



Palestine Economic Policy Research Institute (MAS)

Background Paper

Roundtable (7)

**Regulating and Improving the Competitiveness
of the Stone & Marble Industry:
Challenges and Required Interventions**

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2018

Paper Objectives

This paper outlines the key characteristics of the Palestinian stone and marble industry, especially in terms of competitiveness, and repercussions of the sector's poor regulation particularly to the environment and natural resources. The authors present the findings of this paper in a roundtable discussion where relevant parties contribute by proposing policies that could strike a balance between the pursuit of economic returns on one hand and reducing the negative ramifications of the expanding industry on the other.

The sector's economic importance and competitiveness

According to the Palestinian Central Bureau of Statistics (PCBS), the stone and marble sector is one of Palestine's top exporting industries, with exports reaching \$214m in value in 2017, accounting for 20 percent of all Palestinian exports. Israel is a major export destination, taking in 75% of the total exports of the industry (see Table 1 in the Appendix). The sector's employment share is also significant. The Union of Stone and Marble estimates the employment figure at 20,000 who are dispersed in some 1,180 facilities.

Nevertheless, the industry struggles with major challenges that weaken its competitiveness, the most impeding being the restrictions imposed by the Israeli occupation authorities and the absence of effective governmental interventions in addition to some endogenous challenges. In terms of Israeli restrictions, a strategic threat is materializing. The quarrying rocks located in areas under the Palestinian National Authority's (PNA) civil control are being exhausted, while the PNA imposes a ban on quarrying in the densely populated Area "A". According to the Union of Stone and Marble, the major natural rock reserves are located in Israel-controlled Area C, where acquiring permits for building new quarries is anything but easy. A report by the Applied Research Institute - Jerusalem (ARIJ) found that owners of quarries in Area "C" have to endure arbitrary procedures and continuous raids by the Israeli occupation authorities and forces that result in confiscation of equipment and heavy fines. What is more, the sector shares the same predicaments as other Palestinian industrial sectors at Israeli crossings. The process of back-to-back truck loading and unloading impedes the transfer of products to the Israeli market and exports to foreign destinations, thus increasing shipping costs.

The use of relatively less advanced technology results in high production costs, which eventually weakens the competitiveness of the sector. Pit miners still use traditional methods of quarrying which involve removing the overburden, which can cause losses due to drilling in wrong places. Other factors hindering the development of the sector is the absence of comprehensive studies on the distribution of quarries and their mining properties, as stipulated in the Natural Resources Law. The Israeli authorities' refusal to allow Palestinian quarries to use dynamite for the past 15 years has also increased the cost of mining.

The high electricity bill harms the industry's price competitiveness. The Palestinian Electricity Regulatory Council has set the 2018 tariff for the stone crushing factories with low pressure power supply at NIS 0.58 per kilowatt / hour, which is the highest compared to other industrial sectors. In general, the high cost of electricity is counter-intuitive to the goal set forth in the 2011 decree for stimulating industrial activities. Article 17 of the decree recommends setting special prices for water, electricity and fuel used for industrial purposes. Later, the Decree No. 7/2014, amending the Investment Promotion Law No. 1/1998, excluded quarries and stone cutting plants from tax incentives.

Equally challenging is the lack of skilled labor with poor management, planning and marketing skills. In an effort to enhance capacity building, the Palestinian Stone and Marble Center was set up at the Palestine Polytechnic University (PPU) in 2009, in cooperation with the Ministry of National Economy and the Union of Stone and Marble. The Center aims at supplying the sector with skilled labor and conducting the required tests for export-oriented stone products. However, the Center's deliverables are still below expectations. Past experience signals that efforts to promote the sector's

competitiveness and regulation are unlikely to pay off if they address only one aspect of the challenges. Public and private sector efforts are still needed.

Weak regulation and negative impacts on the environment and natural resources

The stone and marble industry is one of the most poorly planned and regulated productive sectors:

- Quarries, stone cutting plants and crushers are spread randomly across the West Bank, which adversely affects the arable land, environment and human communities (see more discussion below).
- Delays in paying electricity and water bills are common. This problem is exacerbated in the industrial area of Hebron City, the home of stone quarrying and cutting plants, with high evasion rates.

The reasons for poor regulation are, however, not related to the absence of necessary legislation. The provisions concerning the licensing of quarrying activities and permitting the extraction of stone ore are expressly stipulated in the Natural Resources Law No. 1/1999. The real problem is the irresolute governmental control even in the areas under the PNA's administration (Areas A and B). The expansion and lack of regulation in the industry have increased its waste, which takes different forms:

1. The sludge wet mud resulting from the process of cutting and shaping the stone, with an annual quantity of about 600 thousand tons;
2. The dry slurry, with an annual quantity of about 190 thousand tons; and
3. The remains of stone resulting from the manufacturing process, estimated at an annual quantity of about 450 thousand tons.¹

Most stone cutting plants lack modern equipment required to properly treat waste, and suitable collection sites for waste are very scarce. Therefore, expansion of the industry has polluted the soil, the air and water and harmed vegetation and biodiversity. The noise and dust have adversely affected the health of people dwelling next to these plants, let alone the hazards resulting from the quarries left without restoration once the ore runs out.

The weak regulation has resulted in the depletion of natural resources. Stone ore extraction is uncontrolled, which leads to rapid depletion of such resources without consideration for the generations to come. The Palestinian Government has shown disregard of Article (3) of the Natural Resources Law, which calls for carrying out research and building of geological maps of the natural resource sites and their sizes and types. These are the most important dimensions related to regulating stone ore mining, reducing over-extraction and testing the suitability of the proposed areas for quarrying.

The aforementioned factors suggest that the Palestinian stone and marble industry is an important sector in terms of production, employment and export capability. However, allowing its expansion in a non-systematic manner has caused hazardous repercussions on the environment and depleting natural resources. Therefore, there have been calls to formulate policies that strike a balance between the efforts of enhancing the sector's competitiveness on one hand, and regulating the industry and protecting the environment and natural resources for the generations to come on the other.

A step forward was taken by the Palestinian Council of Ministers. In March 2018, the Council issued a decision to set up a ministerial committee tasked with designing national policies to regulate quarrying and stone cutting activities. permita proposal to increase draftedinance The Minister of F² fees for stone mining, crushing and cutting in order to reduce depletion of natural resources and

¹ Waste Data: The Technical Unit of the Palestinian Stone and Marble Center.

² The Ministerial Committee consists of the Minister of Local Government, the Minister of National Economy, the Minister of Jerusalem Affairs, the Minister of Public Works, the Minister of Finance and Planning, the Head of the Environmental Quality Authority, the Minister of Agriculture, the President of the General Authority for Civil Affairs and Chairman of the Palestinian Federation of Industries.

ensure that the treasury collects its fair share. However, the proposal was met with strong opposition from the Palestinian Federation of Industries. In a position paper submitted to the Government, the Federation reasoned that the very intent of regulating the stone and marble sector requires first creating an enabling business environment that allows developing the sector, and that stricter fiscal policies for increasing collection will raise costs of production and hence only add to the already poor competitiveness of the industry.

Also, one should not overlook the fact that there is no one clear governmental strategy for regulating the industry. While the Ministry of National Economy sees the industry's economic significance vindicating further support and expansion, the Environmental Quality Authority (EQA) sees its expansion and deregulation as a threat to the environment and a source of depletion to non-renewable natural resources. This inconsistency is one of the reasons that may have restricted governmental intervention. The EQA recommends building clusters in defined geographic areas– taking into account urban, environmental and agricultural aspects– to meet the needs of the local market.

Questions for Discussion

This background paper aims to stimulate comprehensive recommendations that strike a balance between the sector's competitiveness and the negative effects resulting from its growth. To achieve this, we have raised some questions, in the hope that decision-makers and stakeholders may help in answering them:

- What are the policies necessary for maximizing competitiveness and economic returns of the stone industry, but equally maintaining the environment and natural resources?
- To what extent does increasing mining permit fees contribute to regulating the sector and reducing the negative impact of its growth?
- Does restricting exports to high added value products help reduce the adverse effects on the environment and natural resources?
- What are the measures needed to speed the regulation of the stone and marble sector? What is the role of the Union of Stone and Marble in supporting such efforts?
- What are the needed governmental interventions (e.g. providing geological and survey studies necessary to build a database of stone reserves) to speed identification of economically and socially appropriate places for extraction?

Appendix

Table (1): Palestinian exports of stone, cement and related construction aggregates (in USD thousands)

Year	Israel	Jordan	World	Total	Stone exports as % of total exports	Stone exports to Israel as % of total stone exports
2007	83,609	6,211	6,614	96,434	18.8%	86.7%
2008	74,528	7,466	7,764	89,757	16.1%	83.0%
2009	86,485	10,557	9,243	106,285	20.5%	81.4%
2010	93,200	7,689	4,367	105,256	18.3%	88.5%
2011	112,929	9,086	16,097	138,113	18.5%	81.8%
2012	110,388	8,915	9,465	128,769	16.5%	85.7%
2013	125,639	9,258	2,358	137,255	15.2%	91.5%
2014	136,513	19,759	26,001	182,273	19.3%	74.9%
2015	135,357	12,679	23,715	171,751	17.9%	78.8%
2016	135,064	17,546	24,118	176,728	19.1%	76.4%
2017	161,087	31,422	21,119	213,628	20.1%	75.4%