تطوير تنافسية وزيادة حصة المنتج الوطني:
categories of the Palestinian food industry

Developing Competitiveness and Increasing:
the Share of National Products: Food Sector

Wafa Al-Bitawi

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Developing Competitiveness and Increasing the Share of National Products: Food Sector

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Foreword

This study on the Palestinian food industry is the fourth in a series of five studies on "Developing Competitiveness and Increasing the Share of National Products", carried out by the Palestine Economic Policy Research Institute (MAS) for the benefit of the Ministry of National Economy. This will be followed by the fifth and final study in the series, about the pharmaceutical sector. We at MAS are looking forward to conducting further similar studies in a later series, for there are other important industrial sectors that need special attention. Indeed, in its Economic Conference of 2016, MAS recommended undertaking a set of government interventions to increase the share of such productive sectors, as food, furniture, leather and footwear, pharmaceuticals and tobacco (the industries covered in the current series), as well as clothing, beverage, extractive industries, and metal fabrication. Through this study series we hope to provide suggestions on ways for developing their competitiveness and increasing the share of domestic production.

The Palestinian food industry is a key manufacturing sector whose activity affects economic indicators such as the GDP, employment and foreign trade. This industry is closely entwined with the agricultural sector as a source of raw materials. Therefore, a growth in one of these sectors is likely to induce prosperity in the other, which will contribute to the import substitution of both processed food and agricultural raw materials, eventually contributing to food security. This is thus an important study that we add to the studies carried out by MAS in collaboration with the Food and Agriculture Organization of the United Nations (FAO) and the UN World Food Program (WFP) in 2017 and 2018, as well as to MAS semi-annual bulletins on food security. Taken together, these studies form an important body of literature for a vital economic sector.

Last, on behalf of MAS, I would like to thank the main researcher, the supervisors and the reviewers, as well as those who participated in the workshop held to present the study and its findings– without the help of whom the finalization of this work would not have been possible. We also hope that policy makers, researchers and stakeholders find the
recommendations helpful in their efforts to support the sector. Our special appreciation is also extended to the Arab Fund for Economic and Social Development for funding this series as well as for its continuous support of MAS and its efforts to develop the Palestinian economy.

Nabeel Kassis
Director General
Abstract

In this paper, we examine the food industry in Palestine in terms of changes in its main economic indicators, measuring its market share as well as the share of its individual subsectors in selected years. We further look at the challenges facing the industry and affecting its share in domestic and foreign markets. Finally, we scrutinize the industry's regulation system and state strategies/interventions and their bearing on the competitiveness of the industry's products.

The findings suggest a decline in the industry's share in the domestic market during 2010-2017 period despite the increase in the value of production. We reasoned that increased competition from imported food commodities as well as increased export-oriented production might well explain this decline. At the sub-industries level, there has been improvement in the market share of dairy, processed meat, processing and cold storage of fruit and vegetables, and processing and storing nuts. In contrast, the market share of a wide range of products—grain mill, bakery, pasta, starch, animal fodder and other food products—dropped during the period.

The industry has to struggle with a host of challenges that affect its competitiveness in the domestic and foreign markets. First, the industry has to incur losses from smuggling of food commodities from the settlements, which puts local industries in a disadvantaged position in terms of price. Second, the Israeli authorities do nothing to make sure Israeli products sold in the Palestinian market comply with mandatory technical specifications, which creates unfair competition with local products. Third, Israel's violations of the Paris Economic Protocol, especially the principle of free movement of merchandise between the two sides, have negatively affected the competitiveness of Palestinian food products. The Israeli authorities allow Israeli food products to freely flow into the Palestinian market, while they deploy a set of obstacles to the entry of Palestinian food products into the Israeli market.

Export challenges also exist, particularly high cost and lengthy processing of dealing with export permits, absence of a Palestinian
barcode, voluntary non-compliance with the Agreement on the Application of Sanitary and Phytosanitary Measures, the Israeli obstacles at commercial crossings, the under-recognition of the Palestinian quality certificate from trading partners, and insufficient knowledge of foreign markets.

The study also detected challenges related to the production environment within the food factories— which also harms the competitiveness of products— including limited research and development initiatives; the failure of many manufacturers to adopt quality control systems; and the prevalence of skill gaps.

Our review of the legal framework suggests that different enabling regulations as well as formal strategies do exist and if they would be applied more effectively, they would tackle or at least mitigate the impact of these challenges. However, there are still problems related to ineffective implementation of regulations, which are contributed to perpetuating those challenges.

To help improve the competitiveness of the industry and address the challenges affecting its market share, we propose a set of recommendations. It is important to deny import to the Palestinian market of food products that do not comply with mandatory technical specifications, and to expedite the implementation of the objectives and activities proposed in national strategies and policies, which would address many of the challenges affecting the competitiveness of the sector. It is also important to reduce the costs and time to export, create a Palestinian barcode, build research and development centers for the industry, and provide professional training for workers to bridge the skills gap.