

# THE STATE OF PALESTINE NATIONAL EXPORT STRATEGY STONES AND MARBLE SECTOR EXPORT STRATEGY 2014-2018



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# THE STATE OF PALESTINE NATIONAL EXPORT STRATEGY STONE AND MARBLE SECTOR EXPORT STRATEGY • 2014-2018





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## ACRONYMS

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B2B	Business to Business	MSME	Micro, Small and Medium Enterprise
CE mark	Conformity mark for products sold in the European Economic Area	NES	National Export Strategy
EU	European Union	PEC	Palestinian Export Council
FPCCIA	Palestinian Federation of Chambers of Commerce, Industry and Agriculture	PFI	Palestine Federation of Industries
GDP	Gross Domestic Product	PNA	Palestinian National Authority
GNP	Gross National Product	PoA	Plan of Action
HS	Harmonized System	PPU	Palestine Polytechnic University
ITC	International Trade Centre	PSI	Palestine Standards Institution
MAS	Palestine Economic Policy Research Institute	SITC	Standard International Trade Classification
MoA	Ministry of Agriculture	TSI	Trade Support Institution
MoE	Ministry of Education	TSN	Trade Support Network
MoF	Ministry of Finance	TVET	Technical & Vocational Education and Training
MoHE	Ministry of Higher Education	UAE	United Arab Emirates
MoL	Ministry of Labour	UNIDO	United Nations Industrial Development Organization
MoLG	Ministry of Local Government	USAID	United States Agency for International Development
MoNE	Ministry of National Economy	USM	Union of Stone and Marble Industry
MoPAD	Ministry of Planning and Administrative Development		



# EXECUTIVE SUMMARY

The Palestinian stone and marble sector is an important sector from the perspective of employment generation, contribution to gross domestic product (GDP) and export potential. The comparative advantage in this sector mainly stems from the availability of large deposits of high quality stone available primarily in Hebron, Bethlehem, Nablus, Ramallah and Jenin. Because of the location of most quarries, and cutting factories in the West Bank, Gaza plays a relatively minor role in the sector's operations.

## CURRENT CONTEXT

Sector enterprises can be divided into three main categories depending on their specific activities: quarries (300), stone and marble factories (750), and workshops (600). The sector is labour-intensive, although use of heavy machinery and automation is increasingly becoming commonplace. Enterprises primarily operate on a family-owned model, with techniques being passed down over generations. Current employment ranges between 15,000 and 20,000 employees, and more than 99% of the sector's employment base is male.

Sector production has gradually started recovering after being severely curtailed during the second intifada and the years of economic turmoil that followed. Currently, the State of Palestine is the twelfth largest producer of stone and marble in the world, producing an estimated 22 million square metres of goods annually. The main products of the sector are: slabs, tiles, building stones, headstones, decorative products, kitchen and counter tops, and blocks.

## EXPORT PERFORMANCE

According to 2011 estimates the stone and marble sector has exhibited the highest Revelled comparative advantage (RCA) in the State of Palestine's export basket. The reserves in the sector are valued at US\$30 billion, reflecting the export potential of the sector. The global stone and marble sector grew 16% in absolute terms between 2007 and 2011. Leading importers include the United States of America, China, European Union (EU) markets (such as Germany, France, Italy and the Netherlands), Japan and India. China leads global exporters, commanding 12% of the overall market. Other leading exporters include Germany, the United States and Italy. Turkey and Japan have emerged as important exporters in recent years.

In 2011 the State of Palestine's exports in the sector stood at US\$ 130.7 million. Sector exports have been trending upwards since 2007 – exhibiting an absolute growth rate of 13% between 2007 and 2011. The main exports are monumental stones, marble, travertine, alabaster and other articles made of cement, concrete and artificial stone, essentially covered by the HS 68 and HS 25 codes.

Israel remains the primary market for the sector's products, driven by years of existing relationships and geographical proximity to customers. The latter is especially pertinent given the weak logistical capabilities of the Palestinian exporting base. A portion of the product exported to Israel is re-exported (both with and without rework), while the majority is used in the construction sector. Other major markets for Palestinian stone and marble products include Jordan and the United Arab Emirates (UAE). Limited export relationships also exist in Qatar and Italy.

Competition in international markets is increasing and directly affects Palestinian exports. In Arab markets, Palestinian enterprises face competition from Indian, Iranian and Turkish marble. In Europe, Palestinian exports compete with Italian and French marble, while Brazilian, Mexican, and Argentinean marble are the main competitors in North America. Competition from low cost producers from countries such as China, Jordan, India, and Turkey is also sharply on the rise.

## KEY COMPETITIVENESS ISSUES AFFECTING THE SECTOR'S EXPORT VALUE CHAIN

The following challenges have been identified for the stone and marble export value chain:

- **Supply-side challenges:** outdated production lines; fragmented ownership structure of quarries and production facilities; high costs of fuel used for excavation activities; limited land suitable for quarrying; and the low availability and high cost of qualified labour in quarries and cutting factories.
- **Business environment challenges:** accessing credit on reasonable terms (for issues such as collateral and interest rates); onerous and costly licencing and registration procedures; complicated logistical processes at the borders which add considerable delays and costs to exporting goods; the absence of certified

quality laboratories; irregularities in water supplies; and the high cost of electricity for quarries and cutting factories.

- **Market entry challenges:** limited sources of trade information for the sector; a shortage of networking opportunities in target markets; traditional dependence on the Israeli market resulting in limited capacity of enterprises to penetrate international markets; and a weak technical and vocational education and training (TVET) structure. ↗
- **Development-based challenges:** Inadequate environmental waste management systems in the sector.

## OPTIONS FOR FUTURE DEVELOPMENT

In order to realise the export potential and increase the export competitiveness of the Palestinian stone and marble sector, the following vision has been adopted:

“Towards an export-oriented and globally competitive Palestinian stone and marble industry”

To achieve this vision, the strategy will reduce binding constraints on trade competitiveness and capitalize on strategic options identified for the sector. The strategic orientations for the next five years aim at developing key markets in the short and medium term for Palestinian exporters, and facilitating structural changes in the value chain to increase its efficiency and value generation for the State of Palestine.

The sector strategy vision will be achieved through the implementation of the Plan of Action (PoA) for the sector. This PoA revolves around the following four strategic objectives, each spelling out specific sets of activities intended to address both challenges and opportunities facing the stone and marble sector in the State of Palestine:

- Improve and develop the supply capacities of the sector to ensure supply consistency geared towards target markets;
- Improve sector quality management in order to enable sector enterprises to meet health, safety and environmental standards in international target markets;
- Improve the business environment and reduce the costs of doing business for sector enterprises so as to improve their profitability;
- Improve market access for existing and potential exporters in the sector through the provision of trade information.

## ROADMAP FOR SECTOR EXPORT DEVELOPMENT

The short-term market development of the stone and marble sector will focus on selected products in such target destinations as Israel, Saudi Arabia, UAE, Jordan,

and Italy. In the medium-long term, EU markets (especially Italy), and Qatar have been identified as prospects.

To achieve efficiency gains in the stone and marble sector, key structural changes to the value chain will include the following: facilitating implementation of quality management systems within the enterprise base; establishing an export consortium; improving the wastewater treatment capacity of enterprises; developing the capacity of the sector to utilize waste to create new product offerings; and developing a centre of excellence for the stone and marble sector, primarily focusing on TVET and testing services.

## TARGET MEASURES

Provided the PoA is fully implemented, key targets of the strategy as defined by the sector exporters are to:

- Increase exports to Israel by 3 % to take advantage of the growth dynamics of the market and to of the recognition that Palestinian stone is enjoying in Israel.
- Increase exports by 7 % to United Arab Emirates and Kuwait to benefit from the strong growth of demand in those markets and of the capacity of the sector to satisfy buyers requirements
- Increase exports to Jordan by 5% to benefit from the closeness of the Jordanian market and the high demand from the booming construction sector there.
- Diversify into new markets: Qatar, Canada, Korea and Iraq.

## IMPLEMENTATION MANAGEMENT

The achievement of these ambitious targets will require continuous and coordinated efforts from all relevant private and public stakeholders as well as support from key financial and technical partners, donors and investors alike. Several institutions are designated to play a leading role in the implementation of the sector PoA and bear the overall responsibility for successful execution of the strategy. They will be assisted by a range of support institutions which are active in the stone and marble sector. Each institution mandated to support the export development of the stone and marble sector is clearly identified in the strategy PoA. Moreover, the proposed Palestinian Export Council (PEC) and its Executive Secretariat will play a coordinating and monitoring role in the implementation of the stone and marble sector strategy in the overall framework of the National Export Strategy. In particular, PEC will be tasked with coordinating the implementation of activities in order to optimize the allocation of both resources and efforts across the wide spectrum of stakeholders.



## Box 1: Methodological note

The approach used by ITC in the strategy design process relies on a number of analytical elements such as value chain analysis, trade support network (TSN) analysis, problem tree, and strategic options selection, all of which form major building blocks of this sector export strategy document.

### **Value chain analysis**

A comprehensive analysis of the sector's value chain is an integral part of the strategy development process. This analysis results in the identification of all players, processes and linkages within the sector. The process served as the basis for analysing the current performance of the value chain and for deliberating on options for the future development of the sector.

The analysis charts the main stages involved in the sector's export process, from inputs sourcing to distribution in market segments. This is followed by the identification of key stakeholders who include not just the primary players (e.g. producers, processors, distributors) but also those fulfilling support functions with direct linkages to the primary players. These support services include input providers, transportation service providers, packaging houses, and financial service providers, among others.

### **Trade Support Network (TSN) analysis**

The trade support network is comprised of the support services available to the primary value chain players as discussed above. It is comprised of policy institutions, trade support organisations, business services providers and civil society. An analysis of the quality of service delivery and constraints affecting the constituent trade support institutions (TSIs) is an important input to highlight gaps in service delivery relative to specific sector needs. A second analysis of TSIs assessed their *level of influence* (i.e. their ability to influence public policy and other development drivers in the country and therefore make things happen or change) and their *level of capacity* to respond to the sector's needs.

### **Problem tree analysis**

The problem tree analysis used is based on the principles of root cause analysis and the Pareto principle. The basic rationale behind the problem tree exercise is to gain a deeper understanding of *what* is causing the high level constraints, and *where* solution-seeking activities should be directed. This exercise involves a two-step process:

- *First*, constraints identified as part of the value chain analysis, surveys, and consultations with key public and private stakeholders result in the identification of constraints affecting sector-specific export value chains. These constraints are generally abstract and a more thorough breakdown is necessarily required to identify the root causes of the constraints. Multiple levels of root causes are identified for each high level constraint.
- *Second*, the problem tree uses the Pareto principle to identify critical root causes in the problem tree. This is especially important for resource limitations that usually exist during the *strategy implementation phase*. Therefore focus is needed on the 20% of the root causes which result in 80% of constraints affecting the sector. Critical paths through the problem tree are charted to discover the most significant root causes constraining the sector.
- These steps resulted in a comprehensive problem tree detailing the constraints affecting the sector's export value chain, along with characterisations related to the types, granularity and intensity of the root causes. The problem tree then guides the design of the solution-seeking phase of the strategy.

### **Defining where we want to go**

The strategic options for the development of the sector are reflected in the future value chain, which is the result of consultations, surveys and analysis conducted as part of the sector strategy design process. The future perspective has two components:

- A market-related component involving identification of key markets in the short and medium-to-long term for Palestinian exporters, and;
- Structural changes to the value chain that result in either strengthening of linkages, or introduction of new linkages.

Both components are integral parts of the future value chain, which is the basis of the strategic action plan developed for the sector.



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# INTRODUCTION

The strategy, and the analysis underlying it, presented in this document form an integral part of the National Export Strategy of the State of Palestine. The stone and marble sector is the most dynamic manufacturing export sector in the State of Palestine and one which plays a key role in driving exports and GDP growth. The sector's expansion has been hampered following the second intifada and the subsequent construction slowdown but it is now clearly gaining ground, although pre-intifada production levels have not been recovered. The comparative advantage in this sector mainly stems from the availability of large deposits of high quality and unique stone available in the West Bank, and unique traditional expertise and workmanship transmitted from generation to generation.

This document presents the expectations of the private and public sectors for the enhancement of the stone and marble sector in the State of Palestine. Without concerted efforts to address critical issues and identified market development opportunities the sector's potential would remain untapped instead of leveraging its potential and capacity. The five year plan of action of the export strategy proposes realistic and achievable interventions aimed at overcoming weaknesses in the value chain and at taking advantage of opportunities that exist in target markets. With due diligence and concerted effort, the strategy will contribute to repositioning the sector as a leading export supplier of Palestinian high quality stone and marble products to meet the growing demand of world markets.

## HISTORICAL OVERVIEW

The Palestinian stone and marble sector has been shaped over centuries by a variety of factors, which include culture, religion, and of course the high quality and variety of stone available locally. The historical association of the sector with the Holy Land in particular has helped to boost the brand. Additionally, the variety of textures and colours of Palestinian stone has helped to build demand globally for the sector's products. To a large extent, sector enterprises have been able to leverage the comparative advantages associated with these natural resources relatively well in the past.

The sector continued to gain momentum until the second intifada, after which production was severely affected.<sup>1</sup> The industry was further affected by the decline in construction following the economic and military crises that have affected Palestine in the last few years. Despite these setbacks, production has grown significantly in the last five years, although it is still below the levels realized prior to the second intifada.<sup>2</sup>

1. Union of Stone and Marble Industry (USM) (July 2011). *Stone & Marble in Palestine - Developing a Strategy for the Future*.

2. *Ibid*.

# WHERE WE ARE NOW

## CURRENT CONTEXT<sup>3</sup>

The Palestinian stone and marble sector is primarily comprised of micro, small and medium enterprises (MSMEs) distributed within the West Bank, although a few scattered enterprises do operate out of the Gaza Strip. Industrial activity for the stone and marble sector within the West Bank is concentrated in Hebron and Bethlehem, where most of the big factories and quarries are situated.

Sector enterprises can be divided into three main categories depending on their specific activities: quarries, stone and marble factories, and workshops.

- The estimated 300 quarries that specialize in producing stone for construction are located exclusively in the West Bank. These deposits<sup>4</sup> are absent in the Gaza Strip and are most concentrated in the limestone-rich geography near Hebron and Bethlehem. The most advanced quarry enterprises, which make use of modern technologies and equipment, are found in Hebron and Bethlehem. Stone and marble quarries represent one of the largest sources of natural resources in the State of Palestine and it is estimated that the territory contains over 20,000 dunums of reserves.
- Processing factories were estimated to number 750 enterprises in 2012 and employ 15,000 workers. These facilities are distributed throughout the Palestinian territories, with the majority located near Bethlehem's quarries. Compared with other industrial sectors the stone processing industry is characterized by high productivity levels per employee.

- Finally, there are roughly 600 workshops concentrated in Hebron, Ramallah and Gaza. These workshops use stone from both domestic and foreign quarries to develop products in accordance with clients' tastes and preferences.

## EMPLOYMENT<sup>5</sup>

Sector production has historically been carried out by family-based enterprises and ownership has been passed down along hereditary lines.

Local construction has spurred labour demand in the industry and the Union of Stone and Marble (USM) estimates that the sector is responsible for employing between 15,000 and 20,000 workers, of which more than 99% are male. Unskilled workers earn an average annual wage of US\$6,000 and are relatively well paid compared with other major sectors. Although enterprise size does vary, the vast majority of enterprises (70%) are comprised of less than 10 employees, while 20% have from 10 to 20 employees, and the remaining 10% have more than 20.

The Palestinian stone and marble industry is highly automated in certain areas but still considered a labour-intensive industry. The industry's workers can be classified into three categories (administrative, skilled and unskilled workers). The management structure is largely marked by low skill levels and low awareness of best practices, and there is an overall paucity of qualified workers with adequate skills and experience in the sector.

3. Unless indicated, the data sources for this section are: Union of Stone and Marble Industry (USM) (July 2011). *Stone & Marble in Palestine - Developing a Strategy for the Future*; and Asia Holy Land Marble & Stone Co (Research and Development Department) (2010). *Marble and Stone Industry in the Palestinian Territories*.

4. The Asia Holy Land Marble & Stone Company has identified the following five major quarry areas, in descending order of quality: Yatta (Hebron): no cracks, good color, uniform texture; Jamma'in (Nablus): similar to Yatta stone; Bani Naim (Hebron): no splits, hard stone (tough on cutting machines); Qabatiya (Jenin): hard stone, varying colors, high water absorption; Al-Sheikhs (Bethlehem): similar to Qabatiya stone.

5. Data in this section from Asia Holy Land Marble & Stone Co (Research and Development Department) (2010). *Marble and Stone Industry in the Palestinian Territories*.



## PRODUCTION

The Palestinian stone and marble sector is comprised of two main sub-sectors – marble stone and building stone. Products produced in the State of Palestine fall into one of the following seven categories: slabs, tiles, building stones, headstones, decorative products, kitchen and counter tops, and blocks.<sup>6</sup>

- **Slabs:** produced in various sizes in accordance with customer demand.
- **Tiles:** produced in various sizes and finishes in accordance with customer demand.
- **Building stones:** a traditional product of the sector, these blocks are produced in a variety of finishes and used for construction. They have low added value and consume a large quantity of material.
- **Headstones:** high value added, niche product that leverages spiritual ties to the Holy Land.
- **Decorative products:** high value added product.
- **Kitchen and counter tops:** produced in workshops with imported materials, these have a strong foothold in the local market.
- **Blocks:** primary output from quarries.<sup>7</sup>

6. Asia Holy Land Marble & Stone Co (Research and Development Department) (2010). *Marble and Stone Industry in the Palestinian Territories*.

7. There is a ministerial decree that prohibits the export of blocks, except for 700m3/month to Jordan according to bilateral agreement.

The State of Palestine is the twelfth-largest producer of stone and marble in the world. It produces 22 million square metres of goods annually (from 100 million tons of raw stone)<sup>8</sup> and the labour productivity in the sector is almost five times that of other sectors.<sup>9</sup>

Table 1 provides key indicators<sup>10</sup> related to the stone and marble sector. The stone and marble sector is responsible for 25% of the State of Palestine's industrial revenue, 4.5% of gross national product (GNP), and 5.5% of GDP. Its output contributes to 4% of world output by volume and 2% of world output by value. Moreover, the sector is responsible for 26% of Palestinian exports and products are sold in 56 countries. Sales are valued at between US\$ 417 million and US\$440 million. Exports to Israel comprise 71% of sales, although many of those products are re-exported. Exports to the rest of the world comprise 4% of sales, and the remainder is sold locally. Current reserves are valued at US\$30 billion and the sector exports roughly US\$60 million annually.

8. Union of Stone and Marble Industry (USM) (July 2011). *Stone & Marble in Palestine – Developing a Strategy for the Future*.

9. Asia Holy Land Marble & Stone Co (Research and Development Department) (2010). *Marble and Stone Industry in the Palestinian Territories*.

10. Information in this paragraph and subsequent table from: Asia Holy Land Marble & Stone Co (Research and Development Department) (2010). *Marble and Stone Industry in the Palestinian Territories*.

Table 1: Key economic data, Palestinian stone and marble sector 2010

Indicators	Value
Current reserves	\$30 billion
Industrial revenue	25%
Contribution to GNP	4.5%
Contribution to GDP	5.5%
Contribution to global output	4% by volume, 2% by value
Total annual sales	US\$417 million to US\$440 million
Exports/domestic sales split	4%/96%
Annual sector exports	\$60 million
Contribution to Palestinian exports	26%
Number of export destinations	56 countries
Main importer	Israel (71%)

**Source:** Asia Holy Land Marble & Stone Co (Research and Development Department) (2010). *Marble and Stone Industry in the Palestinian Territories*.

## Box 2: Union of Stone and Marble

The Union of Stone and Marble (USM) is a non-profit organization established in 1996 to facilitate the expansion of the sector. Headquartered in Bethlehem, with three regional offices in Hebron, Nablus and Jenin, the union is a membership-based organization and represents about 500 firms within the Palestinian stone and marble industry.

The Union was founded with the following goals<sup>11</sup> in mind:

- To represent the interest of its members in this sector;
- To sustain the standard level of production to maintain a competitive edge;
- To adopt and promote high quality standard products;
- To expand sales in new international markets;
- To develop the sector by adapting the latest technology;
- To reinforce the role of USM as a resource centre for information on the Palestinian stone industry.

In the absence of an official sector strategy USM has filled an important gap by developing an unofficial sector strategy document to guide and inform sector enterprises – those with an export as well as a domestic outlook. As part of its current strategy, the USM leadership has identified seven key priorities for the sector and suggested strategies for addressing them:

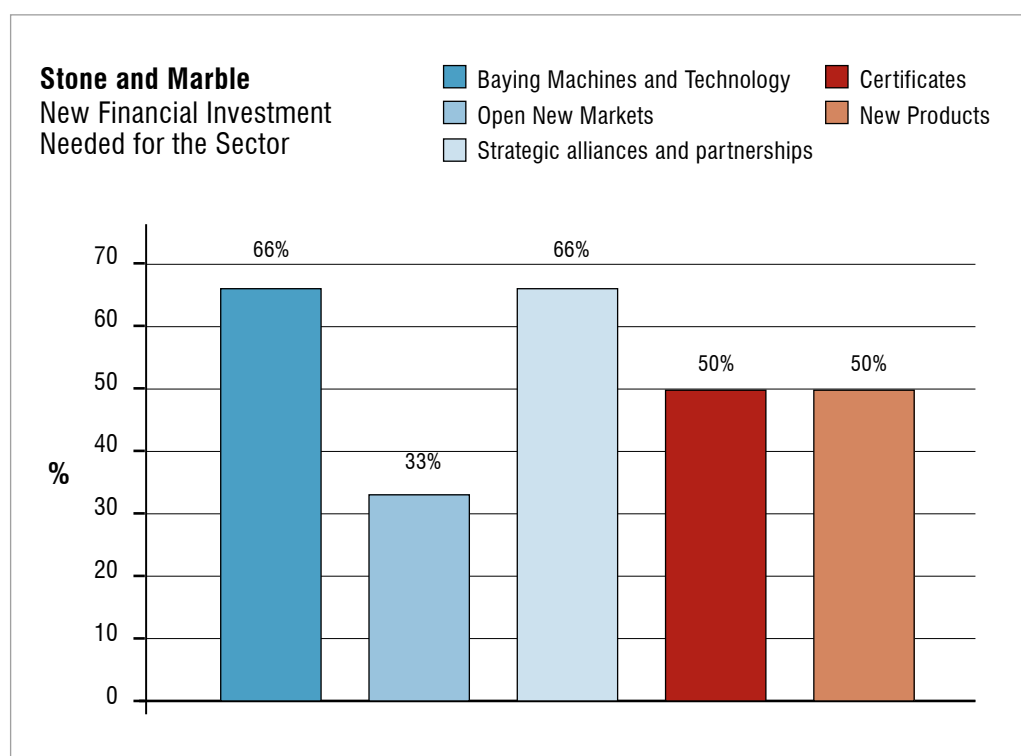
Table 2: USM sector strategy<sup>12</sup>

USM sector priorities	Recommended actions
Reduce environmental impact	<ul style="list-style-type: none"> <li>• Perform environmental impact assessments</li> <li>• Conduct sludge and water recycling projects</li> <li>• Conduct quarry rehabilitation projects</li> </ul>
Build capacity at USM	<ul style="list-style-type: none"> <li>• Create new functional and intelligence units</li> <li>• Create a new technical unit to:               <ol style="list-style-type: none"> <li>1. Undertake geological surveys;</li> <li>2. Establish a group buying co-operative;</li> <li>3. Create new business projects</li> </ol> </li> </ul>
Improve access to raw materials	<ul style="list-style-type: none"> <li>• Advocacy on Area C, in partnership with the Office of the Quartet Representative and the South Eastern Mediterranean Environment Project, to:               <ol style="list-style-type: none"> <li>1. Establish a transparent, affordable and efficient permitting process;</li> <li>2. Determine a workable solution for the quarrying area at Beit Fajjar;</li> <li>3. Ensure Palestinians are able to undertake a geological survey.</li> </ol> </li> </ul>
Improve product quality and stimulate the use of advanced equipment	<ul style="list-style-type: none"> <li>• Stronger engagement with international manufacturers</li> <li>• Training in quality management</li> <li>• Bank finance schemes</li> </ul>
Facilitate exports	<ul style="list-style-type: none"> <li>• Training in sales and marketing</li> <li>• Support for trade shows, exhibitions, and missions</li> <li>• Develop an export consortia</li> </ul>
Improve transportation to markets	<ul style="list-style-type: none"> <li>• USM is engaged with the Israeli Coordinator of Government Activities in the Territories and the Crossing Points Authority with a focus on:               <ol style="list-style-type: none"> <li>1. The container facility at Allenby for export to Arab markets;</li> <li>2. The container facility at Jalameh for export from the Jenin area; and</li> <li>3. Upgrading facilities at Tarqumia.</li> </ol> </li> </ul>
Enhance the role of universities	<ul style="list-style-type: none"> <li>• Cooperation between Palestinian and international institutions</li> <li>• Joint research</li> <li>• Training programmes for stone companies</li> <li>• Twinning with overseas research and technical centres</li> <li>• Inclusion of the sector in donor projects focused on education and training</li> </ul>

11. Union of Stone and Marble Industry (USM) (July 2011). *Stone & Marble in Palestine – Developing a Strategy for the Future*.

12. *Ibid.*

Figure 1: Investment needs of the Palestinian stone and marble sector



Source: PFI - CARANA Corp. (2009). *The Current Status of the Industrial Sector in Palestine*. USAID, p. 30.

## INVESTMENT NEEDS OF THE SECTOR

Investments in the sector are estimated at US\$400 million (2009 figures), and are mainly comprised of family and personal savings.<sup>13</sup>

Figure 1 shows the broad areas of investment needs for the sector based on a survey conducted by the Palestine Federation of Industries (PFI) in 2009. Based on the survey, prominent among these needs are investments for procurement of machines and technology (66%), investments for opening/penetrating new markets (including business development), participation in international trade fairs (66%), certifications (33%), new product development (50%), and forging strategic alliances and partnerships (50%).

## VALUE CHAIN OPERATIONS

The stone and marble value chain relies upon both national and international support services to extract, process, and bring finished products to consumer markets.

The value chain begins with the extraction of raw materials from quarries. Inputs at this stage include utilities, water, transportation, machinery, and the labour force. Further support is planned to be provided by geological survey services which analyse potential sourcing sites. It should be noted that key by-products of this stage are mineral resource waste, dust, wastewater, and slurry, a mix of water and dust. As mentioned earlier the sector is labour-intensive, although there are patches of high automation among enterprises in Hebron and Bethlehem.

Italian machinery has been the traditional preference for Palestinian enterprises; however, firms are increasingly turning to relatively less expensive equipment from Turkey and, to a lesser extent, China.<sup>14</sup> It is estimated that about 85% of production is semi-automatic, while the remaining 15% is fully automated.<sup>15</sup>

After extraction, blocks are sent to cutting factories to be processed, finished, and cut to size, as illustrated by the six-step manufacturing process in box 3. These processes result in carbon dioxide waste, scraps, dumps,

13. PFI - CARANA Corp. (2009). *The Current Status of the Industrial Sector in Palestine*. USAID, p. 30.

14. Asia Holy Land Marble & Stone Co (Research and Development Department) (2010). *Marble and Stone Industry in the Palestinian Territories*.

15. *Ibid.*



Source: © PalTrade

and other types of environmental blight. After preparation the materials are sent to both small and large-scale processing workshops.

Packaging suppliers provide support in the final stages of the value chain, while business support agencies play a key role in distribution. Roughly 25% of products are distributed to local buyers (23% in the West Bank and 2% in the Gaza Strip), while the remaining products

are exported.<sup>16</sup> Support for finishing and cutting, as well as processing, is provided by manufacturer suppliers. Some building stones and decorative products proceed to wholesale outlets for construction purposes. Tiles may be sent to wholesale outlets for construction or for re-processing. Slabs are generally processed before being exported.

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16. *Ibid.*

**Box 3: Palestinian stone manufacturing process****1. Selection of the right quarry**

Geologists check the soil with the latest technology using sonograms, samples and digging to make sure that the stone is of the highest quality and that there is sufficient reserve of this specific material. Then experts identify and mark the blocks to be processed.

**2. Cutting the block down to slabs**

The blocks are brought to processing factories and sliced down to slabs using top of the line Italian technology. Slabs with even the tiniest defect are rejected on the spot.

**3. Sizing of the slabs**

The slabs are sized down and rectified to the required dimensions. The sizes are checked with a digital measuring device to avoid even the smallest size difference.

**4. Filling process**

Fillers are prepared by colour experts to match the natural colour of the stone in laboratories.

**5. Polishing or honing**

The tiles are polished and honed with top quality Italian abrasives and processed repeatedly until the desired surface finish is met.

**6. Final Quality Check and Shade Selection**

Teams check every tile by eye for defined shade restrictions. Out-of-shade tiles are carefully eliminated.

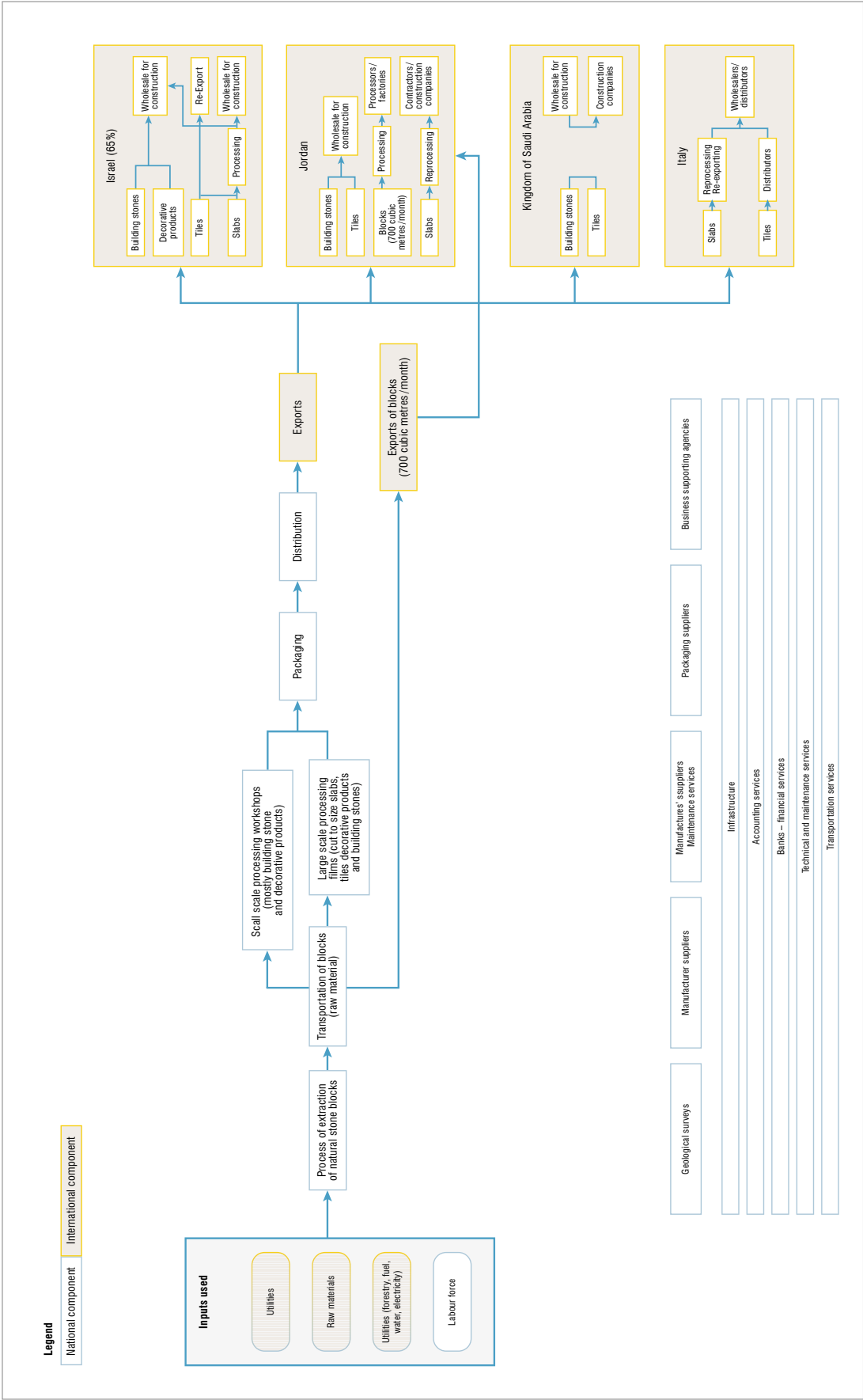


Source: © PalTrade

The current value chain for the stone and marble sector is indicated in figure 2.



FIGURE 2: CURRENT VALUE CHAIN



## IMPORTS

Imports in the stone and marble sector primarily comprise imports of production inputs for the sector, as well as imports for supporting the booming construction sector in the State of Palestine.

### IMPORTS OF PRODUCTION INPUTS

Production inputs in the sector are primarily fuel and machinery. Fuel is mostly sourced from Israel and is a significant cost for sectors. Sectors are also dependent on Israeli power companies for electricity supply. In terms of capital equipment, enterprises have historically made use of Italian machinery, although over the last few years and due to the current economic crisis, some companies prefer less expensive machinery from Turkey and China.

### OTHER IMPORTS

Major imports are machinery, production line equipment and tools. Major imported products are marble and granite slabs that are cut into size by local small producers

to be used for internal decorations such as in kitchens and stairs.

As indicated in table 3, the bulk of imports are designated for the State of Palestine's construction sector, which is growing at a rapid pace. Portland cement, essential to the construction sector, constitutes more than 50% of the total imports of the sector. Other imports used by the construction sector include HS 250590 (natural sands), and HS 251710 (pebbles, gravel, broken or crushed stone used for aggregates). The State of Palestine's stone and marble industry is proficient in importing raw stone, and re-exporting it after processing activities such as cutting and polishing. This is reflected in the imports of HS 680221 (marble, travertine and alabaster, simply cut or sawn, with a flat or even surface), which is the second top export product in the State of Palestine.

The main source of imports for the sector is Israel, as indicated in table 3, with the exception of worked monumental stones,<sup>17</sup> which are processed products imported from India and China.

17. Natural rock material quarried cut, split, dressed or polished specifically for use in monuments, gravestones or memorial tablets.

Table 3: Imports of stone and marble products by the State of Palestine in 2011

HS Code	Product label	Value of imports in 2011 (US\$ thousand)	Main suppliers in 2011
HS 68 HS 25	Stone and marble	220 359	
252329	Portland cement n.e.s.	116 028	Israel (111 563)
680221	Marble, travertine and alabaster, simply cut or sawn, with a flat or even surface	68 302	Israel (67 330)
250590	Natural sands (other than metal-bearing sands)	7 483	Israel (7 076)
680293	Worked monumental/building stone n.e.s., granite	5 089	India (2 366) China (1 687)

Source: ITC calculations based on Comtrade's data

Overall, imports in the sector exceed exports by over 100%, as indicated in figure 3. The trade deficit has been negative since 2000, and has been growing steadily in recent years. This is partially due to the increase in imports for construction material and does not necessarily indicate a weakness in the stone and marble sector. Indeed, as indicated in figure 3, exports have been growing at a steady, though gradual, rate.

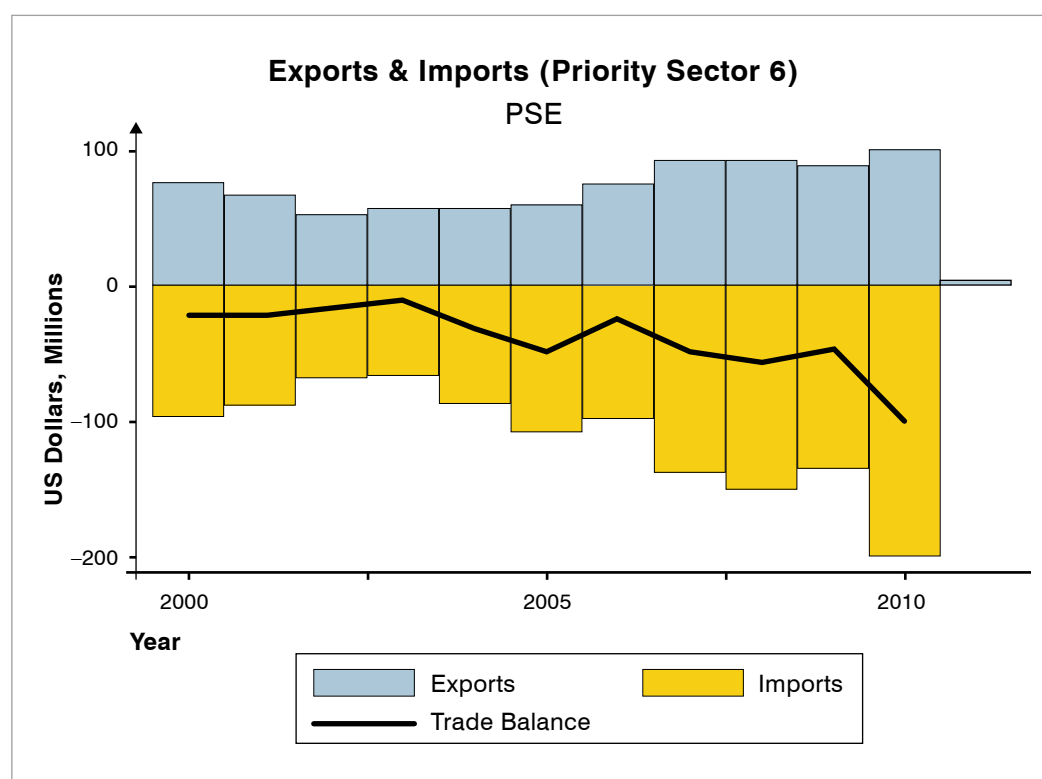
## GLOBAL MARKETS – A SNAPSHOT

### GLOBAL IMPORT TRENDS

The total market size of the stone and marble sector stood at US\$97 billion in 2011, reflecting 16% growth between 2007 and 2011 figures. The United States and China are the leading importers in the sector, with China exhibiting an especially high growth rate of imports in recent years. By comparison, the growth rate for the United States has declined significantly since 2007.



Figure 3: Trade balance for the stone and marble sector



Source: ITC calculations based on Comtrade's SITC Revision 3 data

Table 4: Leading global importers of stone and marble products (HS 68 and HS 25)\*

Rank	Importers	Value of imports in 2011 (US\$ thousand)	Growth in value between 2007 and 2011 (%) (absolute growth)	Share of world imports (%)
	World	96 919 613	15.7	100.0
1	United States	8 969 228	-17.4	9.3
2	China	7 138 660	87.3	7.4
3	Germany	6 335 777	36.9	6.5
4	France	3 730 702	5.4	3.8
5	Japan	3 703 486	22.6	3.8
6	Netherlands	3 431 662	25.8	3.5
7	India	3 321 307	141.5	3.4
8	Italy	2 922 461	-14.9	3.0

Source: ITC calculations based on Comtrade's data

\* HS 68 refers to articles of stone, plaster, cement, asbestos, mica etc.  
HS 25 refers to articles of salt, sulphur, earth, stone, plaster, lime and cement.

Other leading importers include Germany, France, Japan, the Netherlands, India and Italy. India in particular has

exhibited high import growth rates – the highest among the top 10 leaders – in recent years.

Table 5: *Leading global exporters of stone and marble products*

Rank	Exporters	Value of exports in 2011 (US\$ thousand)	Growth in value between 2007 and 2011 (%)	Share of world exports (%)
	World	89 011 567	22.2	100.0
1	China	10 784 115	49.7	12.1
2	Germany	8 124 082	23.0	9.1
3	United States	5 649 342	23.8	6.3
4	Italy	4 321 731	-11.0	4.9
5	Turkey	3 585 594	43.8	4.0
6	Japan	3 441 182	48.3	3.9
7	Spain	3 199 096	14.0	3.6
8	Belgium	2 785 551	-3.6	3.1

Source: ITC calculations based on Comtrade's data

Table 6: *Total exports of Palestinian stone and marble products 2007–2011*

HS Code	Product label	Total value of exports in 2011 (US\$ thousand)	Growth of Palestinian exports by value (%)	Annual growth of world imports by value (%)	Global share of exports in 2011 (%)
			2007-2011	2007-2011	2011
HS 68 HS 25	Total stone and marble exports	130 753	13	3	0

Source: ITC calculations based on Comtrade's data

## GLOBAL EXPORT TRENDS

China leads the work in exports of stone and marble products, exporting 12% of the global market. With a growth rate of almost 50%, Chinese exports in the sector are growing at a pace more than double the global average. Germany and the United States round out the top three exporting groups and exhibit export growth close to the global average. In recent years, Turkey and Japan have emerged as leading exporters, growing at a pace that is almost double the global average.

## THE STATE OF PALESTINE'S EXPORT PERFORMANCE

In 2011, total exports of the sector amounted to US\$ 130.7 million. Sector exports have been growing at a rate of 13% (in absolute values) between 2007 and 2011, slightly lower than the global growth rate of consumption.

The main exports of the Palestinian stone and marble sector are monumental stones, marble, travertine, alabaster,

and other articles made of cement, concrete and artificial stone, essentially covered by HS 68 and HS 25 codes.

The main market for the sector's products continues to be Israel, primarily driven by closeness and familiarity with the Israeli market based on existing relationships. A portion of the Palestinian stone and marble sector products imported by Israel is re-exported. Some of the building stones and decorative products exported to Israel are used in the construction sector, while the remainder are re-exported. Tiles may be sent to wholesale outlets for construction, re-exported directly, processed and re-exported, or processed and sent to construction wholesale outlets. Slabs are generally processed before proceeding to re-export or wholesale outlets for construction.

Other major markets include Jordan, Saudi Arabia, and the UAE. There are relationships in place within other high potential markets in Italy and Qatar; however, these are limited in scope. Figure 4 provides a comprehensive list of export markets for Palestinian stone and marble products in 2011.

Figure 4: *Export markets for Palestinian stone and marble products 2011*

International	United States United Kingdom	Canada Germany Japan	Belgium France Korea	Australia Turkey Russia	Italy China
Regional	United Arab Emirates Syria	Egypt Israel Jordan	Saudi Arabia Iraq	Kuwait Lebanon	Qatar Oman

**Source:** ITC calculations based on Comtrade's data

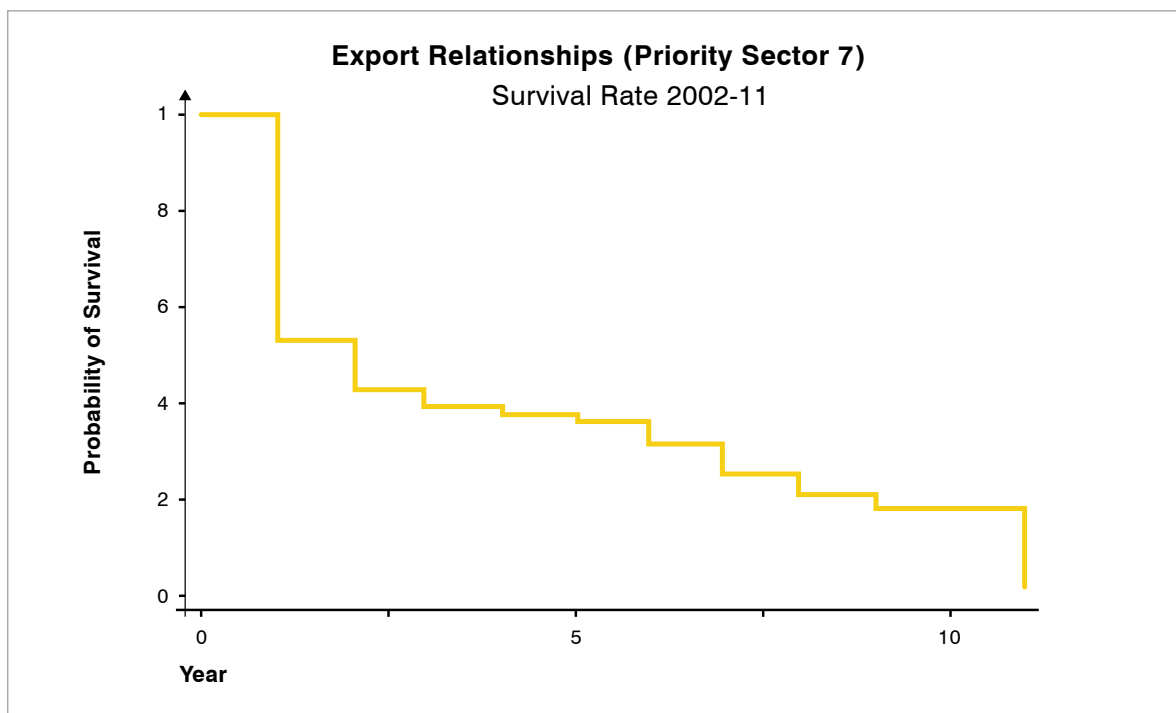
Table 7: *Main target markets of Palestinian exports of stone and marble products in 2010*

HS code	Product label	Value of exports in 2010 (US\$ thousand)	Main target markets
HS 68 HS 25	Stone and marble	116 723	
680229	Other monumental or building stone and articles thereof, simply cut or sawn, with a flat or even surface	70 688	Israel (61 431) Jordan (6 351) UAE (838)
680221	Marble, travertine and alabaster, simply cut or sawn, with a flat or even surface	28 305	Israel (25 595) Jordan (1 281) UAE (719)
251511	Marble, travertine (crude or roughly trimmed)	8 925	Jordan (5 804) UAE (1 486) Saudi Arabia (842)
681011	Building blocks and bricks of cement, concrete or artificial stone	1 855	Israel (1 855)
681019	Other: tiles, flagstones, bricks and similar articles	1 709	Israel (1 709)
681099	Other: articles of cement, of concrete or of artificial stone	1 387	Israel (1 347)
251710	Pebbles, gravel, broken or crushed stone used for aggregates etc.	961	Israel (961)
251611	Granite, crude or roughly trimmed	677	Israel (409) Jordan (264)
680223	Granite, simply cut or sawn, with a flat or even surface	618	Israel (618)

**Source:** ITC calculations based on Comtrade's data

As shown in figure 5, export relationships in the stone and marble sector are extremely short-lived. The probability of an export relationship in the sector surviving past the first year is just above 40%. This probability drops by approximately 10% in the second and third years each, dropping to 20% by the end of the third year.

Figure 5: Export survival rate – Palestinian stone and marble sector



Source: ITC calculations based on Comtrade SITC Revision 3

## COMPETITION IN TARGET MARKETS

While the sector has thus far been able to compete on both price and quality, competition in international markets is increasing. In the Arab market, Palestinian enterprises face competition from Indian, Iranian and Turkish marble; in Europe they compete with Italian and French marble; and in North America they compete with Brazilian, Mexican, and Argentinean marble.<sup>18</sup> Moreover, there is ever-increasing competition from low cost producers from countries such as China, Jordan, India, and Turkey.<sup>19</sup> Despite this, there is much room for increased market penetration in areas where preferences conform to Palestinian materials.<sup>20</sup> These markets include the United States, Europe, the Far East, Australia and the Persian Gulf.<sup>21</sup> The main competitors in most major markets are Turkey, China, Iran, Egypt, India, and Brazil, despite the lack of more precise data for each market.

18. *Ibid.*

19. Estimates of the Union of Stone and Marble Industry (2011).

20. Asia Holy Land Marble & Stone Co (Research and Development Department) (2010). *Marble and Stone Industry in the Palestinian Territories*.

21. *Ibid.*

## THE INSTITUTIONAL PERSPECTIVE

Trade support institutions (TSIs) are institutions that have an interest in, and bearing on, the sector's export development. Broadly, the trade services institutions providing important services to the Palestinian stone and marble sector can be categorized in the following support areas:

- Policy support network
- Trade services network
- Business services network

Tables 9 to 11 identify the main TSIs whose service delivery affects the stone and marble sector in the State of Palestine. An assessment of the TSIs along four key dimensions – coordination, human capital, financial sustainability, and advocacy – is provided. The ranking (high/medium/low) for each TSI was selected in the context of service delivery of the TSI to stone and marble sector stakeholders. In other words, the assessment was conducted based the evaluation of stakeholders of TSIs from the perspective of how well they serve the stone and marble sector.

### POLICY SUPPORT NETWORK

These institutions represent ministries and competent authorities responsible for influencing or implementing policies at the national level.

Table 9: *Palestinian stone and marble sector policy support network*

Policy support network					
Name	Function/role	Coordination*	Human capital**	Financial sustainability***	Advocacy****
The Ministry of National Economy (MoNE)	For the stone and marble sector the Ministry of National Economy is responsible for: <ul style="list-style-type: none"> <li>• Standards and legislation enforcement</li> <li>• Duty draw back payments</li> <li>• Release of financial guarantees</li> <li>• Industrial licences</li> <li>• Renewal of industrial operating licences</li> <li>• Verification of names</li> <li>• Certification of a Certificate of Origin</li> <li>• Re-exporting transactions</li> <li>• Certified Exporter certificates.</li> </ul>	H	M	L	L
Ministry of Finance (MoF)	MoF is responsible for the collection and administration of customs duties, as well as following up on customs revenues from Israel to the Palestinian treasury and dealing with daily problems facing importers and exporters.	L	M	L	L
Ministry of Labour (MoL)	MoL manages the formulation and administration of labour laws and legislation, managing and monitoring the labour market. It also supports the development and organization of cooperatives.	M	M	L	L
Ministry of Planning and Administrative Development (MoPAD)	The responsibility of MoPAD is to ensure that a realistic and Palestinian-owned development agenda is effectively implemented through a coordinated donor response working in tandem with well-managed and accountable Palestinian National Authority institutions.	L	L	L	L
Ministry of Higher Education (MoHE)	MoHE has overall responsibility for supervising the education system in the State of Palestine, including schools, colleges and universities. It is also responsible for overseeing technical & vocational education & training (TVET), which includes vocational schools, vocational-technical training centres, and technical colleges.	M	H	L	L

\* Coordination with other TSIs: measures the strength of this institution's linkages with other institutions, as well as the beneficiaries of their services (in particular, the private sector), in terms of collaboration and information sharing.

\*\* Human capital assessment: assesses the general level of capability of this institution's staff in terms of their training and responsiveness to sector stakeholders.

\*\*\* Financial resources assessment: assesses the financial resources/capacity available to the institution to provide service delivery in an efficient manner.

\*\*\*\* Advocacy: the efficacy of this institution's advocacy mechanisms and how well/frequently this institution disseminates important information to the sector.



Source: © PalTrade

### TRADE SERVICES NETWORK

These institutions or agencies provide a wide range of trade-related services to both government and enterprises. These institutions support and promote sectors and are concerned with the delivery of trade and export solutions within a developing country.

Table 10: *Palestinian stone and marble sector trade services network*

Trade services network					
Name	Function/role	Coordination	Human capital	Financial sustainability	Advocacy
Palestine Standards Institution (PSI)	PSI is the only Palestinian body responsible for issuing standards: its mandate goes further, to providing accreditation for labs, granting the quality mark for products, and signing cooperation and mutual recognition agreements with other countries to facilitate trade. PSI provides technical services to meet the sector's quality needs, supporting importers, exporters, manufacturers, service providers, the government and the public. It monitors conformity to market entry requirements into the State of Palestine, or for Palestinian exporters targeting worldwide markets.	L	H	L	L
Palestine Economic Policy Research Institute (MAS)	MAS has a key function to promote knowledge-based policy formulation by conducting economic and social policy research, including assessing trade agreements or conducting feasibility studies.	L	M	L	L

## BUSINESS SERVICES NETWORK

These are associations, or major representatives, of commercial service providers used by exporters to effect international trade transactions.

Table 10: *Palestinian stone and marble sector business services network*

Business services network					
Name	Function/role	Coordination	Human capital	Financial sustainability	Advocacy
Palestine Trade Centre (PalTrade)	PalTrade is the trade promotion organization of the State of Palestine with the mandate to develop exports. PalTrade's mission for the stone and marble sector is improving trade competitiveness through trade promotion and capacity-building; fostering international business practices and standards among professionals, firms and business organizations; and providing trade-enabling knowledge.	H	M	L	M
Union of Stone and Marble (USM)	The Union of Stone and Marble is a non-profit organization that was established to facilitate the expansion and safeguard the interests of the sector. It further helps sustain the standard level of production to maintain a competitive edge, expand into new markets, and adapt to the latest technology. It also serves as a resource centre for information on the Palestinian stone and marble industry.	H	L	L	M
Palestinian Federation of Industries (PFI)	PFI facilitates industrial development as the basis for economic performance. PFI's representational role is to educate, advocate, and communicate the value of a developed, socially responsible and globally competitive industry.	M	L	L	M
Federation of Palestinian Chambers of Commerce, Industry and Agriculture (FPCCIA)	The Federation's main task is to help local chambers of commerce to meet the requirements of the global business environment. The FPCCIA is an advocacy institution which aims to ensure that the private sector operates freely and has a voice in policy formulation at the national level. It also strives to create strong regional and international links to global markets and works with small and medium enterprises to improve their performance, focusing on market access, quality, costing and financial management.	L	L	M	L

- In terms of coordination, important institutions such as PSI, FPCCIA, and MAS have a major deficiency in coordination with other institutions, mainly with USM.
- USM has significant deficiency in terms of human resources. It lacks senior staff or consultants to respond to its responsibilities (due to its limited financial resources). The same is true for PFI, PalTrade and FPCCIA. Strong, relevant training courses may help to overcome these deficiencies.
- Almost all Palestinian institutions suffer from limited financial resources.



Table 12: Perception of Palestinian trade support institutions – influence vs. capability

		Capacity of institution to respond to sector's needs	
		Low	Medium
Level of influence on the sector	High	<ul style="list-style-type: none"> <li>• Ministry of National Economy</li> <li>• USM</li> <li>• Ministry of Finance</li> <li>• Ministry of Labour</li> <li>• PalTrade</li> <li>• PFI</li> <li>• FPCCIA</li> </ul>	<ul style="list-style-type: none"> <li>• Ministry of Higher Education</li> <li>• (Palestine Polytechnic University)</li> <li>• Palestine Standards Institution</li> </ul>
	Low	<ul style="list-style-type: none"> <li>• MoPAD</li> <li>• Palestine Economic Policy Research Institute</li> </ul>	

- According to the survey two main institutions have a high influence on the sector. They are the Ministry of National Economy, which is responsible for industrial licensing and permits and for setting up and running export procedures; and the Union of Stone and Marble Industry, 'the sector representative institution', a membership-based organization which was founded to defend the interests of its members, to develop the sector, and to raise its competitiveness even though their capacities are limited.
- PalTrade, PFI and FPCCIA also play important roles because they are the main private sector institutions in the State of Palestine that have direct influence on the sector, though their capabilities are also low.
- PSI has strong technical capacity but its influence is medium.
- Palestine Polytechnic University has medium capacity and medium influence on the industry, primarily through the Stone Centre (a tripartite partnership-based institution formed by MoNE, PPU and USM).
- The capacities of all the institutions above need to be strengthened to facilitate the development of export potential in the stone and marble sector.

## SECTOR DEVELOPMENT INITIATIVES

A number of donor and development programmes have contributed to strengthening the Palestinian stone and marble sector. The Italian government and the United Nations Industrial Development Organization (UNIDO) have been developing the Stone and Marble Centre programme since 2009. Its goal is to strengthen the role of academic institutions in the sector by developing a two year academic programme, testing laboratory and technical unit. To this end it seeks to help the sector improve access to qualified workers (both technical and administrative) as well as standards and specification testing.

Source: © PalTrade

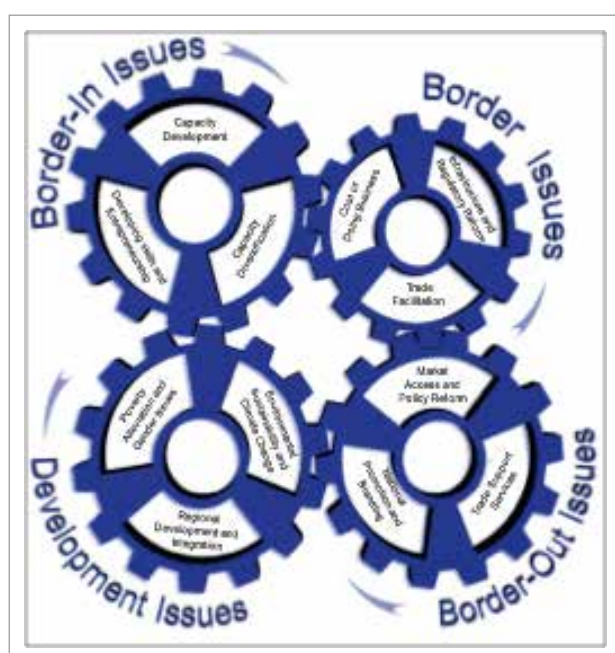


The United States Agency for International Development (USAID) Enterprise Development and Investment Promotion programme (2009-2011) helped sector players participate in international fairs, thereby increasing Palestinian firms' access to international markets. It furthermore helped firms institute ISO 9001:2008 standards, while at the same time promoting the exchange of international experiences and supporting attendance at the Stone Centre in order to improve the sector's human resources.

Finally, USAID's Compete programme (2011-2016) supports the sector through a number of activities. Training courses are provided on different topics in order to enhance capacities, and participation in international trade fairs is facilitated to increase access to foreign markets. Work is also done to improve water recycling practices and maintenance for filter presses. Furthermore, feasibility and technical studies of how to develop new products out of powder are ongoing as part of the programme.

### Box 4: Overview of supply side issues in the Palestinian stone and marble sector

- Outdated production lines are inadequate for large scale production.
- The fragmented ownership structure of quarries and production facilities limits the productive capacity of enterprises.
- High costs of fuel used for excavation activities significantly increase enterprise costs.
- There is limited land suitable for quarrying due to political and geographical restrictions in the State of Palestine.
- The low availability and high cost of qualified labour in quarries and cutting factories increases operating costs for enterprises.



- *The quality of the business environment* are constraints that influence transaction costs, such as regulatory environment, administrative procedures and documentation, infrastructure bottlenecks; certification costs, Internet access and the cost of support services;
- *Market entry issues* are essentially external to the country (but may also be manifested internally), such as market access, market development, market diversification and export promotion.
- *Social and economic concerns* include poverty reduction, gender equity, youth development, environmental sustainability and regional integration.

### OUTDATED PRODUCTION LINES ARE INADEQUATE FOR LARGE SCALE PRODUCTION

To scale up the productive capacity of the sector, it will be important to make investments and improve the reliability and capacity of production lines. Production lines in enterprises in the sector are outdated and characterized by low technology levels. Their low capacities prevent the sector from developing economies of scale. Additionally, equipment breakdowns are common and lead to additional costs. Enterprises are unable to make investments to upgrade their equipment due to a combination of factors, including financial constraints and a culture of low technological use. The geological nature of land in the State of Palestine is such that it is necessary to dig deeper in quarries to access good quality stone. This requires specialized and good quality equipment, which is in low supply.

### EXPORT COMPETITIVENESS ISSUES

The export constraints analysis uses a four gears framework presented below to determine the major concerns to export development. The analysis presents those constraints that are major export competitiveness bottlenecks in for the stone and marble sector in the State of Palestine. However, the assessment also explores issues limiting socioeconomic spillovers of exports to the larger society:

- *Supply-side issues* affect production capacity and include challenges in areas such as availability of appropriate skills and competencies, diversification capacity, technology, and low value addition in the sector's products;



Source: © PalTrade

### THE FRAGMENTED OWNERSHIP STRUCTURE OF QUARRIES AND PRODUCTION FACILITIES LIMITS THE PRODUCTIVE CAPACITY OF ENTERPRISES

Enterprises in the sector are primarily family-owned MSMEs. The management structure is such that the employees start work in the business at an early age and gain experience in the existing tools and processes employed in the firm. The management structure is largely marked by low skills levels, and a low awareness on best practices in the sector.

### HIGH COSTS OF FUEL USED FOR EXCAVATION ACTIVITIES SIGNIFICANTLY INCREASE ENTERPRISE COSTS

The government policy on industrial fuel, primarily relating to the tax rate, is unfavourable for the sector. The tax rate can be as high as 100%. This taxation policy does not differentiate between regular fuel and industrial fuel. Given the current fiscal challenges facing the Palestinian National Authority, the high tax rates are leveraged as a means to generate revenues for the government so that it can execute important functions such as paying public servants. However, this exerts a significant burden on enterprises due to increases in their operational costs.

The high cost of fuel also adds to the challenges caused by the inadequate supply of electricity in some quarrying areas. The lack of financial resources at the government level has made it challenging to fund such costly infrastructure projects. In these areas, the erratic or absent electricity supply necessitates the usage of generators that consume large amounts of fuel. Fuel is primarily imported into the State of Palestine from Israel, and there is also a significant amount of smuggling from Gaza.

### THERE IS LIMITED LAND SUITABLE FOR QUARRYING DUE TO POLITICAL AND GEOGRAPHICAL RESTRICTIONS IN THE STATE OF PALESTINE

Limited availability of land is driven by a combination of both political and geographical considerations. Quarrying permits are rarely granted in Area C, and are complicated by the strict procedures of granting permits to Palestinians in the West Bank. Also, geographical considerations limit the amount of land that can be used for quarrying.

### THE LOW AVAILABILITY AND HIGH COST OF QUALIFIED LABOUR IN QUARRIES AND CUTTING FACTORIES INCREASES OPERATING COSTS FOR ENTERPRISES

There is a limited number of qualified workers with adequate skills and experience in the sector. The TVET structure does not produce an adequate number of graduates annually, and there is a shortage of courses aligned with the requirements of the sector. The harsh working conditions in the sector further dissuade qualified workers from seeking employment in it. These conditions are created in part due to ineffective and inadequate industrial safety inspections by public authorities.

The lack of specialized labour, coupled with restrictive labour laws, is leading to a rigid labour market. The law is overtly biased towards employees and the workers unions command significant power over the private sector. In parallel, high utility costs and high rental costs have resulted in a high cost of living. Both have resulted in high labour costs, which comprise up to 15% of average total costs for businesses in the stone and marble sector.

### Box 5: Overview of business environment issues in the Palestinian stone and marble sector

- Accessing credit on reasonable terms (because of issues such as collateral and interest rates) is a significant challenge for stakeholders in the sector.
- Onerous and costly licencing and registration procedures increase the cost of doing business and lead to delays.
- Complicated logistical processes at the borders add considerable delays and costs to exporting goods.
- The absence of certified quality laboratories increases costs for exporters.
- Irregularities in water supplies regularly disrupt operations in the sector.
- The high cost of electricity for quarries and cutting factories significantly increases operating costs for enterprises.

#### ACCESSING CREDIT ON REASONABLE TERMS (BECAUSE OF ISSUES SUCH AS COLLATERAL AND INTEREST RATES) IS A SIGNIFICANT CHALLENGE FOR STAKEHOLDERS IN THE SECTOR

Access to credit for enterprises in the sector is a challenge stemming from both institutional and enterprise level issues. Enterprises have limited collateral to back up loans from both regular and Islamic finance sources. Individuals cannot acquire land titles for their holdings in all of Area C and part of Area B. Even when individuals do possess collateral it proves insufficient against the requirements of the bank, which are frequently equal to or above the amount of the loan.

On a related note, enterprises are unwilling to change their legal status to that of an incorporated entity, primarily due to limited understanding of the benefits involved, as well as a desire to maintain privacy of records.

The absence of a government-backed loan/credit guarantee scheme is also a challenge that drives up collateral and interest conditions for enterprises. These schemes frequently involve banks borrowing funds at a cheaper rate through government guarantees and then transferring a portion of the savings through more accessible terms for MSMEs. Given the fiscal crisis currently affecting the Palestinian government, it has limited capacity for deploying such schemes.

The availability of Islamic finance options is an important consideration for stakeholders in the stone and marble sector, given that a majority of the enterprises are based in conservative areas such as Hebron. There are insufficient volumes of Islamic finance in the State of Palestine,

partly because both Islamic finance options and the market are underdeveloped.

There is a level of change management required among enterprises, in order to increase the willingness of family owned MSMEs to seek loans from banks. This level of willingness is low for cultural reasons (primarily religious as well as a tendency to seek loans from family and community members before seeking loans from banking institutions).

On an institutional level, weaknesses in the financial system stem from the high-risk political environment as well as the economic instability of the Palestinian National Authority, both of which have limited the level of investments in the financial sector.

#### ONEROUS AND COSTLY LICENCING AND REGISTRATION PROCEDURES INCREASE THE COST OF DOING BUSINESS AND LEAD TO DELAYS

Lack of coordination between various governmental agencies and a cumbersome set of procedures involved in licensing (for exports) and registration processes lead to delays and increased operating costs for enterprises in the sector. For instance, clearances from the Ministry of Environmental Affairs (a necessary prerequisite for exporting in the sector) can sometimes take several months – and in some cases years – to be granted. This can have a significant adverse impact on export-related operations in the sector. At a similar level, the lack of coordination between various governmental entities (such as the tax department and Ministry of National Economy) leads to overlapping procedures and requirements for filling out forms.



### COMPLICATED LOGISTICAL PROCESSES AT THE BORDERS ADD CONSIDERABLE DELAYS AND COSTS TO EXPORTING GOODS

The lack of Palestinian control on any sea or dry ports increases the dependency of exporters on land crossings, which involve significant logistical burden. For instance, the back-to-back procedures on the border with Jordan (King Hussein Bridge) reduce the per truck volume of goods (due to requirements stemming from security checks) and frequently result in breakage during the unloading and loading process. Additionally, the reduced per truck volume imparts a higher cost to exporters as they have to rent additional trucks.

### THE ABSENCE OF CERTIFIED QUALITY LABORATORIES INCREASES COSTS FOR EXPORTERS

There is inadequate infrastructure for performing certain quality tests within the State of Palestine, so samples have to be sent to Israel and Jordan, among other countries. This is due to the unavailability of internationally accredited testing laboratories that can perform comprehensive tests within the State of Palestine. For example, there are no testing labs for determining the quality of raw materials or finished products. Testing institutions also do not possess the technology to assess the quality of stone at quarries. The lack of accreditation is partly due to policy challenges and partly due to the lack of financial resources available to these institutions.

### IRREGULARITIES IN WATER SUPPLIES REGULARLY DISRUPT OPERATIONS IN THE SECTOR

The water distribution system is inadequate for the requirements of the sector. Given the existing shortage of supplies, high priority has to be allocated to satisfying civilian needs and there is a perennial shortage for industry. There is a shortage of water resources, especially in

the West Bank, driven by inadequate water management as well as the control of major sources of water, both above ground and underground, by Israeli authorities. Restrictions exist on these sources of water. For instance, the Palestine Water Authority is not allowed to dig additional wells without prior authorization. Management of existing wells (by the Palestine Water Authority) is weak and inadequate. Supply of water can have a high cost, especially during summer, when water has to be distributed through tankers.

Water management is also an issue on the enterprise side: the majority of firms in the sector do not have wastewater recycling systems in place due to financial constraints, and therefore a high proportion of recyclable water is lost.

### THE HIGH COST OF ELECTRICITY FOR QUARRIES AND CUTTING FACTORIES SIGNIFICANTLY INCREASES OPERATING COSTS FOR ENTERPRISES

The cost of electricity is high in the State of Palestine for a variety of reasons. One of the main contributing factors is the dependence on Israel as the sole electricity provider in the State of Palestine. There are no Palestinian electricity generation plants currently operating, and all electricity has to be bought from Israeli power companies. The limited power supply generated by natural gas and petrol power generation results in high costs, primarily due to the cost of fuel, which is all imported.

There is limited feasibility to use alternative sources of electricity such as solar power because of the long pay-back period, and also because the electricity requirements in the stone and marble sector are much higher than these sources can provide. Exacerbating these challenges is the inability of the Palestinian government to subsidize electricity for industries. The government has been struggling in recent years with a severe financial crisis and is not in a position to provide support.

#### Box 6: Overview of market entry issues in the Palestinian stone and marble sector

- Limited sources of trade information for the sector limit timely and reliable market intelligence.
- A shortage of networking opportunities in target markets inhibits new business development and trade promotion for sector enterprises.
- Traditional dependence on the Israeli market has resulted in limited capacity of enterprises—especially MSMEs—to explore market penetration opportunities in other target markets.
- The TVET structure in the State of Palestine has an inadequate focus on marketing in the stone and marble sector.

## LIMITED SOURCES OF TRADE INFORMATION FOR THE SECTOR LIMIT TIMELY AND RELIABLE MARKET INTELLIGENCE

Access to relevant and timely trade information is an important prerequisite for maintaining export relationships on a sustainable basis. Trade information covers a variety of areas such as international market and consumption trends, market opportunities, international trade fairs and exhibitions, and mandatory requirements in target markets related to quality standards and documentation. This market intelligence can help improve the export readiness of potential exporters, as well as provide valuable market intelligence for existing exporters.

There is an overall lack of sources of trade information in the Palestinian stone and marble sector, stemming from a variety of contributing factors. The shortage of both ready-made as well as tailored market analyses for the sector is driven to a large extent by the lack of qualified providers of such services. PalTrade and USM are the two main focal point organizations in this regard and both suffer from capacity constraints – both financial and technical. On one hand, the financial resources of these institutions come largely from membership contributions, which vary annually due to changing membership patterns. This affects the predictability of funds available from year to year and consequently has an impact on the efficacy of services delivered. On the other hand, there are limited technical resources that these organizations can dedicate to collecting and disseminating trade information. The existing TVET structure in the State of Palestine does not graduate enough trade information specialists due to the shortage of professional training programmes and courses. Also, the level of accumulated experience in this area is relatively low.

## A SHORTAGE OF NETWORKING OPPORTUNITIES IN TARGET MARKETS INHIBITS NEW BUSINESS DEVELOPMENT AND TRADE PROMOTION FOR SECTOR ENTERPRISES

Networking is critical for gaining exposure and visibility in international target markets, which are already highly saturated with competition. An important mode of networking for exporting enterprises includes participation in international exhibitions and trade fairs. Currently, participation in international exhibitions and trade fairs is minimal except for the 30 biggest firms in the sector. A variety of factors create this low participation – lack of information on existing events, lack of experience of sector firms in terms of promoting their products, shortage of resources

available to firms to invest in participation, and an overall weak institutional support structure for trade promotion.

The informational gap has been discussed above. There are weaknesses at both the enterprise and the institutional levels in providing up to date information about exhibitions and trade-related events organized in target markets. Even if enterprises are aware of these events, they have limited financial resources at their disposal to attend. Enterprises do not account for such activities while budgeting. The lack of existing exposure to such events – outside of traditional markets such as Israel – is also a constraining factor.

Another reason for the lack of effective branding in the sector is fragmented marketing efforts by individual firms rather than concerted joint efforts. There are no export consortiums for the sector, so the resources pooled into marketing and branding are very limited.

There are also institutional weaknesses. The potential to leverage Palestinian consulates to collect and transmit market intelligence is currently underutilized. The presence of consulates in target markets places them in a good position to feed trade information back to relevant institutions and, ultimately, stakeholders in the stone and marble sector; however this does not occur often. The core focus of consulates is political matters and little attention is devoted to commercial and trade issues. There is also a need to add more qualified commercial attachés to consulates. Another gap that needs to be addressed is the lack of governmental support in terms of allocating financial resources to fund participation to these events.

## TRADITIONAL DEPENDENCE ON THE ISRAELI MARKET HAS RESULTED IN LIMITED CAPACITY OF ENTERPRISES – ESPECIALLY MSMES – TO EXPLORE MARKET PENETRATION OPPORTUNITIES IN OTHER TARGET MARKETS

Enterprises in the sector currently exhibit very low market diversification, and this is primarily driven by the high level of dependence and concentration on the Israeli markets. From a financial and logistics point of view, coordinating meetings with Israeli companies – even with movement restrictions – is still easier than travelling overseas, which involves more stringent visa restrictions and greater dedication of financial resources.

Limited access to trade information, which is driven by weaknesses at both the institutional and enterprise levels, is another challenge (discussed above). Trade information for non-Israeli markets is hard to collect and disseminate at the institutional level and therefore not available at the enterprise level.



Source: © PalTrade

### Box 6: Overview of development issues in the Palestinian stone and marble sector

- Better environmental waste management systems are needed.

#### THE TVET STRUCTURE IN THE STATE OF PALESTINE HAS AN INADEQUATE FOCUS ON MARKETING IN THE STONE AND MARBLE SECTOR

Frequently, enterprises do not have experienced marketing staff. This is a long-standing cross-sector challenge for all NES priority sectors and relates to shortfalls in the national TVET system. Universities do not offer adequate courses in marketing specific to the stone and marble sector, and there is a lack of university-industry partnership in general relating to trade promotion.

#### BETTER ENVIRONMENTAL WASTE MANAGEMENT SYSTEMS ARE NEEDED<sup>22</sup>

Special note should be taken of the environmental impact of sector production. Roughly 0.5 million cubic metres of water are used annually. Although this water is used at various points in the value chain, its main purpose is to cool the saws used to cut blocks and slabs. When the wastewater mixes with dust it creates a compound commonly known as slurry. Anywhere from 0.7 to 1 million tons of this waste is produced each year and it can have negative impacts on both the health of workers and the surrounding environment. Although some of this waste is captured and recycled, the majority of Palestinian enterprises lack the know-how needed to tackle waste by-products in an efficient and environmentally friendly manner.

22. Based on Union of Stone and Marble Industry (July 2011). *Stone & Marble in Palestine - Developing a Strategy for the Future*.



# WHERE WE WANT TO GO

## OPTIONS FOR FUTURE DEVELOPMENT

The following vision has been developed towards the goal of increasing the export competitiveness in the Palestinian stone and marble sector.

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*Towards an export-oriented and globally competitive Palestinian stone and marble industry*

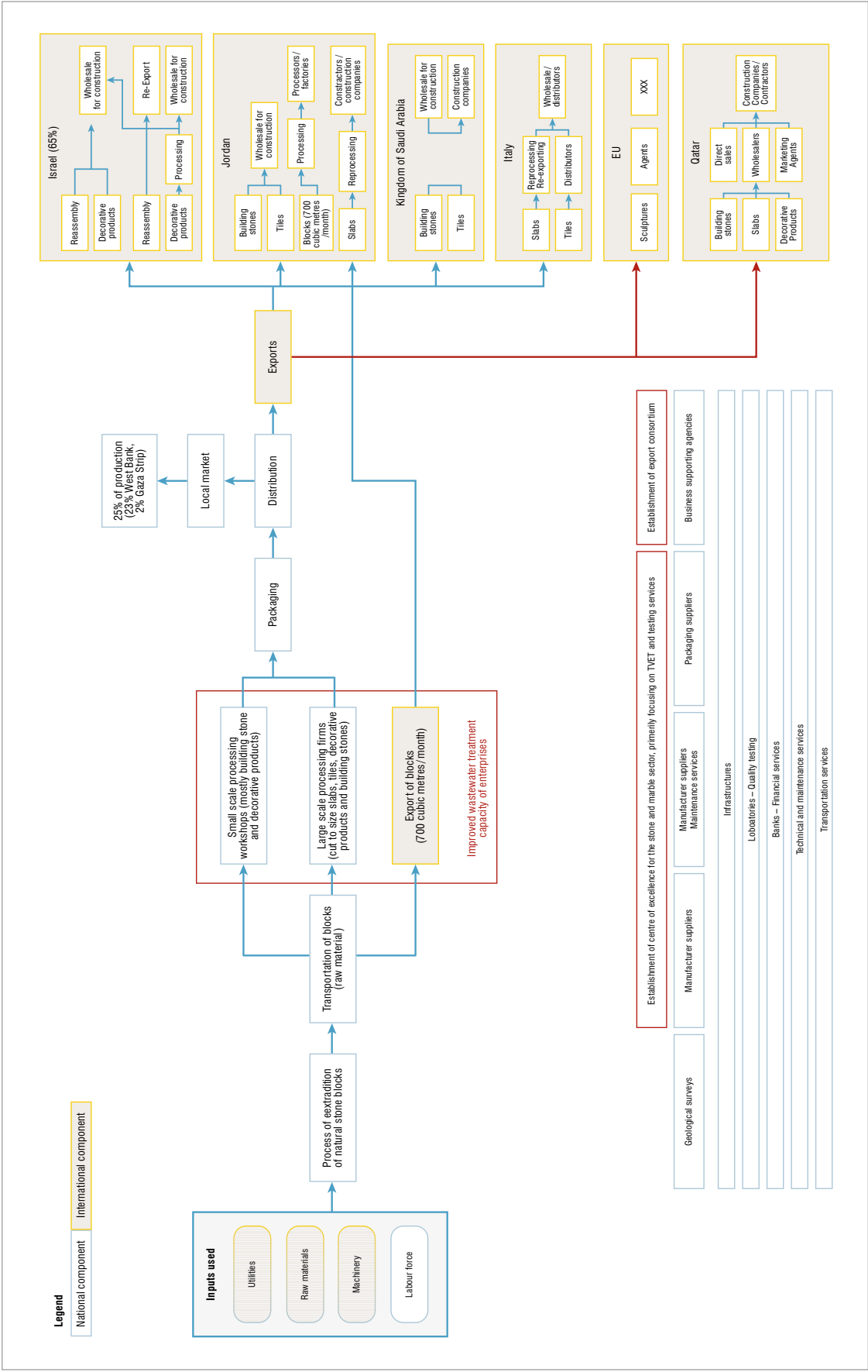
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As discussed throughout this document, the Palestinian stone and marble sector possesses significant potential for succeeding in export markets but is hampered by constraints in several areas. Indeed, the comparative advantage possessed by the State of Palestine in terms of workmanship and the quality of Palestinian stone is in danger of being overshadowed by its limitations in logistical infrastructure, high production cost structure, and weak marketing and promotion base. Significant improvements are required.

The scope for improvements is immense and extends across the value chain. In some cases the scope involves strengthening of existing linkages, while in other areas there is a need for structural modifications. Both of these dimensions of improvements must lead to *market penetration* (increasing exports in existing markets), *product development* (increasing exports of new products in existing markets), *market development* (increasing exports of existing products in new markets), or *full diversification* (increasing exports of new products in new markets).

This future state is depicted and discussed in greater detail in below.

FIGURE 6: FUTURE VALUE CHAIN



## MARKETS IDENTIFICATION

The following analysis is divided into two broad phases: one related to the immediate, short-term perspective and the other related to the medium-long term outlook, by which time it is expected that a significant portion of the NES and sector PoAs will have been implemented. This phased approach is aimed at staging interventions

in alignment with the evolving capacities of the sector's trade support institutions and sector enterprises as the NES implementation moves forward.

Note: The products listed in the short-term section will also hold export potential in the medium-long term, unless specified otherwise.

Table 13: Target markets for Palestinian stone and marble, short-term phase (0-3 years)

Target market	Market segment	Product	Distribution channel	Sector exports to market (US\$ thousand) (2011)	Annual growth of sector imports 2007-2011	Annual GDP growth estimates 2013-2017
Israel	Construction companies/ contractors	Worked monumental/building stone (HS 6802)	Direct sales/ wholesalers	98 688	11%	3.6%
Saudi Arabia	Construction companies/ contractors	Worked monumental/building stone (HS 6802) and marble travertine (HS 2515*).	Agents/ wholesalers	2 043*	5%	4.3%
UAE	Construction companies/ contractors	Worked monumental/building stone (HS 6802) and marble travertine (HS 2515*).	Agents/ wholesalers	6 519*	-14%	3.5%
Jordan	Construction companies/ contractors	Worked monumental/building stone (HS 6802) and marble travertine (HS 2515*).	Agents/ wholesalers	14 881*	1%	3.9%
Italy	Construction companies/ importing companies	Worked monumental/building stone (HS 6802)	Direct sales/ wholesalers	573	-3%	0.6%

Source: ITC calculations based on Comtrade's data, IMF world economic outlook database.

\* Based on 2010, the most recent available values for HS 2515.

### ISRAEL

Israel is the best market option for exporters in the short term for a number of reasons. Palestinian exporters' existing connections within Israel and the familiarity built up over decades are important factors. For the same reasons, Israeli consumers have a high degree of appreciation of, and familiarity with, Palestinian products in the sector. Finally, the closeness of the market in terms of bilateral distance is also a major reason why, at least in the short term, Israel will remain the main export market.

There is high demand for Palestinian building stone products, and the majority of Palestinian firms have developed the supply consistency to be able to supply to this market. The main product with potential in the Israeli market is worked monumental/building stone (HS 6802). The primary market segment would be construction companies/contractors, and the distribution channels would

be either direct sales (since Palestinian companies have the capacity to approach companies directly), and/or through wholesalers.

### SAUDI ARABIA/UAE

The construction industry in Saudi Arabian and UAE markets is growing at a rapid pace and consequently these markets exhibit a high demand for construction stones –worked monumental/building stone (HS 6802) and marble travertine (HS 2515). Palestinian suppliers already have a presence in these markets and stone producers are aware of and able to satisfy key buyer requirements for the specific markets. The main market segments that will be targeted will be construction companies and contractors, supplied through agents (marketing) and wholesales in the specific markets.

Table 14: Target markets for Palestinian stone and marble, medium-long term phase (3+ years)

Target market	Market segment	Product	Distribution channel	Sector exports to market (US\$ thousand) (2011)	Average annual growth of sector imports 2007-2011	Average annual GDP growth estimates 2013-2017
Italy /EU*	Distributors	Sculptures (HS 6802)	Agents	1 219	3.8%	1.8%/0.6%
Qatar	Construction companies/ contractors	Building stones, tiles, slabs and decorative products (HS 6802)	Direct sales/ wholesalers/ marketing agents	1 796	9%	6%

**Source:** ITC calculations based on Comtrade's data, IMF world economic outlook database.

\* Indicates EU-27.

## JORDAN

Cultural similarities and preferences play an important part in the Jordanian market. Jordanian consumers are familiar with and have a preference for Palestinian styled and sourced stones. The large diaspora found in the Jordanian market also contributes to the high demand, as does the booming construction sector in Jordan.

The product with high potential is construction stone - worked monumental/building stone (HS 6802) and marble travertine (HS 2515). As in the case of the other markets identified in table 13, the main market segment that will be targeted will be construction companies and contractors, supplied through agents (marketing) and wholesalers in the specific markets.

## ITALY

The fact that Italy is considered an international hub for natural stone trade and a certain, albeit low, level of familiarity of Italian buyers with Palestinian products has contributed to the high demand for Palestinian construction stone in the Italian market. The Italian market is the leading importer of natural stone and has exacting standards in terms of buyer requirements. Success in this market would contribute to the promotion and brand recognition of Palestinian stone products in other international markets, especially in the EU, in the long run.

Palestinian exporters have been able to make some inroads into Italian markets; however their presence is quite weak. The products with high potential are slabs and tiles used in the construction industry - worked monumental/building stone (HS 6802). The main market segment to be targeted will be construction companies and importing companies, supplied either directly or through wholesalers.

## ITALY/EUROPEAN UNION (EU-27)

There is currently a high demand for sculptures and other pieces of fine stone art falling under the category of worked monumental and mosaic (HS 6802) in Italy and the EU in general. The demand is driven by cultural preferences, as well as the association with the Holy Land in the case of religious sculptures.

Production techniques used by Palestinian producers are suitable for these products; however, significant investments in terms of capital equipment and training will be required in order to capitalize on this demand. This would be product diversification for Palestinian exporters. The primary market segments to be targeted will be distributors, and marketing agents would be the main distribution channel.

## QATAR

The construction boom in the Qatari market offers significant potential to Palestinian producers in the stone and marble sector. The construction boom is being driven by preparations for the football World Cup that the country is scheduled to host in 2022.

The main products with potential are building stones, tiles, slabs and decorative products (HS 6802). The primary market segments to be targeted will be construction companies and contractors, and the distribution channels will be direct sales to companies as well as wholesalers and marketing agents. In order to cater to this market, significant marketing efforts – in terms of organization of, and participation in, trade delegations and business to business meetings – will be required to improve levels of business development in the market.

### Box 6: Overview of development needs in the Palestinian stone and marble sector

- Facilitate implementation of quality management systems within the enterprise base.
- Establish an export consortium.
- Improve the wastewater treatment capacity of enterprises.
- Develop the capacity of the sector to utilize waste to create new product offerings.
- Develop a centre of excellence for the stone and marble sector, primarily focusing on TVET and testing services.

## STRUCTURAL IMPROVEMENTS TO THE VALUE CHAIN

### FACILITATE IMPLEMENTATION OF QUALITY MANAGEMENT SYSTEMS WITHIN THE ENTERPRISE BASE

Concerted efforts will be launched to increase adoption of quality management systems such as ISO 9000, ISO 14000 and the CE mark, among others, within the quality management framework of Palestinian firms. These will be essential to ensure compliance with local and international standards, and to promote environmental protection and sustainable development.

Initiatives will include a wide-ranging assessment study to evaluate existing quality systems within the sector enterprise base, and engaging consultancy firms to train and prepare enterprises (including field/site trainings) for certifications.

### ESTABLISH AN EXPORT CONSORTIUM

An export consortium will be established to help MSMEs consolidate their production and marketing efforts, and in the process benefit from pooling their resources.

The leadership of the consortium will be comprised of the leadership of the member companies. Technical scope of cooperation will extend to quarries, cutting factories and finishing factories. Other pooled functional service areas will include professional business development staff to focus efforts on international markets. Participation in international fairs and trade delegations, as well as ensuring supply consistency and minimum quality standards, will constitute a key function of the consortium.

## IMPROVE THE WASTEWATER TREATMENT CAPACITY OF ENTERPRISES

Effective wastewater treatment is an important gap within the stone and marble enterprise base. Improving capacity of enterprises to manage waste efficiently is a strategic option for stone producers, as it demonstrates the ability of enterprises to re-use wastewater being generated as a by-product of the production process. This capacity is also important from the point of view of protecting the health of workers and the environment. Ultimately, this capability has important ramifications for developing export capacities, given that many target markets (especially the EU) have strict regulations related to environmental impact.

### DEVELOP THE CAPACITY OF THE SECTOR TO UTILIZE WASTE TO CREATE NEW PRODUCT OFFERINGS

A major by-product of the production processes of the stone and marble sector is powder that poses a big environmental problem in the State of Palestine. Approximately one million tons of the powder is generated on an annual basis in the State of Palestine. There is potential to utilize this by-product to develop new products, and in the process develop a new sub-value chain of high value products that also reduces environmental waste.

A pilot project will be launched to develop a factory that utilizes the power by-product to develop a line of products. This will be initiated through a survey to gauge the extent of powder generated annually, and technical research to identify the types of products that can be generated as well as the technology involved in the production process. Specialized marketing efforts will gauge the international demand for such products, and lead business development efforts. A factory would then be set up to initiate production of the products.



Source: © PalTrade

### DEVELOP A CENTRE OF EXCELLENCE FOR THE STONE AND MARBLE SECTOR, PRIMARILY FOCUSING ON TVET AND TESTING SERVICES

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In an effort to strengthen the TVET infrastructure for the stone and marble sector in the State of Palestine, a training centre will be established. This centre will build the capacity of workers in technical, administrative, and management areas, and will be a part of the Stone Centre at the Palestine Polytechnic University (PPU), which has been set up in partnership between USM, MoNE and the PPU. The Centre currently offers a two year diploma and includes a testing lab. It is expected that this capacity can be expanded to provide all services required by the industry locally and abroad, including training and testing, and also offer consulting services.



# HOW WE GET THERE

## STRATEGIC OBJECTIVES

The following four strategic objectives have been identified in order to realize the vision for the sector.

1. **Improve and develop the supply capacities of the sector to ensure supply consistency geared towards target markets.** This objective will be realized through initiatives implemented along the following dimensions (or operational objectives):
  - Develop the human capital pipeline in the sector by building the capacities of existing workers and increasing opportunities for fresh graduates;
  - Help enterprises (quarries and cutting factories) upgrade capital equipment and production lines through technology transfer initiatives and increased access to financial lending instruments;
  - Facilitate product diversification through research and pilot initiatives involving public-private partnerships.
2. **Improve sector quality management in order to enable sector enterprises to meet health, safety and environmental standards in international target markets.** This objective will be realized through initiatives implemented along the following dimensions (or operational objectives):
  - Enable sector enterprises to improve their quality management infrastructure and human capacity to be ready to enter different markets;
  - Establish accredited national testing labs to allow for cost-effective, timely, reliable, and internationally recognized testing for stone and marble products.
3. **Improve the business environment and reduce the costs of doing business for sector enterprises so as to improve their profitability.** This objective will be realized through initiatives implemented along the following dimensions (or operational objectives):
  - Establish industrial zones for sector enterprises, which would provide pooled services at affordable rates and other support services;
  - Streamline approval procedures for opening new quarrying sites to reduce costs;
  - Develop capacities of TSIs to provide essential services to the sector;
  - Establish a one-stop shop to streamline applications for industrial licences/permits and source trade information;
  - Review the current labour legislation to remove gaps and inadequacies affecting enterprises and workers in the sector;
  - Improve the capacity of TSIs to respond to the needs of exporting enterprises in the sector.
4. **Improve market access for existing and potential exporters in the sector through the provision of trade information.** This objective will be realized through initiatives implemented along the following dimensions (or operational objectives):
  - Coordinate marketing and business development efforts on specific target markets identified as promising markets for the sector;
  - Facilitate the diversification of target markets through research initiatives;
  - Diversify into new dynamic and promising markets.

These strategic objectives are structured around a specific set of activities that are intended to address the wide range of issues confronting the stone and marble sector. Independent, yet mutually supporting activities, will bolster specific areas of weakness. The coordinated resolution of such weaknesses, however, will serve as the foundation for value-added interaction between functional areas. This, in turn, will lead to the realization of the strategic objectives, and ultimately, the sector vision.

Each of the strategic objectives relies upon a set of operational objectives. The operational objectives are intermediate achievements that must be reached in order for the strategic objectives to be met. On the most basic level, the operational objectives are realized through the implementation of various concrete activities, each of which serves to support a specific priority area within the

competency of the relevant operational objective. Ideally, each activity will be translated into a project of its own. To this end, the donor alignment column in the PoA is provided so that donors may select activities that are in line with their own competencies, thereby facilitating the conversion of activities into real-life initiatives.

## IMPORTANCE OF COORDINATED IMPLEMENTATION

The broad range of activities, together with the complex nature of integrated intervention, requires careful implementation involving efficient allocation of resources and monitoring of results at both the micro and macro levels. To this end, the Palestinian Export Council (PEC) will be established in order to facilitate the public-private partnership in elaborating, coordinating, and implementing the National Export Strategy. In particular, PEC will be tasked with coordinating the implementation of activities in order to optimize the allocation of both resources and efforts across the wide spectrum of stakeholders. Within this framework, the implementation of the stone and marble strategy will fall within the purview of PEC.

Specific efforts will be made to direct donor, private, and public sector organizations towards the various NES priorities in order to avoid duplication and guarantee maximum impact. Responsibilities will also include monitoring the results of activities and outputs, while at the same time recommending policies that could serve to enhance the realization of the strategic objectives. With a 360 degree view of progress, the organization will be best-placed to manage funding and provide regular reports to donors and stakeholders. Moreover, PEC will play a key role in recommending revisions and updates to the strategy so that it continues to evolve in alignment with the State of Palestine's changing needs.

## IMPLEMENTATION PARTNERS – LEADING AND SUPPORTING INSTITUTIONS

A number of institutions will play a key role in the implementation of this export strategy for the stone and marble sector, as illustrated in the TSI section and the PoA. These are institutions that have the overall responsibility for successful execution of the strategy, as well as supporting institutions that are active partners but not leading institutions. Each institution mandated to support the export development of the stone and marble sector is clearly identified in the strategy plan of action.



Source: © PalTrade

# THE STATE OF PALESTINE NATIONAL EXPORT STRATEGY

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## PLAN OF ACTION



Strategic Objective 1: Improve and develop the supply capacities of the sector to ensure supply consistency geared towards target markets									
Operational objective	Activities	Priority 1=low 3=high	Beneficiaries	Target measures	Means of verification	Leading implementing partners	Supporting implementing partners	Existing programmes or potential support	Estimated costs (in US\$)
1.1. Building the capacities and skills of workers and the employees	1.1.1. Develop training programs, aimed at building capacities of current workers in Specific technical areas including administrative, technical, TQM, Environmental management systems, and industrial safety.	3	Exporting and potential stone companies	200 trainees	Training attendance sheet, evaluation reports	USM	Stone Center, PFI, PalTrade, MNE, universities		200,000
1.2. Build the strategies of the enterprises	1.2.1. Prepare business strategies for 50 stone firms, using Business Management System (BMS) model, in cooperation with ITC and local CTAP consultant to help the companies formulate and apply the proper business strategies.	3	Small & medium size companies	50 companies	Number of completed strategies	PalTrade	USM		500,000
1.3. Improve overall employment opportunities for fresh graduates in the sector	1.3.1. In collaboration with the top 10% of identified companies in the sector, develop a formal internship program to hire current students from Stone Centre at PPU. The Internship would potentially be converted into a full-time job. The programme would be rolled out in the following steps: » Identify top 10% participating companies through desk research through USM member directory. » Formalise the internship program through an agreement. As part of this agreement, participating companies to pay 50% of stipend to interns. » Develop and implement outreach program to donors (public and international) to fund the other 50% of the stipend. » Launch pilot program for top 10% for year 1. Program can be expanded to other companies after the 1st year.	2	Current students at the Stone Center and in sector companies	40 internships	Number of hired graduates by stone companies	USM	Stone Center		80,000
1.4. Upgrading the machinery and production lines in quarries and cutting factories	1.4.1. Establish a governmental guarantee scheme for industrial loans given by banks (esp. Islamic loans) to enable the companies to upgrade their machineryes, production lines and expansion activities. The guarantee scheme would guarantee 50% of the loan, while the company would guarantee the remaining 50% through collateral. 1.4.2. Assist the cutting factories in installing waste water treatment units (filter presses) to enable them to use recycled water, thus reducing their environmental impact. This activity should be rolled out in following steps: » Conduct a survey to determine the companies that need such units, and the type of this unit. » Apply for the donors to cover 80% of these unit prices.	3	All stone companies	Establishment of Governmental guarantee scheme	Approved and Published Governmental loan guarantee scheme	MNE	MoF, Bank Associations, PMA, PFI, FPCCI	N/A	
1.5. Diversify the range of products	1.4.2. Assist the cutting factories in installing waste water treatment units (filter presses) to enable them to use recycled water, thus reducing their environmental impact. This activity should be rolled out in following steps: » Conduct a survey to determine the companies that need such units, and the type of this unit. » Apply for the donors to cover 80% of these unit prices. 1.5.1. Develop new products made from powder (stone sludge), waste, which will be a strategic project that enables the companies benefit from millions of tons of this waste and helping in protect the environment. This activity should be rolled out in following steps: » Conduct a technical and financial feasibility studies to identify potential products that could be developed based on powder and waste. » Establish a manufacturing company (or a consortium or a cooperative) based on shares between interested companies. 1.5.2. Organise a training programme for interested companies registered at USM to develop new products (sculpture, and special items and antiquated products), which are demanded by many international markets, using the prototype industrial lab in the Stone Centre.	3	Interested companies	Constructing a factory	The establishment of the factory	USM	MNE, PFI, Stone Center, International donors	» 200,000 » This is the cost of the feasibility and technical studies » 3000000 estimated to be required for the construction of the factory	
		1	Small companies	50 trainees	New Product developed	USM, Stone Center	USM, sector enterprises		50,000

Strategic Objective 2: Improve sector quality management in order to enable sector enterprises to meet health, safety and environmental standards in international target markets.									
Operational objective	Activities	Priority 1=low 3=high	Beneficiaries	Target measures	Means of verification	Leading implementing partners	Supporting implementing partners	Existing programmes	Estimated costs (in US\$ )
2.1. Ascertain and comply with technical standards, safety and health requirements so as to enable the firms to be ready for enter different markets	2.1.1. Sensitise firms of the importance of standards implementation through awareness campaign and workshops and provision of information material on quality management.	1	Big and medium size company	<ul style="list-style-type: none"> <li>» 4 Awareness campaign/200participant</li> <li>» 4 workshops/80 participants</li> <li>» developing one booklet</li> </ul>	<ul style="list-style-type: none"> <li>evaluation reports for each campaign</li> <li>evaluation reports for each workshop</li> <li>published informative booklet</li> </ul>	USM	Stone Center, PFI, MNE, PSI, PalTrade		20000
	2.1.2. Establish a capacity-building and certification programme on total quality management in order to enable enterprises to obtain the quality certification and to meet the requirements of conformity assessment system (e.g. CE marking).	2	Big and medium size company	Capacity building program in quality management	Number of benefited firms	USM	Stone Center, PFI, MNE, PSI, PalTrade		30,000
	2.1.3. Conduct a program to certify 20 companies with ISO:9001 in cooperation with local consultancy firm	3	Big and medium size company	20 companies certified	No. of certificates issued	USM	Stone Center, PFI, MNE, PSI, PalTrade		200000
2.2. Establish accredited testing labs to allow for product testing in Palestine to reduce testing costs and time for Palestinian stone exporters.	2.1.4. Conduct a program to certify 10 companies with ISO:14001 in cooperation with local consultancy firm.	2	Big and medium size company	10 companies certified	No. of certificates issued	USM	Stone Center, PFI, MNE, PSI, PalTrade		100,000
	2.2.1. Obtain the international accreditation as a testing lab for the Stone Centre, so as to obtain the international recognition of the testing results, through the following steps: <ul style="list-style-type: none"> <li>» Sign MoU with international Stone Centre in Italy to train the Testing Lab Staff to perform different tests.</li> <li>» Filing an Application with the International Stone Centre in Italy.</li> </ul>	3	All exporting companies	To get the International accreditation for testing lab. At Stone Center at PPU from Verona stone testing lab.	Getting the accreditation certificate	Stone Center, At PPU	USM, MoNE, PFI, PSI, UNIDO		50,000

Strategic Objective 3: Improve the business environment and reduce the costs of doing business for sector enterprises so as to improve their profitability.								
Operational objective	Activities	Priority 1=low 3=high	Beneficiaries	Target measures	Means of verification	Leading implementing partners	Supporting implementing partners	Existing programmers
3.1. Develop industrial areas and zones for construction industries	3.1.1. Establish an industrial area in Hebron district to gather stone companies, to facilitate their business, and to reduce the cost of investment by offering the needed infrastructure, and to develop new activities and new products. Further components are as follows: » Conduct a survey for the most potential site Injasah (East of Hebron). » Apply to get the approval from the Higher Planning Council. » Establish a development company of site infrastructure (roads, electricity networks, etc.).	3	All stone and construction companies in Hebron District	Establishment of new industrial area in Hebron	The establishment of the industrial area	PIAFZA	USM, MNE, PFI, MoLG and Higher planning council	10,000,000
	3.1.2. Establish a new industrial licensing system (one-stop-shop) in order to encourage investment and to facilitate doing business to reduce administrative, cost and time burden. Activity to be rolled out through the following steps: » Establishment a network of all relevant ministries delivering industrial licenses and permits. » Establish a one-stop-shop at the MoNE to deliver all related services and formalities by all relevant ministries and agencies in the network. » Training relevant departments staff in relevant ministries (MNE, MoE, MoA, MoLG). » Promulgate a regulation on streamlining licensing procedures and establishing a one-stop-shop for licensing formalities.	2	All industrial facilities	Streamlined licensing system	Approved and implemented industrial licensing system by MONE	MoNE	MoE, MoA, MoLG	50,000
3.2. Streamline approval of quarrying sites	Simplify and accelerate the public procedures for the approval to open new quarries so as to save time and money. New quarrying sites to be urgently approved in Beit Fajar, Injasah, Jamain and Qabatia. Activity to be rolled out through the following steps: » Conduct geometric surveys of the proposed quarrying sites. » Conduct an environmental impact assessment. » Apply for the approval to the Higher Planning Council. » Establish new quarrying licensing procedures by the Ministry of National Economy.	2	Quarry owners in selected areas	New streamlined quarry licensing procedures	Approved and implemented quarrying licensing system by MONE	MoNE	USM, Higher planning council, MoE, MoLG, MoA	50,000



Strategic Objective 3: Improve the business environment and reduce the costs of doing business for sector enterprises so as to improve their profitability.								
Operational objective	Activities	Priority 1=low 3=high	Beneficiaries	Target measures	Means of verification	Leading implementing partners	Supporting implementing partners	Existing programmers
3.3. Simplifying and streamlining export procedures and guaranteeing transparency and easy access to information for traders.	<p>3.3.1. Create an export one-stop-shop for delivering all the services and formalities to exporters to reduce costs and time, notably through the following measures:</p> <ul style="list-style-type: none"> <li>» Create an exporters website containing information about a step-by-step export process, indicating and explain requirements and delivery times at each step, and containing an entry point to all border agencies and relevant ministries, and all the necessary documentation downloadable in electronic format to be filled by exporters.</li> <li>» Provide training for relevant department staff at Ministry of National Economy's regional offices, Chambers of commerce's and customs departments at different districts.</li> <li>» Promulgate a corresponding regulation in Arabic and English regarding the simplification, streamlining and transparency of export procedures, and the establishment of the exporters one-stop-shop according to international standards on transparency and access to information for trade facilitation purposes (WTO Trade Facilitation Agreement)</li> </ul>	2	Exporting enterprises	<ul style="list-style-type: none"> <li>» Creating informative web site</li> <li>» Train 33 staff (1MoNE, 1 chamber, 1 customs in each 11 governorate)</li> <li>» Published Export procedures booklet in Arabic</li> </ul>	<ul style="list-style-type: none"> <li>» Publishing the informative and data on formal accessible web site</li> <li>» Training attendance sheet and training evaluation reports</li> <li>» Published export procedures booklet Arabic</li> </ul>	MoNE	Chambers of commerce, Customs departments, USM, PalTrade	100,000
3.4. Establish a new business-friendly industrial fuel (energy) pricing policy to reduce energy-related production costs and make exports more competitive.	<p>3.4.1. Revise government policy on fuel (energy) prices for industrial purposes in order to provide a differentiated fuel (energy) pricing for industries and enterprises, notably through increased competition among fuel (energy) providers, tax exemptions, tax reductions, vouchers, or other incentives. Related components are as follows:</p> <ul style="list-style-type: none"> <li>» Conduct a study to assess the effect of fuel (energy) prices on the competitiveness of the export sectors in Palestine.</li> <li>» Conduct an advocacy campaign with the government and enhance the public-private dialogue to advocate for a new fuel (energy) policy.</li> </ul>	3	All enterprises	Draft new governmental fuel policy	Approved and implemented new governmental fuel policy	MNE	USM, private sector organisations, PA Cabinet	N/A
3.5. Amend labour law and regulations to be more balanced between the rights and obligations of employers and employees.	<p>3.5.1. Review the current labour legislation through the following steps:</p> <ul style="list-style-type: none"> <li>» Conduct study to assess the negative impact of the current law on the Industrial Sector.</li> <li>» Set up a tri-partite dialogue between Ministry of Labour, the private sector, and trade unions.</li> <li>» Revise the labour code accordingly.</li> <li>» Introduce sector-level specific collective agreements.</li> <li>» Sign an agreement that maintains all stakeholders' rights in order to make the agreed amendments.</li> </ul>	2	All enterprises	Modified labour law	Draft of modifications is published after being tested and agreed by related parties	PFI	Private sector organisations, trade unions, PA Cabinet,	50,000

Strategic Objective 4: Improve market access for existing and potential exporters in the sector through the provision of trade information									
Operational objective	Activities	Priority 1=low 3=high	Beneficiaries	Target measures	Means of verification	Leading implementing partners	Supporting implementing partners	Existing programmes	Estimated costs (in US\$)
4.1. Increase market share in current markets (Israel, Jordan, Saudi, UAE, Italy).	<p>4.1.1. Developing marketing and promotional strategies to target the current markets, through:</p> <ul style="list-style-type: none"> <li>» Participation in fairs(3/year), trade delegations(2/year), and B2B meetings</li> <li>» Establishing new distribution channels in order to increase sales in these markets</li> <li>» Establishing a vendors and buyers matching website and a B2B export platform for Palestinian stone producers and exporters</li> <li>» Increase product variety and quality, consistency of supply and price competitiveness of current exports.</li> </ul>	3	Export companies	<ul style="list-style-type: none"> <li>» 3 trade fairs/yr</li> <li>» 2 trade delegations and (B2B)/ yr</li> </ul>	<ul style="list-style-type: none"> <li>» Evaluation reports of the fairs and signed contracts</li> <li>» Evaluation reports of the B2B and attendance sheets</li> </ul>	PalTrade	MoNE, USM	USAID Compete Program	2,500,000
4.2. Diversify export markets by entering new markets based on market access and market dynamics.	<p>4.2.1. Undertake market diversification into dynamic and thus promising markets (EU and Qatar), through the following steps:</p> <ul style="list-style-type: none"> <li>» Conduct market studies for the EU and Qatari markets.</li> <li>» Organise B2B to EU and Qatar alongside participation in construction fairs</li> <li>» Identify best distribution channels so as to enter those markets.</li> </ul>	3	Export ready companies	<ul style="list-style-type: none"> <li>» 4 market studies</li> <li>» 2 B2BL /yr</li> </ul>	<ul style="list-style-type: none"> <li>» Published studies</li> <li>» Evaluation reports of the B2B meetings</li> </ul>	PalTrade	MNE, USM, MoFA		150,000
4.3. Improve the capacity of TSI to respond to the needs of exporting enterprises in the sector.	<p>4.3.1. Conduct a capacity assessment of USM to identify overlaps and gaps in service provision and alignment with enterprises' needs, as well as capacity constraints and needs of USM to be able to better respond and adjust its service offering.</p> <p>4.3.2. Based on the assessment, undertake corrective measures in terms of service offering, staff training, resource mobilisation and overall capacity-building. Further components include:</p> <ul style="list-style-type: none"> <li>» Sign MOUs with similar international institutions (Turkish, Italian and Indians) to help USM's staff learn from their experience.</li> <li>» Assist USM applying its strategic plan (under preparation)</li> </ul>	3	USM	<ul style="list-style-type: none"> <li>» Detailed Capacity Assessment Study</li> </ul>	<ul style="list-style-type: none"> <li>» Published studies and</li> <li>» Evaluation reports</li> </ul>	PalTrade	MoNE, PFI		50,000
	<p>4.3.3. Establish an export readiness programme for stone and marble industry to conduct export readiness assessments and provide technical assistance and capacity-building to sector exporting enterprises and potential exporters in specific technical areas related to marketing and promotion, notably by creating a sector level vocational training and certification programme on export marketing management for stone exporters to build their marketing, promotional, negotiation and export capacities.</p>	3	Medium size company	<ul style="list-style-type: none"> <li>» 30companies to benefit from this activity</li> </ul>	<ul style="list-style-type: none"> <li>» Developed by laws for the consultancy unit and hiring a manager for it</li> <li>» Number of signed and published MOUs</li> <li>» Number of implemented initiatives in the USM's strategic plan and assessment reports</li> <li>» Export readiness assessment reports</li> </ul>	PalTrade	USM, MoNE		300,000

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# APPENDIX 1: SECTOR TEAM MEMBERS

The strategy team for the stone and marble sector was composed of the following members.

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