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The Closure of the Gaza Strip: The Economic and Humanitarian Consequences

Key Observations:

Since June 2007, in response to the Hamas take over of the Gaza Strip and the on-going and indiscriminate firing of rockets into Israel, the Government of Israel (GoI) has increased restrictions on access of goods and people to and from Gaza. These have severe consequences for the day-to-day life of the 1.48 million Gazans.

Since then:
- More Gazans than ever need food and direct assistance
- Fuel shortages have threatened essential services and water supply
- Life-saving treatments are not available in Gaza's hospitals
- 17 per cent of patients with referrals were refused exit for treatment in Israel, East Jerusalem or overseas
- The on-going isolation of Gaza threatens the local economy
- Baby milk, medicines, and cooking oil are increasingly scarce
- Hundreds of businesses have gone bankrupt due to ban on imports/exports
- Thousands of labourers have lost their jobs due to the collapse of the building industry
- Building projects worth US$370 million are on hold indefinitely

The isolation of the Gaza Strip has lasted six months, leaving the local economy to possibly face irrevocable damage and the population in Gaza more reliant on aid than ever before. If the closures are not eased, the UN predicts the need for food and direct assistance will sharply rise above and beyond the current level of 80 per cent of the population.

Tight controls are imposed on all Palestinian access in and out of the Gaza Strip, including those with permission to seek essential medical treatment in Israel, East Jerusalem or overseas.

Severe shortages and restrictions on imports and exports are already beginning to distort markets in the Gaza Strip, putting anything other than the most basic goods and foods beyond the buying power of a large portion of the population. Low stock levels, rising prices, increased joblessness and loss of incomes are having devastating consequences for the population and local economy and the livelihoods of the people of Gaza.

All sections of the population have been affected by a reduction in fuel supplies which undermines the delivery of essential services. The current strain will be exacerbated if the GoI fully implements its decision to further reduce fuel imports and restrict Gaza's electricity supplies.

Waiting : Gaza has been isolated from the outside world for six months.

Tight restrictions on the movement of goods and people have been imposed by the GoI since mid-June 2007, following a period of intense factional fighting which led to the takeover of the Gaza Strip by Hamas and the breakdown of coordination arrangements which had been in place at key crossing points. On 28 October 2007, economic sanctions were implemented by the GoI in response to the continued firing of Qassam rockets and mortars by Palestinian militants into Israel. Between 1 January and 30 November 2007, 1204 Qassam rockets were fired from the Gaza Strip towards Israel, resulting in 96 Israeli injuries and two Israeli deaths.

HUMANITARIAN IMPACT

Lack of Food

No goods other than basic foods and medicines are being allowed into the Gaza Strip and supplies of many stocks that are not considered absolutely essential are fast running out. WFP estimates that only approximately 41 per cent of humanitarian and commercial food import needs were met between 1 October and 4 November 2007. Basic items including wheat grain, vegetable oil, dairy products and baby milk are in extremely short supply.

Prices of many items have increased sharply since July 2007 as a result of shortages,[1] although local fruit and vegetable prices have dropped dramatically due to the export freeze and the 'dumping' of export items by producers onto the local markets.

Poverty, unemployment and lack of cash flow have put many prices – even those for local fruit and vegetables which have decreased - out of the reach of a large section of the population. According to WFP,[2] of the 62 per cent of households who stated a drop in spending, 93.5 per cent cut back on food buying overall, leading to a 98 per cent reduction in the purchase of meat and an 86 per cent fall in the purchase of dairy products.

Incomes Down, Unemployment Up

Unemployment is set to rise above 50 per cent in the Gaza Strip by the middle of next year, if current trends continue[3]. Joblessness in the Gaza Strip stood at 37.6 per cent in the third quarter of 2007, compared to 32.3 per cent in the second quarter[4] and overall unemployment is 12 per cent higher in the Gaza Strip than in the West Bank.

A rapid assessment by WFP in October 2007 on non-refugee households found:

- More than one in five households reported a drop in income compared to before the mid-June closure
- 14 per cent of the surveyed households have one family member who lost his/her job in the past four months
- 58 per cent of those who have recently lost their jobs are allegedly the main breadwinners of the family

Latest figures show poverty in the Gaza Strip has already reached unprecedented levels with around eight out of ten households living below the poverty line of 2,300 NIS (US$594) per household per month (a sharp rise compared to the 2005's rate of 63.1 per cent). Of these, 66.7 per cent of Gazan households are living in deep poverty, i.e. on less than 1,837 NIS or US$474 per month.[5] Poverty levels are 30 per cent higher in the Gaza Strip than the West Bank.

As a consequence, more Gazans than ever are almost entirely dependent on food aid and direct assistance: 80 per cent of Gazan families currently receive humanitarian aid (compared to 63 per cent in 2006).

Drop in Healthcare Standards

Many specialised and life-saving medical treatments are not available in government hospitals in the Gaza Strip. Chemotherapy and radiotherapy for cancer patients, paediatric surgery and neurosurgery are among the treatments that are only available beyond Gaza's borders in Israel, East Jerusalem or overseas.

However, the current measures imposed by Israel have prevented a number of patients with referrals from leaving the Gaza Strip for treatment. Since June, 713 patients out of 4,074 applicants (17.5 per cent) have been denied permits to cross into Israel for medical treatment.

The standard of healthcare in the Gaza Strip is deteriorating rapidly. The majority of diagnostic laboratory equipment, for example MRI and x-ray equipment, at Ministry of Health facilities are no longer functioning, and cannot be repaired due to the inability to import spare parts.

CASE STUDY --The Farmer Who Gambled On His Strawberries

Khalid Alatar's daughter Mariam needs expensive medical treatment but instead he is gambling the family's last resources on a strawberry crop. He is making a last ditch bid to save his farm in the hope that it will rescue his family from financial ruin. Mariam's treatment for kidney disease will have to wait. Such are the choices people in Gaza make to survive.

"I won't stop planting, I can't stop," Mr Alatar says.

He has had no income from the farm since May this year. He sold his wife's gold and ran down their savings long ago, as have many of his neighbours. They've endured a string of crises over the past two years but the latest strife in Gaza may be insurmountable. He is not even sure he will be able to deliver his strawberry crop to the Israeli market because Karni, the only commercial crossing into Israel is shut indefinitely. Crops that were due for export to Israel have sat rotting in fields or in cold storage at great expense. And while the price of imported staples such as flour, corn and fuel have spiked, the prices of local produce have plunged. The free fall in the price of fruit, vegetable and clothing prices sent Gaza's consumer price index into a one per cent reversal in July 2007.

If Karni opens, Mr Alatar says he needs to be ready to export otherwise he will lose his contracts in an increasingly competitive global economy. The Israeli agricultural company, Agrexco, Israel's biggest buyer of Palestinian fruit and vegetable exports, doubts it will receive its usual haul of strawberries from its 400 contracted farmers in Gaza. Gazan farmers are worried that Agrexco has already begun looking elsewhere in the world for alternative suppliers.

It's a familiar move by many Israeli companies who have given up dealing with Palestinian businesses in response to the diminishing Israeli economic ties with the West Bank and Gaza Strip since 2000. Since the closure, the costs of agricultural inputs have soared. Fuel and electricity shortages are also plaguing farmers who rarely have enough power to run pumps to water crops.

Mr Alatar's wife, So'ad says aid is not the solution.

Picture by Juliette Seibold

Khalid Alattar with his strawberry crop

"We can survive under occupation, but we cannot survive without Karni being open. Even if the international community wants to help with food, until when? The main point is that we don't want help. We want to work for our dignity, for our honour and eat the food from the sweat of our work."

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** Interviews carried out by CARE International West Bank/Gaza Strip*
*** Since this interview was carried out, Mr Alatar has become bankrupt and unable to find credit to buy agricultural imputs for planting next season's crop. He managed to export only 16 per cent of his strawberry crop for which he received 10 NIS per kilo, compared to 25 NIS last year. His daughter has yet to receive medical treatment. The Alatar family are now dependent on humanitarian assistance.*

Water Shortages

Water wells and pumping stations serving more than 750,000 people throughout Gaza require urgent repair which cannot be carried out due to lack of spare parts. Beginning of December, the Israeli-imposed restrictions on fuel imports to the Gaza Strip, additional reductions caused by the Palestinian Authority's inability to meet its payment schedule as well as a strike by the Gaza petrol associations in response to the restrictions, resulted in 15% of the population receiving only 1-2 hours of water supply per day.

ECONOMIC IMPACT

The Palestinian economy has been in steady decline since the second intifada began in 2000, but has been heading towards collapse since January 2006, following the economic restrictions imposed on the Palestinian Authority in the wake of the election of Hamas to the Palestinian Legislative Council (PLC).

According to the Palestinian Central Bureau of Statistics (PCBS), the per capita gross national income (GNI) in the oPt dropped by 15 per cent in 2006, while the real gross domestic product (GDP) declined by eight per cent[6]. Other estimates suggest that the decline could be even greater than that - as much as three to four percentage points.[7]

In 2006, imports fell by an estimated ten per cent while exports declined by 16 per cent compared to 2005.[8]

UNCTAD (United Nations Conference on Trade and Development) estimates that the loss of potential income between 2000 and 2005 is approximately US$ 8.4 billion, or more than double today's economy in the oPt.[9]

Private Sector

The Gaza Strip's private sector, which generates 53 per cent of all its jobs, has been hardest hit by the closure and the resulting lack of raw materials and trade opportunities. More than 75,000 workers out of approximately 110,000 employed by the private sector have been temporarily laid off because of the impact of the closures, and the majority of private businesses have closed down.[10]

Any connections between businesses in Israel and the Gaza Strip, which had continued despite the political turmoil, are now steadily breaking down. Israeli entrepreneurs may be reluctant to return to their Gazan business contacts once they find alternative trading partners and suppliers, even if Karni crossing point was to reopen to allow the resumption of exports and imports.

Industrial Sector

The industrial sector is almost entirely dependant on imported raw materials and 80 per cent dependent on the import of machinery and maintenance parts.[11] Most of the sector's manufactured products are exported and, during peak production times (May-June), an average of 748 truckloads of manufactured products could be exported each month (including furniture, food products, textile products and agricultural produce).[12] Last year the Gazan industrial sector had total daily net revenues of US$500,000.[13]

None of the industrial sector's goods have been exported since mid-June 2007[14] (at the time of the closure, 529 truckloads were ready for export, in addition to clothing worth nearly US$19 million).[15] As a consequence of the closure, the majority of these goods had to be sold on the local market at a fraction of their export prices, while the balance of goods are held in warehouses pending the re-opening of Gaza's crossings.

Nearly 90 per cent of all industrial establishments (3,500 out of 3,900) have shut down since mid-June 2007, either temporarily or permanently, including the most significant factories located at Karni Industrial Zone.

Only ten per cent of the Gaza Strip's industries (400 establishments) remain partially functional thanks to remaining stocks of raw materials. However, these industries operate and produce at a low capacity (below 20 per cent) and after five months of closures, are shortly expected to run out of raw materials.

The industrial sector used to employ approximately 35,000 workers up until the closures in mid-June 2007. Fewer than 3,000 workers (or nine per cent) were still employed in November 2007.

Furniture Industry

The furniture industry has a yearly total output of about US$23 million. Approximately 76 per cent of Gaza's furniture production is for export to Israel[16] and during peak season (May-June), furniture worth US$30-40 million is exported each month. For the last six months, 400 truckloads of furniture worth US$8 million have been stranded in the Gaza Strip, waiting to be shipped to Israeli and other international markets.

The current import and export ban on any produced furniture has led to the closure of most of the 600 furniture businesses in the Gaza Strip and the laying off of approximately 95 per cent of their staff. By the end of November 2007, the industry was employing only about 100 workers out of 6,000-8,000[17], and operating at less than five per cent of its capacity.

Construction Sector

The Gazan construction sector is currently paralysed, mainly due to shortages in basic building materials such as cement, aggregates and steel, on which it is entirely dependent. The stocks of certain construction materials were exhausted within a couple of weeks of the June lockdown. Since then, prices have increased significantly. The price of cement, for instance, increased by nearly five times, from 174 NIS per tonne before mid-June to 1,013 NIS per tonne in October.

By the end of November, all construction factories had shut down (13 tile-making factories, 30 concrete-making factories, 145 marble-making factories and 250 brick-making factories), causing the loss of 3,500 jobs.

Nearly all public infrastructure and maintenance projects including foreign aid projects, private constructions and ministerial and municipal projects have been halted due to the closure of factories and the lack of building materials. The construction and maintenance of roads, water and sanitation infrastructures, medical facilities, schools and housing/re-housing projects are on hold. The combined value of UN and private sector construction projects presently at a standstill is estimated at more than US$370 million, with tens of thousands of contractual labourers put out of work.

Garment and textile Industry

Under normal circumstances, the garment and textile industry would have an estimated total output of US$24 million a year, representing nine per cent of the total value of the industrial sector, and producing about five million pieces of clothing, exporting 90 per cent of them to Israel.

The closure of the Gaza Strip has led to the collapse of most of Gaza's garment factories.[18] In November 2007, approximately ten out of 960 establishments, or just one per cent, remained open, employing about 50 part-time workers (out of 16,000 prior to mid-June 2007).[19]

Agricultural Sector

The Gaza Strip has 70,000 dunums (700 ha) of agricultural land and the capacity to produce 280,000-300,000 tonnes of agricultural products yearly, a third of which are export crops.[20] The sector provides permanent and temporary jobs for more than 40,000 Gazans (representing 12.7 per cent of the labour force) and generates livelihoods for a quarter of the Gazan population.

For the last six months, virtually no agricultural exports have been allowed out of the Gaza Strip.

Nearly 25,000 tonnes of potatoes and more than 10,000 tonnes of other crops have perished or been sold on the local market at a fraction of their export price (local prices are only 10-15 per cent of export prices). While cash crop farmers have been directly affected by losses from selling on the local market, other farmers have faced losses due to the flooding of export goods onto the Gazan market. The total production of the most recent planting season is expected to be 20-30 per cent lower than the previous season.[21] In addition, the production cost in the recent planting season increased due to a surge in the cost of seeds and raw materials.[22]

While significant losses will be incurred from the inability to export this season's goods, farmers will also be unable to cultivate their fields and plant for the next harvest[23] due to the lack of seeds and raw materials.

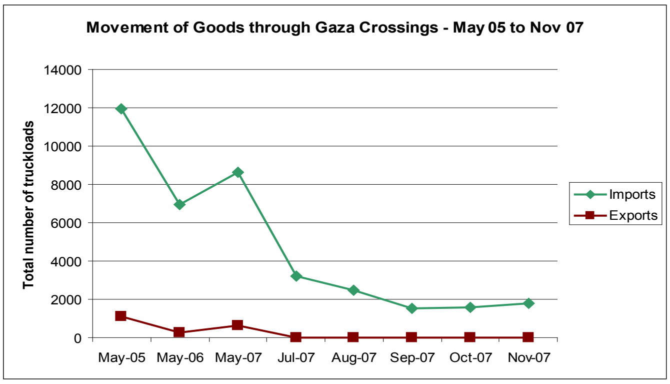
Public Sector

The public sector employs four out of ten Gazans in work.[24] Since 2000, when access to Israel for work became increasingly restricted, 45 per cent of employed Gazans have become dependent on the Palestinian Authority (PA) payroll. Since July 2007, following the creation of the Fatah-led Emergency Government, PA salaries have been paid regularly and dues for past months gradually settled.

The resumption of salary payments (which had gone unmet during 2006 when the GoI had withheld tax revenues collected on behalf of the PA in the wake of Hamas' election in January 2006) have allowed some cash to flow into the Gaza Strip. Nonetheless, the present closure regime has put increasing financial burdens to support more dependants on PA staff as they are currently the most significant segment of the labour force to be paid.

GAZA ACCESS: THE FACTS

- Karni is the main crossing for the import/ export of commercial goods into and out of the Gaza Strip. However, this crossing has been closed by Israel for all container exports and imports[25] since 12 June 2007. Only one single-lane conveyor belt/chute continues to operate for wheat grain and animal feed for an average of two days per week.
- From mid-June until end October 2007, Sufa and Kerem Shalom were the alternative entry points for commercial and humanitarian supplies into the Gaza Strip. During this period, about 76 per cent of the total number of truckloads that entered Gaza did so through Sufa. On 28 October 2007, Israel announced the closure of Sufa crossing, thereby further reducing the number of truckloads entering Gaza[26]. On 25 November, the GoI announced the reopening of Sufa but since then it has only been opened sporadically for aggregates. On 28 November, Israel began allowing the export of flowers and strawberries through Kerem Shalom and as of 9 December, 54 truckloads had crossed.
- Severe restrictions on the movement of people into and out of the Gaza Strip have also been imposed. Palestinians have not been allowed to leave Gaza since mid-June 2007 except for traders, aid workers, a restricted number of pilgrims and a limited number of medical cases. On 2 December the GoI began to permit to some of the 6,000 Palestinians with the necessary foreign residency, or papers to study or work abroad to exit Gaza through Kerem Shalom – the first time that crossing has been used for the passage of people. As of 11 December, 920 persons have crossed through Kerem Shalom, out which 198 were refused entry to Egypt and were sent back to Gaza.
- The Rafah crossing, the only international entry/ exit point for Gazans, has been closed since 10 June 2007 except for the passage of approximately 750 Palestinian pilgrims on 3 December 2007.
- On 28 October 2007, Israel began limiting the supply of fuel (causing a 14 per cent decrease in industrial diesel, 23 per cent decrease in cooking gas, 40 per cent decrease in benzene and 49 per cent decrease in regular diesel entering Gaza[27]). At the beginning of December the reduction in fuel by the GoI was exacerbated when the Palestinian Authority was unable to meet payment due for fuel and the petrol associations went on strike in response to the restrictions. A petition to the High Court to consider the Israeli Ministry of Defence's decision to reduce the supply of electricity to the Gaza Strip is currently pending.[28]



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End Notes

1. Please refer to Gaza Strip Humanitarian Fact Sheet of 28 October for more details.
2. WFP: Food Security and Market Monitoring Report. 29 October 2007.
3. PCBS
4. PCBS, Q3 2007.
5. PCBS has developed two poverty lines according to actual spending patterns of a Palestinian household of six individuals. The first line is the “subsistence (deep) poverty line” which reflects a budget of food, clothing and housing. The second line is the “relative poverty line” which adds other necessities including health care, education, transportation, personal care and housekeeping supplies.
6. IMF. Macroeconomic and Fiscal Developments in the West Bank and Gaza. Ad Hoc Liaison Committee meeting. September 2007.
7. World Bank (2007). West Bank and Gaza Expenditure Review, vols. 1-2. Washington, DC.
8. World Bank. Two years after London: Restarting Palestinian Economic Recovery. Economic Monitoring Report to the Ad Hoc Liaison Committee.
9. Idem.
10. Paltrade
11. Palestinian Shipper’s Council (2007). Gaza Strip – Real Crisis – How long for?
12. Palestinian Shipper’s Council (2007). Gaza Strip – Real Crisis – How long for?
13. Palestinian Federation of Industries
14. Palestinian Federation of Industries
15. Palestinian Federation of Industries
16. World Bank. Two years after London: Restarting Palestinian Economic Recovery. Economic Monitoring Report to the Ad Hoc Liaison Committee. Sept 24, 2007.
17. PalTrade
18. Gaza Chamber of Commerce
19. PalTrade
20. Ministry of Agriculture
21. More significant decreases were prevented thanks to remaining stocks of seeds in Gaza.
22. The price increase of certain fertilizers, for example, ranged between 67-99 per cent.
23. According to the Ministry of Agriculture US$11.7 million worth of agricultural production raw materials (fertilizers, sterilization gas, seeds, etc) are normally imported from Israel to Gaza on an annual basis.
24. PCBS, Third Quarter
25. Until the closure, imports/exports were processed via back-to-back transportation, i.e., goods remained in their containers which were offloaded from one vehicle, inspected, and then loaded onto a vehicle on the other side of the crossing. Since the closure, goods require palletization. Containerized goods need to be taken to a warehouse, unpacked, loaded on pallets and then shipped to the crossing. Container imports/exports are preferable, as palletization is time-consuming, expensive and causes delays. In addition, certain goods cannot be palletized.
26. Including aggregates.
27. Comparison of fuel levels between October and November.
28. 63 per cent of Gaza’s power supply is provided directly by Israel, paid for by deductions from Palestinian tax revenues that Israel withholds, while 28 per cent is produced in Gaza powered by fuel paid for by the European Commission through the Temporary International Mechanism (TIM). All of Gaza’s fuel is imported through Israel.

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