FACT SHEET


# Increased Domestic Transportation Cost of Agricultural Exports from Gaza to External Markets: *Effects and Causes*

The Palestinian economy has become totally dependent on Israel as a result of economic agreements made during the period of the 1993 Oslo Accords. The1994 Paris Protocol, an agreement between Israel and the Palestinian Authority which outlines the economic relations between the two in the areas of customs, taxes, labor, agriculture, industry and tourism, was meant to facilitate the free movement of goods, including agricultural produce, and give Palestinians access to international markets, but in practice it has worked as a basis for consolidating Israeli domination of the Palestinian territories, including the Gaza Strip. Israel has imposed restrictive and costly procedures on the transportation of goods to the West Bank and exports to international markets via the Israeli controlled crossings and checkpoints.

Transportation cost is one of the main determinants of enterprise competitiveness and has a direct impact on the rate of investment and growth of the economy. For Gaza exporters, it is one of the main obstacles facing them and undermining their ability to establish ties with international markets.
The percentage of transport cost exports vary from one country to another, but most of the studies indicate that this transport cost is usually not less than 8% of the value of the goods, and sometimes up to more than 20% in some countries. For Gaza exporters, the cost of exporting goods is estimated at 15% of the value of the goods due to high domestic transportation fee and restrictive measures. Exports from the Gaza Strip are transported mostly by land and air and occasionally by sea via Israeli crossings and ports.

## Restrictive measures on land (domestic) transport

Gaza exporters face numerous and diverse obstacles in transferring their agricultural produce to the West Bank and international markets, forcing them to incur high costs, extended waiting times and shipment constraints that often render exports unprofitable.
These obstacles include:

### 1 Administrative hurdles:

- Lack of a defined time period and considerable wait times for the transfer process to be completed. Approximately an average of 7.7 hours is needed to transport goods from warehouse in the Gaza Strip to the West Bank.
- Inspection is done in an open area (exposed to sun and rain) which lacks any cold storage facilities and goods are exposed to weather conditions. The waiting area where goods are offloaded at the Palestinian

[1] Korinek, J. and P. Sourdin (2009), “Clarifying Trade Costs: Maritime Transport and its Effect on Agricultural Trade”, OECD Trade Policy Papers, No. 92, OECD Publishing. http://dx.doi.org/10.1787/220157847513
Inspection is done in an open area (exposed to sun and rain) which lacks any cold storage facilities and goods are exposed to weather conditions. The waiting

side is an open area as well.  Perishable goods, such as agriculture and food products, are the most vulnerable under these conditions, with the cold storage chain interrupted. Exporters thus incur extra cost (approximately 2.5 USD per pallet) to wrap the pallets with fortified plastic wrap as a protective measure against rain and other weather conditions;

- The requirement to use pallets of only 1.2*1.6 m in length and height makes it difficult to - maximize the full use of the pallets, thus reducing the amount of goods on each pallet and creating the need to use extra pallets that means higher cost of shipment;
- Repeated and unexpected closures of the Gaza Strip's lone commercial crossing; and
- Limiting the export of goods to three days a week (Sunday, Monday and Thursday) adds more restrictive measures, thus hindering exporters' capacity to readily meet export demands and in some instances making export goods liable to spoilage as it awaits export. For instance, if agriculture goods are exported on Thursday then it must wait for two days (Friday and Saturday) once it reaches the KHB before its passes through to the other side.

## 2 Inadequate Infrastructure

- Poor quality of land transport infrastructure remains the major infrastructure constraints. It is worth noting that the development of the crossing point, known as Kerem Shalom, was in the planning stage as early as 2004 and was seen, by the Israeli side, as a solution for the transit of goods from Gaza to Egypt or even to Israel. The KS crossing was also meant by the Israelis to act as an alternative, or for augmenting the traffic, of the Karni Crossing. However, this meant that the whole transit process would be under the complete control of the Israeli Border Agency and managed by the Israeli Airports Authority (IAA) who also managed Karni and Nitzana at that time. Not functioning at its full potential, Israel has also undertaken to expand and develop the Kerem Shalom crossing so that its capacity now reaches 350 trucks per day, compared to a previous capacity of around 150 before the declaration. In practice, since the easing of restrictions went into effect, an average of only 174 trucks a day entered Gaza through Kerem Shalom.
- The use of Back-to-Back  system in unloading and reloading operations at the crossings points takes place twice at the Kerem Shalom/Karim Abu Salem, and again at (Alkarama crossing between Jordan and Israel), and three times when exporting through Jordan. This system demands more time, high transportation costs (loading and unloading are done at a cost), and complexity of clearance procedures, and can damage to some exporting agricultural items.
- The closures of all commercial crossings between Gaza Strip and Israel, keeping only Kerem Shalom/Karim Abu Salem which is not equipped with the necessary infrastructure for agricultural exports.
- Reliance on Al Karama /Allenby (King Hussein bridge) crossing, the only commercial crossing between Palestine and Jordan and the rest of the Arab world, which lacks and refrigeration facilities causing damage to goods and waiting for long hours at the crossing. It is worth noting that Israel closed Prince Mohammad bridge in 2003 through which Palestinian exports used to exit to international markets.

## 3 Frequent delays:

The loading and unloading process cost around 700 NIS per truckload regardless of the number of pallets per truck. In addition,  any waiting time that can cause spoilage of agriculture goods translates to financial loss for the exporters (and in many occasions, the loss is borne by the farmer). Limiting the export window to three days a week contributes to this as well.

[2]Back-to-Back,( transferring the goods via forklifts  from the Palestinian vehicle to an Israeli vehicle, in other words its unloading and reloading operation,  this mean that no direct passage at the crossings.) which means that the transport process to the West Bank alone could last for12 hours, due to Israeli procedures, administrative and regulatory restrictions.

# Clearance charges and duties at Israeli crossings

Prior to the export process, samples of the agricultural produce planned for export from Gaza must be sent to Israeli laboratories for testing, costing  exporters a total of NIS400 for the single sample.  This testing is not required if the final destination is the West Bank.
Furthermore, exporters must pay a total of NIS 1500 clearance fee per truck to Israeli government at the King Husain bridge crossing that connects the West Bank with Jordan and a total of NIS 1010 clearance fee per truck to the Jordanian government at the crossing, in addition to NIS 200-300 Duty clearance fee for refrigerated trucks.
The agricultural exports from the Gaza Strip receive government support and encouragement, because the sector in Gaza is a relatively small — between seven and eight percent — of the economy, but agricultural products make up 85% of the exports from Gaza. Therefore, trucks of agricultural products destined to the West Bank are fee exempted by the Ramallah government. However, exporters pay NIS 20 per truck at the Kerem Shalom/Karim Abu Salem crossing to the Gaza government.
Most of the agricultural exports are made by land as the cost of land transport is relatively lower than the cost of shipping by other means. Yet for Gaza exporters the process of moving the agricultural products by land from the exporter’s location to the importer's destination involves significant financial costs, as well as costs associated with lengthy and uncertain delivery times. The experience of Gaza Strip exporters proves that, Back-to-Back and other procedures imposed by Israeli occupation, led to an increase in land transport, freight and logistics cost, leading to a loss for agriculture producers .It important to mention that delivery on time is one of the most important factors in exporting competitive products. Delays and lengthy transportation can limit the competitiveness in targeted markets. The trade blockade imposed upon Gaza by both Egypt and Israel needs to be lifted. Sustainable development of Gaza will be impossible without efforts to integrate Gaza into the regional and global economy through trade, while taking into account neighboring countries’ legitimate security concerns. Gaza’s industry and agriculture will not experience substantial growth without access to the West Bank and foreign markets, including the Israeli market.

Prior to the export process, samples of the agricultural produce planned for export from Gaza must be sent to Israeli laboratories for testing, costing  exporters a total of NIS400 for the single sample.  This testing is not required if the final destination is the West Bank.
Furthermore, exporters must pay a total of NIS 1500 clearance fee per truck to Israeli government at the King Husain bridge crossing that connects the West Bank with Jordan and a total of NIS 1010 clearance fee per truck to the Jordanian government at the crossing, in addition to NIS 200-300 Duty clearance fee for refrigerated trucks.
The agricultural exports from the Gaza Strip receive government support and encouragement, because the sector in Gaza is a relatively small — between seven and eight percent — of the economy, but agricultural products make up 85% of the exports from Gaza. Therefore, trucks of agricultural products destined to the West Bank are fee exempted by the Ramallah government. However, exporters pay NIS 20 per truck at the Kerem Shalom/Karim Abu Salem crossing to the Gaza government.

[3] Interview with HatemEwida, undersecretary Ministry of Economic, 28 Jan, 2016, Gaza.

Most of the agricultural exports are made by land as the cost of land transport is relatively lower than the cost of shipping by other means. Yet for Gaza exporters the process of moving the agricultural products by land from the exporter's location to the importer's destination involves significant financial costs, as well as costs associated with lengthy and uncertain delivery times. The experience of Gaza Strip exporters proves that, Back-to-Back and other procedures imposed by Israeli occupation, led to an increase in land transport, freight and logistics cost, leading to a loss for agriculture producers .It important to mention that delivery on time is one of the most important factors in exporting competitive products. Delays and lengthy transportation can limit the competitiveness in targeted markets. The trade blockade imposed upon Gaza by both Egypt and Israel needs to be lifted. Sustainable development of Gaza will be impossible without efforts to integrate Gaza into the regional and global economy through trade, while taking into account neighboring countries' legitimate security concerns. Gaza's industry and agriculture will not experience substantial growth without access to the West Bank and foreign markets, including the Israeli market. For example, exports from Gaza to Jordan take up one to two days in normal situations and their transportation cost is 1.5 times higher than the cost from Jordan to Saudi Arabia, which take up around 10 hours. Also, Gaza exporters pay around 29% additional costs for transport to Saudi Arabia compared to the exporters form the West Bank (See table 2). This has caused agriculture producers and other economic sectors, including the furniture and garment industries, great losses, and reduced competitiveness of Gaza exports with external markets and forced many exporters to not enter international Markets.

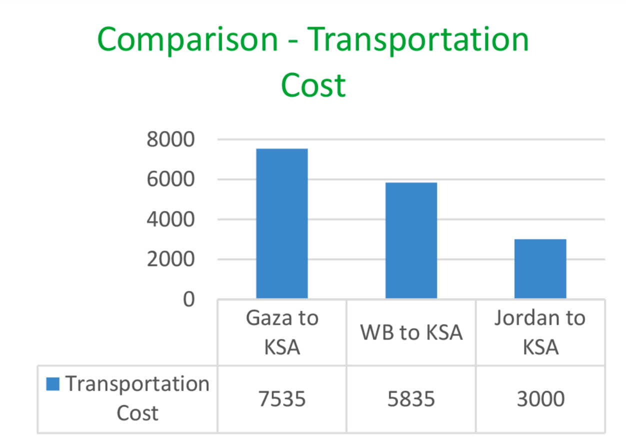
## Table 1: Transportation cost of agricultural export from Gaza Strip to final destination

| From Gaza Strip to Different Destination | From Gaza Strip | |
|---|---|---|
| | Total | Cost from each station per one truck in NIS |
| Kerem Shalom/Karim Abu Salem | 400 | 400 |
| Inside Kerem Shalom/Karim Abu Salem | 650 | 250 |
| Israel | 2650 | 2000 |
| Targomya crossing point | 2650 | 2000 |
| West Bank | 3050 | 400 |
| Talkarim | 3650 | 3000 |
| Other cities in the West Bank | 4050 | 400 |
| From Kerem Shalom/Karim Abu Salem to King Husain Bridge | 2900 | 2250 |
| From King Husain Bridge to Amman | 3930 | 1030 |
| From King Husain Bridge Saudi Arabia | 7535 | 4635 |
| From King Husain Bridge to Qatar | 9080 | 6180 |

- NIS 300 added at every station if exporters use refrigerated trucks.
- NIS 200 transport cost (internal transport) must be added from the farm (production point) to the packing station. [4]

[4] Based on actual cost estimates supplied by Exporting agricultural associations to the consultant in one to one interviews

## Table 2: Transportation cost of agricultural export from Gaza Strip to final destination




### Air freight and sea shipping

Air transport is used in the export of some agricultural items such as strawberries, roses, sweet peppers, and herbs to Europe via the Israeli airport Ben-Gurion. After passing through KS crossing. The estimated air transport cost to Europe is about $1,300 per ton; in addition to 22 euros paid per pallet from the port of entry to the local cities. The total transportation cost of these goods to its final destination is estimated at 43%% of the value of the goods.
Sea shipping is rarely used in the export of agricultural items (except for herbs that is transported by air), from the Gaza Strip due to the extended time of delivery to the destination country, but it was used in the past as a method for exporting strawberries especially to Europe due to its lower cost. The estimated shipping cost about is $ 340 per ton. Shipping time is extended in comparison to airfreight. For instance, shipment takes about six days to arrive to the port of Marseille.

### Lack of Palestinian export support mechanisms:

Due to their limited access and movement capacity, Gaza exporters lack  information about ports, Israeli ministries, export procedures through Israeli ports, and required documents ... etc., which lead to their over reliance on Israelis shipping and customs agents, and thus leading to higher cost of services and time.

- There is a lack of internationally accredited Palestinian institutions to control the quality of exported products and help in issuing internationally recognized certificates. ISO, HACCP, GMP and other international certification brokers are accredited by international accreditation bod¬ies, while the State of Palestine lacks an independent accreditation system that could accredit Palestinian cer¬tification brokers and laboratories. Having a substandard level of global recognition for the PSI trademark is clear evidence of the problem. PSI is the sole quality standard-setting institution, and its services extend to providing metrology services, lab accreditation and product and process compliance certification. Moreover, PSI is rec¬ognized as the national accreditation body, putting PSI in charge of accrediting all of the services offered by PSI. This setup creates conflict of interest and hence keeps international buyers wary because they have to rely on trust and personal relationships rather than a sound and reliable quality system.

- There is a lack of qualified and accredited Palestinians agents on the bridge. The full control and export clearance procedures happen through the Israeli private sector which requires high fees. This is, unfortunately, partially due the Palestinian political situation, as this area of business is dominated by Israeli companies due to the absence of licensed Palestinian freight forwarders who can con¬duct such services legally. In order to overcome the situation, Palestinian traders use Palestinian intermediary agents who work as local agents or brokers for authorized Israeli freight forwarders, or for an international freight forwarder, to perform the same duties and provide their clients with the same services.


## What should be done?

- The Palestinian government and the international community, including the UN should pressure Israel to abide by its responsibilities under the Paris protocol and facilitate the movement of goods from Gaza to the West Bank and international markets and reduce the transportation fee to allow for the recovery of the Palestinian economy.
- The Palestinian government and the international community, including the UN should pressure Israel lift all restrictive measures imposed on the movement of goods from Gaza and provide adequate infrastructure for Palestinian exports at the Israeli controlled crossings and re-open all other commercial crossings that has been operating before the blockade.
- The Palestinian government should raise awareness of exporters in the Gaza Strip about all the steps that products or shipment traffic pass-through. Gaza exporters lack the execution procedural detail, which significantly affects the cost and time.
- The Palestinian government and donors' organizations should support the establishment of marketing companies for Palestinian exports that receive international support in order to help promote agricultural exports, and raise their competitiveness in foreign markets, and reduce costs.
- The Palestinian government should establish an agricultural export fund to support exporters for losses incurred by exporters as a result of Israeli restrictions and measures to enhance exporters' resiliency and ability to stand on their feet and continue economic relations with external markets.

This document is produced by Palestine Trade Center – PalTrade within the activities of the "ECONOMIC RECOVERY IN THE GAZA STRIP: PROMOTING CHOICE, RESILIENCE AND DIGNITY" PROJECT Phase II.