

May 8, 2006

**Palestinian and Israeli Private Sectors Severely Hurt  
by Prolonged Closure of Karni Border Crossing**

**Policy Recommendations**

The Karni border crossing, which constitutes the main border crossing for trade between the Gaza Strip and Israel, as well as with the rest of the world, has facilitated the import and export of goods, agricultural produce and food products since 1994. The crossing, which serves 1.4 million Palestinians living in the Gaza Strip, has been closed almost continuously since January 15, 2006.

**The closure of the Karni crossing is causing an economic and humanitarian collapse in the Gaza Strip, and comes as a fatal blow to the private sector in Gaza, which has lost tens of millions of dollars. The closure of the crossing point is also causing heavy damage to the Israeli private sector in the sum of tens of millions of shekels, and is causing deterioration in the economic relations between the two sides.**

**While the Karni crossing serves as a main intersection for the passage of merchandise, beyond this, movement at the crossing is key to defining the economic relationship between Israelis and Palestinians. Indeed, the solution, or non-solution of the problem will play a major role in determining the future economic relationship between Israel and the Palestinians, shedding light on the possibility for future cooperation.**

**The security reality and the threats to the border crossing are clear. But given the fact that it is a crossing point that has no substitute, the optimal balance point has to be found between Israel's legitimate security needs and opening the lifeline of the Palestinian population. Often the reduction of activity at the crossing is not connected to security restrictions, as even when it is open, the crossing operates at low outputs, far beneath its capacity.**

The attached report elaborates on the serious implications of closing the Karni crossing:

- **Heavy damage to the Israeli private sector** – losses of tens of millions of shekels, serious harm to small manufacturers, serious harm to the textile, agriculture and other industries.
- **Fatal damage to the Palestinian private sector in the Gaza Strip** – the collapse of the business sector, the closure of dozens of factories, the closure of agricultural greenhouses, the lay-off of thousands of workers, a rise in the level of unemployment in the Gaza Strip and more.

- **The loss of economic relations between the Palestinian and Israeli sides** – business partnerships that were painstakingly built, lasted many years and provided a living to Israeli and Palestinian families, are collapsing one after another. If such conditions continue, it will be impossible to return to the former situation.
- **Harming the Palestinian middle class** and the large moderate group that wants to achieve peace with Israel, who did not vote for Hamas in the Palestinian elections.

**Considering the severe implications of the closure of the Karni crossing, the Peres Center for Peace proposes the following policy recommendations:**

- The closure of the Karni crossing does not only cause economic damage. In addition, the State of Israel is sacrificing the Palestinian business sector that has always held moderate political positions, and is thereby **losing its influence on Palestinian public opinion**. This risk entails losing the "sane voice" among the Palestinian public, the voice that Israel had hoped would lead to change, and to the ousting of Hamas from the positions of power it has won. While, in the short term, there are harmful economic implications to the business sector, what is being forgotten, is that in the long term, such harm will lead to the weakening of Hamas' political opposition, and consequently, the lost potential for a future change of government. Therefore, **a distinction has to be made between different sectors of the Palestinian public, and relations with moderate sectors must be maintained.**
- The closure of the Karni crossing, among numerous pressures being applied to the Hamas government, will ultimately lead to a **humanitarian collapse**, as a result of a shortage of food, medicine and equipment designated for the economic and health systems. The restoration of such systems, following their collapse, will take a long time, and accordingly, the echo of their collapse will reverberate for years to come. Therefore, when the crossing is open, a clear priority is given to trucks carrying food, medicine and equipment. **Continued trade between the Gaza Strip and Israel makes a clear contribution to maintaining the basic standard of living in Gaza** and creating a certain number of jobs, which provide a livelihood and a reduction in the number of poverty-stricken Palestinians, especially since the Erez industrial estate has also been closed, consequently resulting in lost sources of livelihood for thousands of Palestinians. **Therefore, the passage of goods into the Gaza Strip must be allowed, not only for humanitarian aid, but also for goods designated for import and export. Factories must be allowed to continue buying raw materials and selling final products, and ultimately providing jobs to maintain the Palestinian labor force.**
- **The closure of the Karni crossing harms the Israeli economy** – trade with the Palestinians is vital to the Israeli economy and is especially critical for certain business communities – fruit growers, textile manufacturers, furniture, shoes, medicine manufacturers, food and others.

The trade potential with the Palestinians has not been fully realized, and has the ability to serve as a springboard for trade with other Arab countries. **Therefore, it is vital for the Israeli economy to recognize the importance of trade with the Palestinians, and as such, this trade should be given priority not only to assist the Palestinians, but also as a matter of mutual economic interest.**

- **The Government of Israel must reconsider its policy vis-à-vis the Karni crossing**, and recognize the tremendous damage that the closure is causing in both the short and long terms. Ways to stop the snowball effect of the collapse of the Palestinian private sector must be explored. Likewise, the Government of Israel must immediately begin negotiations with the Palestinians regarding the opening of an additional border crossing, that would cater for the bringing in of humanitarian aid, as well as the import and export of goods.

**It is within the interests of the State of Israel to maintain the Palestinian private sector and continue relations with other moderate Palestinian sectors, as well as preserving the economic relationship between the two private sectors. The Israeli Defense Ministry must examine whether the limited security benefits of closing the border crossing are preferable to the short and long term damage being caused as a result of the closure.**

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### Summary of the Economic Data:

- Between January 15, 2006 and February 5, 2006, the Karni crossing was completely closed to the import and export of goods. Losses to the Palestinian economy during such period are estimated at 10.1 million dollars<sup>1</sup>. After February 5, the Karni terminal re-opened, but since then, has worked in a partial manner, and not at full capacity.
- From the beginning of 2006, until May 3, 2006, the **Karni crossing was completely closed** to transfer of goods for 57 days, which is 47% of the terminal's normal activity time. On the other days when the crossing was open, it did not work in its full scheduled format<sup>2</sup>.
- Since the Israeli Disengagement from Gaza, the number of trucks leaving the Gaza Strip daily through Karni has dropped to an average of 43 trucks. In September and October 2005, the average was 18 trucks a day. Following this, there was a rise to 43 trucks per day, but in April 2006, the daily average stood at **only 5 trucks**. In comparison, in the Agreement on Movement and Access signed on November 15, 2005 between Israel and the Palestinian Authority, the sides agreed that by the end of 2005, **150** Palestinian trucks would leave Gaza for Israel daily through the Karni crossing, and that by the end of 2006, the number would rise to **400** per day.
- Between January and April 2006, an average of **440** trucks traveled through Karni each month with Palestinian **export** goods (compared to **1,489** in December 2005, which was a month with a "normal" level of functioning).
- Between January and April 2006, an average of **4,051** trucks with Palestinian **import** goods entered monthly through Karni (compared to **9,340** import trucks in December 2005).
- **The cumulative damage to the Palestinian private sector** in being unable to export goods since the beginning of 2006 is 600,000 dollars for each day that Karni is closed. This figure only refers to the damage caused by the lack of exporting; however, the damage to the Palestinian economy is actually much higher. The cumulative damage from the loss of exports as a result of the crossing being closed for 57 days (during the January-April period) exceeded 30 million dollars, resulting in a deterioration in the economic situation in the Gaza Strip, a severe rise in the level of unemployment, and a worsening of poverty and hunger.
- The value of Palestinian importers' goods, presently being held in the Ashdod Port, ranges from 600-700 million dollars. Beyond not being able to have their goods released, the Palestinian importers are compelled to pay very high fines for the delays in releasing their goods. Additionally,

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<sup>1</sup> From figures published by the World Bank in March, 2006.

<sup>2</sup> Working in full format means Sunday to Thursday from 8 a.m. to 11 p.m. and half a day on Friday.

inside Gaza, there are 650 empty containers that can not be returned to their owners due to the closure of Karni. Again, the Palestinian importers must pay rental costs for these empty containers.

- Shipping costs from Karni to Ashdod Port have risen from NIS 2,000 to NIS 10,000 per container.
- Most of the production plants and factories in the Gaza Strip are currently facing closure. For instance, the operation of agricultural greenhouses and the irrigation of agricultural fields handed over after the Israeli Disengagement from Gaza ceased on May 1, 2006. Thousands of workers have already lost their jobs and some 150,000 workers are about to lose their jobs in the coming weeks, should Karni remain closed.
- **The cumulative damage to the Israeli private sector** is tens of millions of shekels, which means bankruptcy of small Israeli businesses, relocating the production processes of large factories abroad, and a rise in the prices of products manufactured in Gaza and sold in Israel (such as vegetables, furniture and others).
- The closure of the Karni crossing threatens the livelihood of thousands of small Israeli manufacturers, who, in turn, support thousands of families in Israel.

## **A Detailed Summary of the Period: January-April 2006**

The Karni border crossing, which constitutes the main border crossing for trade between the Gaza Strip and Israel, as well as with the rest of the world, has facilitated the import and export of goods, agricultural produce and food products since 1994. The crossing, which serves 1.4 million Palestinians living in the Gaza Strip, has been closed almost continuously since January 15, 2006. Most of the goods leaving Gaza have been agricultural produce, and some 80% of the imported products are from Israel (the other 20% come from the West Bank and other places).

In the Agreement on Movement and Access signed between Israel and the Palestinian Authority on November 15, 2006, the parties agreed that by the end of 2005, an average of **150** Palestinian trucks would travel from Gaza to Israel through the Karni crossing every day, and that by the end of 2006, the number would rise to **400** per day. However, the average daily number of trucks actually leaving Gaza through Karni in April 2006 was only **five**<sup>3</sup>.

Since the beginning of the year, the Karni crossing has been closed for the entrance and exit of goods for 47% of its normal operating hours (in comparison to 2004 and 2005 when the Karni crossing was closed "only" 18% of its designated operating time). Moreover, even when the crossing is open, passage is permitted for the import of goods (usually basic food products) and not for the export of Palestinian goods to Israel and abroad. A sharp drop in Palestinian export capacity can undoubtedly be seen as the result of the reduced working hours and the inefficiency of the various parties at the crossing, including the Palestinians.

### **Economic Effects of the Closure of the Karni Crossing on the Palestinian Manufacturing Sector**

**As a result of the prolonged closure of the Karni crossing, the Palestinian manufacturing sector in the Gaza Strip has been fatally harmed, and is on the brink of collapse.** The uncertainty regarding the opening of the crossing makes it difficult for Palestinian manufacturers and suppliers to commit to the supply of merchandise, and as a result, many businesses have stopped production. Likewise, there is a severe shortage in raw materials for production, and work orders from Israeli factories have stopped.

The Palestinian trade organization, PalTrade, estimates that the absence of the opportunity to export has resulted in the loss of 600,000 dollars per day to the Palestinian Authority, for every day that Karni is closed to exports. Such estimation only takes into account the absence of exports, but of course, the loss to the Palestinian economy is in fact much greater. The cumulative damage from the loss of exports as a result of the crossing being closed for 57 days (in the January-April period), exceeds 30 million dollars.

The value of Palestinian importers' goods being presently held at Ashdod Port ranges from 600-700 million dollars. Beyond not being able to release their goods, the

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<sup>3</sup> From "Situation Report: The Gaza Strip", by the U.N. Office for the Coordination of Humanitarian Affairs, 3 May 2006.

Palestinian importers are forced to pay very high fines as a result of this delay in the release of goods. The situation at Karni also has an impact on the shipping costs of goods. Today, Palestinian importers and exporters have to pay up to NIS 10,000 for shipping each container. Before the closure, the shipping cost was NIS 2,000 per container.

Many enterprises in the Gaza Strip have already shut down, and many others are on the brink of closure if passage through Karni is not made possible. As a result, 150,000 people are going to lose their jobs.

### **A Case Study PED**

The Palestinian Economic Development Company (PED), responsible for the operation of the greenhouses handed over to the Palestinians after the Israeli Disengagement from Gaza, provided employment to more than 6,000 families in the Gaza Strip and helped reduce unemployment by 4%.

The company estimates that the closure of Karni to the export of fruits and vegetables has, to date, caused damage of more than 9.5 million dollars. PED's sales manager says that only 1,500 tons have been exported to Israel and Europe through Karni, from more than 10,000 tons of agricultural produce of different kinds. Since the company had no way to export the produce, some 3,500 tons were destroyed.

For comparison, the company manages to produce the quantity of 40 truckloads of produce per day, but is only able to export 4 truckloads a day, and this is on those days when the terminal is open.

On May 1, the company decided to stop irrigation of all the agricultural greenhouses it operates. As a result, the company is about to dismiss most of its workers.

### **The Economic Effects of the Closure of the Karni Crossing on the Israeli Private Sector**

Certain segments of the Israeli private sector have been seriously harmed by the continuous closure and non-functioning of the Karni closure. The two industries that have been worst hit are the textile and agriculture industries, which are discussed below:

#### **Textile**

The Gaza Strip constitutes the life line of the Israeli textile industry. Most of the Israeli manufacturers have worked with Gaza sewing factories for many years, but recently, have had to relocate the sewing work to Egypt and Jordan, which substantially increases manufacturing and transport costs.

The recent closure of the Karni crossing has seriously harmed 100 Israeli textile and fashion companies, and has delayed the transport of more than NIS 50 million worth

of merchandise<sup>4</sup>. There is great concern over loss of export shipments (mainly to the U.S.), loss of clients, and loss of credibility to the reputation of the Israeli textile industry. The industry is finding it difficult to keep its commitments, and is late in delivering goods to its clients.

The closure of the Karni terminal to the export of goods from Gaza also seriously harms thousands of small textile manufacturers<sup>5</sup>. Some 1,000 small textile manufacturers, who have their cutting and sewing completed in the Gaza Strip, used to routinely transfer their merchandise through the Karni crossing. Since the beginning of January, when the Karni crossing was closed, **direct damage of NIS 1.5 million a day** has been caused to the small manufacturers, for every day the crossing has been closed. (The indirect damage to these manufacturers, as a result of the product's shelf life, loss of reputation among customers and so on, is estimated at tens of millions of shekels more).

The continuation of the present situation at Karni **threatens the survival of many small clothing factories**, and will ultimately lead to the closure of many of those still operating. Many manufacturers have been forced to dismiss their workers or decrease their amount of working hours, and many more will be forced to do so soon, unless a solution is found to transferring the merchandise. The jobs of **some tens of thousands of workers in complementary business sectors are also presently in jeopardy**, as a result of the harm to the textile industry. The supply chain surrounding the fashion manufacturers includes customs agents, fabric importers, accessory importers, sewers, designers, public relations agents, shippers, sales people, shop owners and their employees, printers, textile dyeing and finishing houses, and weaving houses.

#### **A Case Study Kitan Textiles**

Kitan Textile Industries is a subsidiary of the Kitan mother-company. The company develops, manufactures and markets household textile products, in Israel and abroad. The company's annual volume of sales is NIS 350 million, with 75% of its products designated for export. The manufacturing process includes weaving, finishing, cutting and sewing of fabrics. While most of the cutting process takes place at the company factory in Dimona, Israel, the sewing process is undertaken at various sites; Israel, Jordan and the Karni industrial area. The sewing workshop at Karni, which is owned by a Palestinian businessman and employs some 140 workers, is responsible for sewing 30% of the company's output.

Kitan began working at Karni when the Oslo Accord was signed and the industrial area was established. According to the company, at the time, the government promised that the Karni crossing would always remain open to the passage of goods, and would not close for any reason, in order not to harm the businesses located there.

**Since the beginning of the year, the Karni crossing has been closed continuously, causing the company serious damage as a result of not being able to transfer**

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<sup>4</sup> According to the Textile and Fashion Industries Association, within the Manufacturers Association of Israel.

<sup>5</sup> According to the Association of Craft and Industry of Israel (that incorporates manufacturers who employ up to 20 workers).

**merchandise in and out of Gaza. Kitan CEO Adi Livneh estimates the direct damage at more than NIS 2 million, and adds that the indirect damage caused by the relocation of the manufacturing site, the sharp rise in manufacturing costs, the loss of the company's reputation in Israel and abroad because of the failure to deliver the goods and so on, may reach additional millions of shekels.**

Upon the closure of the crossing, Kitan appealed via the appropriate channels to the Israeli Coordinator of Government Activities in the Palestinian Authority and to the Defense Minister, in the hope of receiving information about the continuation of the closure and its lifting. The Coordinator's Office and the Defense Minister did not respond. As a result of the ongoing closure, which has been the longest to date in the last few years, the company has lost 30% of its sewing capacity. The closure of the crossing had its greatest effect during the peak sales season – Passover in Israel and Easter abroad. Large orders from customers could not be transferred through Karni, as the ready merchandise has been held at the crossing.

### **Agricultural Produce**

The closure of the Karni terminal to the transfer of agricultural produce and products has caused cumulative damage of tens of millions of shekels to Israeli fruit growers<sup>6</sup>. The direct damage caused as a result of quantities of fruit that were not marketed in the last months and therefore rotted, ranges from NIS 4-5 million.

The indirect damage caused by the closure of the Karni crossing – **a sharp drop in price** – is the result of the surplus of fruit in the Israeli market, and amounts to NIS 10-12 million loss for the fruit growers.

Another ongoing problem that Israeli fruit marketers face, which commenced even before the latest closure, stems from the absence of scanners and inspection technologies at the Karni terminal. Fruit from Israel for the Gazan market is marketed in bulk, in large plastic containers (rather than in cardboard boxes, which are more expensive). As a result of the slow pace of passage of goods at Karni, nearly 30,000 containers are still being held in Gaza, meaning that they can not be used in the meantime. The cost of each container is \$150. This problem, as noted, actually began even before the crossing was closed, and also harms the Israeli fruit growers.

### **A Case Study Adafresh**

The Israeli Adafresh company has a cooperation contract with the Palestinian Economic Development Company (PED), the Palestinian company responsible for operating the greenhouses transferred to the Palestinians after the Israeli Disengagement from Gaza. As a result of that agreement, Adafresh expected to increase its income by 30% in 2006, and reach revenues of 26 million euros. To date, the company doubts whether the agreement with the Palestinians is viable.

According to the agreement, Adafresh is supposed to purchase the produce grown in

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<sup>6</sup> These figures were provided by the Fruit Division of the Israeli Plants Board.

the greenhouses from the Palestinians, to be sold in the open markets of Europe. The company has invested a lot of money in marketing Israeli-Palestinian agricultural produce, and the response of European consumers has been strong. Presently in question is a total of 7,000 tons of agricultural produce (planted in the greenhouses in October) including tomatoes, cherry tomatoes and red and yellow peppers that were supposed to be added to Adafresh's export basket.

The months of January to April are the harsh winter months in Europe, and for Adafresh they are the peak months for selling fruit and vegetables to Europe. **During those months, Karni was closed almost completely, and of 7,000 tons of agricultural produce that was supposed to be shipped to Europe, to date, only 500 tons has been shipped.**

### Additional Sectors

Additional sectors that have been seriously harmed on the Israeli side by the closure of the Karni crossing include: **the furniture sector** – many Israeli furniture manufacturers have been working for years with Palestinian wood manufacturers and producing a range of products by subcontracting with the private sector in the Gaza Strip. **The food sector** has also been hurt because the volume of supply of food products purchased by Palestinians is gradually dropping, hence less food is being transferred. Another sector that is being hurt is the **shipping and transportation sector**. Indeed, part of this sector is making large profits because Palestinian containers are being held for a long time, unable to reach the Gaza Strip, and accordingly, Palestinians are being forced to pay significant amounts for their storage, dispatch, the duration of the trucks' waiting at the border crossing for days, and so on. But in general, the Israeli and Palestinian shipping and transport sectors are being seriously harmed by the fact that the total amount of containers and goods going from one side to the other is dropping drastically, and many Palestinian manufacturers are no longer using shipping and trucking services, as transport costs are so high that such transactions have become unfeasible.