

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Israel

Post: Tel Aviv

On Its Way: Direct Subsidization of Israeli farmers

Report Categories:

Agriculture in the Economy

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Report Highlights:

The Israeli Ministries of Finance and Agriculture are preparing to launch the biggest reform in the agricultural sector since the 1950s. The reform includes the lifting of production quotas and the removal of custom tariffs on imported food. Both programs, which were designed to protect producers, carried negative price impacts for Israeli consumers. The old protection system will be replaced by direct support to farmers.

General Information:

The Israeli Ministries of Finance and Agriculture are preparing to launch the biggest reform in the agricultural sector since the 1950s. The reform includes the lifting of production quotas and the removal of custom tariffs on imported food. Both programs, which were established to protect producers, resulted in higher prices, at least for certain products, for Israeli consumers. The old protection system will be replaced by direct support to farmers. This entails the dismantling of agricultural production and marketing boards, including the Dairy Board, the Poultry Board and Plant Board. The reforms are in response to OECD recommendations to move from indirect farm supports, tariffs and production quotas, to direct supports, as is done in most OECD countries. The agriculture reform is expected to affect imports as well as local production. Producers of fruits, vegetables, fish, meat, eggs, milk and frozen and processed vegetables will be impacted. The Minister of Finance said that he wants to see results in the market by April from the reduction in trade restrictions. In a similar policy move, the Minister of Finance also plans to increase the quantity of tariff-free olive oil, fresh beef, vegetables and more.

According to Israeli estimates the new measures will produce significant cost savings to the government. There are 6,000 to 10,000 farmers in Israel. Under the new program, these farmers are expected to receive a direct monthly support of about \$2,500 each; equal to approximately \$300 million per year. This is in stark contrast with the OECD's existing indirect subsidy estimates of \$950 million a year for producer support. The current costs of indirect support are inflated by the supervision mechanisms of the various production boards.

Under the new program, tariffs for most food products will be fixed, with the exception of fresh vegetables. Fresh vegetables will be subject to temporarily-reduced tariff rates, effective only during the Israeli holiday seasons (April and September). Quotas impacting fresh vegetables will increase from 40,000 to 80,000 tons. Similarly, the quotas for imported olive oil will increase to 4,000 tons. The volume for duty-free (in-quota volume) fresh beef will move to 8,500 tons; as will the in-quota volume for yellow cheese, from 4,800 to 5,400 tons, in May 2015. Tariffs on imported fish will decrease by 50 percent. It is unclear how much of the price effect resulting from decreased duties will be felt by consumers. Tariff reform on imports of yellow cheese, which began in May 2015, led to a retail price decrease of 4.0-4.5 percent, despite government claims that the markdown could reach 30 percent. Retailers and importers absorbed most of the price discount resulting from the decreased tariff; it was not passed on to consumers.

FAS Tel-Aviv forecasts that production boards and farmers will put pressure on the Ministries of Agriculture and Finance in order to prevent the reform or at least try to increase the value of monthly to be provided to producers. FAS Tel-Aviv further expects that the reform will not significantly affect pricing of imported products to the local consumer. Post anticipates that the largest beneficiaries will be importers and retailers that will be able to increase their markup. Local consumer will see an increase in the variety of products available and increased competition which should result in the lowering of certain product prices. In addition, it is anticipated that new product availability will lead to an improvement in the quality of products sold to the Israeli consumer.