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IMPLEMENTATION OF THE INTERIM AGREEMENT ON TRADE AND TRADE-RELATED MATTERS BETWEEN THE EUROPEAN COMMUNITY AND ISRAEL

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I. EXECUTIVE SUMMARY

The Euro-Mediterranean Partnership is predicated on achieving regional integration both between the EU and third Mediterranean Countries and between third Mediterranean Countries themselves. In order for the establishment of a free trade area to function the so-called South-South dimension of regional integration is crucial. One important measure to achieve this objective is the extension of diagonal cumulation of origin. The Commission is currently finalising a Communication on the technical steps that must be taken to grant diagonal cumulation of origin to the Mediterranean partners.

Thus, cumulation of origin is a useful tool to uphold good trade relations and achieve North-South integration and a crucial step towards regional integration South-South. A necessary pre-condition, however, to make cumulation functional and operational is full compliance with entered agreements.

After Oslo, the 1994 European Council in Essen emphasised the privileged partnership with Israel. The EU is currently exploring possibilities to further deepen these relations. In order to do so it is important to ensure that present EU-Israel relations take place according to the framework of existing agreements and that the peace process is not halted. In the course of 1997 the Commission outlined some problematic areas regarding the implementation of the EC-Israel Interim Agreement and in particular on rules of origin.

With reference to the so called orange juice case considerable progress has already been made regarding the implementation of customs co-operation procedures so as to be able to verify Community complaints regarding certificates of origin and the full compliance of exporting firms in this respect.

However, two main outstanding obstacles remain in the way for correct implementation of the EC-Israel Interim Agreement. Both relate to exports to the European Community of products as if originating in Israel whilst effectively produced in:

1) – Israeli settlements, East Jerusalem and the Golan Heights; and

2) - the West Bank and Gaza Strip.

Israeli restrictions on the Palestinian economy lead to violations by both Palestinian and Israeli economic operators of the Protocol on rules of origin annexed to the EC-Israel Interim Agreement

II. BACKGROUND

A) – Euro-Mediterranean Partnership

The Euro-Mediterranean Partnership launched at the Barcelona Conference in November 1995 provided a clear geopolitical and economic scenario for a priority region in the European Union's foreign policy. The Partnership consists of a far-reaching double structure at both multilateral and bilateral level, with the declared long-term goal of the progressive establishment of a Euro-Mediterranean area of regional security, shared prosperity and mutual understanding. A major instrument of the economic chapter is the establishment of a free trade area to be achieved by the target date of 2010.

At bilateral level the goal is to conclude a series of Association Agreements between the European Union and the Mediterranean partners. These agreements are meant to be the decisive factor in paving the way for economic transition and an influx of private investment that will be the real opportunity for growth.

At multilateral level, the Partnership has undertaken a series of activities in the political-security, economic-financial and social-cultural/human fields. As a result, considerable progress has been made in the development of the priorities set out in the Barcelona Declaration.

Parallel action at both levels has already started to substantially foster political, economic and social integration in the region, North-South as well South-South, that is, among the Mediterranean partners themselves.

The Barcelona Declaration stated that in parallel to the agreements to be concluded between the Community and the Mediterranean partners, the latter would eventually conclude bilateral free-trade agreements between themselves.

In this respect, the progressive introduction by the European Community of diagonal cumulation of origin[1] is an essential tool to facilitate the gradual establishment of the Euro-Mediterranean free-trade zone through the development of South-South commercial ties. A number of preparatory steps are being taken at present and progress is being made regarding co-operation on the harmonisation of customs rules and procedures throughout the Euro-Mediterranean Partnership.

[1] Incorporation of materials from one or more EU partners within a regional grouping into articles exported as originating products from solely one of the partners; as opposed to bilateral cumulation of origin: incorporation of materials from the EU into articles exported as products originating in one EU partner

Within this context - in parallel to this Communication - the Commission is currently introducing a Communication to the Council and the European Parliament on the technical steps that must be taken so that the European Community is in a position to grant diagonal cumulation of origin to the Mediterranean partners[2].

Given the centrality of the principle of the rule of law for the European Community, it is clear that prior compliance by the Mediterranean partners with the commitments freely entered into under existing agreements with the European Community is necessary for the granting of diagonal cumulation of origin.

B) – European Community bilateral relations with Israel

Israel's privileged partnership with the EU was emphasized at the Essen European Council in 1994. Presently, economic and trade relations between the European Community and Israel are governed by the Interim Agreement on Trade and Trade-related Matters[3] pending ratification of the Euro-Mediterranean Association Agreement that was concluded in 1995 with a view to replacing the 1975 EC-Israel Co-operation Agreement.

The links between the Union and Israel have been further strengthened by the conclusion of two separate agreements on co-operation in Science and Technology and on the extension of access to public procurement.

All these agreements are inherently evolutionary. Israel has expressed its wish to expand present co-operation to new areas. The EU is willing to do so provided that the rules of the Interim Agreement are complied with and provided that the peace process will be sustained. There are many areas for development of relations such as financial services liberalisation, reciprocal concessions in agricultural trade, industrial co-operation measures aimed at developing European investments in Israel, mutual recognition of standards and certification bodies and the cumulation of origin.

As early as July 1997, the Commission outlined a number of areas in EC-Israel trade relations where action was required. The issues at stake were mainly linked to the unsatisfactory implementation of the Protocol on Rules of Origin attached to the EC-Israel Interim Agreement. In this area, the situation was such that the Commission had grounds to believe that Israel was not complying in full with all its contractual obligations agreed with the Union.

Protocol 4 to the EC-Israel Interim Agreement concerns the definition of origin, the concept of "*originating products*" and methods of administrative co-operation. It specifies the origin criteria for different categories of products. Products are considered originating in Israel (a) if they are "*wholly obtained in Israel*", for instance vegetable products harvested in Israel, or (b) products obtained in Israel which contain materials not wholly obtained there, provided that the said materials have undergone sufficient working or processing in Israel within the meaning of Article 5 of the Protocol. The possibility of acquiring originating status is also stated.

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[2] Cumulation between Algeria, Morocco and Tunisia was already provided for in the Co-operation agreements originally signed with the Community; the new Association agreements with Morocco and Tunisia maintain the cumulation system

[3] in force since January 1996

The EC-Israel Interim Agreement allows bilateral cumulation. However, it does not yet allow diagonal cumulation. Therefore, goods substantially manufactured elsewhere cannot be exported into the European Community as if originating in Israel. Such exports would violate the Protocol on rules of Origin annexed to the EC-Israel Interim Agreement on Trade and Trade-related matters.

Considerable progress has already been made regarding the first of the issues raised which consisted of alleged fraud in Israeli exports of non-originating orange juice to the European Community at preferential rates (estimated loss for the EC budget is ECU 40million).

The conclusions of the EC-Israel Co-operation Committee that was held in November 1997 to deal with the issue are currently under implementation. So far, Israel has carried out the appropriate administrative structural reforms so as to be able now to verify Community complaints regarding certificates of origin and the full compliance of exporting firms with their obligation in this respect. In addition, it has started revising all orange juice certificates of origin put in doubt by the Community. As a result some two-thirds of the certificates issued between June and December 1995 in question have been withdrawn. The Commission hopes that ongoing progress will be completed soon in order to reinstate normal trade practices.

Nevertheless, some of the issues are still outstanding. This document covers the two main obstacles standing in the way of the correct implementation of the EC-Israel Interim Agreement, namely:

- exports to the European Community of products from Israeli settlements in the West Bank and Gaza Strip, East Jerusalem and the Golan Heights as if they were Israeli originating products; and
- exports to the European Community of products effectively produced in the West Bank and Gaza Strip as if they were Israeli originating products.

In the framework of the Euro-Mediterranean Partnership particular emphasise is put on the issue of regional integration through the establishment of a free-trade area. The Commission is currently finalising a Communication on the technical steps that must be taken to grant diagonal cumulation of origin to the Mediterranean partners.

Diagonal cumulation of origin is a crucial step towards North-South and South-South integration. A necessary pre-condition, however, to make diagonal cumulation functional and operational is full compliance with agreements entered into.

Following firm Community action, significant progress has been made regarding the orange juice case and the necessary administrative structural reforms.

Two main outstanding obstacles remain in the way of full implementation of the EC-Israel Interim Agreement. Both refer to exports to the European Community of products as if originating in Israel whilst effectively produced in:

- **Israeli settlements, East Jerusalem and the Golan Heights,and**
- **the West Bank and Gaza Strip.**

III. EXPORTS TO THE EUROPEAN COMMUNITY OF GOODS FROM ISRAELI SETTLEMENTS IN THE WEST BANK AND GAZA STRIP, EAST JERUSALEM AND THE GOLAN HEIGHTS

Article 38 of the EC-Israel Interim Agreement on Trade and Trade-related matters specifies that it applies to the territory of the Member States of the European Community and "to the territory of the State of Israel". No further definition of that notion is contained in the Agreement or was made in the context of its signature. The territorial scope of application of the 1995 Association Agreement, currently under ratification, is defined under identical terms.

The question arises whether Israeli settlements in the West Bank and Gaza Strip, East Jerusalem and the Golan Heights are part of the State of Israel. Israel has unilaterally annexed both East Jerusalem and the Golan Heights and thus, as a matter of Israeli law, they form part of the State of Israel[4]. For Israeli settlements in the West Bank and Gaza Strip, which have not been formally annexed, Israeli jurisdiction applies in practice.

However, the international community and international public law take a different view. All relevant United Nations Security Council Resolutions[5] lead to the conclusion that neither Israeli settlements in the West Bank and Gaza Strip, nor East Jerusalem and the Golan Heights, can be considered as part of the State of Israel. In addition, the UN General Assembly has adopted many resolutions on the same matters that go beyond the Security Council positions.

Even if not adopted under Chapter VII of the UN Charter, these United Nations Security Council resolutions may be regarded as legally binding, or at least as an authoritative interpretation of international law. In addition the European Union has consistently endorsed the principles enshrined in all relevant Security Council resolutions, notably in the 1980 Venice declaration, the October 1996 Luxembourg Council declaration, the December 1996 declaration of the Dublin European Council and the June 1997 Amsterdam "Call for Peace".

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[4] The Jerusalem Law, 30 July 1980 and the Golan Heights Law, 14 December 1981

[5] UNSCR 242 and 338 establish the principle of the inadmissibility of the acquisition of territory by war and the need for Israel to withdraw from such occupied territories. UNSCR 446, 452, 465 and 471 confirm the illegality under international law of Israeli settlements in the West Bank and Gaza Strip. UNSCR 476 and 478 declare invalid all Israeli measures altering the status of Jerusalem and that the annexation of Jerusalem constitutes a violation of international law, respectively. UNSCR 497 reaffirms the inadmissibility of the acquisition of territory by force and declares the annexation of the Golan Heights as null and void and without international legal effect.

Pending a permanent status solution it must therefore be concluded that the territorial scope of application of the EC-Israel Interim Agreement on Trade and Trade-related matters is limited to Israel's pre-1967 borders, thus leaving out Israeli settlements in the West Bank and Gaza Strip, and the unilaterally annexed areas of East Jerusalem and the Golan Heights.

Given this, the EC-Israel Agreement covers neither exports originating in Israeli settlements in the West Bank and Gaza Strip nor exports originating in East Jerusalem and the Golan Heights. Preferential access for such exports would contravene the Protocol on rules of origin annexed to the agreement.

The Commission has grounds to believe that these violations are taking place at present. In this respect, the European Community should take steps to verify the accuracy of this information according to the procedures of the EC-Israel Interim Agreement.

Should the violation be confirmed, the European Community should take action to bring them to an end.

According to the international community and international public law including all relevant UN Security Council Resolutions, neither Israeli settlements in the West Bank and Gaza Strip, nor East Jerusalem and the Golan Heights, are part of the State of Israel. The European Union has constantly held this position.

Preferential access to Community markets for exports originating in Israeli settlements in the West Bank and Gaza Strip, on the one hand, and in East Jerusalem and the Golan Heights, on the other, would contravene agreed rules of origin.

There are indications that these violations are currently taking place. The European Community should take steps to verify the accuracy of this information according to the procedures of the EC-Israel Interim Agreement. If such violations of the rules of origin should confirmed they should be brought to an end.

IV. EXPORTS TO THE EUROPEAN COMMUNITY OF GOODS FROM THE WEST BANK AND GAZA STRIP

As explained above, for the time being the EC-Israel Interim Agreement on Trade and Trade-related matters does not allow diagonal cumulation of origin with other Mediterranean partners.

A) Legal background

In October 1986 the Community first granted a preferential trade regime to products originating in the territories occupied by Israel. The purpose of these measures was to rectify an anomaly whereby all the surrounding countries enjoyed preferential access to the Community market while the Occupied Territories did not. As there was no authority with which an agreement could be signed the Community's measures had to be unilateral. The Palestinian Chambers of Commerce in the West Bank and Gaza Strip were the authorities chosen to issue the necessary certificates of origin.

Considerable difficulties were encountered in implementing the trade regime since Israel opposed the establishment of a procedure whereby exports from the Occupied Territories could effectively take place. In December 1987 Israel accepted the principle of direct agricultural exports to Europe. However, Israel did not sign an agreement with Palestinian producers on export procedures until October 1988, following European Parliament's strong pressure in this respect. In fact, the European Parliament opposed the approval of the protocols adapting the Co-operation Agreement and the Fifth Financial Protocol between the Community and Israel until the latter, in practice, accepted export procedures for Palestinian goods.

EC-PLO Interim Association Agreement

Trade relations between the European Community and the Palestinians were further institutionalised by the signing and entry into force on 1 July 1997 of the EC-PLO Interim Association Agreement on Trade and Co-operation for the benefit of the Palestinian Authority of the West Bank and Gaza Strip. In practice, however, full implementation of the Agreement is not feasible unless Israel allows it to take place.

The Luxembourg European Council on 12-13 December 1997 «reiterated its determination to work, including through the joint dialogue with Israel, towards the removal of obstacles to Palestinian economic development and to facilitate the free movement of people and goods. It also stressed the need for the comprehensive implementation of the EC-PLO Interim Agreement».

According to Article 73 of the EC-PLO Interim Agreement it applies to the territory of the West Bank and Gaza Strip. East Jerusalem remains covered by the preferential trade agreement unilaterally granted by the European Community in 1996 and not formally repealed.

Protocol 3 of the EC-PLO Interim Association Agreement contains similar rules of origin to the ones contained in the EC-Israel Interim Agreement. According to Article 16(4) the movement certificate EUR. 1 is to be issued by the customs authorities of the West Bank and Gaza Strip. By providing that the origin certificates are to be issued by the Palestinian Customs Authorities the EC-PLO Interim Agreement includes new responsibilities on customs administration for the Palestinian Authority.

The Paris Protocol

The Protocol on Economic Relations, signed in Paris 1994 (the Paris Protocol) constitutes Annex V of the 1995 Interim Agreement between Israel and the Palestinians and establishes the contractual arrangements that shall govern economic relations between the two parties.

Article I(4) defines its geographical scope of application according to which the term «Areas» means the areas under the jurisdiction of the Palestinian Authority which may have to be adjusted in accordance with the Interim Agreement. The definition of what can be considered areas under Palestinian jurisdiction is ambiguous but should refer to what is known as Areas A and B. The Protocol does not include such a territorial definition of Israel for its scope of application.

Imports: The Paris Protocol was in large measure predicated on allowing the Palestinians to import what they consume. According to Article III of the Paris Protocol the Palestinians will have all powers and responsibilities in the spheres of import and customs policy and procedures for specific goods (Lists A1, A2 and B). For all other products, the Israeli rates of customs, purchase tax, levies, excises and other charges shall serve as a minimum basis for the Palestinian Authority. Thus, the Palestinian Authority may decide higher import tariffs than Israel across all products but lower import tariffs only on products from Lists A1, A2 and B.

Exports: According to Article VIII(11) and Article IX(6) of the Protocol, the Palestinians should have the right to export their agricultural and industrial produce to external markets without restrictions, on the basis of certificates of origin issued by the Palestinian Authority. Furthermore, Palestinian imports and exports through the points of exit and entry in Israel should be given equal trade and economic treatment (Article III(13)).

Compatibility between the Paris Protocol and the EC-PLO Interim Agreement

Israel has called into question the legitimacy of the EC-PLO Interim Agreement. Israel has claimed that the EC-PLO Agreement does not respect the notion of a single Israel-Palestinian territory that, according to the Israeli interpretation, is established through the Paris Protocol.

Even if Israel and the West Bank and Gaza Strip *de facto* apply the similar import regimes, a legal interpretation of the Paris Protocol leads to the conclusion that the West Bank and Gaza Strip constitutes a separate customs territory since the Palestinians can and do exercise their own trade regime. In addition, Israel puts important barriers to the free movement of goods and does not grant Palestinian exporters trade and economic treatment on an equal footing.

Furthermore, by concluding the EC-PLO Interim Association Agreement the EU acknowledges that it is dealing with an economic entity, separate from Israel. The Agreement was negotiated with reference to Article 9 of the Interim Agreement between Israel and the Palestinians, which stipulates that the PLO may conduct negotiations and sign agreements for the benefit of the Palestinian Authority in the case of, inter alia, economic agreements.

B) Alleged violations of the EC-Israel Interim Agreement on Trade and Trade-related matters

There is evidence that many products produced wholly, or substantially processed, in the West Bank and Gaza Strip, are being exported into the European Community as Israeli originating products.

One of the major producers of cut flowers in the Gaza Strip exports his production under Israeli certificates of origin (EUR1) through Agrexco, Israel's agency for exports of non-citrus products. He does so in order to avoid the risk of damage and delay to his products as a result of Israeli treatment of Palestinian produce at Israeli outlets.

One of the unintended consequences of the orange juice case with Israel at the Co-operation Council in November 1997 has been that Agrexco, working with the Israeli Flower Board, has been reported as requiring Palestinian cut flowers producers to deposit a sum equal to the 14% duty - described as "Palestinian Authority tax" - that would be charged by the European Community if the practice of exporting these flowers as Israeli originating would be discovered.

Examples of other products exported for similar reasons through Agrexco include strawberries and aubergines. It is likely that Palestinian produce is mixed with Israeli produce; products from both sources are then exported together.

The situation is similar for citrus fruit, oranges and lemons, through the operation of the Israeli Citrus Marketing Board.

In the case of processed food - for example pickles or fruit juice - there are documented instances in which the Israeli exporting agent does nothing but stick a "Made in Israel" label on Palestinian products; all packaging is done by the Palestinian producer.

In the case of industrial goods, examples exist in the shoes and leather and garments sectors. Typically, an Israeli company will import textiles or other materials from the European Community. A Palestinian company will then process this material. Under bilateral cumulation arrangements, the resulting products should then be exported as Palestinian originating, but are in fact exported as originating in Israel. The Israeli exporter charges for his export services, thus reducing the return to the Palestinian subcontractor.

Only some Palestinian products have been known to have been exported directly into the European Community market. Others have been exported- in small quantities- with a Palestinian certificate of origin through Israeli commercial channels.

Israeli-imposed restrictions on the Palestinian economy inevitably lead to violations of both the EC-PLO and the EC-Israel Interim Agreements. In addition, these restrictions do not allow the implementation of the EC-PLO Interim Association Agreement for which Israel's co-operation is necessary in practice.

The main obstacles preventing trade between the European Community and the Palestinians could be summarised as follows:

Imports

Imports from the outside world, including the EU (for which preferential treatment is granted by the agreements with both the Israelis and the Palestinians), into the West Bank and Gaza Strip are suffering from Israeli practices. These practices do not allow imports to be treated according to the agreements signed by the parties.

Israeli port and airport authorities have required all Palestinian importers to sign a pledge, under pain of legal proceedings, that imports from the European Community will be sold only in the West Bank and Gaza Strip. Whilst this could be theoretically understandable where differences in tariffs exist, it must be stressed that a similar pledge is not required form Israeli importers. In fact, it appears that the reason is to protect the Israeli importing agent for the same product.

Import licences are often not granted, or are delayed, by the Israeli authorities. This happens for example in the case of imports to the West Bank and Gaza Strip for the purpose of making up finished products, for domestic consumption or export (for example paints or pharmaceuticals from Germany, the UK, the Netherlands and others). In order to fulfil the terms of his deal, the Palestinian producer who has difficulties obtaining a licence, agrees to import the products without a licence and to pay a 5% fine.

The reason given by the Israeli authorities for not granting a licence is often that products fail to meet standards, even though the same product is imported to Israel by an Israeli agent without problem. In other cases, the standards cited do not even exist in Israeli import regulations. Often the same products are allowed through at a later date when the Israeli agent - or the Israeli producer of the same product - finds himself unable to supply the market.

It can be assumed that these practices occur in order to protect Israeli agents or producers. The effect is to reduce the potential for the development of direct trade relations between the European Community and the Palestinians; the Palestinian importer is advised to work with an Israeli agent.

One consequence of Palestinian importers having to use an Israeli agent is that the consumer price is higher than if the import involved only one agent. This reduces the competitive advantage of European Community products in the Palestinian market.

Another consequence is that the Palestinian Authority's Ministry of Finance forgoes purchase tax. In the case of direct imports - through a Palestinian agent - purchase tax and VAT revert to the Palestinian Authority. In the case of indirect imports - through an

Israeli agent - the Israeli authorities transfer VAT to the Palestinian Authority, but retain the purchase tax and customs duties where applicable.

In general terms, Israeli customs have a tendency not to accept imports marked as exempted from duty under the EC-PLO Agreement. Importers are obliged either to alter the paperwork to show that the products are exempted under the EC-Israel Agreement - which delays the import - or to pay duty to Israeli customs. This is because the Israeli authorities do not recognise the EC-PLO Agreement.

Exports

There is a tendency to contract Israeli exporters, which is doubtless reinforced by the knowledge that Palestinian exporters run the risk of their exports being subject to obstacles if the attempt is made to export their products directly to the EU.

Palestinian products are subject to security checks three or four times on their route from the West Bank or Gaza Strip to Israeli outlets. Security checking of Palestinian exports - and imports - often damage and delay Palestinian traded products and make them costlier. Palestinian producers thus gain a bad reputation with their European partners.

Palestinian perishable agricultural products need to be stored correctly, but they are often not stored in the proper refrigerated facilities.

For exports in general, priority is given to Israeli shipments at the Ashdod and Ben Gurion cargo facilities. This is particularly damaging in the case of perishable products. Also, Palestinian exporters have to pay higher cargo handling charges than those charged to Israeli exporters using the same facility.

The table below shows that for some products there is an important difference between the use of the quotas (granted by the agreements with the EC) by Israel and the Palestinians for the same period of time.

Israeli-Palestinian use of Quotas

Product	Start Date	End Date	Origin	Initial Amount (tonnes)	Used (tonnes)	%
Strawberries	01/11/97	31/03/98	WB&GS	1,500	154.809	10.3
			Israel	2,600	1,155.196	57.8
Cut Flowers	01/01/97	31/12/97	WB&GS	1,200	11.124	0.93
			Israel	19,500	19,500	100

Free transit to, from and through Israel

Until the Palestinians have free access to the outside world - particularly through the Gaza airport and harbour - it is even more crucial that Israel facilitates the free movement of Palestinian goods through its territory.

Israel imposes heavy restrictions that have the effect of making Palestinian imports and exports both more complicated and costlier than those carried out by Israeli traders.

There are draconian restrictions imposed by Israel at all times on entry and exit of both people and merchandise originating in or sent to Gaza. This applies occasionally to the West Bank Palestinian-held areas as well (the so-called "internal-closure"). In recent years, trade fell dramatically as a result of repeated closures and high transaction costs at the border. Merchandise exports were cut by nearly half (from 11 to 6% of GDP) between 1992 and 1995. Imports also fell, from 46 to 38% of GDP over the same period

Furthermore, the lack of a fully operational Palestinian customs administration also reinforces the difficulties properly implementing the EC-PLO Interim Agreement. To this effect the Community in November 1997 approved a technical assistance project on customs administration to be implemented in 1998 (total amount of 1.2 MECU). This project is considered to be a first phase for future technical assistance on this issue (as requested by the PA). The Commission is ready to provide all necessary technical assistance in order to facilitate the creation of a sound customs administration, capable of implementing the agreement should the Israeli obstacles allow it in the future.

The Community decided in 1986 to grant preferential trade regime for products originating in territories occupied by Israel. Israel only allowed its implementation in 1988 following strong European Parliament pressure.

The Interim Association Agreement between the EC and the PLO was concluded on the basis of the provisions in the 1995 Israeli-Palestinian Interim Agreement that allow the PLO to conduct and sign agreements for the benefit of the PA in the sphere of economic co-operation. The EC-PLO Agreement entered into force on 1 July 1997.

Israeli-imposed obstacles on the Palestinian economy lead to both Israeli and Palestinian violations of the EC-Israel Agreement, given that the increased difficulties imposed upon Palestinian exporters to export directly into the European Community drive them to export their produce as originating in Israel and to declare their imports as if destined for Israel.

Furthermore, Israeli-imposed obstacles on Palestinian free trade with the rest of the world impede Palestinian economic development and the full implementation of the EC-PLO agreement.

Evidence suggests that the practices of exporting Palestinian products as "made in Israel" under Israeli certificates of origin apply to a substantial proportion of total exports into the European Community of Palestinian originating products.

Preferential access to Community markets for exports originating in the West Bank and Gaza Strip as originating in Israel under the EC-Israel Interim Trade Agreement, is a violation of the latter given that it does not apply to these territories.

VI. PROPOSALS

Two obstacles remain in the way of correct implementation of the EC-Israel Interim Agreement. Both refer to exports to the European Community of products as if originating in Israel whilst effectively produced in:

1) Israeli settlements, East Jerusalem and the Golan Heights

Preferential access to Community markets for exports originating in Israeli settlements in the West Bank and Gaza Strip, on the one hand, and in East Jerusalem and the Golan Heights, on the other, contravenes agreed rules of origin since these territories do not form part of the State of Israel under public international law.

There are indications that these exports are currently taking place. The European Community will take steps to verify the accuracy of this information according to the procedures that have been agreed with Israel as follow-up to the Co-operation Committee of November 1997. Should it be confirmed, such violations of the rules of origin should be brought to an end.

2) the West Bank and Gaza Strip

Preferential access to Community markets for exports originating in the West Bank and Gaza Strip as if originating in Israel under the EC-Israel Interim Agreement is in violation of the latter given that it does not apply to these territories.

There is ample evidence that these exports are currently taking place. The European Community will take steps to verify the accuracy of this information according to the procedures that have been agreed with Israel as follow-up to the Co-operation Committee. Should these violations of the Protocol on rules of origin be confirmed they should be brought to an end.