



Gaza: eased or un-eased?

Changes on Gaza Market and Household Conditions Following Israel's 20 June 2010 New Access Regime

Executive Summary

The Government of Israel (GoI) announced on 20 June 2010 its decision to "ease" the blockade¹ on the Gaza Strip by expanding commercial crossings and improving access to humanitarian and commercial goods except any "dual-use items" that could be used for potential military activity against the State of Israel. On 8 December 2010, the GoI announced that it would allow the export of agricultural products, furniture and textile products through the crossings to assist the Gaza economy². Since the announcement, a list of controlled dual-use items was published³; however, a list of items not permitted into Gaza has not been released. While construction materials have been allowed entry for some projects, the coordination procedures are heavy and cause delays in implementation, which also increases costs for humanitarian agencies. The planned expansion of commercial crossings did not take effect; rather Karni was closed in March 2011 and only one crossing is open for import and export of goods⁴. In effect, the easing of the blockade has had only marginal positive impact in Gaza.

The present report reviews how the above-mentioned policy, hereafter referred to as the "new access regime", have impacted the economic situation in the Gaza Strip. In March 2011, the World Food Programme's Country Office in the occupied Palestinian territory (oPt) conducted market and household surveys in order to assess the functioning of the Gaza food market in terms of market structure, prices, supply, and the difference in the level of availability of certain key commodities, as well as to determine the impact on food access and availability among Gaza's population⁵. The analysis focuses on the impact of the new access regime on key market factors, for example the fluctuation of commodity prices, the variability in the smuggling of goods through the Rafah tunnels, and the closing of Karni crossing, on producers, traders and consumers. Household spending and consumption patterns are also examined. To complement the WFP assessment, additional information was used from PalTrade and the Palestinian Central Bureau of Statistics (PCBS).

The results of the assessment are arranged in the report as follows, i) **changes in macro-economic environment** (imports, exports, crossings, transport costs); ii) **changes at local food market level** (food manufacturers, traders, selected food commodity supply chains); iii) **changes at household level** (food security, consumption/expenditure patterns, coping strategies); and iv) **key recommendations**.

In summary, the main findings of the report follow:

1. Changes in Macro-Economic Environment

Unsustainable economic growth: The average monthly truckloads entering the Gaza Strip between July 2010 and March 2011 represented only 41 percent of the average truckloads entering before the blockade for the same duration (July 2005 to March 2006). The new access regime has brought mainly additional consumption goods, with potential increase in availability of better quality and a wider range of products for consumers. Compared to before the new access regime, one-third of traders noted an increase in stock levels, with 85 percent confirming new commodities traded. However, most of this stock increase came in the form of new types of soft drinks, hygiene products, chocolate and chips. A lack of substantial quantities of raw materials and construction items for the private sector, and the heavy restrictions still imposed on exports, failed to translate into a significant creation of long term jobs with adequate wages, which would help reduce poverty levels. A slight improvement in employment opportunities was noted in the construction sector fuelled by humanitarian projects: PCBS estimates that 5,600 new construction jobs were added, bringing the total number of workers employed in the sector to 10,000⁶. Yet, this represents a reduction in construction jobs of 42 percent compared to 2005. Some improvement in the agriculture sector was noted following the June 2010 decision; however, it is mainly linked with seasonal employment patterns. Meanwhile, restricted areas along the Israeli border take up 35 percent of agricultural land and fishermen cannot access areas beyond 3 nautical miles from the shore⁷. Such restrictions deteriorate livelihoods dependent on fishing and agriculture and prevent sustainable growth in the agriculture sector as well. Although economic growth in Gaza was estimated at 15 percent in 2010, the high number fails to expose the fact that it came from a very low base and was mainly donor-driven. With the private sector still moribund, growth at this rate is unsustainable, according to the World Bank⁸. Despite growth and increase in consumption goods, more than half of Gaza households remain food insecure compared to pre-June 2010. Due to a lack of well-paid jobs, business and investment opportunities, food insecure families still have difficulties accessing quality goods with their low levels of income. Soaring prices of basic commodities such as wheat flour, vegetable oil and fuel exacerbate poor economic access to food for Gaza households.

Therefore, the effect of the new access regime has not materialized into a more productive economy and the slight improvements in some sectors in 2010 have not trickled down to the household level: three-quarters of households continue to rely on humanitarian assistance in Gaza.

Un-eased crossings: The 20 June 2010 decision included plans to expand the commercial crossings; however, with the definitive closing of Karni crossing as of 1 March 2011 only one commercial crossing, Kerem Shalom, remains open for traders. Crossing hours are unpredictable with frequent closures and there is only a small window for traders on the Gaza side to load products.

The closing of Karni increased distance to move goods⁹ and new crossing procedures at Kerem Shalom were introduced; thus, transportation costs increased by roughly 30 percent for traders dealing with animal feed/wheat grains. This increase is on top of a rise in transport costs incurred by traders when the blockade was imposed in 2007, and as other commercial crossings closed. Transport costs represent more than 70 percent of wholesalers' marketing costs, and thus have a major impact on commodity prices. Limited crossing capacity to move items efficiently set off a competition between wheat grains/animal feed and construction materials for entry into Gaza.

The increased competition combined with a jump in the international market price for wheat, wheat flour imports from tunnels went from nearly nil in June 2010 to 20 percent of the market share; thereby, impacting wheat flour importers and local mills, further weakening the healthy functioning of formal market channels. The shift from Karni to Kerem Shalom also increased transportation costs for exports by a minimum 235 percent for exporters. Maintaining cool temperatures for cash crops, which represent the only goods exported since 2007, is essential for guaranteeing quality of goods; however, the crossing's heavy procedures heighten the risk of damaging goods.

Un-relaxation of exports: The new access regime has not translated into a tangible relaxation of exports despite the 8 December 2010 decision of the GoI to relax export restrictions, and the subsequent agreement with the Quartet Representative in February 2011. Only 5 percent of the pre-blockade export volume was reached from November 2010 to April 2011. De facto, the blockade is still in place. Apart from a very low rate of selected cash crops exported, no other goods were exported out of the Gaza Strip. The cash crops allowed for export during this time were destined for European markets with backing from international projects. Before the blockade, the bulk of cash crops and other manufactured products (textiles, furniture, etc) were exported to Israeli and West Bank markets. Current Israeli restrictions prevent transport of Gaza goods to these markets, which forces Gaza manufacturers to compete on a very small internal market. Without a real freedom to export goods, the current policy is unsustainable in terms of supporting the Gaza economy.

2. Changes at Local Food Market Level

Unsustainable local market conditions: Bakery and flour mill owners and dairy and tomato paste producers indicated a better ability to secure spare parts and production machinery as a result of the new access regime. Yet, improvements in the performance of the food manufacturing sector remain restricted by frequent power cuts, as well as unreliable access to some specific raw materials, such as tin, metal cans, soda gas and some spare parts and machinery equipment, via the crossing.

In the dairy sector, a fodder price increase¹⁰ and difficulty importing cows for breeding lead to depreciation in the quality of milk cows, thereby impede

the dairy sector from benefiting from the new access regime. Barriers on importing processed goods were reduced under the new access regime, allowing for heightened competition with locally-produced goods. Combined with major restrictions on both exports and key private investment inputs, the blockade continues to place the Gaza economy at a competitive disadvantage.

The current import/export conditions are unsustainable, and are eroding the resiliency of the private sector to create jobs, which is a key component of economical access to food and non-food basic requirements for families.

3. Changes at Household Level

High food insecurity prevalence prevails: The new access regime and the consequent changes in the functioning of markets have had no impact on food security prevalence among the Gaza Strip population. Sixty-six percent of households in the Gaza Strip are food insecure or vulnerable to food insecurity compared to 65 percent before June 2010. Furthermore, the types of food consumed by households worsened post-June 2010 for part of the population. Impoverished households reported an increase in consumption of products made mostly of oils/fats (45 percent increase) and sugar (195 percent increase), leading to poorer diet and nutrition. While households surveyed confirmed an additional range of food products coming through the official crossing, for poor Gaza families, access to a more diverse range of food products remains an issue given their lack of income¹¹. The percentage of household expenditures devoted to food remains a very high 56 percent, and increases to 62 percent among food insecure households, signalling that food insecure families spend the same amount of cash on food than before the new access regime. Three-quarters of the Gaza population continue to depend on humanitarian food assistance.

Reduced purchasing power: Due to a hike in the international market price of wheat flour and increased transport costs for traders, prices of staple food witnessed a particular increase: wheat flour price increased by 50 percent between June 2010 and March 2011¹², and vegetable oil increased by 40 percent over the same period. However, over the same period, average nominal daily wages increased slightly¹³. In terms of real average wages, there has been a decrease by nearly 9 percent comparing 2009 to 2010, while compared to 2007 it decreased by more than a fourth¹⁴. This decrease reflects the overall rise of prices over the last 3 years and signals a decline in the purchasing power of workers in the Gaza Strip.

4. Key Recommendations

Until the blockade is abolished, the following steps should be taken by the GoI to revitalize the productive economy in the Gaza Strip and positively impact Gaza household income and food security levels:

- In adherence with the 20 June 2010 decision, publish a list of items not permitted into the Gaza Strip; open all commercial crossings, including Karni conveyor belt, to allow timely and cost-effective delivery of goods and humanitarian assistance; and enhance crossing capacity and streamline transportation/coordination procedures so as to not inflate prices of imports and exports;
- Lift the remaining ban on import of goods and private investment inputs, namely raw materials, to drive growth in the private sector;
- Implement the agreement between the GoI and the Office of the Quartet Representative on the relaxation of exports as agreed in February 2011;
- Abolish restrictions imposed on the destination of the exports to allow export to West Bank and Israel, in particular;
- Allow export of higher value added goods to ensure a proper economic growth;
- Facilitate local procurement of humanitarian food items in Gaza, and allow transport of Gaza-produced goods for humanitarian use in the West Bank and/or other countries as required;
- Lift restrictions on access to land and sea in order for agricultural-dependent and fishing livelihoods to rebuild and thrive, and to enhance local production;
- Permit spare parts and equipment to return Gaza's sole power plant to normal operating levels in order to reduce power cuts which impede local production; and,
- Improve access in and out of Gaza of international/national humanitarian and private sector personnel.

As long as the blockade, with the new access regime, continues, the private sector in the Gaza Strip will not be revitalized to its full potential. More employment opportunities as well as stable and higher wages are necessary for Gaza's poorest households to access food and non-food requirements without the help of external assistance. As long as the private sector continues to be hampered by unfavorable access conditions, it is further recommended that the humanitarian community:

- Ensures a large assistance coverage (i.e. food, cash, vouchers) of the Gaza households to help them cope with the impact on their livelihoods of the maintained restrictions on the movement of goods and persons;
- Addresses the lack of competitiveness of Gaza producers and manufacturers. The humanitarian community should increase its efforts in supporting local businesses to overcome bottle-necks including small market, high transport costs, power cuts, and unreliable access to spare parts and raw materials;
- Strengthens ongoing efforts to advocate for a full lifting of the blockade which suppresses and weakens the Gaza Strip economy and population.

Endnotes

¹ The Government of Israel (GoI) imposed an almost full closure on goods and movement of people in and out of the Gaza Strip following Hamas' takeover of Gaza in June 2007. The closure, or blockade, caused a massive drop in imports, and near total ban on exports and movement of people. Consequently, Gaza's economy nearly collapsed, unemployment skyrocketed and Gaza's economy and population became reliant on humanitarian aid/assistance.

² Israeli Ministry of Foreign Affairs, Security Cabinet decision on Gaza Strip exports, 8 December 2010.

³ COGAT, The Civilian Policy towards the Gaza Strip, 5 July 2010. <http://www.pmo.gov.il/NR/rdonlyres/EBDB36CF-2BA0-4719-B532-F723C7CF2456/0/gazaENG.pdf>. The list of controlled dual-use items included missile equipment and munitions; dual-use items; and dual-use items for PA-approved projects.

⁴ The Agreement on Movement and Access (AMA) signed in November 2005 between the GoI and Palestinian Authority (PA) planned to expand to six commercial crossings, including Rafah, for import and export. Today, only Kerem Shalom crossing is in operation for import/export.

⁵ WFP surveyed 207 Gaza traders and 1,217 households. The methodology used is provided in the full report.

⁶ Comparing the second quarter of 2010 to the first quarter of 2011.

⁷ Approximately 12 percent of the population in the Gaza Strip are affected by the access restrictions to land and sea. OCHA/WFP. [Between a Fence and a Hard Place](#). Humanitarian Impact of Israeli-Imposed Restrictions on Access to Land and Sea in the Gaza Strip. August 2010.

⁸ World Bank. Building the Palestinian State: Sustaining Growth, Institutions and Service Delivery. Economic Monitoring Report to the Ad Hoc Liaison Committee. April 13, 2011.

⁹ Kerem Shalom is located south of Karni along the north-south Gaza border with Israel. The aerial distance from Karni to Gaza City, the major commercial hub, is 5 km; the aerial distance from Kerem Shalom to Gaza City is 35 km.

¹⁰ Local production of fodder is also hampered by the lack of access to agricultural land in the Gaza Strip. Thirty-five percent of Gaza's agricultural land is located within an area restricted of movement by the GoI. In addition the growing urbanization of the Gaza Strip is reducing accessible grazing land. Increased transport cost via Kerem Shalom aggravates the global fodder price increase.

¹¹ Sixty-three percent of households estimated that the availability of food imported improved and 55 percent re-reported an improvement in the quality of the products imported.

¹² Wheat flour prices increased from NIS 80 to NIS 120 for a 50 kg bag.

¹³ Nominal average daily wages increased from NIS 58.1 to NIS 59.5 (by 2 percent) between June and December 2010. In comparison, the nominal average daily wage in the West Bank is NIS 102.5. Source: PCBS.

¹⁴ Source: PCBS. Note that in the oPt, the real average daily wage decreased by 3.1 percent during the same period.