

# **UNCTAD Assistance to the Palestinian People: Developments in the Economy of the Occupied Palestinian Territory**

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**Report on UNCTAD assistance to the Palestinian people**

### **Report on UNCTAD assistance to the Palestinian people: Developments in the economy of the Occupied Palestinian Territory\***

**Note by the UNCTAD secretariat\*\***

#### *Executive summary*

In 2018 and early 2019, the performance of the Palestinian economy and humanitarian conditions reached an all-time low. Per capita income fell, mass unemployment increased, poverty deepened and the environmental toll of occupation has been rising in both the Gaza Strip and the West Bank. The Palestinian people are denied the right to exploit oil and natural gas resources and thereby deprived of billions of dollars in revenue. The international community should help the Palestinian people to secure their right to oil and gas in the Occupied Palestinian Territory and ascertain their legitimate share in the natural resources collectively owned by several neighbouring States in the region. In March 2019, the Government of Israel started to deduct \$11.5 million monthly (equivalent to \$138 million annually) from Palestinian clearance revenues. The Palestinian National Authority responded that it would not accept anything less than the full amount of its rightful clearance revenues, which represent two thirds of Palestinian fiscal revenue. This fiscal shock is compounded by declining donor support.

UNCTAD continues to respond positively to the needs of the Palestinian people. However, securing extrabudgetary resources remains critical to fulfilling the requests in the Nairobi Maafikiano and in General Assembly resolutions for UNCTAD to report on the economic costs of occupation for the Palestinian people.

\* The designations employed, maps and the presentation of the material in this document do not imply the expression of any opinion whatsoever on the part of the United Nations Secretariat concerning the legal status of any country, territory, city or area, or of its authorities, or concerning the delineation of its frontiers or boundaries. In accordance with the relevant resolutions and decisions of the General Assembly and Security Council, references to the Occupied Palestinian Territory or territories pertain to the Gaza Strip and the West Bank, including East Jerusalem. Use of the term "Palestine" refers to the Palestine Liberation Organization, which established the Palestinian National Authority. References to the "State of Palestine" are consistent with the vision expressed in Security Council resolution 1397 (2002) and General Assembly resolution 67/19 (2012).

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## **I. Falling per capita income and worsening depression-level unemployment**

1. Precipitous deterioration in Gaza and a slowdown in the West Bank combined in a scant 0.9 per cent growth in gross domestic product (GDP) in 2018, well below the population growth rate, implying a drop in per capita income and worsening unemployment and poverty crises. The slowdown was driven by the dire conditions in Gaza, with the recent decimation of the productive base and capital stock and restrictions on the importation of essential production inputs. The economy of Gaza contracted by 7 per cent and poverty deepened.

2. Investment in Gaza practically vanished, falling to 3 per cent of GDP, 88 per cent of which was channelled to the rebuilding of structures destroyed during several major military operations in the last 10 years. Non-building investment remain minimal, at 0.5 per cent of GDP. Had the capital stock accumulation and productivity growth rates been similar to those in the West Bank, output growth in Gaza could have reached 9 per cent (International Monetary Fund, 2018).

3. In the West Bank, the economy may have reached the limits of consumption and credit-led growth; GDP growth slowed from 4 to 3 per cent between 2017 and 2018. The slowdown is explained by the decrease in donor support, contraction of the public sector and deterioration of the security environment, which discouraged private sector activities. In the recent past, substantial donor aid and domestic credit expansion financed a consumption-led growth that masked the severity of the economic consequences of the prolonged occupation. With the decline of donor aid, this mask has been slipping and the unsustainability of this type of illusory growth is laid bare.

4. The forces set in motion by occupation restructured the Palestinian economy and made its growth performance driven by the non-tradable goods sector, namely, construction, wholesale, retail and services, while exports contribute little and the massive trade deficit adversely affects GDP growth. The overall share of manufacturing in total value added shrank from 20 to 11 per cent of GDP between 1994 and 2018, while the share of agriculture and fishing declined from over 12 per cent to less than 3 per cent.

5. This pattern underscores the incapacity of the Palestinian National Authority (PNA) to steer the economy towards an export-led growth strategy, which would be most suitable for a small, open economy. The distorted distribution of investments across sectors gives rise to jobless growth in good times and deprives the economy of the benefits of technological innovation and the dynamism it entails, which are characteristic of the manufacturing and agricultural sectors hampered by occupation.

6. According to the Palestinian Monetary Authority (2018), in 2018, the Palestinian banking sector showed some signs for concern. Deposits only increased by 1 per cent, compared with 12 per cent in 2017, while the credit-to-deposit ratio increased to 69 per cent in 2018, compared with a maximum of 60 per cent in previous years. Non-performing loans increased by 25 per cent. Such developments are a cause for concern in their own right and also because even a minor banking crisis can spill over and dampen economic growth by limiting the ability and willingness of banks to support the economy's supply and demand sides.

7. The prospects for the Palestinian economy are grim because the sources of growth that have propelled it in the last two decades are disappearing, while the constraints imposed by prolonged occupation persist and worsen. Many new developments render the horizon bleaker, including heightening political uncertainty, the steep decline in donor support and the volatile fiscal situation. In the short term, growth is expected to hover around 1 per cent, well below the population growth rate, which means continuous decline in real per capita income and rising levels of poverty.

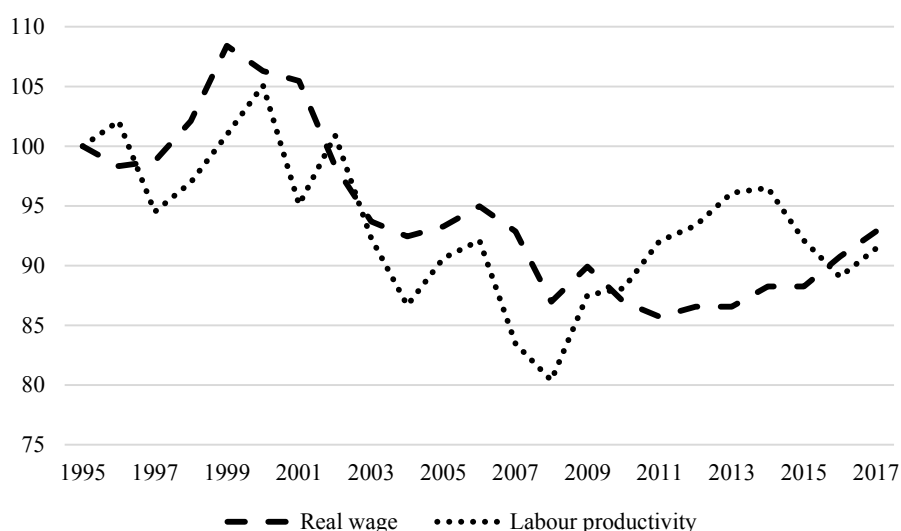
### **A. Plunging labour productivity and the real wage**

8. The depression-level unemployment rate in the Occupied Palestinian Territory continued to climb in 2018, reaching 31 per cent; 52 per cent in Gaza and 18 per cent in the

West Bank. As in previous years, women and youth were disproportionately impacted. Adverse labour market conditions manifest themselves in a low overall labour force participation rate of 46 per cent (21 per cent for women) and the fact that more than one third of private sector employees receive less than the minimum wage, with the situation worse in Gaza, where four in five employees work for less than the minimum wage (Economic Policy Research Institute, Palestinian Central Bureau of Statistics (PCBS) and Palestinian Monetary Authority, 2018; PCBS, 2019).

9. The trends in the real wage and labour productivity have been declining (see figure). In 2017, the real wage and productivity per worker were 7 and 9 per cent below their levels in 1995, respectively.

**Indices of the real wage and productivity per worker**  
(1995 = 100)



Source: UNCTAD.

10. Flassbeck et al (2018) find that in Gaza, between 1995 and 2018, labour productivity per hour declined by 29.4 per cent and that the real wage, productivity, unit labour costs and prices diverged from one another, implying a redistribution from wage income to profits, greater inequality, reduced domestic spending and falling contributions of household consumption to GDP. This could constrain growth by weakening domestic demand.

11. The anaemic GDP growth, declining real income, high unemployment level and falling donor support resulted in worsening incidents of poverty and food insecurity in the Occupied Palestinian Territory. This situation leaves 2.5 million people in need of humanitarian assistance, the overwhelming majority of whom live in areas outside the control of PNA, that is, Gaza, Area C of the West Bank and East Jerusalem (United Nations Office for the Coordination of Humanitarian Affairs, 2018a).

12. PCBS (2018) data shows that, in 2017, 29.2 per cent of Palestinians lived below the consumption-based poverty line, defined as \$4.6 per day, including social assistance and transfers. Furthermore, deep poverty afflicts two thirds of the poor, who live on less than \$3.6 per day. The poverty rate was 13.9 per cent in the West Bank and 53 per cent in Gaza, where over 1 million people, or one in two, are now poor, including over 400,000 children. In Jerusalem, 72 per cent of Palestinian families live below the poverty line, compared with 26 per cent of Israeli families and 81 per cent of Palestinian children live below the poverty line, compared with 36 per cent of Israeli children (Association for Civil Rights in Israel, 2019). In addition, one third of the population is food insecure, although many receive assistance. In Gaza, 68 per cent of households are food insecure.

### Economy of the Occupied Palestinian Territory: Key indicators

	1995	1999	2002	2006	2010	2016	2017	2018*
<b>Macroeconomic performance</b>								
Real GDP growth (percentage)	7.1	8.3	-12.5	-3.9	8.1	4.7	3.1	0.9
GDP, nominal (millions of dollars)	3 283	4 271	3 556	4 910	8 913	13 426	14 498	14 616
Gross national income (millions of dollars)	3 723	5 025	3 775	5 333	9 512	15 322	16 490	17 010
Gross national disposable income (millions of dollars)	4 122	5 398	4 826	6 624	11 503	16 731	18 309	18 784
GDP per capita, nominal (dollars)**	1 427	1 553	1 182	1 449	2 339	2 957	3 253	3 198
Gross national income per capita, nominal (dollars)**	1 618	1 827	1 255	1 573	2 496	3 375	3 700	3 722
Real GDP per capita growth (percentage)**	-0.2	4.8	-15.0	-6.8	5.0	2.1	5.1	-1.7
Real gross national income per capita growth (percentage)**	0.7	4.6	-16.4	-5.0	2.2	1.4	4.1	-0.3
<b>Population and labour</b>								
Population (millions) <sup>a</sup>	2.34	2.96	3.23	3.61	4.05	4.82	4.78	4.85
Unemployment (percentage)	18.2	12.0	31.2	23.7	23.7	26.9	27.4	31.0
Total employment (thousands)	417	588	452	636	743	978	997	956
In public sector	51	103	105	147	178	211	184	202
In Israel and settlements	68	135	42	55	78	116	131	127
<b>Fiscal balance (percentage of gross domestic product)</b>								
Revenue net of arrears/clearance withheld	13.0	23.4	8.2	25.0	21.6	26.6	25.2	23.6
Current expenditure	15.0	22.1	28.0	46.4	34.5	32.2	30.6	28.1
Total expenditure	25.1	29.3	34.2	52.1	39.6	34.7	33.1	30.6
Overall balance (commitment basis)	-12.1	-5.9	-26.0	-27.1	-17.9	-8.1	-7.9	-7.0
Public debt <sup>b</sup>	..	20.0	21.1	22.2	21.1	18.5	17.5	16.9
<b>External trade</b>								
Net current transfers (millions of dollars)	400	373	1 051	1 291	1 991	1 409	1 819	1 774
Exports of goods and services (millions of dollars)	562	752	478	736	1 367	2 381	2 693	2 904
Imports of goods and services (millions of dollars)	2 441	3 364	2 234	3 683	5 264	7 627	8 067	8 731
Trade balance (millions of dollars)	-1 879	-2 612	-1 756	-2 947	-3 897	-5 246	-5 374	-5 827
Trade balance (percentage of GDP)	-57.2	-61.2	-49.4	-60.0	-43.7	-39.1	-37.1	-39.9
Trade balance with Israel (millions of dollars)	-922	-1 598	-886	-1 887	-2 737	-2 705	-2 915	-3 044
Trade balance with Israel (percentage of GDP)	-28.1	-37.4	-24.9	-38.4	-30.7	-20.1	-20.1	-20.8
PNA trade with Israel/total PNA trade (percentage) <sup>c</sup>	83.5	67.5	56.9	64.4	66.6	61.2	60.1	57.4
PNA trade with Israel/total Israeli trade (percentage) <sup>c</sup>	4.2	3.8	1.9	2.2	2.7	3.5	3.4	3.3

Sources: Israel Central Bureau of Statistics, Palestinian Ministry of Finance, Palestinian Monetary Authority and PCBS.

\* Preliminary estimates.

\*\* The increase in per capita income in 2017 does not necessarily reflect an actual increase but is mainly due to a decline in 2017 population figures following the PCBS update after the 2017 census.

<sup>a</sup> Except for the population figures, all data exclude East Jerusalem, due to the fact that PCBS has no access to the city.

<sup>b</sup> Public debt includes domestic and external debt but not arrears and PNA debt to the pension fund.

<sup>c</sup> Israeli and Palestinian trade data refer to goods and non-factor and factor services.

## B. Forced dependence on employment in Israel and settlements impairs exports and weakening long-term growth

13. The incapacity of the restrained economy, under occupation, to generate jobs, in the face of a growing population, forces a high number of Palestinians to seek employment in

Israel and settlements in the West Bank, which are illegal under international law (as noted in Security Council resolution 2334). Over 127,000 of Palestinian workers (24 per cent of the West Bank employed workforce) are employed in Israel and settlements, at wages 60 per cent higher than domestic wages. An overwhelming 99 per cent of them are men, classified as low-skilled by educational attainment, with less than 13 years of schooling (Economic Policy Research Institute, PCBS and Palestinian Monetary Authority, 2018). The fact that nearly all Palestinian workers in Israel and settlements are men, and the disproportionate impact of occupation on women's labour force participation, explains much of the gender gaps in Palestinian labour statistics.

14. The growing Palestinian labour market dependence on Israel is also made possible by a shortage of low-skilled labour in Israel, in particular in agriculture and construction. Initial attempts to fill the gap with workers from Asia have not been successful. Employers in Israel and settlements seem to have a preference for Palestinian workers, due to their skills and to familiarity. A crucial difference is that Palestinian workers return to the West Bank at the end of the workday and thus do not have an impact on the demographic structure of Israel.

15. Even though employment in Israel and settlements may provide short-term benefits, it remains precarious, volatile, vulnerable to the vagaries of politics and antithetical to long-term sustainable growth. It undermines the Palestinian economy by eroding its competitiveness through its effects on domestic wages and the real exchange rate.

16. It is estimated that wages in the Occupied Palestinian Territory exceed those in Jordan by a factor of 2 to 3 in agriculture, a factor of 2 in the garment industry and a factor of 2.3 in the shoe industry (Kubursi and Naqib, 2008). With regard to the real exchange rate, the inflow of labour income earned in Israel and settlements causes Dutch disease by increasing the relative price of non-tradable goods (services and construction) relative to the price of tradable goods (agriculture and manufacturing). The rise in the relative price of non-tradable goods is a real exchange rate appreciation, which weakens the competitiveness of the export sector and the domestic sectors that compete against importable goods.

17. In this sense, exporting labour to Israel in the long term undermines the capacity of the Palestinian economy to export goods and services. Empirical evidence suggests that employment in Israel and settlements is associated in the long term with a reduction in exports of 5 per cent, an increase in imports of 6 per cent and a lower GDP, with the manufacturing sector, followed by the mining sector, experiencing the worst decline in absolute and relative terms (Agbahey, 2018).

### **C. Large structural trade deficit and forced dependence on Israel**

18. Occupation fosters uncertainty and high transaction costs, which undermine investment in the export sector and import-competing sectors and thereby deepen the dependence of the Occupied Palestinian Territory on imports and transfers, including aid, remittances and income from the employment of Palestinians in Israel and settlements.

19. As shown in the table, in 2018, import dependence continued unabated. Imports were at 60 per cent of GDP, while exports were at 20 per cent, and the trade deficit, in absolute terms, increased by 8 per cent. In relative terms, the trade deficit in 2018 increased from 37 to 40 per cent of GDP. Export revenue covered one third of the \$8.7 billion import bill and the ensuing trade deficit is the sixth highest in the world, behind that of Lesotho, Nepal, Somalia, Tonga and Tuvalu.

20. The exchange rate of the new shekel, set in Israel according to the evolving needs of its economy, is economically inappropriate for the structurally different Palestinian economy. The appreciation of the shekel in 2017 and early 2018 added to the overvaluation of the real exchange for the Palestinian economy, estimated by the International Monetary Fund (2018) to range between 5 and 25 per cent. The overvalued shekel weakens the competitiveness of Palestinian exports and domestically produced import substitutes and further undermines the tradable goods sector.

21. The overvalued real exchange rate does not entirely explain the magnitude and dynamics of the trade deficit. The key driver of the deficit is the loss of competitiveness and

potential investment thwarted by the physical and administrative restrictions put in place by the occupying Power, including a dual-use list that bans the importation of technology, critical production inputs and machinery. Within the 5,655 km<sup>2</sup> total area of the West Bank, 705 permanent obstacles restrict Palestinian vehicles and pedestrian movement, including checkpoints, road gates, earth mounds, roadblocks, trenches and earth walls. These barriers render the average trade cost per container for Palestinian firms greater than the cost for Israeli firms by a factor of 3, while the time cost is higher by a factor of 2 to 4. These restrictions are of greater negative significance than tariff barriers (World Bank, 2017).

22. Enforced isolation from global markets compels the Palestinian people to overwhelming dependence on Israel for trade. As shown in the table, in 2018, Israel accounted for 57 per cent of total Palestinian trade, or 21 per cent of GDP. The trade deficit with Israel, at over \$3 billion, was greater than the total value of all Palestinian exports of goods and services. In addition to aid and remittances, the trade deficit with Israel is also covered by the income earned by Palestinians working in Israel and settlements, which doubled from around \$575 million in 2007 to \$1.1 billion in 2011 and again to around \$2.4 billion in 2018.

23. Except for the control system of the occupying Power, there is no economic logic to justify the fact that Israel absorbs nearly 80 per cent of Palestinian exports or supplies 58 per cent of imports, while neighbouring Arab markets, with much higher incomes and greater populations, account for 17 per cent of Palestinian exports and 12 per cent of imports. The Palestinian market absorbs 4–6 per cent of Israeli exports of goods and ranks fourth among Israel's top export markets, directly behind the largest markets, such as China, the United Kingdom of Great Britain and Northern Ireland and the United States of America, and ahead of large markets such as France, Germany and India (Flassbeck et al, 2018; Gal and Rock, 2018).

24. To address the chronic and massive imbalance in Palestinian bilateral trade with Israel, there is a need to move beyond the Paris Protocol and enable PNA to strategically tax goods imported from Israel. Such a tax scheme should be oriented to foster productive capacities in strategic and dynamic sectors, to enhance the prospects for sovereign development and statehood. Taxing imports from Israel, as per the most-favoured nation principle, will enhance PNA revenue and not necessarily increase the consumer burden, because much of the imports from Israel can be procured from other, cheaper sources.

#### **D. Multiple fiscal shocks portending steeper economic decline**

25. Despite deteriorating political and economic conditions, PNA persisted with its fiscal reform efforts and further reduced its budget deficit by \$1.1 billion in 2018, to 7.3 per cent of GDP from 8 per cent in 2017. These efforts focused on widening the tax base and increasing administrative efficiency. In 2018, domestic tax revenue (excluding clearance revenue) and non-tax revenue increased by 9 and 10 per cent, respectively. However, total net revenue declined by 5 per cent, driven by lower clearance revenues.

26. Over the period 2013–2018, external budget support declined by 7 percentage points of GDP. At \$676 million, donor support in 2018 was 6 per cent lower compared with support in 2017, of which \$516 million was directed to budget support and the rest to financed development. The inadequacy of donor support resulted in a \$400 million financing gap, to which PNA responded through a further accumulation of arrears to the private sector and pension fund, adding \$227 million to the arrears stock (PNA, 2019). Growing arrears aggravate the risks associated with the building up of public debt in an economy with little access to global financial markets and no independent central bank capable of acting as a lender of last resort.

27. In July 2018, the Government of Israel enacted a law freezing funds paid by PNA with affinity to terrorism out of funds transferred to it by Israel, which mandates the deduction from clearance revenues an amount equivalent to the payments made by PNA to families of Palestinian prisoners in Israel and Palestinians killed in attacks or alleged attacks against Israelis. Consequently, in February 2019, Israel informed PNA that it would deduct \$11.5 million per month (\$138 million annually) and PNA declared that it would not accept

anything less than the full amount of its rightful revenues (Office of the United Nations Special Coordinator for the Middle East Peace Process, 2019; PNA, 2019).

28. The ramifications of this fiscal challenge are underscored by the fact that clearance revenue accounts for 65 per cent of total PNA revenue (15 per cent of GDP). Deprived of two thirds of its tax revenue, PNA did not publish a budget for 2019 and operated on an emergency cash management plan, addressing the crisis through a cut of 30 per cent to the wage bill, freezing hiring and promotions, reducing social assistance to the neediest, increasing public debt and accumulating greater arrears (PNA, 2019; World Bank, 2019). Finally, PNA declared that, as of March 2019, public employees would be paid only 50 per cent of salaries, with exceptions to protect employees at the lower end of the pay scale (World Bank, 2019).

29. Growth diagnostics confirm that, over the past two decades, output growth has primarily been driven by public and private consumption. The large fiscal multiplier, the severe belt-tightening caused by the loss of clearance revenue and dwindling donor aid add up to a demand constraint on the GDP growth of an economy already constrained on the supply side. The latest fiscal shock will therefore have significant negative impacts on output and may push the economy into recession, with the resulting impacts even worse in Gaza. The negative impact of fiscal uncertainty on aggregate economic activity is well established in the literature. For example, Fernandez-Villaverde et al (2015) find that fiscal shocks and fiscal volatility shocks can have a sizeable adverse effect on economic activity and inflation.

30. The dire PNA fiscal situation has direct, negative implications for the banking system, given its high credit exposure to PNA, both directly and through its public employees. Borrowing by PNA employees has been rising since 2014 and currently stands at \$1.5 billion, while direct credit to PNA has reached about \$1.3 billion. The recent withholding of Palestinian revenues by the Government of Israel compounds the exposure of the banking system, since PNA and its employees already account for 34 per cent of total credit (World Bank, 2019). The risk of spillover from the banking system to the productive economy is real, since the fiscal crisis may weaken the capacity of banks to support productive activities. The head of the Palestinian Monetary Authority recently indicated that the Palestinian debt had soared to \$3 billion and that Palestinian finances were near collapse (Reuters, 2019).

## **E. Environmental costs of occupation**

31. Despite several United Nations resolutions, in 2018, the construction of illegal settlements accelerated in Area C and East Jerusalem in an ongoing de facto annexation of Palestinian land and natural resources. Routine violence by settlers also increased in 2018, and was at its highest level since 2014, causing death and damage to Palestinian property and the destruction of thousands of trees. The ensuing environment of violence, including evictions, legal discrimination and restrictions on movement, coerces Palestinians to leave their ancestral homeland and relocate. Among the communities most affected by displacement are Palestinians in Hebron and East Jerusalem and Bedouin communities in Area C (United Nations Office for the Coordination of Humanitarian Affairs, 2018a; the forcible transfer of populations is illegal under international law).

32. The facts on access to water provide an example of the discrimination against Palestinians in Area C. All settlements are linked to the water system of Israel and receive high-quality water for all purposes. Some settlements have taken control of Palestinian water springs in the West Bank with the assistance of the military of Israel (United Nations, 2019). In contrast, 180 Palestinian communities in the area have no connection to a water network and rely on low-quality, high-cost alternatives. In East Jerusalem, only 44 per cent of Palestinian residents are connected to the water network in a formal manner. Overall, 22 per cent of Palestinians in the West Bank are affected by lack of access to water and poor water quality (United Nations Office for the Coordination of Humanitarian Affairs, 2018a).

33. The exploitation of the West Bank by the occupying Power is not restricted to land, water and natural resources, but includes the transfer of large amounts of hazardous waste produced in Israel to the Occupied Palestinian Territory. This threatens the health of the Palestinian people and the integrity of their environment and natural resources.



The stringent environmental regulations in Israel and the associated high cost of waste disposal have prompted Israel to use the West Bank as a “sacrifice zone” in which to place its waste treatment facilities, without the consent of the Palestinian people (B’Tselem, 2017). The transfer of waste is facilitated through the application of lower environmental standards in industrial zones in settlements and subsidies and tax breaks for firms operating there. According to B’Tselem (2017), hazardous waste produced in Israel and transferred to the West Bank includes, among others, sewage sludge; infectious medical waste; used oils; solvents; metals; and electronic waste and batteries. An occupying Power has a responsibility under international law to provide the population it controls with the highest attainable standard of physical and mental health and the improvement of all aspects of environmental and industrial hygiene.

.34 In Gaza, the electricity shortage and the destruction and disrepair of the sanitation infrastructure have resulted in an environmental breakdown. Each day, over 100 million litres of untreated sewage are dumped into the Mediterranean Sea, resulting in extensive contamination of beaches, to levels four times higher than those specified by international environmental standards. This pollution poses serious hazards to the public health of a population under prolonged occupation, for whom swimming in the sea is one of the few recreational activities available, and the gravity of the situation is underscored by the fact that water-related diseases account for over one quarter of illnesses and are the primary cause of child morbidity in Gaza (United Nations Office for the Coordination of Humanitarian Affairs, 2018b).

## **F. Economic collapse and dire socioeconomic conditions in occupied Gaza**

35. Twelve years of an almost complete economic siege and repeated major military operations have gutted the local economy of Gaza and all of its productive sectors. The share of Gaza’s productive sectors fell from 28 to 13 per cent of GDP between 1994 and 2018; the share of manufacturing halved, to 8 per cent, and that of agriculture fell from 9 to 5 per cent. Gaza’s share in the Palestinian economy has declined from over one third in the 1990s to less than a quarter in recent years and its per capita real GDP is now less than half of that in the West Bank. Had Gaza had the same access to production inputs as the West Bank, growth rates could have been three times higher than the actual rates (International Monetary Fund, 2018).

36. The Israeli-Palestinian Interim Agreement on the West Bank and Gaza Strip (known as the Oslo II Accord) entitles the Palestinian people to fish within 20 nautical miles off the coast yet, in practice, the occupying Power limits the fishing zone to between 3 and 12 nautical miles, thereby rendering high-value and large-quantity yields out of reach. Fishers who venture outside the set limits are often shot or arrested and have their boats confiscated. Confiscation increased in 2018 to 23 fishing boats; in 2017, 13 boats were confiscated (United Nations Office for the Coordination of Humanitarian Affairs, 2019a). The limits set by the occupying Power, combined with energy shortages and the dual-use list ban on imported means of production, have stifled the development of an otherwise promising, high-potential fishing industry.

37. The restrictions imposed by the occupying Power on fishing off the coast of Gaza continue to deprive its people of a badly needed source of employment, income and nutrition. Denial of the Palestinian people’s right to produce their own food is not limited to fishing. Israel has declared 100 meters from the perimeter fence with the Gaza Strip a restricted area that Palestinian people cannot enter and 200 meters, an area that machinery cannot enter. Effectively, 300 meters from the perimeter fence is considered a high-risk area not accessible to Palestinian farmers. This buffer zone deprives the Palestinians in Gaza of the capacity to use 35 per cent of their scarce cultivable land.

38. In March 2018, mass demonstrations took place along Israel’s perimeter fence with Gaza calling for the right of Palestinians to return and ending of the 11-year blockade. The ensuing confrontation resulted in the deaths of hundreds of Palestinians and injuries to thousands, many of which were life-altering. This has put an additional burden on the already fragile health sector in Gaza. Historically, Gaza’s population has relied on West Bank and

East Jerusalem hospitals for specialized services. However, referred patients need the approval of the Government of Israel to exit Gaza. Despite the deterioration of Gaza's overwhelmed medical system, which cannot cope with rising needs, the approval rate for medical exit permits remains low, and four in five applications have been rejected in the aftermath of the 2018–2019 Gaza border protests (United Nations Office for the Coordination of Humanitarian Affairs, 2019b). The collapse of the health delivery system in Gaza poses serious long-term risks to human capital, productivity and competitiveness.

39. In recent years, the economy of Gaza has been profoundly dependent on aid, remittances and spending by PNA and international organizations. By 2016, transfers, mainly from PNA and the United Nations Relief and Works Agency for Palestine Refugees in the Near East, were often close to or greater than Gaza's GDP, but in 2017 and 2018, such transfers declined. Transfers by PNA began to drop in April 2017, as wages and employee allowances were rolled back, leading to a 23 per cent decrease in PNA monthly spending in Gaza. Since four in five people in Gaza receive aid, the spending cuts by PNA and the United Nations Relief and Works Agency will make the grim socioeconomic and humanitarian conditions even worse (Office of the United Nations Special Coordinator for the Middle East Peace Process, 2018).

40. Gaza imports more than 85 per cent of its electricity from Israel. Over the last two years, the supply of electricity has been restricted to 4–5 hours a day (United Nations Office for the Coordination of Humanitarian Affairs, 2018b). The shortage redoubles the workload for homemakers and deprives households of the ability to refrigerate food, thereby inflating the cost of living for a population already experiencing high rates of poverty and food insecurity. The energy crisis also undermines productivity and exacerbates costs for producers, including in hospitals, which find it increasingly difficult to deliver critical care in intensive care units, dialysis units, neonatal units and trauma departments (Office of the United Nations Special Coordinator for the Middle East Peace Process, 2018).

## **II. The unrealized Palestinian oil and natural gas potential**

41. Studies by geologists and natural resources economists have separately confirmed that the Occupied Palestinian Territory lies above considerable reservoirs of oil and natural gas wealth off the coast of Gaza and in the West Bank. Within this context, UNCTAD (2019) prepared a study to sketch preliminary outlines of the economic loss incurred by the Palestinian people as a result of being denied their right to develop and exploit their oil and natural gas resources.

### **A. Palestinian natural gas discoveries off the coast of Gaza**

42. Antreasyan (2013) reviews the natural gas discoveries off the coast of Gaza and the Israeli-Palestinian negotiations for joint exploitation of these fields. The review highlights the existence of significant deposits of natural gas in the area and suggests that much of these deposits should belong to the Palestinian people. The following is a summary of the findings of this author.

43. In 1999, the BG Group (BGG) discovered a large gas field (Gaza Marine) at a distance of 17 to 21 nautical miles off the Gaza coast. In November 1999, within the bounds of the Oslo Accords, which give PNA maritime jurisdiction over its waters up to 20 nautical miles from the coast, PNA signed a 25-year contract for gas exploration with BGG. In 2000, BGG drilled two wells in the field and carried out feasibility studies with good results.

44. With reserves estimated at 1 trillion cubic feet of good quality natural gas, it was envisioned that the Palestinian people would be able to satisfy domestic demand and export the remainder. The 25-year contract gave BGG 90 per cent of the licence shares and PNA, 10 per cent, until production began. Subsequently, the PNA share was slated to increase to 40 per cent.

45. In July 2000, the Government of Israel granted BGG authorization to drill the first well, Marine 1. The authorization to drill the second well and the successful gas strikes at the

two wells promised a potential windfall for the Palestinian people. In September 2000, the head of PNA, accompanied by Palestinian businesspeople and the media, lit the flame proving the presence of gas at the BGG offshore exploration platform. The PNA agreement with BGG included field development and the construction of a gas pipeline and the licence covered the entire Gaza offshore marine area, which is contiguous to several Israeli offshore gas facilities.

46. In May 2002, the Government of Israel agreed to negotiate an agreement for an annual supply of 0.05 trillion cubic feet of Palestinian gas for a period of 10 to 15 years. Yet in 2003, the Government of Israel reversed its position, stating that funds flowing to PNA could be used to support terrorism. However, in April 2007, the Government of Israel approved a proposal to renew discussions with BGG, whereby Israel would purchase 0.05 trillion cubic feet of Palestinian natural gas for \$4 billion annually, starting in 2009, with profits in the order of \$2 billion, of which \$1 billion was to go to Palestinians. It was argued that this would generate mutual benefits deemed to foster a good atmosphere for peace.

47. The Government of Israel, however, had different plans for sharing revenues with Palestinians. An Israeli team of negotiators was set up to formulate a deal with BGG, bypassing Palestinians. It appeared that the Israeli team wanted the Palestinians to be paid in goods and services and insisted that no money should go to the Hamas-controlled government in Gaza. The effect was essentially to nullify the contract signed in 1999 between PNA and BGG.

48. In November 2008, the Ministry of Finance and the Ministry of National Infrastructures, Energy and Water Resources of Israel instructed the Israel Electric Corporation to enter into negotiations with BGG on the purchase of natural gas from the BGG offshore concession in Gaza. However, a new territorial arrangement emerged subsequent to the Israeli military operation in Gaza in December 2008, featuring the militarization and control of the entire Gaza coastline and maritime areas and the de facto confiscation of Palestinian natural gas fields and their integration into Israel's contiguous offshore installations.

49. Nineteen years have passed since the drilling of Marine 1 and Marine 2. Since PNA has not been able to exploit these fields, the accumulated losses are in the billions of dollars and the Palestinian people have been denied the benefits of using this natural resource to finance socioeconomic development and meet their fiscal and energy needs.

## **B. Meged field: Palestinian oil and natural gas potential in the West Bank**

50. The losses borne by the Palestinian people under occupation are not restricted to Marine 1 and 2. There are also other losses emanating from the Israeli control of the Meged oil and natural gas field, located inside the occupied West Bank in Area C. Meged was discovered in the 1980s and began production in 2010. Its reserves are estimated at about 1.53 billion barrels of oil, as well as some natural gas. The potential of the contested oil field ranges between 375 and 534 barrels per day. Israel states that the field lies west of the armistice line of 1948, yet most of the reservoir is situated beneath the Palestinian territory occupied since 1967 (see <https://english.palinfo.com/news/2017/10/21/Palestinian-oil-and-gas-wealth-under-Israel-s-control> and [https://en.wikipedia.org/wiki/Meged\\_oil\\_field](https://en.wikipedia.org/wiki/Meged_oil_field)).

## **C. A cost of occupation: The lost value of oil and natural gas**

51. According to Chossudovsky (2018), a generally accepted figure for the proven natural gas reserves in Marine 1 and Marine 2, off the coast of Gaza and under the control of the occupying Power, is 1.4 trillion cubic feet. Based on the average price of \$3.85 per 1,000 cubic feet in the period 2012–2017, the total value of these reserves could exceed \$5.39 billion. If the \$800 million value of investment to develop the field is deducted, this gives a net value of \$4.59 billion.

52. The proven oil reserves of the Meged field are estimated at 1.53 billion barrels (see [www.givot.co.il/Upload/Documents/רזרבות2013.pdf](http://www.givot.co.il/Upload/Documents/רזרבות2013.pdf)). At the price of \$65 per barrel, the

total value of these reserves would be estimated at \$99.1 billion. It should be recognized that the prices used are gross of cost of production and that wide fluctuations in the price of energy are the norm. However, current 2018 prices are used as proxies for a rough approximation of the valuation of these reserves. Based on the regional average cost of production of \$23.5 per barrel, the net valuation drops to \$63.29 billion. The total Palestinian reserves losses are therefore estimated at \$4.6 billion plus \$63.3 billion, or \$67.9 billion.

53. Furthermore, this valuation estimate of proven reserves would be exceeded if interest income (or the rate of return on foregone investment) losses were added. The Marine 1 and Marine 2 reserves were discovered in 1999 and BGG drilled for gas in 2000. Palestinians could have hypothetically monetized these fields and invested the net value of \$4.6 billion for 18 years. The accumulated losses resulting from the inability of the Palestinian people to develop their energy fields are estimated to be in the billions of dollars. The associated opportunity cost of foregone socioeconomic development is significant. The longer this situation persists, the higher this cost will become and the greater the accumulated economic costs of occupation borne by Palestinians.

#### **D. Shared oil and natural gas resources in the Levant Basin Province**

54. The new oil and natural gas discoveries in the Eastern Mediterranean, resources typically shared among neighbouring countries, are critical. The Levant Basin Province encompasses approximately 83,000 km<sup>2</sup> of the Eastern Mediterranean. The area is bounded to the east by the Levant Transform Zone, to the north by the Tartus Fault, to the northwest by the Eratosthenes Seamount, to the west and southwest by the Nile Delta Cone Province boundary and to the south by the limit of the Sinai.

55. The magnitude and value of these shared resources are significant. The United States Geological Survey (2010) has estimated a mean of 1.7 billion barrels of recoverable oil and a mean of 122 trillion cubic feet of recoverable gas in the Levant Basin Province. The net value of these resources is \$453 billion for natural gas and about \$71 billion for oil, for a total of \$524 billion.

56. These resources in the Levant Basin Province exist in common pools that do not coincide with political borders. This makes them shared common resources, and the Palestinian people therefore have stakes in them. The utilization of these common resources by any single party diminishes the share of neighbouring parties and they should therefore not be exploited by one party to the exclusion of others. It would be more conducive to long-term peaceful coexistence if the development and utilization of these fields were undertaken on behalf of all parties whose property rights are ascertained, and agreed upon, prior to exploitation.

57. This wealth offers an opportunity to distribute and share a total of \$524 billion among different regional parties, in addition to the multiple strategic and substantive advantages of energy security and potential cooperation among neighbouring States. These resources, however, can also be a source of conflict if individual parties exploit them without due regard for the fair share of others.

58. The allocations of shared common resources in the region should be based on agreements, negotiations and equitable principles. However, the existing property rights are neither clear, nor do they assign the Palestinian share in these common resources. UNCTAD recommends, to PNA and the international community, advancing legal, economic and historical research to ascertain property rights related to oil and natural gas resources owned by several neighbouring States in the region.

### **III. UNCTAD assistance to the Palestinian people**

#### **A. Framework and objectives**

59. For over three decades, UNCTAD has been supporting the Palestinian people through relevant policy-oriented studies, the implementation of technical cooperation projects, the

provision of advisory services and the promotion of international consensus on the challenges facing the Palestinian people and their pursuit of sustainable development.

60. In 2018 and early 2019, the UNCTAD programme of assistance to the Palestinian people continued to respond to paragraph 55 (dd) of the Nairobi Maafikiano, which requests UNCTAD to “continue to assess the economic development prospects of the Occupied Palestinian Territory and examine obstacles to trade and development... as part of the international community’s commitment to building an independent Palestinian State, and with a view to alleviating the adverse economic and social conditions imposed on the Palestinian people”. The programme is also guided by paragraph 31 (m) of the Doha Mandate, paragraph 44 of the Accra Accord and paragraph 35 of the Sao Paulo Consensus. The mandate of UNCTAD was further expanded by the General Assembly in resolutions 69/20, 70/12, 71/20, 72/13 and 73/18, which request UNCTAD to report to the General Assembly on the economic costs of the Israeli occupation for the Palestinian people.

61. The programme aims to build and strengthen the institutional capacities of the Palestinian public and private sectors required for building a robust economy to underpin an independent Palestinian State. It addresses the Palestinian economy’s constraints and emerging needs through the following four clusters:

- (a) Trade policies and strategies;
- (b) Trade facilitation and logistics;
- (c) Finance and development;
- (d) Enterprise, investment and competition policy.

## **B. Operational activities under way**

62. In the area of research and policy analysis, in response to the General Assembly resolutions, in 2018, UNCTAD published *The Economic Costs of the Israeli Occupation for the Palestinian People and their Human Right to Development: Legal Dimensions*. This study draws attention to the costs imposed by occupation on the Palestinian people and emphasizes the need to avoid actions that impede development.

63. Moreover, UNCTAD continues to provide advisory services to the Palestinian Government, civil society organizations, various public and private sector institutions, international organizations, researchers and academics.

64. UNCTAD has updated its macroeconomic model of the Palestinian economy. The update covers the design of some blocks of the model, increases the number of economic sectors and revises and extends the data to the latest available. The new framework factors in recent structural changes and explores alternative methodologies and techniques. Following completion of the update, the model will be shared with the Economic Policy Research Institute and PCBS.

65. The PCBS Forecasting Unit continues to use the UNCTAD model of the Palestinian economy, which is operated by staff trained by UNCTAD and receives regular advisory services from UNCTAD. PCBS forecasts are used by the Ministry of Finance and Planning for budget preparations and by other government agencies and private sector institutions to assess alternative policy options and scenarios and assist in formulating economic development strategies.

66. UNCTAD continued to hold dialogues with officials of the Palestinian Ministry of Finance and Planning and the donor community to reintroduce the Debt Management and Financial Analysis System of UNCTAD, to enhance the quality and scope of Palestinian public financial management; and establish a new round of cooperation to modernize and update the version of the Automated System for Customs Data (ASYCUDA) World presently used by Palestinian customs. The proposed new ASYCUDA intervention aims, among others, to strengthen Palestinian capacity for customs valuation, risk analysis and post-clearance controls. It also seeks to establish an interface between ASYCUDA and the global gate system used in Israel, to facilitate the real-time exchange of trade data between the two

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systems, with a view, among others, to stemming the leakage of Palestinian fiscal resources to the occupying Power.

### **C. Coordination, resource mobilization and recommendations**

67. In 2018, UNCTAD continued its development support to the Palestinian people in coordination with PNA, Palestinian civil society, the United Nations and other international agencies, donors and the United Nations Country Team.

68. In 2018, UNCTAD benefited from a grant from the Government of Bahrain to sustain UNCTAD capacity to support the efforts of the Palestinian people to achieve sustainable development and lay the foundations of a sound, well-functioning economy to underpin a future sovereign Palestinian State.

69. Shortage of extrabudgetary resources continues to limit the ability of UNCTAD to deliver on this mandate and needed technical assistance. Therefore, member States are invited to consider extending resources to enable UNCTAD to fulfil the requests in the Nairobi Maafikiano and the General Assembly resolutions.

70. Furthermore, difficult field conditions impact the delivery of UNCTAD support to the Palestinian people in both Gaza and the West Bank. Personnel of UNCTAD and United Nations agencies face difficulties in obtaining permits to enter and exit the Occupied Palestinian Territory. Such difficulties increased in 2018 and early 2019. In early 2019, UNCTAD staff were not granted an entry visa by Israel to access the Occupied Palestinian Territory and conduct a field mission to Ramallah and Jerusalem to meet senior government staff, personnel from private sector and civil society institutions, donors and staff of international organizations.

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