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*"Although the new Imperialism has been bad business for the nation,
it has been good business for certain classes and certain trades within the nation."*
John A. Hobson, *Imperialism: A Study*, 1902: Ch. 4

In a separate report (Swirski, 2008), we contended that contrary to popular perception in Israel, the conflict with the Palestinians is like a millstone around Israel's neck: it undermines economic growth, burdens the budget, limits social development, sullies its vision, hangs heavy on its conscience, harms its international standing, exhausts its army, divides it politically, and threatens the future of its existence as a Jewish nation-state. It also kills and injures thousands of Israelis. In short, Israel is paying a heavy price for the continuation of the conflict and for the absence of a fair and agreed-upon partition. The fact that the price the Palestinians are paying is immeasurably higher does not mean that for Israel, the present situation is one of gain.

In fact, the continued occupation of the Palestinian territories has been, to use John A. Hobson's formulation in his classic book *Imperialism: A Study*, bad business for the Israeli nation. But, following Hobson once more, could it be that it has been "good business for certain classes and certain trades within the nation?" What is more, is this "good business" good to such an extent as to act as a disincentive for ending the occupation on the part of those "certain classes and trades?" These questions are at the center of the present report.

The Palestinian territories do not hold the kinds of treasures that have enticed occupiers throughout history. They do not possess precious spices or gold deposits, like those that drove the Portuguese, the Spanish, the Dutch, the French and the British to conquer and control vast territories in America, Asia and Africa beginning in the last part of the fifteenth century. They have no natural resources like those that enticed the late 19th century "scramble for Africa," nor do they possess oil deposits like those that drove British and USA governments and corporations to conquer or control large tracts of the Middle East, from Saudi Arabia and Iran in the past to Iraq in the present. The attraction of the

Palestinian territories lay essentially in the territory itself, as a stage for the establishment of a Greater Israel – simultaneously foreclosing the possibility of the rise of an independent and potentially rival Palestinian state.

Still, even without any considerable natural resources, the continued occupation of the Palestinian territories did provide Israel with a significant economic gain: those territories became a captive market for Israeli products, opening up gainful business opportunities for Israeli entrepreneurs. Palestine, forced into the equivalent of "customs union" with Israel (an arrangement that would become "agreed upon" in the Oslo accords), came to purchase the vast majority of its imports from Israel – and to send to Israel the vast majority of its exports. Due to the huge gap in the level of economic development of the two partners, the Palestinians purchased much more from Israel than Israel purchased from the Palestinians. The balance of trade was in Israel's favor.

In this report, we will look at the business connection: the gains that have accrued to particular Israeli firms from the continued occupation of the Palestinian territories.¹

To maintain the unequal balance of trade and the preferred status of Israeli manufacturers, Israel did its utmost to constrain local economic development in the Palestinian territories. Brig. Gen. Shlomo Gazit, the first coordinator of Israeli activities in the Palestinian territories, called this "the failure of Israeli non-activity in the territories," and pointed at two pieces of evidence: firstly, Israel refrained from making investments in the Palestinian territories (with the exception of Israeli settlements, of course) and from encouraging others to invest in the development of the local economy (Gazit, 1985: 179). Secondly, Israel made no investments in

¹ Gains derived from the employment of Palestinian labor and from other sources, such as the use of Palestinian water, have not been included in this report.

either services or infrastructure – roads, communication systems, water supply, health services, education, and the like (ibid: 179).

The reason Israel adopted this policy, according to Gazit, is that “it gave absolute preference to the interests of Israeli business sectors” (ibid: 243). He pointed to the example of agriculture, which, in 1967, employed a third of the Palestinian workforce (Kahan, 1987: 3): “From nearly the first day, when the government was faced with a surplus of [Palestinian] agricultural goods at the height of the harvest season, it saw protection of Israeli agricultural prices as its supreme interest. This, above all, is what pushed renewed marketing efforts eastward, toward Jordan [to prevent it from competing with the Israeli agricultural market]. It is also what drew the workforce from the territories to jobs on Israeli farms [in order to strengthen Israeli agriculture]. Agricultural planning in the West Bank and the Gaza Strip was geared toward creating a situation in which agriculture in the Palestinian territories would, to the greatest extent possible, enhance – rather than compete with – Israeli agricultural planning (Gazit, 1985: 251; see also Kahan, 1987: 70).

The same was true for business and industry: “...The policy was to discourage Israeli investors from setting up factories in the Palestinian territories (and even from becoming partners in existing ventures). Instead of looking at the wider picture – the chance to lower Israeli production costs by taking advantage of a relatively cheap workforce in the West Bank or Gaza Strip – the policy aimed at blocking incentives to Israeli investors...The desire to protect the goods produced in Israeli factories was so great that they even tried to prevent the building or renovation of factories that were one-hundred percent Arab-owned, if there was a risk they might compete with Israeli-produced goods” (Gazit, 1985: 251). Notable departures from this policy (apart from the factories built in the the industrial parks adjacent to Israeli settlements) were the industrial parks built on the Green Line (ibid.). Writing in the early 1980s, Meron Benvenisti, probably the best informed Israeli observer at the time, noted that in contrast with conventional world-wide patterns of economic growth, the industrial output of the

Palestinian territories diminished rather than grew, with its portion of Palestinian GDP decreasing from 9.0% in 1968 to 6.5% in 1980 (Benvenisti, 1984: 15).

The outcomes of the policy constraining independent growth were also addressed by an official Israeli committee appointed in 1991, on the eve of the Madrid conference, to deal with economic recovery in the Gaza Strip. Its members included the economist Ezra Sadan; the then coordinator of Israeli activities in the Palestinian territories, Brig. Gen. Dan Rothschild; the Prime Minister’s economic consultant, Amos Rubin; and other experts. The committee concluded that the economic policy of Israeli governments regarding the residents of the Gaza Strip was limited essentially to opening the door to jobs within the Green Line. On the other hand, “on rare occasions, the government promoted and encouraged the creation of jobs and factories in the [Gaza] Strip itself (for example, in the Erez industrial area). No preference was given to promoting independent initiatives or the business structure of the Gaza Strip. On the contrary, the authorities stood in the way of such initiatives for fear they would compete with Israeli companies in the Israeli market” (Quoted in Arnon and Weinblatt, 2000: 36).

For many years, the only Palestinian businesses to flourish under the occupation were off-shoots of the growing Israeli economy: subcontracting, mainly in the clothing manufacture industry, or garages that charged Israeli car owners less money for repairs (Gazit, 1985: 252).

The trade limitations imposed by Israel on the territories, coupled with the policy of blocking local economic development, turned the Palestinian territories into a large market for Israel trade. As we will soon see, significant parts of the Israeli business community were and still are involved in this trade.

Dimensions of Trade

We will start by looking at the Israeli-Palestinian trade figures. It should be said at the outset that such figures as are readily available are not necessarily comprehensive and accurate, for the

simple reason that contrary to trade with other countries, where imports and exports go through customs and are thus systematically recorded, much of the trade between Israel and the Palestinian territories was and still is performed through a non-existing border. Israel has consistently opposed – even during the Oslo negotiations – the drawing of a border and the establishment of crossing points. The figures presented in tables 1 and 2 below are based on the Israel Central Bureau of Statistics data bank, and they are sufficient for observing the overall trends. For an analysis of specific areas of trade, it is recommended to consult several sources: thus, a study made jointly by the Peres Center for Peace and by the Palestine Trade Center (PALTRADE) used a combination of sources including the Israel Central Bureau of Statistics balance of payments data; the Palestine Central Bureau of Statistics trade database; and the Israeli Palestinian VAT-Clearance Database, which exists since 1995 (The Peres Center and Paltrade, 2006). We will resort to the Peres Centre-Paltrade figures when discussing specific areas of trade.

Before 1967, the Palestinian territories formed part of two separate national economies: Jordan – for the West Bank, and Egypt – for the Gaza Strip. In the wake of the 1967 war, with Israel controlling all the exit and entry points, the Palestinian territories were merged into the Israeli economy, obtaining most of their imported goods from Israel or through Israel, and exporting most of their own products to or through Israel: Israel became the Palestinians' main trading partner.

To the Palestinians Israel sold industrial goods, agricultural products, and cement. Moreover, Palestinians became dependent on Israel in several crucial areas of infrastructure: Israeli firms became the main suppliers of electricity, fuel, gas, global communications, and a good part of their water. The same is true for basic commodities such as flour, rice, and sugar (MAS, 2000: 3). Before the outbreak of the first Intifada, Palestinians purchased up to 10% of all Israeli exports and constituted a market second in importance only to the U.S. (The Peres Center

and Paltrade, 2006: 27). Ever since, as can be seen in Table 1 below, that market share has been in decline, reaching a low of 3.8% in 2002, at the height of the second Intifada. With the ebbing of the second Intifada Israeli exports to the Palestinian Authority picked a little, to 4.5% in 2007 – but never recovered to the level of the 1980's.

It should be noted that the Intifada and the suicide bombings of the 1990s are not the only reason for the decline in Palestine's share of Israeli exports. Another is the growth in Israeli exports generally, including high priced hi-tech products, for which the Palestinian territories do not constitute a significant market. While total Israeli exports increased in the 20 years between 1988 and 2007 more than five-fold, from US\$ 11.3 billion to US\$ 58.7 billion, Israeli exports to the Palestinian territories, which were US\$ 0.8 billion in 1988, rose in 2007 to only US\$ 2.6 billion (see table 1 below). One additional factor that needs to be taken into account is the fact that the decline in Israeli exports in times of confrontation is, among other things, an indication of the sharp decline in the purchasing power of the Palestinian community at such periods.

At the same time, Israel became the primary destination for Palestinian exports. In the 1990s and first years of the 21st century, approximately 85% to 90% of all Palestinian exports went to Israel (Elmusa & El-Jaafari, 1995: Table 2; PCBS, 2006: 50). However, while the weight of Israeli exports out of all imports to the Palestinian territories is very high, the weight of Palestinian exports, out of all imports to Israel, is very low: as can be seen in Table 2, for most of the period following the first Intifada it has hovered around 1% of total Israeli exports, rising to about 1.65% in the years following the Oslo agreements, and declining to below 1% during the period of the second intifada. These differences were also expressed in the cash value of the traffic: Israeli exports to Palestinians in 2007, for example, amounted to about US\$ 2.6 billion, while Palestinian exports to Israel that year totaled US\$ 0.5 billion (ibid).

Table 1: Israeli Exports of Goods and Services to Palestine, 1988-2007

In \$US millions

Year	Total Israeli Exports of Goods and Services*	Israeli Exports of Goods and Services to the Palestinian Authority	Israeli Exports of Goods and Services to Palestine as a % of its Total Exports
1988	11,318	808	7.14%
1989	11,867	728	6.13%
1990	13,013	946	7.27%
1991	13,071	1,209	9.25%
1992	15,047	1,398	9.29%
1993	16,501	1,209	7.33%
1994	18,453	1,053	5.71%
1995	21,110	1,664	7.88%
1996	22,647	1,846	8.15%
1997	24,946	1,954	7.83%
1998	26,856	1,993	7.42%
1999	30,072	2,068	6.88%
2000	37,809	1,974	5.22%
2001	33,680	1,402	4.16%
2002	31,483	1,200	3.81%
2003	34,352	1,594	4.64%
2004	41,609	2,030	4.88%
2005	45,236	2,334	5.16%
2006	51,477	2,251	4.37%
2007	58,698	2,646	4.51%

* Excluding ships, aircraft and diamonds.

Source: Adva Center analysis of Israel Central Bureau of Statistics Time Series Data Bank.

Table 2. Israeli Imports of Goods and Services from Palestine, 1988-2007
In \$US millions

Year	Total Israeli Imports of Goods and Services*	Israeli Imports of Goods and Services from Palestine	Israeli Imports of Goods and Services from Palestine as a % of its Total Imports
1988	13,344	161	1.21%
1989	13,047	118	0.90%
1990	15,445	190	1.23%
1991	17,825	199	1.12%
1992	18,964	258	1.36%
1993	21,534	187	0.88%
1994	24,248	214	0.88%
1995	28,218	355	1.26%
1996	30,079	408	1.36%
1997	29,500	487	1.65%
1998	29,859	491	1.65%
1999	32,231	467	1.45%
2000	36,230	466	1.28%
2001	34,397	339	0.99%
2002	32,578	281	0.86%
2003	33,168	296	0.89%
2004	38,752	411	1.06%
2005	41,217	414	1.00%
2006	45,448	375	0.83%
2007	54,122	544	1.01%

* Excluding ships, aircraft and diamonds.

Source: Adva Center analysis of Israel Central Bureau of Statistics Time Series Data Bank.

The figures in Table 1 make it quite clear that a good portion of the Israeli business community enjoys significant gains from the fact that under conditions of military occupation, the Palestinians were disconnected from the Jordanian and Egyptian economies and become appended to the Israeli economy. The gains that Israeli business people derive from exporting to the occupied territories can be divided into two categories. The first and main one has to do with the proximity of the Palestinian market: export to this market requires almost none of the expenses connected with transportation by air or by sea. From this point of view, the Palestinian territories are but an equivalent of the annexation of a new, geographically contiguous province. Another type of gain derives from the fact that exports to the Palestinian territories do not involve high investments on the part of Israeli business people: the Palestinian market absorbs in some cases low-tech, low-cost Israeli products that would be more difficult to sell to the more affluent Israeli market, or to European markets.

Israeli producers who export their products to the Palestinian Authority are not the only Israeli business people to benefit from the occupation. Another category is that of enterprises that make their gains directly from the act of occupation. The most obvious example is that of construction firms, which built Israeli settlements, military bases and roads, as well as those that are presently building the wall engulfing the territories of the Palestinian Authority. Another example is that of manufacturing, commerce and service firms that operate out of industrial parks established in the Israeli settlements.

In the remainder of this chapter we will look first at the most outstanding instances of Israeli exports, and then at the firms that operate in and around the settlements.

Throughout the chapter we will try to assess the extent of compatibility between each of the various business interests and the possibility of an Israeli-Palestinian political settlement that would result in the establishment of an

independent Palestinian state and as a consequence, the introduction of some kind of separation between the two economies. The two-state solution is the main topic on the diplomatic agenda, and economic separation is the main recommendation of both Palestinian and Israeli economists who deal with a solution to the Israeli-Palestinian conflict (see Arnon and Bamy, 2007; and The Peres Center and Paltrade, 2006).

It can be said at the outset that, for the most part, the gains Israeli exporters to the Palestinian Authority enjoy at the present are not such as to serve as an incentive for them to organize to prevent a political settlement that would end the present economic constellation. That appears to be the case either because for many of the Israeli exporters, the Palestinian market constitutes only a relatively small portion of their total markets, or because under most conceivable scenarios for a two-state solution, the economic relationships between Israel and Palestine, forged coercively over 40 years of occupation, will not necessarily be replaced by totally different ones; this is especially true in the case of some of the infrastructural supplies, such as electricity and fuel (see, for instance, The Peres Center and Paltrade, 2006; and Arnon and Bamy, 2007). Not only that: under conditions of two separate national entities united by a free trade agreement, Israeli producers stand to gain not only from the continuation of many of the present conditions, but also from the possibility of access, via Palestinian intermediation, to the much wider markets of the neighboring Arab countries, now united in an Arab Free Trade Area (see The Peres Center and Paltrade, 2006).

The case with the business enterprises operating in what we call the Settler Economy is different.

A. Israeli exports to Palestine

Electricity, fuel and gas constitute today some 35% of total Israeli exports to the Palestinian Authority. Up to the second Intifada, their weight in Israeli exports was much lower – in 1998-2000, 15%. However, sharp rises in oil prices helped to bring it up to the present proportion (The Peres Center and Paltrade, 2006: 34-35). At the same time, the contraction of

economic activity and the growing pauperization of the Palestinian population during the Intifada caused a decline in the importation of consumer goods from Israel (ibid: 35), thus also contributing to the increase in the weight of electricity, fuel and gas out of total Palestinian imports.

In all three items, Palestinians are almost totally dependent on supply by Israeli corporations, as we will presently demonstrate.

Electricity

In Israel, the major supplier of electricity is the government-owned Israel Electric Corporation. In the wake of the 1967 Israeli occupation of the West Bank, the IEC became the main supplier of electricity to the West Bank and the Gaza Strip, providing for some 80% of consumption (Arnon and Bamy, 2007: 164).

In the West Bank, 70% of IEC's supplies go to the Jerusalem District Electricity Company, which distributes them, directly, to East Jerusalem, and in bulk to 165 towns and villages in the West Bank; and an additional 30% go directly to 215 towns and villages. The local authorities in the towns and villages are responsible for collection of the fees. The Gaza Strip receives electricity both from the IEC and from the local, privately-owned Gaza Power Plant, which can provide up to two-thirds of local demand (The World Bank, 2007 [May]: 14-15; 3).

In 2006, IEC supplies to the Palestinian Authority and to East Jerusalem amounted to 3,097 KWh – 6.7% of the IEC's total supplies (Israel Electric Corporation, 2007: table 31a). This is a very low figure, given that the population of the Palestinian Authority (including East Jerusalem) – in 2006, almost 4 million (Palestine Central Bureau of Statistics, 2006: 15) – amounted to more than 35% of the combined Israeli and Palestinian population. The huge discrepancy between the actual level of consumption of IEC electricity in the Palestinian Authority and the expected level based on size of population is explained by the low level of economic development in the occupied territories: most of the electricity supply goes to

the service and household sectors, given the lack of significant industrial activity (The World Bank, 2007 [May]: 2). In addition, a good many Palestinian localities are not even connected to the electrical grid.

The IEC's revenues from selling electricity to the Palestinian Authority and to East Jerusalem stood, in 2006, at 5.6% of its total income. The discrepancy between the Palestinian share in IEC's production - 6.7% - and in IEC's income - 5.7% - may be due to the fact that - according to IEC figures - Palestinians are charged the lowest rate of all consumer categories (Israel Electric Corporation, 2007: table 50a). Industrial establishments, on the other hand, appear to be charged prices that are 3 times higher than the average price in Israel or Jordan (Arnon and Bamya, 2007: 169).

The figures make it quite clear that the weight of the Palestinian market in the IEC's operational map is rather marginal. Furthermore, continued Israeli occupation will not make it more significant, especially if it is accompanied by continued suppression of Palestinian economic development. A two-state solution, on the other hand, holds more promise, as it would conceivably bring with it rapid economic development in Palestine, leading to a growing demand for electricity. Though the Palestinians will probably wish to enhance their own production capabilities - for instance, the Gaza Power Plant, and though they might also wish to diversify their sources of supply, hooking up with the Jordanian and Egyptian grids, it seems clear that the IEC will stand to benefit from Palestinian development, at least during the first period of transition. It also stands to gain from joining, through the intermediation of the Palestinians, regional electrical networks - which could benefit Palestine, Israel, Egypt and Jordan, and possibly more countries, from trading electricity, especially in times of crisis or high demand (Arnon and Bamya, 2007: 173-174).

Thus, ironically, a two-state solution may prove to be the real long-run benefit of occupation to the IEC, more than the present state of affairs, where the Palestinian market is only a relatively tiny appendix to the Israeli market. For it is only

through the post-1967 occupation that the Israel Electric Corporation came to be the main supplier of electricity to Palestine, and thus potentially an important player in a future Middle East.

For the time being, though, it is important to note that the fact of military occupation is an integral part of the operation of the electricity market monopolized by Israel. The clearest manifestations are, first, the destruction by the IDF of the Gaza Power Plant in June of 2006, as a retaliatory act in the wake of the abduction of the Israeli soldier Gilad Shalit by Palestinian fighters from the Gaza Strip; and second, the Israeli government's decision of late 2007 and early 2008 to reduce the electricity supply to the Gaza Strip, as part of its campaign against the Hamas government there. That decision makes the IEC, willingly or not, part of the Israeli state's panoply of weapons being used in the continuing Israeli-Palestinian confrontation. It is thus not surprising that the Hamas-led Gaza rulers are interested in obtaining more of their electricity from Egypt (as of March 2008, Gaza was obtaining 17 megawatts from Egypt, compared to 124 from Israel). Ironically, Israel may also be interested in this arrangement, as it might lead to the re-attachment of the Gaza Strip to Egypt, decoupling it from the West Bank - and rendering the Palestinian Authority even weaker vis-à-vis Israel than it is now (Issacharoff and Harel, *Haaretz*, March 20, 2008).

Another manifestation of the inextricable inter-relationship between military might and the economic market concerns the collection of fees by the IEC from its Palestinian customers. As we saw earlier, the IEC sells directly to Palestinian local authorities as well as to the Jerusalem District Electricity Company - which distributes to Jerusalem and to local authorities. Local authorities, in turn, collect the fees from individual customers and pass them on to the IEC. Collection is problematic, though, among other things because of widespread poverty, especially in the refugee camps. Yet the IEC's income is not jeopardized, for the Israeli Ministry of Finance allows the IEC to recover part of its unpaid bills from the taxes collected by the Israeli government on behalf of the Palestinian Authority (The World Bank, 2007

[May]: 3); in 2005, this sum amounted to some \$100 million (ibid: 5).

Finally, the IEC's supply policies are heavily affected by the fact that it is first and foremost an Israeli government-owned corporation: priority of service is given to the Israeli customer. That priority might manifest itself in slow response to Palestinian demands to increase supply, or in the low voltage at the end of the transmission lines (Arnon and Banya, 2007: 166).

Fuel

The Palestinian Authority is totally dependent on Israel for its fuel supplies. Even the Gaza Power Plant, the major Palestinian-owned supplier of electricity, is dependent for its operation on fuel supply from Israel. Dependency is magnified by the fact that the West Bank and Gaza lack fuel storage facilities, thus necessitating a day-to-day supply from Israeli companies (The World Bank, 2007 [May]: 12).

Up to 1994, fuel to the Palestinians was supplied by Padesco, a company owned jointly by Israel's three largest fuel companies – Paz, Delek and Sonol. In 1994, the newly established Palestinian Authority awarded the supply contract to Dor Alon, then an upstart. Three fuel terminals were established, one in the Gaza Strip and two in the West Bank. The Israeli fuel company conveys its products to those terminals, and from there, the Palestine Petroleum Commission (PPC) distributes them to Palestinian customers (The World Bank, 2007 [May]: 12).

Dor Alon was the sole supplier from 1994 to 2006. Starting in January 2007, the provision was split between Dor Alon, which retained the Gaza Strip (accounting for some 35% of total exports to the PA), and Paz Oil, which received the larger West Bank market. Paz Oil is the largest Israeli fuel company, and the successful bidder for the recently privatized Ashdod oil refinery.

In 2005, Israel exported to the Palestinian Authority petroleum products in the amount of \$650-700 million, representing 26% of the value

of total Israeli exports to the PA (The Peres Center and Paltrade, 2006: 38-39).

To Dor Alon, the Palestinian business was very important: total sales to the Palestinian Authority amounted, in 2006 (when Dor Alon was still the sole provider), to NIS 2.15 billion (approximately US\$ 480 million), representing 35% of Dor Alon's total sales (Dor Alon, 2006: 39). Once Paz Oil took from Dor Alon the largest slice of the Palestinian business, Dor Alon reported significant drops in sales (Dor Alon, 2006: B-4). As for Paz Oil, income from the Palestinian market amounted to 11% of its total income in 2007 – a not insignificant amount (Rom, *Globes*, 10.8.2008)

For Paz Oil, the Palestinian connection is also significant: it has announced its willingness to place up to 30% of the refining capacity at the Ashdod Oil Refinery, recently privatized by the Israeli government and bought by Paz Oil, at the disposal of the Palestinian Authority, if the PA provides the crude oil from Arab countries; such an arrangement would benefit the PA, lowering the price of fuel products (The World Bank, 2007 [May]: 70), but it would also constitute a long-term benefit to Paz Oil, as it would connect it indirectly to Arab suppliers of oil.

In the event of a two-state solution, the Palestinian oil market, presently monopolized by Dor Alon and Paz Oil, would probably become competitive, more so than the electricity market. Even so, though, the present monopoly does not appear to create a long-time vested interest of the Israeli fuel companies in maintaining the Israeli occupation of the Palestinian territories, as a two-state solution would not necessarily result in a total cessation of the present business connection.

Telecommunications

Up to the Oslo accords, Israeli firms had a monopoly over the supply of fixed and mobile phone services, as well as internet services, in the West Bank and Gaza Strip (Luxner, 2000). In 1995, the Palestinian Authority granted PALTEL, a Palestinian private company, a license to provide all telecommunications services (Ein-Dor, Goodman and Wolcott, 2000).

Paltel was given a 10-year monopoly on fixed-line service, which ran out in 2007, and a 5-year monopoly on mobile-line service, which ran out in 2004 (Luxner, 2000). In 2007, a second license for mobile services was granted to another Palestinian corporation, Wataniya, while Paltel remains the sole provider of fixed-line services (World Bank, 2008: 2-3).

Paltel and Wataniya services extend over areas A, over which the Palestinian Authority has full civil and military responsibility, and over areas B, where the Palestinian Authority has only civil responsibility. In areas C, which include the majority of the Palestinian territory (as well as the majority of the Israeli settlements), telecommunication services are provided by Israeli operators; Palestinian operators are not allowed to set up antennas there. Given that areas C are spread throughout the Palestinian territory, the signals of Israeli operators reach the majority of the Palestinian lands, including the largest Palestinian towns. Thus, Israeli operators become unauthorized competitors with the Palestinian ones. The size of the Israeli companies' share of the Palestinian mobile-line market is estimated at between 20% and 45% (World Bank, 2008: 6). As the vast majority of Palestinians - 90% - use mobile phones with pre-paid SIM cards (Ziv, *Haaretz*, May 13, 2008), all the Israeli operators have to see to is that such cards are available to customers in Palestinian towns and villages.

We could find no figures on the extent of Israeli operators' income from Palestinian customers. However, the fact that most Palestinians do not purchase monthly subscriptions but rather the less income-producing SIM cards, and the fact that their consumption is only about one third that of Israelis (Ziv, *Haaretz*, May 13, 2008), would suggest that such income cannot be too high. From the Palestinian point of view, though, the loss is quite substantial: thus, for example, the Palestinian Authority loses an estimated US\$ 60 million in annual tax incomes, as it cannot tax the Israeli operators (World Bank, 2008: 2). Additional income accrues to Israel by the fact that international calls to and from Palestine are routed through Israel, as well as by the fact that Israeli infrastructure is used to communicate between the West Bank and the Gaza Strip

(World Bank, 2008: 3). Furthermore, Palestinian operators are forced to buy cell phones from an Israeli company, as the IDF does not allow them to import on their own (Ziv, *Haaretz*, May 13, 2008).

Cement

Israel is the main supplier of cement to the Palestinian Authority. Israel's main producer of cement is Nesher, owned by Clal, one of Israel's major holding companies. Nesher provides between 70% and 90% of the Israeli demand (Nesher, 2006: 15); the rest is imported. In 1994, Nesher signed an agreement with a Palestinian marketing company that buys the cement and distributes it to the Palestinian market (Tikva, 2005: 7).

The Palestinian market is significant for Nesher: At the height of the second Intifada, it constituted 19% of total Nesher sales. In 2003 and 2004, with the ebbing of the Intifada, those figures rose to 26% and 28%, respectively (Nesher, 2006: 15). In fact, Nesher is conscious of the significance of its Palestinian clients: its periodic report, last published in 2006, states that a change in political circumstances may produce a change in the Palestinian market. It goes on to state that the market will not be lost in the case of a two-state solution, though this may require increased investments in marketing (Nesher, 2006: 15).

Nesher's confidence that a cessation of Israel's occupation of the Palestinian territories will not result in a total loss of the Palestinian market appears to be well founded, as the production of cement requires large investments and storage facilities. Nesher's competition, however, might come from producers in Arab countries, but then transportation costs might work in Nesher's favor.

Agriculture

In the fields of electricity, fuel and cement, Israeli exports to the PA are concentrated in a few hands: the Israel Electric Corporation, the Nesher Cement Company, Dor Alon and Paz Oil. In the case of agriculture, the producers are many.

Up to the second Intifada, Israel exported to the Palestinian territories around one quarter of its total agricultural exports. Foremost among agricultural exports is fruit: the Palestinian territories, and in particular the Gaza Strip, are the most important export market for Israeli fruit, taking up some 20% of total Israeli fruit production. Many fruit growers in Israel have adapted their production capacity to accommodate the Gaza market; as a result, whenever export lines to the Palestinian territories are closed, the Israeli market is flooded by huge surpluses accompanied by a sharp price drop. The effect of such closures was dramatized in April of 2008 by the Israeli minister of agriculture, Shalom Simkhon, who in reference to the closure then imposed on the Hamas-led Gaza Strip declared that "Israeli agriculture is based on exports to Gaza" (Grinberg, *Haaretz*, April 2, 2008). Simkhon, representing Israel's agricultural interests, pressured to open the gates to the Gaza Strip, in direct contradiction to the policy of the ministry of defense and of the IDF (ibid). In contrast, exports of vegetables are negligible, at about 1% of total production (The Peres Center and Paltrade, 2006: 47).

But the interests of Israeli agro-business in the Palestinian territories go beyond sales of agricultural products to the PA. Israel sells the Palestinians agricultural equipment, seeds, plants and fertilizers. In addition, the major Israeli exporter of agricultural goods, AGREXCO, monopolizes exports to Europe of some of the most lucrative Palestinian products, such as Gaza Strip strawberries.

Beyond the interests of this or that Israeli agro-business, the continued occupation of the Palestinian territories allows Israel to manipulate Palestinian agriculture so that "agriculture in the Palestinian territories, to the greatest extent possible, enhances – rather than competes with – Israeli agricultural planning" (Gazit, 1985: 251; see also Kahan, 1987: 70). This means, in effect, the discouraging, on the part of Israeli authorities, of Palestinians growing fruits or vegetables grown by Israeli farmers. In addition, while Israeli products have free access to the Palestinian market, Palestinian exports to the Israeli market are restricted (European

Commission-Food and Agriculture Organization of the UN, 2007: 12). In this sense, Israeli agricultural interests stand to lose from a two-state solution, unless the two sides engage in a deliberate effort to achieve joint planning that will allow for the advance and enhancement of Palestinian agriculture, most of all by an independent structure of decision making, while at the same engaging in joint planning with Israel (see Arnon and Bamy, 2007: 47-55). With regard to the Gaza Strip, though, it appears that Israel will continue serving as a supplier even after effective Palestinian independence, because with growing demand for housing and industry, the cultivable areas, extremely small at the present, will be even smaller (Grinberg, *Haaretz*, April 2, 2008).

Another probable Israeli loss will involve the control over water resources, which since 1967 has been exclusively in the hands of Israel. Palestinian agriculture consumes about 60% of the total water consumption in the West Bank and the Gaza Strip (European Commission-Food and Agriculture Organization of the UN, 2007: 6). Israel's control played an important and negative role in the development of Palestinian agriculture – while at the same time allowing Israeli agriculture to enjoy a generous supply of water.

Food Industry

Local Palestinian production does not provide sufficient staple food commodities for the local population; thus, imports are very significant (European Commission-Food and Agriculture Organization of the UN, 2007: 2). Israel is a major source of importation of food products. The other side of the coin is, that exports to the Palestinian territories were for a long time a significant part of total Israeli food exports. A survey conducted in 2005 found that up to the second Intifada, 81% of Israeli food companies had been active in the Palestinian market. Some major food companies noted that the Palestinian market was responsible for 10% to 30% of their pre-Intifada sales (The Peres Center and Paltrade, 2006: 60). However, food exports have been decreasing since the outbreak of the first Intifada; the second Intifada brought with it the cessation of operations in the PA on the part of

some of the companies. Still, with the ebbing of the second Intifada, 69% of Israeli companies that marketed to the PA before, resumed their activities there (ibid: 60).

As is the case with agricultural exports, food exports are split among a variety of Israeli producers. Information on exports of individual firms is not available.

For significant parts of the Israeli food industry, exports to the Palestinian territories constitute an important part of their production. Those producers stand to lose from a two-state solution, as it is precisely into such areas that Palestinian producers can be expected to enter, once the two states move from a customs union to a different arrangement, given that those production lines are based on low technologies and on low-wage labor.

B. Israeli Firms Benefitting Directly from the Israeli Occupation

Construction of Housing

Construction firms that build the Israeli settlements in the Palestinian territories would appear to be the foremost example of firms that benefit directly from the continued Israeli occupation. The main reason behind this statement is that the settlements would never have been built were it not for the ability of Israel to take possession of Palestinian land, allow the builders to build and allow citizens of Israel to cross the Green Line and settle in the new houses, and employ the IDF to provide military protection for the settlements.

Still, from a strictly economic point of view, the case for consideration of economic gains is not that clear cut, for one has to take into account the fact that the settler families would have needed housing even if there was no occupation, only the housing would have been built within the pre-1967 Israeli borders. In short, much of the building connected with the settlements would have taken place even without Israeli military control over the Palestinian territories.

What makes the economic analysis relevant, nevertheless, is the fact that construction of housing in the settlements was, and still is, determined not only by purely economic considerations of supply and demand, but also by the particular political agenda of the different political parties controlling the state apparatus. Thus, during the 1990s, the right-wing governments of Yitzhak Shamir (actually, his housing minister, Ariel Sharon) and Benjamin Netanyahu pushed for expansion of the settlements, while the centrist government of Yitzhak Rabin sought to limit it. The following table shows the trends quite clearly: in 1991 and 1992, during Shamir's term of office, housing construction in the Israeli settlements constituted 9.1% and 13.4% of total housing construction in Israel. During Rabin's term, the figure declined to 3.0%. Then, under Netanyahu's command, in 1998 there was an increase in settlement construction, to 9.9%. When Ehud Barak came to power, replacing Netanyahu, things did not change, even though Barak came from the same party as Rabin – Labor. In fact, the number of new houses built in 2000, under Barak, was the highest since Shamir's time.

Many Israeli construction corporations have been involved over the years in the construction of settlements. There is no available information, corporation by corporation, on the number of houses built, total investments, revenues and profits. It is also difficult to make a distinction between mainstream, large Israeli construction firms, for whom building in the settlements was and still is just part of their total operations, and small firms for whom building in the settlements, involving as it sometimes does, security risks, represents a particular business opportunity.

At the end of 2007, one of the largest housing projects took place in a suburb of Modiin Elit. The suburb, Matityahu Mizrach, was built on the Palestinian side of the Green Line, on lands belonging to the Palestinian village Bil'in. The project, which never received proper approval of the Israel planning authorities, has drawn widespread public attention, as it has become the scene of constant confrontations between the Palestinian villagers and their Israeli supporters, on the one hand, and IDF forces, on the other.

The major contractors for the Matityahu Mizrach project are Danya Cebus and Heftsiba.

Danya Cebus is engaged in building Matityahu Mizrach's "Green Park" project. It is owned jointly by Lev Levaiev and Shaya Boimelgreen and is a subsidiary of Africa-Israel Investments, owned by Lev Levaiev. Danya Cebus builds in Israel, Russia and Canada. Lev Levaiev is one of Israel's richest business people: he is the founder and owner of Africa-Israel, a corporation involved in a variety of projects worldwide, from diamond trade in Africa to real estate projects in Eastern Europe. Among other things, Africa-Israel is a major partner in Derech Eretz, the company building the Cross-Israel highway that runs from north to south. Levaiev was considered at one point Israel's richest person (Nfc.co.il, 5.5.2007).

Heftsiba, which is engaged in building the "Nahalat Heftsiba" project, is owned by the Jerusalem Yona family and was listed in

2006 in Dun and Bradstreet's "Duns100." The father, Mordechai Yona, who serves as chairman of the company, is the honorary president of the Israel Association of Contractors and Builders. Heftsiba builds beyond the Green Line not only in Matityahu Mizrach but also in Maale Adumim; in addition, it built in Har Homa, on Palestinian territory annexed to Jerusalem. Heftsiba recently gained notoriety, after the company collapsed and its CEO, Boaz Yona, fled Israel, leaving hundreds of Israeli families stranded without the apartments they had paid for.

It should be noted that both large and small construction companies gain from the fact that the actual manual work was and is still being done mostly by Palestinian workers, who are not only paid less than Israeli workers but usually also less than Palestinians working in Israel.

Table 3: Housing Construction Begun Inside Israel and in the Israeli Settlements, Public and Private Construction 1990-2006

Year	Housing construction starts in Israel and in the Israeli settlements	Housing construction starts in the Israeli settlements	Housing construction starts in settlements as a % of total construction starts
1990	42,380	1,870	4.4%
1991	85,510	7,750	9.1%
1992	46,030	6,180	13.4%
1993	35,800	2,240	6.3%
1994	43,620	1,320	3.0%
1995	68,900	2,520	3.7%
1996	55,940	1,680	3.0%
1997	52,030	2,280	4.4%
1998	43,911	4,350	9.9%
1999	38,950	3,147	8.1%
2000	45,809	4,754	10.4%
2001	32,034	1,691	5.3%
2002	33,290	1,560	4.7%
2003	31,531	2,056	6.5%
2004	29,784	2,016	6.8%
2005	31,346	1,891	6.0%
2006	30,229	1,520	5.0%

Source: Israel Central Bureau of Statistics, *Construction in Israel*, various years.

Road Construction

Road construction can be viewed as an adjunct of housing construction. When we say road construction we refer to roads linking the Israeli settlements to each other and to Israel. Though the general area of the West Bank is small and hilly, with few major roads, the settlements are widely dispersed. Up to the start of the first Intifada, Israeli settlers used mainly the existing roads, built by the British Mandatory authorities and by Jordan, and serving the Palestinian population. The Israeli military governor invested little in the improvement or expansion of that road network. Following the outbreak of the first Intifada, when Palestinians started attacking Israeli vehicles, the settlers pushed for the construction of roads that would by-pass Palestinian towns and villages. The signing of the Oslo accords, which split the West Bank into three jurisdictional areas, with areas A being under full responsibility of the Palestinian Authority, areas C being under full Israeli responsibility and areas B being under joint responsibility, gave a further push to the construction of by-pass roads, as the Israeli government rushed to build a new set of roads that would eschew areas under Palestinian responsibility (Eldar and Zertal, 2004: 398-399). Thus in 1995, the first full year after the signing of the Oslo accords, road construction in the occupied territories amounted to 102 kilometer-road, constituting 21.3% of total kilometer-road construction started that year throughout Israel (Swirski, Konur-Attias and Shurtz, 2006: 58). In 2002, at the height of the second Intifada, road construction in the settlers' areas picked up again, reaching 18% of total road construction, as the Israeli government attempted to provide the settlers with secure roads (ibid). Many of the new roads were, and still are, for the exclusive use of settlers.

The Separation Wall

Since 2002, the single largest construction project in the occupied Palestinian territories has been the separation wall. In fact, the wall is the single largest infrastructure project in Israel. The total cost of the project has been estimated at approximately NIS 13 billion (US\$ 3.3 billion) (Brodet, 2007: 15). The project, approved by the Israeli government in June 2002, at the height of

the second Intifada, was designed to stop the relatively free access from Palestine to Israel, and in this way to stop, or at least decrease considerably, the passage of Palestinian suicide bombers. The Wall has aroused a great deal of controversy. A major point of contention is the placement of the Wall: the only placement that would have been internationally acceptable is the Green Line. Had the wall been constructed along that line, it would have been 313 kilometers long. However, the line of the Wall has been drawn in such a way as to place a good many of the Israeli settlements on the Israeli side of the wall, which involved a *de facto* annexation to Israel - in the case of a two-state solution - of large tracts of Palestinian land, including their Palestinian residents. This move will make the wall more than twice as long - 790 kilometers, thus making the project much larger and costlier (Ariely and Sfard, 2008: 129).

The construction, operation and maintenance of the Wall involves considerable corporate interests. According to the official site of the project, the wall consists of a concrete wall, patrol roads on both sides, wire fences, a ditch on the Palestinian side, observation towers and electronic surveillance equipment. The project involved (as of January 2007) 700 different sub-contractors: around 60 planning offices, 53 major construction firms, 5 wire-fence firms, 11 civilian security firms and about 34 producers of surveillance and communications firms. Many of the contractors are mentioned in Wall's website (www.securityfence.mod.gov.il).

The two companies in charge of the surveillance equipment are Elbit Systems (in cooperation with the U.S. firm Detection), and Magal. Elbit is one of Israel's largest private defense electronics firms; Magal describes itself as the leading manufacturer in the field of outdoor perimeter protection worldwide (<http://www.magal-ssl.com>).

Most of the work on the separation wall is a one-time thing, of course. But the involvement of some of the corporations will most probably continue, as the Wall and the electronic equipment attached to it will need constant operation and maintenance. An added source of future corporate income is the manning of the Wall's gates, through which traffic will pass between Israel and Palestine.

Security: road-blocks, settlements, gates and crossing points

Another branch of business that benefits from the continued occupation of the Palestinian territories is that of security and guard services. Up to quite recently, the manning of the road-blocks within the Palestinian territories and of the passage points between Palestine and Israel was wholly in the hands of the IDF and the Israeli police. Recently, a slow process of privatization of those functions has been taking place.

According to *Haaretz* reporter Meron Rapoport (*Haaretz*, September 28, 2007), five West Bank passage points have already been privatized, and several other passage points in the Jerusalem area are scheduled to be turned over to private, civilian guard firms, up to the middle of 2008. Modi'in Ezrachi, one of the largest private security firms in Israel, has already been seen in operation at crossing points in the Jerusalem area.

Industrial Parks in Settlements

One of the aspects of the occupation that is least known to the Israeli public, and even less so to non-Israelis, is the activity of Israeli businesses in the industrial parks erected in Israeli settlements in the Palestinian territories (for a list of such enterprises see www.whoprofits.org).

As of the beginning of 2003, there were 17 such industrial parks (Tzaban, 2003: 27). Most of them were established during the 1990s, with the assistance of the Israel Ministry of Industry, Commerce and Employment. According to B'Tselem, initial government investment in each park stood at about NIS 20 million (B'Tselem, 2002: 63). Tzaban has calculated that during the five years between 1997 and 2001, the 17 industrial parks were allocated a quarter of a billion NIS – 22% of total Israeli government allocations for industrial parks (Tzaban, 2003: 27).

Most of the industrial parks are small, but some of them are large enough to employ thousands of workers. The two largest ones are, first, the Barkan industrial park, located near the Barkan

settlement, to the west of the Palestinian town of Nablus, near the large urban Israeli settlement of Ariel. The Barkan industrial park, and the smaller and adjacent Ariel industrial park, are enclosed by several Israeli settlements, in an area of Palestine that many believe will be given over to Israel, in exchange for Israeli land elsewhere, once a two-state solution is implemented. The second large industrial park is Adumim, located near Maale Adumim, one the largest urban settlements in the West Bank, to the east of Jerusalem.

A glimpse into the economic activity taking place in the industrial parks is provided by the 2006 Annual Report of the Israel Internal Revenue Service. This report included, for the first time, information on all Israeli corporations, by administrative district. The purpose of the analysis was to help assess the impact of the July 2006 Second Lebanon War on economic activity in the Northern district of Israel, which borders with Lebanon. Fortunately for our purposes, one of the districts for which data are presented is Judea and Samaria, that is, the West Bank, not including the Gaza Strip. The data presented is for the period 1999-2003. Even though the data refer to all Israeli firms in the West Bank, including those not situated in industrial parks, it can be safely assumed that the industrial parks account for most of the activity.

According to the figures presented by the Israel Internal Revenue Service, in 2003 there were 1,414 Israeli firms operating in the West Bank. That number constituted 1.3% of all the Israeli corporations registered with the IIRS (IIRS, 2006: 174). This, at a time when Israelis living in the West Bank settlements constituted 3.3% of Israel's population (*ibid*). In 1999 the number of corporations had stood at 1,170, which means that between 1999 and 2003 there was a 21% increase in the number of Israeli corporations in the West Bank (IIRS, 2006: 177). This represented a rate of growth higher than that reported for Israel as a whole - 14% (*ibid*).

When the number of corporations is weighted by the size of the working age population, the number of Israeli corporations in the West Bank represents the lowest corporate density of all Israel's administrative districts (*ibid*). This

apparent discrepancy is explained by the fact that many of the settlers depend for their livelihood on jobs within Israel, and not in the settlements themselves.

Looking at the fields of activity of those corporations, the IIRS figures show that in the West Bank, the proportion of industrial, commercial and construction firms was larger than the Israeli average, while the proportion of firms in the financial and business services was lower than the Israeli average (ibid: 184).

Looking specifically at industrial firms (in 2003, 220 out of 1,414 corporations), the IIRS figures show that in the West Bank, the proportion of firms in the High Technology and in the Medium-High Technology categories (17%) was lower than the average for Israel as a whole (25%), while the proportion of firms in the Medium-Low Technology and in the Low Technology categories (83%) was higher than the average for Israel (75%). The proportion of High-Tech firms – 8% - was the lowest of all of Israel's districts, with the exception of the Southern district (ibid: 185).

Israeli corporations that operate in the West Bank are not particularly profitable: looking at corporations that reported profits (before pay to executives), it turns out that both in terms of median and average profit, West Bank Israeli corporations reported profits that were the lowest of all major Israeli districts (that is, North, Haifa, Center, Tel Aviv and South; IIRS, 2006: 195, 197, 198). Furthermore, executive pay, both median and average, was lower in the West Bank than in any other major Israeli district (ibid: 202).

The Advantages of the Settler Economy

The Israeli businesses operating out of these industrial parks in the West Bank are clear-cut beneficiaries of the Israeli occupation. Not only that, they stand to lose significantly from a termination of the occupation; some of them would probably lose everything. The occupation provides them with two advantages that businesses within the Green Line do not enjoy: first, they employ Palestinian labor under conditions of extreme exploitation; second, for

many years they paid hardly any taxes to the Israeli tax authorities.

This is due mainly to the fact that the settlement project in general and the settler economy in particular, have been operating in what can best be described as a legal Wild West. This is due, among others, to the fact that there are various systems of law operating simultaneously in the occupied Palestinian territories. On the one hand, Israel allowed Palestinians to make use of Israel's courts, including the Supreme Court of Justice, in cases involving actions committed by the military governor, such as confiscation of lands or entry permits to Palestinians wanting to reunite with their families in the occupied territories. This fact was much touted by Israel as a show of generosity that went beyond the requirements of international law. Critics of the act have pointed out, though, that it represented a *de facto* legal annexation by Israel of the Palestinian territories, turning the entire area between the Jordan river and the Mediterranean into one jurisdiction. To the Palestinians, it should be noted, the benefits of that legal annexation are dubious, as the vast majority of their appeals were rejected (Eldar and Zertal, 2004: 451-452).

As to criminal and civil justice, the legal regime in the occupied territories is split: Palestinians are subject to local courts that rule according to Jordanian law (and in the Gaza Strip, up to 2005, to Egyptian law) and to IDF military courts, which rule according to the laws and edicts promulgated by the military governor. Thus, Palestinian workers employed by Israeli settlers do not have the benefit of protection by Israel's well developed labor legislation. As to the Israeli settlers, they are subject, in principle, to Israeli law as well as to IDF military law; in practice, though, they were always tried in Israeli courts and according to Israeli laws (Eldar and Zertal, 2004: 481-482. See also B'Tselem, 2002: 55; Israel High Court of Justice, 5666/03, October 10, 2007; Rubinstein and Medina, 1996: 1181).

Now back to the Palestinian workers in the settler economy. Figures for the number of Palestinian workers employed in the various industrial parks vary. The numbers are affected by the sporadic violent confrontations in the

area, by the ups and downs of the businesses themselves, and by the alternatives open to Palestinian workers – which include working inside Israel's Green Line. According to Lieutenant Colonel Baruch Persky of the Israel Ministry of Defence, close to 20,000 Palestinians were employed in 2007 in Israeli settlements in the West Bank. They were employed as assembly-line workers in the industrial parks as well as in construction (Knesset, July 3, 2007). This figure applies, apparently, to workers who registered with the IDF's Civil Administration. (Many more were probably employed without registration, especially in the farms of Israeli settlers in the Jordan valley).

Israel has a relatively well developed body of labor-protection legislation. The major weakness of that legislation is poor enforcement, due, among other things, to the weakening of the Histadrut, the once all-powerful Israel federation of labor unions. Yet, even when the Histadrut was at the height of its power, it failed to extend its protection to Palestinians working within the Green Line.

The status of Palestinians working in the settlements is even weaker. What is their legal status? Should they, for instance, be protected by the Israel Minimum Wage Law? According to Kav LaOved, an Israeli workers' rights organization that monitors violations of workers' rights within the Green Line as well as in the settlements, the Israeli Military Governor did issue in 1982 an order extending the Israeli minimum wage to the occupied territories. Yet, as late as July 2007, at a Knesset hearing, a representative of the Israel Ministry of Defense declared that up to then, the directive had applied only to the areas of Israeli settlements; given that Palestinians are employed by Israelis not only inside the settlements but also outside of them, such as in quarries or gas stations, the representative declared that the military governor was in the process of extending the directive so that it would apply to all Palestinians employed by Israelis in the occupied territories (Israel Knesset, July 3, 2007: 6).

It is only very recently, on October 10, 2007 – that is, four full decades after the Israeli conquest of the West Bank – that the Israel High Court of

Justice ruled that Palestinian workers employed by Israelis in the occupied territories are entitled to the Israel minimum wage and social benefits (Israel High Court of Justice, 5666/03). The ruling of the High Court of Justice is certainly an important step forward, yet implementation was, is and will remain a major problem. At the abovementioned Knesset hearing it transpired that in industrial parks within the settlements, Israeli employers neglected to note that the law stipulates not only a minimum monthly wage but also a minimum hourly wage: thus, many workers were apparently paid the minimum monthly wage due for 186 hours of work even though they worked 200 hours or more. The representative of the Israel Ministry of Defense acknowledged that he was not aware of the details of the law (Israel Knesset, July 3, 2007: 15). Many Palestinian workers not only are paid below the minimum wage, they are also not given sickness allowances, vacations and other standard workers' rights (Rapoport, *Haaretz*, 14.5.2007). Moreover, they are not covered by accident insurance (Sinai, *Haaretz*, July 3, 2007). When Palestinian workers at a quarry in the Maale Adumim industrial park organized – the first ever organization of Palestinian workers in Israeli settlements – demanding back pay and social rights, the employer, of the aforementioned Yona family that builds in several settlements, confiscated the workers' work permits, an act that would prevent them from passing through IDF roadblocks and thus in effect prevent them from coming to the quarry to demand their rights (Rapoport, *Haaretz*, April 21, 2008).

Not only businesses but also the municipal authorities of the settlements find ways to circumvent the Israeli laws pertaining to employment, by playing it both ways: relying on Israeli or Jordanian law alternatively, depending on what fits their interests best. A case in point is a court decision handed down on December 13, 2007, against the Ariel municipality: Ariel authorities had demanded, through the court, that the Israel Internal Revenue Service return to them amounts paid as payroll taxes on behalf of Palestinian workers employed by the Ariel municipality between 1994 and 1998. Ariel claimed that it had paid that tax mistakenly, arguing that Israel's income tax laws apply only

to income made, produced or received in Israel. The court rejected the plea (Ariel Local Council vs. Petach Tikva Office of the Israel Internal Revenue Service). It is important to note, though, that as late as 1999, the IIRS had indeed exempted employers of Palestinians from the payment of payroll taxes (ibid). Which means at the very least that for most of the years of the occupation, Palestinians working for Israelis in the occupied territories were indeed not extended the protection of Israeli labor laws.

The second great advantage enjoyed by Israeli businesses operating in the Palestinian territories stems from corporate tax exemptions.

For a long period following the beginning of Israeli settlement in Palestinian territories, Israeli businesses there paid no taxes whatsoever. The Israel State Comptroller's report for fiscal year 1985 noted that up to 1983, the Military Governor's taxation officer did not even approach Israeli businesses operating in the occupied territories. Beginning in 1983, only 18 out of the 180 companies then operating in the area submitted financial reports to the taxation officer at the Israel Civil Administration of the occupied territories. Most of the businesses neither maintained account books nor reported to the Israeli tax authorities. As we saw above, for most of the years since 1967, Israel's income tax laws applied to income made, produced or received in Israel. However, a 1978 law allowed Israeli tax authorities to tax Israeli individuals or corporations living or operating in the occupied territories (deducting from the taxes due the amounts already paid to the Military Governor's taxation officer). In other words, it appears that both the tax officer of the military governor and the Israeli tax authorities turned a blind eye to the earnings of Israeli corporations in the occupied territories (Israel State Comptroller, 1990: 857).

It was only in 2002 that the Israel Income Tax Order made it clear that the income of an Israeli citizen made in the occupied territories is taxable as if it were made in Israel itself (Israel Income Tax Order, Amendment 132, 2002). The amendment was part of a larger reform of the Israel income tax system, one of whose aims was

to cover activities of Israeli business people abroad.

Between 1982 and 1985, total corporate tax collection from Israeli businesses in the occupied territories amounted to the negligible sum of NIS 6 million. The tax officer took no steps to punish businesses that did not submit financial reports and did not pay taxes (Israel State Comptroller, 1985: 1222-1235). Five years later, tax collection had not improved much: a State Comptroller's report for that year found that out of 386 Israeli businesses operating in the Palestinian territories in 1990, only 25 had submitted financial reports for 1987, and only 5 had done so for fiscal years 1987 and 1989 (Israel State Comptroller, 1990: 857).

During the 1990's, with the establishment by the Israeli government of state-subsidized industrial parks and with the extension by the Knesset and by the Military Governor of the Israeli legal apparatus to the personal and territorial Israeli enclaves in the occupied territories, the economic "Wild West" was tamed. A 2003 report by the Israel Internal Revenue Service lists, as we saw, some 1,400 Israeli businesses operating in the West Bank.

Still, the tax bill is lower than that of businesses operating within the Green Line. For many years now, the Israeli government has been enacting preferential treatment of certain areas and certain localities throughout the country. The list of "Areas of National Priority" has changed over the years, with Labor governments listing mainly kibbutzim and moshavim, and Likud governments giving more weight to settlements; but most settlements have been included in the list regardless of the party in power. Inclusion in the list gives the locality a variety of perks, such as reduction of local and national tax rates. Thus, the mayor of the urban settlement Ariel has bragged about the low municipal taxes paid by shops and factories operating out of the Ariel Industrial Park: while they pay NIS 41 per square meter, businesses in Rosh HaAin, only 10 minutes drive away – but within the Green Line – pay NIS 87 (Goldstein, *Ynet*, December 24).

The 2006 Annual Report of the Israel Internal Revenue Service provides overall information on

the collection of corporate taxes in the Israeli enclaves in the West Bank. While those corporations constituted 1.3% of all Israeli corporations, their contribution to total revenue of corporate tax was 0.4% (IIRS, 2006: 204; and personal communication from the IIRS, December 27, 2007). As the IIRS explains, this is due to the fact that West Bank Israeli corporations, much like many corporations in the peripheral areas of Israel within the Green Line, benefit from tax exemptions (IIRS, 2006: 176). In 2003, average tax liability of West Bank Israeli firms stood at NIS 46 thousand – only 21% of average tax liability of firms in the Tel Aviv district (IIRS, 2006: 204).

The Future of the Settler Economy

Does the economy that has grown around the Israeli settlements in the occupied Palestinian territories constitute an obstacle to peace?

The full extent of that economy is not known. The Israeli Central Bureau of Statistics does not publish GDP statistics broken down by regions, so we do not know the size of the settler economy. Still, on the basis of the figures published by the IIRS, it can be safely said that it is not large. Contrary to most colonial enterprises, the Israeli settlements in the Palestinian territories have not prospered around some unique local natural treasure or flora or fauna. The economic sustenance of the settlements lies in Israel, that is, in the Israeli labor market. More than one third of male workers that lived in the settlements in 2006 worked inside the Green Line, commuting daily from their homes in the settlements to the large urban centers – Jerusalem and the coastal area; this proportion of commuters was higher than in all other Israeli districts with the sole exception of the Tel Aviv district, many of whose residents work in the contiguous Central district (ICBS, *Labor Force Survey 2006*: Table 2:38). Contrary to the Gaza Strip settlements (unilaterally withdrawn in 2005), which had developed a relatively significant local farming industry, based mostly on green-house products, most of the West Bank settlements have not developed a local economy. The only exception is the Jordan valley, where a few scattered settlements have developed a specialized agricultural production.

Most of the industrial parks established in the settlements are relatively small, and most of the industrial and commercial businesses operating out of them are small too. Most of the workers employed there are Palestinians, not Israelis.

Thus, the settler economy does not appear to present a huge *economic* obstacle to an Israeli-Palestinian accord to terminate the conflict. The most successful of the businesses operating out of the industrial parks have branches within the Green Line, a fact that enables them to export abroad products made in the settlements without running the risks of international boycott or higher taxation. As was the case in the Gaza Strip, so in the settlers' industrial parks, the ranks of the victims of an Israeli evacuation will include Palestinian workers – as we saw, some 20,000 of them. But they might also benefit, at least indirectly, if the infrastructure of the industrial parks were to be handed over to the Palestinian Authority – as was done with the agricultural green-houses in the Gaza Strip.

The Future of the Israeli-Palestinian Economic Connection

Our survey of the various Israeli actors involved in the Palestine trade has shown that Israeli economic hegemony is pervasive. With the possible exception of high tech industries and services, almost all other branches of the Israeli economy are involved in the Palestine trade.

For the Israeli economy as a whole, this involvement is relatively modest and far from being crucial or indispensable. Furthermore, the relative importance of the Palestinian market has been on the decline ever since the outbreak of the first Intifada. Since 2000, exports to the Palestinian Authority have constituted no more than 3%-4% of Israel's total exports.

The growth of high tech industries and services has made the leading branches of the Israeli economy much less dependent on the Palestine trade. While total Israeli exports increased in the 20 years between 1988 and 2007 more than five-fold, from US\$ 11.3 billion to US\$ 58.7 billion, Israeli exports to the Palestinian territories, which were US\$ 0.8 billion in 1988, rose in 2007 to only US\$ 2.6 billion (see table 1 above).

From the Israeli point of view, the Palestinian territories are but the equivalent of a poor, underdeveloped province. Like similar provinces in other countries, the economic mainstreaming of the Palestinian territories would necessitate massive investments. For such investments to materialize, however, political sovereignty and independent economic decision making are essential. Forty-some years of Israeli occupation have been characterized by underdevelopment, or indeed, to use Sara Roy's punchant term, de-development (Roy, 1987). According to the World Bank, in 1968, the average Israeli citizen was 10 times wealthier than the average Palestinian; in 2007, Israeli per capita GDP was 20 times that of Palestinian per capita GDP (World Bank, 2007b: 7).

Separation is a prerequisite for Palestinian economic development because the lack of development is not due, in the main, to the opposition of the Israeli business community, wary of competition (with the notable exception of Israeli farmers, a powerful group indeed), but rather to the determination of the Israeli state to prevent the formation of a political entity that might jeopardize Israel's strategic position as the sole arbiter of the territory lying between the Mediterranean and the Jordan river.² Without separation, economic considerations will remain subservient to political ones.

Furthermore, without separation, the Israeli business community, which might have gained from Palestinian development much more than it does from Palestinian under-development, will remain, willingly or not, part of Israel's politico-military control apparatus: electricity and fuel suppliers will continue cutting supplies at the

request of the Israeli government, Palestinian goods will continue to be held hostage at Israeli air and sea ports, and so on.

In order for the Palestinian territories to develop economically, decisions have to be made by Palestinians and investments have to be controlled by Palestinians. This is the main recommendation of both Palestinian and Israel economists (see The Peres Center-Paltrade, 2006; Arnon and Bamy, 2007). At the same time, it is important to remember that political sovereignty and independent economic decision making do not mean, necessarily, a decoupling of the two economies. As we saw at many points throughout the discussion, it is quite conceivable that many of the economic relations established under conditions of military coercion will continue even when a two state solution is implemented. The reasons are many, foremost among them the high cost of constructing separate infrastructures. But without independent decision making, the chances for improved infrastructures, for development of new economic enterprises, for upgrading the skills of the work force and for improving the education of the young generation are slim.

Israel has little to fear from independent Palestinian economic development. Indeed, it has much to gain from it, because development will have the effect of diversification and amplification of trade. Furthermore, the more developed *both* countries are, the more attractive and lucrative will be the *common* area for entrepreneurs and as well as for workers.

Other Costs

In economic terms, a two-state solution holds in store for Israel two costs that appear to be higher than the possible business losses entailed by Palestinian economic independence: one of them is the cost of reparations that Israel might have to pay to Palestinian refugees, once there is a final status agreement; the other one is the cost of indemnification of Israeli settlers who would have to be removed under such an agreement.

In November of 2007, on the eve of the Annapolis summit meeting between Ehud Olmert, Mahmoud Abbas (Abu Mazen) and US

² This policy should be seen in the context of the century-long Zionist-Palestinian conflict. Prior to 1948, the Zionist movement placed great importance on the building of an autonomous Zionist economy, as a foundation for future political sovereignty. After 1948, the new Israeli state implemented a conscious policy of non-investment in the Palestinian villages that came under Israeli control, in "order to prevent the formation of an independent Arab economy that might strengthen Arab autonomy in Israel" (quoted in Bauml, 2007: 149; see also Lustick, 1980: 184). It should be noted that the apparatus of Military Government, which controlled the lives of Palestinians within Israel until 1966, was transferred to the Palestinian territories occupied in 1967, and with it many of the practices that it had developed vis-à-vis Palestinians within the Green Line.

president G. W. Bush, the Aix Group, which comprises Israeli and Palestinian economists who strive to formulate the economic dimensions of a two-state solution, released an estimate of the economic cost of settling the issue of Palestinian refugees. The refugee problem is the thorniest of all outstanding issues between Israel and the Palestinians. The Aix Group estimated the cost of resettlement, rehabilitation, individual compensation and the answering of property claims at between US\$ 55 billion and US\$ 85 billion (Arnon and Bamy, 2007: 79). The sum would be paid over a ten year period. Israel would probably be expected to pay only part of the sum: for example, the property claims, which amount to between US\$ 15 billion and US\$ 30 billion – about one third of the total. That would involve a yearly outlay of between US\$ 1.5 billion and US\$ 3.0 billion, or approximately 0.9% to 1.8% of Israel's 2007 GDP.

This is no light burden, especially in view of the fact that Israel would have to budget other costs, most notably the cost of removing dozens of settlements from deep inside Palestinian territory. It is difficult to calculate such a cost, as the basic quantities are not known: the number of settlements to be removed, the number of families, the size of compensation, etc. We do have a benchmark in the form of the total cost of the removal of the Israeli settlements from the Gaza Strip: NIS 9 billion. The Gaza settlers

numbered 17,000. Estimates of the number of settlers living in the settlements deep in Palestinian territory range from 60 thousand to 80 thousand. Assuming that the costs will be the same, we are talking about a total of between NIS 32 billion and NIS 42 billion, or between US\$ 9 billion and US\$ 12 billion (in July 2008 prices), to be spread over a number of years.

Some Palestinians think that these two costs are so large as to deter Israel from continuing the talks, and to encourage it to allow the present impasse to continue.

The potential benefits of a political settlement outweigh the price of solving the refugee problem and the cost of an Israeli evacuation. A political settlement that is satisfactory to both sides would allow the Israeli economy, side by side with the Palestinian one - to grow without the constant fear of slowdowns caused by hostilities. Furthermore, a political settlement would allow Israel to establish direct and open diplomatic and trade relationships with all the countries of the region, opening the doors to further economic growth.

Israel would be able to cut a substantial part of the expenses presently involved in the military control of the Palestinian territories. Assuming a wider regional political settlement, Israel would also be able to cut its overall defense budget, and to divert those monies to civilian projects.

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