

Gaza: eased or un-eased?

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



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Acronyms and Abbreviations

COGAT	Coordinator of Government Activities in the Territories
CPI	Consumer Price Index
EU	European Union
FAO	Food and Agricultural Organization of the United Nations
GoI	Government of Israel
GDP	Gross Domestic Product
NIS	New Israeli Shekel
MoNE	Ministry of National Economy
MT	Metric Tonnes
OCHA	Office for the Coordination of Humanitarian Affairs
OQR	Office of the Quartet Representative
PA	Palestinian Authority
PalTrade	Palestine Trade Center
PCBS	Palestinian Central Bureau of Statistics
USD	United States Dollar
SEFSec	Socio-Economic and Food Security Survey
UN	United Nations
UNRWA	United Nations Relief and Works Agency for Palestine Refugees in the Near East
WFP	World Food Programme

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 goods.⁴ 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 population.⁵ 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**.

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.

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 constructions 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.

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.

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.

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.

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.



¹¹ Sixty-three percent of households estimated that the availability of food imported improved and 55 percent 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.

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 bottlenecks 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.

Introduction

A. Background

The Government of Israel (GoI) announced on 20 June 2010 its intent to “ease” the blockade imposed on the Gaza Strip since the Hamas takeover in June 2007. The announcement stated that measures would be taken to “provide relief to the civilian population of the Gaza Strip, while preventing the entry of weapons and other materials that can be used to harm the citizens of Israel.” Under the decision, the following steps would be taken without delay: i) publish a list of items not permitted into Gaza in order to facilitate the entry of all other items; ii) facilitate and enable the import of construction materials for projects being implemented by the United Nations (UN) and other international organizations which have been approved by the Palestinian Authority (PA); iii) expand the operations and capacity of existing commercial crossings (Kerem Shalom and Karni); and, depending on security conditions, open additional crossings, including “streamlining” of the permit policy regarding movement of people to and from Gaza.¹⁵ Since the announcement, a list of controlled dual-use items was published¹⁶; 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 goods.¹⁷ On 8 December 2010, the Government of Israel (GoI) announced that it would allow the export of agricultural products, furniture and textile products through the crossings to assist the Gazan economy¹⁸

Under this new access regime, restrictions on imports of some commercial goods were alleviated to varying degrees.¹⁹ Other import restrictions continued on a broad range of investment inputs for the private sector, including construction inputs, as well as machinery and equipment considered to have potential dual military/civilian use. The latter category of goods, particularly cement, gravel and steel rebar, were allowed to enter only if destined for projects under the supervision of the UN or international organizations. The general ban on exports, which stifles Gaza’s economy, stayed in-place except for some small shipments of cut flowers and cherry tomatoes facilitated by humanitarian partners to reach European markets.

¹⁵ 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>.

¹⁶ Ibid. The list of controlled dual-use items included missile equipment and munitions; dual-use items; and dual-use items for PA-approved projects.

¹⁷ 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.

¹⁸ Israeli Ministry of Foreign Affairs, Security Cabinet decision on Gaza Strip exports, 8 December 2010.

¹⁹ Items that were allowed entry since June 2010 and gradually thereafter include: new types of fruits (e.g. coconut), jam, halawa, chips, ketchup, mayonnaise, chocolate, cacao, biscuits, nuts, vinegar, shaving brushes and cream, razor blades, perfume and other cosmetic products, agriculture materials, kitchen kits, stationary, paper rolls, toys, mattresses, towels, thread, tape recorders and garden carts. The following items were allowed to enter into the Gaza Strip through the official crossing: soft drinks, furniture, some construction tools, paints, washing machines, fridges, electrical wires, sanitary towels and toilet equipments. On 1-7 August 2010, new items including leather, fans, electrical cables, steel poles, machinery for Juice and tomato industry, ceramic, roof tiles, raw material for plastic industry, marble, calcium and a few other new items were allowed entry for the commercial market for the first time since the imposition of the Gaza blockade in June 2007. Entry of other major essential goods including materials for reconstruction (cement, gravel, steel bars) for private use, IT equipment and vehicles for the private sector remain either restricted to limited quantities, or barred from entry.

The 20 June 2010 Israeli decision is just one of the factors impacting the local economy and households' food security in the Gaza Strip from June 2010 to May 2011. Other key market and political factors occurred, namely the fluctuation in commodity prices²⁰ and the global fuel price increase, the fluctuation in the volume and type of goods being smuggled through the tunnels following the new access regime and the unrest in Egypt in January/February 2011, the closure of Karni crossing on 1 March 2011, the most intense fighting in Gaza and Southern Israel in March/April 2011 since the "Cast Lead" Operation in January 2009, and the future implications of the agreement reached in Cairo for a unity government between Fatah and Hamas in early May 2011. While this report will focus mainly on the impact of the new access regime for imported/exported goods to and from the Gaza Strip, all these aspects have to be factored in for producers, factories, traders, and end-consumers, when reviewing the market and households conditions in the Gaza Strip since 20 June 2010 up to March 2011, when the assessment was conducted. The report is therefore structured around 3 main areas: changes in the macro-economic environment (exports, imports, transport costs); changes at the local food market level; and changes at household level.

The present report is complementary to the Special Focus released by the Office for the Coordination of Humanitarian Affairs (OCHA) in March 2011 as well as to the Office of the Quartet Representative (OQR) and Palestinian Trade Centre (PalTrade) reports on tracking changes in Gaza's industrial sectors²¹.



Eyad El Baba/WFP

²⁰ Commodity price increase affected some key food items within the Gaza household staple food basket (wheat flour, sugar, vegetable oil).

²¹ OCHA, Easing the blockade: Assessing the humanitarian impact of the population of the Gaza Strip, Special Focus, March 2011. OQR –PalTrade, Tracking Changes in Key Industrial Sectors in Gaza Following the Partial Easing of Israeli Restrictions in June, 2010, April and May 2011 reports.

B. Methodology

The main objective of the market survey is to assess Gaza's food market in terms of market functioning (market structure, prices, supply, and the difference in the level of availability of certain key commodities, etc). Given the significant role that markets play in food access and availability, and hence in food security, the report examines particularly the food commodity markets and their functioning in the Gaza Strip before and after June 2010.

The assessment focused on three food commodity sectors (cereal, dairy, and processed food sectors) that have a substantial bearing on the population's food security in Gaza and were expected to be most affected by the new access regime or to deliver services to the expected food-insecure groups. Within the sectors assessed, four products were selected: wheat flour, white cheese, labaneh (cheese paste), and tomato paste. These products were selected given their crucial role for food security (wheat/dairy products) and being common within a typical Gaza food basket (tomato paste), their relevance for the expected food insecure livelihoods groups and the fact that they are currently being traded in the Gaza Strip.

In line with WFP's guidance on trader surveys²², the assessment relied on a mixed-method approach involving in-depth key informant and trader interviews in the three food commodity market chains²³ (which included market visits and interviews with local producers of agricultural products for the three chains), and a survey of a representative sample of retailers and wholesalers of the products being investigated. For the latter, a total of 207 Gaza traders were interviewed.

The households' survey on socio-economic and food security conditions was conducted in March 2011 using the same methodology that was applied for the WFP/FAO Socio-Economic and Food Security (SEFSec) survey 2010, using the SEFSec as a baseline for measuring the potential changes in food security at household level since the new access regime²⁴

Related to data analysis and literature review, the report used existing analysis and secondary data from PCBS, PalTrade, OCHA, World Bank, as well as WFP reports, and others on the socio-economic and livelihood conditions in the Gaza Strip published pre- and post-blockade²⁵

²² <http://www.wfp.org/content/market-analysis-tool-how-conduct-trader-survey>

²³ Interviews focused on gathering detailed information on how the new access regime has impacted various types of traders, the markets in which they operate and the products in which they trade. For each chain, between 6 to 20 interviews were conducted. In addition, key informants from organizations that are active in market monitoring and regulation (Ministry of National Economy (MoNE), PalTrade, etc.) were also conducted.

²⁴ For the SEFSec 2010, the data was collected on a sample of 2,496 households between July and August 2010 and largely reflects the situation during the 1st half of 2010, thus before the 20 June 2010 Israeli decision. In March 2011, the data was collected on a sample of 1,217 households and largely reflects the socio-economic and food security situation from October 2010 to March 2011, thus after the implementation of the new access regime. Detailed methodology is located in Annex 1.

²⁵ Secondary data and reports reviewed included, inter alia: WFP/FAO Socio-Economic and Food Security Survey Reports (SEFSec); PCBS reports related to labour force survey and economic performance; monitoring reports by PalTrade on crossings performance, the Office of the Quartet Representative; the World Bank and International Monetary Fund (IMF) reports on the socio-economic conditions in the Gaza Strip published in 2009-2011; WFP market monitoring reports and all food security assessments and verification reports published by WFP, FAO, and UNRWA before June 2010.

Assessment findings

A. Changes in the macro-economic environment

1. Some Key Socio-Economic Indicators

Economic Growth

Real economic growth in the Gaza Strip reached 15.1 percent of Gross Domestic Product (GDP) in 2010²⁶. The construction sector accounts for more than 50 percent of that rise.²⁷ As analyzed by the World Bank, this growth does not appear sustainable²⁸. It reflects recovery from a very low base of GDP brought about by the second intifada, the blockade and the effect of the Cast Lead Operation.²⁹ Gaza growth is mainly confined to the non-tradable sector and primarily donor-driven,³⁰ and it is still lower today by nearly 20 percent compared to 2005.

Improved access to formerly restricted goods, including some raw materials, the increased imports of construction materials (cement, gravel and steel bar) through the tunnels from Egypt, and the improved volume of imports of construction materials for PA-approved projects implemented by international and UN organizations helped reactivate the local economy in Gaza in 2010. However, impediments and restrictions on the movement of goods and people still exist and greatly hinder growth in some sectors, particularly the private sector which is a key driver of sustainable growth. The manufacturing sector's share of the GDP witnessed a decrease of nearly 4 percent in 2010 compared to 2009, reflecting the restrictions still faced by this sector (i.e. – limited access to raw materials). As highlighted by the World Bank, any sustainable growth can only be underpinned by a vibrant private sector. Given the Israeli restrictions on access to markets (imports on a range of raw materials and exports) and access to natural resources (land and water), as well as the increasing transport costs due the closure of Karni crossing, the Gaza private sector is not likely to recover significantly under the new access regime³¹.

Economic growth has not translated into poverty reduction. As reported by PCBS, poverty in the Gaza Strip rose sharply in 2007 and fell again by 2009; however, these levels are above those observed before the 2007 peak. Nevertheless, poverty in 2010 remained similar to 2009, with a total of 38 percent of the total population below the poverty line compared to 38.3 percent in 2009³².

²⁶ Factors that helped spur economic growth in 2010 included massive amounts of donor aid, the tunnel economy, PA support for salaries in Gaza, and the new access regime. However, the new access regime began in July 2010 and the effects took time to be felt on the ground (July/August), thus the changes related to the new access regime occurred in only PCBS. Performance of Palestinian Economy 2010 – May 2011.

²⁷ World Bank. the last 4-5 months of the year.

²⁸ Building the Palestinian State: Sustaining Growth, Institutions and Service Delivery. Economic Monitoring Report to the Ad Hoc Liaison Committee. April 13, 2011.

²⁹ Operation Cast Lead was a major Israeli military operation on the Gaza Strip from December 2008 to January 2009.

³⁰ World Bank.

³¹ Further review on some of the bottlenecks still faced by the Gaza private sector, with a focus on the food sector, are in the next chapter. Related to access to land, the Gaza population has been totally or partially prevented from accessing land located to 1 to 1.5 km from the Green Line, and sea areas beyond 3 nautical miles from shore since January 2009 (post-Cast Lead). However, access restrictions to land and sea were in-place before Cast Lead. For instance, the fishing zone was reduced to 12 nm in 2002 and declined to 3 nm in 2009. Overall, the land restricted area is estimated at 17 percent of the total land mass of the Gaza Strip and 35 percent of its agricultural land.

³² Source: PCBS. Without social and humanitarian assistance, nearly half of the Gaza population would be under the poverty line (48.2 percent). Note the poverty is based on household's consumption and expenditure (including the assistance received) and does not include household's income.

Employment ³³

Between the first quarter of 2010 and the first quarter of 2011, the unemployment rate (ILO definition) decreased by 3 percent, from 33.9 to 30.8 percent as shown in Figure 1, but still remains one of highest in the world. During the same period, an additional 27,200 people found employment in the Gaza Strip, while another 99,900 are still actively seeking a job but are unable to find one. To take into account the impact of seasonality, especially in relation to the agriculture sector, unemployment rates need to be compared between the same quarters of each year. Comparing quarter to quarter, a slight general decline in unemployment is visible. In the second quarter of 2007, before the imposition of the blockade, Gaza's unemployment rate stood at 26.4 percent (ILO definition). If the so-called 'discouraged workers', i.e. those willing to work but not actively seeking a job are taken into account (the 'relaxed' definition of unemployment), the current unemployment rate by the first quarter of 2011 would be 35.9 percent and affect 125,800 people. As a worrying trend, the percentage of youth unemployment remains very high at more than 47 percent ³⁴

Overall, the construction sector reported the highest gains in terms of employment during the last year; however it only makes up 5% of employed persons compared to 55% in services sector (see Table 1). Although the ban on imports of basic construction materials persists at the private level, the construction sector experienced some reactivation since June 2010. This has been largely driven by the resumption of some housing and infrastructure projects funded by international organizations (for which materials were permitted to enter through the official crossing), and an increased supply of construction materials through the tunnels, which led to a decline in prices of basic materials.

PCBS estimates that 5,600 new jobs were created in the construction sector comparing the second quarter of 2010 to the first quarter of 2011, bringing the total number of workers employed in the sector to 10,000. This is 42 percent lower than the number of workers employed in the sector in 2005 (over 17,500). The recent improvement in the agriculture sector is mainly linked to seasonal employment patterns as shown in the below table.

Figure 1: Gaza Unemployment Rate (ILO definition), Jan/March 2010 to Jan/March 2011

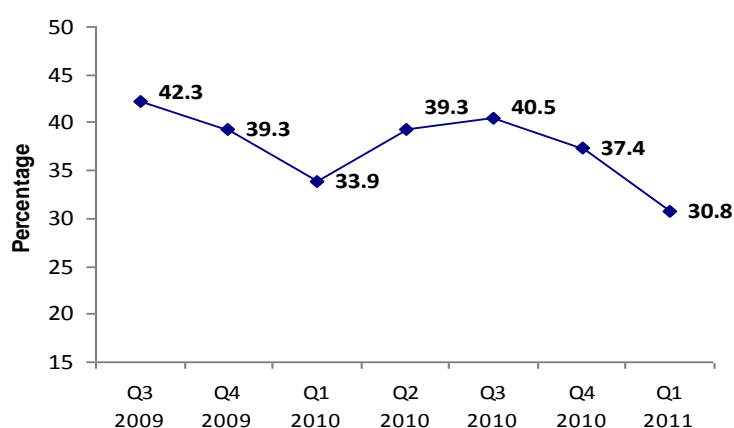


Table 1: Percentage distribution of employed persons aged 15 years and over in the Gaza Strip by economic activity and place of work (ILO Standards) from Jan-March 2010 to Jan-March 2011

Economic Activity	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q1 2011
Agriculture, fishing and forestry	9.9	7.8	8	5.1	10.5
Mining, quarrying and manufacturing	6	3.8	5.1	4.3	5
Construction	1.3	2.5	4	4	4.9
Commerce, restaurant and hotels	18.2	16.9	16.2	18	16.8
Transportation, storage and communication	6.4	6	6.8	7.3	7.6
Services and other branches	58.2	63	59.9	61.3	55.2
Total	100	100	100	100	100

³³ PCBS Labour Force Surveys.

³⁴ Youth unemployment (15-29 years old) was similar in Q1 2010 with 47.2 percent.

For those who are employed in the Gaza Strip, they are often under-employed or receive low wages³⁵. Comparing the second and fourth quarter of 2010, there has been a slight increase (2 percent) of the nominal average daily wage from NIS 58.1 to NIS 59.5³⁶. However, comparing the real average daily wage between 2009 and 2010, it has decreased by nearly 9 percent³⁷; and compared to 2007, by more than a fourth. This decrease reflects the overall rise of prices during the last 3 years and signals a decline in the purchasing power of workers in the Gaza Strip. For those working in the private sector in the Gaza Strip, the nominal average daily wage is NIS 45, while it is NIS 80.4 in the public sector³⁸. The latter absorbs a considerable proportion of the labor force with 48 percent of the employed persons in the last quarter of 2010³⁹.

Purchasing Power

The accumulative change in consumer price index (CPI) from July 2010 to March 2011 is 2.3 percent. The increase is due to the jump in prices of the following major expenditure groups: food and soft drinks by 4.7 percent, housing by 3.1 percent, and restaurant, cafes and hotels by 3.1 percent. The sugar index shot up by 40.1 percent and the vegetable index by 28.3 percent, causing a rise in prices of food and soft drinks. The prices of staple foods in Gaza witnessed a particular increase in the cost of wheat flour, up by 50 percent from June 2010 to March 2011, while vegetable oil increased by 40 percent over the same period.



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³⁵ Further analysis of the impact of low wages in the “major changes at household level” chapter.

³⁶ In comparison, the nominal average daily wage in the West Bank is NIS 102.5.

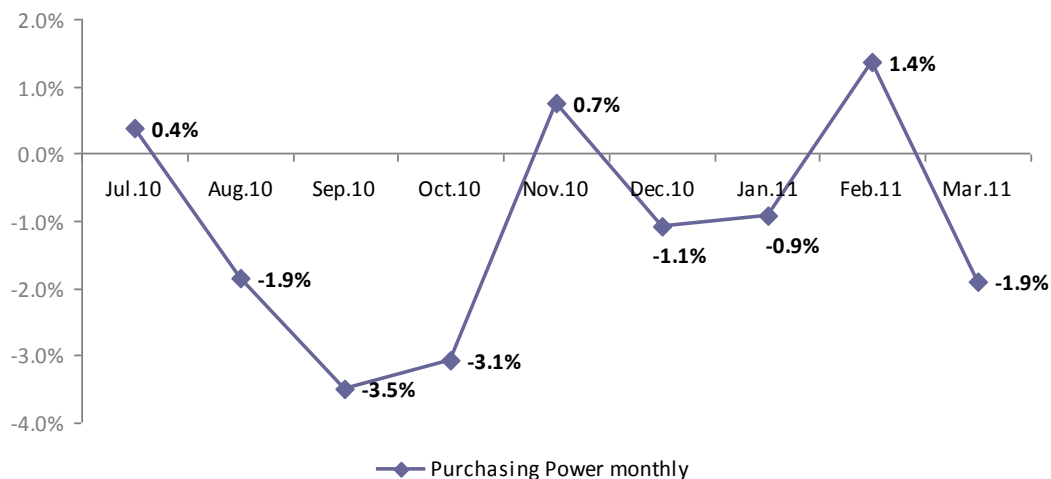
³⁷ Source : PCBS. Note that in the overall oPt, the real average daily wage decreased by 3.1 percent.

³⁸ The nominal average daily wage in the West Bank is NIS 79 in the private sector, and NIS 164 for those who have a permit to work in Israel or settlements, a job opportunity which is not granted to Gaza populations due to the restriction on people’s movement.

³⁹ Source PCBS – Labor Survey. In the West Bank the proportion of employees working the public sector is 16.5 percent.

The exchange rate of major currencies traded in the Gaza Strip market remained volatile. From July 2010 to March 2011, the U.S. Dollar (USD) lost 7.8 percent in value against the New Israeli Shekel (NIS). As a result, the accumulative purchasing power in the Gaza Strip during the same period observed a deterioration in its value by 10 percent, meaning that Gaza traders dealing in the market with USD could obtain smaller quantities of goods and services during this period.⁴⁰

Figure 2: Monthly change in the purchasing power of the U.S. Dollar in Gaza Strip during the period June 2010 until March 2011



2. Imports⁴¹

The new access regime triggered a significant increase in the volume and variety of goods entering the Gaza Strip, as well as a decline in prices for some products. This, however, was mostly limited to consumer goods and some basic raw materials for local industry. For example, new brands of dairy products, hummus, ply wood, and plastic containers started coming through the crossings after June 2010. The increase in import trade in the last half of 2010 is high compared to the first half. Between July 2010 and March 2011, the average total monthly imports that entered Gaza were 4,289 truckloads, compared to 2,582 truckloads (January-June 2010). While substantial in percentage terms (66 percent), it represents only 41 percent of the average monthly truckloads imported in 2005, prior to the Hamas victory in 2006 and before the imposition of the blockade in June 2007 (see Figure 3).



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⁴⁰ Purchasing power (PP) is defined by the ability to buy the goods and services using the money that one owns. The PP is inversely associated with the CPI and positively correlated with exchange rate.

⁴¹ Source of imports data: PalTrade.

Imports designated for commercial purposes increased by 64.6 percent (see red box in Figure 3) comparing the first half of 2010 to July 2010/March 2011. Most of this increase was driven by increased imports of food products (which comprised anywhere between 40 to 50 percent of all imports since July 2010, compared to a maximum of 20 percent prior to the blockade), animal feed and construction materials for approved international projects as humanitarian imports (see Figure 4). To be noted, basic food commodities were ensured since the start of the blockade through commercial crossings or the tunnels, and via humanitarian assistance. At times of increased tensions between Gaza and Israel, tightening of the blockade was witnessed, as was the case in late 2008 prior to the Cast Lead Operation.

Figure 3: Total monthly imported truckloads through the different crossings between January 2010 and March 2011

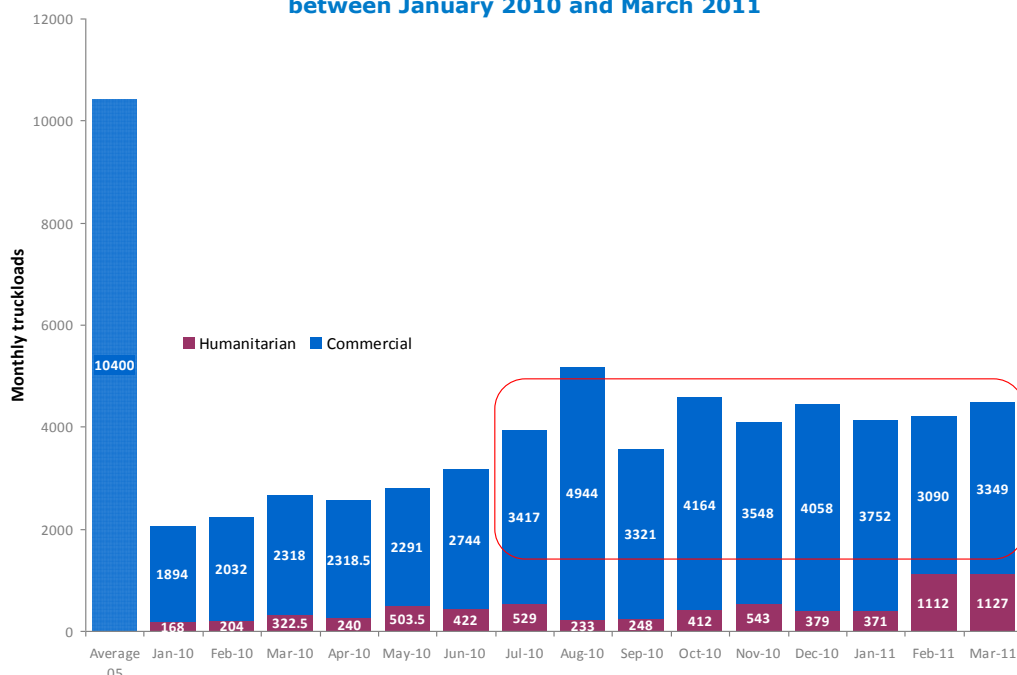
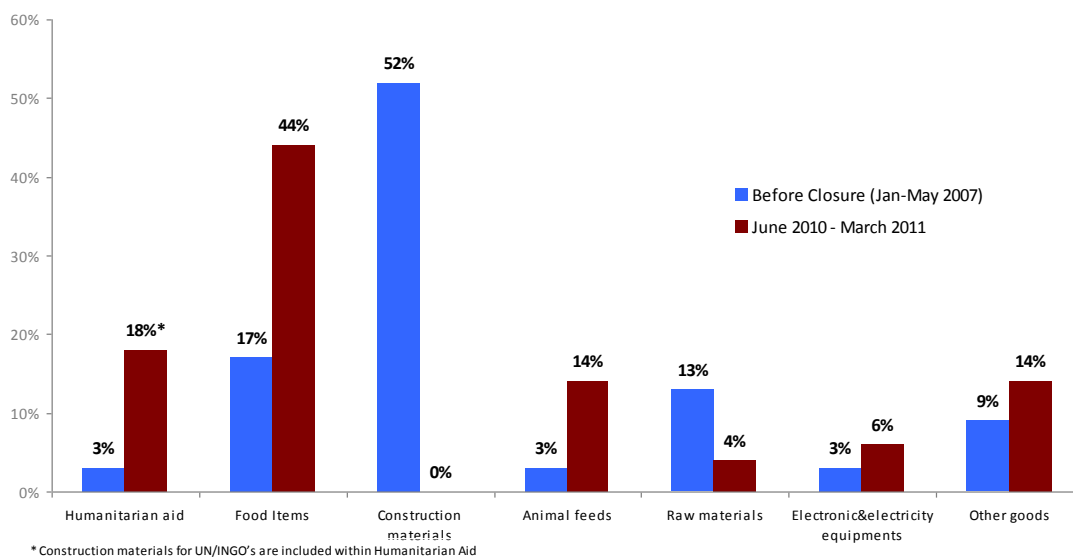


Figure 4: Percentage distribution of imported goods entering Gaza prior to the blockade (Jan-May 2007) / after the new access regime (June 2010 to March 2011)⁴²



⁴² Construction materials for UN/INGO's are included within Humanitarian Aid.

3. Official Commercial Crossings

The 20 June 2010 decision was expected to result in significant improvements in the operations of Kerem Shalom and Karni commercial crossings, as well as the possible opening of new crossings. However, at the time of reporting, the operation of crossings continues to be limited and unpredictable⁴³. Between June 2010 and February 2011, Kerem Shalom crossing, located next to the intersection point between the borders of the Gaza Strip, Israel and Egypt, continued to be the sole official crossing for the transfer of all types of commodities into the Gaza Strip. The conveyor belt at Karni crossing, the largest and best equipped of the commercial crossings, was used for the transfer of bulk unpacked items into Gaza (i.e. – grains like wheat and animal feed, and aggregates). In March 2011, citing security concerns, the Israeli authorities closed Karni conveyor belt indefinitely and shifted the transfer of grains and other bulk, non-palletized products to the Kerem Shalom crossing. The Sufa, Nahal Oz and Karni crossings remained officially closed, although in March 2011 the Israeli authorities allowed on an “exceptional basis” the transfer of some 51,000 mt of aggregates for authorized projects through the Sufa crossing.

Figure 5: Status of the crossings as of April 2011⁴⁴



⁴³ Official crossings are only on land, imported goods, even humanitarian aid, is restricted by sea or by air.

⁴⁴ Source : OCHA.

Since June 2010, and in an attempt to increase truck movement capacity in light of the shift in the movement of grains (wheat and fodder) from Karni to Kerem Shalom, the GoI began construction activities at the Kerem Shalom crossing and the PA took the necessary steps to upgrade the crossing on the Gaza side. This has included the construction of a 35,000m² loading bay, expansion of one of the staging areas used for security checks, and the construction of a waiting area for inbound trucks. Despite these developments, the operations at Kerem Shalom remain limited. Opening times are maintained to a maximum of six hours per day, and the highly inefficient split-pattern, double back-to-back system continues to be used for moving cargo from the Israeli side to the Palestinian side of the crossing⁴⁵. Palestinian trucks have only 2 hours/day to load cargo and transport inside Gaza.

Although the alternative facilities have been developed at Kerem Shalom, its facilities have limited capacity and are insufficient to meet actual needs. This is particularly true for wheat grains, where the capacity of the newly installed conveyor belt is limited to 150-200 mt per day whereas Gaza's daily needs are estimated to be 385 mt⁴⁶. Around half of the conveyor operating time is dedicated to granulated animal feed. Logistic costs are significantly higher than at Karni as detailed below, a situation that prompted transport companies in Gaza to go on a two-week strike in protest of the closure of Karni, which contributed to a substantial decrease in wheat grain stocks at Gaza Mills during the same month (March 2011)⁴⁷. As a consequence, Gaza's population is increasingly vulnerable and relies on Kerem Shalom to import and export goods to or from Gaza as well as on the tunnels. Should there be any outbreak of hostilities, it could prompt the closure of the official crossing as witnessed on April 11 when Kerem Shalom was closed for 9 consecutive days as hostilities flared up between Israel and Gaza.

Traders who import commercial palletized goods reported that the closing of Karni had no negative effect on them. In contrast, wheat grain and animal feed importers criticized the shift to Kerem Shalom as it not only increased transport costs by 30 percent on average from Ashdod and Haifa Port (see table 2), but also increased logistical inefficiencies, which manifested in substantially longer lead times for the issuance of coordination clearance⁴⁸.

⁴⁵ The Israeli policy requires a "split shift pattern" of loading and unloading cargo whereby a double back-to-back system is used for transporting cargo from the Israeli side to the Palestinian side. The procedure is as follows: 1) Trucks within inbound cargo queue outside the terminal until they obtain clearance to bring cargo into two staging areas (Rooms A and B). In the case of palletized cargo, the trucks are subject to an X-ray check before being directed to these staging areas. 2) Trucks offload their cargo in the staging area, where an Israeli security team conducts security checks before clearing the cargo. 3) Once the security check is complete, pallets get loaded onto "sterilized trucks", which transfer cleared cargo to staging area on the Gaza side of the crossing. 4) Once unloaded, the cargo gets loaded again onto Palestinian trucks, which transport cargo to Gaza via the Philadelphia Corridor. It is worth noting here that the operation of the staging areas on the Israeli and Palestinian sides does not overlap. Israeli trucks are allowed to deposit cargo between 8:00am and 2:00pm (six hours), while Palestinian trucks can access the staging area on the Palestinian side between 2:00pm and 4:30pm (two hours).

⁴⁶ The daily needs of wheat grain of 385 mt are estimated conservatively, and based on the average daily imports during 2010. Should Gaza Mills be able to cover the overall wheat flour needs of the Gaza Strip, the daily needs would increase to 600 mt to produce the average daily need of 450 mt of wheat flour.

⁴⁷ Further detail on the implication of the new access regime on the import of wheat grains is located under the cereal market section.

⁴⁸ Total increase from Ashdod Port via Kerem Shalom is 40 percent compared to Karni; from Haifa Port, it is a 24 percent increase.

Table 2: Differences in truckload transport costs for Animal Feed/Wheat Grains between Karni and Kerem Shalom for shipments originating from Ashdod/Haifa Port⁴⁹

Items		Al Montar/ Karni	Karem Abu Salem/Kerem Shalom	Difference (NIS)
		Cost (NIS)		
From Ashdod Port	Transportation fees per truck	1,800	2,800	+1,000
	Crossing's fees (CPA)	500	250	-250
	Transportation fess from crossing to merchant store	500	700	+200
	Industrial area fees	10	0	-10
	Fees for crossing (Gaza)	0	20	+20
	Loading & unloading fees	250	500	+250
Total		3,060	4,270	+1,210
From Haifa Port	Transportation fees per truck	3,000	3,800	+800
	Crossing's fees (CPA)	500	250	-250
	Transportation fess from crossing to merchant store	500	700	+200
	Industrial area fees	10	0	-10
	Fees for crossing (Gaza)	0	20	+20
	Loading & unloading fees	250	500	+250
Total		4,260	5,270	+1,010

4. Exports

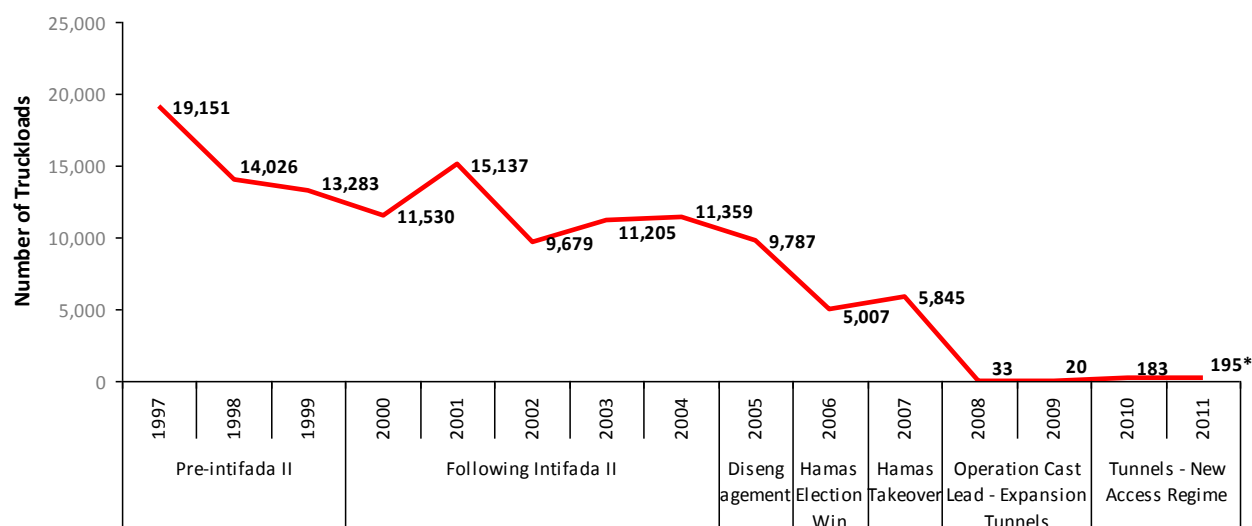
While there has been a relative improvement following the relaxation of the imports with the 20 June 2010 decision – especially for the consumer goods – exports from the Gaza Strip still remains a major challenge.

As a follow-up to the relaxation on the import of goods in June 2010, the GoI approved on 8 December 2010 additional measures to expedite exports from the Gaza Strip in increasing amounts. The relaxation focuses on the agriculture, furniture and textiles sectors, and exports are subject to security and logistical preparations at the Kerem Shalom crossing⁵⁰. Following this decision, there was limited improvement in the total truckloads of export since December 2010, as shown in Figure 6. From November 2010 to April 2011, exports reached a total of 298 truckloads. However, the level of exports from the Gaza Strip reached only 5 percent of pre-blockade levels, where 5,747 truckloads were exported over a nearly 6 month period. In addition, the type of goods exported are still only selected cash crops (carnations, strawberries, sweet peppers and cherry tomatoes) compared to furniture, garment, other cash crops, vegetables, processed food, metal products, handicrafts, and other types of goods before the blockade.



⁴⁹ Source : PalTrade. Confirmation via key informants interviews.

⁵⁰ GoI Ministry of Foreign Affairs.

Figure 6: Exported truckloads from 1997 to 2011 from the Gaza Strip⁵¹**Table 3: Gaza Exports from November 2010 to April 2011**⁵²

Period	Carnations		Strawberries		Vegetables				Truckloads
	Stems	Trucks	Ton	Trucks	Sweet Peppers		Cherry Tomatoes		
					Ton	Trucks	Ton	Trucks	Total Trucks
Nov-10	43,000	0	6	4	0	0	0	0	4
Dec-10	996,000	7	171	91	1	1	0	0	99
Jan-11	2,762,000	17	168	88	5	2	0	0	107
Feb-11	4,054,000	36	54	27	0	0	0	0	63
Mar-11	2,152,000	16	0	0	0	0	7	3	19
Apr-11*	475,000	6	0	0	0	0	0	0	6

Cash crop producers who were allowed to export their goods since June 2010 reported that the export procedures at Kerem Shalom are difficult. The unpredictability of the opening of the crossing, as well as the necessity to maintain the cool chain for the type of cash crops being exported, are serious bottlenecks hampering the actual movement of goods out of Gaza.

Should any security issue arise, the closure of Kerem Shalom will put at risk farmers' export production given the short shelf-life of produce after harvesting. Given the necessity to maintain the cool chain at 4-6°C, any delay will increase running costs. Potential losses could even occur should the closure be prolonged beyond the shelf-life of the exported products.

⁵¹ Source: PalTrade.

⁵² Source: Netherlands Representative Office to the Palestinian Authority. Note that April is up to 28 April.

With the current export procedure and the minimal equipment in-place, and total lack of shade for goods, Kerem Shalom is putting at risk some of the cash crops during warm days given the disruption of the cool chain.⁵³

After the 8 December 2010 decision, no other goods apart from cash crops were exported from the Gaza Strip. The decision was further discussed by the GoI and the Quartet Representative on 4 February 2011, where they agreed on concrete economic measures to support the “relaxation” of the exports from the Gaza Strip⁵⁴. To-date, none of these relaxation measures on Gaza’s export restrictions were implemented, apart from a limited increase of cash crops permitted for export to EU markets thanks to facilitation from the Netherlands.

The Netherlands are supporting Gaza cash crop producers to meet the quality requirements of the EU market, since the GoI does not allow export of cash crops to Israel or to the West Bank. Meeting the quality standards of the EU remains a challenge especially for small farmers/producers, particularly since those cash crop producers relied heavily on Israel and the West Bank as their main export market before the blockade. The same issue would be valid for other goods to be exported from the Gaza Strip. Before the blockade, 95 percent of Gaza’s exports, regardless of the sector, headed to Israeli and West Bank markets and only 5 percent to the rest of the world⁵⁵.

The crossing procedures increase costs for Gaza’s exporters and impede competition with markets where the goods are headed. While the cost to export goods via Karni was NIS 200-300 per truckload, it costs NIS 670 per truckload via Kerem Shalom. This increase could affect directly Gaza producers’ volume of trade should there be any expansion on the type of goods that could be exported from Gaza. As reported by the World Bank, a 10 percent increase in trade costs was estimated to reduce trade volumes by as much as 20 percent⁵⁶. Additional transport costs would then hamper Gaza producers’ competitiveness regardless of the market (Europe, Israel or West Bank).

The general export ban still imposed by the blockade forces cash crop producers to sell large quantities of their goods that were not exported on the local market at significantly reduced prices. Surpluses are then dumped on the local market or even used as animal feed.

⁵³ The process begins when strawberry/vegetable cartons are collected from the producers’ cooler in the Gaza Strip by the cooler truck of the contractor. Each carton contains 2.5 kg of produce and should be carried to an inspection spot in the export packing house, where a “Phytosanitary” inspection (“health inspection”) and a “quality inspection” of the shipment are undertaken. The cartons are then accompanied by a documentation envelope, which includes the “Phytosanitary” document (health certificate) and the “Euro-1” document (customs certificate). Under the instructions of the Israeli security forces, the contractor’s vehicle transports the carton in a 90cm high surface. Each surface weighs up to 2 mt. The surfaces are unloaded in the “sterile zone”, next to Kerem Shalom, and undergo a preliminary security inspection. Following the inspection, the surfaces are loaded to a “sterile truck” – i.e. trucks that are permanently stationed in the crossing and have no contact with the Palestinian side – and then enter the Kerem Shalom crossing where they are x-rayed. After the X-Ray examination, they are loaded to an exporter which waits at the crossing. Depending on the size of the shipment, the same truck that carries the flowers may also carry the strawberries and/or the vegetables, or any other agricultural product. From the “sterile zone” till the exporter trucks the “cooling chain” is disrupted.

⁵⁴ The decision states that, starting 01 April 2011, the GoI will permit the export of textiles, furniture, and agricultural products from Gaza to international markets (not to Israel/West Bank). At the end of April 2011, the GoI will decide on whether to allow PA-approved Gaza producers to transfer textiles and furniture to pre-approved West Bank purchasers. By mid-2011, merchandise security scanner is to be installed at Kerem Shalom to increase the quantities, and potentially the range of goods to be exported from Gaza.

⁵⁵ Source: PalTrade.

⁵⁶ Source: World Bank – Building the Palestinian State: Sustaining growth, institutions, and service delivery – Economic Monitoring report to the Ad Hoc Liaison Committee, April 13 2011.

B. Changes at local food market level

1. Food Manufacturers

Due to the blockade, most of the food factories reduced production and some ceased their activities due to the lack of raw materials (i.e. metal cans, soda gas, spare-parts/equipment) or issues of economic viability without access to the export market. However, the food processing sector demonstrated a better resilience than other sectors such as garment, chemicals, textile or construction after June 2007. The sector used locally available inputs, while the blockade reduced competition with imported goods that were not allowed via the official crossing⁵⁷

According to a PalTrade survey among 188 manufacturing companies in Gaza, from June 2010 to March 2011, manufacturers improved their access to raw materials and their average capacity utilization increased by 22 percent (from 34 percent to 42 percent). For food sector companies within the survey, capacity utilization did not increase, remaining at 50 percent. Such stability could be explained by the already high capacity utilization maintained compared to other industrial sectors given the better resilience of the food sector to the blockade, but also given the additional competition with new food products coming through the crossing.

The PalTrade survey shows that 65 percent of food manufacturers confirmed readiness to export within one week, compared to only 36 percent in June 2010. However, no processed food was exported from the Gaza Strip under the new access regime.

Despite the June 2010 decision, the three main obstacles (power cuts, unreliable supply of raw materials, and export restrictions) for food sector companies did not vary. Only the supply of equipment and spare parts improved for the food manufacture after June 2010.

Interviewed food manufacturers suggest that the most attractive export market is the West Bank (92 percent), followed by Israel (58 percent), then Egypt (7 percent). Arab Countries (14 percent) and Europe (7 percent) were also suggested markets. Before the blockade, exports were directed largely towards the West Bank with an average of 5 trucks per day carrying products such as biscuits, ice-cream, canned vegetables, and sweets⁵⁸



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⁵⁷ Oxfam GB, Market Analysis of Gaza, November 2010.

⁵⁸ Oxfam GB, Market Analysis of Gaza, November 2010.



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Interviews with food processing companies conducted within the framework of this assessment confirmed PalTrade's survey findings:

- Concern over current and future losses in sales to competing brands from Israel and the West Bank have been voiced by all interviewed manufacturers, including those who reported sales increases. This concern was most prominent among the smaller food producers, who indicated having no ability to compete on the basis of price with larger manufacturers in the Gaza Strip and externally.
- For the food manufacturers who increased their sales, it was confirmed that wages paid by interviewed manufacturers for both skilled and unskilled labourers have not increased since June 2010. Despite relative improvements in sales, they remain hardly sufficient to justify an increase in wages⁵⁹. In addition, the food sector is relying heavily on family businesses, thus a tendency to tap further on the family network rather than hiring external workers especially during times of economic constraint, as witnessed in Gaza.
- Improvements in the performance of the food manufacturing sector are restricted by the unreliable supply of electricity. Many local food processing companies restrict their production to items that are least perishable and can withstand frequent electricity outages. These products are often more expensive and less profitable to produce, and could face increasing competition from imports under the new access regime.

⁵⁹ Labourers in the manufacturing sector receive an average nominal daily wage of NIS 38 and usually do not enjoy any benefits. In the West Bank, the average nominal daily wage in the manufacturing sector is NIS 69. PCBS, Labour Force Survey (January-March, 2011), 18 May 2011.

2. Gaza Traders

The 20 June decision impacted traders' supplies given the improved type and quantity of food products allowed to enter. However, food supplies vary depending on their prices and place of origin, as reflected in Table 4. For example, the quantities of wheat flour that came through the tunnels increased substantially after June 2010 as a result of the unreliability of Karni conveyor belt and the increase in the international market price of wheat. The three main factors that led to trader's change of food supply sources and trade transactions are: the new access regime as reported by 92 percent of respondents, lower prices from other sources (58 percent) and the increase in transportation costs (42 percent).

Seventy-two percent of interviewed traders (wholesalers and importers from Israel) reported that their use of food sources from the West Bank had increased since the implementation of the new access regime. Sixty-four percent indicated an increase of their trade transactions with suppliers from Israel, and nearly 63 percent reported an increase with international markets. Half of the traders reported a decrease in their use of supplies coming via tunnels, while the other half reported an increase. Depending on the type of goods imported and the impact of the additional goods coming through the official crossing, the dynamic of the tunnel trade has been quite fluid over the last 9 months adapting itself to the "new" goods allowed through Kerem Shalom.

As reported by traders in March 2011, some of the main supply changes witnessed were:

- Eighty-nine percent of the traders indicated an increase of their wheat flour sales coming through the tunnels. Tunnels became an important source for wheat flour, constituting between 15 to 20 percent of the total wheat market in the Gaza Strip.



- Access to imported dairy products from the West Bank and Israel improved. Traders' sales for these products increased in comparison to the situation before the 20 June 2010 decision. Despite positive impact for the end consumer in the availability and variety of dairy items on the local market, this could impact negatively on the medium/long run the performance of local dairy products. The increase of imported dairy products through Kerem Shalom is compensated by the decrease of dairy products (cheese mainly) that were coming through the tunnels before the new access regime.
- The sales of Israeli canned food and tomato paste have increased significantly after the ease in import restrictions compared to a limited increase of similar products produced locally.

Table 4: Trader's changes in food supply by sources June 2010/March 2011

Product	Source	% Increased	% Decreased	% No Change
Wheat Flour /Grain	Local	50.0	22.7	27.3
	Tunnels	88.9	11.1	0
	Israel	68.5	14.8	16.7
Cheese	Local	21.5	27.1	51.4
	Tunnels	30.4	48.1	21.5
	WB	47.0	12.2	40.9
	Israel	63.7	6.5	29.8
Yogurt and Labaneh	Local	24.1	24.8	51.1
	WB	42.6	11.3	46.1
	Israel	63.9	10.7	25.4
Milk	Local	20.0	26.1	53.9
	Tunnels	5.1	64.1	30.8
	WB	44.4	15.2	40.4
	Israel	68.1	6.1	25.8
Eggs	Local	55.6	11.1	33.3
Canned Food	Local	20.9	33.8	45.3
	Tunnels	42.7	40.9	16.4
	WB	34.1	13.8	52.0
	Israel	44.3	18.4	37.3
Tomato Paste	Local	34.6	22.2	43.2
	Tunnels	54.8	30.1	15.1
	WB	25.6	11.1	63.3
	Israel	54.0	15.9	30.1

The relaxing of import restrictions and the increase of goods entering through the commercial crossing have impacted several aspects of local market and business activities. About one third of the traders surveyed reported an increase in their stock level in comparison to the situation before June 2010.

Eighty-five percent of traders confirmed that they are trading new commodities. When asked to identify the number of the new commodities, about half of the traders reported between 1 to 8 items, compared to 38 percent of them who indicated a range of 9 to 20 items. The new commodities reported by traders are mainly new types of soft drinks, hygiene products (toilet paper, soap, detergents, sanitary pads, and diapers, etc.) chocolate and chips.

In addition to the increase in quantity of goods, the quality of traded goods also improved compared to poor quality/low price commodities coming through the tunnels. Seventy-five percent of traders reported an improvement in the importation of high quality goods that were allowed to enter after June 2010.

Transport costs represent more than 70 percent of wholesalers' marketing costs and have a major impact on commodity prices. A third of wholesalers indicated that the distance from the supply sources to their stores have increased due to the closing of Karni crossing and the longer route to Kerem Shalom, which contributed to the increase in transportation costs⁶⁰.

While 87 percent of traders reported an increased range of products in their stores, the new access regime is synonymous with increased competition. In recent months, two-thirds of traders reported a jump in commodity prices due to the higher quality food products allowed to enter. Also, transportation costs post-Karni and global food prices for wheat flour, sugar and vegetable oil increased.

Only 13 percent of surveyed traders increased their capital input, while 7 percent indicated that they expanded their stores, and less than 5 percent rehabilitated them. A negligible percentage recruited new employees, or moved their stores to new locations. Thus, the impact of the new access regime on traders is limited in relation to more productive investments.

Table 5: Effect of the new access regime on selected business indicators

Effect of the new access regime on the following	Trader Classification	Yes	No	Total
Rent/move to new location/store	Retailer	1.2	98.8	100
	Wholesaler	0.0	100	100
	Total	1	99	100
Expand store	Retailer	6.2	93.8	100
	Wholesaler	10.9	89.1	100
	Total	7.2	92.8	100
Increase capital	Retailer	13.3	86.7	100
	Wholesaler	13.3	86.7	100
	Total	13.3	86.7	100
Rehabilitate store (aluminum, paint, etc.)	Retailer	4.3	95.7	100
	Wholesaler	6.5	93.5	100
	Total	4.8	95.2	100
Recruit new employees	Retailer	0.6	99.4	100
	Wholesaler	2.2	97.8	100
	Total	1.0	99.0	100

3. Selected food commodity supply chains

Cereals market (wheat and wheat flour)

Structure and conduct

A variety of market actors are involved in moving wheat grains and wheat flour from producers to consumers. The primary actors include the following:

⁶⁰ 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.

- **Flour mills:** There are seven operational flour mills in Gaza, with an estimated average daily capacity of 900 to 1,000 mt. Mills either import wheat grain directly from international markets or purchase wheat grain from Israeli importers. Traditionally, wheat flour produced by Gaza mills accounts for 60 to 70 percent of the total volume of wheat flour traded in the Gaza market. Flour mills sell wheat flour in bulk quantities to local bakeries, international organizations engaged in food aid (mainly UNRWA and WFP), and wholesalers⁶¹. International organizations are, however, mills' preferred customers due to the large orders they make, and for the immediate payments they make.
- **Wheat flour importers:** Three large importers and between 20 to 30 traders import wheat flour from the official commercial crossing and from Egypt through the tunnels⁶². The former group of traders (importers) either import directly from mills in Europe (mainly Turkey and Ukraine) or in Israel (mainly from the Greater Haifa Mills). Wheat flour imports constitute between 50 to 85 percent of business for these traders as they also import other food and non-food items. As a result of increased price-based competition from wheat flour coming from the tunnels, the three largest importers, who used the official commercial crossing, reported a drastic decrease in their wheat flour imports coming directly from international markets after June 2010. Thereby, two of the traders resorted to Israeli importers for securing their purchases, and the third trader reported resorting to securing all of his purchases through the tunnels.
- **Wholesalers of wheat flour:** There are 7 to 10 wheat flour wholesalers in the Gaza Strip and they depend mainly on local mills and importers to secure their purchases of wheat flour. Wheat flour trade constitutes only a small fraction of wholesalers' total sales. In addition to wheat flour, a typical wheat flour wholesaler in Gaza sells different types of staple foods in bulk and engages in direct imports of food and non-food items, and typically operates a retail business. The primary customers of wheat wholesalers are bakeries and retailers.
- **Retailers:** According to PCBS, there were some 1,915 food retailers in the Gaza Strip in 2007. These are classified as supermarkets, minimarkets, and small-scale shops (*bakala*). While it is difficult to provide an accurate estimate of the number of retailers selling wheat flour, market visits suggest that the overwhelming majority of them carry small quantities. In general, supermarkets usually keep various sizes of pre-packaged wheat flour (50kg, 30kg, 5kg, and 1kg), while mini-markets and small shops carry only smaller packages (5kg and 1kg) of imported wheat flour.

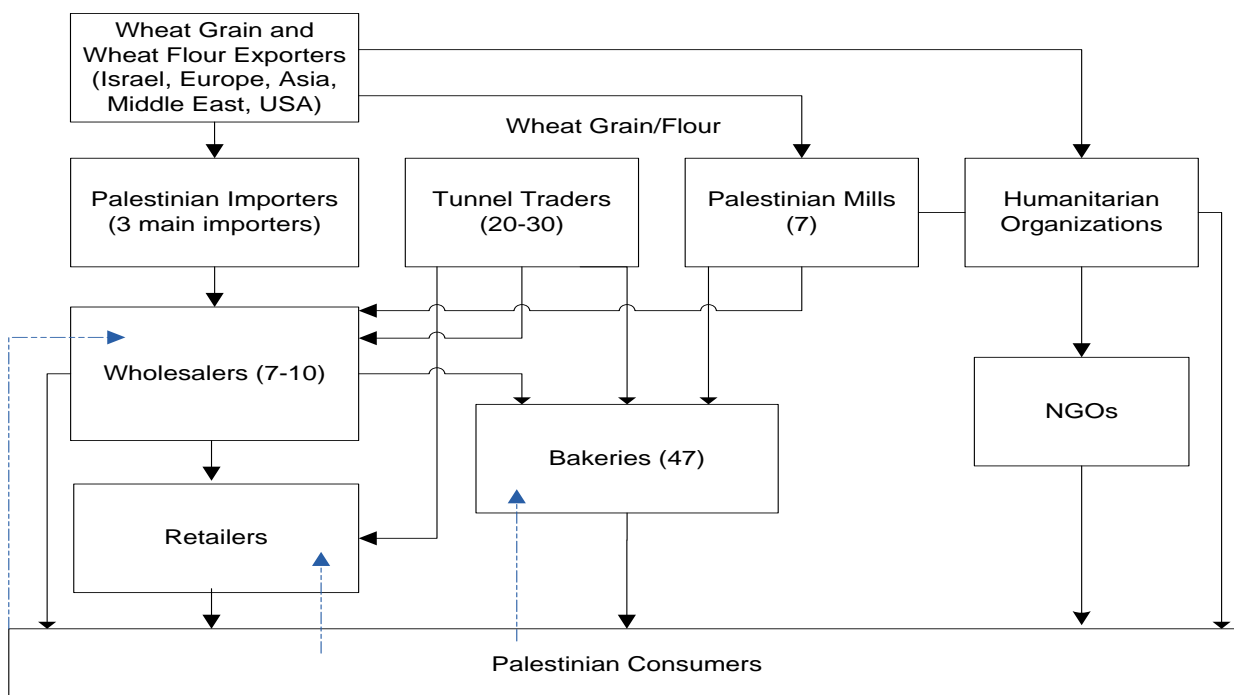
⁶¹ Out of the seven Gaza mills, two produce almost exclusively (90-95 percent) for UNRWA and WFP. In such cases, between 40 and 70 percent of the total output of the two mills goes to these two UN agencies. The wheat flour produced is fortified.

⁶² Until recently, these importers accounted for 95 percent of all wheat flour imports.



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Figure 6: Gaza Wheat Flour Market Structure



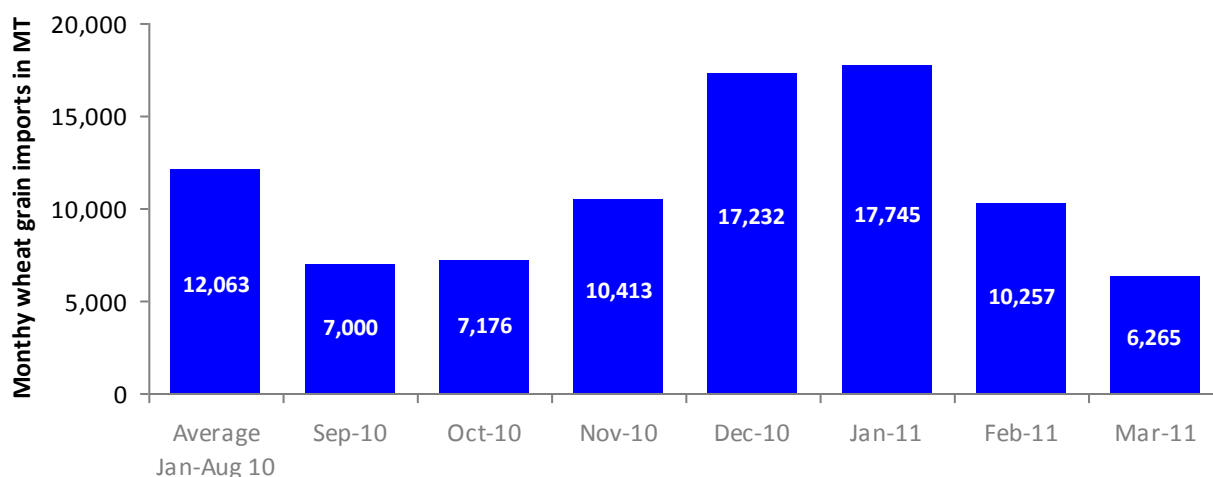
Impact on market structure and market actors ⁶³

The structure of the wheat flour market was affected mainly by the combined factors of the increase of wheat prices, as well as the new access regime and the capacity of Karni conveyor belt until February 2011.

The increase in the global price of wheat grain was transferred immediately to local prices and drove prices of locally produced and imported wheat flour from NIS 80 to NIS 120 for a 50kg bag at the customer level ⁶⁴. Tunnel traders began smuggling wheat flour from Egypt through the tunnels, thereby benefiting from Egypt's subsidies on this staple food item. Wheat flour tunnel traders are additional competitors for Gaza mills and importers through the official crossing, thus affecting the number and the size of the wheat market actors. A further rise in the cost of flour was halted due to a price ceiling imposed by the de facto authorities in Gaza.

While wheat flour tunnel traders benefited from the global wheat market, they also benefited from the lack of wheat grains imported into the Gaza Strip via Karni crossing after June 2010. A significant reduction in wheat grain imports to the Gaza Strip was noted since September 2010.

Figure 7: Wheat grain import levels, January 2010 to March 2011



Between September 2010 and February 2011, the reduction in imports via the Karni conveyor belt, which operated for two days per week only due to Israeli security concerns, can be attributed to competition for space between wheat grain, animal feed and the authorized imports of gravel for UN construction projects. Karni was the sole conveyor belt to transfer bulk unpacked items into the Gaza Strip until it was closed in March 2011. While high import levels during the months of December 2010 and January 2011 prevented a serious wheat grain crisis, the unsteady and unreliable import flow during the past months was insufficient for the replenishment of the usual 3 to 4 week wheat grain stock inside the Gaza Strip. For the month of March 2011, a Gaza transporter strike prevented all commodities from entering through Kerem Shalom for two weeks and reduced wheat stocks to five days.

⁶³ Market after June 2010 - impact of different events from 20 June 2010 until April 2011 on the market.

⁶⁴ The local wheat increase of 50 percent from August 2010 till March 2011, the price decreased in April 2011 to NIS 110 at customer level due to market dynamics.

These combined factors modified the Gaza wheat market structure. Interviews with wheat importers and tunnel traders suggest that 20 to 30 traders import anywhere between 100 to 150 mt of wheat flour on a daily basis through the tunnels⁶⁵. These traders were marginal importers before June 2010. This represents over 25 percent of Gaza's daily needs of wheat flour and about 20 percent of the wheat flour market share. Market visits revealed that smuggled wheat flour is readily available on the Gaza market, and is sold at the retail price of NIS 95 to 100 per sack of 50kg in April 2011; i.e. NIS 5 to 10 less than locally produced wheat flour and NIS 35 to 40 less than premium wheat flour imported from the Greater Haifa Mills.

Table 6: Gaza Prices of Wheat Flour, July 2010 / April 2011

Period	Imported through the tunnels (50 kg sack)	Imported through the crossings and locally produced (50 kg sack) (except Haifa mills)
June 2010	Not available on a large scale	NIS 75
March 2011	NIS 107-110	NIS 115
April 2011	NIS 95-100	NIS 105

Tunnel imports of wheat flour impacted the business of importers negatively, and could hamper the mills production in the medium run. Reportedly, wheat importers via the official crossing lost between 50 to 60 percent of their market share, in terms of sales turnover, from September 2010 to March 2011 to wheat flour importers who were using the tunnels. Local mills were also affected: mills with contracts with UN agencies providing food aid (UNRWA, WFP) did not face a decrease in their sales while they struggled to comply with the wheat grain requirements given the lack of access. Other mills began noticing a decrease in turnover since the beginning of 2011.

Market Performance

While the assessment could not ascertain the difference between profit margins made by tunnel importers and importers through the crossings, it is quite likely that the former group has substantially greater margins than the latter since Egyptian wheat is subsidized. This is related to the fact that the former group is better able to adjust its prices downwards to maintain market share. Thus, wheat importers via the official crossing expressed concern about the long-term viability of their trade. They will be able to reclaim their market share only if wheat prices return to mid-2010 levels, when transport costs through the tunnels made it impossible for tunnel traders to compete with wheat flour importers.

The impact of the closure of Karni Terminal

Interviews with Gaza mills indicated that the shift to Kerem Shalom increased transport costs by 30 percent⁶⁶. While this increase did not reach consumers, given the price ceiling imposed by the de facto authorities in the Gaza Strip, interviews with Gaza mill owners suggest that prices of locally-produced wheat flour would most likely increase in the short-term unless international prices of wheat flour decrease. Wheat grain and animal feed importers complained that the shift to Kerem Shalom also increased logistical inefficiencies.

⁶⁵ The follow-up interviews strongly suggest that wheat flour smuggled through the tunnels is sold to food wholesalers (50-60 percent), bakeries (30-35 percent), and retailers (5-10 percent).

⁶⁶ The closure of Karni crossing impacted mills and wheat grain importers; yet had no repercussions on wheat flour importers as these have relied on Kerem Shalom since 2008. The increase in transport costs for wheat grain from Ashdod/Haifa port was detailed in the section dedicated to the official commercial crossing.

There are substantially longer lead times for the issuance of coordination clearance by the Crossings Coordination Committee working with the Israeli Civil Liaison Authority Office, and significantly lower, more rationed import quotas for traders. Interview findings show that waiting times for obtaining coordination clearance more than doubled since the move from Karni to Kerem Shalom for all wheat grain and animal feed importers.

Tunnel traders reported purchasing wheat flour in Egypt at the wholesale price of USD 477 per ton, and moving the wheat flour incurs an additional USD 60 to 70 per ton to get it to the Gaza Strip. In other words, the total cost for transporting a ton of wheat flour from Egypt through the tunnels is USD 537 to 547 per ton; i.e. USD 26.85 to 27.35 per sack of 50kg⁶⁷.

Importers using the official crossing experienced difficulties competing with tunnel importers, even after importing cheaper brands of wheat flour from Israel and reducing imports drastically. However, in a bid to increase their market share, tunnel traders decreased their prices since late April and are now selling a 50 kg sack of flour for NIS 95 to 100, compared to NIS 107 to 110 earlier in the year, which relieved some pressure on traditional importers (those who import through the official crossings).



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Impact on bread bakeries

The supply of wheat flour through the crossing, the substantial imports of “cheap” wheat flour from Egypt, and the increase in de facto authorities controlled prices of bread (from NIS 2.33/kg to NIS 2.6/kg as of January 2011 – a 12 percent increase) aided in improving stock levels and generate larger profit margins among bakers in Gaza. Bakeries reported an increase of their pre-June 2010 stock levels by 20 to 30 percent and a reduction in their production costs due mostly to increased purchases of Egyptian wheat flour, without affecting the quality of bread or the price to end consumers⁶⁸.

⁶⁷ A 50 kg bag costs between NIS 91.5 to NIS 93.25 (1 USD = 3.41 NIS).

⁶⁸ The total cost savings by using smuggled wheat flour ranges between NIS 8 to 10 per sack of 50kg. Assuming that on average, each bakery uses 25 sacks, the extra profit they could generate is NIS 200 per day, or NIS 6,000 per month. Naturally, some of the larger bakeries that use 40 sacks per day could generate as much as NIS 9,600-10,000 in extra profits per month (NIS 320 to 400 per day).

Impact on availability production capacity

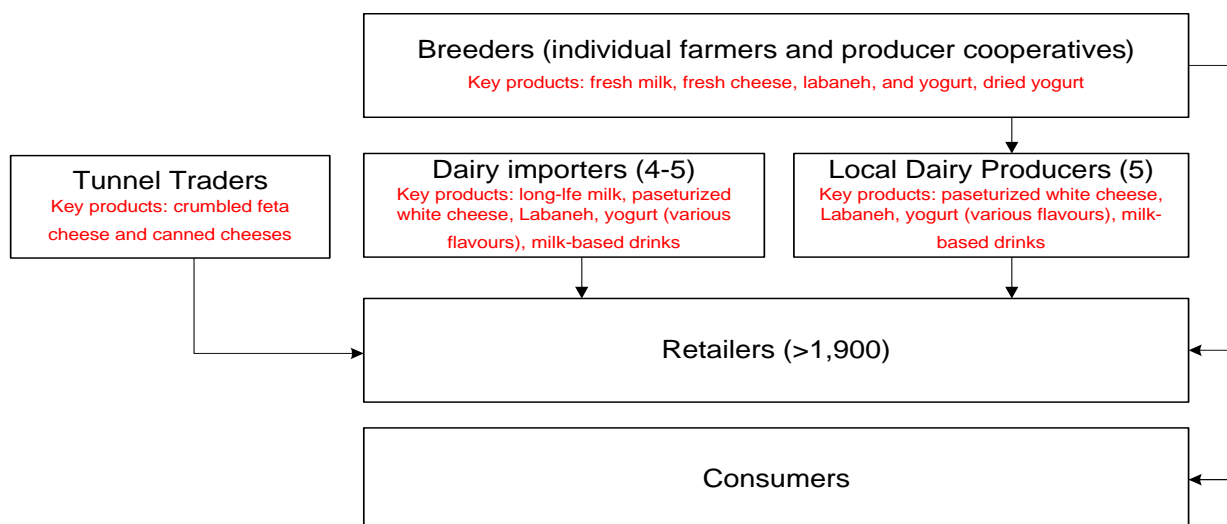
Both bakery and flour mill owners indicated a better ability to secure spare parts and production machinery as a result of the new access regime. Several of them reported plans to improve their production capacity or were installing new equipment or rehabilitating existing facilities for the same purpose. Al-Salam Mill imported a new production line through Kerem Shalom for a total cost of USD 500,000. Once installed and fully operational, the new production line will increase Al-Salam's production capacity by 50 percent. Similarly, Al-Iman Mill was able to obtain a new laboratory and spare parts (USD 150,000), which improved its quality control processes as well as overcome breakdown problems it faced due to lack of maintenance.

Dairy market (pasteurized cheese and labaneh)

Structure and conduct⁶⁹

The structure of the dairy market involves small livestock breeders, dairy manufacturers and importers as shown in figure 10:

Figure 10: Gaza Dairy Market Structure



Breeders: There are approximately 9,593 heads of cattle in the Gaza Strip, of which more than 75 percent are owned by small holders⁷⁰. There are an estimated 200 dairy farms that obtain milk from 1,500 to 1,800 cows. The daily milk production capacity of breeders in Gaza is estimated to be in the realm of 11 mt or 10 liters/head per day⁷¹. Dairy farmers produce and sell fresh milk, yogurt, labaneh and fresh cheese in the Gaza market. In general, and due to their small production capacity and lack of organization, dairy farmers sell most of their dairy products directly to end consumers, mostly in their area of residence. Only 30 percent of the local production is transferred to the local dairy manufacturers and the remaining production is sold to retailers and end consumers as fresh milk, cheese or labaneh.

⁶⁹ The market analysis presented here considers only dairy produced from cows' milk. It does not consider small ruminants' dairy products as these are insignificant from a market perspective.

⁷⁰ PCBS, Agricultural Statistics 2010. 58 percent of small holder breeders own 1 to 3 heads, while 17 percent own 4 to 6 heads of cattle.

⁷¹ This is calculated on the basis of the most recent PCBS agricultural statistics (season 2007/2008), only 1770 are milk cows.

Local dairy producers/manufacturers: There are only 3 to 5 dairy manufacturers operating on a relatively wide commercial scale in Gaza, and are considered by local standards to be “large producers”. These manufacturers process 1 to 5 mt of milk per day, which they collect from the farms. The large dairy manufacturers in Gaza source their production needs through their own farms (10 to 30 percent) and through purchases from other dairy farmers (70 to 90 percent). The key products marketed by local dairy manufacturers include pasteurized cheese, labaneh, and yogurt. However, this local production is only 20 percent of the daily consumption while 80 percent of dairy based foods are imported from Israel and West Bank ⁷²



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Importers of dairy products/agents of West Bank and Israeli dairy manufacturers: Approximately 3 to 5 importers of dairy products are key actors in the Gaza dairy market. These act as exclusive agents for large Israeli and West Bank manufacturers, namely Tnuva and Strauss (Israel), and Juneidi, Al-Jibrini, Hammoudeh and Al-Pinar (West Bank). The primary products marketed through dairy importers are pasteurized cheese, fresh and long-life milk, labaneh, yogurt, and milk-based drinks. In addition to these products, importers market non-dairy products produced by the same manufacturers such as humus, ready-to-eat salads and appetizers. Tunnel traders play a relatively small role in the market chain of traditional dairy products. Primary products sold by tunnel traders are fresh feta cheese, long-life cream cheeses, and canned cheeses, all of which are less perishable and have a longer shelf life than traditional dairy products.

Impact on market structure and market actors ⁷³: While the new access regime has had no impact on the dairy market structure, its immediate impact on market actors' performance and conduct was mixed.

⁷² Based on PECS data, the population in Gaza consumes 52 mt /day of dairy products, of which 43 mt is imported from Israel and West Bank and the remaining is produced locally.

⁷³ Related to the impact of different events from 20 June 2010 until now on the market.

The following points summarize the findings in this regard:

- **Availability of dairy products** in the local market improved as a result of the entry of previously restricted dairy products (such as flavoured yogurt and milk-based drinks), which had a positive impact on the sales of importer agents of Israeli and West Bank producers. These producers are the main source of these products as reported under the trader section. Reportedly, sales by importers increased by an average of 15 to 20 percent since June 2010. This is attributed mostly to increased market size resulting from the entry of new varieties of dairy products through the crossings as witnessed during field visits, thus not yet affecting the sales of local producers whose production is concentrated on white cheese and labaneh.
- **Access to raw materials (plastic containers and packaging materials) and equipment** improved slightly for local manufacturers as a result of the “easing”, but had no impact on breeders whose ability to improve their animals’ productivity remains very difficult given restrictions on purchases of breeding stock or recourse to artificial insemination. All animals must be bred locally, as only cows for meat production are entering into Gaza under the new access regime. Travelling to Israel to choose livestock remains impossible for most livestock owners. In effect, orders are made and shipments of animals sent without farmer inspection, making it difficult to obtain high quality breeding stock. Calves are imported for breeding purposes from the tunnels. In interviews, breeders expressed concern about the closure of Karni Terminal, highlighting that the shift to Kerem Shalom will cause an increase in feed and cattle prices, which for the latter have already increased by 31 percent. Increase of fodder price is confirmed with the increase of transport costs through Kerem Shalom compared to Karni as detailed earlier.
- Despite the fact that farm gate prices of milk purchased from local farmers have not changed significantly in years (NIS 1.5 to 1.7 per liter)⁷⁴, local manufacturers were affected by increased operational costs associated with increased prices of feed for their own breeding stock. The price of animal feed increased immediately after the bushfire incident in Russia in July/August 2010, and continues to rise. The price of barley, for example, increased from NIS 900/ton in June 2010 to NIS 1,500/ton in May 2011, whereas the price of fodder used for feeding milk cows has increased from NIS 1,000/ton to NIS 1,800/ton during the same period⁷⁵. The increase of the price of fodder combined with the depreciation of the genetic material of available milk cows in the Gaza Strip did not provide an opportunity for the dairy sector to benefit from the new import access regime.

Table 7: Price of raw milk (NIS/liter), June 2007 to April 2011

Raw milk price/period	Jun-07	Jun-10	Post June 2010 (April)
Price of raw milk (at farm gate)	1.5-1.6	1.6-1.7	1.6-1.7

⁷⁴ In the last twelve months, there was no increase in the price of raw milk.

⁷⁵ Local production of fodder is also hampered by the lack of access to agricultural land to which the Gaza Strip. Thirty-five percent of Gaza’s agricultural land is located within the restricted area. In addition, the growing urbanization of the Gaza Strip is reducing the grazing land accessibility.

Market performance

Prices of dairy products remained stable largely due to competitive pricing strategies adopted by local manufacturers. While price stability proved positive for consumers, it undermines the livelihoods of farmers who cannot raise the prices of milk they sell to local manufacturers to circumvent the effect of increased production costs they incur⁷⁶. As a coping mechanism, local dairy factories modified the packaging of their dairy products (white cheese, labaneh) with reduced weight while keeping the same price, thus slightly impacting the end consumer.

Sales of locally-produced and imported dairy products increased after June 2010, which, according to traders, is due to the confluence of the following factors: i) increased demand facilitated by the improvement of some specific sectors since June 2010 improving some livelihood conditions⁷⁷; ii) the introduction of the urban food voucher programme by WFP where dairy products are key commodities and compensate the lack of economical access to meat/fish for the food insecure population; and, for one of the three manufacturers visited, iii) expanded local distribution network.

Competition and market shares remained largely unchanged. Local dairy manufacturers, positioned as the low-price dairy producers, continue to hold around 60 percent of the pasteurized cheese market and about 30 to 40 percent of the labaneh market due to their considerably lower prices than competitors (see Table 8). Given the lack of purchasing power in the Gaza Strip, poor households continue to purchase low cost products and thus prefer Gaza local dairy products⁷⁸. Abu Aita Dairy Factory, the largest and oldest of Gaza dairy manufacturers, has around 40 to 50 percent of the locally-produced pasteurized cheese market, and more than 90 percent of the market for locally-produced labaneh.

Table 8: Price selected milk products, Pre/Post 2010

Dairy Products/Period	Pre June 2010	Dairy Products/Period	Post June 2010 (April)
Pasteurized cheese (one Kg)	NIS 12-14	Pasteurized cheese (850 gram)	NIS 12-14
Locally produced labaneh (500 gr)	NIS 5	Locally produced labaneh (450 gr)	NIS 5
Locally produced labaneh-West Bank (500 gr)	NIS 7.8	Locally produced labaneh-West Bank (500 gr)	NIS 8
Locally produced labaneh-Israel (500 gr)	NIS 9	Locally produced labaneh- Israel (500 gr)	NIS 10

Capacity utilization and production capacity: Interviews with local dairy manufacturers revealed that they have increased their capacity utilization in response to increased demand in recent months, albeit to varying degrees. The overall impression by the assessment team is that larger manufacturers have been able to increase their capacity utilization at greater rates than smaller manufacturers. It is worth noting here that increases in capacity utilization resulted in increased working hours, greater reliance on family labour and reduced throughput time, and not by increased production capacity.

⁷⁶ Dairy farmers have been selling milk from the farm gate to the Gaza population at NIS 1.6 per liter since late 2008.

⁷⁷ As detailed previously, employment improved for those working as casual labors in the construction sector, as well as in the agricultural sector given the seasonality of some crop production.

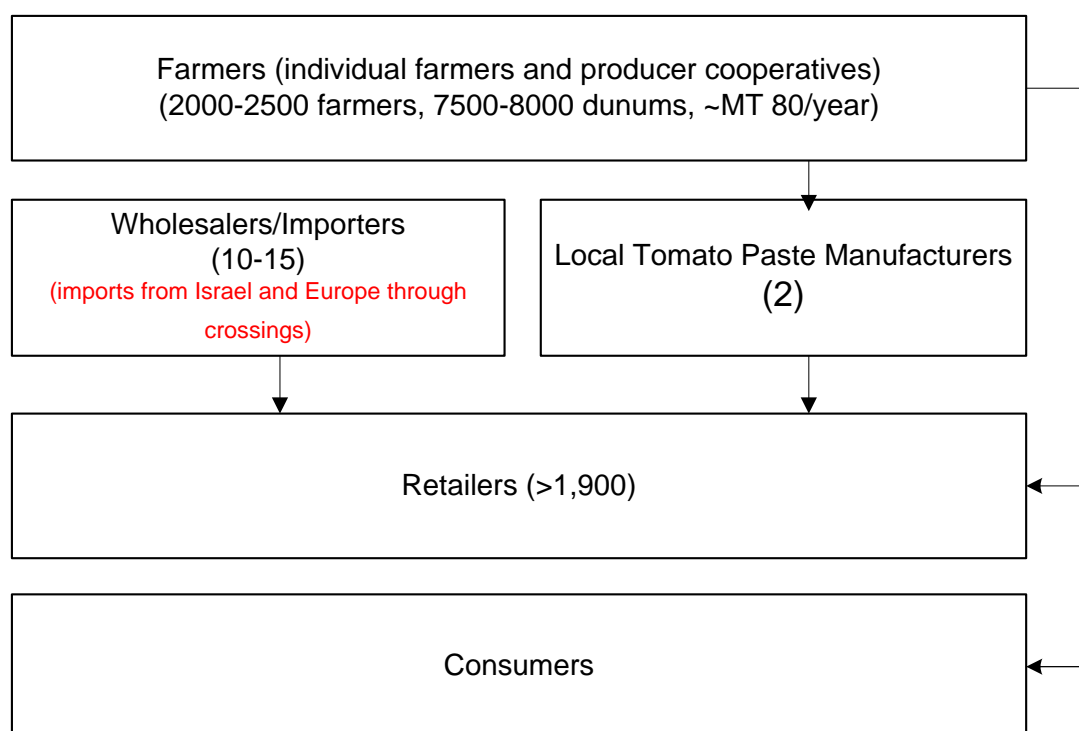
⁷⁸ Cheaper food is used as a coping mechanism by the poorest groups, as detailed in the WFP/FAO Socio-Economic and Food Security Survey reports (2009-2010).

Production constraints faced by local manufacturers prior to June 2010 persist, rendering local producers unable to respond effectively to market demand. The most salient of these constraints is the unreliable electricity supply in Gaza and the ban and restrictions on import/exports. The former renders manufacturers unable to diversify and sustain production of products for which there is local demand and are more profitable. Examples of such products are short-life dairy products (i.e. yogurt and fresh milk). Frequent power cuts also hamper the dairy distribution network for local stores who cannot maintain the cold storage due to a lack of generators. No milk cows have officially been imported into the Gaza Strip under the new access regime. Inbreeding and lack of fodder has led to a reduction in the milk production with yields dropping from 35 liters/day/cow to 10 to 15 liters per day⁷⁹. As a consequence, the productivity of milk cows in the West Bank is three times superior than in the Gaza Strip. The ban on exports prevents manufacturers from tapping the West Bank market where significantly higher prices than in Gaza can be attained.

Processed food market (tomato paste)

Structure and market actors: The structure of the tomato paste market in Gaza includes the following actors: 2,000 to 2,500 tomato farmers, 2 manufacturers of canned tomato paste, and several wholesalers and retailers (see Figure 11).

Figure 11: Gaza Tomato Paste Market Structure



⁷⁹ Oxfam GB, Market Analysis of Gaza, November 2010 and confirmation via dairy producers/farmers interviews. In the West Bank, the main dairy factories also have their own farms which they are currently expanding and also collect milk directly from farmers. They have access to adequate fodder for milk production and good breeding cows, which allows these factories to collect 35 liters per day per cow.

Interviews with key-informants and actors in the tomato paste market in the Gaza Strip did not provide a sufficient level of detail to enable an in-depth and objective analysis of the market characteristics, structure and performance. Nevertheless, the following remarks can be made with respect to market structure and the impact of the new access regime:

- The tomato paste manufacturing sub-sector is the only industrial sub-sector that provides opportunities for Gaza's farmers to sell their products outside local vegetable and export markets. The sector, however, does not have sufficient capacity to provide farmers with a viable alternative to these markets. At best, the two tomato paste manufacturers can consume up to 10 percent of Gaza's annual tomato production⁸⁰. The largest tomato paste factory was forced to cease its activities since the start of the blockade because it could not acquire tins through the official crossing. Despite the new access regime which allows tomato paste producers to have better access to raw material such as tins, as well as potentially new machinery/spare-parts, the largest tomato paste factory cannot transfer any of its products to the West Bank, which was its main market before the blockade, due to the maintained export restrictions. Consequently, it has not resumed operations as access to external markets is mandatory for the factory to re-open. Another major production constraint for this factory is frequent power cuts.
- Anecdotal evidence suggests that the two tomato producers choose to source most of their production through spot supply contracts with a small number of farmers at the height of the tomato production season. In doing so, these manufacturers can shop around for the best price and in most cases set their purchase prices. Interviews with farmers suggest that the two manufacturers were able to buy tomatoes for NIS 0.30 per kg, when tomato was being sold at the farm gate for wholesalers for NIS 0.50 per kg. In interviews, farmers reported that an abundant supply of tomato combined with the absence of export opportunities forced them to sell at such low prices. Farmers employ mainly season workers and give preference to women labourers given their low wages.

⁸⁰ Prior the second intifada, the main tomato paste factory in the Gaza Strip was consuming from MT 40 to 50,000 tomatoes grown in the Gaza Strip to produce tomato paste/juice/concentrate.

- Like most other farmers, tomato farmers have not felt any impact of the new access regime nor the “relaxation” of the exports after the December 2010 decision apart from access to better quality inputs. Farmers noted that despite the limited increase of cash crop exports (such as cherry tomatoes), they continue to be unable to export most of their products and face difficulties in securing the needed inputs (particularly pesticides and seeds) through the crossing⁸¹. While the former has had substantial consequences on farmers’ livelihoods, the latter exacerbated the problem as it had a serious impact on crop productivity. Should exportation be granted with more predictability and without facing issues related to quality standards to fit the European market, as it currently stands, the export modalities are not sustainable without donor support. The main pre-blockade market for tomato cash crop producers was the West Bank and Israel for more than half of their production, followed by European and Gulf countries. Currently, they export a minor fraction of their cherry tomato production to the Netherlands thanks to the support provided by the Dutch Representation in Ramallah. However, they are unable to access their main initial markets. In addition, the export modalities through Kerem Shalom increase the transport costs, thus reduce their margin of profit as well as their price competitiveness. In the long run, tomato producers may be reluctant to continue to invest in an export market as they must sell the majority of their export production in Gaza, should the market be able to absorb their production, or become animal feed.
- **Availability of tomato paste** and other canned foods in the local market improved significantly since June 2010, although shortages did not persist before that time. Increased imports of European manufactured tomato paste brands that were banned previously, and the sustained imports of ‘cheaper’ canned foods through the tunnels (mostly of Chinese origin) helped increase the quantities of tomato paste. Smuggled canned foods from the tunnels came in significantly less quantities and varieties than before the new access regime.

C. Changes at household level

1. Gaza Household Food Security Levels⁸²

1.1. Estimation of Gaza Food Security Levels

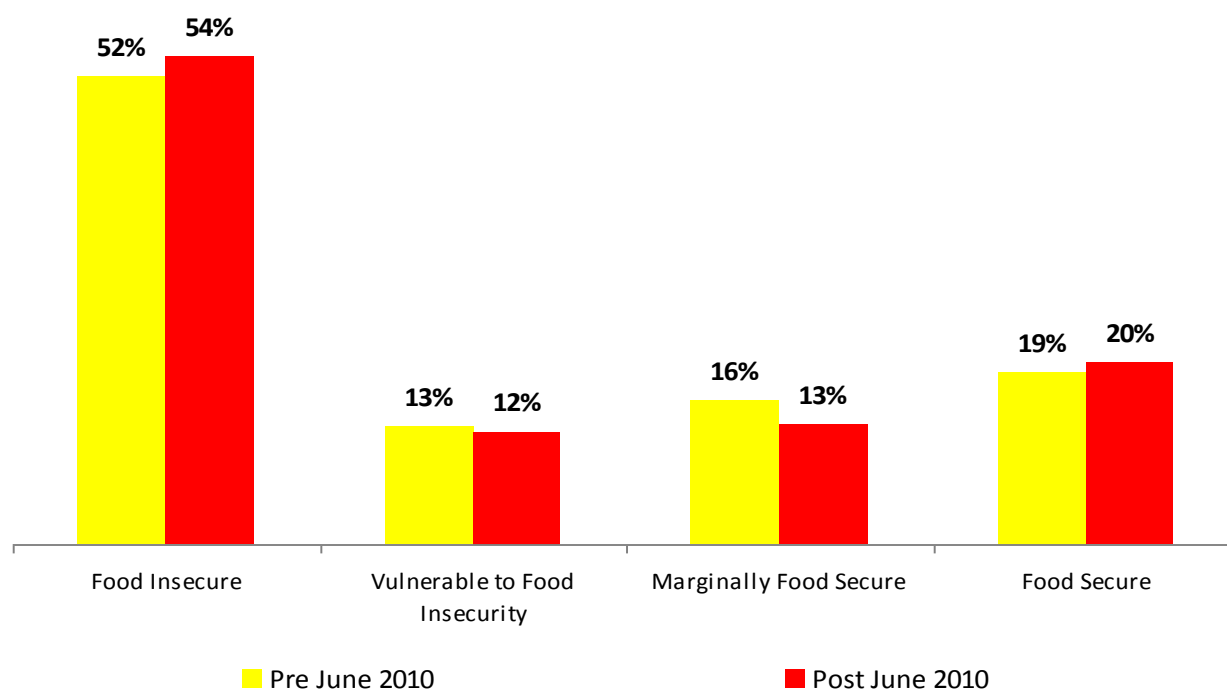
During the first half of 2010, 52 percent of households in the Gaza Strip suffered from food insecurity, and an additional 13 percent were vulnerable to food insecurity⁸³. From October 2010 to March 2011, the prevalence of Gaza household food insecurity remains very high at 54 percent with an additional 12 percent of households vulnerable to food insecurity. Only one fifth of Gaza households are estimated to be food secure.

⁸¹ As detailed earlier in the document for the cash crop export modalities.

⁸² Pre-June 2010 covers the first half of 2010 using SEFSec 2010 data. Post June 2010 covers the period from October 2010 to March 2011. To ease the reporting, pre and post in the narrative of this section will always refer to these specific periods.

⁸³ WFP/FAO/PCBS, 2010 Socio-Economic and Food Security Survey, February 2011. The definition of food insecurity in the oPt combines income and consumption levels measured in USD per adult equivalent per day. It also includes whether there has been no change or a decrease in food and non-food expenditures (seen in the food security threshold – Annex I). As such, the measurement of food insecurity considers only the problem of economical access to food and essential non-food items resulting from the lack of income-earning possibilities for Palestinian households.

Figure 12: Food Security Levels in Gaza Strip, pre/post June 2010



1.2. Changes in Food Security Levels

High levels of food insecurity persist in the Gaza Strip: A total of 66 percent of households in the Gaza Strip continue to be food insecure and vulnerable to food insecurity which is nearly identical to the first half of 2010. Restrictions on access and movement of people and goods continue to impact households' livelihoods and food security despite the new access regime in place. The latter brought mostly additional consumption goods.

Food insecurity in the current context is not an issue of availability of food in the market as it could be in the case of hostilities. The new access regime increased the volume of food commodities, a wider range of products (i.e. dairies), and better quality products compared to the ones that came through the tunnels. However, the main issue of food insecurity remains the economical access to food and non-food items resulting from the lack of income-earning possibilities for Gaza households.

The first quarter of 2011 shows an increase in labour forces mainly in the construction and agricultural sectors⁸⁴. These sectors offer casual labour for the former and seasonal labour for the latter, and employ mainly unskilled workers with some of the lowest wages in the Gaza Strip⁸⁵. For the agricultural sector, 55 percent of the labourers are unpaid family members synonymous to no additional income-earning. The lack of economical access still remains an issue even for those who obtained a job in these sectors, and fails to lift them out of poverty. In addition, availability of construction jobs depends on donor-driven international construction projects, and access to construction materials through the official crossing; thus, growth in this sector is unsustainable and is not linked with a re-start of the private sector. The latter remains still moribund.

⁸⁴ Source: PCBS

⁸⁵ The average daily wage in the agriculture sector is NIS 30, and NIS 40 in the construction sector. The average daily wage in the public sector, which is currently the main employer in the Gaza Strip, is NIS 80.

There are signs of improvement as elaborated in the market section, yet it is mainly linked to better access to raw materials and quality of material/equipment entering through the official crossing under the new access regime. There has not been a revitalization per se of the private sector as companies cannot access new market opportunities such as export outside the Gaza Strip. At the time of reporting, no goods were allowed to be exported apart for some cash crops.

In addition to the new access regime, other factors also need to be taken into consideration, such as the global food price increase of some of Gaza's staple food commodities (wheat flour, vegetable oil and sugar), the decrease of purchasing power at household level, and the decline of real wages, continues over the years as reported in the socio-economic indicators.

Overall, as was the case in the first half of 2010, the economy continues to rely mainly on the public sector, as well as on humanitarian assistance given the lack of steady, good-paying income-earning opportunities. As reflected in the household survey carried out in March 2011, 75 percent of interviewed households in the Gaza Strip benefit from some kind of assistance.

2. Consumption and expenditure patterns among Gaza households

2.1 Household expenditure on food⁸⁶

There was a slight decrease in the cash dedicated to food compared to the overall cash expenditure at the household level: the share of the average Gaza household food expenditure decreased by 5 percent. In addition, the overall decrease in food expenditures did not trickle down to food insecure households with 62 percent of their cash still devoted to food, making them as vulnerable as they were in the first half of 2010. The household survey confirmed an improvement in food availability under the new access regime. Sixty-three percent of households estimated that availability of imported food improved and 55 percent reported an improvement in the quality of the imported products, compared to before the new access regime. As highlighted in the SEFSec 2010, by dedicating over half of their total cash expenditure to food, Gaza households are particularly vulnerable to a hike in food prices as witnessed over the recent months, and income fluctuations.

2.2. Household expenditure on non-food items

The increase of cash expenditures dedicated to non-food items on household's overall expenditure (from 39 percent to 44 percent) was dedicated mainly to housing and utility bill expenditures. The housing share of the non-food items went from 11 percent to 20 percent, reflecting a better access of construction materials at the household level. Eighty-two percent of surveyed households confirmed the availability of construction material for their private use thanks to the tunnels. This improvement is not linked with the new import access regime given that individuals cannot access construction material via the official crossing.

2.3 Food Consumption Patterns

The change in expenditure levels at the household level did not change (see Table 9).

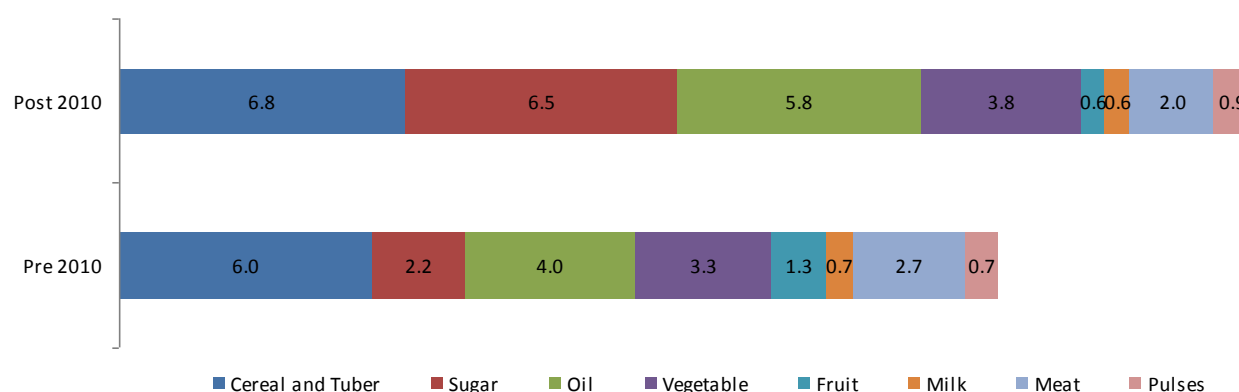
⁸⁶ Household's food expenditures are based on total cash expenditures on food vs. total cash expenditures.

Table 9: Household expenditure changes, pre/post June 2010

TOTAL Expenditure	Pre- June 2010	Post-June 2010	Difference
Yes, decreased	16	15	1
Yes, increase	27	27	0
Remained the same	57	57	0

Similar to pre-June 2010, the majority of Gaza households who reported a decrease in their food expenditures also decreased the quantity of food they consumed (by 87 percent). They consumed less meat and milk, in particular.

Related to the various groups of food consumption, the households in the “poor” food consumption category show modification directly linked with the additional food goods granted authorization under the new import access regime (i.e. chips, soft drinks, chocolate, and biscuits)⁸⁷. Those having a poor food consumption, mostly poor households, also have better access to a wider range of products which they could not potentially access before June 2010. As reflected in Figure 14, sugar and fats are now consumed on a daily basis compared to only 2 to 4 times per week respectively at the end of the first half of 2010. This diet is poor in terms of macronutrient and micronutrient intake. Micronutrient intake might be compromised by this very low dietary diversity. In addition, this group consumed dairy product and fruits less than 1 time per week, and meat 2 times per week. Those with an “acceptable” food consumption level consume fruits nearly 2 times per week, dairy products 5 times per week and meat 6 times per week.

Figure 14: Household poor food consumption, pre/post June 2010

3. Livelihoods and Coping Strategies

The coping mechanisms commonly used to deal with the economic crisis remain the same. Just as before the new access regime, households cope by deferring the payment of utility bills, purchasing food on credit, consuming lower quality food and consuming lower quantities of food.

⁸⁷ The definition of the three food consumption groups: poor, borderline, acceptable are located in Annex I.

A higher number of households rely on credit facilities for their food purchase. The increased demand for access to credit was confirmed at trader level, reflecting a potential increase on households' reliance on credit to access food while re-allocating their cash to non-food items (e.g. construction materials available via the tunnels). For the poorest families, the "new" higher quality goods coming through the official crossing, compared to poor quality low/priced goods entering through the tunnels after the 20 June 2010 decision, remain inaccessible due to their lack of income-earning. This issue is raised in the interviews, during which an increased amount of households reported consuming less quality food.

For non-food items, there is a slight improvement in the number of households that sell off their assets and use their life savings. However, some of these coping mechanisms were also close to being exhausted. Only 7 percent of households could still sell their assets in mid-2010 and 11 percent could use their life savings.

As reported in the SEFSec 2010, most of these coping strategies, even if they are reversible, can have a permanent cost on lives and livelihoods through poorer health and nutritional status, excessive indebtedness and loss of future opportunities for higher skills and better paid jobs.

Table 10: Coping Strategy Used, pre/post June 2010

Coping Strategy Used	Percentage of Households Pre- June 2010	Percentage of Households Post-June 2010
Food		
Consume less quantity of food	29%	29%
Consume less quality food	32%	52.5%
Rely on food received from relatives and friends	11%	14.5%
Purchase food on credit	42%	67%
Restrict consumption by adults in order to feed children	11%	8%
Reduce the nbr of meals eaten/day to steadfast financially	13%	11%
Non-Food		
Not paying utility bills	43%	54%
Sell off assets, jewelry, furniture, productive assets	11%	5%
Use life savings	13%	7%
Regroup family members	10%	3%
Reduce health and education expenditures	9%	14.5%

Conclusions and key recommendations

With the blockade ongoing and despite the new access regime, the current economic situation in the Gaza Strip is unsustainable: it relies mainly on a consumption economy and not a productive one. The new access regime brought mostly additional consumption goods, with potential access to a better quality and a wider range of products for consumers; yet it did not contribute to a more productive economy. The public sector continues to be the primary employer, and three quarters of surveyed Gaza households reported receiving assistance. The high level of food insecurity persists: more than half of the Gaza population is unable to secure sufficient income to meet their essential food and non-food requirements. Food insecure households are still characterized by their low levels of income due to a lack of steady, well-paid jobs, business and investment opportunities. High quality goods entering Gaza post-June 2010 replaced poor quality, low price commodities that used to come through the tunnels; however, they are still unaffordable for the poorest families.

The recent decrease in unemployment in the Gaza Strip is mainly linked to the construction and agricultural sectors which have some of the lowest wages and employ mainly unskilled/casual laborers. The new access regime allowed for an increasing number of construction projects under the UN or international umbrella, but failed to trickle down the benefits to the private sector. The latter is still relying on tunnels for the supply of construction materials. The agricultural sector is seasonal and more than half of the labor force is composed of unpaid family members. The improvement in the manufacturing sector is still very marginal and the import of raw material for some sectors continues to be limited given the restrictions associated with materials qualified by Israel as 'dual-use' items. As before the second intifada, the movement of workers from Gaza Strip to Israel and West Bank would have a direct impact on improving access to food given the higher incomes obtained in these regions.

Ongoing restrictions on the movement of goods and artificially-inflated food prices and transport costs continue to impact the economy even after the new access regime, and thereby the June 2010 decision failed to impact the viability of the tunnel economy. The new access regime was supposed to bring about significant improvements in the crossings and even potentially open new trading points. However, with the closing of Karni, Kerem Shalom is the only official crossing in operation. This shift generates higher transportation costs impacting essential goods such as wheat grains and animal feed. The crossing's opening remains unreliable and exposes the population to vulnerability in the event of any sudden, prolonged closing.

The new access regime did not translate into a tangible relaxation of exports despite the 8 December 2010 cabinet decision by the GoI, and the consecutive agreement with the Quartet Representative in February 2011. The blockade is still in place. Apart from a very low rate of cash crops exported, no other goods have been exported out of the Gaza Strip under the new access regime. The unpredictability of the crossing, frequent power cuts, as well as increased transportation costs do not ensure sustained exports of agricultural goods. Moreover, the exports are cut from their market of origin. If goods other than cash crops would be granted exportation, the Israeli and West Bank markets could not be reached due to current restrictions from Israel. The current export policy is unsustainable given that these markets were the bulk of the trades for Gaza products pre-blockade. As long as there is no real freedom of export of goods, Gaza manufacturers will continue to compete on a very small market.

Increased competition within the Gaza market may be detrimental to Gaza's productive local economy. By maintaining restrictions on both exports and key private investment inputs, while decreasing barriers to the import of processed goods, the new access regime puts the Gaza producers/food processors at a competitive *disadvantage*. This not only lacks sustainability, but will gradually erode the resiliency of the private sector to create jobs, a key component of economical access to food and non-food basic requirements. To circumvent such changes on the Gaza productive economy and until the blockade is abolished, the following steps are recommended:

- 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 to 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 particularly to allow export to West Bank and Israel;
- 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 revitalize to its full potential. As long as the private sector continues to be hampered by unfavorable access restrictions, the humanitarian community will have to ensure large assistance (i.e. food, cash, vouchers) coverage of the Gaza households to help them cope with the consequence of maintained restrictions on the movement of goods and persons on their livelihoods. People cannot afford the inflated prices of goods unless they have steady, good paying jobs. In parallel, to address the lack of competitiveness of Gaza producers and manufacturers, the humanitarian community should increase its efforts in supporting local businesses to overcome typical bottlenecks highlighted throughout the report, including: the capacity to meet both local and international product quality standards, enhance dairy farmers' production capacity through better access to veterinary services and allow recourse to artificial insemination. The international community should strengthen ongoing efforts to advocate for a full lifting of the blockade which suppress and weaken the Gaza Strip economy and population. More employment opportunities as well as stable and higher wages are necessary for Gaza's poorest households to get access to their food and non-food requirements.

Annexes

Annex 1

1. Socio-Economic and Food Security Methodology - Food Security Levels

The Socio-Economic and Food Security household survey estimates food insecurity on the basis of household income, expenditure and socio-economic vulnerability. The socio-economic vulnerability is determined through clustering households against seven socio-economic indicators (including refugee status, household size, receiving aid, future expectations on financial resources, and impact on food, non-food and total expenditures). The three resulting clusters (highly, medium and low impacted population groups) are then cross tabulated with household incomes and expenditures on per adult equivalent basis. Finally, the food insecurity levels are determined on the basis of the PCBS deep and relative poverty thresholds. As such, the estimation of oPt food security levels considers mainly the problem of economic access to food and essential non-food items.

The food security estimates are based on income and consumption levels classified against the absolute and relative poverty lines and cross tabbed with household clusters established based on specific groups of socio-economic variable. The table below provides a description of the four food security groups identified.

Food Secure	Marginally Secure	Vulnerable	Food Insecure
Households with income and consumption above USD 6.2 per adult equivalent/day OR Households with income and consumption between USD 5.1 and USD 6.2 per adult equivalent/day and show no decrease in total food and non-food expenditures	Households showing either income or consumption above USD 6.2 per adult equivalent/day (not both) OR Households with both income and consumption between USD 5.1 and USD 6.2 per adult equivalent per day with no decrease in expenditure patterns	Households showing both income and consumption below USD 6.2 per adult equivalent per day EXCEPT households showing no decrease in expenditure patterns (categorise as marginally secure)	Households with income and consumption below USD 5.1 per adult equivalent/day OR Households showing decrease in total food and non-food expenditures, including households unable to further decrease their expenditure patterns

2. Food Consumption Score

The Food Consumption Score estimates the amount and variety of food consumed in the households during the 7 days preceding the survey, by counting the number of times specific food items (grouped in specific food groups) are consumed. Three groups are constructed by applying thresholds that define a 'poor' food consumption pattern, 'borderline' food consumption, and 'acceptable' food consumption. Essentially:

- A 'poor' food consumption consists of cereals (bread and rice), potatoes, sugar and oil consumed on a nearly daily basis, vegetables 4 times during the 7 days prior to the survey and very rare consumption of animal products and fruits; quantities are also likely to be low and below kilocalorie requirements for household members with additional needs (pregnant and lactating women, physically active adults);
- A 'borderline' diet is similar but includes a slightly more frequent consumption of vegetables (5 times during the 7-day period), meat and eggs (3 to 4 times) and fruits (twice); quantities are probably just sufficient to meet kilocalorie requirements;
- An 'acceptable' diet is yet more diversified with consumption of the various food groups on a nearly daily basis; the amounts consumed are expected to be sufficient.

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