



Fact sheet

Barriers hindering Gaza Garment Trade with West bank and International Markets

Key Facts:

- Since 2001 the Palestinian textile sector has lost half of its domestic market share, two-thirds of its enterprises, 60% of its sales, and over three-quarters of its waged workers.
- The annual output of the sector was estimated at USD 39 million in 2005 and most of the production was exported to Israel, while the annual output of the sector after the blockade is estimated at USD 6 million.
- In 2002, the clothing and garment industry in West Bank and Gaza produced USD 126 million in revenue (15.3% of industrial gross output) with a value added of USD 79 million dollars (21.9% of total industrial gross value added).
- The garment and textile sector of Gaza employed over 35,000 workers in some 900 manufacturing facilities prior to 2000, but now it employs only 4000 workers in 140 active registered manufacturing facilities.

- In 2000, the Palestinian textile and garment sector was a major pillar of the national economy, representing the largest sector in the Gaza Strip and the third largest in the West Bank. The sector dramatically declined over the past 15 years due to the Israeli restrictions on the movement of people and goods from and to the Gaza Strip, gradual termination of contracts between Israeli companies and Palestinian manufacturers and increasing competition from ready-to-wear imported clothes forcing many factories to close down or function using leftover stock or low quality raw materials procured on the local market. This decline forced workers to move to other sectors, resulting in the loss of 89% of the garment sector's workforce and the

shutdown of 85% of its manufacturing facilities. In spite of this, the sector has showed high capacity and readiness to go back to business when access to markets is possible and sector can revive.

Movement and access constraints:

Following the Hamas takeover of Gaza in June 2007, Israel prohibited almost all exports from Gaza to Israeli and foreign markets except for minimal quantity of cash crops to Europe as part of an agreement with the Dutch government in 2012.

1- The State Of Palestine National Export Strategy Textile And Garment Sector Export Strategy 2014-2018. Palestine Trade Center PalTrade, 2014. Web. 17 Apr. 2016. <https://www.paltrade.org/upload/multimedia/admin/2014/10/5448e870995b2.pdf>

2- Creti, Pantaleo. Market Analysis of Three Economic Sectors in the Gaza Strip. Oxfam GB, 1 Nov. 2010. Web. 7 Apr. 2016.

3- MARGOT ELLIS, CTO; Sector Report: Textiles and Garments in West Bank/Gaza http://pdf.usaid.gov/pdf_docs/Pnacu082.pdf

4- The Clothing and Textile Industry Union; Gaza: Clothing and Textile Industry Union, 2015. Print.

5- (The Dutch government has supported the Gazan flower, strawberry and vegetables farmers since 2006. The financial support has been accompanied by ongoing diplomatic efforts to ensure that the connection with the European market be maintained. This helped safeguard the cash crops sector, which in turn represents an important pillar for the Gaza Strip's economy.

6- OCHA, 'Humanitarian Bulletin Monthly Report', March. 2015. Accessed from http://www.ochaopt.org/documents/ocha_opt_the_humanitarian_monitor_2015_03_english.pdf.



On 8 December 2010, Israel announced a relaxation of export restrictions for furniture and garment (in addition to agricultural produce) . However, this measure was not implemented until May 2012 when the first shipment that consisted of one truckload each of furniture and garment exited . In 2014, goods from the aforementioned sectors were allowed to exit to West Bank markets only.

In the last quarter of 2015- Israel announced the resumption of these exports to Israeli markets. However, progress has been stalled over an internal disagreement on the Value added Tax (VAT) invoice which is a pre-requisite for exporting furniture and garment to Israel. In addition, the physical communication between Gaza and West bank traders has been severely limited since the imposition of the blockade and the difficulty in obtaining Israeli permits to the West bank, which has resulted in stagnation of commercial exchange between both sides.

While Palestinian traders have witnessed some easing on their movement to the West Bank in 2015 as more than half of the exits recorded at Erez were those of traders , In recent months, traders reported increasing difficulties in travel via Erez. Permit holders were called for interrogations and sometimes denied exit and sent back to Gaza.

The Israeli restrictions on Palestinian movement and access to markets have resulted in:

- Lack of access to inputs and inability travel in order to forge deals with foreign companies and purchase textile and raw materials, forcing Gaza manufactures to reduce production and cope with existing resources in the local market.
- Absence of local fashion designers in the market forcing garment factories to rely on poor and outdated designs that don't meet consumers' preferences. Local designer have not been able to travel to improve their designing.
- Inability to bring in computer aided production machines into Gaza, which would create a faster production process, provide high quality production and reduce time and effort. As a result, the majority of manufacturers in
- Gaza rely on traditional production methods by using electric sewing machines, except for a small number of large companies that have introduced computer aided production methods. Inability to repair broken machines because of Israel's severe restrictions on the entry of spare parts which are listed by Israel as dual use items and therefore whose entry into the Strip is prohibited.

7- B'Tselem, The Siege on Gaza, 1 Jan. 2011. Accessed from <http://www.btselem.org/gaza_strip/siege>.

8- OCHA, 'Humanitarian Bulletin Monthly Report', March. 2015.

9- The Value Added Tax (VAT) can only be obtained from the ministry of Finance in Ramallah, and Palestinians in Gaza face difficulties obtaining it due to the political division between Gaza and the West bank.

10- Gisha, Gaza 2015: A few steps forward and several steps back, 2015. Accessed from http://gisha.org/UserFiles/File/publications/2015_annual_summary/summary_en.pdf

Dependency on Israeli companies:

The majority of garment and textile factories in the Gaza strip were heavily dependent on subcontracting agreements with Israeli companies in the past. They were involved in sewing, pre-washing, ironing and packaging that were characterized by labor-intensive operations and very low profit margins. The Israeli contractors were in control of the design, marketing and distribution, which were all characterized by high profit margins and total control of marketing operations. Although this significantly contributed to the Palestinian economy, it has prevented Gaza's manufacturers from gaining knowledge and experience in all stages of production, and impeded developing exports which could compete in other external markets.

Non-functioning Palestinian Standards Institute:

The Palestinian Standards Institute (PSI), a body recognized by the business community

and consumers, both locally and internationally, that facilitates trade and investment in Palestine by meeting the metrology, standards, testing and quality related needs of the business community has not been functioning in Gaza since the Hamas takeover of Gaza in 2007. This has deprived garment manufacturers from competing with imported products, thus resulting in dumping Gaza's markets with low price and low quality imported products which harmed the health of Palestinian consumers.

Chronic electricity deficit:

The chronic electricity deficit (12-18 hours cut a day) affecting Gaza over the past nine years has impaired the operation of the garment industry, forcing manufacturers to depend on power generators with limited capacity and high cost. This has resulted in the increase of production cost by an average of 30% depending on volume of production and size of workshops .



Almadhoun Clothing and Textile Company, established in 1982, was one of the companies that had subcontracting agreements with Israeli firms. The company had employed more than 150 full time workers and used to produce from 30-50 thousand pieces of clothes a month. Despite the large production capacity, the company had not been able to do the full production line from designing the model to exporting the product, making direct export activities with external markets impossible. The production of the company had gradually declined after the second Intifada in 2000 as it lost some contracts with Israeli companies due to their inability to commit to their contractual obligations as a result of the closure of crossings. Following the imposition of the blockade in 2007, the company was forced to shut down and layoff all of its 150 workers.

58-year old Mohammed Al Madhoun, owner of the company, remained unemployed until he established a small company for installation and maintenance of electric elevators with his sons in 2011. However, the new company is struggling operationally and financially as many of the spare parts needed for maintenance are considered dual use items and hence banned entry to Gaza Strip.

'I wish we could go back to the garment business. what we earn from the new business now is only less than 10% of what garment used to offer us. The current income doesn't even meet the basic needs of my family.' Mohammed said. 'If the garment business is revived in Gaza, it could offer job opportunities for thousands of poor households and contribute to the recovery of Gaza's economy' Mohammed added.

11- Grabiner, Sarah, and Joe Grabiner. Textile Business between Israel and the Palestinian Territory- Opportunities and Risks, Aug. 2011. Web. 13 Feb. 2016. <[http://www.ipcc.org.il/webfiles/fck/files/textile business between Israel and the Palestinian territory.pdf](http://www.ipcc.org.il/webfiles/fck/files/textile%20business%20between%20Israel%20and%20the%20Palestinian%20territory.pdf)>.

12- See OCHA factsheet on the Humanitarian Impact of Gaza's Electricity and Fuel Crisis <http://gaza.ochaopt.org/2015/07/the-humanitarian-impact-of-gazas-electricity-and-fuel-crisis/>

13- Information collected from the Palestinian Federation of garment and Textile Industries on June 2016

Opportunities for the sector to revive:

Despite all of the challenges faced by the sector, surviving manufacturers have showed high capacity to go back to business. After Israel allowed the resumption of trade with the West Bank, some efforts have been taken by the Palestine Trade Center to establish trade ties between garment manufactures in Gaza and the West Bank. These efforts resulted in the supply of 33 truckloads carrying ready to-wear clothes, textile, garment and carpets with an estimated value of 5 million Shekels to the West Bank markets in 2015, in addition to 19 truckloads in the first half of 2016 with estimated value of four million Shekels. To date, 35 garment manufacturers are trading with the West Bank. These numbers may be insignificant, but exports are considered highly important and promising for manufactures in Gaza, and open the door for investment in and development of the sector which can provide job opportunities and contribute to decreasing the unemployment rate in Gaza currently standing at 41.7%

What needs to be done?

In the process to develop the capacity of companies to compete in and penetrate new markets, priority should be given to key challenges that hinder the development of the textile and garment sector. Attention should be given to access to markets for goods and businessmen, access to raw materials, capacity building of designers, access to financial tools that can support the introduction of new machinery, developing niche markets to accommodate the products produced by companies in Gaza, resolving the complication related to the VAT issues, power outages, and activation of the Palestinian Standard Institute. The international community should put pressure on Israel to facilitate the movement and access to Israel, the West Bank, and Jordan without restrictions. Withdrawal of permits should be stopped. Jordanian and Egyptian authorities should set the necessary measures to facilitate and expedite the issuing of permits to enter Jordan and Egypt as the main connections with the world.

Donors should provide fast track support to this sector through grants or revolving funds to support the introduction of new machinery and needed raw materials, capacity building programs for employees on new technologies, and, fashion design training in new trends. In addition, donors should provide programs in penetrating strategic markets to, identifying niche markets and business opportunities, creating links with importers in these markets, enabling manufacturers to adapt modern and competitive production and marketing strategies to promote their products. The Palestinian Government should work on eliminating any obstacles related to issuing the VAT documents; support the reduction of the high transaction cost, especially the energy cost. In addition, activation of the Palestinian Standard Institute in Gaza should be on top of the Government agenda to provide the needed standards to protect the market from low quality products and introduce new tariff structure to provide fair competition to local producers.



14– State of Palestine Palestinian Central Bureau of Statistics. Labour Force Survey (April– June, 2016) Round (Q2/2016). Press Report on the Labour Force Survey Results. Palestine Palestinian Central Bureau of Statistics, 8 Aug. 2016. Web. 22 Aug. 2016.