

Textile business between Israel and the Palestinian territory- opportunities and risks

Aims:

- *To understand the history of the relationship between Israel and the Palestinian Authority in the textile industry.*
- *To explore the existing opportunities for the Israeli and Palestinian business communities to work together in the textile industry.*
- *To reach constructive conclusions and produce ideas about ways to widen business opportunities in this area.*

History

For over thirty-five years¹, Israeli textile companies have been working with the Palestinian garment industry. There was a trend for Israeli companies to source manufacturing in Gaza, as was seen at the Erez industrial park which we will discuss later. However, in the past 10 years, due to changes in the security situation, all business with Gaza stopped. Israeli companies looking to invest in the Palestinian Authority focussed instead on the West Bank. Some Israeli businesses, such as Gibor Sabrina, have worked there for many years.

Before the First Intifada in 1987 a substantial proportion of Israeli-made products were sewn in Palestine. However, in the 1990s and since the Second Intifada two problems have emerged, leading to a decrease in the amount of cooperation in the textile industry between Israel and the West Bank²:

1. **Security**: Companies need to be able to control the process by which their clothes are made. Working with factories in the West Bank makes this difficult because, in general, Jewish Israelis are not allowed to go there. Only in the past two years have Israeli Arabs been allowed to work in the West Bank. Also, there have been periods when transporting goods from one side of the border to the other has been difficult. However, even throughout the time of the Second Intifada, work was able to continue in some areas.
2. **General economic situation**: With the expansion of the worldwide textile industry, India, China, Egypt and Romania have become more attractive for Israeli manufacturers to work in. This is mainly due to lower costs and proximity to the eventual export countries, such as manufacturing in Eastern Europe to export to the western and northern European markets.

Development of the Israeli Textile Industry

Israel signed a free trade agreement with the European community in 1975 and then with the USA a decade later. In 1999 Israel exported \$545 million of textiles to the USA³. This also allowed Israel to increase trade with Canada and Mexico, due to the North American Free Trade Agreement (NAFTA). As a result of these partnerships, the Israeli textile industry flourished, with a peak in textile turnover in 1995⁴. Niche markets in the fashion industry drove Israeli textiles. Israel could specialize and therefore compete with the developing Far East manufacturers, for instance, in top line swimsuits. The Textiles and Fashion Industries Association now comprises around one hundred and twenty companies, one hundred of which export to the international market. In 2009, the total value of Israeli textiles, clothing and fashion exports was more than \$1 billion⁵.

¹ Paltrade and USAID report, September 2006

² Ibid

³ Israel Ministry of Foreign Affairs – facets of the Israeli economy, textiles and apparel (July 2001)

⁴ ibid

⁵ “The Association of Manufacturing in Israel” website, from the section, “The Textile and Fashion Association”.

Development of the Palestinian Textile Industry

In 2008 the total GDP of the West Bank was \$6.641 billion of which 13.6% was generated from the industrial sector, with 23% of the total workforce in the West Bank working in industry. Ultimately any investment in the West Bank is highly important. As of 2010, unemployment was at 17.3%⁶.

The textile industry is the second largest employer in the Palestinian territories.⁷ Around 30% of Palestinians are employed in textiles⁸. There are officially 17,562 garment and textile workers within the Palestinian Authority⁹. However, due to the informal and small-scale nature of many family enterprises, employing less than ten people, there may be many more. Even most registered manufactures employ less than twenty workers¹⁰.

There are now around 720 member companies of the Palestine Textile and Garment Union. (In order to be a member, a business must have at least ten sewing machines, probably excluding a number of small home-based enterprises)¹¹. This means textiles and garments represent 19.7% of all industrial establishments¹². Most businesses are micro or small-scale: 50% employ between one to four workers, and only another 27% employ between five and nine workers¹³.

The Palestinian textile industry is almost entirely dependant on the Israeli market; 80% – 90% of the textile and garment factories in the Palestinian Authority are subcontractors to Israeli companies¹⁴. This means that the political situation has a great effect on business. For example, in the 1980s and 1990s, there was a substantial increase in Israeli demand from factories in the Palestinian territories because of international free trade agreements. Contrary to this, during the second Intifada, the total output of the Palestinian textile industry decreased from \$96 million in 2001 to \$70 million in 2004¹⁵. However, as well as the issue of over-dependence, this close relationship also benefits the Palestinian manufacturers as the Israelis bring experience and know-how.

The relationship between Israeli companies and Palestinian manufacturers is very clear. The Palestinian partners are involved in the sowing, ironing and packaging stages of manufacture (labour-intensive work with low profit margins) whereas the Israeli contractors are in control of the raw materials, design, marketing and distribution. With this division of processes, Palestinian companies usually use low-tech traditional methods, like simple electric sowing machines. This is clear in the Palestinian industry statistics as only 12 % of West Bank manufacturers have access to local raw materials¹⁶. It is positive for the Israeli side to do business in the Palestinian Authority and encourage subcontractors to establish their own factories there because the wage structure is a lot lower than Israel, at a ratio of approximately 1:4¹⁷.

⁶ The Portland Trust: Palestinian Economic Bulletin (June 2011)

⁷ Paltrade and USAID report, September 2006

⁸ USAID report, 2002

⁹ Paltrade and USAID report, September 2006

¹⁰ Paltrade website

¹¹ *ibid*

¹² Paltrade and USAID report, September 2006

¹³ USAID report, 2002

¹⁴ *ibid*

¹⁵ Paltrade and USAID report, September 2006

¹⁶ *ibid*

¹⁷ Achmad interview

Three Case Studies of Co-operation

Gibor Sabrina and Mr. Darwish in Qalqilia¹⁸

Mr. Darwish worked as a factory technician for Israeli textile company, “Gibor Sabrina” in Kfar Saba for many years until the company decided to move its manufacturing processes away from Israel. He was encouraged and given financial help from Gibor to start his own factory in the West Bank. For the past twelve years the factory has acted as a sub-contractor to Gibor working in the final three phases of the production of underwear, sports wear and other garments. These include the sewing, ironing, and packing processes that are all handed at the doubled-storey factory in the small town on the northern West Bank border.

Both parties feel the relationship is a positive one. The factory is the second largest employer in Qalqilia. They value the employment hugely and would always want more business from Gibor who are and have always been their sole client. Yair Rotlevi, the chairman of the board of Gibor Sabrina was equally positive about the relationship. He acknowledged that the Palestinians are hard working, focused, and make high quality garments. He was also quick to highlight the importance of “working with our neighbours” in order to achieve peace. If security conditions permitted it, he would choose to work with Palestinians rather than other neighboring regions where Gibor has previously outsourced its work- namely Egypt. Another major incentive for Israeli companies to work with manufacturers in the West Bank is its location. Although when transport is difficult lorries can take ninety minutes to complete trips that should only take ten minutes across the border, it is still much quicker and more direct than outsourcing the same work further away, for example to the Far East.

In recent years Gibor has chosen to use more Romanian labour. This change happened due to lower costs and its proximity to eventual export locations in Europe. This meant that the number of employees at the factory in Qalqilia dropped from two hundred and fifty to ninety. Another reason for the decrease in business is the difficulty in overseeing the factory floor for quality control. Until two years ago, no Israelis were allowed into the West Bank. However now Gibor are able to employ Arab Israelis, living in the Galilee, to Qalqilia to act as their agents at the factory. Rotlevi also noted that ideally more of their Jewish Israeli managers and senior staff would be able to visit the factory and perhaps conduct more business there.

As well as easier access to the West Bank, Rotlevi suggested that he would be encouraged to do more business in the Palestinian territories if they could offer the full production process of his garment from the beginning- including dying the fabric. This however requires large amounts of water, which is not always available in the West Bank.

The Palestinians would clearly be interested in more business from Gibor and the opportunity to increase their production. However, they are also keen to develop the exchange of knowledge and experience and make full use of any help and support available. In the past, Gibor workers from Israel have traveled to the West Bank to advise the factory on its production techniques but they rarely see visitors from the other side at the moment.

Erez Industrial Zone

In 1970, the Erez Industrial park on the northern border of the Gaza strip was opened. It covered four hundred and seventy nine dunams of land across the border. Although the area was under the Israeli Authority’s control, Palestinian workers from Gaza were able to enter daily without entering into Israel’s borders. This created continuous employment for over four thousand Palestinians, regardless

¹⁸ All information taken from an interview with staff at the factory in Qalqilia and an interview with Yair Rotlevi- chairman of Gibor Sabrina.

of border closures or security scares. This made Erez one of the biggest employers in the Gaza strip. The vast majority of workers were Palestinian (94%), but the ownership of businesses was more balanced: ninety-seven Palestinian-owned companies and eighty-eight Israeli-owned. Fifty-four of these were part of the textile and garments industry¹⁹.

This was a very positive project for the Gazans working in the industrial park. The average daily wage in the Gaza strip was 40 NIS, whereas in Erez it was 90 NIS²⁰. As well as this, Erez was a good example of co-operation for mutual benefit, as the Israeli companies still managed lower costs and the working environment was advantageous for general industrial development.

When in June 2004 the park closed, the current Deputy Prime Minister and minister for Industry, Trade and Labour, Ehud Olmert was quoted in the Washington Post as citing a “lack of security” as the reason for the withdrawal²¹. The situation had become intolerable for both sides, as Israeli employers said they “feared the Palestinians working for them”²² and the workers were “humiliated by body searches before work that took hours to complete”²³. As one of the last few remaining points of contact and co-operation between Palestinians and Israelis, Erez was unfortunately a target for attacks. The closure had a big negative impact on Palestinian unemployment figures. Sami Abu Zarifa, the economic advisor to the Palestinian Authority, spoke of a lack of continuity after the factories were shut. It seemed there should have been a system to maintain the rights of these workers and ensure some sort of future after this sudden decision to end their employment.

Peres Peace Foundation B2B meetings²⁴

Between April 2005 and December 2007 The Peres Center for Peace organized four separate business to business (B2B) events bringing together Israeli and Palestinian tradesmen from both textile industries. The first meeting in 2005 was endorsed by the Palestinian Trade organisation ‘Paltrade’, the Manufacturers Association of Israel, the Israeli Textile and Fashion Industries association and the Union of Palestinian Textile Industries. The project grew and at the September 2006 meeting there were seventy participants and it was very successful.

In October 2007 the event developed into a two-day seminar with sixty managers, including Palestinians working in Hebron, Bethlehem, and Nablus. The programme included the chance to network with Israeli business people as well as a leading Israeli textile industrialist, Dov Lautman. The seminar took place in Shenkar College of Engineering and Design.

Yitzchak Shechter, of the Israeli Textile and Fashion Association said, “In the past we worked with factories in the west bank and Gaza strip, but the security situation and the difficulty of transferring the merchandise severed many of these connections... the Palestinian textile industry is, in many cases, the perfect solution to the needs of the Israeli industry... we hope to strengthen the partnership, and hope the connections we made will assist in bringing up to date technologies to the Palestinian territories. This way, instead of manufacturing in the Far East, Egypt and Jordan, we could in this area, and maybe strengthen peaceful relations between us and our neighbours.”

Amjad Qasas, of Palestinian trade centre, “I have no doubt that trade and work relations between Israelis and Palestinians are beneficial to both sides. The geographic proximity and the similar mindset cannot be ignored.”

¹⁹ Information from the Israeli Ministry of Industry, Trade and Labour

²⁰ *ibid*

²¹ Washington Post, June 2004

²² *ibid*

²³ *ibid*

²⁴ All information from: www.peres-center.org

In December 2007 a delegation of twenty-five managers from various Palestinian textile companies met again with Dov Lautman and also with Tareq Al Sous- the chairman of the Palestinian Textile Union.

Obstacles

Although there have been very positive initiatives in the past there are still several obstacles to overcome in order to achieve further cooperation between the Israeli and Palestinian textile industries.

1. There is a lack of raw materials in the West Bank making any manufacturing process more costly as yarn and died fabric must be imported (usually from Israel): “West Bank/Gaza does not have a clothing industry but rather a cut, make, and trim industry”²⁵
2. Over-reliance on Israeli business weakens the Palestinian textile industry as any change in the Israeli market has large effects on the ability of Palestinian factories to exist.
3. The security situation at the Israel-West Bank border can prohibit trade or increase time lags due to border closures and restrictions on the movement of goods. It has improved greatly in the past two years however it can always change at short notice and this disrupts business.
4. Political conditions also cause a problem in the inability of most Israelis to visit the West Bank. This therefore means that Israeli companies are unable to execute their normal checks on quality unless they have special arrangements and are able to employ Israeli Arabs.
5. Lower labour costs in the Far East and Eastern Europe attract Israeli business away from the Palestinian territories.
6. The high cost of transporting finished goods means there is more incentive to locate the manufacturer nearer the export destination. For example, producing goods in Romania to be sold in the rest of Europe.

Conclusions and Opportunities

It is clear that there is potential for further co-operation between Israeli companies and Palestinian manufacturers within the textile industry. There is willingness on both sides to do more business however some Israeli company managers made it clear that they would only be prepared to work in the Palestinian territories if they built trust with their partners and only if they felt they, and their products were safe.

There are several specific conclusions that we have drawn that may widen opportunities within the industry:

- There is the potential to bring together large numbers of people at seminars and conferences to share knowledge and experience. One of the overwhelming conclusions of this research is that Palestinians want and need help to meet Israelis who may be able to invest and develop their industries.
- In this way, it would be positive to concentrate on small businesses, as this is the reality in the West Bank and these small enterprises currently have the fewest opportunities for co-operation. The most convenient way to access small enterprises may be through contact with citywide chambers of commerce, however it is clear that some of these groups are heavily political and can be inefficient for business.
Also, certain sectors of the industry seem to lend themselves particularly to this type of collaboration:

²⁵ USAID, report 2002

- High-end, high quality fashion where small quantities are required and high supervision is desirable so the proximity is superb. Also, the skill, focus and drive noted in the Palestinian workforce would be particularly appropriate here.
- Products or companies required short response time and quick reaction to changes in the market.
- Small companies who don't have the ability to subcontract manufacture abroad.
- The Erez industrial zone is a model that could be adapted on the West Bank border in many ways in the future. It enables business and employment without the constraints of border crossing and the difficult movement of large machinery and goods. It could also allow the whole manufacture process to occur in one location that is of great benefit to both parties. One larger centralized industrial park could also attract sufficient investment in order to start a factory who can handle textile production from the beginning of the process- provided the fabric dyeing is available on the site. If this would be possible then it could be much cheaper and more efficient for Israeli companies to produce garments in the West Bank. Currently most companies produce 'cuts' elsewhere.
 - As has been used as a model in many other developing nations the ultimate goal would be to create a Palestinian industrial zone. However, any attempt to incentivize such an initiative would require a reliable partner in governance in the West Bank.
- More Israelis would be willing to do business in the West Bank if it were easier for them to travel there. This can be easily achieved with more permits. However, there is also sometimes an issue of fear and lack of understanding leading to a need for education, as previously mentioned via joint conferences and seminars. It is important that these meetings take place in the West Bank. Palestinians are able to come to Israel however the Israeli company managers and owners must be taken to see the places in the West Bank where their business will be done in order to build trust.