



Department for
International Trade

Continuing the United Kingdom's trade relationship with the Palestine Liberation Organisation (PLO) for the benefit of the Palestinian Authority of the West Bank and the Gaza Strip

Interim Political, Trade and Partnership Agreement between the Palestine Liberation Organization (PLO) for the benefit of the Palestinian Authority of the West Bank and the Gaza Strip of the one part, and the United Kingdom of Great Britain and Northern Ireland, of the other part

February 2019



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Presented to Parliament

by the Secretary of State for International Trade

by Command of Her Majesty

February 2019



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Introduction

1. In line with commitments provided for in the Trade Bill 2017-19, this report explains the Government's approach to delivering continuity in the UK's trade relationship with the Palestinian Authority as we leave the European Union (EU).
2. As we leave the EU the Government has sought to deliver the maximum possible certainty to businesses and consumers through ensuring continuity in the UK's existing trade relationships. It is in no-one's interests to disrupt existing trade flows.
3. To achieve this, we have developed new bilateral agreements that replicate, as far as possible, the effects of our existing trade agreements with existing partners. The agreements provide for entry into force when the existing agreements between the EU and a third country cease to apply to the UK, whether we leave the EU with no agreement or with an agreement in place on transitional arrangements. In either event, the new bilateral agreements will form the starting points for our future trade agreements with partners.
4. Wherever possible, we have sought a technical replication of these agreements, but in some cases, we have applied bespoke solutions for individual agreements as necessary to ensure continuity of effect in a bilateral context.
5. In accordance with the commitments provided for in the Trade Bill 2017-19, this report gives details of, and explains the reasons for, any significant differences between:
 - a. The Interim Political, Trade and Partnership Agreement between the United Kingdom of Great Britain and Northern Ireland and the Palestinian Authority ("the proposed Interim Agreement") and
 - b. The trade-related provisions of the existing free trade agreement between the European Union and the Palestinian Authority – the Euro-Mediterranean Interim Association Agreement on Trade and Cooperation between the European Community, of the one part, and the Palestine Liberation Organization (PLO) for the benefit of the Palestinian Authority of the West Bank and the Gaza Strip, of the other part ("the existing Interim Agreement").
6. The report first sets out the general drafting changes necessary across all the UK's short form continuity trade agreements and which have no significant impact on the UK's current trade relationships. It then considers articles of the UK-Palestinian Authority Interim Agreement, in turn explaining any significant differences between the trade-related provisions of the UK-Palestinian Authority Interim Agreement and the corresponding provisions of the EU-Palestinian Authority Interim Agreement. To assist the reader, we have included some discussion of the economic impacts. This report focuses solely on the changes made to the trading arrangements between the UK and the Palestinian Authority in preparation for the UK ceasing to be bound by the EU-Palestinian Authority Interim Agreement and entering into the UK-Palestinian Authority Interim Agreement. Any wider economic impacts resulting from the UK's exit from the EU or the nature of the Future Economic Partnership (the "FEP") have been excluded from this report.

Legal approach

7. The UK has agreed with the majority of third countries that the most appropriate and proportionate form of legal instrument to ensure continuity in the current circumstances is a short form agreement which incorporates by reference relevant provisions of the underlying EU-third country agreement with relatively few but necessary modifications. The approach is similar to that used in the Comprehensive and Progressive Trans Pacific

Partnership Agreement (the “CPTPP”), where Article 1 of the CPTPP incorporates by reference the provisions of the Trans Pacific Partnership Agreement into and makes them part of, *mutatis mutandis*, the CPTPP. The advantages of this approach include that:

- a. the short form agreement may more easily be adapted to accommodate different scenarios, such as the various possible outcomes of the UK’s ongoing negotiations with the EU regarding the end state of the UK-EU relationship;
 - b. the format itself will send a clear message to businesses, consumers and investors in both countries that the aim is simply to secure continuity in existing trading arrangements, with the only changes being the ones clearly specified on the face of the agreement; and
 - c. the approach will provide a clear legal text, making rights and obligations unambiguous where they have by necessity changed.
8. The UK-Palestinian Authority Interim Agreement reproduces the effects of the EU-Palestinian Authority Interim Agreement as closely as possible, including the establishment of institutional arrangements between the UK and the Palestinian Authority based on existing structures (such as the Joint Committee) that allow for the ongoing management and updating of the Agreement.
 9. Many of the general changes to the EU-Palestinian Authority Interim Agreement (such as replacing “EU” with “UK”) are applied *mutatis mutandis*, that is, with the technical changes necessary to apply the Agreement as if it had been concluded between the UK and the Palestinian Authority in the first instance. The interpretative *mutatis mutandis* principle applies to most references to EU law so that, where appropriate, such references are to be read as references to retained EU law or to EU law incorporated in the law of the territories for whose international relations the UK is responsible when relevant EU law ceases to apply to the UK, or legislation in the UK or the territories that replaces that legislation. This has avoided the need to reproduce every page and has significantly reduced the volume of text required.
 10. Where more substantive amendments were required to ensure operability in a bilateral context, or where the UK and the Palestinian Authority jointly agreed that *mutatis mutandis* would not deliver adequate certainty over rights and obligations, detailed amendments have been included in the Annex to the UK-Palestinian Authority Interim Agreement.

Resources

11. This report is intended to aid businesses, consumers and parliamentarians in understanding any significant changes made to the UK’s trading relationship with the Palestinian Authority by the UK-Palestinian Authority Interim Agreement, the reasons for any changes, and their impact.
12. 18. Should you wish to view the EU-Palestinian Authority Interim Agreement, it can be found online on the [EUR-Lex website](#).
13. More detail, including decisions of the Joint Committee for European Community-Palestinian Authority trade and cooperation established under the EU-Palestinian Authority Interim Agreement for the purpose of administering the Agreement, can be found on the [EUR-Lex website](#). A consolidated version of the Agreement can also be found on the EUR-Lex website. The consolidated text is not an authoritative version of the Agreement but will assist readers to understand how the Agreement has been amended since its entry into force.
14. Should you wish to view the full text of the UK-Palestinian Authority Interim Agreement, it will be laid in Parliament alongside an Explanatory Memorandum as part of the UK’s treaty

ratification process in accordance with the Constitutional Reform and Governance Act 2010.
The text will also be available on GOV.UK.

Economic Background

Trade between the UK and the Palestinian Authority

15. The Palestinian Authority is the UK's joint 186th largest trading partner,¹ accounting for <0.1% of total UK trade. Total trade in goods and services between the UK and the Palestinian Authority was £17 million in 2017.²
16. In 2017, UK exports to the Palestinian Authority were £15 million, making it the UK's joint 174th largest export market (accounting for <0.1% of all UK exports). UK imports from the Palestinian Authority were £2 million, making it the UK's joint 177th largest import source (accounting for <0.1% of all UK imports).

Table 1: Trade between the UK and the Palestinian Authority, 2017 (£, million)

	Trade in goods	Trade in services	Total trade
UK exports to the Palestinian Authority	3	12	15
UK imports from the Palestinian Authority	0	2	2
Total trade	3	14	17

Source: [ONS, \(2018\). UK trade: August 2018](#); [ONS, \(2018\). UK trade in services by partner country experimental data: April to June 2018](#).

17. Using data from HMRC for trade in goods only, Table 2 shows the top goods exported to the Palestinian Authority were predominantly in vehicles other than railway or tramway stock (£4 million in 2017), representing 70% of the total value of goods exported to the Palestinian Authority. The UK's top goods imported from the Palestinian Authority were edible fruits and nuts (£0.6 million in 2017), animal or vegetable fats and oils (£0.5 million).

Table 2: Top 5 UK goods exports to & imports from the Palestinian Authority in 2017 (at HS2³, £ million)

Top 5 UK goods exports to the Palestinian Authority	Value	Top 5 UK goods imports from the Palestinian Authority	Value
Vehicles other than railway or tramway stock	4.0	Edible fruits and nuts	0.6
Cocoa and cocoa preparations	0.8	Animal or vegetable fats and oils	0.5
Preparations of cereals etc.	0.2	Preparations of cereals etc.	<0.1
Ceramic products	0.1	Cereals	<0.1

¹ EU members are treated as individual trading partners with the UK.

² [ONS, \(2018\). UK trade: August 2018](#); [ONS, \(2018\). UK trade in services by partner country experimental data: April to June 2018](#).

³ The Harmonized System (HS) is an international nomenclature for the classification of products. It allows participating countries to classify traded goods on a common basis for customs purposes.

Electrical machinery and equipment	0.1	Furniture; bedding, mattresses, cushions	<0.1
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Source: [HMRC trade statistics by commodity code](#) (accessed 5th November 2018). Sectors classified according to Harmonised System Sections. Data presented is recorded on a 'physical movement' basis where a good is recorded as an export (import) if it physically leaves (enters) the economic territory of a country.

18. The UK exported £12 million in services to the Palestinian Authority in 2017 and imported £2 million services. A detailed breakdown of type of service is not available.
19. The trade figures in the two tables above are not directly comparable. The ONS data is recorded on a 'Balance of Payments' or 'change of ownership' basis where a good or service leaving (entering) the economic territory of a country is recorded as an export (import) only if it has changed ownership between the resident of the reporting country and non-residents. Goods exports (imports) are recorded by HMRC if a good physically leaves (enters) the economic territory of a country.

Economic impact of the existing Agreement

20. The EU-Palestinian Authority Interim Agreement entered into force in 1997. The Palestinian Authority is also part of the pan Euro Mediterranean cumulation system of origin, which was established in 2005.
21. A 2017 study looking at European Economic Integration Agreements included analysis on the EU-Palestinian Authority Interim Agreement.⁴ It found that this arrangement had a statistically significant impact on increasing trade flows.
22. A 2018 report, monitoring EU free trade agreement included a report on trade with the Palestinian Authority.⁵ It highlighted that between 2002 and 2017 EU goods exports to Palestine have increased by almost 700% and goods imported into the EU from Palestine increased by 105%, though noted that there is fluctuation in flows. For services, between 2010 and 2016 total trade in services had increased by 62%.

Potential loss to UK if the proposed Agreement is not brought into force

23. Not being able to bring into force this transitioned agreement would result in UK businesses losing the preferences negotiated in the EU-Palestinian Authority Interim Agreement. This would include the re-imposition of many tariffs, returning to MFN treatment with the Palestinian Authority. The benefits derived from trading under preferences within the Agreement, such as increases in trade flows, may then be reversed.

⁴ Soete S and Van Hove J. (2017). 'Dissecting the Trade Effects of Europe's Economic Integration Agreements'. *Journal of Economic Integration*, 32(1), pp. 193-243.

⁵ European Commission. (2018). ['Individual reports and info sheets on Implementation of EU Free Trade Agreements'](#).

24. It is unlikely that the entire effect of the agreement would disappear. Tariffs would automatically revert to MFN rates, discussed in further detail below, but it could take longer for some of the other benefits to be lost. Some gains might endure even in the long-run. For example, the UK might still benefit from any regulatory arrangements agreed because of the EU-Palestinian Authority Interim Agreement. Business connections formed because of the EU-Palestinian Authority Interim Agreement might endure.
25. The size of the impact of not bringing into force the proposed Agreement would depend on the responsiveness of trade flows to increased costs brought about by the loss of provisions within the Agreement.⁶

Immediate impact

Tariffs

26. Much international goods trade takes place in products for which MFN rates are already zero. However, free trade agreements (FTAs) provide additional opportunities by reducing tariffs in products where this is not the case. If the UK-Palestinian Authority Interim Agreement were not approved and brought into force, tariffs between the two countries would automatically revert to MFN rates for all trade. This would lead to an increase in duties on some UK exports to and imports from the Palestinian Authority.
27. To estimate the potential impact of losing tariff preferences, assumptions have to be made. If all current trade between the UK and the Palestinian Authority occurred at the negotiated preferential tariff rate, if current patterns of trade remained unchanged in future, and without taking into account the effect of any unilateral preferences, reverting to the UK and Palestine's current MFN tariff rates would result in an annual increase in total duties of around £0.5 million.⁷
28. However, these estimates assume that all tariff preferences offered under the current agreement are fully utilised by exporters. This may not be true. DIT estimates suggest that 100% of the UK's eligible goods imports from the Palestinian Authority were imported utilising the preferences under the Agreement in 2016.⁸ However, similar data on UK eligible goods

⁶ Head K and Mayer T. (2014). '[Gravity Equations - Workhorse, toolkit and cookbook](#)'. *Handbook of International Economics*, 4, pp. 131-195.

Dhingra S, et al. (2018). '[Beyond Tariff Reductions: What Extra Boost From Trade Agreement Provisions?](#)'. *CEP Discussion Paper No 1532*, LSE, pp. 1-38.

⁷ DIT's own calculations using tariff data from ITC Market Access Map (MacMap) and HMRC trade statistics (accessed 24th October 2018). Implied additional duties are calculated using the difference in MFN and preferential tariff rates and the current value of trade for each product at HS2 level, 2017. MFN tariff rates for imports into the UK are trade-weighted average rates using a reference group of countries by ITC Market Access Map, rather than bilateral trade data. This is to overcome endogeneity bias which may show low average tariff rates where there are low bilateral trade values. These results assume all trade occurs under preferential FTA tariff rates. Different approaches to this analysis are likely to yield different results. The estimate of implied additional duties may be lower than which would be generated if trade and tariff data at a more disaggregated level (CN8 level) were used, as we might expect that tariffs would be higher in the tariff lines where imports are higher.

⁸ DIT's own calculations using data from [Eurostat](#) (accessed 19th November 2018). Note that using a single year does not account for fluctuating trends in bilateral trade flows, which can be significant. In general, data on the preference utilisation of trade deals is not readily accessible and should be treated with caution. They indicate whether businesses trading in goods are benefitting from negotiated preferences, but do not tell us which or how many businesses are using these preferences. Nor do they cover services trade.

exports to the Palestinian Authority is not publicly available. The European Commission⁹ has recently published available data on preference utilisation of exports to selected FTA partner countries.¹⁰ For these countries, 68% of UK eligible goods exports were traded under preferences.

29. The total duty which would in fact be charged on exports and imports would depend on how quantities and prices of traded products adjusted to the imposition of tariffs. If UK producers were not previously utilising the preferential rates or producers and consumers changed their behaviour in response to higher tariffs, this cost would be lower than estimated above. These are strong assumptions, so this figure should be treated as an indicative estimate of the magnitude of the trade barrier under this scenario.
30. The indicative estimate is that the largest implied increases in UK export duties would be for vehicles (HS87) of up to £0.2 million. On the imports side, the largest implied increases in duties would be in edible fruit and nuts (HS08) and animal or vegetable fats and oils (HS15), totalling up to just over £0.1 million. This corresponds to the top goods traded with the Palestinian Authority.
31. Indicative estimates of implied additional tariff duties are provided above to give a sense of scale of possible additional costs of trade. Tariff duties are transfers, where the cost to business is equal to the extra tariff revenue collected by the UK Exchequer and the Palestinian Authority government. However, there could be wider effects of increased costs of trade, including negative impacts on consumer choice, prices, and ultimately economic growth and welfare

Businesses

32. Additional duties could be absorbed by either UK or Palestinian businesses (depending on whether it is the importer or exporter paying the duty), passed on to consumers, or existing trade patterns could be interrupted. This could impact UK competitiveness, leading to disruptions in supply chains and job losses in the short-term.
33. Businesses that rely on imports as part of their supply chains may be affected if import prices rise, including UK exporters that rely on Palestinian inputs to export goods to the rest of the world. In 2015 (latest data), around 15.1% of the value added in the UK's gross exports reflected imports from abroad, though the data does not provide how much of this is from imports from the Palestinian Authority.¹¹ UK companies which rely on Palestinian imports would become less competitive. Given the small share of UK trade that occurs with the Palestinian Authority, we would expect these impacts to be small, but they could be noticeable for some specific companies.

⁹ Nilsson L and Preillon N. (2018). [‘EU Exports, Preferences Utilisation and Duty Savings by Member State, Sector and Partner Country’](#). European Commission, pp. 1-17. This report uses data collected by EU Delegations from relevant authorities in countries with which the EU has bilateral reciprocal trade agreements in place.

¹⁰ Albania, Chile, Colombia, Costa Rica, Dominican Rep., Egypt, FYR Macedonia, Israel, Kosovo, Lebanon, Mexico, Montenegro, Morocco, South Africa, Korea, Switzerland, Turkey. Data were not available for all partner countries.

¹¹ OECD, 2018. [Trade in Value Added \(TiVA\): Origin of value added in gross exports, December 2018](#). Experimental statistics.

Consumers

34. Imported products could be more expensive for consumers if retailers pass on additional duties to consumers through increases in domestic prices. This could disproportionately affect certain groups of consumers, for example those at the lower end of income distribution, depending on the specific sectors affected. Consumers might also see a reduction in choice of products and services available. Given the small share of UK-Palestinian Authority trade in total UK trade, we would expect this impact to be small overall.

Longer-term impact if not entered into force

35. In the long run, the UK would forgo the longer-term benefits that the EU-Palestinian Authority Interim Agreement would have brought to UK. This could result in the long-term UK GDP marginally decreasing if a deal is not reached. Given the very small share of UK trade under this agreement, we would expect the impact on GDP to be very small.

Explanation of this Agreement, including significant differences between the UK-Palestinian Authority Interim Agreement and the EU-Palestinian Authority Interim Agreement

36. The UK - Palestinian Authority Interim Agreement follows the short form approach explained above in paragraphs 7 to 11. Beyond the general mutatis mutandis changes explained above, this section describes global changes made to continuity free trade agreements following the short form approach and goes on to provide a detailed discussion of the UK- Palestinian Authority Interim Agreement.

General Provisions

Removal and replacement of references to the EU

37. Where necessary, references to the “European Union”, “the European Community”, the “EU” “EU Party”, and “Member States” are replaced by the UK. Similarly, references to EU institutions have been replaced with appropriate references to the equivalent institutions in the UK; in cases where there is no equivalent UK institution, the reference has been explicitly deleted (for example, MED-CAMPUS). All other references to “European Union”, “the European Community”, the “EU”, “EU Party” and “Member States” are read, *mutatis mutandis*, as references to the UK but are not explicitly deleted.

Territorial Application

38. Territorial application provisions in a treaty outline the territory to which a treaty applies and how it applies. In the EU-Palestinian Authority Interim Agreement, the relevant provision defines the territorial application of the Agreement by reference to the EU Treaties. The UK-Palestinian Authority Interim Agreement retains this provision and incorporates it into the new agreement, but includes an additional article, Article 4, which clarifies that , as far as the UK is concerned, the Agreement applies to the UK and the territories for whose international relations it is responsible. As far as those territories are concerned, the Agreement applies to the same extent as the EU-Palestinian Authority Interim Agreement did. This clarification is required to reflect the change in territorial application in respect to the EU.
39. With regard to the Palestinian Authority, the incorporated provision in the EU-Palestinian Authority Interim Agreement applies to the territory of the West Bank and the Gaza Strip. Products produced in the Israeli settlements located within the territories brought under Israeli administration since June 1967 are not entitled to benefit from preferential tariff treatment.

Continuation of Time Periods

40. Provisions of the EU-Palestinian Authority Interim Agreement that provide for a transitional period, requiring a party to complete an action within a certain timeframe, and which obligations have not yet been fulfilled under the conditions of the original EU agreement, have been amended so that the new UK agreement reflects the remaining time in which the obligation must be fulfilled. Where a time bound commitment has been completed, reference to the time period has been left in and is covered by *mutatis mutandis* to reflect any continuing obligations of either party. The general commitment to continue periods set out in the EU- Palestinian Authority Interim Agreement can be found in Article 5 of the UK-Palestinian Authority Interim Agreement.

Financial Assistance

41. Clarificatory text has been included in relation to references to financial assistance to cover a range of forms of such assistance and means by which it may be provided, including assistance provided through multilateral and regional organisations. This is reflective of UK processes for the provision of financial resources through a variety of means.

Convergence, harmonisation, integration or approximation

42. Approximation is the process by which “EU partners must align their national laws, rules and procedures in order to give effect to the entire body of EU law contained in the *acquis communautaire*. Convergence, harmonisation and integration of one country's laws or standards to another country's laws or standards achieves a similar outcome.

43. Articles mandating or promoting the gradual approximation, convergence, harmonisation or integration of the law, legislation or standards of the Palestinian Authority to the EU have been removed, through the text in Article 6 of the UK-Palestinian Authority Interim Agreement. Maintaining these commitments would require the Palestinian Authority to approximate, converge, harmonise, or integrate to both the UK and the EU's law, legislation or standards, which would create an inappropriate commitment in a UK specific bilateral context. We do not expect this change to have an impact on trade.

Institutions and Committees

44. The institutional provisions and bodies provided for in the EU-Palestinian Authority Interim Agreement are incorporated and retained *mutatis mutandis*.
45. Article 7 of the UK-Palestinian Authority Interim Agreement tasks the Joint Committee with ensuring that the Agreement operates properly from entry into force. It further stipulates that the Joint Committee and any specialised committee established under the UK-Palestinian Authority Interim Agreement are deemed to have adopted the decisions of the Joint Committee or the relevant specialised committee established under the EU-Palestinian Authority Interim Agreement, to the extent those decisions relate to the UK and the Palestinian Authority, *mutatis mutandis*.

Amendment Clauses

46. Amendment clauses set out the process that must be followed if the parties agree to amend the provisions of the Agreement after it enters into force. Though parties to an Agreement are generally free to amend it as they deem necessary, amendment clauses serve to make the process clearer and more transparent.
47. The UK-Palestinian Authority Interim Agreement contains an amendment clause which outlines the process that must be followed if the Parties agree to amend the provisions of the Agreement after it enters into force. Article 9 provides that amendments to the Agreement must be agreed in writing and will enter into force on the date of receipt of the later of the Parties' written notifications certifying that they have completed their respective legal requirements and procedures, or on such date as the Parties may agree.
48. The Agreement also enables the Joint Committee to decide to amend the annexes and protocols to the Agreement, which the Parties may subsequently adopt.
49. The insertion of an amendment article into the UK-Palestinian Authority Interim Agreement does not commit the UK to making any changes to the Agreement once it enters into force. It simply sets out a process which may be used if needed. Therefore, the insertion of an amendment clause is not expected to have an impact on the operability of the Agreement in a bilateral context.

Entry into Force and Provisional Application

50. Entry into force provisions specify the date from which the terms of the agreement will bind the parties. Existing entry into force provisions have been replaced with new provisions. These ensure that when the EU-Palestinian Authority Interim Agreement ceases to apply to the UK, either at the end of the Implementation Period or, if no withdrawal agreement is reached between the UK and the EU, on 29 March 2019, the UK Palestinian Authority Interim Agreement enters into force without a gap when the Agreements no longer apply to the UK. whatever the scenario in which the EU-Palestinian Authority Interim Agreement ceases to apply to the UK, the UK Palestinian Authority Interim Agreement enters into force as swiftly as possible

51. For the UK- Palestinian Authority Interim Agreement to enter into force, it must first be ratified by both the UK and the Palestinian Authority. Provisional application is a mechanism which allows an agreement to be applied prior to its entry into force. This means that the treaty can be provisionally applied prior to completion of the procedures required by the domestic law of the respective negotiating States for its entry into force, provided any necessary domestic implementing measures are in place. Where the negotiating states have agreed that a continuity agreement may be provisionally applied from the date the underlying EU agreement ceases to apply to the UK, the treaty may be operated provisionally from that date. . A number of the existing EU agreements provide for provisional application and were provisionally applied by the UK as an EU Member State.
52. The UK and the Palestinian Authority have agreed to allow the UK-Palestinian Authority Interim Agreement to be provisionally applied (see Article 10(4) and 10(5)) in the event that this is necessary. Given that the Government is seeking to maintain the effects of the existing EU agreements as the UK leaves the EU, this is a proportionate approach to manage the timing constraints during this unique period and reduces the risk of businesses and consumers experiencing disruption as the UK leaves the EU.

Trade Remedies and Dispute Settlement

53. Trade remedies provide a safety net for domestic industry against unfair or injurious trading practices caused by dumped, subsidised or unexpected surges of imports of goods. Most WTO members have a trade remedies regime.
54. The UK-Palestinian Authority Interim Agreement replicates the effects of the trade remedies and dispute settlement provisions in the EU-Palestinian Authority Agreement mutatis mutandis.
55. The economic benefits of a trade agreement can only be realised if they are faithfully implemented and complied with. A dispute settlement mechanism in an agreement signals the parties' intention to abide by the agreement, thereby increasing business and stakeholder confidence that commitments set out in the agreement can, and will, be upheld. The dispute settlement mechanism therefore provides an important deterrent function. It also provides an effective mechanism for enforcing those commitments, and for resolving any disputes arising.
56. One of the impacts of transitioning the dispute settlement chapters in the existing EU trade agreements is that, in the event that a dispute arises, the UK will be directly responsible for any relevant costs associated with the dispute settlement process.

Annexes and Protocols

Goods

57. Goods chapters in trade agreements set out the treatment and the level of access to the domestic market granted to partner goods. This includes setting tariff levels and quotas on various products, establishing safeguards and determining the Rules of Origin. Commitments on tariffs for both the UK and the Palestinian Authority have in most cases been transitioned without changes. This means that tariff preferences applied by the UK to the Palestinian Authority will remain the same as those applied by the EU, and likewise the Palestinian Authority will continue to apply the same preferences to the UK that it is applying to the EU.

Entry Price System

58. The European Union's (EU) Entry Price System (EPS) is a variable tariff mechanism for 15 types of fruit and vegetable. The system applies to apples, apricots, artichokes, cherries, clementines, courgettes, cucumbers, lemons, mandarins, oranges, peaches/nectarines, pears, plums, table grapes and tomatoes during their respective, approximate European growing seasons.
59. Under the EPS, an additional specific duty is charged in addition to the *ad valorem* duty, whenever the price at which the goods are imported is below a pre-determined entry price. The specific duty varies depending on the difference between the entry price and the import price of the goods. If the import price of the consignment under cuts the entry price by more than 8%, the full bound tariff is applied. These entry prices and specific tariffs are bound in the EU's WTO Goods Schedule.

Justification for policy change

60. The UK is retaining the flexibility to implement an EPS following its withdrawal from the EU. The annex to this short form agreement ensures the UK's right to operate an EPS, which reflects the EU EPS, at the time this agreement enters into force.
61. This provision ensures that the UK's right to apply an EPS is incorporated into this agreement in line with the objective of continuity. However, the UK will have no obligation to apply an EPS.

Impact

62. In the event that the UK applies an EPS, this agreement provides that the *ad valorem* part of the duty is eliminated, but the additional specific duty is retained. The additional specific duty would be applicable, regardless of the elimination of the *ad valorem* part of the duty provided for by this Agreement. This approach is consistent with the preferential terms outlined in the existing EU-Palestinian Authority Agreement. The UK retains the right to 'switch on' an EPS at any point after this agreement enters into force.
63. The UK's WTO Goods Schedule (published 24 July 2018) replicates the entry prices and specific tariffs as bound in the EU's WTO Schedule. Any future UK Entry Price System will have product coverage no greater, entry prices no lower, and specific duties no higher than those specified in the UK's WTO Goods Schedule. Such a UK system will thus represent no reduction in market access commitments as compared with the current EU system.

Rules of Origin

Justification for policy change

64. In FTAs, Rules of Origin are used to determine the economic nationality of a good. In order to qualify for preferential tariff rates, a good must “originate” in one of the parties to the agreement. Trade agreements may also allow materials originating and/or processing in a country other than the exporting Party to count towards meeting the specific origin requirements for preferential treatment, a process known as “cumulation”.
65. There are two categories relevant to determining whether goods “originate” in the exporting country for the purposes of a free trade agreement:
- a. Wholly obtained – These are goods that are wholly obtained or produced entirely in a single country. Examples include mineral products extracted from the soil and live animals born and raised there.
 - b. Substantial transformation – These are goods that are made from materials which come from more than one country, and the origin is therefore defined as that of the country where the goods were last substantially transformed. This can be determined in three ways:
 - i. *Value added* – This type of rule requires that a particular proportion of the final value of the product be added in the exporting country.
 - ii. *Change in Tariff Classification (“CTC”)* – This type of rule requires that the final product be sufficiently different from the imported materials so that it moves to a different tariff classification altogether.
 - iii. *Specific processing or manufacturing* – These rules typically apply where value added or CTC rules may not adequately determine originating status, and where specific processes are required to meet originating criteria.
66. As a member of the EU, all UK content is currently considered as “originating” in the EU and UK exports are designated as “EU origin”. This means that originating materials from, and processing in, the UK and the rest of the EU can be used interchangeably in bilateral trade with existing EU FTA partners. This will no longer be the case when existing EU FTAs cease to apply to the UK. At this point, the designation of UK exports will shift from “EU” originating, to “UK” originating and EU content will (unless specific provision is made in new agreements) no longer count towards meeting the origin requirements for preferential treatment for either party. This would have implications for goods traded between the UK, EU and the Palestinian Authority
67. To address these implications and to provide maximum continuity for business, it has been agreed in the UK-Palestinian Authority Interim Agreement that EU materials can be recognised (i.e. cumulated) in UK and the Palestinian Authority exports to one another. Furthermore, EU processing can be recognised (i.e. cumulated) in UK exports to Palestinian Authority. The cumulation arrangements are set out in detail in Title II (Definition of the concept of ‘originating products’) of the Rules of Origin Protocol and are subject to satisfying certain conditions specified in the agreement.
68. The EU and the Palestinian Authority are currently contracting parties to the Regional Convention on pan-Euro-Mediterranean preferential rules of origin (PEM Convention) and apply the PEM Convention between them. The PEM Convention is a multilateral agreement that harmonises preferential rules of origin across the Euro-Med area and provides for

cumulation between contracting parties to that Convention. The UK's future relationship with the PEM Convention will, in part, depend on UK-EU arrangements, so the UK-Palestinian Authority Interim Agreement reflects the provisions of the PEM Convention in a bilateral context with modifications.

69. The text of the Rules of Origin Protocol can be found in the Appendix to the Annex of the UK-Palestinian Authority Interim Agreement.

Impact

70. If cumulation of EU content for the UK and the Palestinian Authority were not permitted under the UK-Palestinian Authority Interim Agreement, some UK and Palestinian Authority based exporters might find themselves unable to access preferences as they are currently able to under the proposed EU-Palestinian Authority Interim Agreement. UK exporters to the Palestinian Authority who rely on EU content might have to revert to paying Most Favoured Nation (MFN) tariff rates, if they continued using EU content, or they might have to review and reassess their existing supply and value chains as a result of this change to existing terms. The impact would, of course, vary across sectors.
71. The UK-Palestinian Authority Interim Agreement provides only for trade between the UK and the Palestinian Authority and does not provide for either party's direct trade with the EU.

Services

72. Services chapters and corresponding annexes in trade agreements set out the treatment and the level of access to the domestic market granted to that trade partner's service suppliers and services. Commitments build upon the level of access and the treatment granted to all WTO members, whilst protecting governments' right to regulate the domestic markets. In the EU-Palestinian Authority Agreement, there are limited provisions relating to services, the effect of which have been retained in the UK-Palestinian Authority Agreement.

Competition, Subsidies/State Aid and State-Owned Enterprises

73. Chapters or articles in trade agreements relating to competition, subsidies/state aid and state-owned enterprises help to ensure a level playing field exists for both parties. They detail key principles and can refer to domestic laws for each party.
74. Non-substantive technical change has been carried out in the areas of competition to ensure that the effect of the provisions are replicated without altering the substance. This will not have any effect on the financial support the Government provides to our agricultural and fishing industries. Some trade agreements have required no change at all. We do not expect any changes to have an impact.
75. The EU-Palestinian Authority Interim Agreement originally contained provisions for the parties to use criteria arising from the EU acquis when interpreting the provisions. We have removed this from the UK-Palestinian Authority Interim Agreement (Article 30.2), as it would not be appropriate to replicate such a provision in a UK specific bilateral context. We do not anticipate the removal of this provision will impact on British businesses as they will continue to be subject to UK domestic law which will not be in conflict with the provisions of the agreements.

EU-Palestinian Authority Action Plan

76. The EU-Palestinian Authority European Neighbourhood Policy Action Plan is a political document laying out cooperation objectives between the Palestinian Authority and the EU. It does not form part of the EU-Palestinian Authority Interim Agreement and as such it is not incorporated by reference to the UK-Palestinian Authority Interim Agreement. This is clarified for the avoidance of doubt. The United Kingdom and Palestinian Authority shall continue to cooperate bilaterally through other relevant mechanisms, arrangement and institutions.

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