

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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## Israel

## Exporter Guide

## Annual Report

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**Report Highlights:**

Israel is a net food importer and a good market for U.S. grains, oilseeds, dried fruits, and prepared food products. The population reached 7.7 million in 2010. The current exchange rate of the U.S. dollar versus the Euro, which continues to favor U.S. sales, combined with the expected 4.8, and 3.2 percent GDP growth for Israel in 2011 and 2012, respectively, along with the Agreement on Trade in Agricultural Products (ATAP) between the U.S. and Israel, offer good opportunities for American agricultural and food products in Israel. Agricultural and food imports in 2011 reached \$5.4 billion, up 25 percent from 2010. Food and beverage products account for 42 percent of imports. A weak dollar combined with grain shortages from Russia and Ukraine, increased U.S. exports' competitive advantage. Data for 2011 point to agricultural and food imports from the U.S. increasing by 40 percent compared to 2010 or from \$545 million to \$761 million.

**Post:**

Tel Aviv

***Disclaimer :***

This report was prepared by the Foreign Agricultural Service in Tel Aviv for U.S. exporters of domestic food and agricultural products and U.S. regulatory agencies. While care was taken in the preparation of this report, information provided may not be completely accurate either because policies have changed since its preparation, or because clear and consistent information about these policies was unavailable. It is highly recommended that U.S. exporters verify the full set of certificate requirements with their foreign customers before any goods are shipped. Final import approval of any product is subject to the importing country's rules and regulations.

**Executive Summary:**

## **Section I: Market Overview**

### **Economic and Demographic Situation**

Israel is a parliamentary democracy of 7.7 million people: 75 percent Jewish (5.8 million) and 20 percent Arab (mainly Muslim). Israel hosts 200,000 foreign guest workers from Southeast Asia. Population growth is at 1.8 percent.

Israel's economy is in better shape today than in 2010, as well as vastly improved compared to 2009.

The economy benefitted from the global economic recovery, growing by 4.5 percent in 2010. The Bank of Israel is forecasting a 4.8 percent GDP growth in 2011 and slower GDP growth of 3.2 percent in 2012.

During the period being surveyed, May-August 2011, growth rate has shown a slowdown in addition to increased economic uncertainty. This occurred against the background of a debt crises in Europe and volatility in the financial markets, the fear of a major slowdown in global growth, continuing geopolitical instability in our region and the effects of the 2011 social protests in Israel.

With a GDP of \$200 billion and a GDP per capita of \$30,000, Israel is on par with the EU member states of Greece and Portugal. Prior to the global economic recession (2008-09), Israel grew at an annual average rate of 5 percent. Growth almost halted during the crisis, leading to a spike in unemployment.

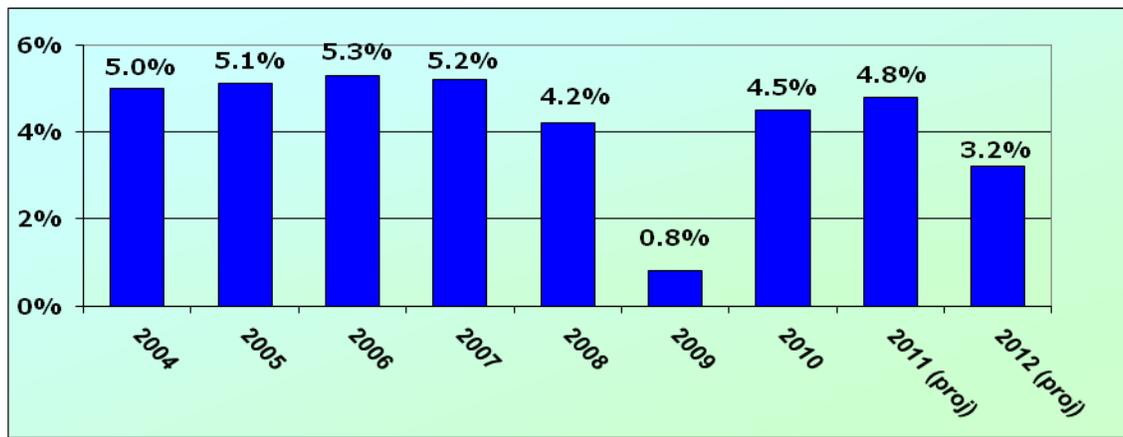
Israel's unemployment rate declined to 5.5 percent in the second quarter of 2011, the lowest level since at least 1985, as the economy expanded. Unemployment averaged 6.7 percent (2010), below the Organization for Economic Cooperation and Development (OECD) average of 8.3 percent. Between 1992 and 2010, Israel's unemployment averaged 8.6 percent;

The main economic challenges confronting Israel are: 1) uncertainty regarding the impact of U.S. and EU fiscal deficits on global economic growth and its effect on foreign demand for Israeli exports and 2) the inflation inducing upward trend in commodity prices.

Sociopolitical unrest in the MENA region highlights the importance of Israel as a stable, technologically advanced market economy and democracy. Nevertheless, financial markets are increasing Israel's country risk rating due to continued regional uncertainty.

Israeli economic policy combines responsible budgetary policy with a credible, consistent monetary policy. It aims to ensure economic stability through price stability.

**Chart 1: GDP, Annual Growth Rate, Israel**



Source: Bank of Israel

Israel's main industrial sectors include electronics, chemicals, machinery, metal, plastics and rubber.

**Inflation:** The Bank of Israel forecasts a 2.6 percent inflation rate in 2011. Inflation may gradually inch upwards to 3.3 percent in the last quarter. Inflation in Israel derives from developments abroad and the valuation of the local housing market. Rising commodity prices will boost inflation worldwide, resulting in higher energy and food costs. Inflation reached 2.7 percent in 2010, remaining well within the price stability target range. Excluding the housing sector, inflation increased by 1.9 percent in 2010.

**Food Prices:** Food prices in Israel increased more than in other countries. Food prices were the main reason for the social unrest during the summer of 2011. Global agricultural commodity prices increased by an average of 53 percent in 2010 compared to 2009. This suggests that food prices in Israel will again increase. The last time agricultural commodity prices rose this sharply was in May 2008, when they increased by 54 percent. Four months later, food prices in Israel increased by 13.4 percent.

Aggressive competition between Israeli retail chains, combined with favorable exchange rates, allowed

Israel's food prices in 2008 to rise slower than the increase in agricultural commodity prices. For example, Shufersal, Israel's largest retailer, converted some of its stores into discount Deal branches in order to keep prices low. Israeli analysts estimate that even if commodity prices do level off,

food prices will still increase by 8 percent in 2011.

Should commodity prices continue to trend upwards at the current pace food prices in Israel could increase by 15 percent in 2011.

**Foreign Exchange Rates:** In 2010, the NIS strengthened against the U.S. dollar by 5.3 percent, and by 10.4 percent against the euro.

Compared to the British pound, the NIS rose by 6.4 percent. However, when compared to the Swiss

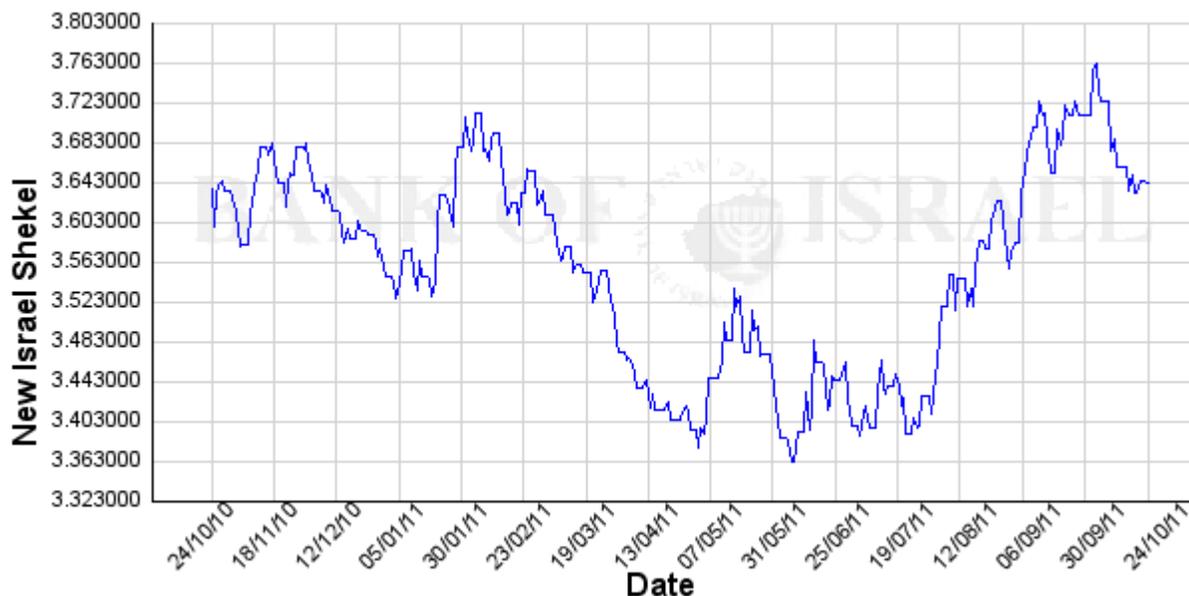
franc the NIS only rose by 1 percent and compared to the Japanese yen it dropped by 1.3 percent.

The 2010 average exchange rate of the U.S. dollar was NIS 3.733 (NIS 3.932 in 2009) while the average exchange rate for the euro was 4.953. In 2010, the U.S. dollar strengthened in comparison

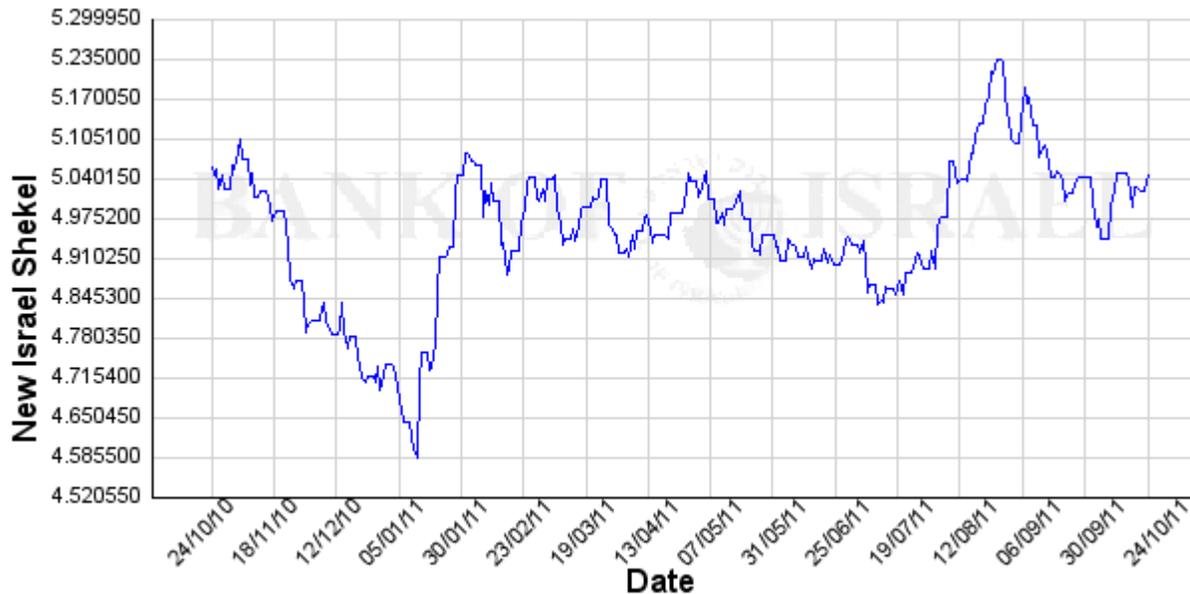
to the euro by 4.8 percent and by 1 percent compared to the British pound.

The U.S. dollar compared to the Japanese yen and the Swiss franc dropped by 6.3 percent and 4.1 percent respectively.

**Chart 2: U.S. Dollar to Israeli Shekel Exchange Rate**



**Chart 3: Euro to Israeli Shekel Exchange Rate**



**New Natural Gas Resources:** Recently discovered natural gas fields off the Israeli coast are among the most significant global finds in the past decade. While the Tamar and Leviathan gas fields are vast, others in their vicinity are much smaller. Tamar and Leviathan are expected to contribute 1-1.5 percent to Israel's GDP. Israel currently depends on Egypt for 40 percent of its natural gas needs.

**Trajtenberg Committee Report Likely to Enhance Export Opportunities**

During summer 2011, hundreds of thousands of Israelis, mainly middle class, protested against the government, demanding improved standards and quality of life. It is common wisdom in Israel that the middle class carries most of the economic, social and security burdens, while other sectors, who gained political power during the last two decades are exploiting the benefits granted by the state at the expense of the middle class and others. According to the OECD, Israel has the second highest income poverty rate in the OECD after Mexico, and is well above the OECD average of 11.1%. Some 39% of Israelis find it difficult or to live on their current income, well above the OECD average of 24%.

The protests started in June 2011 with the "cottage cheese protest" in which consumers boycotted cottage cheese after it was found that the price was raised significantly by the dairy companies and the retail chains with no justification.

The second sector, that followed the "cottage protest" was the housing renters, who claimed that rentals

and housing in Israel became unaffordable to most of the young, even those who earn higher than average salaries. The housing protesters established tent camps all over the country, the biggest in Tel Aviv with more than 1,000 tents.

The Trajtenberg Committee has been appointed by the government as response to the social protests in Israel.

The Trajtenberg Committee presented its recommendations to Prime Minister Benjamin Netanyahu on Oct 9<sup>th</sup> and the Israeli Government approved the report.

The Trajtenberg Committee report is 267-page long, outlining a wide array of policy recommendations in 4 main areas: Housing, Competition and Cost of Living (including food and agricultural markets), Social Services and Taxation. These recommendations are expected to bring significant change in the economic agenda in Israel during the coming years, including reduced trade barriers for imported food and agricultural products into Israel.

Netanyahu addressed the Trajtenberg Report as follows "Approval of the report will allow for a lower cost of living and substantially ease parental education spending and lower the properties values. My government is committed to taking the necessary actions for Israeli citizens to lower their cost of living."

### **Trajtenberg and Custom Tariff Policy**

In January 2012 custom tariffs and purchase tax will be removed from a list of imported industrial products that have no competition from local production, e.g. washing machines, air conditioners, electronics and raw materials for local industry. A second stage, concerning industrial products that are locally produced depends on GOI's success in signing further new Free Trade Agreements (FTA)

If GOI succeeds in signing additional significant FTAs the custom tariff will be reduced by 15%, each year until 2017, when the custom tariff goes to 0%. If the GOI fails to sign additional FTAs, the tariff will be reduced by 25% in January 2012, by 15% in January 2013 and another 15% in January 2014. Total reduction will be 50%. The government, which is under heavy pressure from the agriculture lobby, made no decisions regarding food products taxation and is still waiting for the

second committee's recommendations (the Kedmi Committee). The expected improvements for food products in the near future will focus on expanded Tariff Rate Quotas (TRQ) for a selected list of products.

The list of processed food products and agricultural products that will benefit from the recent approval of the Trajtenberg Report has not yet been approved. Post expects that GOI will publish the list of

approved products within the next few months.

In addition, it is estimated that due to the recent approval of the Trajtenberg Report, some Sanitary and Phyto-Sanitary (SPS) and Technical Barriers to Trade (TBT) issues relating to the import of processed food products and agricultural products into Israel will be eased, making it easier for American exporters to enter the Israeli food and agricultural market and lowering costs.

Food prices, including staples, have become a flash point. Here and elsewhere, the answer lies in competition from imports, says the Trajtenberg Committee.

Privately owned monopolies that do most of their business within Israel must be forced to publish financial statements like publicly traded companies, determined the panel. This would force fresh-foods giant Tnuva (among others) to reveal its financials, if the government accepts the idea. Tnuva is controlled by international investments fund Apax Partners, which has been adamant that the company, which has the biggest dairy business in Israel, keep its figures confidential. Tnuva was also a trigger behind the "social protest," which began when the company (and its two main rivals) raised the price of cottage cheese once too often.

The Committee states that the food industry is the sector with the biggest lack of competition. According to the Committee, this is due to the high dominance of a few companies controlling the local food market which include both producers and retail chains.

The Committee recommends a supervised reduction in the price of basic food products including eggs and milk.

### **Israel Food Processing Industry**

As a result of the continued improved economic activity in 2010 and 2011, both globally and in Israel, the food and drink industry turnover increased by about 2 percent in 2010 compared to 2009, and is expected to grow by about 1.5 percent in 2011.

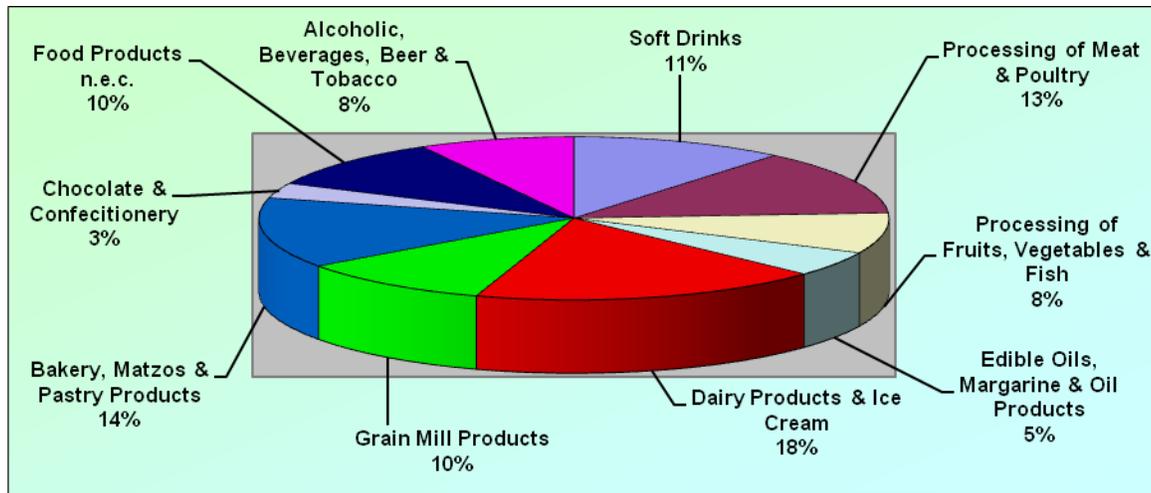
The local food and drink industry is one of the largest manufacturing industries in Israel, with a turnover of \$15.4 billion in 2010.

As a result of the improved and projected global economic situation the expected local HRI market growth rate in the next few years will remain 2-3 percent annually.

The HRI market, including the army, hospitals, hotels, restaurants and other places of employment, is valued at about \$7.4 billion. Over 50 percent of the total food supply directed at non-institutional consumers is sold through supermarkets and retail chains. Two major supermarket chains with hundreds of outlets throughout the country dominate the retail food market.

For further information, see Israeli Food Processing Sector Report:  
<http://www.fas.usda.gov/gainfiles/200603/146176957.pdf>

**Chart 4: Food Processing Industry Value, by Sub-Sectors, Percent, CY 2010**



Source: The Food Industries Association, Manufacturers' Association of Israel

## Consumer Buying and Eating Habits

### Main Facts:

- Annual household consumption expenditure in 2010 totaled \$ 3,000 (2.5% up from 2009), of which . % (\$ ,450) was directed to food purchases (for many years household expenditure for food totaled 13%).
- Where do they buy food? 56% - Supermarket chains, 1 % - Grocery shops, 6% - open markets, and 20% - other shops.
- 66% of the Jewish sector buys food products through supermarket chains, while only 11% of the Arab sector buys products through supermarket chains.
- Nearly 70% of consumers prefer kosher food products.
- 1.4 million (19%) Israelis are above age of 50, and 2.1 million (28.7%) Israelis are under the age of 14. The average household size is 3.7 people.
- Israelis are quality oriented and are ready to pay a premium for quality food products.

- Shoppers are eating out more frequently and in 2010 spent more than \$2.8 billion on meals away from home.

**Table 1: Food- Household Purchase by Outlet Type - % of Total Expenditure (Excl. Meals Away From Home), 2009**

	<b>Grocery Stores</b>	<b>Open Markets</b>	<b>Supermarket Chains</b>	<b>Others</b>
<b>Food - Total</b>	<b>18.8</b>	<b>5.7</b>	<b>56.0</b>	<b>19.5</b>
Bread, Cereals and Pastry Products	22.			18.
Meat, Poultry and Fish				
Soft Drinks		1.		8.
Fresh Fruits and Vegetables				
Dried Fruit				

Source: Household Expenditure Survey, 2009, CBS.

### **Trade and the Market for U.S. Products and Services**

Israel joined the World Trade Organization (WTO) in 1995. Israel supports the liberalization of international trade, investments and world markets. It believes that these play a vital role in ensuring global economic growth, stability and increase in welfare. Israel is committed to the multilateral trading system, its core principles and to the Doha development agenda.

Israel's implementation of the Uruguay Round Agreement on Agriculture has made it a more transparent and open trade partner. However, Israel's agricultural products' tariff profile is uneven. It retains very high, sometimes prohibitive, tariffs for sensitive products such as dairy, meat, eggs, and some fruits and vegetables. Israel at the same also has low tariffs, or even duty-free entry, for commodities such as coarse grains and oilseeds. The simple average most-favored-nation (MFN) tariff for agriculture is about three times higher than that for non-agricultural products. The OECD recommends that Israel should further reduce agricultural trade barriers and simplify its highly complex tariff profile.

Israel's first Free Trade Agreement (FTA) was with the European Community in 1975. The United States

and Israel signed an FTA in 1985. Subsequently, Israel signed FTAs with Turkey, Jordan, Mexico and Canada.

**Overview of Israel’s Two Main Free Trade Agreements:**

**1. Agreement on Trade in Agricultural Products between the U.S. and Israel:**

In 1996, the United States and Israel signed a five-year Agreement on Trade in Agricultural Products (ATAP), which permits Israel to protect a number of sensitive crops and livestock products through a combination of tariff rate quotas and relatively high duties. In 2004, the agreement was extended until 2008. Negotiations on the next extension started in February 2008. The new agreement has yet to be signed. Both countries have agreed to extend year-by-year the current agreement until a new agreement is signed.

**2. Israel-EU, FTA Agreement on Agricultural Products and Processed Food Products:**

In November 2009 Israel and the European Commission signed a renewed and expanded FTA on agricultural products and processed food products. Under the proposed framework of the agreement, 97 percent of processed foods, imported and exported, are exempt from levies and quotas. Israel exports 75 percent of its fresh and processed agricultural products to the EU market. The agreement came into effect in January 2010.

**Foreign Trade:** Israel ran a trade deficit of \$7.7 billion in 2010, up from \$4.9 billion in 2009. Total imports grew by 25 percent; only 19 percent if imports of aircraft, vessels, diamonds, and fuels are excluded. By value imports exceeded \$58.6 billion compared to \$50.9 billion in exports. Imports from the EU and the United States increased by almost 17 percent and 14.5 percent. Imports from Asia increased 32 percent. Israeli exports (excluding aircraft, vessels, and diamonds) grew by \$ 5.9 billion, or 16.3 percent. Exports to the EU grew by over 24 percent in 2010, while exports to the United States increased at a slower pace of 10.5 percent. Exports to Asia grew by 32 percent.

**Table 2: Main Trading Country Groups, Millions of US Dollars**

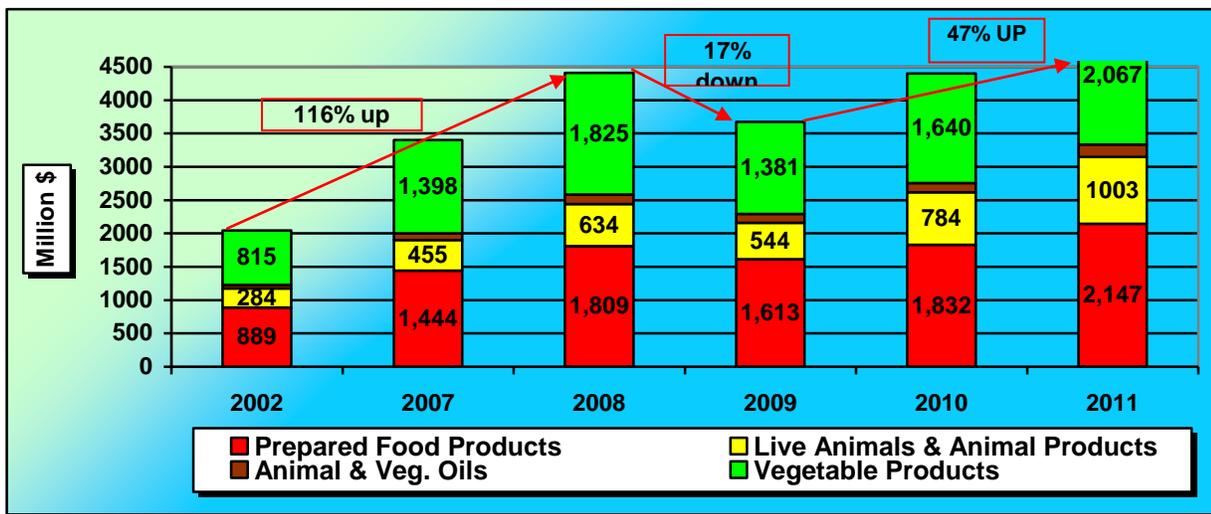
	Imports		Exports		Trade Balance	
	2010	2009	2010	2009	2010	2009
<b>Total</b>	59,122.4	47,368.2	58,430.6	47,935.5	-691.8	567.3
<b>EU</b>	20,401.8	17,491.7	15,390.5	12,389.8	-5,011.3	-5,101.9
<b>US</b>	6,698.2	5,849.1	18,530.7	16,774.1	11,832.5	10,925.0
<b>Asia</b>	13,316.5	10,082.1	13,822.0	9,520.5	505.5	-561.6
<b>Other Countries</b>	18,705.9	13,965.3	10,687.4	9,251.1	-8,018.5	-4,694.2

Source: CBS

\*\* Imports are valued c.i.f., and exports are valued f.o.b.

Israel's import of agricultural commodities and food products in 2010 totaled \$4.3 billion, up \$650 million or 18 percent compared to the previous year. Improving global economic conditions is driving renewed Israeli demand for imports of food and beverage products, which account for \$1.83 billion or 42 percent of its agricultural and food products imports. The United States exporters continued to benefit through 2010 from a weak dollar that along with improved economic growth in Israel, increasing Israeli demand for U.S. agricultural and food products imports. These imports reached approximately \$534 million, growing by 27 percent compared to 2009 levels. Similar imports from the EU increased at a slower pace of 11 percent, exceeding \$1.68 billion by value.

**Chart 5: Israeli Imports of Agricultural, Processed Foods and Beverages Products**



Source: Central Bureau of Statistics

**Table 3: Trend in Israeli Imports of Agricultural and Food Products, \$ Million, CY**

	Total			US			EU		
	2009	2010	2011	2009	2010	2011	2009	2010	2011
Live animals	544	712	1,003	15	31	47	115	192	193
Vegetable products	1,381	1,640	2,064	263	346	526	448	481	450
Animal & Veg. oils	137	142	186	4	4	4	61	59	78
Prepared foods	1,613	1,832	2,147	145	164	183	893	949	1,170
<b>Total</b>	<b>3,676</b>	<b>4,327</b>	<b>5,400</b>	<b>428</b>	<b>545</b>	<b>761</b>	<b>1,517</b>	<b>1,681</b>	<b>1,891</b>

Source: Central Bureau of Statistics

**Table 4: Israeli Imports of American Products to Israel, \$ Million, CY**

	2009	2010	2011
Total imports into Israel (all products)	5,849	6,701	8,707
Of which: Agricultural and food products	428	545	761

Agricultural and food products as percentage of total imports	7.3%	8.1%	8.7%
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Source: Central Bureau of Statistics

Israel imports a significant amount of cereals, bovine meat, oilseeds, sugar, tobacco, fish, and tropical products (i.e., cocoa). Imports reflect the country's deficiency in farm acreage. Imports of cereals and sugar represent 90 percent of domestic use of these commodities; imported beef accounts for over 50 percent of local consumption.

**U.S. Ag Exports:** Ninety percent of U.S. agricultural exports by value enter Israel duty and quota free due to Israel's adherence to its WTO, U.S.-Israel FTA, and ATAP commitments. Unfortunately, the remaining U.S. agricultural export tariff lines (largely value-added consumer products) continue to face a complicated tariff-rate quota (TRQ) system and high tariffs. Israel's TRQ system is non-transparent. Problems include the lack of quota fill-rate and license allocation data. Israel fails to provide information on small, non-commercially viable quota quantities. It also holds back issuing of within-quota licenses. Under the 2004 ATAP agreement, Israel committed to improve the administration of TRQs, including engaging in regular bilateral consultations. However, the mid-year reallocation of unutilized quotas by the Israeli Quota Administration has so far failed to solve this problem. ATAP agreement negotiations aim to address this U.S. concern.

Coarse grains and oilseeds, dried nuts, fruits, and prepared food products remain the key U.S. agricultural exports to Israel. Milling wheat, soybeans, and feed grains enter Israel duty-free. The U.S.-Israel FTA requires that most U.S. dried nuts and fruits located in Chapter 8 of the Harmonized Commodity Description and Coding System (HS) enter duty-free or under reduced tariff rates. However, the TRQs on almonds, raisins, and prunes sharply limit imports. Shelled walnuts and pistachios from the United States enjoy duty-free access; pistachios from other sources pay a 36 percent import duty. Non-U.S. shelled walnuts are assessed a \$500/mt levy plus a 20 percent duty (16.5 percent for EU product).

Exports of U.S. prepared vegetables, fruits and nuts, and miscellaneous edible preparations continue to trend upward. Israel bans the import of U.S. beef due to bovine spongiform encephalopathy (BSE) and Kashrut Law restrictions. Israel's Veterinary Services published in January 2011 its new BSE regulations. The new regulations and new health certificates for beef meat and live cattle for fattening are in advanced phase of discussions and should be resolved during the first half of 2012.

Quota and SPS Restrictions however remain on U.S. dairy products, fresh fruits and vegetables, wine, and processed foods, all commodities important to the Israeli agricultural sector.

**Coarse Grains:** Israel is almost completely dependent on imports to meet its grain and feed needs. Feed wheat and corn are the main ingredients of feedstuffs used in local poultry, dairy, cattle and aquaculture farms in Israel. The Israeli feed milling industry shifts easily from corn, barley and

sorghum  
to feed wheat, depending on price ratios.

Many Israeli traders consider the Black Sea Basin (BSB) a “natural” source for grains due to its proximity and the convenience of small shipments. However, whenever there is a shortage of grains from the BSB, the market share of U.S. grains increases significantly.

Due to the ban on grain exports from Russia, combined with Ukraine grain export quotas in 2010 and part of 2011, the Israeli feed milling industry shifted from barley and feed wheat to corn and sorghum.

As a result, the U.S. market share of corn and sorghum in Israel increased significantly in MY 2010/11

(Oct 2010-Sep 2011) to about 60 percent and nearly 100 percent, respectively.

In addition, since two of Israel’s main milling wheat suppliers are Russia and Ukraine, the U.S. market

share of milling wheat in Israel increased to about 50 percent in MY 2010/11, compared to 23 percent

in MY 2009/10. As a result of Russia and Ukraine lifting their grain export bans from

July 1 2011, the U.S. market share of milling wheat, corn and sorghum is likely also to decrease significantly in MY 2011/12, with Eastern Europe and Argentina supplying the remainder.

**CY 2011** - As a result of the continued improved economic activity during the first half of 2011, both globally and in Israel, total agricultural and food imports in 2011 reached \$5.4 billion, up 25 percent from 2010. Food and beverage products account for 42 percent of imports.

A weak dollar combined with grain shortages from Russia and Ukraine, increased U.S. competitive advantage. Data for 2011 point to agricultural and food imports from the U.S. increasing

by 40 percent compared to 2010 or from \$545 million to \$761 million.

As a result, CY 2011 was a very good export year for U.S. Agricultural & food products into Israel.

## **Table 5: Opportunities and Challenges for U.S. Exporters to Israel**

<b>Opportunities</b>	<b>Threats</b>
<p>In 2010, and 2011 Israel's economy has remained strong, boosting demand for agriculture products. Economic growth in 2011 and 2012 is expected at 4.8 and 3.2 percent, respectively.</p>	<p>The security situation in Israel and in the region remains precarious.</p> <p>Continued concerns about the economic situation in Europe and the US.</p>
<p>The recent approval of the Trajtenberg report by the Israeli Government will allow the decrease of import tariffs on some processed food products and agricultural products as well. In addition, some current Tariff Rate Quotas (TRQ) will likely be increased. It is expected that some new food and agricultural items will be added as TRQs. The actual list of processed food products and agricultural products has not yet been approved. Post expects that the GOI will publish the list within the next few months. All in all, more opportunities for American food and agricultural products are expected to be available in the near future.</p> <p>The current exchange rate of the U.S. dollar versus the Euro continues to favor U.S. sales.</p>	<p>Growing competition from Eastern Europe, Former Soviet Union, Turkey, South America and the Far East. This sector generally only imports from nearby countries.</p>
<p>The standard of living in Israel is expanding rapidly, increasing the demand for high quality food products.</p>	<p>Israel is increasingly adopting EU standards and requirements on imports.</p>
<p>Israel's and Palestine's economies are interlinked. U.S. exporters can use Israel as a gate to the Palestinian market with its rapidly growing population and potential increase in standard of living in the coming years.</p> <p>In 2009, the GDP growth rate of the West Bank totaled 7.2 percent. In addition, the Palestinian economy in the West Bank is estimated to have grown 9 percent in the first half of 2010, according to the International Monetary Fund.</p>	<p>U.S. suppliers lack knowledge of the Israeli and Palestinian markets and its opportunities.</p>
<p>High consumer interest in new food products. About 3,000 new products are being introduced into the local food market annually</p>	<p>Import requirements can be quite strict, and new-to-market products are sometimes detained at port.</p>
<p>Negotiations on the Agreement on Trade in Agricultural Products (ATAP) will continue in 2012.</p>	<p>Israel is unlikely to agree to the U.S. request for a complete phase-out in tariffs.</p> <p>New agricultural agreement was signed between Israel and the EU in November 2009, resulting in greater market access on both sides.</p> <p>India and Israel are presently working towards signing an FTA.</p>

The Israeli consumer is knowledgeable of American products, and is receptive to additional information.	Kosher requirements are becoming increasingly strict and consumers require high-level kosher certification for their food products.
Increasing water shortages in Israel afford the U.S. an opportunity for increased exports of U.S. agricultural commodities.	Israel has a strong domestic food processing manufacturing system. EU agricultural and food products are very competitive because of proximity and an increased trend toward sharing common standards.
Israeli agriculture is particularly vulnerable to climate change, and will therefore be more reliant on imports.	
Israel is a net food importer. Israel is highly dependent on grain and oilseed imports.	
There is a continued growth in the number of food stores (supermarkets, grocery stores, 24-hour convenience stores), and restaurants.	

## Section II: Exporter Business Tips

### **Kosher Certification:**

Except for meat, kosher certification is not an obligatory requirement for importing food into Israel.

However, non-kosher products have a much smaller market share as the large supermarket chains and hotels refuse to carry them. In addition, in recent years kosher requirements are becoming increasingly strict as the Israeli consumers require high-level kosher certification for their food products ("Mehadrin").

### **Local Business Customs:**

#### 1. Customs Valuation and Taxes

Israel has implemented the WTO Customs Valuation Agreement. Under WTO regulations, the basis for valuation is the transaction value, in most cases the CIF price.

#### 2. Value Added Tax and Purchase Tax

Israel decreased its VAT rate on January 1<sup>st</sup>, 2010 from 16.5 percent to 16.0 percent. The VAT on imports is levied on the CIF landed cost plus purchase tax. VAT is recovered by the importer upon resale of the goods and is ultimately paid by the consumer. Israel levies purchase taxes on many consumer goods. The GOI reduced or eliminated the tax on more than 600 items in 2000, including televisions, washing machines, electrical appliances and cosmetics. Rates that had ranged from 25

to 85 percent were reduced to 5 to 45 percent. Purchase taxes of up to 90 percent on motor vehicles, fuel, tobacco were left unchanged.

In May 2010 the taxing system for spirits has been changed. The change is implemented gradually and at the end of the process (January 2014) the tax on expensive spirits (all US originated spirits belong to that group) will decrease significantly.

### **Consumer Taste and Preference**

The food service industry is expanding and consumers' habits are changing. Over the last few years, Israelis have begun to dine out more frequently and chose premium foods when doing so. Approximately 20 percent of Israel's 7.6 million people are concentrated in the Tel Aviv district, Israel's commercial and financial center. Other major concentrations of the population are the Haifa area (15 percent), a major port city and center for the petrochemical industry, and Jerusalem (12 percent). While most companies are headquartered in the Tel Aviv or Haifa metropolitan areas, a growing number of firms maintain branches, showrooms, or service facilities in Jerusalem and Beer Sheva.

Consumer malls and shopping centers are popular in Israel. Over 200 malls exist and others are planned. American specialty shops, chain stores, and franchises have outlets in malls and shopping centers, while others like Starbucks and Dunkin Donuts failed to succeed in the Israeli market. The key to success is offering an increased variety of new products meeting the Israeli taste preferences and service to the consumer.

The institutional services, including the army, hospitals, hotels, restaurants, banquet halls and places of employment, account for 30 percent of the total market share (households and institutional). Over 50 percent of the total food supply directed at non-institutional consumers is sold through supermarkets and retail chains. Two major supermarket chains with hundreds of outlets throughout the country dominate the retail food market. The average floor size of a supermarket is 600 square meters. Some of the larger stores have areas of 1,000 - 2,000 square meters. Typical Middle Eastern-style open-air markets and small grocery stores serve the remainder of the food market. In recent years, specialty food stores have sprouted in the main metropolitan centers.

### **Food Standards and Regulations**

See Gain Report IS1106 – FAIRS Country Report

In the current report the following sections have been updated:

- Heavy Metals in Foodstuffs - The Israeli Ministry of Health has increased monitoring on imported food products in recent months (page 15).
- The maximum limits of the following food color additives E1520, E1518, and E1505

were changed (page 11).

- Import Procedure paragraph was modified (page 22-26).
- New requirements for the export of pet food from the United States to Israel (page 31).
- Inspection of Animal Feed paragraph was modified (page 35-39).
- Fish and Fish Products Import and Distribution system (page 43-47).

[http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Food%20and%20Agricultural%20Import%20Regulations%20and%20Standards%20-%20Narrative\\_Tel%20Aviv\\_Israel\\_8-16-2011.pdf](http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Food%20and%20Agricultural%20Import%20Regulations%20and%20Standards%20-%20Narrative_Tel%20Aviv_Israel_8-16-2011.pdf)

### ***SPS and Regulatory Systems:***

Four agencies oversee Israel's animal, plant, and food safety issues.

They include:

- 1) National Food Control Service (FCS), which is a part of the Ministry of Health
- 2) Standards Institution of Israel (SII)
- 3) Israeli Veterinary and Animal Health Services (IVAHS)
- 4) Plant Protection and Inspection Services (PPIS).

The latter two are a part of MOAG. Israel's FCS is notorious for the requirements it places on high-value food products. Plant quarantine authorities have been slow to conduct their pest risk assessments (PRA) for U.S. requested products. Depending on the product, both the Ministry of Trade and MOAG may share responsibility for managing quota allocations under the U.S.-Israel FTA.

Israel is turning to EU standards and requirements to guide its own food and food supplements legislation. This action is causing U.S. and Israeli food regulations to differ. The consequence of which has been growing import licensing difficulties for U.S. processed food products and needless port-of entry detentions. The import of some U.S. products is now banned. Post estimates losses to U.S. exporters and Israeli importers at \$50 to \$70 million per year.

Israel is modeling its food legislation and standards on the European system due to:

- 1) the EU is Israel's main trade partner
- 2) Israeli regulatory agencies view EU legislation and inspection systems as more transparent than those of the U.S.
- 3) the substantial degree of Israeli and EU regulatory agency interaction.

The Standards Institution of Israel (SII) is the agency responsible for the development of most product standards, compliance testing, and certification of products and industry quality assurance systems.

The FCS enforces food and food labeling standards. For further information, interested firms should contact:

The Standards Institution of Israel, 42 Levanon Street, Tel Aviv 69977;  
Tel: 972-3-6465154; Fax: 972-3-6419683; E-mail: [vered@sii.org.il](mailto:vered@sii.org.il).

The Government of Israel requires that food and health products be registered with the Ministry of Health before they can be sold in the country. FDA approval for food and health care products is not mandatory, but Israeli importers prefer it as it accelerates the product registration process and import license approval. Product registration normally takes from 4-6 weeks if all documents are in order.

To encourage the free international flow of goods, the Israeli cabinet passed decision No. 2191, which is titled "Improving the Terms of Trade Standardization" on August 12, 2007. The decision determines that by June 30, 2010 at least 65 percent of Israeli's mandatory standards will be based on international or regional standards.

### **Import Licenses**

All import licensing requirements for U.S. made consumer and industrial goods have been eliminated under the United States – Israel Free Trade Area Agreement (FTAA) of 1985 and World Trade Organization (WTO) agreements. Imported food items require the approval of the Ministry of Health's Food Control Administration (FCS), which is also responsible for the approval of labeling and packaging. All plant material (including dried fruits and nuts) require import approval from the Plant Protection and Inspection Service (PPIS). Unprocessed and unpackaged imported meat must be licensed by the Israel Veterinary Services (IVS) and originate in a plant which has been certified as approved by the IVS. Packed meat and poultry for retail sale are subject to licensing by the Food Control Administration of the Ministry of Health. Israel law requires that all meat and poultry imports be certified kosher by the Rabbinical Council of the Chief Rabbinate or a body authorized by the Council. As an exception, it is possible to import non-kosher beef offal. Israel's veterinary authorities ban imports of bone-in beef from countries where there is risk of transmitting Foot and Mouth Disease (FMD) or Bovine Spongiform Encephaly (BSE).

### **General Tips for Exporters**

- Consider participating in FAS Tel Aviv organized sponsored events.
- Consider exhibiting at Kosherfest in New York (November 8-9, 2011) as many Israeli buyers attend this show. Kosherfest is the world's largest kosher certified products trade event serving the retail and foodservice industries. <http://www.kosherfest.com>
- Communicate with potential importers of your product. Contact FAS Tel Aviv to

obtain a list of local importers; Tel: 972-3-519-7588/7324/7686;  
Fax: 972-3-510-2565; E-mail: [gilad.shachar@usda.gov](mailto:gilad.shachar@usda.gov); [Yossi.barak@usda.gov](mailto:Yossi.barak@usda.gov).

- The FAS office in Tel Aviv has listed a few requirements to improve new product success in the local market (see annex 4).

## **FOOD AND AGRICULTURAL TRADE SHOWS IN ISRAEL**

### **ISRAFOOD**

An International Food & Beverages Exhibition for professionals from the catering, food wholesalers, retail, restaurants, hotels, institutional buyers and food shops.

Nov 29- Dec 1<sup>st</sup>, 2011 – Tel Aviv

[http://www.stier.co.il/english/fair\\_israfood.htm](http://www.stier.co.il/english/fair_israfood.htm)

### **AGRO-MASHOV**

Agro Mashov is Israel's greatest annual international all agriculture exhibition.

Feb 29- March 1<sup>st</sup> 2012 – Tel Aviv

<http://www.mashovgroup.net/%D7%A7%D7%91%D7%95%D7%A6%D7%AA%D7%9E%D7%A9%D7%95%D7%91/%D7%90%D7%92%D7%A8%D7%95%D7%9E%D7%A9%D7%95%D7%91%D7%91%D7%90%D7%A0%D7%92%D7%9C%D7%99%D7%AA/tabid/135/Default.aspx>

### **AGRITECH**

For the past three decades, Agritech has served as a platform to bring together more than 7,000 foreign

visitors from 115 countries to interact with leading agriculture technology companies from around the world.

15-17 May, 2012 – Tel Aviv

<http://www2.kenes.com/agritech2012/Pages/Home.aspx>

### **WATEC**

WATEC exhibition is Israel's prime event for showcasing technologies and expertise in water and irrigation areas.

15-17 November, 2011

<http://www.watec-israel.com/>

## **Section III: Market Sector Structure and Trends**

## **Market Channels:**

- Retail Chains – Two supermarket chains dominate Israeli food retailing and account for 60% (\$5.6 billion) of the market, the rest belongs to other private supermarket chains, grocery stores, drugstores and convenience stores. Most of them buy only kosher food products.

The large supermarkets chains import directly and also buy from importers and wholesalers.

Smaller retailers usually buy only via importers/wholesalers.

- Hotel, restaurants and institutional food sectors (HRI). The Israeli army (IDF) and the Israeli police are  
Make up a large part of the institutional sector. Only large chains such as hotel chains or large caterers have a central purchasing office. Most HRI imports are for kosher food products.
- Food Importers, there are about 300 importers. They buy kosher and non kosher food products.

## **1. Retail Food Sector**

As a result of the continued improved economic activity in 2011, both globally and in Israel, the retail food market (food retail chains and minimarkets) was valued at \$9.6 billion, a 2.5 percent increase from the previous year. About 60 percent (\$5.75 billion) belongs to the two major retail food-marketing chains.

The leading retail chain in Israel with a market share of 37 percent is Shufersal, operating over 240 stores nationwide and employing over 11,000 people. The entire physical store area total is 520,000 m<sup>2</sup>.

In addition to the retail chains, there are approximately 5,500 grocery stores and 1,700 minimarkets in Israel. Due to the intense competition in the Israeli food sector, the grocery stores and minimarkets are operating at very small profit margins. More than 150 convenience stores, which are open 24 hours, were established in recent years.

For further information, see Israeli Retail Food Sector Report:

[http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Retail%20Foods\\_Tel%20Aviv\\_Israel\\_1-28-2010.pdf](http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Retail%20Foods_Tel%20Aviv_Israel_1-28-2010.pdf)

## **2. HRI Sector**

Israel's HRI sector is complex and very diverse, with large commercial and institutional components.

The improved tourist industry will continue to fuel demand for hotels and restaurants. Understanding import regulations and distribution channels, as well as making local contacts, are essential to entering this market. Nuts, salmon and dairy products are among the best U.S. prospects

in the market.

The HRI market was estimated to be valued at about \$7.3 billion in 2010, 2 percent increase compared to 2009. In 2007, the HRI market grew by 5 percent. As a result of the continued improved economic activity in 2011, both globally and in Israel, it is expected that HRI market will grow by 3 percent in 2011.

Food service is divided into two categories: commercial and institutional. The commercial sector is divided into hotel and restaurant sectors. The commercial sector comprises an estimated 360 hotels (46,500 rooms), 1,174 rural tourism houses, 4,399 food business (restaurants, coffee shops, fast food, pubs and bars), of which 1,539 (35 percent) are kosher certified. Some of the restaurants that are not kosher certified still use only kosher ingredients. In addition, there are about 900 banquet halls.

The most popular food business formats include coffee shops, Mediterranean, Italian, Thai and Japanese restaurants. In 2010, sales at restaurants, coffee shops, kiosks pubs and bars were estimated at about \$2.75 billion. Approximately 45 percent of the bars and 23 percent of the pubs are located in central and northern Israel. Approximately 1,600 restaurants, coffee shops, pubs and bars are located in the Tel Aviv area.

**Tourism** - As a result of the improved global economic situation combined with the improved security situation in Israel, from September 1<sup>st</sup>, 2010 to September 1<sup>st</sup>, 2011, 3.6 million visitors came to Israel a 17% increase compared to the same period one year ago. Of those visitors, three million stayed for more than one night, which is a 21 percent increase compared to the same period a year ago. Over the course of the last year, the busiest tourism month was October, with 404,000 visitors. The most impressive growth belongs to the cruise ships, with 208,000 visitors, a 68 percent increase compared to the previous year total of only 124,000 visitors. Income from inbound tourism was 14.3 billion NIS (\$3.95 billion), an 11 percent rise compared to the previous period last year of 13 billion NIS. The highest number of tourist arrivals was from the United States (630,000), Russia (560,000) and France (290,000) the rest were mainly from Germany, Italy and the UK.

The institutional food service companies include approximately 4,000 kitchens. The Israeli Defense Forces (IDF) are the largest institutional food consumer. The IDF alone buys about 4 percent of all Israeli food through its purchasing channels. IDF outsourced a part of its food supply chain (150,000 meals/day). In addition, the Israeli police force joined the IDF adding another 31,000 meals/day.

For further information, see Israeli HRI Food Service Sector Report:

<http://www.fas.usda.gov/gainfiles/200812/146306720.pdf>

## **Market Trends:**

- As a result of the recent social protests in Israel, food product price cuts have been implemented by the local food companies and retail chains.
- Demand for healthy/natural foods is increasing; organic food, reduced in fat, lower salt, low in sugar, more grains and fibers or that contain added vitamins, pro-biotic and health benefits. Niche products that target a specific health issues such as diabetes, celiac disease (gluten free food).
- Increased consumption of non alcoholic and alcoholic drinks.
- Adoption of private labels; Objectives: lowering retail price, guarantee quality and increase customer loyalty.
- After several recent food safety scandals, food safety has also become increasingly important to Israeli consumers.
- As a result of the increasing number of women in the workforce, there is an increased demand for nutritional and ready-to-eat meals and other foods that have low preparation time.

#### **Section IV: Best High Value Products Prospects**

- Spirits
- Non alcoholic drinks
- Organic and health/natural food products
- Honey
- Dry grocery food products
- Ethnic foods
- Ready meals (premium quality only)
- Soft skimmed cheese
- Specialty gourmet foods
- Processed and frozen fish and sea food
- Frozen and canned vegetables and fruits
- Food industry ingredients
- Baking industry ingredients

#### **Section V: Key Contacts and Further Information**

**Local Mailing address:** Office of Agricultural Affairs , U.S. Embassy Tel Aviv ;

Tel: 972-3-5197588, Fax: 972-3-5102565; E-mail: [gilad.shachar@usda.gov](mailto:gilad.shachar@usda.gov) ;  
[yossi.barak@usda.gov](mailto:yossi.barak@usda.gov);  
[levylx@state.gov](mailto:levylx@state.gov)

**Food Control Service**  
**Ministry of Health**

12 Ha'arba'a St.  
64739, Tel Aviv, Israel  
Web site: <http://www.health.gov.il/english/>  
Tel: 972-3-6270100  
Fax: 972-3-5619549  
Contact: Import Officer, Mrs. Ruthy Shinberg: Tel: 972-3-6270107

**Israel Veterinary and Animal Health Services (IVAHS)**

Web Site: <http://www.vetserveng.moag.gov.il/vetserveng>  
Ministry of Agriculture  
P.O. Box 12  
50250, Bet Dagan, Israel

**Import & Export Veterinary Division**

Chief Import & Export Veterinary Officer Dr. Med. Vet. Shlomo Garazi  
Tel: 972-3-9681649, Fax: 972-3-9605194. E-mail: [shlomoga@moag.gov.il](mailto:shlomoga@moag.gov.il)

**Plant Protection & Inspection Service (PPIS)**

P.O. Box 78  
50250, Bet Dagan, Israel  
Contact: Ms. Miriam Freund, Director  
Tel : 972-3-9681560  
Fax: 972-3-9681582  
E-mail: [miriamf@moag.gov.il](mailto:miriamf@moag.gov.il)  
Web Site: <http://www.ppiseng.moag.gov.il/ppiseng/>

**Standards Institution of Israel**

42 H. Levanon St  
69977, Tel Aviv, Israel  
Web Site: [www.sii.org.il](http://www.sii.org.il)  
General Information: E-mail: [vered@sii.org.il](mailto:vered@sii.org.il)  
Tel: 972-3-6465154; Fax: 972-3-6419683

**Major Newspapers and Business Journals**

- English Language:  
Ha'aretz (daily English version) <http://www.haaretz.com>  
The Jerusalem Post (daily newspaper) <http://www.jpost.com>  
Globes <http://www.globes.co.il/serveen/>  
The Marker <http://www.themarker.co.il/eng/>

**More Useful Web Sites**

Agriculture in Israel

<http://www.moag.gov.il/agri/files/agriculture/index.html>

The Agricultural Research Center of Israel - <http://www.agri.gov.il/>

Ministry of Agricultural and Rural Development - <http://www.moag.gov.il/english/>

The Centre for International Agricultural Development Cooperation (CINADCO)

<http://www.cinadco.moag.gov.il/cinadco>

Faculty of Agricultural, Food and Environmental Quality Sciences

<http://www.agri.huji.ac.il/index-eng.html>

Central Bureau of Statistics - <http://www.cbs.gov.il/engindex.htm>

Bank of Israel - <http://www.bankisrael.gov.il/firsteng.htm>

USDA'S Global Agriculture Information Network (GAIN) -

<http://gain.fas.usda.gov/Pages/Default.aspx>

### **Annex 1: Key Trade & Demographic Information, 2010**

Agricultural Imports From All Countries (\$Mil) / U.S. Market Share (%)	\$4,327/12.5%
Consumer Food Imports From All Countries (\$Mil) / U.S. Market Share (%)	\$1,832/9.0%
Edible Fishery Imports From All Countries (\$Mil) / U.S. Market Share (%)	\$229/1.2%
Total Population (Millions) / Annual Growth Rate	7.7/1.8%
Number of Major Metropolitan Areas	3
Per Capita Gross Domestic Product (U.S. Dollars)	\$29,800
Unemployment Rate (%), in the second quarter of 2011	5.5%
Per Capita Annual Food Expenditures (U.S. Dollars)	\$1,960
Annual Average Exchange Rate for 2010 (US\$1 = X.X local currency)	US\$1=3.73 NIS

Source: CBS, Israel

### **Annex 4: Criteria for Selection of an Exporter /Food Product with Better Opportunity in the Israeli Market**

1. Obtaining a Certificate of Free Sale in the United States may ease the import licensing process

by the Israeli Ministry of Health.

2. Obtaining a document approving the production under Good Manufacturing Practices (GMP) or HACCP will increase the product's chance for an easy introduction to the Israeli market.
3. Being listed on the FDA's list of registered plants and carrying a registration number from the FDA is good approval for the Israeli import licensing authority that the exporting manufacturer is inspected by the FDA or the USDA.
4. Shipment from the US to Israel and selling time may last a few months, therefore only products with at least 9 months of shelf life can be considered for exports to Israel.
5. Only facilities exceeding a minimal production capacity and export experience can be considered for export to Israel. Post is looking for big buyers in the Israeli retail market. This segment includes the biggest retail chains who buy in relatively big quantities.
6. Carrying a Kosher certificate is an advantage in the local market. Some surveys claim that between 60% - 70% of the Jewish population consume Kosher products. The biggest retail chains, the hotels and the institutional markets are buying only Kosher products.

## **Annex 5: Map of Israel**

