



Line production worker holding pudding produced at the Al Jhaleej dairy factory in Gaza. Photo credit: Hussam Salem/Oxfam

THE DAIRY SECTOR IN THE GAZA STRIP

Gaza's dairy sector has been severely damaged by Israel's separation policy, blockade and three rounds of hostilities. The sector is now highly dependent on imports for production and consumption and is unable to compete with imported products. However, there are opportunities for the sector to grow and reduce its dependence on external markets. This requires donors to urgently invest in the sector to effectively support efforts to develop it, and the local authorities to build the capacity of the sector and help create a competitive environment for investment.

1 INTRODUCTION

Since the early 1990s the Government of Israel has implemented a policy of separation that has isolated the Gaza Strip from the West Bank, including East Jerusalem, resulting in the political, social, and economic fragmentation of the Occupied Palestinian Territory (OPT). Since 2007, Israel's blockade of Gaza has become the most visible part of the separation policy and is implemented through the strict enforcement of restrictions on movement and access for both people and goods. These restrictions have contributed to the de-development of a once-vibrant economy. In addition, three rounds of hostilities since 2008 have all but destroyed most of the industries and economic sectors pushing Gaza's economy to the verge of collapse.

These factors have led to the severe destruction and limitation of the Gaza Strip's nascent dairy sector. During the 2014 escalation in violence alone, the Israeli military partially or totally destroyed 10 dairy processors, and killed nearly 2,000 head of cattle, causing the sector estimated losses of more than \$43m.¹ As a result, Gaza's dairy sector is now highly dependent on imports for production and consumption and is unable to compete with imported products that are diversified and of better quality.

Gaza imports around 70 percent of the dairy products sold in its markets, the vast majority from Israel, costing approximately \$8m every month.² It is estimated that 200 tons of dairy products from the Israeli company Tnuva alone—a company which uses raw material for its dairy products from illegal settlements in the West Bank—are shipped to Gaza every day, and its products are distributed to at least 1,700 stores in Gaza.³ The remaining dairy needs are met from the West Bank and from local production.⁴ This dependence on imported dairy not only undermines Gaza's ability to establish the local industry that meets the needs of the local population, it also forces small business in Gaza to unfairly compete with Israel's subsidized settlement products from the West Bank.⁵

“The competition with imported products is high and unfair, it limits our profitability. We won't be able to stand on our feet if the volume of imports remains the same.” – Jamal Abu Eita, owner of the Abu Eita dairy processor.

Today, Gaza has 11 operating dairy processors that make up to 13 types of dairy products, the majority of production focusing on white cheese. Over the past four years, the volume of dairy products produced in Gaza has more than doubled and local consumption has increased following some Oxfam interventions to assist the sector's recovery, such as improving health and quality standard conditions. Despite these recovery efforts, Gaza's dairy industry continues to face large challenges that affect its growth and ability to meet local market demand.

2 MAIN ISSUES WITHIN THE DAIRY SECTOR

The Government of Israel's restrictions on imports to the Gaza Strip, including through the use of an expansive "dual use" list, prevent dairy processors from accessing equipment essential to upgrade the dairy sector. This limitation includes equipment to diversify milk production, laboratory equipment to conduct regular quality controls on milk to ensure high standards of quality and taste of products, as well as labeling and packaging machines. As a result, Gaza's dairy sector is not able to advance technologically. Hence, 82 percent of dairy processors' old machinery has low production capacities and need to be fixed regularly, eating away at their profits.⁶

Gaza, with limited to no pasture land and low fodder production, is not self-sufficient in the production of animal feed. Approximately 90 percent of dairy farmers rely on costly fodder imported from Israel, making the dairy sector highly unstable and fully dependent on imports regulated by Israel.

One sack of ordinary Israeli fodder now costs NIS 85–100 compared to NIS 40–60 before the blockade began 10 years ago. In a recent survey, dairy farmers told Oxfam that they spend 87 percent of their income on fodder. High prices have left farmers with few choices: use low quality feed, or feed their cattle less.⁷ This results in cattle that are malnourished and produce low quality milk, at low quantities. Well-fed, healthy cattle can produce 40L of high quality milk per day,⁸ while production of cattle in Gaza now averages only 21L of low quality milk per day. This has forced the majority of dairy processors in the Gaza Strip to rely on powdered milk to improve the quality of their dairy products.

The local authorities do not control or limit the amount of dairy products entering Gaza, which means that the local sector is dependent on imported products and prevented from growing. The lack of an import quota,⁹ which would limit the amount of foreign dairy products entering Gaza, particularly those that can be easily produced locally such as labneh, plain yoghurt, feta cheese and different types of white cheese, has hindered the dairy processors' ability to function at full capacity. For example, current production of nine dairy processors targeted by Oxfam in Gaza is less than half their capacity, because imported products flood the local market.¹⁰

"I pay a lot of money on fixing my machines almost every month, because some of them are second-hand. Last month alone, I spent more than NIS7200 (€1,760) on maintenance, which is twice the amount I spend on my house!"

Saif Al-Din Abu Eita, owner of the Haya dairy processor.

Box 1: “Instead of helping our economy, we are helping the Israeli economy”



Mustafa Eid, owner of the Khalij dairy processor in Deir Al-Balah, started his business in 2011 only making white cheese. He then expanded production to include four other types of dairy goods: labneh, plain yogurt, creamy cheese, and buttermilk to improve his income. Mustafa finds it difficult to develop his business with limited access to new knowledge, technologies, and a lack of new machinery. “Our machines are second-hand and quite old, they are not useable outside Gaza,” says Mustafa. “We want the sector to grow, we need to travel to learn and bring in new experiences and equipment so we can compete with imported products and increase our revenues. The local market is full of products imported from Israeli settlements, so instead of helping our economy, we are helping the Israeli economy,” Mustafa adds.

Daily power outages in the Gaza Strip directly affect the storage and preservation of milk and dairy products along the value chain and thus the profits of small producers. Oxfam’s recent Dairy Survey¹¹ revealed the extent of the devastation caused by outages on dairy processors. In the month prior to the Oxfam survey, nearly eight tons of dairy were wasted due to power outages, causing processors an estimated loss of \$19,000 that month alone. That wasted dairy is enough to feed approximately 2,500 adults in Gaza for one month.¹² With outages lasting from eight to 12 hours, processors struggle to continue functioning. Dairy producers report that nearly 20 percent of their income was spent on fuel for power generators during power cuts in the month before the survey.

The Palestine Standards Institute (PSI), which facilitates trade and investment in Palestine by meeting the metrology, standards, testing, and quality related needs of the business community in the OPT, closed its office in Gaza following the 2007 takeover of Gaza by Hamas, the de facto authority in Gaza. This has prevented Gaza’s dairy processors from accessing PSI’s support in meeting standards, testing, and quality control-related needs of the local market, which would enhance the ability of local products to compete with imported products.

“I have a decent income from dairy processing, but a lot of it goes to fuel to keep the generator on during power cuts... A ton of dairy products got spoiled in the shops, and were returned to the factory last month, costing me a loss of more than NIS9000 that can cover the salary of six of my laborers...”

Ameen Abu Safiyeh, owner of the Abu Safiyeh dairy processor

Box 2: Progress made

Oxfam has been working with dairy processors and dairy farmers since 2011 to improve their conditions, help their products to meet Palestinian health and quality standards, increase their revenues, and reduce operational costs. The support Oxfam has provided to the dairy processors has enabled them to increase their production capacity by 144 percent. The support provided to the dairy farmers has enabled half of them to increase their production capacity (liters per day) by 48 percent.

In addition, Oxfam has assisted in the creation of linkages between local dairy processors and 74 shops in the Gaza Strip, resulting in an increase from 10 percent to 60 percent of the shops' dairy products being sourced locally rather than imported.

These improvements have increased awareness and trust among local consumers of Gaza's dairy products and have created high market demand for local products. They have also attracted interest from internal investors, and possible funding from donors for long-term investment in the sector.

3 WHAT NEEDS TO BE DONE?

The dairy sector still requires a high margin of improvement to meet local market demand. In order for this to happen, the following should be done:

- The Government of Israel should lift the blockade and open all crossings into and out of Gaza, allowing for the unimpeded entry and exit of goods and people, and allow the free movement of Palestinians within the Occupied Palestinian Territory, with individual restrictions on movement imposed only in exceptional cases of legitimate security concern, as defined by International Humanitarian Law.
- The international community, including donors, should pressure Israel to adhere to its responsibilities under International Humanitarian and Human Rights Law, including by lifting the blockade, opening all crossings into and out of Gaza and allowing for the unimpeded entry and exit of goods and people, and allow for the free movement of Palestinians within the Occupied Palestinian Territory.
- Donor organizations should urgently invest in the dairy sector in the Gaza Strip in order to effectively support efforts to develop the sector and to reduce dependence on external products. All investment in the Gaza Strip must be underpinned by a commitment to advocacy to address the root causes of poverty and injustice, particularly the blockade, including access and trade restrictions.
- The Palestinian Ministry of Economy should support dairy processors in Gaza to increase the quality of their products through building their capacity and maintaining regular quality controls and compliance to

high standards of quality and taste of products.

- The Palestinian Ministry of Economy should implement an import quota to reduce the amount of imported dairy that Gaza processors are able to process, while also fostering local competition to protect against price increases for consumers. This would support local Gaza dairy products to allow for the sector to grow and increase its revenues.
- The Palestinian Ministry of Agriculture should adopt appropriate techniques and standards for the nutrition of dairy cattle and assist in the better exploitation of local fodders in order to achieve positive effects on milk yield and quality, and reduce expenses for dairy farmers.
- The Palestinian Authority should revive the Palestine Standards Institute in Gaza to facilitate the marketing of local dairy products and encourage competition with imported products, and should activate the role of the Palestinian Investment Promotion Agency in Gaza to help create and maintain a more competitive investment environment in Gaza.

NOTES

- 1 Ministry of Agriculture, "Damage Assessment of the Agricultural Sector Following the 2014 War on Gaza", 2014, and Information supplied by the Ministry of Economy on 22 August 2016.
- 2 Small Enterprise Center Association, "The Scale of Production of Plain Yoghurt, Flavored Yoghurt and Feta Cheese in the Gaza Strip", March 2016.
- 3 Who Profits, "The Land of Milk and Money: the Israeli Dairy Industry and the Occupation", July 2015. Accessed from <http://www.whoprofits.org/content/land-milk-and-money-israeli-dairy-industry-and-occupation>
- 4 Ibid.
- 5 Ibid.
- 6 The data contained in this factsheet is based on two surveys conducted by Oxfam with the nine operating dairy processors and dairy farmers in the Gaza Strip during August 2016 (Hereafter "Oxfam Dairy Survey").
- 7 Information collected through interviews with dairy farmers conducted during August 2016.
- 8 Oxfam, "Dairy Value Chain Analysis Report", 2015 (unpublished).
- 9 An import quota is a type of protectionist trade restriction that sets a limit on the quantity of a good that can be imported into a country in a given period of time.
- 10 Oxfam Dairy Survey, August 2016.
- 11 Ibid.
- 12 This calculation was made on the basis that the one individual can consume on average 3.2kg of dairy every month according to Oxfam's food voucher program database.

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For further information on the issues raised in this paper please email advocacy@oxfaminternational.org

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