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## Soft Drink Fizz Goes Flat In Gaza

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Time

December 28, 2007 - 4:25pm

<http://www.time.com/time/printout/0,8816,1694477,00.html> <sup>[1]</sup>

December 13, 2007

**Article Author(s):** Tim Mcgirk

**Media Outlet:** Time

**Date:** December 28, 2007

**Source Link(s):** <http://www.time.com/time/printout/0,8816,1694477,00.html> <sup>[1]</sup>

Every closed factory has its own kind of unbearable silence. The Yazegi Group's soft-drink plant in Gaza, with its maze of metal tubes and conveyor belts all switched off, has the hush of a futuristic mausoleum. Marketing manager Ammar Yazegi pauses beside empty 7Up bottles stacked in perfect emerald-green cubes up to the rafters and says, "I miss the music of the machines and workers. It's a beautiful noise. This silence drives me crazy."

His family misses another sound: the ka-ching! of money. For years the Yazegi Group had a captive market of 1.48 million Palestinians living in the narrow coastal strip of Gaza. Captive, unfortunately, is the right word because the Israelis, who are contending daily with rocket-firing Palestinian militants, have destroyed the airport and harbor and keep Gaza's inhabitants behind a concrete-and-barbed-wire fence that is 25 miles (40 km) long. Gaza has one entry and exit point, which the Israelis strictly control. Gazans refer to their overcrowded enclave without too much exaggeration as "the world's largest prison yard."

An abundance of cheap soft drinks provided a little refreshment in this sweltering environment. And the Yazegis were Gaza's kings of fizz. Ammar's grandfather opened the factory in 1954 and gradually acquired the franchises for Pepsi, 7Up and Mirinda (an orange-flavored drink) before passing on the business to his sons and later their sons. In his deserted office building, Ammar Yazegi, 27, serves guests chilled 7Up. "I find that 7Up from a glass bottle is most tasty. Don't you?" he asks. Yazegi, dressed in a black T shirt and matching denim jacket and jeans, looks as if he stepped out of a "Pepsi Generation" ad. On average, the Yazegis sold 10,000 cases of 2-L six-packs of Pepsi and 7Up a day, though demand often rose during the hot, humid summer months. There is no Coke franchise in Gaza. Before the blockade, the National Beverage Company (the West Bank Coke bottler) trucked it into Gaza from Ramallah. Back then, a bottle of Pepsi sold for 65¢. Now a bottle costs \$1.30--if you can find one.

Most businesses worry about competition, but for the Yazegis and other Gaza merchants, it's politics and the often deadly conflict between Israelis and Palestinians. Gaza, along with the other Palestinian territory of the West Bank, was slapped with an economic blockade by Israel and the international community in early 2006 when Islamic militants belonging to Hamas-- which is opposed to Israel's existence--won the Palestinian elections, beating President Mahmoud Abbas' Fatah Movement. That victory was reinforced in June when Hamas chased Fatah's armed militia out of Gaza. The Yazegis have thrived by steering clear of the fratricidal politics of the Palestinians. "We're caught between three sides," says Yazegi. "Hamas, Fatah and Israel."

Although the Yazegi operation is insignificant within PepsiCo's \$5.5 billion sales of beverages outside the U.S., politics loom large for American companies in the Middle East. Pepsi and Coke have been in Arab markets for decades. Under pressure from Jewish lobby groups, Coca-Cola opened in Israel after 1966 and was slapped on an Arab boycott list from 1967 to 1991. Pepsi opened in Israel only in 1992, after the boycott was lifted, giving rise to the often-repeated slogan in the Arab world that "Coke is for Jews, Pepsi is for Arabs." Pepsi didn't escape unscathed. It's been a victim of rumors tying it to Israel. Still, Pepsi is the market leader in the Middle East, with a 75% share. A syrupy upstart, Mecca Cola, tries to appeal to Muslims.

PepsiCo's Middle East segment, which includes snack foods as well as soft drinks, "has experienced noteworthy growth and has developed into one of PepsiCo's key markets and engines for growth," notes Bear Stearns analyst Justin Todd Holt. It's led by Pepsi veteran Saad Abdul-Latif, who has skillfully and diplomatically steered the business in these complicated markets.

There was little Abdul-Latif could do in Gaza, where the Yazegis were caught out when Israel struck back against Hamas by banning imports of everything from cement to fertilizer, including the carbonating gas the Yazegis need to put fizzy bubbles into beverages. When the Yazegis asked why, Israeli authorities replied "for security reasons," although there didn't seem to be any military use of CO<sub>2</sub>. "If you hold a match to CO<sub>2</sub>, the flame is extinguished. You can't make bombs or rockets out of this stuff," says Yazegi. Adding to his frustration, he said, was that Israel initially let in Pepsi and 7Up supplied by Israeli bottlers. "How do I explain this?" asks Yazegi angrily. "Easy. They're trying to kill off Gaza's economy." Eventually, even Israeli-made Pepsi was banned.

Gaza's economy has atrophied. According to the latest U.N. figures, the shortages tied to a June tightening of the blockade have led to the closure of 90% of Gaza's factories, idling more than 85,000 workers. The 300 people employed by the Yazegis were among them. "It broke my heart. Some of the workers were with us since my grandfather's time," says Yazegi, adding that because there were no other jobs in Gaza, each worker supported about nine family members. More than 80% of Gazans scrape by on \$2 a day or less; most could not survive without food handouts from the U.N.

Israel's strategy is to squeeze Gaza's economy, cutting off all but a drip-feed of humanitarian aid in the hope that civilians will turn against the Islamists of Hamas. Critics condemn this tactic as an unjust "collective punishment" on all of Gaza's inhabitants. Nor has it stopped Palestinian militants from firing hundreds of homemade rockets into Israel. "What harm is our Pepsi doing to Israel?" asks Yazegi. "The Israelis aren't punishing Hamas, they're punishing the people. The militants have money, guns ... they don't care about the siege." He contends

that after decades of conflict, the Israelis still fail to understand the streak of defiance in a Palestinian's character. Coercion, he says, won't work.

In fact, the blockade may be driving once moderate Palestinians toward Hamas. The incentive is economic more than ideological: the Hamas militia is one of the few employers left. Says Dr. Eyad Sarraj, a mental-health expert in Gaza who is campaigning for an end to the siege: "The workers laid off from the factories are desperate. They have no money, no hope. So they go to the mosque and pray to God, and some will join Hamas seeking martyrdom as the only door to God." While awaiting a shortcut to paradise, the fighters' more earthy concerns are supplied by Hamas, which gives its militants food and money to feed their families. Yazegi says that dozens of his younger former employees joined Hamas. "And all they wanted was a normal life," he says.

Pacing through the funereal gloom of his empty factory, Yazegi glances up at the silent machinery and says, "All I need is for the Israelis to let me have the fizz. The workers will come back. We'll flip the switch and start right up again." And that would make life for the Palestinians of Gaza just a little sweeter.

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