construct a temporary modular wastewater treatment plant for use prior to availability of the new World Bank treatment plant.	EIE management
Development Phase- Environmental Regulations for Compliance and Monitoring	Regularly perform inspections and reviews of environmental compliance. Penalties must be enforced when non-compliance is found.	PIEFZA, EQA, GM
Development Phase- Access and Transport	Pursue joint operation of a border container-processing facility to eliminate 'back-to-back' transfers.	PA, GOI

Cost Summary

Capital Investment Requirements			
Type	Transition	Development	Total
Total	\$115,000+	\$5,050,000- \$6,770,000+	\$5,165,000- \$6,885,000+
Infrastructure	TBD	\$2,550,000- \$2,570,000+	\$2,550,000- \$2,570,000+
Water Well Rehabilitation	NA	\$50-\$70,000	\$50-\$70,000
Sewerage Collection Network	TBD	\$500,000	\$500,000
Wastewater Treatment Plant	NA	\$200,000	\$200,000
External Sewerage Connections	NA	\$1,300,000	\$1,300,000
Storm Water System	NA	\$500,000	\$500,000
Power Supply	NA	TBD	TBD
Building	\$115,000	TBD	\$115,000+
Durable Fencing	\$100,000	NA	\$100,000
Entrance Gate and Booth	\$15,000	NA	\$15,000
New Buildings	NA	TBD	TBD
Parking Facilities	NA	TBD	TBD
Freight Consolidation Terminal	NA	TBD	TBD
Environmental	\$0	\$2,500,000- \$4,200,000	\$2,500,000- \$4,200,000
Asbestos Removal	NA	\$2,500,000- \$4,200,000	\$2,500,000- \$4,200,000

4. Implementation Plan

Introduction

The importance of maintaining a secure border area and developing the EIE into a vibrant industrial zone cannot be compromised by poor planning, coordination, and implementation. TSG has thus prepared an implementation plan for the EIE based on our experience of international best practice in rehabilitating old and developing new industrial estates and free zones. It is crucial that the Palestinian Authority adopt this or a similar plan in order to adequately deal with the multiple layers of responsibility that will emerge during the handover, rehabilitation, and development of the EIE.

The handover of the Erez Industrial Estate from Israeli to Palestinian control will involve multiple government and private sector parties over the course of the next two years. Important stakeholders will include, but not necessarily be limited to the following:

- Government of Israel
- Palestinian Authority
- Donors such as the World Bank, European Union, and USAID
- Palestinian Industrial Estates and Free Zones Authority (PIEFZA)
- PIEFZA-appointed Manager/Developer for the EIE
- Israeli Electricity Corporation
- PaTel
- PaTrade
- Palestinian Investment Promotion Agency (PIPA)
- Erez Industrial Estate Management Team
- Private investors in the EIE
- Israeli Defense Force

The implementation plan presented below summarizes the details discussed in Chapters 2 and 3 of this report. It is organized to reflect the following areas of EIE development.

- Asset Rehabilitation
- Legal and Regulatory Enabling Framework
- Environmental Upgrading
- Management Systems and Marketing
- Transportation and Access

Figure 4.1: Signage at the EIE Exit Gate



The implementation plan spans both a short-term 'Transition' phase and medium-term 'Development' phase. The Transition phase will span the six-month period from August 1, 2005 to January 31, 2006 and include the transfer of assets from Israel to Palestinian control and addressing immediate security, legal, and infrastructure needs of the EIE. The Transition period will also involve strategic planning for the medium and long-term management and development of the EIE as well as preparation of a tender process for a private manager/developer.

The Development phase spans a timeframe from February 1, 2006 through December 31, 2007. The early part of the Development phase should witness the appointment of a private EIE manager/developer, as well as coordinated marketing by the IE manager, PIEFZA, PIPA, and other stakeholders. During this period, important environmental and infrastructure development issues will be addressed, and the zone expanded according to a strategic plan agreed upon during the Transition phase.

Asset Rehabilitation

Figure 4.2 outlines the steps that the Palestinian Authority, government of Israel, PIEFZA, and other parties should take in receiving and securing EIE assets transferred from Israeli to Palestinian control. The bulk of asset transfer will occur in August 2005, after which the PA and PIEFZA will be tasked with installing emergency interim infrastructure to meet the needs of remaining EIE tenants. In the period from September through November, the Palestinian Authority and PIEFZA should rehabilitate the water system and wastewater collection network, while continuing to supply power to the EIE through the IEC. The Development Phase, beginning in February 2006, should witness the design and installation of long-term infrastructure, including the rehabilitation of buildings to suit new demand in the EIE. PIEFZA should initiate a master plan for the long-term development of the EIE, and provisions should be made to provide access to asset-based finance for investment in the zone.

Legal and Regulatory Framework

The EIE must operate within the laws, regulations, and standards of the Palestinian Authority, and in compliance with international norms established for manufacturing, services, and trading. Figure 4.3 highlights the implementation plan for establishing a legal and regulatory framework for the EIE.

During the initial Transition phase, the Government of Israel and Palestinian Authority should sign an MOU forming an EIE Taskforce, and MOUs and/or commercial agreements should be signed for utility service provision in the zone. At the same time, a legal framework should be secured for existing businesses in the EIE, giving businesses all the rights and protections accorded to them under Palestinian law. It will be crucial to immediately establish a land registration mechanism and initiate and implement a clear system for ownership and land titling. During the medium to longer terms, the PA should address any issues of property settlement with parties holding previous claim to lands upon which the current EIE sits. In the longer term, the Palestinian commercial legal framework should also be examined and enhanced as necessary.

Environmental Upgrading

Several very important environmental action items will need to be urgently accomplished in the first six months after handover of EIE assets to the PA. During August and September 2005, PIEFZA should perform a baseline assessment of environmental hazards and toxic chemicals and processes stored or used in the zone. Removal of hazardous materials should immediately follow. At the same time roads and

common areas should be cleared of trash and the storm water system cleared of blocked debris. Since Wadi Hanon is blocked, and the wastewater treatment plant at Beit Lahia at full capacity, a modular unit for wastewater collection should be built on the EIE premises.

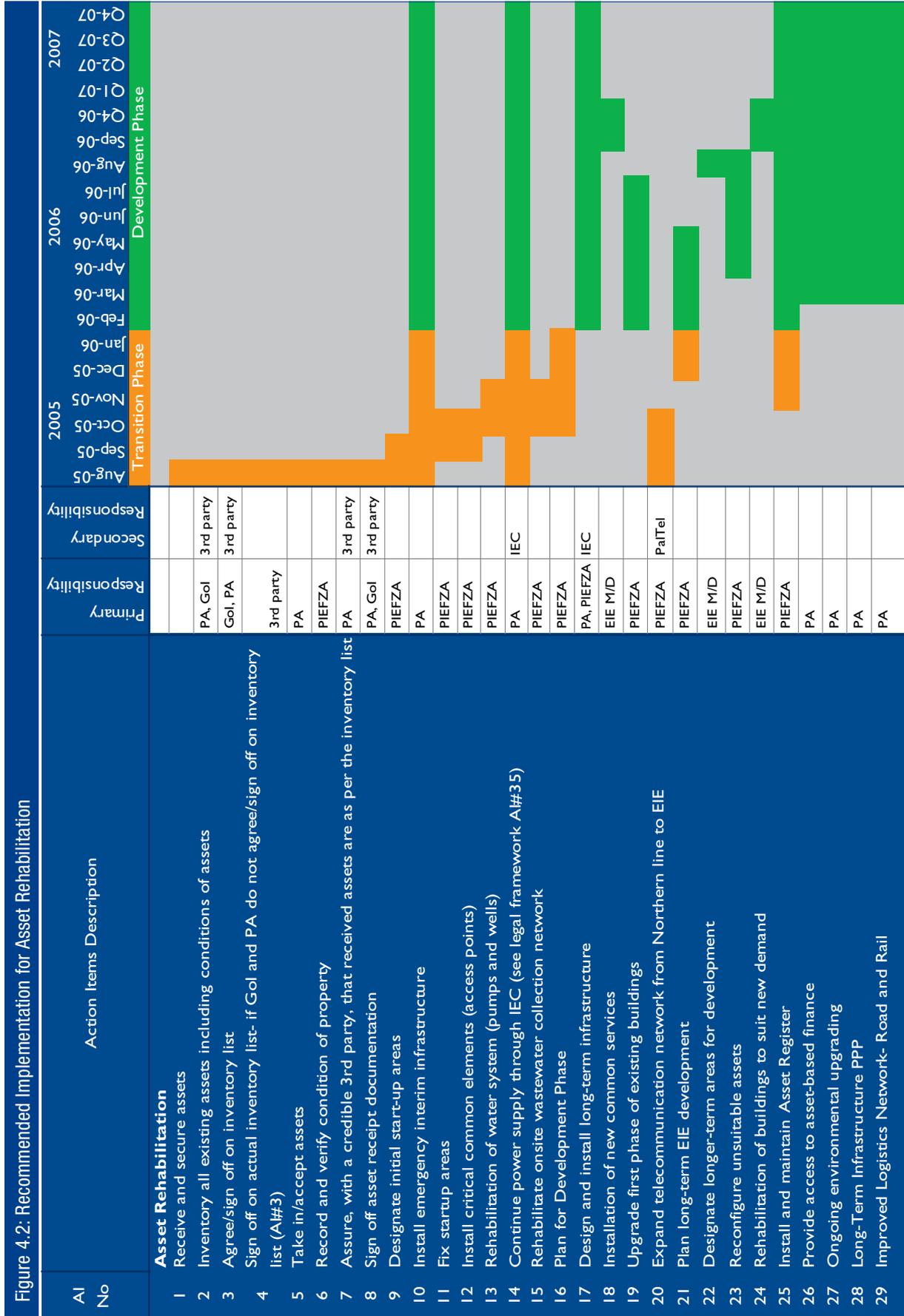
During the medium-term Development phase, the private manager/developer of the EIE should work closely with PIEFZA and relevant PA ministries and agencies to monitor and enforce an environmental management system. Polluted areas should be cleaned up asbestos abatement actions should proceed until all buildings are brought up to acceptable environmental health standards.

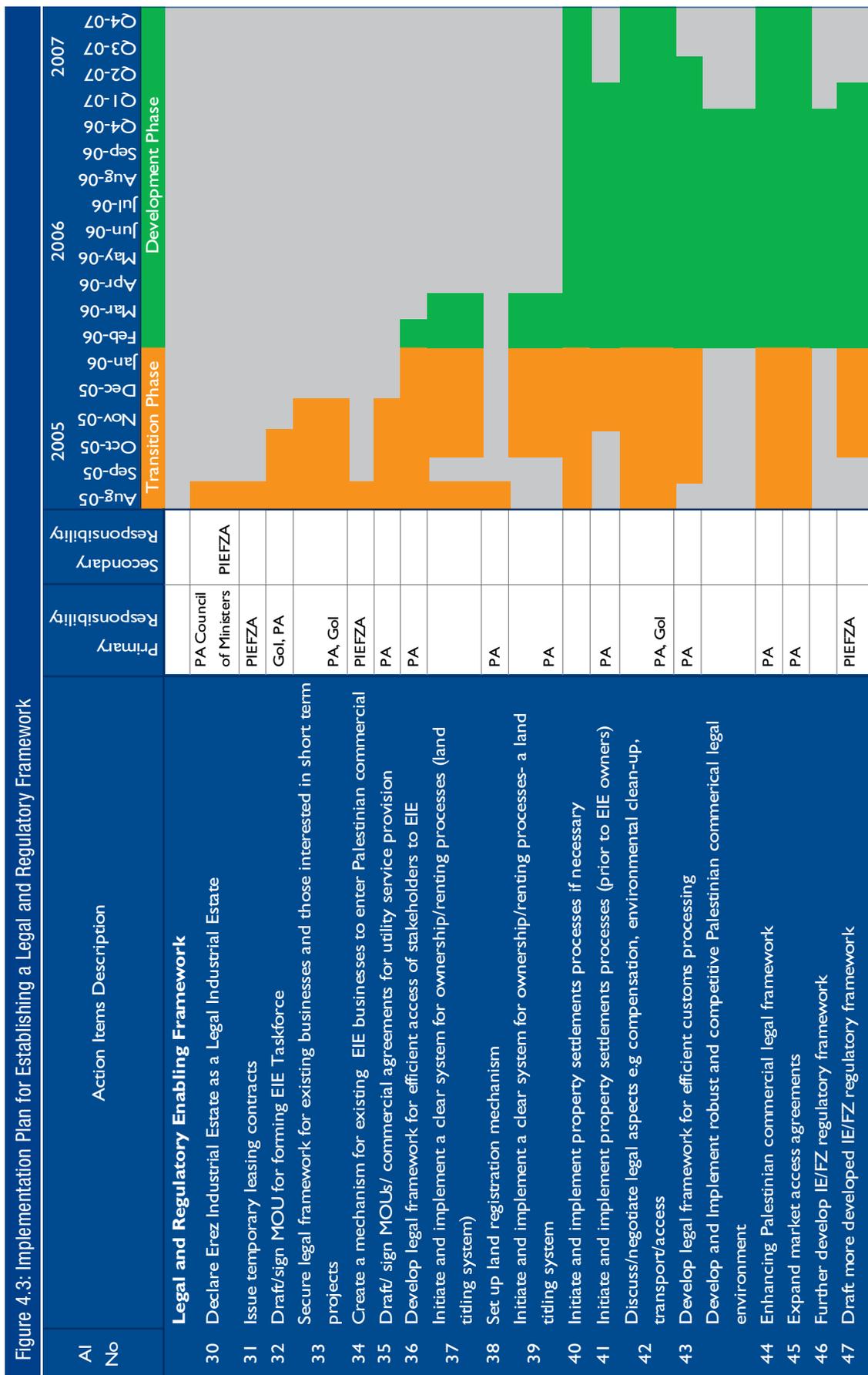
Management Systems

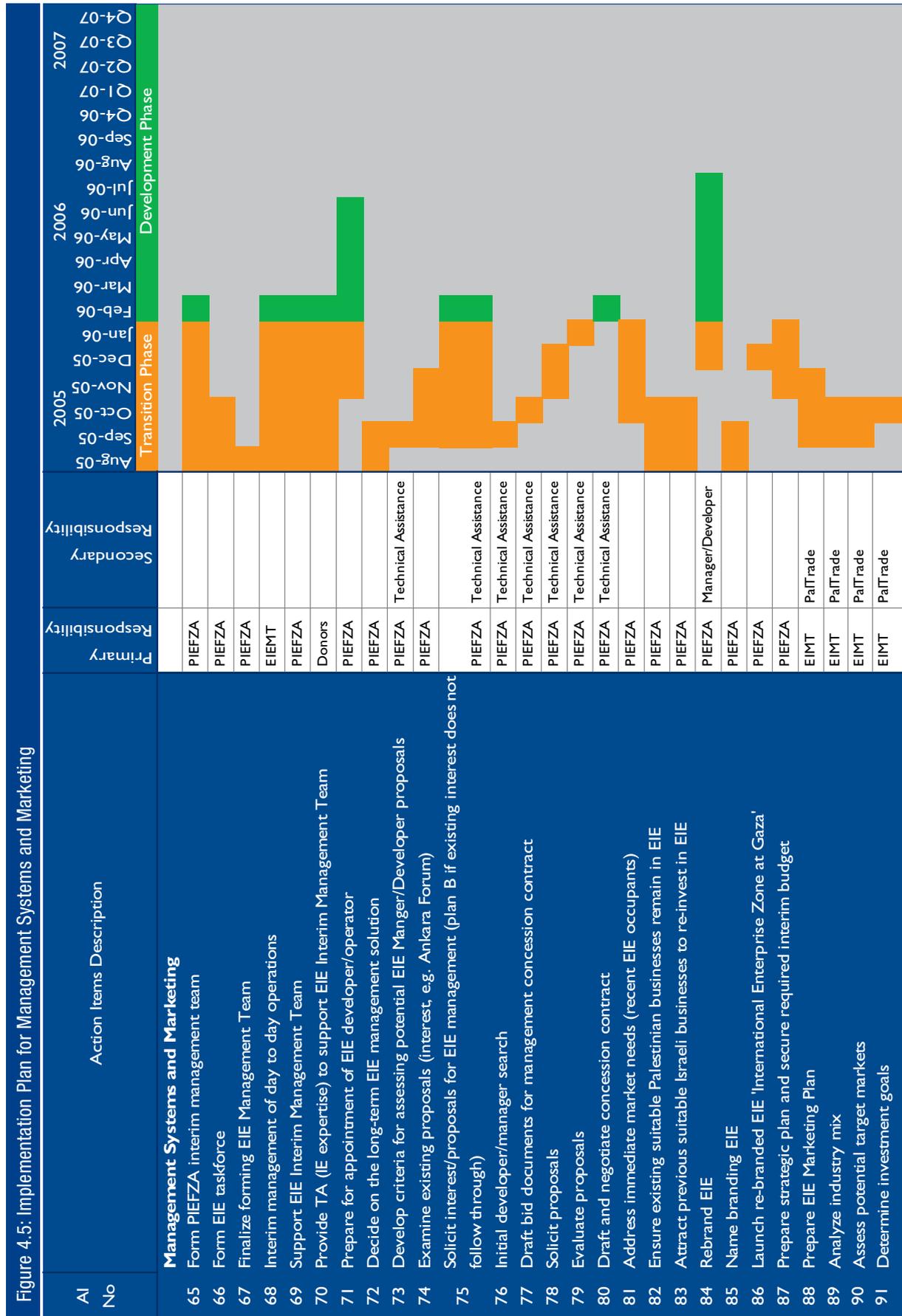
Figure 4.5 lists the responsibilities and required technical assistance for developing and improving the management systems and marketing for the EIE. During the Transition Phase, PIEFZA should form an interim Management Team and work together with donors and technical assistance to prepare for the appointment of a private manager/developer for the zone. The initial manager/developer search and tender process should commence in September 2005, and proposals from private firms or consortia evaluated in January 2005. Meanwhile, PaTrade, PIPA, and other agencies should prepare a marketing plan for the EIE. In the longer term, PIEFZA will oversee the EIE development as part of the overall Palestinian industrial estate portfolio. PIEFZA and PIPA will work closely with the EIE manager/developer to market the zone both within and outside Palestinian Territories and Israel. PIEFZA will manage and oversee all aspects of the concession with the private manager/developer.

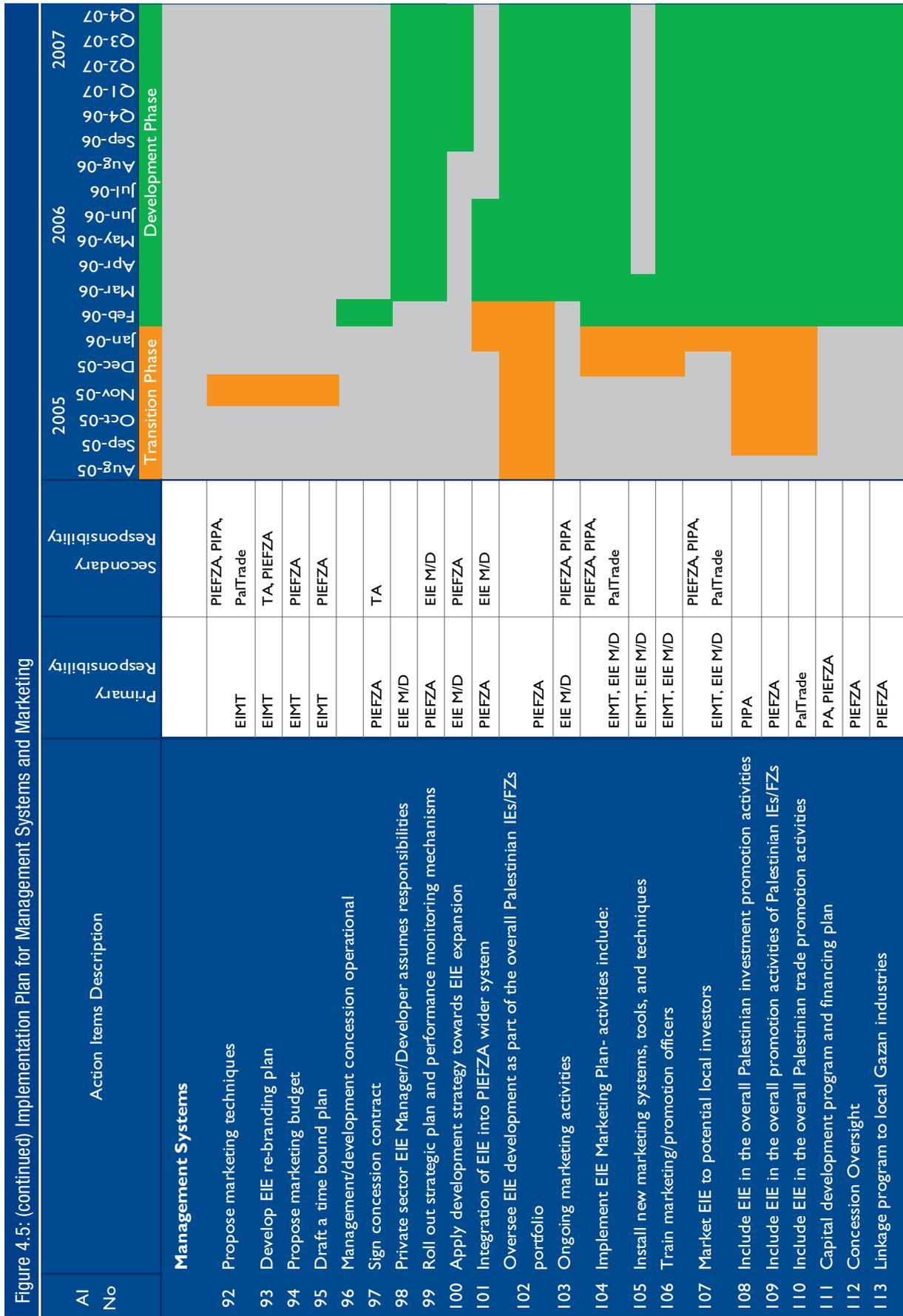
Transportation and Access

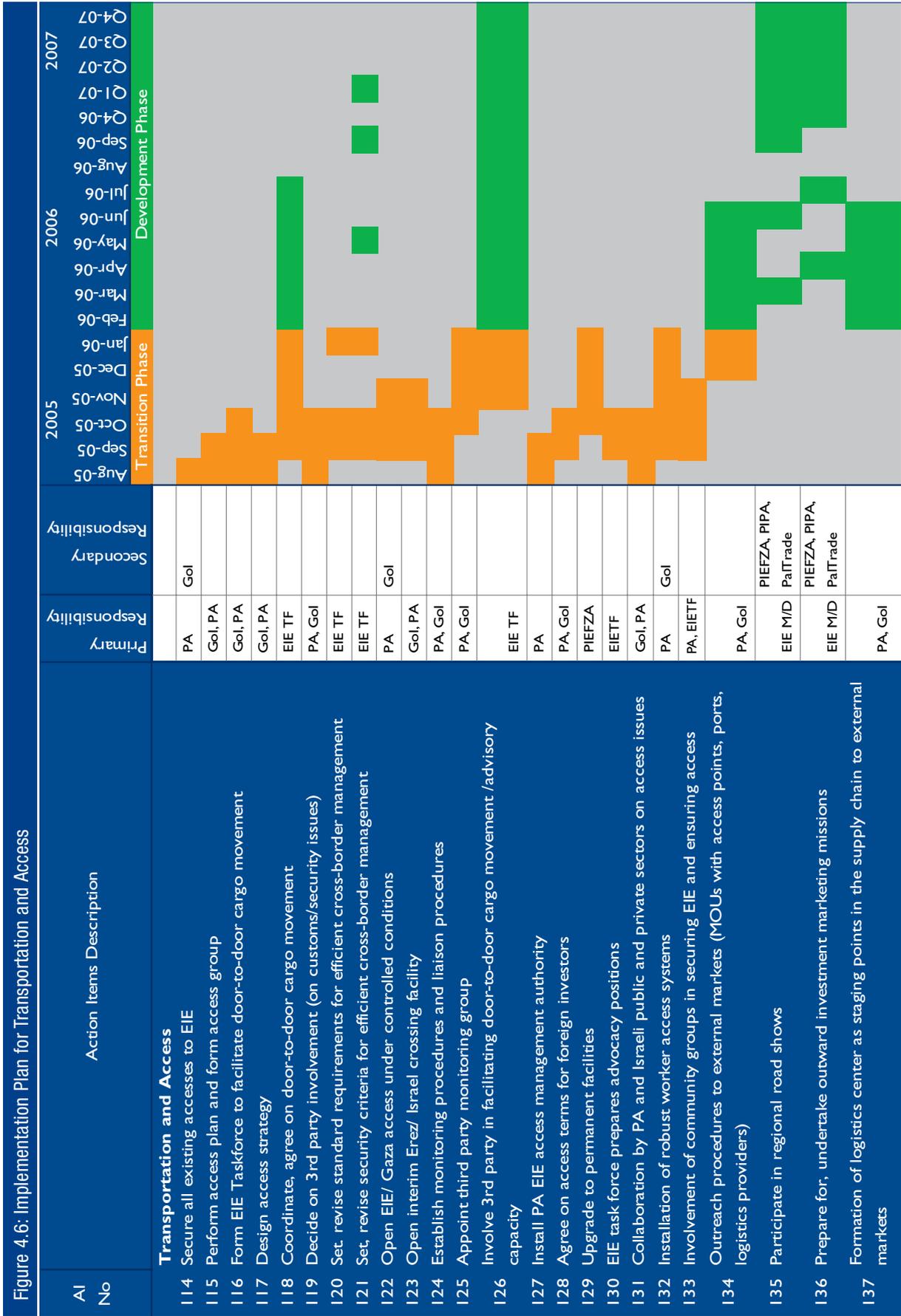
In order to maintain its attraction to investors, the EIE must be accessible to business owners, laborers, business customers, suppliers, and freight transportation operators. Figure 4.6 highlights a crucial plan for maintaining access to the EIE for these important stakeholders. In the short-term Transition phase, the Palestinian Authority should secure access to the EIE and border areas in order to prevent theft of valuable assets. The PA should work together with the government of Israel to form an EIE Taskforce charged with facilitating door-to-door movement of cargo from the EIE to Israeli customers or ports. An Erez-Israel crossing facility should also be opened and monitoring and crossing procedures should be agreed upon by the two governments. It is also recommended that PIEFZA work together with Palestinian community groups to secure the EIE and ensure safe access for workers and business owners.











Appendix A. Abbreviations, Acronymns, and Initialisms

AI	Action item	Ltd.	Limited
AMF	Al Mustaqbal Foundation	M	Meter
CMU	Concrete masonry unit	M²	Square meter
Corp.	Corporation	M³	Cubic meter
ECF	Economic Cooperation Foundation	MATAK	Erez Coordination and Liaison Office
E.g.	Example	Mg	Miligram
EIE	Erez Industrial Estate	MEB	Middle East Bridges
EIEMT	Erez Industrial Estate Management Team	MOU	Memorandum of understanding
EIETF	Erez Industrial Estate Task Force	NIIC	Northern International and Industrial Company
EPS	Erez Pilot Study	NIS	New Israel shekel
EQA	Environmental Quality Authority	No.	Number
EWI	EastWest Institute	PA	Palestinian Authority
FDI	Foreign Direct Investment	PIEDCO	Palestinian Industrial Estates Development and Management Company, Ltd.
FZ	Free zone	PIEFZA	Palestinian Industrial Estates and Free Zones Authority
GIE	Gaza Industrial Estate	PIF	Palestinian Investment Fund
GoI	Government of Israel	PIPA	Palestinian Investment Promotion Agency
HDPE	High-density polyethylene	PVC	Polyvinyl chloride
Hr.	Hour	SEZ	Special Economic Zone
HVAC	Heating, ventilation, and air conditioning	TOR	Terms of Reference
IBC	Industrial Buildings Corp.	TSG	The Services Group, Inc.
IDF	Israeli Defense Force	UAE	United Arab Emirates
IE	Industrial estate	UK	United Kingdom
IEFZL	Industrial Estates and Free Zones Law	US\$	United States dollar
IEC	Israeli Electricity Corporation	USAID	United States Agency for International Development
Inc.	Incorporated	WBG	West Bank and Gaza
IPP	Independent Power Producer	Yr.	Year
JIE	Jenin Industrial Estate		
KWh	Kilowatt hour		
L	Liter		

Appendix B. Individuals Consulted

Last Name	First Name	Organization	Position
Abu Elola	Ismail	Palestinian Industrial Estate and Free Zone Authority	Acting Director General
Al-Jamal	Khairy	World Bank	Senior Operations Officer, Water and Energy Engineer
Almog-Elergand	Daniel	Nordan Technologies Limited	Managing Director
Al-Waddiyeh	Khaled	Erez Palestinian Business Owners Association	President
Amiti	Izhak	Industrial Buildings Corporation, Ltd.	Manager, Erez Industrial Zone
Ayyad	Samir	Palestinian Industrial Estate and Free Zone Authority	IT Director
Baker	Thabet	Palestinian Industrial Estate and Free Zone Authority	
Bamyeh	Saeb	Palestinian Authority, Ministry of National Economy	Assistant Undersecretary
Ben-Har	Limor	Israel National Security Council	Senior Coordinator for Defense Policy
Ben-Porath	Orry	Office of Vice Premier Shimon Peres	Director of Political Economic Section
Berg	Goran	Consulate General of Sweden	Consul General, Jerusalem
Berger	Christian	Office of the Special Envoy for Disengagement	EU Representative
Bloom	Gabriella	Israel National Security Council	Strategic Advisor
Brom	Shlomo	Economic Cooperation Foundation	
Cirulnik	Michael	Israeli Ministry of Defense Office of Coordination and Liason	Lt. Col, Head of Economic Branch, Coordination and Liaison Administration (MATAK)
Daijani	Amir	Al Mustaqbal Foundation	Member, Board of Directors
El Batish	Abed	El Kana'a Company (Erez)	Co-Owner
El Masri	Wadie	Palestinian Industrial Estate Development Company	General Manager
El-Sheikh	Rebhy	Palestinian Water Authority	
El-Wazir	Bassem	Al Mustaqbal Foundation; PCFund, General Manager	Member, Board of Directors

Erez Industrial Estate Pilot Study: An Implementation Plan

Etzion	Eran	Israel National Security Council	Chief of Staff
Gurvich	Isaac	Office of Vice Premier Shimon Peres	Chief Economic Adviser
Habesch	Youssef	International Finance Corporation	Investment Officer
Haj Ahmad	Nisreen	Palestinian Liberation Organization, Negotiations Support Unit	Legal Adviser
Hasson	Nissim	Wateirpoll, Ltd.	General Manager
Hirschfeld	Ya	Economic Cooperation Foundation	Director
Hourani	Samir	Palestinian Industrial Estate and Free Zone Authority	
Husseini	Hiba	Al-Mustaqbal Foundation	Chairwoman
Jaber	Nasser	Palestinian Authority, Ministry of National Economy	Assistant Deputy Minister
Karni	Boaz	Economic Cooperation Foundation	
Krafft	Nicholas	Office of the Special Envoy for Disengagement	World Bank Representative
Mackie	Aiman	EastWest Institute Middle East Bridges Program	Program Manager
Moshiach	Netza	Ministry of Defense	Head, Security Fence Project
O'Connell	Colm	Irish Representative Office	Deputy Head
Persky	Baruch	COGAT	Lt. Colonel, Head of Economic Branch
Peschka	Mary Porter	International Finance Corporation	Operations Officer
Shamieh	Yehia	Ministry of Energy and National Resources	Chairman
Sharma	Dennis	USAID	Director, Private Enterprise Office
Sinokrot	Mazen	Palestinian Authority, Ministry of National Economy	Minister
Sorby	Johan	Norwegian Representative Office	First Secretary, Development
Sorek	Yishay	Office of Vice Premier Shimon Peres	Director, Division of Regional Development and International Relations
Spiegel	Baruch	Ministry of Defense	Adviser to the Minister
Tarazi	Amal	Palestinian Authority, Ministry of National Economy	Director General, Office of the Minister of National Economy
Thesleff	Jan	Conseil de L'Union Europeenne	Conseiller du Representant Special de l'UE pour le Processus de Paix au Moyen-Orient
Touboul	Celine	Economic Cooperation Foundation	Project Director
Touval	Jonathan	Economic Cooperation Foundation	Policy Adviser
Yaar	Itamar	Israel National Security Council	Deputy Head

Appendix C.

Concession Agreements for Industrial Estates

Rationale

Publicly owned and operated industrial estates are usually constructed as a means for the state to provide in a central location the space and services needed by the manufacturing and service industries. In this respect they may be regarded as public infrastructure, providing a public service in the absence of a private party willing to do so for reasons of commercial risk, lack of capital, or lack of skills and experience.

In recent years there has been an acknowledgement that publicly operated industrial estates, and similar initiatives such as free trade zones, can benefit from the introduction of public-private partnerships. Such partnerships generally require the public sector to provide sufficient levels of initial investment for required common infrastructure. This lays the ground for creation of private sector opportunities by mitigating normal levels of commercial risk, particularly in developing countries.

In cases where public development alone has taken place alongside public-private partnership development, the partnership always out-performs the public development in terms of efficiency and level of service. Examples are the free zone regime in the Dominican Republic and the enterprise zones in the Philippines. Generally, public institutions charged with operational responsibilities of industrial zones grow into bloated inefficient organizations. There are notable exceptions such as the Jebel Ali Free Zone Authority in the UAE and the Jurong Town Corporation in Singapore, but for every exception there are many examples of the opposite.

Concession Agreements

A common form of partnership is a concession agreement whereby a private party—as the result of a transparent tender competition—takes possession of a partially or fully developed existing asset belonging to the public sector (e.g. unserviced or semi-serviced land, a disused military base, or the initial phase of a fully developed industrial estate) for a period of 20 to 50 years. The private developer undertakes to use that asset as a starting point to develop and operate an industrial estate that meets the expectations of the public sector in terms of size, pace of development, and competitive delivery of services. The revenues from the development are shared on some basis, and the fully developed estate—to the extent that it has not been sold to individual users—is either handed or sold back to the public sector at the end of the concession period. Some concession models require that the remaining common services in the estate be handed over to a management association made up of the users of the estate, thus permanently alienating the operation of the estate from the public sector.

The benefits of these arrangements are numerous, and include the following.

- Avoidance of conflicts of interest between the regulatory and promotion functions of a public development agency
- Introduction of sound, commercially based development decisions and management operations
- Reduction of opportunities for public corruption if that is a danger
- Sharing of development risk between public and private parties

The arrangement, in effect, provides the public agency with an extended reach for development, while efficiently conserving resources.

Key Issues in a Concession Agreement

The key issues normally covered in a concession agreement are centered around several things.

- Aligning the incentives of the parties toward common goals
- Protecting the interests and investments of the parties from loss through negligent behavior
- Allocating the benefits of the development—financial and otherwise—in accordance with agreed terms.

The main headings of a concession agreement normally include the following.

Definitions. The nature of the assets to be provided and developed, as well as all terms relating to the agreement, are defined.

Duration. The time is set out for the achievement of the goals of the agreement and how these might be altered.

Development Right and Obligations. The conditions of use of the provided asset are outlined, and the performance obligations of the developer are expressed in terms of the development or investment targets that would have been agreed as a result of a tender or other process. This will also include any exclusive rights provided to the developer.

Activities. The exact nature of activities to be developed on the site – or the process by which they will be identified on an ongoing basis – are set out.

Management Policies. Issues such as personnel, procedures, and efficiency standards are described.

Housekeeping. Normal clauses about indemnity, information, reporting, default, dispute resolution, are dealt with.

Principles to Follow

From the perspective of the public owner of the industrial estate, the procurement process for the concession should establish the ability of the developer/operator to do the following.

1. Bring economic activity (customers) to the industrial estate
2. Mobilize and manage the required resources to meet the demands of those customers on an ongoing basis
3. Act as a reliable and honest partner to the owner.

This means that a potential concessionaire should be asked to submit a proposal in a form that allows the owner to fully determine these abilities, and to compare them with alternative choices. A tender process is the most common and transparent means to achieve this.

Since these developments usually have a substantial degree of risk or low commercial return rates attached—hence the need for the public sector to prime the development in the first place for reasons of benefit to the economy—the private sector developer/operator will need to receive its financial returns before the public sector does. This usually means that revenue sharing occurs after a certain threshold, and the investments of the developer/operator are recognized first in any sale transaction.

While many public agencies attempt to put stringent performance requirements in the agreement, impractical targets—even if proposed by the developer to secure the opportunity, and accepted by the owner—will frustrate the contract moving forward. The owner should always have his or her own solid estimate of reasonable minimum performance targets, realizable rates of return for private partner, and the degree of risk being undertaken before entering into a procurement or negotiation process. Complicated contracts should be avoided at all costs.

Properly concluding a concession for an industrial estate the size and complexity of Erez Industrial Estate can be expected to take at least six months as follows.

- One month to prepare a document to which offerors can respond
- One and a half months for potential offerors to prepare their offers
- Half month for evaluation of the offer
- One month for negotiation
- One month for contract preparation
- One month mobilization period

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Appendix E. Biographies

Jim O’Gara is a Senior Vice President and Principal at TSG. He has been active in WBG since 1998, and has led all of the industrial estate initiatives on behalf of TSG during that time. This includes feasibility studies on industrial estates, logistics facilities, and technology parks at Karni, Rafah, Tulkarem, Hebron, and Ramallah. Mr. O’Gara has been very closely involved with the development of the Aqaba Special Economic Zone in Jordan, and has been a strong advocate for the designation of Gaza as a Special Economic Zone (SEZ) as a means to accelerate economic development.

Ra’ed Daoud is a long time associate of TSG. He has worked closely with TSG in WBG since 1998, and was responsible for all of the environmental design work on TSG’s industrial estate projects in WBG. During the summer of 2004, Mr. Daoud led the industrial estate component of TSG’s Gaza Disengagement paper for the World Bank. Mr. Daoud owns and operates a consulting company in Jordan – Ecoconsult – and together with TSG has been deeply involved in the Aqaba SEZ and other industrial estate developments in Jordan.

Alan P Gross has been consistently involved with economic development issues affecting Palestinian and Israeli markets since 1977. He most recently (February 2005) has been providing technical assistance to the US Agency for International Development for the West Bank and Gaza on matters relating to cargo transport, including Gaza and Erez. Mr. Gross has collaborated with TSG in determining solutions to transportation and cargo issues in WBG.

Brian Russell is the Vice President at TSG responsible for the areas of Legal and Regulatory Reform with respect to International Trade. He was responsible for all legal inputs into TSG’s 2004 analysis of border crossings and industrial estates for the World Bank, and is active in the region on international trade issues.

Reem Aloul is a Senior Consultant with TSG. She has been closely involved in all aspects of TSG’s work in the Middle East, including acting as a core information management resource on site during the TSG Gaza Disengagement Study for the World Bank in 2004.

Ronan Pelleg is a principal of Ronan Pelleg, Architects, Consultants Ltd, a full service Architectural and Project Management firm headquartered in Israel, which specializes in the design of Industrial Parks and complex environments. He has served on the faculties of the University of Indiana, Cincinnati University, and the Israel Institute of Technology (Technion) and holds professional registrations in Israel and the U.S. Mr. Pelleg has designed projects in the USA, the Middle East, Eastern Europe and Africa.

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