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ISRAELI-PALESTINIAN WORKING GROUP POLICY PAPER

***CREATING A ROADMAP IMPLEMENTATION PROCESS
UNDER UNITED STATES LEADERSHIP***

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I. Executive Summary

The Israeli-Palestinian peace process is at an important crossroads, with the election of Mahmoud Abbas as the President of the Palestinian Authority (PA), and the expected implementation of Israeli Prime Minister Sharon's Disengagement Plan. The Israeli and Palestinian leadership have both expressed their willingness to implement their obligations under Phase One of the Roadmap and return to bilateral negotiations toward a Permanent Status Agreement and an end to conflict. Although the obligations of the parties are unilateral in nature, neither side can successfully implement their commitments without adequate support and coordination from the international community, and in particular, the United States.

The Baker Institute for Public Policy at Rice University has, over the last eight months, led a working group to examine the necessary steps that will allow for a successful implementation of Israeli and Palestinian commitments and a return to the Roadmap. The Working Group was made up of Israeli, Palestinian, Egyptian, Jordanian, American, European, and Canadian governmental and non-governmental representatives. This policy paper is the final product of that Workshop. We note, with satisfaction, the rapid evolution of events on the ground that have been foreshadowed by our deliberations. In response to the evolution of events and the political progress being made, we submit the following major recommendations that are further detailed in the paper:

- A. The Bush Administration should encourage and support the implementation of the Roadmap now. This would put the unilateral evacuation of settlements in the context of a bilateral process, as well as recreate a political horizon.
- B. The Bush Administration should not only guide the parties toward the implementation of their commitments, but should also assist the parties in turning unilateral action into a comprehensive multilateral action program that leads to a renewal of bilateral Israeli-Palestinian negotiations.
- C. Within this context, the task of the American leadership is to:
 1. Define the strategic direction of a Roadmap Implementation Process (RMIP) by:
 - a) Encouraging both sides to reach a complete and comprehensive cessation of violence as the necessary framework for security action.
 - b) Encouraging the PA to consolidate security reform.
 - c) Encouraging Israel to implement the understandings reached regarding unilateral disengagement, and a comprehensive settlement freeze, including natural growth of settlements and outpost removal.
 2. Assist in capacity building supporting Palestinian governmental and security reform and Israeli disengagement, with the necessary technical and professional assistance. This also includes:
 - a) An Israeli-PA Security Coordination Mechanism;
 - b) Active US assistance in support of a PA security plan;

- c) Development of the necessary requirements to allow for an Israeli withdrawal from the Philadelphi Corridor, and the transfer of security authority for the Egypt-Gaza border, as well as the Gaza airport, seaport, territorial waters and airspace, to the PA.
3. Lead an international effort supporting Palestinian economic rehabilitation in the West Bank and Gaza Strip to accompany Israeli disengagement including:
 - a) Providing expert and financial support for the creation of a formal Israeli-Palestinian border regime to operate along the 1967 border;
 - b) Developing, with the parties, a trilateral working plan for the orderly transfer to the PA, of structures and infrastructures in the areas to be evacuated;
 - c) Providing expert and financial support for the reconstruction and operation of Gaza airport and seaport.
4. Assist in providing the “safety net” for crisis situations through the establishment of trilateral coordination and liaison mechanisms, and,
5. Use the unique capital of US leadership to ensure an adequate response to compliance and non-compliance by the parties. This includes consultations between Quartet representatives and the parties on the establishment of a formal monitoring mechanism, and its implementation as outlined in the Roadmap.

II. Overall Concept

A. Change of Paradigm

There has been a fundamental change in the peace process in the Middle East. In the post-Oslo era, and in the course of four-plus years of violence and suffering, the parties and the international community have transformed their thinking and approach. We have moved from ‘agreements-first, peace-later’ to requiring fundamental changes on the ground and in behavior as necessary precursors to the negotiation process. In that regard, the successful implementation of Prime Minister Sharon's Disengagement Plan from Gaza and four northern West Bank settlements may well become a stepping-stone to the Roadmap.

The Roadmap, with its performance-based approach and its acceptance by the parties is an indicator and consequence of this transformation in the peace process. Israeli and Palestinian commitments in the first phase of the Roadmap are specifically aimed at rebuilding confidence through unilateral undertakings and subsequently moving toward Permanent Status negotiations.

Coordinated and/or complementary unilateralism, combined with practical, observable changes on the ground, that are encouraged, supported and overseen by international partners, have become the new framework within which the parties and the international community are prepared to work toward the negotiated solutions that will bring an end to conflict.

B. Toward a Roadmap Implementation Process (RMIP)

Although commitments may be unilateral, and thus reflect the independent decision of policy makers on each side to take real risks for peace, security, and statehood, the practical implementation of these obligations is no less challenging. Indeed, fulfilling the base-line commitments made by the parties under the first stage of the Roadmap is already causing tension and creating serious challenges and opposition within both societies. If this process of implementation is not properly contextualized and managed, it could seriously impede progress and result in a re-escalation of violence. The parties, therefore, need to be supported, as well as directed, in their efforts to comply with their commitments. To be politically viable and sustainable, as well as legitimate with their publics, these incremental steps must be seen as being clearly consistent and supportive of the national vision of each side. Moreover, these steps must be viewed as part of a structured internationally-led political process that will enable each side to realize its goals.

In that respect, the Baker Institute Working Group considers the US task as not only to guide the parties toward implementing commitments, but similarly to assist in turning unilateral action into a comprehensive multilateral action-program. Such a program will lead to the renewal of bilateral Israeli-Palestinian negotiations and pave the way towards implementing the second and third stage of the Roadmap.

C. The Need for American Leadership

There is no substitute for American leadership. In his second mandate, President Bush and his Administration need to use the considerable political capital and unique political weight of the United States to provide political momentum and support to the parties. This will encourage the parties to implement their commitments and take the steps they know are necessary for security, democracy, and peace.

The US cannot, and must not, be a substitute for political will and practical actions of and by the parties. However, the US remains the irreplaceable catalyst and honest broker. Only the US can define with the parties the political contours and operational framework for a sustained process of political engagement and action. Only the US has the political weight and authority to lead the international effort to define and verify compliance by the parties with obligations outlined in the Roadmap. This includes initiating consultations between Quartet representatives and the parties on the establishment of a formal monitoring mechanism and its implementation.

In this context, the task of the American leadership is to (a) define the strategic direction of RMIP; (b) direct both parties to implement understandings reached regarding unilateral obligations; (c) assist in capacity building; (d) enable coordination and multilateral solutions when unilateral action is not sufficient; (e) assist in providing a “safety net” for crisis situations; and, (f) use the unique capital of US leadership to ensure an adequate response to compliance and non-compliance. The Baker Institute Working Group examines how, for each task, US leadership could and should play a key role in encouraging the implementation of the Roadmap.

D. Challenges of the Parties

1. Israel's Challenges: Disengagement to the Roadmap

- a) *Decision to disengage:* On June 6, 2004, the Government of Israel voted in favor of Prime Minister's Sharon's "Unilateral Disengagement Plan." This plan provides for the evacuation of all Israeli settlements and permanent military installations from the Gaza Strip. It also calls for the evacuation of four settlements and all permanent military installations from the Northern West Bank.
- b) *Roadmap Commitments:* Israel's commitment to implement its Roadmap obligations will not be affected by the Disengagement Plan. Israel Roadmap commitments include, but are not limited to:
 1. Easing travel restrictions on the movement of persons and goods throughout the territories;
 2. Redeployment of Israeli forces to the line prior to September 28, 2000, in the spirit of the language of the Roadmap;
 3. A comprehensive settlement freeze, including natural growth of settlements. President Bush has made it clear that continued Israeli settlement activity in the occupied territories contradicts his two-state vision of June 2002 and is therefore a major hindrance to reestablishing an Israeli-Palestinian dialogue toward Permanent Status. Under the auspices of the Weisglass-Rice Letter of April 14, 2004, Israel committed to beginning a bilateral US-Israeli dialogue on the freeze of settlements as well as the removal of outposts and transportational barriers. The structure for this dialogue has been established. In addition, Prime Minister Sharon has appointed the former Deputy Attorney General for Special Missions, Talia Sasson, to investigate all legal issues related to government financing of the settlements, the provision of building permits, and the regulation of development plans of regional councils, etc.
 4. Refraining from actions that undermine trust between the parties and actions to predetermine Permanent Status issues. The Bush Administration has included the construction of the barrier inside the West Bank in this category.
- c) *Commitment to link Disengagement to the Roadmap:* The stated opinion of the Government of Israel has stressed that the unilateral character of the Disengagement Plan does not contradict the Roadmap. Following a US request, Israel has committed to not transfer settlements from the Gaza Strip to the West Bank. As a result, Israel has committed to both the Disengagement Plan and the implementation of its Roadmap commitments and can therefore proceed with implementing both in a parallel fashion.

2. Palestinian Challenges: Normalization of Palestinian Life and Pursuance of Statehood

a) *The Internal Political Process:*

The Palestinian commitments under Phase One of the Roadmap are fully aligned with the pursuance of the PA's state-building efforts. The democratically-elected PA President, Mahmoud Abbas, and his administration, have stated their commitment to the peace process. Toward this end, his administration undertakes to implement a national agenda aimed at achieving internal political consolidation, carrying out PA obligations in Phase One of the Roadmap, and returning to bilateral negotiations with Israel.

The internal political process will be based on three elements:

- 1) Consolidating Fatah as the main political player in Palestinian society;
- 2) The consolidation of the Palestinian Security Forces according to the Palestinian Presidential Decree of July 17, 2004 into three security bodies: Internal Security, General Intelligence, and the National Guard, (see c below); and,
- 3) A National Palestinian Dialogue outlining the Palestinian agenda for the road to Permanent Status.

This PA political process will be built on an effective Palestinian constitutional process consisting of:

- 1) An Electoral Process providing for representative government and a representative body;
- 2) The development of Local Structures (regional advisory councils and executive councils) to effectively adapt governmental policies and plans to local needs and vice versa;
- 3) Transparency and accountability of the government.

The international community established a multilateral election observer team to oversee the presidential electoral process. The Baker Institute Working Group suggests extending their tasks to the entire electoral process in the coming months.

b) *The Security Process*

- 1) *Palestinian security reforms and action:* President Abbas is restructuring the current PA security forces into three branches: Internal Security, General Intelligence, and National Guard. Under this configuration, the task of the PA National Security Council should be to oversee the implementation of all Palestinian security obligations outlined in the first phase of the Roadmap, including: (1) the integration of all security forces into the new security structure; (2) the demobilization of those forces that will not be reintegrated; (3) registration of all weapons, and the collection of illegal weapons; (4) propagating a policy of non-violence; (5) stopping all forms of incitement; and, (6) preventing terror attacks against Israeli targets. Therefore, through the monopoly of force, and the implementation of the constitutional process, the PA will have to ensure that no political group can achieve its aims through the threat or the use of violence, but rather by replacing armed instigation with political participation.

- 2) *Commitment to Ending Terror and Violence:* In order to address the PA's obligation to prevent terrorism directed against Israeli targets, it is essential that the PA establishes a monopoly over the use of force in areas under its control. This will create operational space characterized as relative quiet and ensure the revival of a political process. Given the relatively short timeframe between the election of President Abbas and the implementation of the Disengagement Plan, the restructuring of the Palestinian Security Forces and the subsequent steps necessary to institute a monopoly of force are critical to:
- a) Ensuring that the PA is fully able to match the intensity of efforts by Palestinian spoiler elements;
 - b) Ensuring, with close coordination with Egypt, that the PA is capable of accepting a transfer of sovereignty and security responsibility over the Philadelphi Corridor, Rafah crossing point, Gaza seaport and airport;
 - c) Ensuring that the PA is able to accept a transfer of security responsibility from the Israeli military over Palestinian population centers in areas not slated for Disengagement; and,
 - d) Ensuring that the PA is able to implement a strict policy regarding the unlawful possession and carrying of weapons by all civilians in territories under its control.
- 3) *Reciprocal Action:* The Baker Institute Working Group proposes that the US government negotiate with the PA a set of understandings on how the PA will implement its Phase One obligations, including security reform. These understandings should be presented in a letter from the PA to the Bush Administration parallel to the Weisglass-Rice letter of April 14, 2004. The administration should consider a reciprocal process by which President Bush responds by reaffirming the US commitment to a political settlement based on the two-state solution as outlined in President Bush's June 2002 speech.

c) *The Negotiation Process*

President Abbas and the PA stated their commitment to the Roadmap, and to peace with Israel, to be achieved by bilateral negotiations leading to a Permanent Status Agreement and an end of conflict. The PA views the implementation of its obligations under Phase One of the Roadmap as an integral step towards bilateral peace negotiations, achievement of a Permanent Status Agreement with Israel, and an end of conflict based on the two-state solution. The PA has stated its willingness to resume permanent status negotiations immediately.

3. Shared Challenges

For both parties, the issues at hand hinge on the issue of security. Israel insists that no *cooperation* is possible without Palestinian security reform. The PA argues that security reform must be accompanied by a coordinated political process making Palestinian economic rehabilitation possible. This cannot be effectively undertaken without Israeli-Palestinian security *coordination*. The Baker Institute Working Group suggests that an Israeli-Palestinian security coordination mechanism be introduced that will allow for the parties to address these shared challenges including:

- a) The coordination of a bilateral ceasefire, including the prevention of breaches on both sides;
- b) Ending terror and violence and the "cross-border" coordination of anti-terror operations;
- c) The transfer of specific Israeli security responsibilities to the PA, including in areas to be disengaged, as well as in Palestinian population centers in areas not slated for Disengagement, along pre-September 28, 2000 lines;
- d) The coordination of Israeli Disengagement as a whole; and,
- e) The coordination of an Israeli-Palestinian border regime to facilitate the flow of goods in support of Palestinian economic rehabilitation.

This security mechanism should also provide the context for the coordination and reporting of Palestinian security reform between the parties, including the US, and should be integrated into the PA-US security understanding discussed in paragraph (3)(b) above.

4. International Community Challenges

To encourage each side to fulfill its Roadmap obligations, Israel must be convinced that settlement freeze, the removal of illegal outposts and the evacuation of settlements contribute substantially to its national goal of a democratic and Jewish state, and regional acceptance. The PA must be assisted with capacity building in support of the constitutional process and security reform. This is essential to enabling the PA to meet its Roadmap commitments. This lays the groundwork for an end of occupation and independent statehood.

5. Regional Challenges

The logic of the second stage of the Roadmap is to prepare a sustainable atmosphere and necessary institutional structures for peace. The revived Arab Peace Initiative of March/April 2002, which aims to create a more positive political context for Arab-Israeli peace, may provide the structure for developing a related regional diplomatic offensive. A well-structured, multilateral dialogue aimed at creating regional legitimization in preparation for peace in the security, economic, and cultural spheres may offer an important step forward.

E. Ensuring Compliance

The Baker Institute Working Group believes that President Bush's personal leadership, and the political capital gained by his reelection, should be employed by his administration to develop, with Prime Minister Sharon and President Abbas, concrete and measurable benchmarks for determining compliance and non-compliance by the parties. This includes a formal verification mechanism and an effective and rigorous program for addressing non-compliance.

1. Provide “safety nets” for crisis situations

a) Political Crisis Management

Regardless of the actions of the leadership on both sides, it is safe to assume there will be violent incidents by spoiler elements on both sides that will be aimed at sabotaging cooperative efforts between the parties. It is therefore critical, that the US create and maintain a crisis management mechanism to keep the focus on the parties of the peace process in spite of the actions by spoiler elements. The same verification mechanism that is employed to monitor compliance with agreements by the parties should be used to verify that the actions of spoiler elements are being addressed by the parties.

b) Crisis Management regarding non-implementation of obligations

Learning from other crisis areas, the Baker Institute Working Group suggests that the US lead the creation of a small international action group, to include senior representatives of the US, UK, Canada, France, Germany, Russia, Italy, and Japan to determine a unified international response to noncompliance by the parties. In case of early indications of non-implementation of obligations, this international action group would confer with the PA and/or the GOI regarding the causes that might impede or postpone implementation of obligations and accordingly propose appropriate assistance to the parties or propose to reexamine the RMIP.

If compliance is not forthcoming and is due to political unwillingness to meet obligations, the Baker Institute Working Group believes that very strict and far-reaching measures against non-compliance should be adopted. These measures would not only respond to the non-compliance of the parties, but also offer substantial support to those who advocate compliance with the Roadmap obligations.

In that respect, the US-led international action group should be prepared to deal with various scenarios, including individual failures at compliance by either Israel or the Palestinians, or failure by both parties together.

F. Assist in Palestinian Capacity Building

Capacity building should be approached in a holistic manner. This will create a sustainable security system respected by the population. Moreover, it will facilitate economic rehabilitation, as well as improvement of social welfare. The maintenance of this security system will require effective governmental administrative capacities.

Accordingly, the Baker Institute Working Group suggests that, on the governmental level, a benchmarked action program would be prepared and the necessary financial, technical, and professional assistance offered to assist the Palestinians in implementing the initiatives of President Abbas and the Palestinian National Plan.¹

To achieve further effectiveness, we suggest a regional development approach which focuses on combining security capacity building with economic development and social welfare on the district level. When Palestinian security forces replace withdrawing Israeli security forces, an immediate improvement in economic rehabilitation and social welfare should assist the PA in building and sustaining a stable environment.

G. Enable Multilateral Solutions

The well-planned involvement of multilateral structures, such as the Ad Hoc Liaison Committee, the Consultative Group (CG), the G-8, and a summit with Arab leaders may, if appropriately used, add important political momentum and international legitimacy to the process. In particular, the Baker Institute Working Group is convinced that the US could play a key role in encouraging the creation of a multilateral structure that would enable Israel to withdraw fully from the Philadelphi Corridor, the Gaza airport and seaport, and the Gazan territorial waters.

Two sets of understandings would be necessary to build a multilateral structure that would contribute to preventing future attacks against Israel originating from the Gaza Strip. The first would involve an understanding between the parties to the Multinational Force and Observers (MFO) in the Sinai (the US, Israel, and Egypt) which would allow for:

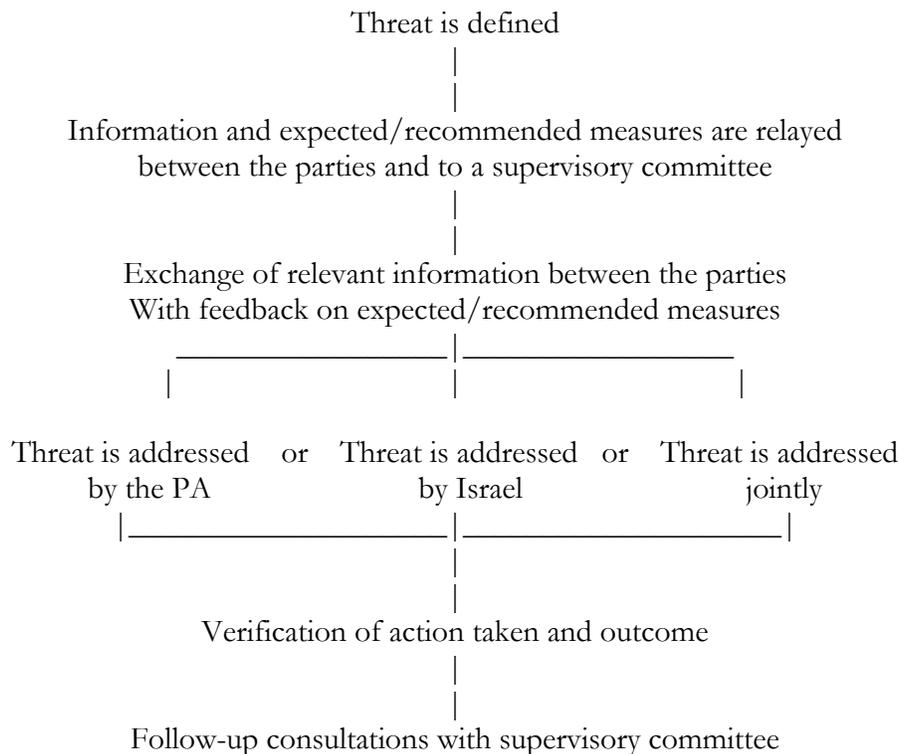
1. An increased deployment of Egyptian forces along the Philadelphi Corridor to prevent infiltration and smuggling from Egypt into Gaza; and,
2. An MFO role in monitoring the deployment of these additional forces.

The second understanding, between Egypt and the PA would aim to establish an MFO-style international verification mechanism on the Palestinian side of the Egypt-Gaza border. Its duties would include monitoring security arrangements on the Palestinian side of the border, especially in regard to the elimination of smuggling. It may also be possible to include a monitoring presence at crossing points between Gaza and Egypt and Gaza and Israel as well as at the Gaza seaport and airport. This "MFO-2" would require an entirely independent mandate for its specific operations but could operate under the umbrella of the MFO and utilize its administrative capacities.

¹ Composed of the National Security Reform Plan of the National Security Council, the Mid-Term Plan of the Ministry of Planning, and the governmental reform plan.

III. An Israeli-PA Security Coordination Mechanism

- A. The renewal of a functioning Israeli-Palestinian security coordination mechanism is a key element for progress in implementing the first stage of the Roadmap, and the Israeli Disengagement Plan, as well as enabling the strengthening of the PA. The major aim of security cooperation is to cut through the vicious circle of violence, and create full coordination in fighting all attempts to carry out acts of violence and terror. For this to function, the establishment of an effective coordination mechanism within and across borders is needed. Once a specific threat is defined there must be detailed action taken by the parties as outlined below:



- B. The terms of engagement should include the following:
1. Intelligence Cooperation is security-oriented but should also cover other aspects such as coordinated action against crime, etc;
 2. Each side shall build operation rooms in defined locations to be fitted with the necessary technology;
 3. Routine working meetings for briefings, updates, and decision-making will take place in an agreed-upon procedure;
 4. Emergency procedures such as a hot-line and emergency operation will be developed;
 5. The methodology of information flow, (the level of urgency, the relevant expectations of steps to be taken, etc) will be defined;

6. Each side will have agreed-upon internal procedures to guarantee full coordination with other security apparatuses (police, army, immigration authorities, etc.);
 7. Each area will be mapped according to main threats and relevant operational aspects and needs will be identified;
 8. Summaries from joint meetings will be transferred to third party monitoring;
 9. Post-incident procedures will be undertaken to jointly learn from successes and failures of operations.
- C. The Palestinian-Israeli Security Coordination Mechanism shall define conditions for Israeli facilitation of the rehabilitation of PA security forces. This includes enabling the Palestinian security forces to develop effective internal communication, effective transportation of forces, the building of security facilities without threat of Israeli demolition, and the acquisition of lethal and non-lethal weapons (tear gas, riot gear, etc). As the Palestinian security forces receive international support for capacity building, where necessary, trilateral understandings regarding the rehabilitation of PA security forces shall be concluded.
- D. The security coordination mechanism should also define conditions and stages for gradually expanding redeployment of Palestinian security forces. This should occur within the areas designated for Israeli disengagement, and simultaneously, as much as possible, from within Palestinian cities in the West Bank. Then, gradually toward a line roughly compatible to the September 28, 2000 positions.

IV. A PA-US Security Plan and Related Implementation Structure

- A. The US government views the successful implementation of Palestinian security reform as a necessary precondition to strengthening the PA, guaranteeing law and order to the Palestinian people living in the West Bank and the Gaza Strip, and enabling the PA to assert a monopoly and full control over the use of force. These aims are complementary in that the creation of the ability of the PA to enforce law and order in its territories should similarly enable the PA to prevent attacks against Israel, prevent Israeli attacks against the Palestinians, and thereby create a secure military environment. The strengthening of the PA is therefore understood to be a necessary precondition to the success of the Roadmap, and at the same time is a precondition for the creation of a permissive environment for economic rehabilitation and international support for economic growth.
- B. The PA should send a letter to the Bush Administration, in parallel to the Weisglass-Rice letter, detailing PA security commitments and obligations to be undertaken unilaterally with US and other international support, including security sector reform and consolidation, and security capacity building.
- C. These commitments and obligations should be based on a security plan to be submitted by the Palestinian National Security Council based on the demands of the Roadmap, the Palestinian-Egyptian Plan, and the Palestinian Presidential decree of July 17, 2004 and should also include:

- 1) A detailed action plan for implementing obligations related to integration of the PA security forces;
 - 2) A defined action plan to eliminate suicide operations, and prevent weapons smuggling and the gathering of weapons stockpiles;
 - 3) A defined action plan to prevent the launching of rockets and mortars into Israel from PA-controlled areas and specifically from the Gaza Strip;
 - 4) Defined actions taken and to be taken to establish law and order in each Governorate and begin disarmament and demobilization (to be combined with a comprehensive plan for economic development and social welfare);
 - 5) Defined support necessary from the international community for PA security efforts, and establishing a workable support structure; and,
 - 6) Define a PA-US reporting structure.
- D. On the basis of the PA security plan, the PA should work with the US to set benchmarks for determining compliance with implementation. There should also be a sufficient security monitoring mechanism with international participation to oversee the process.
- E. Security Coordination between the PA and Israel, as described in Chapter III, should be fully adapted to the security monitoring mechanism.
- F. The PA should prepare and deliver a public relations campaign against incitement to violence. This campaign should be delivered within the Palestinian media, each governmental structure, municipalities and local councils, and within the religious institutions, led by the Ulema.

V. Enabling an Israeli Withdrawal from the Philadelphi Corridor

- A. A comprehensive proposal should be prepared by the US in coordination with other members of the international community making it possible for Israel to fully disengage from the Gaza Strip, diminishing substantially the danger of renewed violence originating from the Gaza Strip against Israel. This proposal should address the following issues:
1. Defining the deployment of Egyptian border forces by agreement between Israel and Egypt, specifying requirements and duties of each side;
 2. Beyond the current mandate of the MFO in the Sinai, defining additional duties for the MFO, empowering the MFO to monitor border control on the Egyptian side of the Egypt-Gaza Border, particularly the prevention of smuggling of weapons, infiltration of terrorists and other criminal actions;
 3. Defining the security obligations of the Palestinian security forces in Gaza, relative to the Egypt-Gaza border, including the provision of a technical Israeli-Palestinian memorandum of understanding defining the staged phasing out of the Israeli security forces, and the phasing in of Palestinian security forces, under close US and international supervision.

4. Providing a new mandate for an international verification and coordination mechanism to be established on the Palestinian side of the Egypt-Gaza border by March 2005 (under US command and membership of parties accepted by the GOI and the PA) with the tasks of:
 - a) Monitoring the performance of the Palestinian border police from within the Gaza Strip, thereby preventing the smuggling of arms, infiltration of terrorists, etc. and other criminal activities;
 - b) Ensuring the implementation of security arrangements in Rafah crossing, Gaza airport and seaport and also within the territorial waters of Gaza; and,
 - c) Overseeing the phasing out of the Israeli security presence, and the phasing in of a Palestinian security presence.

This "MFO-2" would require an entirely independent mandate for its specific operations but could operate under the umbrella of the MFO, utilizing its administrative capacities. As a subgroup of the MFO, the MFO-2 could operate as the primary liaison and coordination mechanism between the MFO, Egyptian border forces, and the PA.

5. Creating an Egyptian-Israeli-Palestinian security coordination mechanism to coordinate Israeli disengagement from the Gaza Strip and to maintain an effective instrument of security cooperation thereafter. Provisions of the Israeli-Palestinian security coordination mechanism as described in Chapter III can be expanded and applied to a trilateral (PA-GOI-Egypt) coordination mechanism in addition to bilateral Israel-Egypt and Egypt-PA agreements. A trilateral security coordination mechanism will be especially useful if the parties choose to install a tri-border crossing and cargo facility in the area Kerem Shalom, as described in Chapter VII.
6. The Baker Institute Working Group has established a specific team to investigate additional scenarios, requirements, and capacities that will facilitate an Israeli withdrawal from the Philadelphi Corridor.

VI. An International Plan for Palestinian Economic Rehabilitation

- A. Palestinian economic rehabilitation over a sustained period of time is necessary for the well-being of the Palestinian people, the success of the first phase of the Roadmap, and the Israeli Disengagement Plan. The Ad Hoc Liaison Committee (AHLC) has accepted the Palestinian Medium Term Plan as the basic guideline for Palestinian economic rehabilitation.
- B. In order to mobilize the international community to assist as effectively as possible the economic rehabilitation process, a trilateral action committee shall be established under the leadership of the World Bank. The trilateral action committee will prepare for the next meeting of the AHLC, which shall determine in some detail the guidelines for economic rehabilitation, and prepare a meeting of the Consultative Group in May, organized with the aim of raising necessary international funds.
- C. International support for the Palestinian Medium Term Plan shall be divided into three stages.
1. Starting immediately, a rescue stage of approximately six months, where three major programs should be launched:
 - a) Rehabilitation of destroyed public infrastructure including roads, water and electricity infrastructures;
 - b) A community rehabilitation program to reinvigorate social welfare networks and rebuild schools, mosques, churches and public spaces;
 - c) A trade facilitation and support program to provide physical, technical, and professional facilities necessary for trade creation.
 2. A rehabilitation stage of approximately one year, with the goal of developing comprehensive regional plans in each Palestinian district combining economic development with increased security, law and order, and social welfare activities. It is anticipated that a comprehensive national plan, based on the Medium Term Plan, the security reform plan, and the one-year plan of the Reform Task Group will be translated into comprehensive regional plans providing for economic development, security and social welfare activities in each district.
 3. A development stage of approximately one-and-a-half years with the goal of completing tasks outlined in the Medium Term Plan.
 4. To speed up the flow of funds for infrastructure rehabilitation and development, a consortium of International Financial Institutions (IFI) (perhaps led by the International Finance Corporation (IFC) and Islamic Development Bank) may fund high priority projects through Build-Lease-Transfer structures. These may be securitized – with IFI guarantees – and sold to potential donor countries. This can help to jump-start the rehabilitation process, without the need to wait for donor-country pledges

which are usually followed by actual payment at much later dates. Moreover, because of the low default risk on such bonds (due to IFC/IDB guarantees) private individuals, foundations, etc., may be attracted to participate in the financing of Palestinian reconstruction. These bonds can later be refinanced, and the debts forgiven over the years through contributions from various sources, including Zakat funds.

D. Under the leadership of the World Bank, different assignments for assistance should be allocated to various donor countries. A preliminary distribution of tasks and responsibilities could be as follows:

1. Agriculture: Netherlands
2. Fisheries: Denmark
3. Housing: EU and Japan
4. Industry and Labor: US
5. Tourism and Recreational Centers: Austria
6. Municipal Development: US, EU, and Norway
7. Infrastructure Development:
 - Sewage and Water Treatment: Germany
 - Port Development: Netherlands and France
 - Planning: Norway
 - Electricity and Gas: Great Britain
8. Security:
 - External Security and Preventive Security: US
 - Police and Law and Order: Canada and Italy
9. Trade Development: EU
10. Social Security: Sweden

Each of these donor states should coordinate their activities with the Ministry of Planning and other Palestinian ministries responsible for specific activities.

E. Palestinian economic rehabilitation is dependent on the renewal of a high degree of economic and business cooperation with Israel. Accordingly:

1. The legal foundations (the Oslo Agreements and the Paris Protocol) will have to be re-endorsed.²
2. After the anticipated Israeli withdrawal from the Philadelphi Corridor, seaport and airport is implemented, it is suggested that an international company will be commissioned to control, together with Israeli experts, the incoming trade to the Gaza Strip in order to continue full implementation of provisions laid down in the Paris Protocol.
3. To enable the development of Palestinian trade, transparent procedures ruling the movement of people, goods, and services are proposed in Chapter VII. In

² The legal viability and relevance of the Oslo and Paris Agreements will be affected if Israel Disengagement does indeed lead to an "end of occupation."

order to facilitate the private sector to revive trade, it is suggested that the IFC will offer political insurance at preferential rates.

4. In order to assist economic growth, there will be a need to create incentives for Israeli, Palestinian, and international private sector participation and investment. The US, in charge of industrial development, the EU, in charge of trade, and the Netherlands, in charge of Agriculture, should take the lead in developing such incentives with the GOI and the PA.
5. The US and EU should increase Palestinian marketing capacities by offering technical assistance on the ground and opening US and EU markets to Palestinian goods without trade barriers.
6. In addition to state-sponsored efforts, private markets should be utilized to the fullest extent possible. (In this respect, please also see Addendum One “Palestinian Private Sector Initiative For Economic Development” submitted by Mr. Samer S. Khoury, Executive VP of Consolidated Contractors International, SAL.)

Innovative financial structures may be utilized to provide quick, simultaneous solutions to the high level of unemployment in Gaza, the slow to negative rates of growth of exports and slow rates of inflow of foreign investment. One potential proposal would be the following: Introduce micro-finance institutions in Gaza, which would offer micro and small loans to groups of families, whose products, such as embroidered textiles, hand-painted tiles, etc, are known to yield extremely high repayment rates. This would allow for securitization of those loans for sale – possibly with additional guarantees by UNESCO, IFC, IDB, etc. - to governments as well as private individuals. These measures can simultaneously enhance job creation as well as the inflow of funds, which could be substantial, from Palestinian diaspora and other Arab investors. In addition, the traditional Palestinian products produced are likely to have a significant market with the same Palestinian and Arab groups, thereby enhancing exports from Gaza.

VII. Border Regime and Cross-Border Cooperation

- A. An effective cross-border cooperation structure can illustrate and prepare the ground for good neighborly relations between the State of Israel and the future State of Palestine. Therefore, cross-border cooperation structures, as well as a functioning border regime, must be established only along the 1967 border line.
 1. An effective border regime will have to guarantee the flow of people, goods, and services under controlled conditions which support substantial Palestinian trade and economic growth and based on:
 - a) The establishment of a formal network of cargo terminals along the 1967 border;
 - b) The equipping of these facilities with advanced screening technology to allow for expedited security inspections;
 - c) A formal border coordination mechanism to operate parallel operations on each side of the border;

- d) Transparent and predictable procedures for defining and enforcing commercial regulations and coordinated responses to security threats.
2. The border regime should enable both sides to control and prevent the activities of armed opposition elements on their respective sides.
 3. An effective cross-border cooperation mechanism is necessary to coordinate infrastructure development, activities regarding economic growth, a joint struggle against crime, and a common approach to preventing environmental degradation.
 - a) An effective system of cross border cooperation may enable coordinated work between various Palestinian and Israeli authorities including local councils and police forces, etc;
 - b) Customs arrangements defined in the Paris protocol should be fully implemented.
- B. The cross-border flow of goods and people should be directed by, and carried out through, agreed-upon border passages, and a common effort will be made to prevent illegal movement of goods and people.
- C. The GOI should establish transparent procedures to guarantee the flow of goods and people. In order for this to succeed, the following conditions will have to be met:
1. The border passages will have to be established from a security perspective as sterile areas along the Green Line that will function like airports, providing maximum security at the passages and preventing movement across the borders elsewhere.
 2. The IDF and the Coordinator of Government Activities in the Territories (COGAT) should develop, in full coordination with the donor community, improved mechanisms to facilitate donor activities and facilitate the flow of donor goods and personnel.
 3. Under the auspices of the GOI and the PA, both should establish civil management structures to administer all border crossings. These management structures should establish full coordination regarding all technical and security procedures.
 4. The civil management structure should also decide upon the establishment of necessary border facilities to encourage trade, including refrigeration and storage facilities, etc.
 5. In order to encourage Palestinian trade, the possibility of establishing Palestinian storage and customs management facilities in the Israeli harbors of Ashdod and Haifa and at Ben Gurion Airport should be examined.

6. The Israeli railway system should be extended from Yad Mordechai to the entrance to the Gaza Strip and from Kfar Saba to Tulkarm, as an additional means to facilitate the flow of goods and people.³
 7. Necessary international support in providing technological equipment for security checking and other support for effective management of the border regime should be requested.
- D. The GOI and PA should encourage and provide supervision for local councils bordering each other on the 1967 line to establish cross-border cooperation structures based on models experienced in Europe and providing for a cooperation structure to include joint planning, coordination of infrastructure activities, coordination of economic development, coordination in the common fight against crime, joint human resources development activities, and the joint struggle to prevent environmental degradation. It is suggested that an EU coordinator will support and oversee the establishment of such cross-border cooperation structures.
- E. The Palestinian Ministry of Planning and planning authorities of the Israeli government should establish a joint team to coordinate mid and long-term planning of each side. As the Israeli planning authorities have prepared a plan for the year 2020 and the Palestinian Ministry of Planning has prepared a plan for the year 2015, those plans can not only be fully coordinated with each other but also mid and short-term planning activities can be based on the guidelines laid down by each side, and will lay an important foundation in favor of good neighborly relations.
- F. As the political situation evolves in the direction of further Palestinian sovereignty, it may be useful to the parties to establish a trilateral border and cargo facility at the Egypt-Israel-Border in the area of Kerem Shalom, at the southeast corner of the Gaza Strip near to the Gaza airport. While there are inherent difficulties in establishing such facilities in the immediate future, their establishment could contribute greatly to increasing Egyptian-Palestinian-Israeli cross-border economic trade and cooperation.

³ The Government of Israel has prepared a feasibility study on the railway issue. We propose that the Government of Israel covers the cost of construction of the Rail line but the international community should finance the purchasing of locomotives and wagons to be used and maintained exclusively by the PA.

VIII. The Settlement Freeze

- A. The Bush vision of June 2002 and the Roadmap are both committed to a two state solution of the Israeli Palestinian conflict. The US government policy has been based on the principle that there can be no acquisition of territory by war (along the lines of UN resolution 242) and that the borderline of 1967 is the basis for negotiations. However, agreed territorial exchanges are acceptable, and in April 2004 President Bush elaborated on this when he proclaimed that a return to the pre-1967 lines may not be practical⁴ and therefore a negotiated agreement on the border will be necessary. To make a two state solution possible, which can assure that Israel will continue to exist as the democratic homeland of the Jewish people and its other citizens, and make it possible for the Palestinian people to establish a viable state in the West Bank and Gaza, there is a decisive need for a comprehensive Israeli settlement freeze and the eventual evacuation of Israeli settlements behind a negotiated and agreed border.
- B. The US must therefore insist on Israeli fulfillment of its obligations of the Weisglass-Rice letter of April 14, 2004 regarding defining and implementing a comprehensive settlement freeze in the occupied territories including:
1. The creation of an Israeli reporting mechanism to the US government on the settlement freeze and removal of outposts;
 2. A complete settlement freeze;
 3. The removal of all unauthorized outposts established after March 2001 according to an Action Plan to be submitted by the GOI to the Government of the United States;
 4. A US Monitoring Mechanism to oversee and verify the settlement freeze.
- C. A GOI Reporting Structure:
1. A reporting mechanism should take the form of a newly-created Special Office on Settlement Activities to operate within the Ministry of Defense that monitors settlement activities on the ground and GOI enforcement of the settlement freeze and the removal of outposts. The special office should report on:
 - a) Infrastructure construction including roads, water, electricity and sewage;
 - b) The physical construction process;
 - c) Ensuring that security considerations are not misused for legitimizing settlement expansion and extension;
 - d) Incitement by Israeli settlers that may involve physical damage to Palestinian civilian infrastructure or the denial of essential services and supplies to areas of the Palestinian Authority.

⁴ "In light of new realities on the ground, including already existing major Israeli populations centers, it is unrealistic to expect that the outcome of final status negotiations will be a full and complete return to the armistice lines of 1949, and all previous efforts to negotiate a two-state solution have reached the same conclusion." Letter of George W. Bush to Ariel Sharon of April 14, 2004.

2. Information collected by the Special Office should be compiled and submitted to (1) Israel's Ministry of Justice, which should oversee the implementation of the relevant legal proceedings, and, (2) the parallel US Settlement Monitoring Office. The GOI Special Office on Settlement Activities should utilize four forms of information collection:
 - a) Inter-governmental reporting: Ministries and Agencies of the GOI will be required to report to the Special Office all activities related to settlement growth and construction including the issuance of permits, the use of government funds in settlement activity, etc. The Special Office will work in close cooperation with a Settlement Auditing Agency that oversees government transparency on all settlement related activities (see 4).
 - b) Information from open sources including NGOs, media, etc: The Special Office will not prejudice information that it receives based on origin of information and will investigate all reports of unauthorized settlement activity.
 - c) Satellite and Aerial Monitoring: As an office within the Ministry of Defense, the Special Office on Settlement Activities will have full access to up-to-date satellite and aerial reconnaissance data of settlements and the surrounding areas. This imagery will be monitored on a regular basis for unauthorized construction activity. Instances of suspected unauthorized activity will be investigated on the ground by a designated unit within the Special Office.
 - d) On-the-ground monitoring will be carried out by a specific unit within the Special Office that will undertake on-site investigations of suspected unauthorized growth including within settlements themselves and with outposts established outside of settlements. They will operate on the ground under the authority of the Ministry of Defense and will therefore have full authorization to enter all areas of the occupied territories under Israeli control.
 3. The Special Office on Settlement Activities should remain in operation until a Permanent Status Agreement is reached.
- D. The GOI should create a Settlement Auditing Agency within the Department of Justice to ensure legal transparency of all government and private sector activities related to settlement construction including:
1. The auditing of all government agencies and departments involved in settlement activity: The audit will investigate the process with which settlements are dealt with internally and will determine necessary changes in government procedure to ensure full transparency for settlement matters.
 2. It will also monitor and determine necessary changes in the legal framework that governs the issuance of construction permits and the development plans of regional councils and will address concerns arising from legal compensation claims

3. from private contractors and other legal issues between the government and the private sector.
4. The Settlement Auditing Agency will report its activities and findings to the ministry of Justice as well as to the Special Office on Settlement Activities, who will in turn report to the US Settlement Monitoring Office. The GOI Settlement Auditing Agency will remain in operation until a Permanent Status Agreement is reached.

E. Outpost Evacuation: The GOI should design and present to the US Settlement Monitoring Office a detailed operational plan for the removal of outposts established after March 2001 including,

1. A detailed and comprehensive list of all outposts and their exact location;
2. A timeline for individual outpost removal;
3. An operational plan to prevent the reestablishment and repopulation of outposts after their removal;
4. An operational plan to prevent the establishment of new outposts.

F. Public Relations: In order to build public support for a comprehensive settlement freeze, the GOI should implement a public relations plan that explains the need for a settlement freeze in terms of national interest and in terms of:

1. Security
2. Demographics
3. Political Realities
4. Economics
5. Israeli international relations and international perception of Israel.

G. US Settlement Monitoring Mechanism: In order to verify GOI compliance with the obligations of the Weisglass-Rice letters, the US should establish a Settlement Monitoring Office to monitor the settlement freeze and outpost removal. This office should work in coordination and cooperation with the GOI Special Office on Settlement Activities as well as independently to verify compliance. It should be based at the US Embassy in Tel Aviv and should undertake four forms of monitoring:

1. It will receive scheduled and on-demand reports from the Special Office on Settlement Activities,
2. It will receive and investigate information from open sources such as NGOs, the media, etc,
3. It will examine satellite reconnaissance imagery to monitor unauthorized settlement activity,
4. It will operate a verification mechanism on the ground to investigate alleged breaches in the agreements.
5. Therefore, the Settlement Monitoring Office must be given full access to all information regarding settlement activity as well as full access on the ground to settlements and outposts, and must be guaranteed the necessary security support where needed.
6. In order to support the findings of the Settlement Monitoring Office, the US government should work closely with the government of Israel to assure full compliance.

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*CREATING A ROADMAP IMPLEMENTATION PROCESS
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First Conference

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*CREATING A ROADMAP IMPLEMENTATION PROCESS
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Second Conference

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X. Addendum – Palestinian Private Sector Initiative For Economic Development

PALESTINIAN PRIVATE SECTOR INITIATIVE FOR ECONOMIC DEVELOPMENT

JANUARY 2005

We, at the Palestinian Private Sector, believe that the revival of the economy in the Palestinian territories cannot be launched without an effective role of the Palestinian Private Sector.

The Palestinian economy in the occupied territories (West Bank & Gaza) has seen a negative growth in the last 2-3 years. However, prior to the Intifada, in 1999, it reached its peak in GDP which rose to 4,883M\$ (constant 1997 prices), while today it is less than US\$ 4 Billion.

The highest component of the Palestinian GDP is in Services (60%) while the Industrial and Agricultural Sectors are laying behind. However, if the political situation improves, we expect these sectors to be the main catalyst for generating economic growth, and the Palestinian Private Sector will spearhead this growth.

In the following pages we shall outline certain areas where the Palestinian Private Sector and the International Private Businesses can focus their efforts:

1. AGRICULTURE

In 2003 over 68,000 Palestinian workers worked in the Agricultural sector, i.e. approximately 15% of the Palestinian workforce.

In the past few years this sector has increased to account for approximately 30-35% of the GDP in 2004. Some specific topics that should be addresses in order for this sector to grow and provide more job opportunities as follows:

- A. Provide better export routings for strawberry/floral produce in Gaza.
- B. The Gaza Settlement has advanced agricultural area/farm houses; we should buy these facilities rather than have them destroyed.
- C. Milk and other dairy products, livestock and poultry produced in the West Bank can be further developed and exports to Gaza can be found.
- D. Agricultural businesses (food processing), should be developed to be able to come up with products that can be exported.
- E. The West Bank can have more exports in olive oil products, citrus fruit, and bananas.

2. INDUSTRY

The Industrial sector employs approximately 65,000 Palestinian workers and contributes to over 15% of the GDP.

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The summary of this sector for the year 2003 is as follows:

		NO. OF FIRMS	NO. OF WORKERS	VALUE ADDED (\$M)
01.	Mining & Quarrying	312	2,000	18
02.	Manufacturing of Food, Beverage & Tobacco	1,661	7,800	77
03.	Manufacturing of Textiles	2,183	15,000	46
04.	Leather Tanning/Bag Manufacturing	782	5,100	20
05.	Manufacturing of Wood Products	796	2,000	7
06.	Manufacturing of Chemicals, Rubber & Plastic	337	2,800	29
07.	Manufacturing of non-metallic Products	1,917	13,700	80
08.	Manufacturing of Machinery & Equipment	3,335	8,200	39
09.	Manufacturing of Furniture	2,126	5,800	25
10.	Other	793	2,900	27
		14,242	65,300	368 M\$

We need to concentrate our efforts in increasing the output and the number of workers in the above private firms, but our focus should currently be on the following items:

- A. Creating an international Private Sector Revitalization Fund to help the existing firms with financial difficulties to be able to stand on their feet by providing small business loans. This Fund should also provide financing for the start-up of small businesses. Our suggestion of the Fund is to have \$1 Billion US Dollars in assets, 10% being contributed by the Palestinian Investment Fund and the balance of US\$ 900 Million to be obtained from the USA, Europe, the World Bank, and the Arab Gulf Countries on an equal basis.
- B. We also need to improve the process of moving goods from Gaza to the West Bank. Some ideas are:
 1. Elevated road/railway link (Gaza – West Bank).
 2. Privatization of road crossing for goods in the West Bank and Gaza (e.g. Karni Crossing).
 3. Re-opening of Gaza Airport
 4. Re-start Gaza Harbour construction.
 5. Establish a railway link from Gaza to Egypt and Asdoud.

We need to utilize the existing Industrial Zones, like the Erez Industrial Estat, and we also need to rent these facilities from the current owners and have Palestinian/Foreign Investors jointly invest in these zones.

3. **INFORMATION & TECHNOLOGY SECTOR**

This sector has grown rapidly in the last 10 years. To date there are over 70 firms working in this sector. We need help by getting more customers for it from nearby Arab countries and Israel.

4. **ELECTRICITY**

The majority of the electricity in the Palestinian territories comes from Israel with the exception of the 140MW Power Plant in Gaza owned by the Palestinian Electricity Company. This sector can also be expanded to give more roles to Private Palestinian & International Investors. Some areas we can look into are:

- A. Increase the capacity of the Gaza Power Plant;
- B. Build a 1,000MW Plant in Gaza to export for the West Bank;
- C. Build similar Plants in the West Bank; and,
- D. BG has discovered gas in the offshore waters of Gaza. If we bring this gas onshore it can reduce the power-generating costs.

5. **WATER**

There is shortage of water in the Palestinian territories due to the fact that the Palestinians use their own water which is strictly controlled by the Israeli Authorities who allocate less than 150 Million cubic meters. Some areas we can look into are:

- A. Building a Desalination Plant in Gaza;
- B. Improve the Water Network to prevent leakage; and
- C. USAID to resume its water upgrade projects in Gaza and the West Bank.

CONCLUSION

We are at a critical stage. The Palestinian Economy can be revitalized quickly, but this cannot be done only by donations or by supporting the Palestinian National Economy. We have to revive the vibrant Palestinian Private Sector which, in turn, can reverse the trend of negative growth to a modest growth, hopefully, for 2005/2006.