

The Palestinian Trader's Role in the Value Chain of Agro Commodities

Study summary

1. Introduction

The marketing of agricultural commodities is considered one of the most important economic transactions for developed and developing countries. The development of communities and agricultural production processes has broken the rule of self-sufficiency and led to a surplus in production that needs to be traded internationally, thus leading to the creation of specialized agricultural markets, that facilitate transactions between producers and consumers. Farmers and end consumers are therefore connected through a long chain of multiple actors, of which the trader is one of the most important given the role he/she plays in the receipt of commodities from farmers, and the distribution of these for end consumers while maintaining good quality and affordable prices.

The number of permanent agricultural traders varies among different markets, depending on the availability of production and the incoming quantities to the market. In 2012, the number of registered agricultural wholesalers and retailers in the West Bank has reached 1,565¹. It is worth noting that a considerable number of agricultural retailers are not registered.

2. Objectives

The Applied Research Institute – Jerusalem (ARIJ) has conducted the project survey for agricultural wholesalers and retailers, as part of the “Food Production-Consumption Assessment to Improve Sustainable Agriculture and Food Security in the West Bank – Palestine”; a project that is implemented by ARIJ in partnership with the Palestinian Ministry of Agriculture and the Palestinian Ministry of National Authority, and funded by the International Development Research Centre (IDRC). The survey - conducted by ARIJ's researchers during the period of November – December 2014 - included field visits to central wholesale markets and agricultural retail shops in the different governorates of the West Bank. Interviews were conducted with traders in order to understand the various mechanisms that regulate their operations, including: the mechanisms for purchasing agricultural products; networks and relationships between retailers, producers and consumers; targeted markets; pricing mechanisms and profitability; packaging and grading processes. In addition, the interviews included a discussion on challenges that these traders face.

As a result, 150 interviews were conducted with wholesalers, retailers and middlemen functioning in both central wholesale markets and retail shops of agro products. In order to achieve the survey's main objectives, the research team has worked on the following:

- Conducted literature review and field research in order to identify the main indicators to be measured by the survey tools.

¹ The Palestinian Central Bureau of Statistics (2012). Establishment Census.

- Developed the survey questionnaire targeting wholesalers and retailers working in central wholesale markets, or in retail shops of agro products.
- Conducted field visits to central wholesale markets and retail stores of agro products cover all the West Bank Governorates in order to interview retailers and wholesalers.

3. Sample Characteristics

3.1 Geographical Distribution

The survey targeted 150 traders distributed based on their legal registration status among governorates. The sample included 50 wholesalers from central wholesale markets, 50 retailers selected randomly, and 50 registered and unregistered retailers contacted based on recommendations from farmers surveyed by ARIJ under another project activity. Nablus governorate had the highest number of targeted traders (35) among governorates. In addition, the survey targeted a sample of Arab traders working in Israel within the green line area. (Table 1)

Governorate	Registered Wholesalers ²	Registered Retailers ³	Registered and Unregistered Traders and Middlemen ⁴	Total
Jenin	9	6	14	29
Tubas	2	3	2	7
Tulkarem	3	5	4	12
Nablus	14	7	14	35
Qalqiliya	2	3	1	6
Salfit	-	3	1	4
Ramallah & Al Bireh	1	6	3	10
Jericho	1	3	2	6
Jerusalem	-	6	-	6
Bethlehem	2	4	1	7
Hebron	15	6	4	25
Arab Israeli Traders	0	0	3	3
Total	50	50	50	150

Table (1): Number of targeted traders by governorate and legal registration status



² PCBS (2012). Establishment Census.

³ PCBS (2012). Establishment Census.

⁴ Applied Research Institute – Jerusalem (2014). Palestinian Farmers Survey.

3.2 Average Number of Workers

Based on sample data, the average number of workers employed by surveyed traders was 5 workers. This number varied from one trader to another, depending on the volume of work conducted. In general, the project survey results indicated that the least number of workers was 1 per trader, while the highest employment rate reached 20 workers per trader.

3.3 Categories of Agricultural Traders

Despite the differences between agricultural traders in terms of quantity sold and method of sales, all agricultural traders eventually aim at receiving agro products from farmers, and delivering them to the end consumer.



Traders: are members or groups working as mediators between the producer and the end consumer. They are specialized in the purchase or sale of agro products, or both. Traders are categorized under 3 groups as follows:

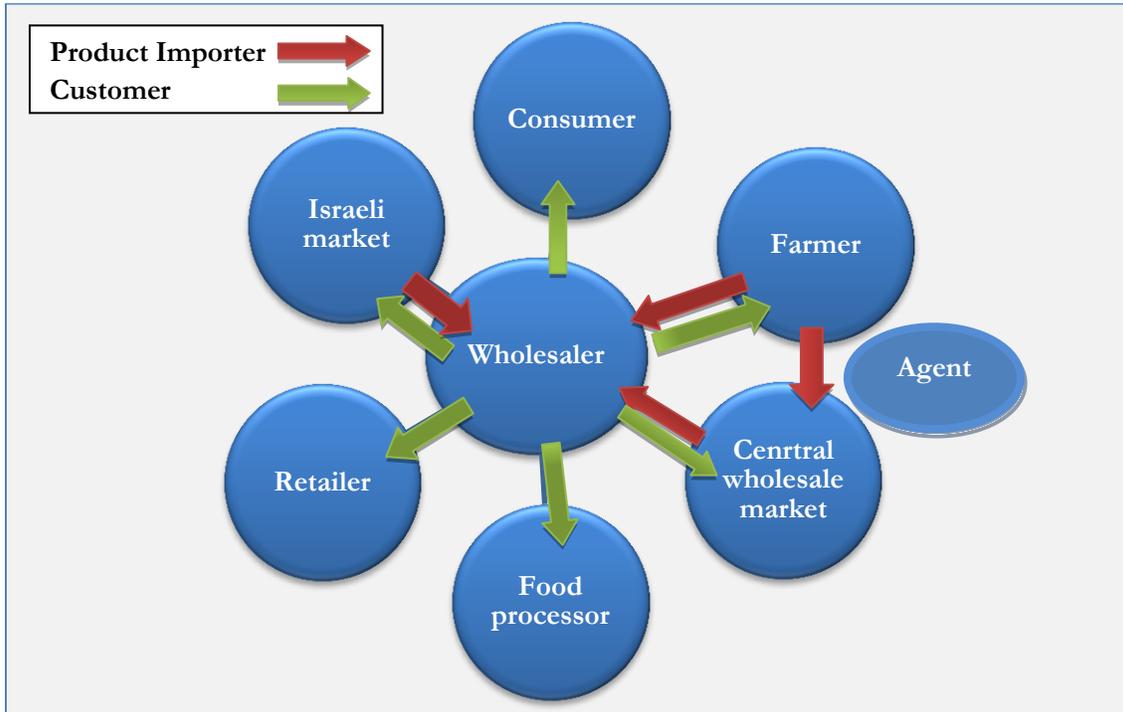
- **Wholesalers:** These traders purchase agro products either directly from the farmer, the local market, or other wholesalers, and then sell those to other middlemen. In addition, they provide some marketing services such as sorting, grading, storage, and transferring products from one market to another.
- **Retailers:** These traders purchase agro products from wholesalers and sell them directly to end consumers.
- **Agents/Middlemen:** Agents and middlemen work on behalf of their farmer clients, while the farmers maintain the ownership of their products. Agents receive a commission in exchange for their marketing services.

4. Sources of Agro Products

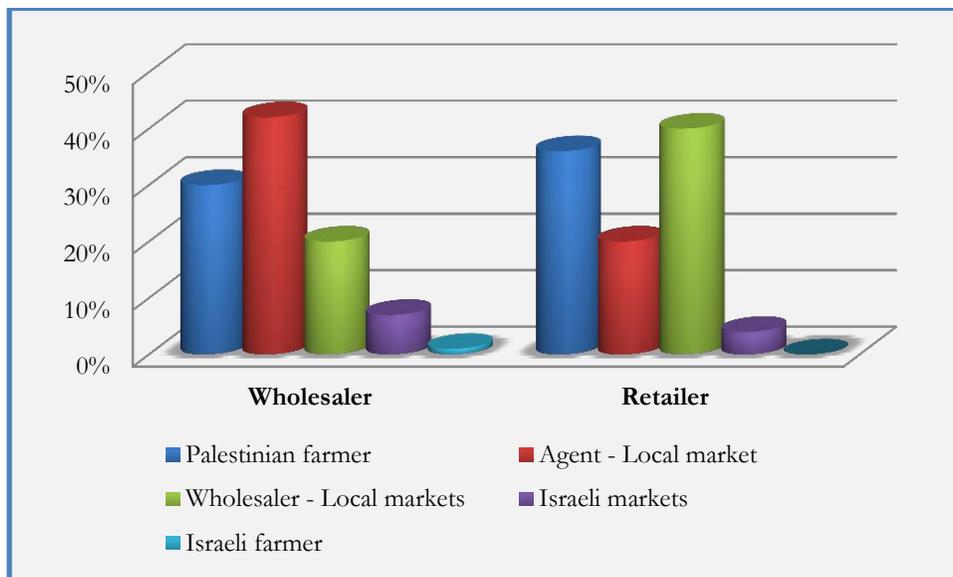
The mechanism through which traders obtain agro products is almost the same among Palestinian traders in the West Bank. Most surveyed wholesalers indicated that they rely on the farmer who delivers his/her own production to central wholesale markets. On the other hand, retailers purchase their stock of products from wholesalers located within central wholesale markets then deliver them to their stores either using their own vehicles, or after an agreement with a vehicle owner who can also play the role of a middleman between the retailer and the wholesaler. Graphs (1) and (2) represent the relationships between wholesalers, farmers, and end consumers.

Table (2) presents the source from which traders purchase their stock of agro products. The project survey results indicate that most targeted vegetables within the project come from local sources (96%), while 4% of them come from the Israeli market. Tomatoes were slightly

different, with 92% of their quantities coming from the Palestinian local farmer, while 8% are imported from traders and farmers in Israel.



Graph (1): Network between wholesalers, producers, consumers



Graph (2): Marketing channels between traders by source of agro products

Furthermore, 88% of the quantity of fruit products targeted in the project and available in the local market comes from local sources, while the remaining 12% is imported from the

Israeli market. The results are different for citrus fruits, where 69% of its quantity comes from local sources, while the remaining 31% is imported from the Israeli market. (Table 2)

Agricultural Products		Relative Distribution by Source	
		Local (%)	Israeli (%)
Vegetables	Tomatoes	92	8
	Cucumbers	97	3
	Eggplants	95	5
	Squash	97	3
	Paprika	97	3
	Green Beans	99	1
Fruits	Citrus Fruits	69	31
	Almonds	100	0
	Dates	90	10
	Guava	92	8
	Grapes	93	7
Olives	Olives	100	0
Field Crops	Wheat	100	0
	Onions	67	33
	Potatoes	73	27

Table (2): The relative distribution of targeted agro products by source of production

5. Payment Methods

Results have found that traders use 2 main methods to pay for agricultural products: (1) cash paid directly to farmers, other traders or middlemen. This method is used by 66% of surveyed traders. (2) Installments in the form of checks, and is used by 34% of surveyed traders. Using the installments method has created poor liquidity at the producers' side. But, it is still regularly used by producers in order to market their agro products to retailers and wholesalers given that it is a less restrictive payment method. On the other side, end consumers pay traders either in the form of cash (51%), or installments (49%).

6. Markets Targeted by Traders

Traders suffer from the limited number of markets that they could target for the marketing of their products. Usually, traders target markets within their governorates, while others target other governorates especially those with poor agricultural production. For example, the project survey results show that some of Nablus traders target the market of Ramallah and Al Bireh in order to market their products. In addition, these results indicate that traders from Salfit, Qalqilya and Bethlehem limit their marketing efforts to the local markets within their governorates and do not usually import their products to other markets. On the other hand, traders from Tulkarem were found to be the most active in targeting markets within other governorates. In general, results indicate that 44% of surveyed traders target the

northern governorates, 30% target the middle governorates, while the remaining 26% target the southern governorates. It is also worth mentioning that traders base their decision of which governorate to target based on the demographic characteristics, and the prevalent lifestyle and diet trends in each governorate. (Table 3)

Governorate	Relative distribution of sales according to area in the local market		
	North (%)	Middle (%)	South (%)
Jenin	82	8	10
Tubas	97	3	0
Tulkarem	69	15.5	15.5
Nablus	73	14	13
Qalqiliya	100	0	0
Salfit	0	100	0
Ramallah & Al Bireh	3	96.5	0.5
Jericho	9.2	54	36.8
Jerusalem	0	100	0
Bethlehem	0	0	100
Hebron	4	8	88

Table (3): The relative distribution of sales by area in the local market

7. Pricing mechanism

The project survey results indicate that there are no rules that oblige the trader of fixing or determining the prices of agro commodities. But, some rules indicate that those prices should be portrayed on the products so that consumers can know them before purchasing. Prices tend to change on daily or monthly basis, due to the following reasons (presented in terms of importance): supply and demand, seasonality, weather conditions, and the number of competitors. Results indicate that the increase in input prices faced by farmers does not affect the prices of agricultural products on the trader's side.

Prior to sales, traders obtain prices using diverse methods. Traders who export their products to the Israeli market usually use an Israeli prices stock service that informs its subscribers of product prices at 6:40 a.m. every day, through phone calls or text messages. Other traders depend on communicating with other traders based in central wholesale markets (especially Qabatya, Beita, and Nablus central wholesale markets) in order to obtain initial sales prices. In addition, some traders (especially wholesalers and middlemen) base their prices on supply and demand expectations.

8. Profitability

The trader's profitability mainly depends on the cost of purchased products from farmers, and the supply and demand of an agro product. Profitability is very important, since it is the main source of income, through which a trader covers wages, transportation, storage, and rental costs and expenses. The project survey results show that there is a clear fluctuation in profitability from one year to another due to the Palestinian consumer's weak purchasing

power that results in a decrease in demand. When asked about the degree of change in profit margins during the 3 previous years, 61.4% of surveyed traders indicated a change, while the remaining 38.6% indicated that profit margins were stable. Furthermore, 40% of those who referred to a change indicated that this change was in the form of an increase in profit margins, while the remaining 60% said that this change was in the form of a decrease in profit margins.

A profit margin is an economic indicator measured as the difference between sales revenues and the cost of obtaining, transferring, and storing products. This margin varies among traders and localities, based on the availability of products, soil fertility, weather conditions and climate change. Overall, the project survey results indicate that the average profit margin for targeted agricultural products was 9.5% in local markets, and 10% in the Israeli market. (Table 4)

Market	Average Profit Margin	Least Profit Margin	Highest Profit Margin
Local market	9.5%	3%	30%
Israeli market	10%	5%	40%

Table (4): Average profit margin by market

9. Spoiled Agro-Products

The project survey results show that 8% of agro products on the traders' end get spoiled on a monthly average. These are usually disposed through solid waste containers. The reason for the increase in spoilage is due to the lack of refrigerators and special storage houses. In addition, a surplus in the supply of agro products is another main reason that is usually faced by wholesalers and middlemen in central wholesale markets. This surplus is usually due to poor demand, or market saturation. Traders who export products to other markets also face other obstacles that result in the spoilage of agro products. Those include the waiting hours spent on checkpoints and crossings, or the cancellation of shipments from the receiving party at the last minute.

10. Packaging and Grading of Agro Products

Results indicate that all surveyed traders use no packaging or grading systems. Instead, traders and middlemen depend on the primitive packaging techniques used by farmers. But, traders who export to Israeli or international markets use some more advanced packaging techniques.

Grading is considered one of the most important steps in the marketing process, where agricultural products are divided into homogenous categories in terms of size, color or other characteristics, while spoiled quantities are isolated. Each category is then associated with a quality level, while keeping in mind the main purpose and use of the product, and the targeted market. The importance of grading stems from its ability to increase the marketing efficiency of agro products, and facilitate their sales through making their quality visible for consumers.

Grading is part of the packaging process, and it is usually undertaken in the farm. Unfortunately, many farmers ignore this step thus leaving it for the traders. In addition, many traders who import Israeli agro products – specifically citrus fruits – in large quantities, undertake grading based on quality and cleanliness, and base the prices of each category on the associated grade. Results indicate that 55% of surveyed traders use some sort of grading techniques but most of these are manual and simple, like grading products based on size, color and shape. Furthermore, it was found that 79% of agro products are categorized as grade (A), 20% are categorized as grade (B), while 1% only are categorized as grade (C).

11. Exports, Imports & International Trade Agreements

In 2013, the value of Palestinian exports of agro commodities reached \$56,720,000, representing 6.3% of the total value of exports. In addition, the value of exported agro products targeted in the project was estimated at \$25,571,000⁵. On the other hand, Palestine imported \$240,628,000 of agro products in 2013, constituting 4.7% of the value of total imports. Imports of agro products targeted in the project were estimated at \$76,797,000⁶. (Table 5) Given these statistics, it is clear that Palestine has a trade deficit in regards to agro commodities, where the value of its imports far exceeds that of exports. Thus, Palestine is currently a net importer of agro commodities.

Palestinian Crop	Import (thousand USD \$)	Export (thousand USD \$)
Olives	56	57
Oil olives	407	8,842
Citrus	4,105	2,276
Grapes	93	304
Guava	3	3
Dates	1,519	7,169
Almond	2,782	531
Tomato	4	187
Cucumber	2	163
Eggplant	2	17
Squash	–	–
Kidney Bean	17,237	3,597
Paprika	–	22
Wheat	45,396	1,267
Potatoes	4,828	1,095
Dry Onion	361	41
Total selected crops	76,797	25,571

⁵ Palestinian Central Bureau of Statistics (2015). Unpublished raw data.

⁶ Palestinian Central Bureau of Statistics (2015). Unpublished raw data.

All agricultural products in 2013	240,628	56,720
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Table 5: Value of Palestinian exports of agro commodities in thousand dollars (USD \$) for the year 2013⁷

The Palestinian Authority has signed a group of different trade agreements with other countries, aiming at supporting the agricultural sector through opening new channels for the distribution and marketing of agro production. These agreements also aim at opening the Palestinian market to international markets, and enhancing the Palestinian balance of trade by increasing exports relative to imports. These trade agreements include the Great Arab Free Trade Agreement (GAFTA) that applies to agricultural and animal products, and the Interim Agreement on Trade and Cooperation with the European Union (IAA) which came into effect in 2012, and through which a duty-free, quota-free regime is applicable to agricultural and processed products that meet the required rule of origin.⁸

Furthermore, other trade agreements have been signed by the Palestinian Authority to facilitate trade relations with different parties. These include:

- The declaration of free trade between the United States and the West Bank and Gaza Strip:
 - ✓ Offers duty-free, quota-free treatment to Palestinian products coming into the American market.
- The framework on economic cooperation and trade between Palestine and Canada:
 - ✓ Reduces and eliminates tariffs on agricultural and processed products to a quota system.
- The Interim Agreement with EFTA states:
 - ✓ This agreement has been signed between the EFTA states (Iceland, Liechtenstein, Norway, Switzerland) and the Palestinian Liberation Organization (PLO) for the benefit of the Palestinian Authority in 1998. The agreement has been effective since 1999, and it allows for reduced tariffs on Palestinian processed agro products.
- The Interim Agreement on Trade with Turkey:
 - ✓ The agreement aims at enhancing the economic cooperation between the Palestinian Authority and Turkey, and enhancing the standard of living for both parties.
 - ✓ Allows for the gradual elimination of restrictions on products including agro products.
 - ✓ Encourages economic relations through increasing the volume of economic trade between both parties.
 - ✓ The creation of fair trade conditions between both countries.

⁷ Palestinian Central Bureau of Statistics (2015). Unpublished raw data

⁸ Palestine Trade Center – PALTRADE (2015). International Trade Agreements.

To increase efforts aiming at strengthening bilateral relations between the 2 countries, a decision has been reached that exempts 1,000 tons of Palestinian dates exported to Turkey from custom duties. This decision has been in effect since November 2012.

Despite these trade agreements, the marketing of agro products is highly affected by the Israeli-Palestinian Interim Agreement on the West Bank and the Gaza Strip known as the Paris protocol, signed by both parties in 1994. The agreement allows for the free trade of agricultural products exempted from duties between Palestinian and Israeli markets, allowing huge quantities of Israeli agro products into the Palestinian market. These products are the main competitors of Palestinian products.

In regards to the mobility of agro products between the Palestinian and the Israeli markets, and according to paragraph 9 of article 8 under the Paris protocol, the specialized authority in the receiving country has the right to investigate and search received agro products without causing any damages. But, the Palestinian Ministry of Agriculture ensured that agricultural products entering the Palestinian market undergo security and technical checks that delay their entrance into the market for days making them vulnerable to spoilage. And although the Palestinian authorities issue permits for these products, but the final import permissions are issued by the Israeli authorities, according to their own conditions.

Furthermore, the Paris protocol – in paragraph 11 of article 8 – gives Palestinians the right to export their agro products to international markets with no restrictions after receiving the certificate of origin issued by the Palestinian Authority. But, in reality, the Israeli authorities hinder this process for security reasons, and sometimes unload agro commodities from vehicles on crossings, and load them in Israeli vehicles.

In regards to imports, paragraph 12 of the protocol restricts the imports of agro products from a third party if this harms the farmers of both parties. Yet, Israel still imports agro products ignoring the fact that it harms Palestinian producers. It also floods the Palestinian market with imported products.⁹

It is also worth noting that in order to facilitate international trade and support the Palestinian national product, a set of mechanisms and standards has been set. Those include obtaining export and import certificates and permits, and identifying the available quantities and categories of agro products.

In regards to signed agreements between local and international traders of agro products, the project survey results indicate that no official agreements are signed. But, some traders depend on previous experience and verbal agreements instead. This has left many traders vulnerable to fraud – especially from traders functioning in Israel. This also applies to the relationship between farmers and traders, where no official written agreements are in place.

⁹ Palestine Economic Policy Research Institute – MAS (2013). Paris Economic Protocol Working Paper.

12. Challenges Facing Palestinian Traders

The project survey conducted with traders by the Applied Research Institute – Jerusalem (ARIJ) has showed that there are many obstacles and problems that traders continue to face.

Below are some of these problems:

- Poor purchasing power of Palestinian consumers due to the difficult economic situation in the West Bank, thus resulting in poor liquidity in the market.
- High cost of transferring and storing agricultural products.
- The fluctuation in the available quantity of agro products, due to lack of cooperation between farmers especially in regards to the most suitable time for cultivating and collecting crops.
- Israeli agricultural products flooding the Palestinian market in relatively cheap prices, thus posing a major competition and threat to Palestinian traders and farmers.
- Continuous closures and Israeli checkpoints in the West Bank, thus affecting the availability of products in central wholesale markets. This also affects prices. In addition to Israeli control over external crossings.
- No signed agreements that protect the Palestinian traders from fraud during the exporting of agricultural products to Israeli or international markets. The project survey results reflect that many traders have been exposed to fraud from Israeli traders, after agro products have been delivered.
- Poor infrastructure at central wholesale markets in the West Bank, such as the unavailability of parking lots, and refrigerator storehouses for the storage of agricultural products.
- Lack of high-quality packaging and grading systems, therefore reducing the competitive advantage of Palestinian agricultural products.

13. Recommendations

- Protecting Palestinian traders through national agreements with the Israeli market, to avoid being vulnerable to fraud.
- Increasing traders' awareness on international trade agreements signed between the Palestinian Authority and other countries, and the mechanism of importing and exporting agricultural products.
- Designing a new mechanism to control the entry of Israeli agro products into the Palestinian local market, especially those imported by unregistered traders with low quality.
- Creating new opportunities through holding international exhibitions to market agro products in international markets.
- Establishing a syndicate or authority responsible for the coordination of traders' work and protecting their rights.

- Designing an information system for agro products, in order to track unregistered traders who help import competitive Israeli products to the local market.
- Encouraging Palestinian end consumers to buy from registered agricultural stores that meet the quality standards set by the relevant ministries.
- Creating a cooperation network between farmers and traders, in order to prioritize local products. This network is expected to enhance communications between stakeholders, especially regarding the market need.
- Setting standardized price ranges for agro products in local markets by the Ministry of Agriculture and the Ministry of National Economy, taking into consideration the seasonality of these products.
- Establishing storage and packaging warehouses.
- Establishing a factory for the production of boxes for packaging at affordable prices for the use of farmers and traders.
- Enhancing farmers and traders' technical knowledge on grading agro products according to national and international standards.