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Sector Report: Food and Beverage Manufacturing in West Bank/Gaza

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TO THE

USAID MISSION TO THE WEST BANK AND GAZA
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Introduction

Manufacturing production is considered the backbone of economic development, the activity capable of achieving a qualitative move towards economic and social progress.

The food and beverage (F&B) sector has been one of the fastest growing sectors of the Palestinian economy, representing 11% of the total number of manufacturing establishments. These establishments grew under occupation due to the protective nature of the Israeli economy, along with a national campaign designed to encourage consumers to buy Palestinian products throughout the late 80's and early 90's. The Palestinian Territories offer a business friendly environment in which to start a business or to expand an existing business in the food and beverage industry for a number of reasons, including:

- Strategic location in the region, close to land and seaports, as well as to other major markets in the area
- The recently passed Investment Encouragement Law, which facilitates the growth of newly established businesses
- The availability of an experienced work force
- The recent implementation of international treaties and Free Trade Agreements with major industrial countries
- The Food and Beverage Manufacturing Industry in West Bank/Gaza

A. General Indicators of the Palestinian Food and Beverage Industry

The food and beverage industry represents approximately 20% of Palestinian industrial production. The average Palestinian household spends roughly 42-45% of its annual income on food and beverage products.

In 1999, there were 1,543 enterprises in the food and beverage-manufacturing sector, making up 11% of all manufacturing establishments. Although the 1999 number of enterprises in the sector constitutes a decrease of approximately 5%[1] over 1998, there has been an overall 18% increase in the number of total establishments since 1996. The F&B manufacturing sector output in 1999 showed an increase of 12% over 1998 figures, while Gross Value Added for the same period increased 2.5% to $80,231,700.

Compared to 1996 figures, output for the F&B manufacturing sector had risen by 48% in 1999 to $223,448,400, and Gross Value Added had increased by 82% to $80,231,700.

B. Food and Beverage Sub-Sectors

The Palestinian food and beverage manufacturing sector is divided into 9 sub-sectors with the following percentages of total establishments:

[1] Partially due to mergers and buyouts

Table1: Percentage Distribution of Sub-Sector Establishments

Food and Beverage Sub-sector	Percentage (%) of Establishments, 1999	% Change since 1996
Production and preservation of meat products	1%	36%
Preservation of fruit and vegetables	Less than 1%	11%
Manufacture of dairy products	3%	96%
Manufacture of grain mill products	9%	40%
Manufacture of prepared animal feed	Less than 1%	-21%
Manufacture of bakery products	63%	16%
Manufacture of chocolate and sugar products	9%	-43%
Manufacture of other food products	19%	43%
Manufacture of soft drinks and mineral water	1%	13%
Total	100%	100%

The most notable increases in number of establishments from 1996 are found in the dairy products sub-sector as well as in the production and preservation of meat products sub-sector, due to both an increase in demand and the easing of restrictions.

There are approximately 17 meat production and preservation plants currently in operation, with a total production capacity of 1,000 to 1,100 tons per month. Production concentrates on cold cuts, mortadella, and canned meat. The biggest and most dominant name is *Siniora* products. The Palestinian share of the meat market of the West Bank and Gaza ranges between 60-70%, including East Jerusalem, with Israeli and other imported products, most notably *Al Mara'I* from Jordan and *Al Amir* from Israel accounting for the remaining 30-40%.

This sub-sector is growing due to the increase in demand for canned meat and luncheon products, and to low production costs. The increase in demand for these products is mostly due to decline in per capita income, and the fact that these products are inexpensive and are often substituted for fresh meats in traditional cooking.

The manufacturing plants in this sub-sector are modernly equipped, most of them semi- or fully automated. A large percentage of these plants are ISO-certified.

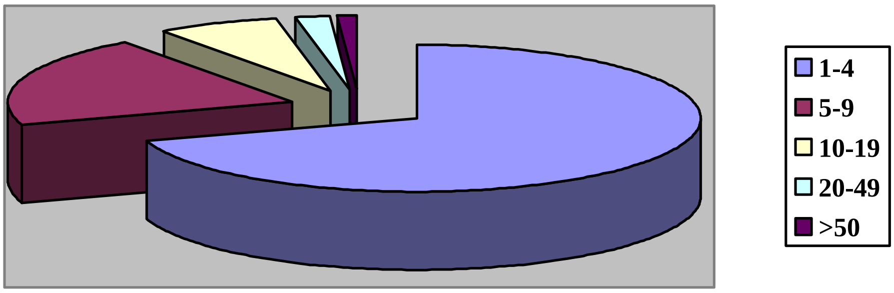
C. Geographic Distribution of Establishments

The food and beverage industry is distributed all over the West Bank and the Gaza Strip, with major concentrations in Nablus, Ramallah, Hebron and Gaza.

With the passing of the Investment Encouragement Law and the easing of restrictions, the sector has become a major attraction for investment.

The vast majority of the establishments, 71%, are family-owned enterprises, employing 1-4 persons. About 20% of establishments employ 5-9 people. The following figure shows the distribution in more detail:

Figure 1:Distribution of Establishments According to Number of Employees



D. Labor Issues

In 1999, the F&B industry employed more than 7,500[2] employees, with total industry capitalization of more than $300 million. This number represents approximately a 7% increase over 1998, and an 18% increase over 1996[3] industry employment figures, respectively. The food and beverage sector employees constitute 10.4% of the total employees of the manufacturing sector in West Bank/Gaza. Female employment makes up between 5% and 6%[4] of the total employment rate.

In 1998, the number of employees in the F&B sector represented 11.3% of the total number of employees in the manufacturing sector. Compensation per employee also increased by 8.2% in this sector compared to other sectors, reaching an average of $4,110 for the food and beverage sector versus $3,800 for other manufacturing sectors.[5] [6]

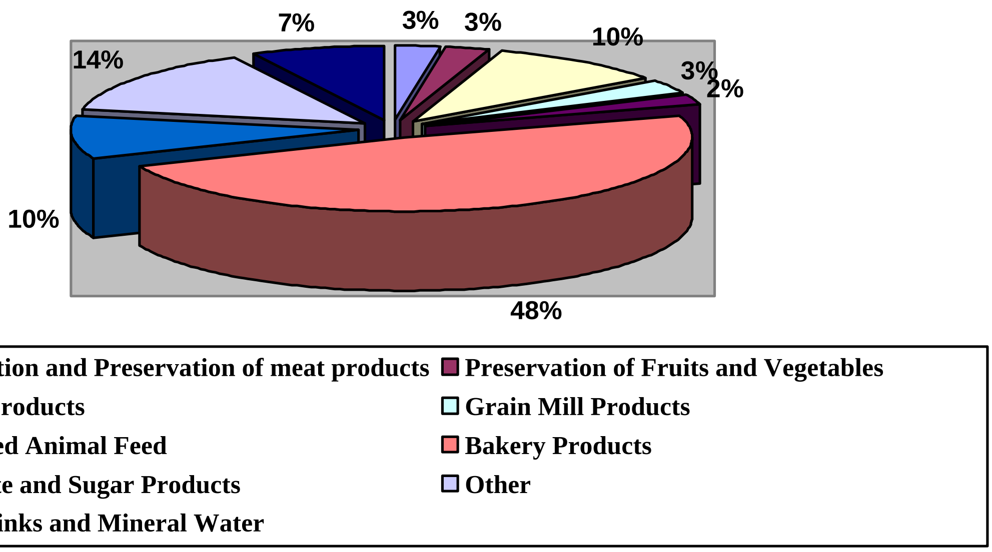
Table 2: Statistical indicators of the food and beverage sector

The Food and Beverage Sector	1998	1999[7]
Percent of persons engaged[8]	11.3%	10.4%
Output per person engaged ($)	$30,828.94	$31,273
Output per paid employee ($)	$49,636.77	$49,359.05
Value added per person engaged	$11,730.54	$11,229.06

[2] Includes employees in the Tobacco sector
[3] Source: Palestinian Central Bureau of Statistics. Does not include tobacco sector.
[4] Estimate for 1999
[5] Source: Ministry of Industry Study, 2000.
[6] Numbers include Tobacco sector
[7] Excluding the Tobacco products sub-sector
[8] Percentage of the Palestinian manufacturing sector

In 1996, the value added per person engaged was $7,280.50, lower than the manufacturing average of $8,225.65. The output per paid employee was $42,433.43 compared to the manufacturing industry average of $29,925.98; the output per person engaged $24,919.66 compared to the manufacturing industry average of $19,395.40.
The total number of employees in the food and beverage manufacture sector is divided amongst the nine sub-sectors as follows:

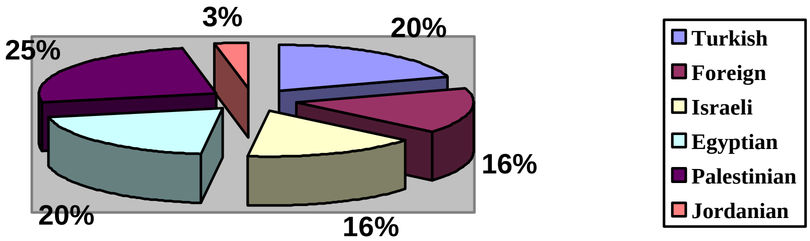
Figure 2: Distribution of Employees According to Sub-Sector 1999



E. Market Share and Competition

The market share of Palestinian-made food products has increased dramatically during the past few years. In 1996, the Palestinian food and beverage market share was at 25%. Major competition in the market came from Turkish and Egyptian products, followed by Israeli, Jordanian and other countries as follows:

Figure 3:Distribution of Market Share by Country of Origin, 1996



Recognizing the challenges of global competition and the need to develop and better market and protect locally manufactured food products, the industry was organized in the *Palestinian Food Industries Association* in 1995. In 2001, the Palestinian products market share for the sector increased to 50%, due in part to aggressive government policies to encourage local investment. Recently, the Palestinian Authority passed policies making 100% of all displayed products in government schools and security camps of local origin.

F. Market and Profitability

The food and beverage manufacturing industry is dependent, as are other manufacturing industries, on the strength of the local market. In 1998, sales totaled $183.3 million, with local sales at $170.8 million, or 93.2% of total sales; exports were only $12.5 million, constituting 7.3% of total exports for the manufacturing sector.

As for the local markets, 87.7% of all sales are directed at the West Bank, with the rest going to Gaza. As for exports, 89% of exported products are sold in the Israeli market; the rest are sold in Arab and some European countries.

In 1998, production costs for the F&B sector reached $142.8 million, distributed as follows: 63.8% raw material, 11.6% employees, 3.2% depreciation, 2.7% production fees and taxes, and 18.7% for other.

After subtracting production costs, the food and beverage sector generates gross profit of $43.2 million, a gross profit margin of 23.2%, compared with 26.7% for the manufacturing industry as a whole. This translates to 13.1% lower profit percentage than other manufacturing sectors, most likely due to the higher than industry average production costs, especially for raw materials. A 10% decrease in raw material costs causes a 6.4% overall cost decrease, and an increase of profitability to 28.1%.[9]

[9] Palestinian Ministry of Industry Study, 2000

G. Export Potential for the Food and Beverage Industry

The sector has developed substantially since 1990. It expanded to include new export markets, mainly Jordan, Russia, Eastern Europe and the USA. Food companies in Gaza supplied the UN Agencies such as UNRWA. Following is a list of the leading companies in exports:

Exporting Company	Importing Country	Product/exports
Silvana Chocolate Co.	Russia	Chocolates, biscuit, wafers
Jordan Vegetable Oil Industries	Jordan, USA	Sunflower oil, corn oil, soy bean oil
Sinokrot Food Co.	East Europe, former Soviet Union countries	Biscuits, wafers, chocolate
Salwa Food Products	Jordan	Salami, canned meat
Al-Awda factory	Romania	Biscuits, wafers
Al-Sheeb	Russia, Romania, Britain, Jordan	Spices, coffee, tea, soups, dried vegetables, zaatar, falafel, sahlab
Al-Bader Canning & Food products	UNRWA	Canned food
Khalil Rahman Co	Russia	Pasta, spaghetti

Annex 1: Detailed Information about the Palestinian Food Industries Association (PFIA)

The Palestinian Food Industries Association was established in 1995 to represent the Palestinian food industries in the West Bank and Gaza. PFIA currently represents 54 member companies and is in the process of expanding its membership to include other participants in the Palestinian food production and marketing sector. PFIA aims to assist in promoting locally made products and in improving local production, management and marketing practices.

PFIA offers a number of services including:

- Coordination between food producers and public sector institutions;
- Representing the sector in local and international forums;
- Providing training in production, management and marketing with special emphasis on ISO 9000, Quality Control and HACCP (Hazard Analysis Critical Control Path) to assist local companies in reaching international standards and requirements;

- Sponsoring a "Buy Palestinian" campaign to promote Palestinian products in the local market;
- Offering technical assistance to members either directly or in cooperation with other international and local organizations; and,
- Assisting companies in opening export markets.

PFIA Activities and Achievements:

- PFIA is promoting quality control and ISO certification requirements among members. A high percentage of its members are now working to comply with newly-established local product quality and packaging standards. Others are working towards standards required for ISO and HACCP certification. One food company has already been ISO certified.
- PFIA has represented the sector in international exhibitions and coordinated a number of trade fairs, exhibitions and trade missions (Dubai, Russia, Egypt and other countries).
- PFIA also coordinates with public sector institutions and other organizations with regard to policy issues affecting the sector.
- PFIA also conducts training and awareness campaigns on specific subjects that will improve and develop the sector's capabilities.
- In 1997, PFIA established a specialized technical department to provide direct assistance to members in their effort to meet quality standards.
- PFIA also conducts quality gap analysis and market studies on behalf of its members.
- In 1996, PFIA took the initiative to organize a Palestinian Food Day exhibition in Jericho, giving its members an opportunity to exhibit their products together to traders and distributors from throughout the Palestinian territories and the Arab-Israeli market. This very successful event was repeated and expanded to include a location in Gaza in November of 1997 with the participation of 36 Palestinian food producers and more than 1000 traders. The 1997 event was a huge success in both locations and strengthened the bonds among the participants while generating direct sales in excess of $3.5 million. The event will be expanded further in future years.

Address:

Eng. Mazin Sinokrot, Chairman
Palestinian Food Industries Association
Tel/Fax: 972-2-2986774
Ramallah
West Bank

Annex 2: PFIA Members

Company name	Contact Person	Products	Fax	Telephone	City
Snack Foods and Sweets					
Whiterose for Food Products	Mahmoud Shabaro	wafers, chips, toffee	09-2376828	09-2376131	Nablus
Plaza Sweets Factory	Nashat Al-Khalili	toffee	09-2370163	09-2370163	Nablus
Golden Sweets Co.	Zahi Nuweisser	wafers, chocolate	09-2387807	09-2379187	Nablus
Shuqu Factory for Sweets	Afif Shuqu	wafers , chocolate	09-2384891	09-2376735	Nablus
Cabri for Food Products	Zahi Shabaro	wafers, sweets	09-2376828	09-2371757	Nablus
Sinokrot Food Products	Mazin Sinokrot	wafers, biscuits, noga	02-2955702	02-2959172	Ramallah
Silvana Food Co.	Anton Mardrosian	biscuits, wafers, toffee	02-2955881	02-2956458	Ramallah
Sharawi Co. For Sweets	Ahmad Sha'rawi	chips, lollypops, toffee	02-2955340	02-2955535	Ramallah
Mahsiri Co. for Food	Said Mahsiri	wafers , biscuits	02-2952756	02-2952756	Ramallah
Rania Biscuits Factory	Hassan AbdelSamad	biscuits	02-2954412	02-2956045	Ramallah
Qasrawi Trade Company	Zuheir Qasrawi	chips	02-2924956	02-2924924	Hebron
Salah Trade Ind. Co.	Khaled Salah	chips	02-5855335	02-9929960	Hebron
Al-Awda Biscuits Factory	Muhammad Talbani	biscuits	07-2833135	07-2831124	Gaza
Al-Nasser Company	Anton Habash	chips, gelatin, other	02-2956358	02-2954188	Ramallah
Meat Products					
Sanabil Factory	Bilal Rajbi	meat products	09-2386476	09-2386476	Nablus
Islami Sunbula Co.	Salah Ma'rouf	meat products	09-2379342	09-2642054	Nablus
Islamic Company for Meat Products	Walid Khatib	meat products	06-674348	06-6383451	Tulkarim
Manar Factory	Masoud Othman	meat products	06-674348	06-6383451	Tulkarim
Salwa Factory for Food	Taher Dwieyat	meat products	02-2951569	02-2987174	Ramallah

Vegetable Oil					
Jordanian Veg.Oil Co.	Thaher Afouna	cooking oil	09-2383381	09-2386010/1	Nablus
Tadeen Co.	Usama Odeh	olive oil	02-2956868	02-2956868	Ramallah
Near East Co. for Trade	Iyad Anabtawi	oil packaging	09-2382436	09-2382434	Nablus
Canned Products					
Agricultural Services Co.	Salim AbuGhazaleh	canned food, jams	02-5831898	02-9922894	Jericho
Al-Sheeb Food Products	Zaher Al Sheeb	soups, spices, herbs	09-2381172	09-2381172	Nablus
Maqbul Pickles Factory	Mamoun Maqboul	pickles	09-2371683	09-2371683	Nablus
Abu Abdo Pickles Factory	Umar Al-Hassan	pickles	09-2382298	09-2373389	Nablus
Rich Food Co.	Sami AbdelNoor	spices	09-2370379	09-2370379	Nablus
Oweida Food Co.	Hamed Oweida	soups, spices	02-2328693	02-2328693	Hebron
Izheiman Food Products	Qasem Izhiman	coffee , spices	02-23545160	02-2356501	Ramallah
Al-Bader Company	Mahmoud Hamada	canned food	07-2821474	07-2820324	Gaza
Agricultural Relief Committees	Ismail Dueik	fresh vegetables and fruits	02-5831898	02-583818	Jericho
Tahina and Halawa					
Umar and Rushdi Alul Co.	Ragheb Alul	tahina	09-2380053	09-2380053	Nablus
Halawani Factory	Umar Ayesh	tahina, halawa	09-273930	09-2371678	Nablus
Drinks & Coke					
Al-Zahra Company	Nidal Zatar	fruit, rose water	09-2384134	09-2384134	Nablus
West Bank/Gaza Ind. Company	Akram Odeh	natural juice	07-2824614	07-2824614	Gaza
Jandoul Factory	Ghassan Darduok	juice	09-2376828	050-303362	Nablus
Macaroni & Pasta					

Pasta Company	Yussef Al-Far	pasta and macaroni	02-2356772	02-2355244	Ramallah
Khalil Rahaman Co.	Usama Hirbawi	pasta	02-2329790	02-2320459	Hebron
Dairy Products					
Juneidi Dairy Products	Hashem Juneidi	dairy products	02-2320558	02-2329011	Hebron
Petra Drinks	Suleiman AbuKharshiq	ice cream, drinks	02-2328618	02-2328618	Hebron
Arz ice cream factory	Jamal Anabtawi	ice cream, gelatin	09-2379808	02-2951842	Nablus
Al Kurd Factory	Hisham Kurd	ice cream, juice	02-2320928	02-2320928	Hebron
Al-Arousa Ice cream	Ibrahim Mushtaha	ice cream, drinks	07-2820315	07-2869824	Gaza
Arab Inshai Project	Nayef Al-Laham	dairy products	02-2322894	02-2322401	