

Gaza Seaport as a Way to Enhance the Palestinian Economic Development

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Abstract : The purpose of this paper is to present some main economic factors which influence Gaza Seaport. Without direct access to the international market, the Palestinian economy will continue its dependence on Israeli economy mainly in employment, transport facilitation, and international trade. The greatest potential for Palestinian economic growth lies in trade. The port is important for creating new job opportunities, and for enhancing exporting capabilities, which are the most essential elements for development of the Palestinian economy. Israeli policies and procedures incur Palestinian exporters additional transportation costs when delivering their products to Israeli Ports or when transit these products to neighboring countries through Israeli controlled area. The public profit for the port is greater than the private profit. Therefore, constructing the port will have a great effect on the Palestinian economy. There are many challenges facing the port, some of them are the political stability, the economies of scale, and Israeli security measures and procedures.

Key words : Gaza seaport, Trade logistics, Transport, Palestine economy, International trade

1. Introduction

Palestine is almost totally dependent on the economy of Israel for trade, transport facilitation, and employment opportunities. This situation did not come about by accident; it was created to serve the interests of the occupying power.

The state of Palestine as envisioned in the United Nations Security Council resolution 1397 (2002) should be economically independent. A fundamental requirement of economic independence is direct access to international markets.

Although the Palestinian territory has its own seacoast in Gaza Strip, its location renders it effectively a land-locked economy, since any participation in international trade, especially as regards the movement of goods and people, is impossible unless conducted via its immediate neighbors Jordan, Egypt and Israel.

These stand as Palestine's window to the world, with Israel serving mainly as a gateway to the West, while Jordan and Egypt are considered as transit routes to the Gulf States, Europe, the Arab Mashreq (eastern Arab countries) and Maghreb (Western Arab countries). As is the case of other landlocked economies, Palestine's location poses a serious impediment to economic development because trade expansion is affected by the neighboring countries' readiness to grant the Palestinian industries

access to their transport facilities. At present, such access is hindered by complex security, customs and overland transport procedures. As logistics has begun to play a more important role in the world economy, nodes such as airports and seaports have also begun to play a more extensive role in economic development. Gaza Seaport will thus play a crucial role in developing and enhancing the growth of Palestine's economy.

In the second section we will review general information about Palestine. In the third section we will present the legal background and implementation of the port. In the fourth section importance of Gaza seaport will be discussed. In the fifth and sixth sections we will discuss the challenges facing the success of the port and the conclusion respectively.

2. Palestine in Brief

Before we discuss the importance of Gaza Seaport, we see that it is better to know relevant historical events which led to the legal background of the port and became the real constraints for the development of the Palestinian economy and reflects the needs to such strategic asset, Gaza Seaport.

The Palestine problem became an international issue toward the end of the First World War with the disintegration of the Turkish Ottoman Empire. Palestine

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was one of several former Ottoman Arab territories which were placed under the administration of the United Kingdom under the Mandate System.

All but one of these Mandated Territories became fully independent States, as anticipated. The exception was Palestine where, instead of being limited to "the rendering of administrative assistance and advice" the Mandate had as a primary objective the implementation of the "Balfour Declaration" proclaimed by the British Government in 1917, expressing support for "the establishment in Palestine of a national home for the Jewish people".

A Peace Conference on the Middle East was convened in Madrid on 30 October 1991, with the aim of achieving a just, lasting and comprehensive peace settlement through direct negotiations along 2 tracks: between Israel and the Arab States, and between Israel and the Palestinians, based on Security Council resolutions 242 (1967) and 338 (1973) (the "land for peace" formula). A series of subsequent negotiations culminated in the mutual recognition between the Government of the State of Israel and the Palestine Liberation Organization, the representative of the Palestinian People, and the signing by the two parties of the Declaration of Principles on Interim Self-Government Arrangements in Washington, D.C., on 13 September 1993, as well as, the subsequent implementation agreements, which led to partial withdrawal of Israeli forces, the elections to the Palestinian Council and the presidency of the Palestinian Authority, the partial release of prisoners and the establishment of a functioning administration in the areas under Palestinian self-rule.

2.1 Importance of Palestine

Palestine has a distinguished strategic and geographic location in history that made it the heart of the Ancient world, connecting Asia, Africa and Europe. Its strategic importance is a result of its central position in the Eastern Mediterranean and as a naturally suitable place for the construction of harbors. The importance of Palestine can be illustrated in the following points:

Strategic Location: Palestine is considered as the only bridge connecting Asia, Africa and Europe. This strategic location led several invaders to think of occupying Palestine to ensure their existence in adjacent countries.

Trade Location: Palestine's geographic location was historically a major trade node for all commercial convoys from the east to the west. Products coming from Asia, India and the Arab Peninsula reach Palestine by land and are then shipped across the Mediterranean Sea to Europe. The southern border of Palestine connecting Asia and

Africa is also a major trade route between these two continents.

Tourism and Religious Sites: Palestine is considered the Holy Land for Muslims, Christians and Jews. It has several religious sites, such as the Al-Aqsa Holy Mosque (the first of the two Qiblas and the third of the two mosques for Muslims) and the Al-Sakhra Dome, the Sepulcher Church and the Church of Nativity. These holy sites attract millions of Muslims and Christian pilgrims, which provides an opportunity for bringing stability, peace and fraternity to the nations of the Middle East and between the Islamic and Christian worlds.

2.2 Population of Palestinian territories

Palestine's population in 2004 is around 3.828 million, with 2.422 million living in the West Bank and 1.406 million in Gaza. Table 1 below shows high growth population rate, which means increasing demand for international trade and therefore increasing demand for international transport.

Table 1 Population of Palestinian territory

(Unit : Million)

| 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|------|------|------|------|------|------|------|------|
| 2.8 | 2.9 | 3.2 | 3.2 | 3.3 | 3.5 | 3.6 | 3.8 |

Source : Palestinian Central Bureau of Statistics

3. Legal Background and Implementation of Gaza Seaport

The port of Gaza is considered one of the most important strategic projects for the future economic security of Palestine. Port negotiations have thus played a crucial role in all agreements signed between Palestine and Israel. Several agreements and memoranda stipulating the establishment of the Gaza Port have been signed by the Palestinian Council and the Israeli Government.

The Gaza Port was mentioned in the Declaration of Principles on Interim Self-Government Arrangements, September 13, 1993. It states that the two sides agree to establish an Israeli-Palestinian continuing Committee for Economic Cooperation, focusing, among other things, on cooperation in the field of transport and communications, including a Program, which will define guidelines for the establishment of a Gaza Sea Port Area, and will provide for the establishment of transport and communications lines to and from the West Bank and the Gaza Strip to Israel and to other countries. In addition, this Program will provide for carrying out the necessary construction of roads, railways, communications lines, etc.

The proposed Gaza port was also included in the Israeli-Palestinian Interim Agreement on the WEST BANK AND THE GAZA STRIP in 1995. More attention and detail were given to this topic in this agreement. The 1995 Agreement states that: Plans for the establishment of a port in the Gaza Strip in accordance with the DOP, its location, and related matters of mutual interest and concern, as well as licenses for vessels and crews sailing on international voyages will be discussed and agreed upon between Israel and the Council.

In 1999, an implementation timeline of outstanding commitments of agreements and the resumption of permanent status negotiations was signed. It states that the two sides have agreed on the following principles to facilitate and enable the construction works of the Gaza Sea Port. The principles shall not prejudice or preempt the outcome of negotiation on the Permanent Status:

The Israeli Side agrees that the Palestinian Side shall commence construction works in and related to the Gaza Sea Port on October 1, 1999; the two Sides agree that the Gaza Port will not be operated in any way before reaching a joint Sea protocol on all aspects of operating the Port, including security.

The Palestinian National Authority started the process of constructing the seaport of its own five kilometers from the southern border of the Gaza Strip. The deep-water seaport, "Gaza Sea Port", will also serve the West Bank and, if economically feasible, Jordan along with other parts of the world, while future plans include the establishment of strategic links with the neighboring ports of Egypt, Ashdod, Beirut and Cyprus.

With financial support from European countries, the Palestinian National Authority decided to construct the Gaza Port in three stages:

Phase one will include the construction of a breakwater, almost perpendicular to the shore line, with a berth of 600 meters in deep water and an additional petroleum products berth. By the end of the first phase, the port will be able to receive small container vessels with a maximum size of 15,000 DWT, however, equipment will be elementary including mobile cranes. Phase Two will entail the construction of a multi-purpose container terminal with the ability to handle much larger vessels.

During the third phase, the breakwater will be expanded and anew multi-purpose terminal will be constructed in the center of the harbor basin to handle larger vessels (50,000 to 70,000 DWT) that would enable the port to function as a major transshipment facility.

Site preparation work was to have begun in November

1999 and was scheduled to be completed in 2001. However, construction works were suspended in September 2000 and Israeli authorities have not permitted construction to resume since.

4. Importance of Gaza Seaport

The Palestinian National Authority has pursued a free market policy, reaching several free trade arrangements with regional and international partners. Although Palestine still faces some non-tariff barriers from Israel, mostly under the security measures, the Paris Protocol has enabled the Palestinian economy to build on its strong industries, and increase its exports to both neighboring and international markets.

Although the Paris Protocol of the Oslo Agreement denotes the same economic and trade treatment for Palestinian trade through Israeli ports and airports, Israeli security measures at the main border crossings with the two countries have undermined the ability of Palestinian industries to extend their outreach beyond Israel.

For exporting and importing products via Ben-Gurion airport (in Israel), unlike Israelis, Palestinian businesses can only use cargoplanes due to the Israeli regulations against Palestinian exporters using passenger planes. Passenger planes are cheaper and more frequent and go to all directions. This restriction causes delays and extra costs to the Palestinian trader especially when it comes to the transport of agricultural products. This is also in contradiction with Paris Protocol, which grants Palestinian and Israeli traders equal treatment at Israeli border points. Fig. 1 shows the border crossing between Gaza and neighboring countries including Israel.

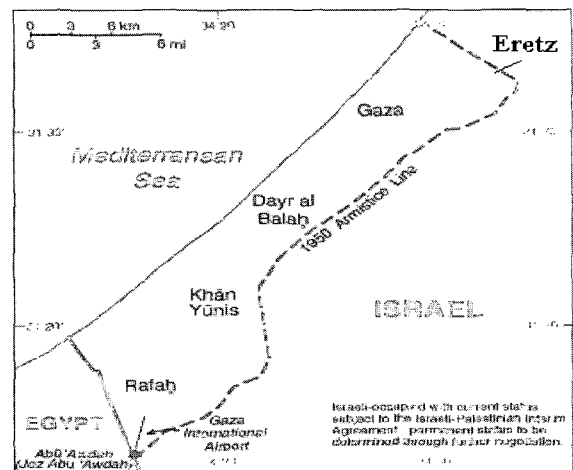


Fig. 1 Border crossing between Gaza and other countries

4.1 Measures Governing Exports and Imports

Gaza exports traveling to or through Jordan need to first cross the Israeli Erez crossing and continue through Israeli controlled routes (in Israel and through the West Bank) before reaching the main borders with Jordan.

To obtain access to these routes, a permit for the driver and another for truck are required from the Israeli authorities, and goods should be transported in uncovered trucks, known as "green trucks" originally used to transport agricultural exports and lacking most safety requirements. These trucks should also observe movement restrictions, which limit the number of routes that drivers can use.

After inspection and clearance by Palestinian customs and Israeli security officials, upon leaving Gaza, Palestinian trucks are escorted in convoys of 5-15 trucks by Israeli security patrols up to the commercial crossing with Jordan.

Trucks are then subject to "back-to-back" procedures, whereby goods are unloaded from the green trucks by Israeli and placed on the ground for inspection, and then reloaded onto Jordanian trucks before proceeding to their final destination in Jordan. The back-to-back procedures and the restrictions on Palestinian vehicles are also applicable to exports originating in West Bank and destined for Jordan. The Palestinian Authority was expecting that back-to-back procedures were to be replaced by door-to-door system as of 2000. However, the outbreak of the crises and the closure policy rendered this practically impossible.

Products originating in Gaza are transported to the Rafah border crossing in Palestinian trucks where they are inspected by Palestinian customs before entering the Israeli controlled area of Rafah. At this point goods are unloaded for inspection by the Israeli customs and security and then re-loaded onto Egyptian trucks following the back-to-back procedures before proceeding to the Egyptian border for clearance. Goods originating in West Bank are rarely exported through Rafah since this requires transporting the goods to Gaza via Israel, hence, complying with the convoy system. Instead, Israeli-Egyptian border crossing maybe used provided Israeli transport operators handle goods, which means higher costs for Palestinian exporters.

Palestinian traders importing goods from Egypt and Jordan or transit through Egypt and Jordan should notify the clearing agents at least 48 hours before the arrival of the shipment and secure the means of transportation for the cargo, including permits for vehicle and the drivers. Imports should be loaded onto Egyptian or Jordanian trucks in special crates and pass all inspection and customs procedures on the Egyptian or Jordanian side. Once

inspected, the cargo is re-loaded onto Palestinian trucks following the back-to-back procedure. It is important that the number of trucks crossing into the West Bank is subjected to a strict quota. The number of trucks crossing through Allenby between Jordan and Israel is limited to 50 per day, while the number of inbound trucks from Egypt is limited to only 25.

4.2 Delays and Associated Costs

In the Israeli system transit, security and permits stand as the major impediments to the smooth flow of Palestinian exports. It is often the case that traders are denied permits into Israel, and when obtained, they are valid for a limited period. Moreover, obtaining a permit takes several weeks in view of the complex procedures, and entails additional costs of around \$326 when arranging for a 15-truck convoy.

The journey to main crossing points with Jordan and Egypt is expensive, time consuming and hazardous, and requires the transport of goods through narrow dual carriage ways, windy and unsafe roads. Transporters experience significant delays, particularly during rush hours, and they are left with no option but to overload vehicles to reduce costs. Compounding these delays are the Israeli check-points at the main road networks connecting Palestinian cities and crossing points, the loaded trucks standing in long queues to pass through "security checks". It is common for traders to accrue significant losses in the form of damaged goods as a result of these delays, especially when goods are transported in green trucks.

Under such circumstances, trucks often fail to arrive to the crossing points during the working hours and, as such, are forced to spend the night near the border crossing points. This entails the payment of "overstay fees", which amount to \$100 per day at Rafah and \$4-5 per ton per night at Allenby. To circumvent the imposed limitations on the type of vehicles and travel routes, Palestinian traders use Israeli trucking companies to transport the goods to and from their factories at a rental cost significantly higher than that of using their own trucks. Others have chosen to invest in Israeli trucking companies, despite their higher costs resulting from wage discrepancies between the Palestinian territory and Israel.

Clearance procedures add delays, especially since inspection and administrative formalities leave much room for customs officers' discretion. In both Jordan and Egypt, officers stop nearly every shipment for inspection.

Virtually all containerized goods are unloaded at the port for inspection and never reloaded into the container for the inland movement, adding to the cost of transit.

Additional costs associated with trade in the opposite direction are mainly generated by Israeli security measures. To avoid accruing additional costs, Palestinian traders are left with no option but to resort to the more expensive Israeli clearing and forwarding companies for handling imports.

Other factors contributing to the high level of transaction costs are the complex national procedures, administrative formalities and standards and specifications. Egyptian, Jordanian, and Israeli customs procedures require additional documentation.

Under such circumstances, Palestinian enterprises are faced with prohibitive transaction costs, which are estimated to be at least 30 per cent higher than those accrued by the Israeli counterparts. The estimations of costs associated with imports from Jordan is \$494 per shipment, and those associated with imports from Egypt is \$550 per shipment. Products originating in Gaza destined for Jordan were shown to face prohibitive costs of \$630 per shipment

4.3 Unemployment

Palestine is facing a severe problem with high unemployment. Prior to the ongoing crisis, nearly a quarter of Palestinian employment was for Israeli employers, who pay wages significantly higher than Palestinian employers in West Bank and Gaza. Israel began to restrict Palestinian labor inflows in the early 1990s by introducing work permit requirements. But the Oslo accords marked a fundamental shift in Israeli labor policy, as mobility restrictions were enforced, including periodic border closures and at times extreme restrictions during which Palestinians could not leave their villages. During closures, very few workers from Gaza could reach their jobs in Israel or the settlements.

Closures were particularly severe in 1995 and 1996, leading to a drop in labor flows to Israel and high Palestinian unemployment (see Fig. 2). This is a dramatic change from the 1980s when unemployment was negligible and movement restrictions did not exist.

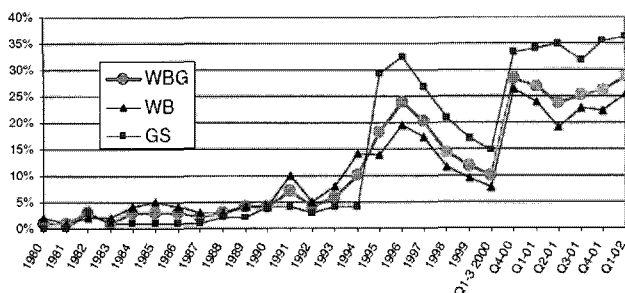


Fig. 2 Unemployment rates

In order to reduce the dependency on Israel for employment, the port can absorb part of this unemployment.

The port can create employment through the following channels:

1) Employment in firms providing services necessary to the movement of waterborne commerce. They can provide:

- Transportation services such as freight forwarding, transport of cargo by rail and road;
- Port services such as terminal operations, stevedoring, vessel supply, towage, ship repair, diving services and insurance.

2) Employment in firms attracted to the region because of the presence of the port. These firms can be:

- Firms that export commodities;
- Firms that import products or raw materials for assembly and distribution.

3) Employment in firms that have expanded their markets by exporting through the port. The port is a source of reduced transportation costs, which results in industry expansion. Such industries are typically located at substantial distances from port facilities. They are port dependent in, that cost-effective access to the port affects demand for the firm's products.

The Gaza Seaport project is expected to create 1800 job opportunities during the construction and 5000 opportunity (both direct and indirect) during the operating.

4.4 International Trade

Another importance for the port comes from international trade. Israel is the most important source of Palestinian imports and the largest market for its exports. As indicated in Table 2, Israel accounted for 71% of total Palestinian imports and 97% of total exports, or almost 74% of the total value of Palestinian trade transactions in 1999. By comparison Jordan, the second most important trade partner, had a meager share of 2.3%, while other markets accounted for insignificant shares. On the regional level, however Europe is the most important source of non-Israeli Palestinian imports, with more than 15% of the total value of Palestinian imports in 1999.

With regard to reported Palestinian imports from Israel, it should be recalled that the origin of some of these imports is from countries other than Israel. This flow can be considered as "indirect-imports" from Israel, whose destination at the source are declared as Israel but are subsequently exported to the West Bank and Gaza.

According to the World Bank, it is estimated that this type of imports accounts for one third of imports from Israel, or 24 per cent of the total value of Palestinian

imports. If we add this to the imports from non Israeli sources reported in Table 3, the actual share of all Palestinian imports transiting Israeli ports could be about 54 per cent of the total value of Palestinian imports. It's clear that the Palestinian Authority loses out on trade tax and VAT revenue from goods nominally imported into Israel but subsequently re-exported to the West Bank and Gaza without being properly accounted for and taxed as a trade transaction.

Table 2 International Trade Partners with Palestine

(Unit : %)

| Region | Imports | Exports | Total Trade |
|----------------------|---------|---------|-------------|
| Israel | 70.5% | 96.9% | 73.8% |
| Jordan | 2.3 | 2.3 | 2.3 |
| Total Arab Countries | 2.8 | 2.6 | 2.8 |
| Euoropian Countries | 15.4 | 0.4 | 13.6 |
| Asian Countries | 7.4 | 0.0 | 6.5 |
| American Countries | 2.1 | 0.1 | 1.9 |
| Total Trade | 100% | 100% | 100% |

Source: Palestinian Central Bureau of Statistics "statistical Abstract of palestine No.2" November (2000)

It is also important to mention that international transportation plays a key role in agriculture exportation. The agricultural sector is an essential factor for economic development and employment. Agriculture exportation requires fundamental capabilities such as marketing and essential infrastructure.

With respect to employment, more employment is generated with refrigerated shipment which will increase the value of exports.

The competitiveness of internationally traded products is greatly influenced by various factors, one of which is overall transportation costs. The cost associated with the physical transfer of goods is an essential piece of information in the negotiation of a contract. Transit time is also an important element as goods are required at a specific time and goods-in-transit tie up capital. Uncertainty in quantifying the costs is another issue that can disadvantage local traders

The transportation costs tripled in the last four years for the Palestinians comparing to the normal situation, these costs incurred by the Palestinian exporters in transporting their products to the Israeli ports.

4.5 Challenges

Some economists argue that there are some economic

considerations with respect to the Palestine port.

One of the most important theories that decision makers consider for establishing ports is Economies of Scale. Economies of scale refers to the notion of increasing efficiencies of the production of goods as the number of goods being produced increases. Typically the average costs of producing a good will diminish as each additional good is produced, since the fixed costs are shared over an increasing number of goods. According to this theory, the Ashdod port would therefore be preferable to Gaza for economic reasons.

It's argued that investment in such kind of projects would be purely strategic. These strategic investments are likely to show accounting loss, but have social and public benefits. These benefits are greater than the private benefits of this investment. In general, it is difficult to survey all the beneficiaries from improved transport services, and even if they are surveyed, it is difficult to measure how much each group has benefited.

5. Conclusion

Requiring all goods to pass through Israel or Israeli-controlled borders, leads to Palestinian traders incurring higher transport costs than if they traded directly. Palestine is facing a severe problem with high unemployment. The seaport project is expected to create 1800 job opportunities during the construction period and 5000 opportunity (both direct and indirect) during the operating period.

As we have shown that more than 73% of the Palestinian International trade is conducted with Israel because of the lack of international market direct access, and totally depending on Israeli system and facilities. Reducing the dependency on the Israeli economy and encouraging integration with neighboring countries and other countries will greatly influence the future of the Palestinian economy.

This study discusses the factors affecting and enhancing the development of the palestinian economy with focusing on the importance of the seaport to contribute in overcoming these obstacles facing the development.

This study has an important aspect to the Palestinian economy, since there are few studies have been done on this field. This period is very critical for the palestinian economy because of the international effort toward the settlement of the political conflict and serious thinking to develop the economy of this region. So we thought that this study will help drawing the attention toward fastening the constructing of this seaport.

Futures studies deserves to be done are related to the ability of palestine to be a hub to that region in the mediterranean sea, which means connecting Gaza seaport with a railroad and land transport network to networking countries. the biggest limitation for our study and future studies is lack of reliable and accurate data.

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