

ONE YEAR AFTER THE MILITARY OPERATION

An Outlook on : Gaza Strip Crossings & Damaged Industrial Establishments



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GLOSSARY & ABBREVIATIONS

AMA	Agreement on Movement and Access, signed on November 15, 2005 http://www.eubam-rafah.eu/portal/node/11
Conveyer Belt	This refers to a conveyor belt at the Al Montar Crossing which was used before the closure on June 2007 exclusively for transferring aggregates from the Israeli to the Palestinian side. Currently, the conveyer belt is the only facility functioning at Al Montar and is used for transferring grains including wheat, pulses, seeds, and animals feed into Gaza.
Commercial Goods	Goods that are imported by commercial establishments in the private sector, and are distributed through commercial outlets in the open market.
Exports	Truckload movements outbound from the Gaza Strip, regardless of destination.
Humanitarian Goods	Basic foods (e.g. rice, cooking oil, etc.), medicines, and other goods brought in by humanitarian agencies.
Imports	Truckload movements inbound to the Gaza Strip, regardless of origin. Includes both commercial and humanitarian goods.
Tunnels	Underground passages between the Gaza Strip and Egypt used for the informal transfer of goods. Use of tunnels increased after the June 2007 closure.
EU	European Union
EUNIDA	European Network of Implementing Development Agencies
PNA	Palestinian National Authority
PFI	Palestinian Federation of Industries
PSCC	Private Sector Coordinating Council-Gaza Governorates
OCHA	United Nations Office for the Coordination of Humanitarian Affairs

KEY HIGHLIGHTS

One Year after the Dec./Jan 2009 Military Operation on Gaza Strip:

- No *regular* exports have been allowed yet —A total of 20 truckloads of carnation flowers were exported after one year of the military operation vis-à-vis 5500 average annual exported truckloads before closure (January 2005 - May 2007)
- Import volumes are around the same of pre-military operation levels. Which is *only* a quarter (24%) of the pre closure levels (i.e., before June 2007). Noting that before closure, average number of daily imports was 630 truckloads; of which 52% was construction materials.
- Only 72 types of goods are allowed to enter Gaza Strip (under humanitarian causes) vis-à-vis 4,000 items that used to be imported before the closure.
- Average percentage of humanitarian imports reached 26% of total imports vis-à-vis 18% before the military operation and 5% before June 2007.
- No construction materials or any raw materials have been allowed into Gaza Strip. (Except for 9 truckloads of “Glass” in December 2009, when the Israelis announced that they will allow only a total of 100 truckloads of Glass.)
- Very Limited commercial petrol and diesel have been allowed into the Gaza Strip.
- Only 46% of needed cooking gas was allowed into Gaza Strip throughout this year.
- Sufa Crossing did not open during this period as it has been closed since September 12, 2008.
- AlMontar/Karni Crossing (conveyor belt) operated for only (37%) around a third of the working days at crossings.
- Nahal Oz operated for (52%) around half of the working days, and there was also a shift to importing fuel through Karem Abu Salem.
- Karem Abu Salem/Kerem Shalom became the main crossing for Gaza Strip, in terms of operation days and activities.
- 324 Industrial establishments were damaged due to Israeli operation.
- A Special Study implemented by PFI on damaged establishments (December 2009) on a sample of 263 companies found that:
 - 44% of establishments were totally damaged, while 56% were partially damaged (slightly and considerably)
 - Capacity utilization barely reached 10-50% of total capacity in the working establishments
 - 54% of damaged establishments were reconstructed using available raw materials
 - 42% of the sample accounted their inability to reconstruct their premises to the unavailability of needed construction materials and 41% to the lack of financial resources
 - Only 23% of the workforce previously engaged in those “resumed production” establishments found jobs in the establishments while 77% of the workforce lost their jobs.
 - 78% of the sample indicated that monthly sales dropped by more than 76% of the regular value.
 - 54% of the sample need less than US\$ 100,000 to reconstruct their damaged establishments and resume production

INTRODUCTION

The Dec./Jan. 2009 military operation on Gaza Strip resulted in overwhelming casualties and destruction of homes, livelihoods, and infrastructure. The Gaza private sector was devastated, and most industrial establishments, agricultural lands and support infrastructure were either totally or partially destroyed and were unable to operate as needed.

After the military operation, assessments of the damage of the private sector (not including Agriculture) indicated that around **1165 private sector establishments** were damaged (partially and fully) during the last military operation on Gaza, the preliminary claimed value for direct physical damages was estimated to be around **US\$140 million** (not including agricultural damages). The PNA has pledged to assist those damaged establishments with support from the EU a program that will hopefully lead to the reactivation of those establishments. The private sector has not yet received the allocated support and is awaiting finalization of paperwork.

Realizing that around a third of those damaged were within the industrial sector (around 324 establishments with highest value of losses), and with the continued closure of borders and the lack of access to construction materials, raw materials for production, machinery and spare parts, there was a need to highlight the progress of these damaged establishments.

The following report is an attempt at documenting valid information that can assist decision makers prior to and during any private sector reactivation programs. This report provides an overview on the Gaza Strip Crossings performance and the damaged industrial establishments, from the end of the military operation, January 2009, until December 2009.

It is significant to note that the Gaza private sector situation prior the Dec./Jan 2009 operation was not ideal and was heavily affected by the constraints of the 18 previous months (June 2007 - December 2008) These included restrictions on the amounts and types of good allowed through the borders, and total banning of export operations which lead to the closure of most of the industrial establishments and the complete halt of construction work.

The economic situation had been deteriorating since the year 2000 in the Gaza Strip, where private sector establishments were struggling to survive through continuous closure, stagnation and military incursions. The direct damages to the private sector during previous Israeli incursions and air-strikes for the period from September 2000 to March 2007, were estimated to be about US\$400 million (i.e. US\$332 million at agricultural sector, US\$37 million at industrial sector, US\$24 million at trade sector, and US\$5 million at tourism sector).

Source: PSCC report 'Gaza Private Sector Post War Status & Needs' February 2009.

- SECTION 1 -

CROSSINGS PERFORMANCE

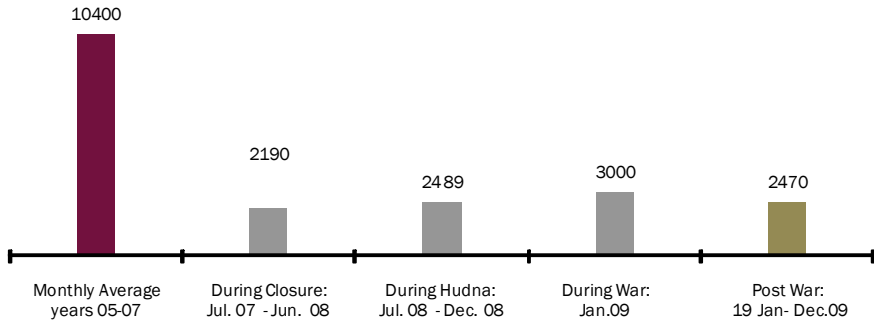
1.1 Overview

After one year of the military operation and nearly three years of closure, there has been no improvement at the crossings as needed. Were imports movement is still classified under the humanitarian functions and only very limited quantities of exports mainly cash crops. This has resulted in high unemployment, complete or partial closure of in establishments, and tremendous increase in obtaining production inputs through the tunnels.

Moreover, there was a noticeable shift in crossings operations, where Almontar/Karni crossing (main crossing for import and export of goods) and Nahal Oz entry point (main crossing for fuel) have witnessed a tremendous decrease in operations in terms of days and crossed quantities. In contrast, the Karem Abu Salem crossing, has witnessed an increase in terms of import volumes, and new operations, including the imports of fuel and the exports of cash crops. The crossing infrastructure and capacities at Karem Abu Salem, however, are not comparable to other crossings such as AlMontar and Nahal Oz. Figure 1.1 below illustrates the current import volumes after the war vis-a-vis previous years.

The rebuilding and revitalization of Gaza Strip’s economy is dependent on the fully opening of its commercial crossings, which will permit inbound movements of industrial inputs, construction materials, and equipment, as well as outbound movement of finished products into local and external markets. The crossings, however, have not yet begun to be reopened.

Figure (1.1): Comparison of Average Monthly imports during the Different Periods



1.2 Operation of Crossings

The performance of Gaza Strip commercial crossings has changed since the beginning of the closure and after the military operation. First, **AlMontar/Karni** have shifted from being the main crossing for imports and exports (An average of 450 truckloads a day used to be imported, and an average of 70 truckloads a day were exported) to a secondary crossing for the limited imports of grains and animal feeds (through conveyor belt). **Sufa** Crossing has gone from being the main crossing for imports of construction materials to being totally closed since September 12, 2008. **Nahal Oz**, the main entry point for fuel, has witnessed a decrease in operations and main imports of fuel items were shifted to Karem Abu Salem. Finally, **Karem Abu Salem/Kerem Shalom**, has been changed from being a temporary crossing (according to AMA) for imports from / through Egypt to the main crossing for most of Gaza's imports/ fuel from Israel, West Bank and other countries (see figures 1.2 & 1.3 below).

Figure (1.2): A Comparison between Total Imported Truckloads per Crossing before the Closure and after the War (Jan. -Dec. 2009)

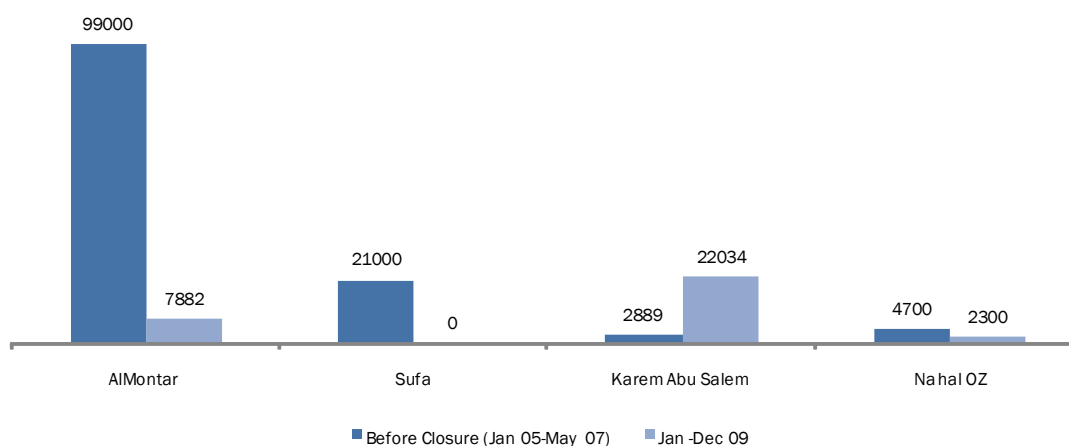
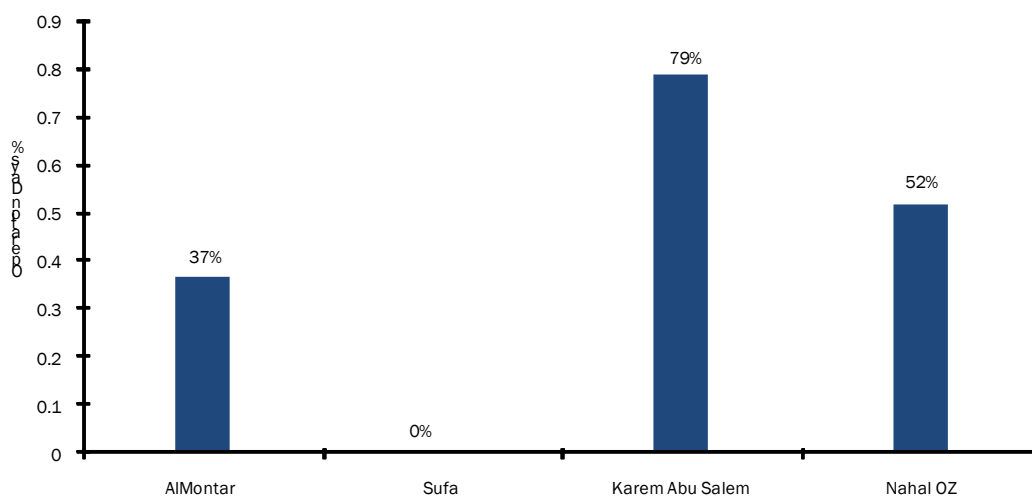


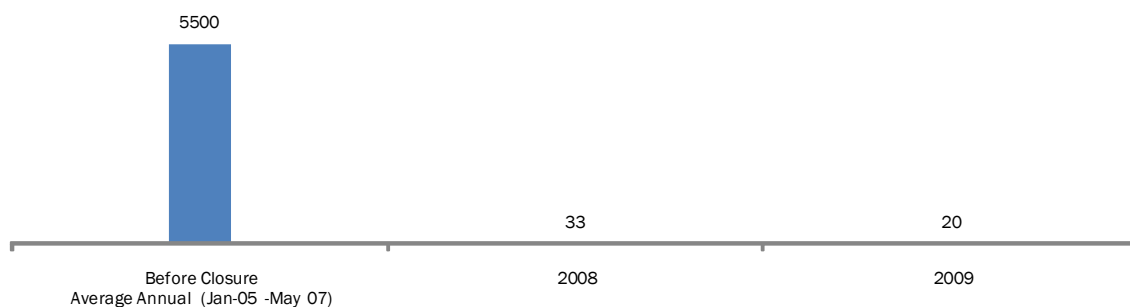
Figure (1.3): % Operations day per Crossing after the War (during Jan. -Dec. 2009)



1.3 Cargo Exports

Before the closure, monthly average of exported goods in 2005 were approximately 1,380 truckloads (70 truckloads per day), composed of furniture, garment, cash crops, vegetables, processed food, metal products, handicrafts, and other types. Since the start of the closure regime in June 2007, no export activity was allowed except for a total of 160 truckloads of cash crops which were exported through Karem Abu Salem Crossing (140 trucks before the war, **20 trucks after the military operation—until end of December 2009**).

Figure (1.4): Total Annual Export Volume (by truckloads)



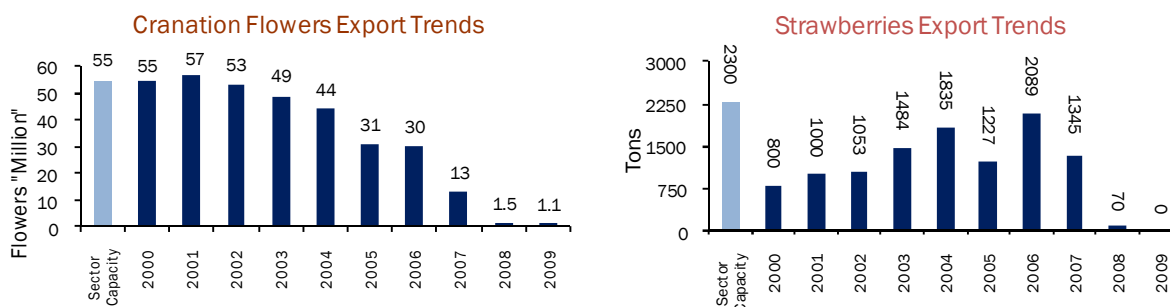
The exceptional exports of Cash Crops*:

As the rest of export sectors in Gaza Strip, the cash crops sector has been deteriorating since mid June 2007 due to almost total ban on its exports. This 2009/2010 season, 56 carnation flower farmers planted 300 dunums (800 dunums in the normal times) with an expected harvest of about 35 million flowers (55 millions in the normal times), and 130 strawberries farmers planted 500 dunums (1500 dunums in the normal times) with an expected produce of about 1500 tons including 750 tons (2500 tons in the normal times) for export to the European and West Bank markets .

Exports of carnation flowers in 2009: As an exception; in the 2008/2009 season negligible quantities of carnations were exceptionally allowed during the period from Feb-Apr 2009 through Karem Abu Salem-crossing, and in the 2009/2010 season the exports of carnations were permitted on November 20, 2009. The farmers started to export on December 10, 2009, and yet the farmers exported 6 trucks (394,000 stems) by the end of December 2009.

Exports of strawberries in 2009: On December 27, 2009 the Israeli side allowed limited quantities of strawberries exports exclusively for the European markets; West Bank and Jordan are still unpermitted despite the profitability of these markets for Gazan farmers. The permit came over a month late and caused an export revenue loss of 30-40% of the 750 tons of strawberries scheduled for exports (about NIS 5,000,000), this revenue loss incurred in the beginning of the season when the strawberries are marketed in European markets for the highest prices (peak), the prices were averaging between NIS 20 to NIS 25 per kg, while currently, the strawberries are sold for NIS 5.5/kg, according to the agricultural cooperatives in Gaza, the breakeven price for one kg of the exported strawberries is NIS 11.

Figure (1.5): Carnation Flowers and Strawberries export Trends (year 2000-2009) vs. Sector export Capacity



NOTE: Exports have continued after December 2009 in varying averages, based on export demand and crossing limitations.

* Source: Agricultural Development Association-PARC

1.4 Cargo Imports

Since January, 2007, import volumes have been between 19% and 30% of pre-closure levels, after the war import volume average was around 24% of pre-closure levels. In terms of types of goods limited types are - around 72 types—which does not include any construction/raw materials (see table 1 for list of allowed materials). Noting that 29 new types were allowed entry only in the last quarter of 2009. Nevertheless undetermined types of goods entered into Gaza Strip via the tunnels from Egypt.

Average percentage of humanitarian imports during the year 2009 reached 26% of total imports as opposed to 18% before the war, and 5% before June 2007.

Figure (1.6): Gaza Imports in the period between Jan – Dec. 2009 vs. monthly average in the different previous periods

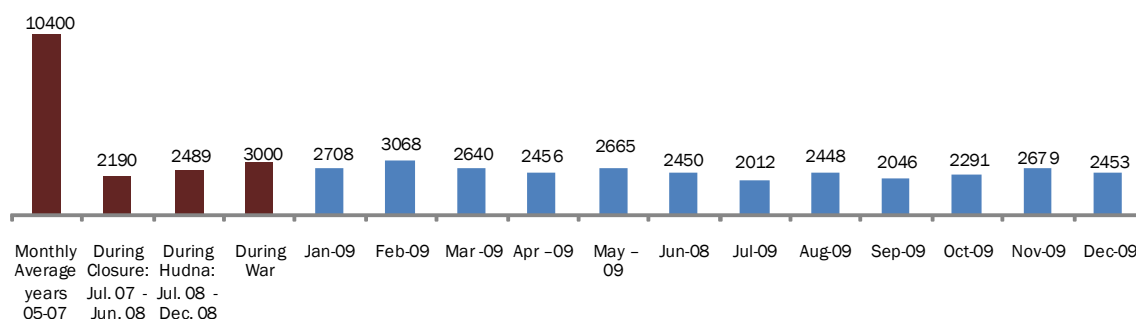


Table (1): List of imported goods allowed into Gaza Jan–Dec 2009

1 Wheat	25 Feminine hygiene	49 Sponge for washing dishes	Nov-09
2 Animals Feed	26 Diapers	50 Sponge for cleaning body	Nov-09
3 Flour	27 Toilet paper	51 Cloth for moping the floor	Nov-09
4 Cooking oil	28 Detergent	52 baby wipes	Nov-09
5 Cooking Fat	29 Washing liquid	53 Other canned goods (except fruit)	Nov-09
6 Sugar	30 Shampoo	54 Zaatar	Nov-09
7 Salt	31 Soap	55 Sesame	Nov-09
8 Pasta	32 Tooth paste	56 Black Pepper	Nov-09
9 Date	33 Toothbrush	57 Chicken stock powder	Nov-09
10 Garlic	34 Tiles cleaning products	58 Blankets	Nov-09
11 Chick peas	35 Glass cleaner	59 Olive	Dec -09
12 Rice	36 Washroom cleaning products	60 Matchboxes	Dec -09
13 Beans	37 Yeast	61 Candles	Dec -09
14 Lintels	38 Fertilize eggs	62 Broom sticks	Dec -09
15 Kidney beans	39 Fruit	63 Garbage bins	Dec -09
16 Margarine	40 Semolina	64 Mops	Dec -09
17 Dairy	41 Nylon for greenhouses	65 Hand cleansing gel	Dec -09
18 Powder milk	42 Agriculture Materials	66 Anise	Dec -09
19 Frozen meat & fish	43 Tea	67 Cinnamon	Dec -09
20 Frozen vegetables	44 Coffee	68 Chamomile	Dec -09
21 Animal medicines	45 Nescafe	69 Chicken eggs for eating	Dec -09
22 Gas for medical purposes	46 Tuna cans	70 Glass (max 100 trucks)	Dec -09
23 Empty bags for flour	47 Salami	71 Water Coolers	Dec -09
24 Medicines & medical tools	48 Meet cans	72 Potatoes	Dec -09

Note: The dates indicated refer to when the product type was allowed entry (products 1-40 were allowed into Gaza Strip in the first half of 2009).

1.5 Fuel Imports

As Nahal Oz entry point functioned for only (52%) around half of the available operation days, there was an increasing shift of imports through Karem Abu Salem crossing (starting at September 16th, 2009) which is less equipped relative to Nahal Oz. This has affected the imports of fuel as follows:

Petrol and Diesel: After the total banning of petrol and diesel imports from November 2, 2008 until August 4, 2009; the Gaza marketplace is still mostly reliant on the fuel being transferred from Egypt through the tunnels under the Rafah-Egypt border. The estimated rate of these movements through the tunnels is nearly 100,000 liters of diesel and 100,000 liters of petrol per day *.

Cooking Gas: Severe shortages in cooking gas have been experienced throughout this year, where only 46% of needed cooking gas was allowed into Gaza Strip throughout this year. Monthly cooking gas imports vis-à-vis monthly needs is presented in figure 1.7.

Power Plant Oil: Shortages in power plant oil have been experienced in certain periods throughout this year, where only 76% of needed oil was allowed into Gaza Strip throughout this year. Monthly power plant imports vis-à-vis monthly needs is presented in figure 1.8.

Figure (1.7): Monthly **Cooking Gas** Imports versus Monthly Needs.(Jan.-Dec. 2009)

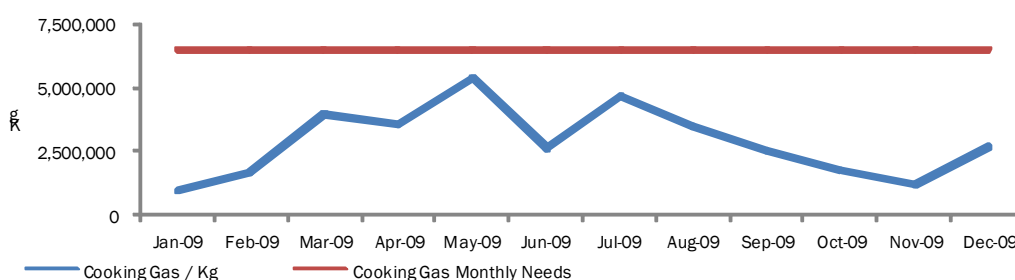
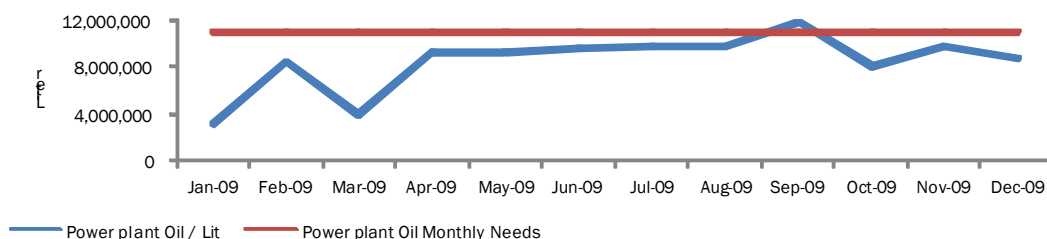


Figure (1.8): Monthly **Power Plant Oil** Imports versus Monthly Needs.(Jan.-Dec. 2009)



* Source: Protection of Civilians: 12-18 September 2009 UN OCHA oPt

- SECTION 2 -

DAMAGED INDUSTRIAL ESTABLISHMENTS PERFORMANCE

2.1 Overview

The military operation formulated a systematic destruction of the productive capacity in the Gaza Strip causing more suffering and considerable losses for the owners and workers of the demolished industrial establishments which were targeted during the operation. This led to a worsened overall economic situation.

Moreover, the strict blockade imposed on Gaza Strip since June 2007 took its toll on the already weakening economy. Only 7% of the industrial establishments were in operation in November 2008 with less than 20% utilized capacity. Over 30,000 employees were laid off due to the shutting down of industrial establishments adding to the already high percentage of unemployment and sky-rocketing poverty rates. See table 2.1 for an insight on the effect of blockade and the military operation to the industrial sector.

According to the EUNIDA assessment report concluded in May 2009, the productive sector bore over 40% of the total losses, as a result of the Israeli military offensive. Based on previous assessments concluded by PFI, 324 industrial establishments were directly hit during the operation, with 44% of which were totally damaged and 56% were slightly to considerably damaged.

Table (2.1): Industrial sectors status during three distinguished periods

Sector	Indicator	Before Closure (14 June 2007)	Beginning of the Closure	By the end of 2009	Notes
Industry	No. of Working Establishments	3,900	117	1170 <i>See notes</i>	By the end of December 2009: - 10% of establishments are working with 20%-50% capacity - 20% operating with around 10% capacity - 70% of industrial establishments are closed
	No. of Workers	35,000	2,000	5,000	

2.2 Methodology

A Study was implemented by PFI, aimed at assessing the current situation of the damaged industrial establishments one year after the military operation. It used descriptive analysis, primary and secondary data sources, and data collected through a questionnaire designed specifically to address the issues of concern. The study targeted all the affected industrial establishments, totaling to 324 establishments. 80% of those establishments responded to the questionnaire (that is a total of 263), distributed among the various industrial sub sectors and geographic locations within the Gaza strip.

The sample was distributed geographically as 60% of the surveyed damaged industrial establishments were in the Gaza Governorate, 30% in North Gaza Governorate, 7% in the Southern areas of Khan Younis and Rafah, and 3% in the Middle Governorate. The subsector distribution of the sample was as follows: 33% Construction materials, 25% Metal, 13% Wood, 7% Plastic, 7% Sewing, and about 15 % included chemical, textile, processed food and others as shown in the figures below.

Figure 2.1: Distribution of Sample—Geographically

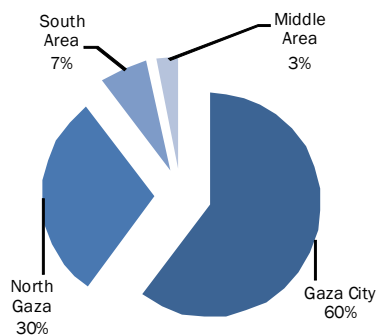
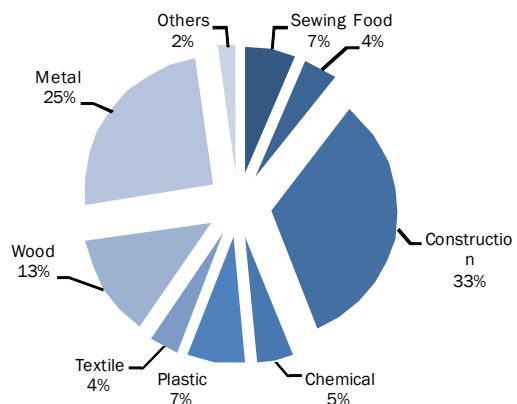


Figure 2.2: Distribution of Sample -According to Type of Industry

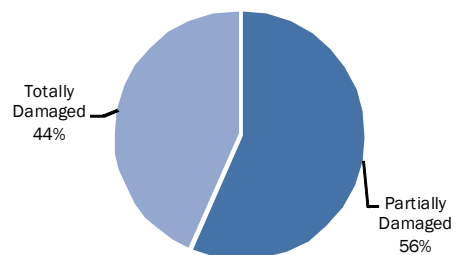


2.3 Industrial Establishments Survey Findings

2.3.1- Type Of Damage

The sample response showed that the percentage of the “totally damaged establishments” were 44% while the “partially damaged establishments” were 56% (7% slightly damaged and 49% considerably damaged).

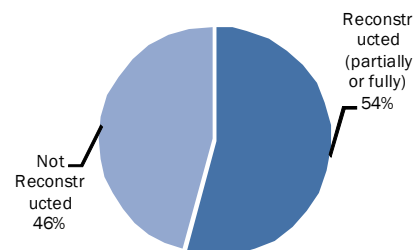
Figure 2.3: Distribution of Sample According to Type of Damage



2.3.2- Reconstruction of The Damaged Establishments

Despite the stringent blockade regime which deprived Gaza establishments from basic construction materials, 54% of the sample were able to partially or fully reconstruct their premises making it ready to resume operations once other factors such as raw materials and free movement and access are available.

Figure 2.4:



2.3 Industrial Establishments Survey Findings *continued*

2.3.3- Obstacles to Reconstruction

In response to the reason for *not being able to reconstruct* their establishments, 41% attributed the cause to the lack of financial resources, while 42% to the blockade and unavailability of construction materials. The rest did not find it reasonable to reconstruct their factories due to the loss of the local market share to “tunnel goods”.

Figure 2.5: Obstacles to Reconstruction

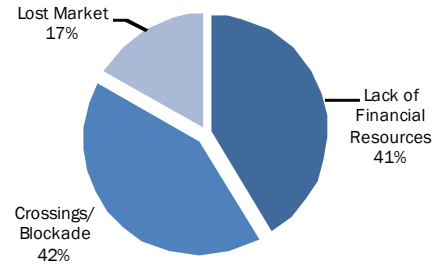
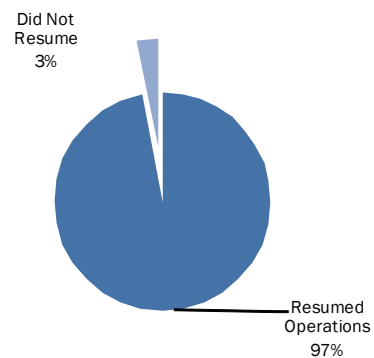


Figure 2.6: Percentage of the Sample / Resumed Their Activities

2.3.4- Resuming Activity

It was found that 3% of the reconstructed industrial establishments could not resume their activities, despite their efforts and investment to reconstruct their establishments.

It was also found that 97% of the sample which reconstructed their premises could only resume their activities partially depending on availability of raw materials and only targeting the local market. In addition, construction industries were the highest percentage (30%) among those who resumed their activities.

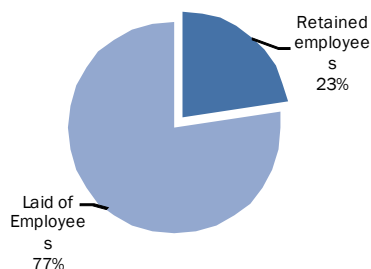


2.3.5- Workers/Employees

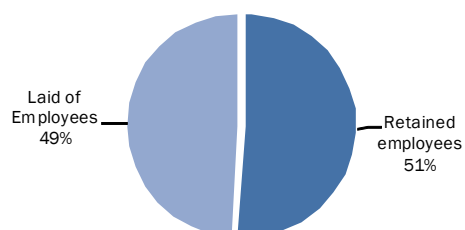
Overall, It was found that only 23% of the employees who used to work at those establishments in the sample were able to return to their work leaving 77% without jobs. Moreover, to reflect on the impact of those establishments that resumed production on employment, only 51% of employees were retained in establishments that resumed activities.

Figure 2.7: % of Retained Workers After Military Operation (Total Sample & currently operating establishments)

From Total Sample



From Currently Operating Establishments

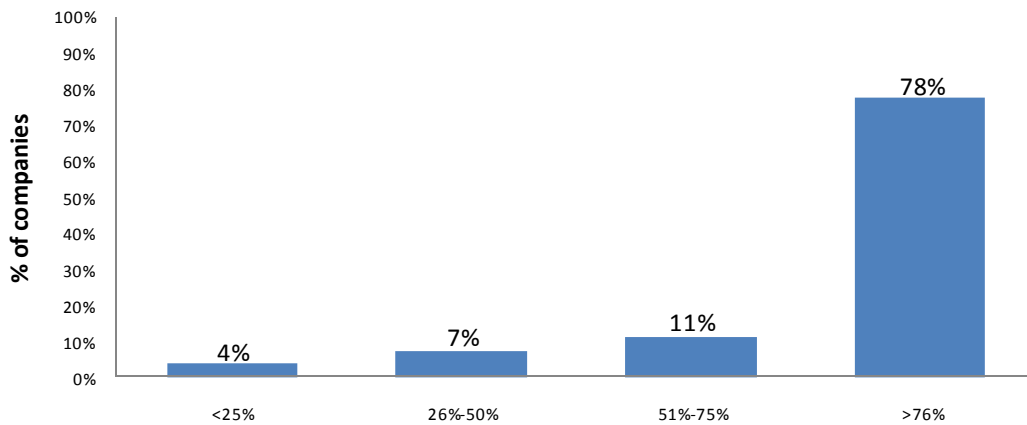


2.3 Industrial Establishments Survey Findings *continued*

2.3.6- Monthly Sales Value

In terms of sales value and as shown in the figure below, 78% of the sample indicated that their monthly sales dropped by more than 76% of regular times.

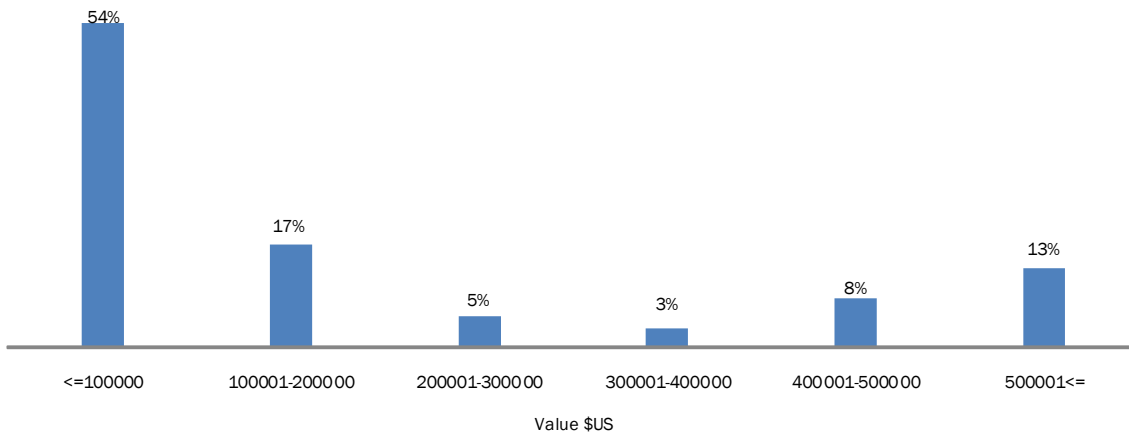
Figure 2.8: % decrease in value of monthly sales



2.3.7- Financing Needed for Reconstruction

According to surveyed establishments it was found that 54% of the establishments need less than US\$100'000 to reconstruct their establishments while 13% need more than US\$500'000 to make the reconstruction necessary to resume operation.

Figure 2.9: Financing Needed For Reconstruction



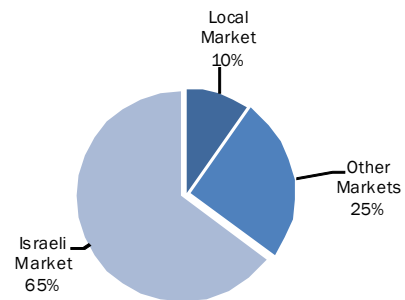
2.3 Industrial Establishments Survey Findings *continued*

2.3.8– Availability of Raw Materials and Machinery

Availability of Raw Materials

As expected, only 10% of the raw materials necessary to resume activities are available in Gaza (either imported and stored previously or bought through “tunnels”) while 65% of the raw materials are available in Israel and the rest has to be imported from abroad.

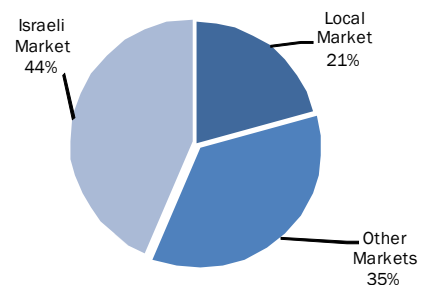
Figure 2.10: Availability of Raw Materials



Availability of Machinery

Unexpectedly, it was found that 21% of the machinery needed to resume production are available in the local market as either new, used or manufactured in Gaza. 44% is available in Israel and 35% needs to be imported.

Figure 2.11: Availability of Machinery



CONCLUSION

After one year of the military operation, the closure policy is still being imposed and is heavily affecting the private sector in Gaza Strip. No concrete improvements have been witnessed bringing the private sector to its basic operation level. Nevertheless, the private sector establishments were always determined to cope through changing environments in order to maintain operations and market presence. The current private sector needs in Gaza are extensive, and require a fast and effective response of development organizations and aid agencies.

It is also important to note that other private sectors were affected by the military operation such as the contracting/construction sector, trade and services.

Urgent Needs and Recommendations:

- Immediate opening of crossings to allow for people and goods—especially all major construction and raw materials necessary to reconstruct the damages and bring establishments to resume production as needed, as well as resuming of export operations.
- As shown in the report 21% of the sample indicated that they can procure a great part of their machinery from local sources. Therefore we call for the support for an initiative to help the damaged establishments to obtain needed machinery in order to resume production. This will also support local machinery producers at the same time within the current Gaza context.
- We encourage all donors and humanitarian support organizations to procure the locally produced items included in their distributed handouts as means to help currently operational industrial establishments to retain their existing workforce and capacities.
- We call upon all donors to support the private sector establishments in maintaining their presence in the market as well as support for job preservation and placement programs. These will help maintain the current workforce and its skills and reduce the very high unemployment rate.

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- Agricultural Development Association-PARC
- The Palestinian General Petroleum Company (PGPC)
- Petroleum & Gas Station Owners Association-Gaza
- Private Sector Coordinating Council-Gaza Governorates.
- Palestine Trade Center (PalTrade)
- Palestinian Federation of Industries (PFI)
- Gaza Private Sector Rehabilitation Program—GPSR
- Informal sources