



Palestine Economic Policy Research Institute (MAS)

# **The Palestinian Tobacco Sector: Problems and Possible Interventions**

**Ali Jabareen  
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### **The Palestine Economic Policy Research Institute (MAS)**

Founded in Jerusalem in 1994 as an independent, non-profit institution to contribute to the policy-making process by conducting economic and social policy research. MAS is governed by a Board of Trustees consisting of prominent academics, businessmen and distinguished personalities from Palestine and the Arab Countries.

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### **Strategic Objectives**

- ♦ Promoting knowledge-based policy formulation by conducting economic and social policy research in accordance with the expressed priorities and needs of decision-makers.
- ♦ Evaluating economic and social policies and their impact at different levels for correction and review of existing policies.
- ♦ Providing a forum for free, open and democratic public debate among all stakeholders on the socio-economic policy-making process.
- ♦ Disseminating up-to-date socio-economic information and research results.
- ♦ Providing technical support and expert advice to PNA bodies, the private sector, and NGOs to enhance their engagement and participation in policy formulation.
- ♦ Strengthening economic and social policy research capabilities and resources in Palestine.

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Palestine Economic Policy Research Institute (MAS)  
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## Foreword

One key set of recommendations that came out of the MAS Economic Conference 2016, which was later adopted by the National Taskforce for Economic Development, was meant to advance the productive sectors in Palestine. A good part of the proposed interventions– aimed at advancing the economy at large– was specifically designed to the development of the manufacturing sector, the most important of which is restructuring industries with competitiveness potentials in domestic and global markets. This has pushed for launching a research program entitled "Developing Competitiveness and Increasing the Share of the National Product" in coordination with the Ministry of National Economy within the MAS Research Plan for 2018. The program focuses on five productive sectors. So far, MAS has carried out and published the first two studies: "Furniture" and "Leather and Footwear". The "Tobacco" study is the third within the series, and it will be followed by a study on the "Food Industry" and another on the "Pharmaceutical Industry". We hope that we will be able to secure before long the necessary resources for other studies in this series. Certainly, there are more promising industrial sectors that merit attention.

The present paper provides a review of the development of tobacco cultivation, its transformations, market spillover effect on it and the restrictions imposed by the Israeli occupier, especially after the construction of the Annexation Wall, the restrictions on the charcoal industry, and how this impacted employment in areas where the soil is suitable for tobacco cultivation. The paper also discusses the development of the tobacco manufacturing activities, the related financial and legal control methods, the ever-changing effects on public revenues, and policies meant to reduce loss in public revenues due to tobacco smuggling.

According to the study, the problem impacting the tobacco industry has three aspects. The first is related to smuggling, disorganized cultivation, and inadequate policies/procedures to control the industry. The second is the inadequacy of domestically cultivated and manufactured tobacco products for export, whether the manufactured

products use locally cultivated or imported loose tobacco. The third concerns the conflict between the goals of maintaining public health and increasing public revenues. Thus, the study concludes that increasing the competitiveness of the tobacco industry is limited to increasing its share in the domestic market without encouraging consumption of this product. It, therefore, only proposes interventions that focus on regulating the sector within the necessary health and financial controls.

We hope that the findings of this paper will provide answers and insight for decision-makers, business community, stakeholders, producers and researchers. Last, on behalf of MAS, I would like to thank the research team and the reviewers, as well as those in the industry who have given of their time to be interviewed and provide important information that helped prepare the study. Our thanks go also to the Arab Fund for Economic and Social Development for its continued support to MAS and for funding the current series of studies.

**Nabeel Kassis**  
**Director General**

## **Abstract**

This study examines the state of the Palestinian tobacco industry and considers the ramifications from the lack of regulation and control over tobacco cultivation. Absence of regulation has resulted in excessive cultivation, which extends far beyond the actual needs of local tobacco and cigarette manufacturing. This has, in turn, encouraged illegal cigarette manufacturing and sales, with the public Treasury losing millions that would have otherwise been collected.

As part of this study, a survey was carried out to investigate the developments in Palestine's tobacco cultivation and production sector over the past years, and more specifically for finding reasons for its expansion, especially after 2010. The study explored both legal and illegal manufacturing to determine their economic impact, in addition to discussing the legal framework governing tobacco cultivation, manufacturing and sales, as well as governmental policies put in place for regulating it.

To estimate the size of the sector, the industry's contribution to employment, production, foreign trade, and tax revenues from manufacturing tobacco and importing its raw materials, was measured. While assessing the industry from various angles, the main focus was on the lost revenue resulting from illegal sales of locally manufactured products and those smuggled across the Palestinian borders. It was found that the starting point for regulating the industry should be enforcing the existing tobacco legislation in Palestine, especially with regards to permitting tobacco cultivation. This would reduce illegal manufacturing and smuggling and enable the Treasury to collect its share. The Government has a role to play, not the least by continuing its support to the legitimate Palestinian tobacco industry, while taking into account the shortcomings of previous policies and interventions. Finally, based on the findings, a set of feasible policy recommendations is put forth to aid decisionmakers in better regulating the sector.