



February 2014

Is the closure of the tunnels from Egypt further suffocating the Gaza economy?

Special Focus Gaza Strip

- Since 2007, the siege of Gaza's territory contributed to the development of a non-sustainable economy, dependant on foreign aid and underground trade.
- The closure of the tunnels by Egypt in July 2013 hampers the few remaining drivers of economic growth in the Gaza strip.
- With the escalation of unemployment, household food insecurity in Gaza is susceptible to further increases.

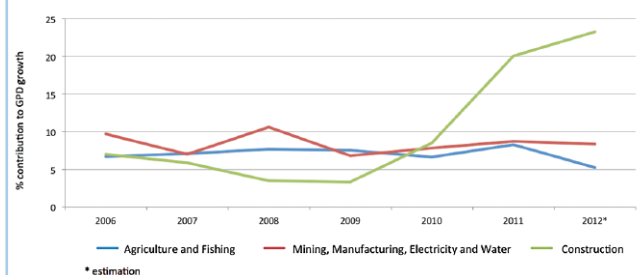
Since 2007, tunnel trade with Egypt has allowed Gaza's economy to cope with the consequences of the Israeli blockade

Since July 2007, Gaza has been subjected to restrictions on land, air and sea movements imposed by Israel over security concerns. Apart from a strong focus on the public sector employment, Gaza's economy is very reliant on trade with Israel, which has been tightly controlled since then. The number of truckloads authorised for border crossing for export decreased by 97% between 2007 and 2013.¹ Restrictions also include prohibition of imports of construction materials or electronics. Land and sea controls constrain access to land along Gaza's perimeter fence. This prevents access to large farming and fishing areas. According to OCHA, farmlands decreased by 35%, while 85% of Gaza's fishing waters are partially inaccessible.²

The development of an underground economy along with the intensification of trade through tunnels between Gaza and Egypt allowed economic growth since 2009. These tunnels are subject to regulation and licenses by the de facto authorities in Gaza. Customs duties from underground economy have granted de facto authorities a degree of financial independence from the Palestinian Authority. Since 2007, tunnel trade represents the main supply and commercial trade route for goods into Gaza. The annual value of the trade is estimated at USD 500-700 billion. The informal import

of construction materials has been one of the main growth factors since 2009. Inflation in Gaza strip remained low since 2009 thanks to the abundance of cheaper subsidized imports from Egypt with an average inflation rate of 1.3% since 2009.

Contribution to GDP growth by economic activity (Gaza strip)



Source: Palestinian Bureau of Statistics.

The construction sector, supplied by informal import of materials, has been one of the main contributors to growth since 2009.

1. OCHA, *The Gaza Strip: The Humanitarian Impact of Movement Restriction on People and Goods*, July 2013.
2. OCHA, *Five years of blockade: the humanitarian situation in the Gaza Strip*, June 2012.



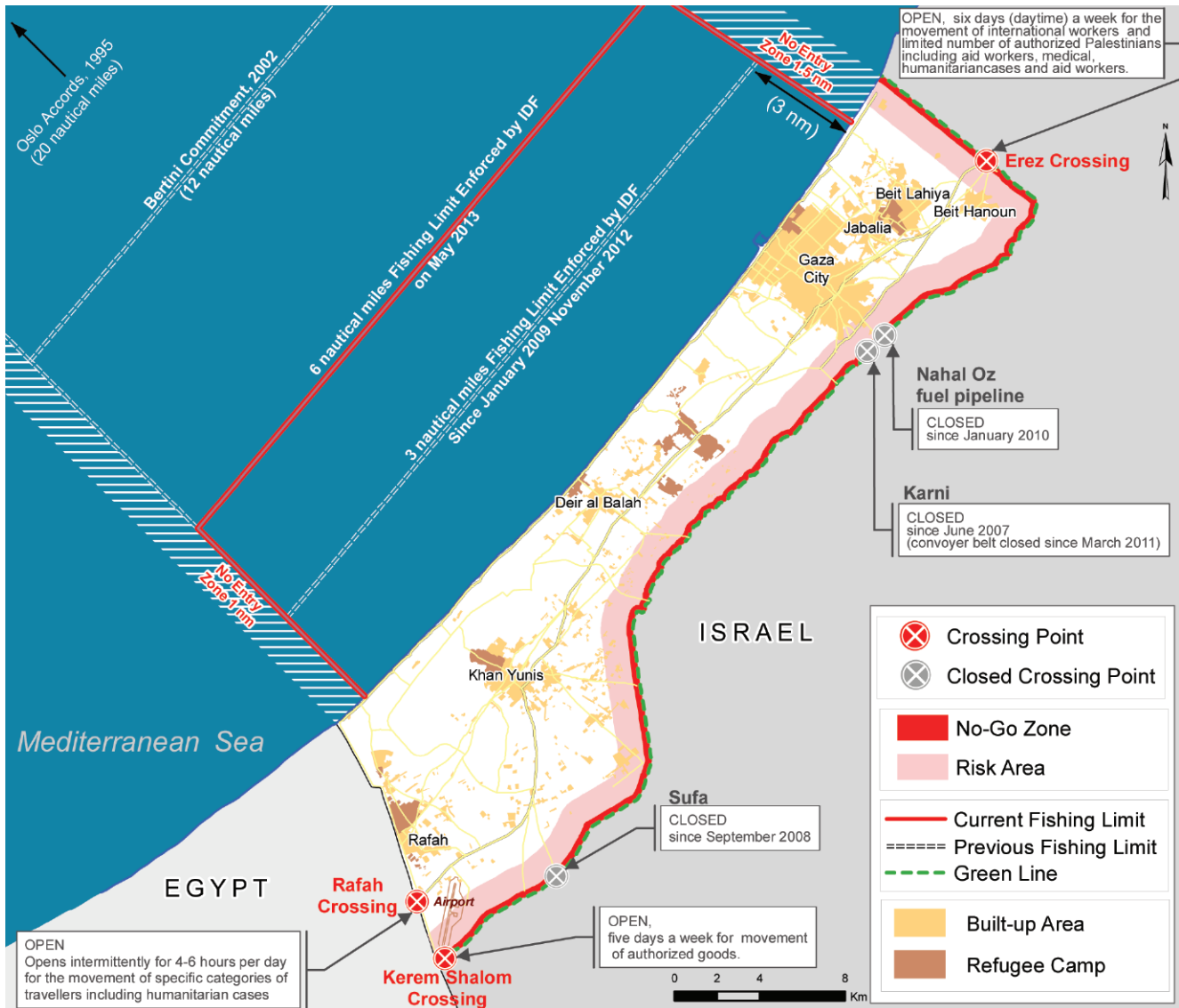
Special Focus Gaza Strip

The blockade has affected the productive capacity of the Gaza strip in agriculture, fishing and manufacturing sectors. In 2012, agriculture and fisheries accounted only for 3.9% of the GDP, down from 5.5% in 2006, and manufacturing for 6.15%, less than half of the 14.9% in 2006.³

Large aid flows, in particular from Arab states, are

targeted toward construction programmes, services and current account deficit support. Unemployment is persistently high in Gaza due to the weak private sector. At the first quarter of 2012, the official unemployment rate in Gaza strip was 30.7% with 114,300 people unemployed, deteriorating to 32.5% or 130,200 people during the third quarter of 2013.⁴

Gaza Strip: Access and Closure (November 2013)



Source: Office for the Coordination of Humanitarian Affairs occupied Palestinian Territory.

Gaza has been subject to restrictions on land, air, and sea movements. Access to farming land and fishing areas is constrained.

3. Based on data from Palestinian Central Bureau of Statistics.
 4. PCBS, *Quarterly National Account Survey*, third quarter 2013.

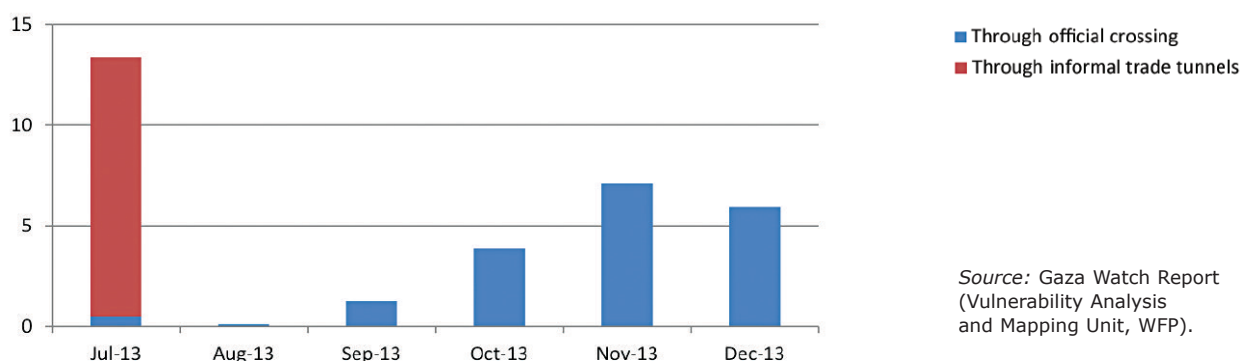
The closure of the main informal trade tunnels in July 2013 is suffocating all economic activities in Gaza

In July 2013, out of national security concerns the Egyptian army undertook extensive operations to close the tunnel network. Just two months later in September, only 10 to 20 tunnels were said to be operational out of 300 prior to the closures.⁵ The subsequent reduction in tunnel trade has devastated productivity in the construction sector. Less than 100 tons of construction material entered each day at the end of September 2013, compared to a daily average of more than 7,500 tons in June 2013⁶, according to the Palestinian Federation of Industries. The European parliament reports⁷ that over 250,000 workers lost their job across all sectors, especially in the fishing and construction industries, as well as employment directly linked to the tunnel economy.

Before the closure of the tunnels, nearly all fuel and diesel went through the underground tunnels between Egypt and Gaza Strip. The official benzene imports

from Israel have resumed by around 20 times from June to December 2013 to meet the previous fuel supply level. However, overall diesel imports remained significantly lower than before the tunnel closure. As a result, both diesel and benzene gas recorded substantial import price increases due to the change in supply sources from Egypt to Israel. In fact, given this change the price for diesel increased by 104%, while for benzene the surge was 123% between June and December 2013. According to OCHA, electricity and fuel shortages disrupted critical functions of 30 hospitals and over 135 health clinics and led to protracted power cuts. The functioning of all 291 water and wastewater facilities has been affected, leading to several sewage floods in Gaza City since November, exposing people to public health risks. The daily water supply to households is now reaching only 15% of the population in Gaza.

Official and informal import of diesel from July 2013 to December 2013



Overall diesel imports remained significantly lower than before the closure of tunnels.

The closure of tunnels is also reducing food commodity imports, hence fuelling their prices. Rice and sugar imports to Gaza strip have fallen as a result of the end of smuggled food import, by 7% and 47% respectively between June and December 2013. To the contrary, official figures of wheat flour imports show an increase of 88% between June 2013 and December 2013, improving wheat supply compared to before the closure of the tunnels. Similarly, total imports of oil increased by 25%. The majority of

these commodities are entering now through the official border points. Overall, the change of the source of supply in favour of Israel has resulted in further increases in prices of bread (+11%/kg of bread) and rice (+33%) between June and December 2013. These increases are reflected in the food consumer price index (FCPI) which increased by +4.6% over the same period.⁸ In general, the population in Gaza is facing more a problem of food access than food availability.

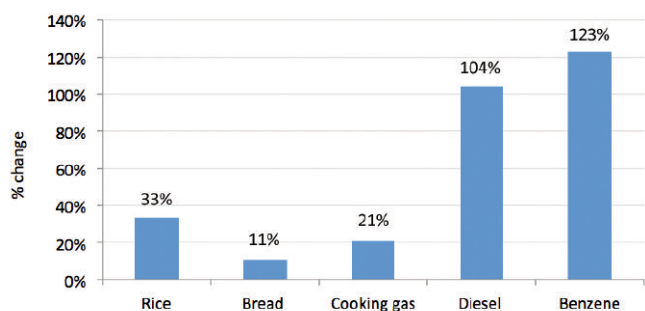
5. OCHA, *Occupied Palestinian Territory: The humanitarian impact of reduced access between Gaza and Egypt*, Situation Report, 23rd September 2013.

6. OCHA, *Occupied Palestinian Territory: Gaza fuel crisis*, Situation Report, 26 November 2013.

7. Policy Department of the European Parliament, *Gaza's population at the breaking point*, Policy briefing, November 2013.

8. PCBS, *Quarterly National Account survey, third quarter 2013*.

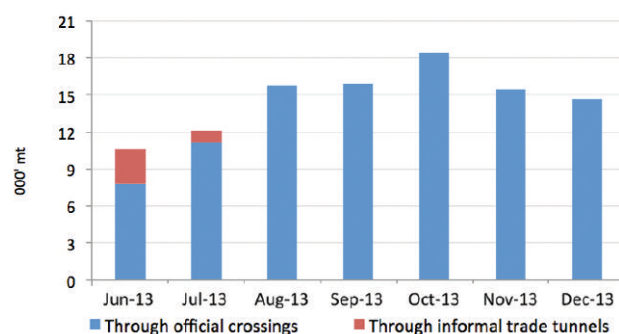
Price changes of main commodities between June-December 2013



Source: Source: Gaza Watch Report (Vulnerability Analysis and Mapping Unit, WFP).

Prices of rice, bread, and fuels increased significantly since the closure of the tunnels.

Wheat flour import



Source: Source: Gaza Watch Report (Vulnerability Analysis and Mapping Unit, WFP).

Official imports of wheat flour substituted by far the reduction of tunnel imports during the second half of 2013.

Gaza also faces a significant reduction of fiscal revenues from tax collection on tunnel activities due to the closure. The Ministry of Economy in Gaza estimates that losses to the local economy since June 2013 amount to USD 460 million, equivalent to over half the

annual budget and 26% of the 2012 gross domestic product. Due to falling tax revenues, the salaries of some 50,000 civil servants – i.e. 20% of the total number of employees in Gaza, have not been paid since November 2013.⁹

Gaza’s food security situation is worsening further as a result of the collapse of the tunnel economy

The 2012 Socio-Economic and Food Security survey (SEFSec) underlines the little resilience left against socio-economic and other shocks. Root causes for the worsening of the food security situation in Gaza are the limited production and employment of the productive sectors of the economy. The report explains the significant increase of food insecurity in Gaza from 44% in 2011 to 57% in 2012 by the increased vulnerability of workers.

This comes on top of already poor food security conditions despite the high number of people relying partially or totally on food assistance (approximately 1.04 million of the 1.7 million people in Gaza). The increases in unemployment rates, the cut of jobs in the public sector, the losses of economic activities created by

the collapse of the tunnel economy along with food price increases are likely to increase further the number of food insecure people. Indeed, the food security situation of civil servants and workers in the construction sector is most likely affected by the postponement of wage payments. It is estimated that the complete closure of the tunnels could raise the number of people requiring food assistance by an additional 50,000 to 60,000 people.¹⁰ In addition, winter storm Alexa hit the West bank and Gaza Strip in mid-December 2013 with extreme precipitation including snow and flooding in Gaza. According to FAO estimates, cumulative losses in damaged structures and production amount to USD 76 million¹¹, which may impact production as well as household purchasing power and consumption.

9. Policy Department of the European Parliament, *Gaza's population at the breaking point*, Policy briefing, November 2013.
 10. OCHA, *Occupied Palestinian Territory: The humanitarian impact of reduced access between Gaza and Egypt*, Situation Report, 23rd September 2013.
 11. FAO, WFP, UNRWA, *Food Security Watch, West Bank and Gaza Strip, State of Palestine*, January 2014.

For more information, contact:

Joyce Kanyangwa-Luma
 Deputy Director, Policy, Programme and Innovation
 Division – Analysis and Nutrition Service
joyce.luma@wfp.org

Issa Sanogo
 Senior Advisor, Economic & Market Analysis Unit
issa.sanogo@wfp.org

World Food Programme

Via Cesare Giulio Viola, 68/70 - 00148 Rome, Italy
www.wfp.org/food-security

