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GAIN Report

Global Agricultural Information Network

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Approved By:

Mariano J. Beillard, Senior Regional Agricultural Attaché

Prepared By:

Jessica Shay, Agricultural Marketing Specialist and Bret Tate, Regional Agricultural Attaché

Report Highlights:

Israel is a technologically advanced, market-oriented economy. Consumers are sophisticated and enjoy cosmopolitan food tastes. Since 2011 there has been increasing public pressure to decrease the high cost of living. As such, the government of Israel has begun to take steps to allow for greater imports of food and agricultural products. Currently, 16.7 percent of household expenditures are dedicated to food products. In spite of some continued barriers to trade with the United States, Israel remains a promising market for U.S. exporters.

SECTION I: MARKET OVERVIEW

Overall Business Climate

Israel is a parliamentary democracy of approximately 8.75 million people (September 2017 estimate). Of that population, around 75 percent are Jewish and 25 percent are non-Jewish, mostly Arab (Muslims and Christians). The country's area is 20,330 square kilometers, making it slightly smaller than the U.S. state of New Jersey. Current population growth is 1.8 percent per annum. Israel is a sophisticated, industrialized free-market economy, with a diversified manufacturing sector. Israel's main export market is the European Union (EU-28).

Israel's gross domestic product (GDP) growth in recent years has ranged from two to five percent per annum. Israeli GDP increased by four percent in 2016. The Bank of Israel is projecting that in 2017 the GDP will increase by 3.1 percent and in 2018 to 3.3 percent. Much of Israel's recent economic growth can be attributed to the growth of start-up firms. The Bank of Israel's prime rate is expected to remain at its current level of 0.1 percent during much of the coming year. Israel's unemployment rate decreased significantly in recent years, reaching 4.1 in September 2017; the lowest rate in twenty years. This is down from 4.8 percent in 2016 and 5.3 percent in 2015. Current projections expect it to decrease to 3.5 percent in the coming year.

In 2016, Israeli imports increased by 9.4 percent, while the county's export increased by a mere 2.5 percent. The Bank of Israel forecasts a 2.6 percent increase in Israeli imports and a 3.1 percent increase in exports in 2017.

Israel has a 120-member unicameral legislature, known as the Knesset. For the fourth consecutive time, Prime Minister Benjamin Netanyahu's Likud Party won a plurality in the March 2015 elections. The Likud Party was able to form a government with 30 of the 120 parliamentary seats. The party's primary rival, the center-left Zionist Union Alliance, won 24 seats. The government coalition holds only a one seat majority in the Knesset (61 seats), and may face challenges in the passage of legislation.

Currently, there are heightened tensions in Israel with regard to security. There is concern that the war in Syria could spill over, posing a threat to Israel and other neighboring countries. Concurrently, the protracted peace process with the Palestinian Authority remains at an impasse, creating potential for ongoing security concerns.

The U.S. Department of State recently published the [2017 Investment Climate Statement](#). That report contains additional information on Israeli economics, politics, legal and regulatory systems, dispute resolution, corruption, labor, and intellectual property rights.

Israel's Market Characteristics

Israel is a technologically advanced, market-oriented economy. Consumers are sophisticated and enjoy cosmopolitan food tastes. Despite recent popular protests over food prices and the high cost of living, Israelis remain willing to pay more for high-value products.

Israel's limited land and water resources preclude a high level of agricultural self-sufficiency; this affects local production costs and consumer prices. The country posts sizeable trade deficits in food and

agricultural products, importing large volumes of feed grains and sizable volumes of consumer oriented products.

Cost of Living

Israeli consumers in 2011 began to protest the high cost of living, which was well above the average for countries in the Organization for Economic Cooperation and Development (OECD). The Israeli government responded by creating a number of committees to study the issue and make policy recommendations.

One specific set of recommendations impacting dry food imports was approved in 2014 and entered into force September 30, 2016. The new policy, known as the “Cornflakes Law,” opened up some food imports to independent traders operating outside of the manufacturer’s distribution system or what are referred to as *parallel imports*. Products such as pasta, breakfast cereals, cookies, crackers, snacks, rice and beans can now be imported into Israel by independent traders, increasing competition and decreasing prices. This measure currently does not apply to *sensitive* food products (i.e., eggs, milk, beef, and infant formula), for which the requirement of individual permits remains. The list of sensitive foods is periodically updated (see, Appendix II). Under this system, imports of non-sensitive foods will be unrestricted, provided that they meet predetermined standards.

In 2015, the Israeli Ministries of Agriculture and Economy began to take significant steps to reduce the prices of staple food for Israeli consumers. Duty-free quotas and reduced import fees for a number of food products, such as fish and cheese, were put in place. A number of the quotas are being allocated through a competitive process based on a maximum consumer price; aiming to ensure that the benefit from duty-free imports is carried from importers to consumers.

Food and Agricultural Product Consumption

According to the latest Israeli Household Expenditure Survey, there were 2.49 million households in Israel with an average of 3.3 people per household. The monthly average household expenditures in 2016 totaled about New Israeli Shekels (Shekel – NIS) 15,805 (approximately \$4,160), up 2.6 percent from 2015. Of total expenditures in 2016, 16.7 percent were allocated to food and agricultural products, making a total of \$8,336 annually spent on food and agricultural products per household. This is up 0.4 percent from 16.3 percent in 2015. Food, excluding fruit and vegetables, accounted for 13.4 percent of purchases. Fruits and vegetables accounted for the remaining 3.3 percent. The largest single expenditure in 2015 on food was meals away from home, at 2.8 percent, followed by meats and poultry, at 2.6 percent.

The Israeli food industry is expanding rapidly and consumer habits are changing accordingly. Over the recent past, Israelis are eating out more frequently and to selecting premium foods. Table 1 shows food as a percentage of total household expenditures, clearly demonstrating the increased expenditures on meals away from home and the concomitant decrease in spending on staple goods, such as bread, dairy products and eggs. Meals away from home, and meat and poultry make up the highest percentages, followed by near equal percentages of dairy, cereals, and fruits or vegetables. These trends are indicative of higher-income consumers with the purchasing power to eat away from home and to consume increasing levels of animal protein.

Table 1: Israel, Monthly Consumption Expenditures (as a percentage), 2000-2015

MONTHLY COMPOSITION OF CONSUMPTION EXPENDITURE FOR FOOD AND BEVERAGES, BY SUB-GROUPS, IN PERCENTAGE, IN 2000-2015																
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Consumption expenditures - total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Food (excl. vegetables and fruit)	13.6	13.4	13.2	13.4	13.1	13.2	13.4	13.7	14.0	13.3	13.3	13.2	13.1	13.6	13.1	13.2
Bread, cereals and pastry products	2.4	2.4	2.3	2.5	2.4	2.3	2.3	2.4	2.5	2.4	2.3	2.3	2.3	2.3	2.2	2.1
Vegetable oils and their products	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.4	0.3	0.4	0.4	0.3	0.3	0.3	0.3
Meat and poultry	2.6	2.7	2.7	2.6	2.6	2.6	2.7	2.7	2.8	2.6	2.7	2.6	2.5	2.7	2.5	2.6
Fish	0.5	0.6	0.6	0.6	0.5	0.5	0.6	0.6	0.6	0.5	0.6	0.6	0.6	0.6	0.6	0.6
Milk, milk products and eggs	2.6	2.5	2.4	2.5	2.4	2.4	2.4	2.4	2.5	2.4	2.4	2.3	2.2	2.3	2.1	2.1
Sugar and sugar products	0.6	0.6	0.6	0.6	0.5	0.5	0.6	0.6	0.6	0.5	0.5	0.6	0.5	0.6	0.5	0.5
Soft drinks	0.8	0.8	0.8	0.8	0.8	0.7	0.7	0.8	0.7	0.7	0.7	0.6	0.6	0.6	0.5	0.5
Alcoholic beverages	0.3	0.3	0.3	0.3	0.3	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Meals away from home	2.1	2.0	1.8	1.9	2.1	2.2	2.3	2.4	2.3	2.2	2.3	2.3	2.5	2.7	2.7	2.8
Miscellaneous food products	1.4	1.4	1.3	1.4	1.3	1.3	1.3	1.3	1.3	1.3	1.2	1.2	1.3	1.3	1.4	1.3
Vegetables and fruit	3.4	3.5	3.4	3.4	3.2	3.2	3.2	3.2	3.2	3.0	3.1	2.9	3.0	3.1	3.1	3.1
Potatoes and sweet potatoes	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Vegetables, fresh	1.2	1.2	1.2	1.2	1.1	1.1	1.2	1.2	1.2	1.1	1.1	1.0	1.1	1.2	1.2	1.2
Fruit, fresh	1.0	1.0	1.0	1.0	0.9	0.9	0.8	0.8	0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Vegetables frozen, pickled and canned	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.5	0.6	0.5	0.5	0.5	0.0
Fruit, dried	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Fruit juices, natural	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1

Source: Israeli Central Bureau of Statistics, FAS Tel Aviv office research.

Table 2 further illuminates the correlation between food consumption and income. In this chart, the population is ranked according to income and divided into deciles, where the tenth decile represents the highest 10 percent of incomes and the first decile represents the lowest 10 percent of incomes.

Table 2: Monthly Expenditures in Deciles of Israeli Households, 2015

CONSUMPTION EXPENDITURE IN DECILES OF HOUSEHOLDS, BY NET MONEY INCOME PER STANDARD											
NIS, unless otherwise stated											
2015											
	Income Deciles										
	10	9	8	7	6	5	4	3	2	1	Total
Households in population (thousands)	241	241.6	241.1	241.6	241.6	241.3	241.4	240.7	242.1	241.4	2,413.90
Consumption expenditures	29,089	21,990	18,810	17,270	15,237	13,832	12,396	10,510	8,254	6,707	15,407
Food	4,108	3,398	2,957	2,680	2,562	2,387	2,117	2,005	1,700	1,258	2,517
Food (excl. vegetables and fruit)	3,390	2,759	2,409	2,172	2,057	1,911	1,699	1,607	1,332	989	2,032
Bread, cereals and pastry products	477	434	375	359	349	321	292	266	230	151	325
Vegetable oils and products	56	52	51	50	47	~	42	51	44	29	49
Meat and poultry	476	482	442	381	414	386	382	395	354	242	395
Fish	147	125	113	97	103	89	80	58	68	53	93
Milk, milk products and eggs	489	428	379	337	327	299	276	276	230	167	321
Sugar and sugar products	110	106	88	84	77	76	75	65	44	39	76
Soft drinks	85	95	85	84	86	87	70	72	65	45	77
Alcoholic beverages	90	57	75	50	54	55	45	25	24	25	50
Meals away from home	1113	681	544	519	399	336	266	250	143	137	439
Miscellaneous food products	347	299	257	211	200	195	171	149	129	102	206
Vegetables and fruit	718	639	548	508	505	476	418	398	368	269	485
Potatoes and sweet potatoes	31	31	26	26	27	26	24	24	22	17	25
Vegetables, fresh	267	234	202	193	188	176	167	168	148	110	185
Fruit, fresh	190	168	153	140	137	126	106	104	108	76	131
Vegetables, frozen	33	23	17	18	16	12	12	10	9	6	15
Vegetables, pickled and canned	89	84	69	64	66	72	53	46	46	32	62
Fruit, preserved and frozen	4	4	3	2	2	3	3	1	2	2	3
Fruit, dried	87	74	64	52	58	48	42	37	27	23	51
Fruit juices, natural	19	20	14	14	11	13	11	8	7	5	12

Source: Household Expenditure Survey, 2015, Israeli Central Bureau of Statistics, FAS Tel Aviv office research.

Surprisingly, spending on food is reasonably steady amongst the bottom half of incomes, while overall

consumption decreases as incomes decrease. Higher income deciles tend to spend more on animal proteins (meats, fish, and dairy), alcohol, fruits and vegetables. Similarly, the higher income deciles greatly outspend their peers on food away from home.

Israel's Trade Agreements

Israel is a member of the World Trade Organization (WTO) and party to a number of free trade agreements (FTA). In addition to the United States–Israel Free Trade Agreement, it has FTAs with Canada, Mexico, Turkey, the European Union, EFTA (Iceland, Liechtenstein, Norway, and Switzerland), and the MERCOSUR countries (i.e., Argentina, Brazil, Paraguay, Uruguay, and Venezuela). Agreements with India, Panama, Vietnam, South Korea, Ukraine, and China are under discussion and a FTA with Colombia is awaiting ratification by Colombia. Israel also participates in qualified industrial zone (QIZ) programs with Jordan and Egypt; these grant third-party countries access to the U.S.-Israel FTA for products containing a minimum percentage of Israeli content.

Following the 1985 U.S.-Israel FTA, a bilateral Agreement on Trade in Agricultural Products (ATAP) was signed in 1996. In 2004 a successor agreement was signed, effective through 2008. Since then, annual extensions have been issued to allow the parties to negotiate a permanent agreement. Under the current FTA-ATAP regime, virtually any product produced in Israel that can be competitive in the U.S. market can enter the U.S. duty-free. In contrast, U.S. products continue to face high tariffs in many sectors limiting their access or penetration into the Israeli market. The current ATAP regime provides U.S. food and agricultural products access to the Israeli market under one of three different categories: 1) unlimited duty-free access; 2) duty-free tariff rate quotas (TRQ); or 3) preferential tariffs set at least 10 percent below Israel's Most Favored Nation (MFN) rates. The U.S. government and industry continue to pressure for negotiation of a permanent agreement in agricultural products.

Israel's Imports of Food and Agricultural Products

In 2016, imports of food and agricultural products (Harmonized Tariff Schedule Chapters 1-24) to Israel totaled around \$5.6 billion, a six percent increase compared to 2015. The EU-28, Israel's main trading partner, held a 41 percent share, while the United States captured just nine percent of the market. Food and agricultural product imports account for nine percent of Israel's total import bill.

Table 3: U.S. Supplier Strengths and Weaknesses

Advantages	Challenges
The U.S.-Israel FTA offers the United States tariff rate quotas for some products and reduced duties for a number of others.	Most quotas are for products for which the United States has no comparative advantage or for which Israel has no import needs. The average U.S. quota fill use is only 32 percent. Some fresh produce lacking risk assessments cannot enter Israel. Israel is unwilling to phase-out tariffs.
Kosher products have a high market share in Israel; large supermarket chains and hotels buy only kosher products. Over 10,000 American companies produce kosher products; U.S. products have a comparative advantage.	Many U.S. firms are unresponsive to Israeli requests to do business.
	Israel is adopting EU-28 standards, which, in many cases, are more restrictive than international standards.
High living costs are forcing a reconsideration of tariffs and quotas. Temporary duty-free quotas for some fresh fruits and vegetables and dairy products, are possible.	The EU-28 is Israel's main trading partner; a new agricultural agreement was signed in November 2009, resulting in greater market access on both sides.
After a 13 year ban on U.S. beef, the Israeli veterinary services lifted the ban in February 2016.	Most frozen beef imported by Israel originates from South America and Eastern Europe, both of which have strong price advantages over U.S. beef products.
The Israeli consumer is already familiar with U.S. products and is receptive to additional products.	Kosher requirements are strict; consumers are demanding high-level kosher certification for their food products.
Israeli and Palestine's economies are linked. U.S. exporters can use Israel as a gateway to the Palestinian market.	The recent upsurge in violence could hurt trade.
	Import requirements are strict, new-to-market products are often detained at port.
Israel's per capita consumption of fresh fruits and vegetables is high.	Israel refuses the U.S. request for a complete tariff phase-out under the agreement on agricultural products.
Israelis are health-conscious, preferring to eat a balanced diet. Supermarkets are carrying more products that were once only available at specialty stores. U.S. products are known for their high quality and wholesomeness.	The hotel, restaurant, and institutional sector generally prefer imports from nearby countries.
Israel is almost completely dependent on imports to meet its grain, oilseeds, and feed needs and the United States is one of the largest worldwide suppliers.	Many Israeli traders consider the Black Sea region a natural source for grains due to its proximity and the convenience of small- and medium-sized cargoes.

SECTION II: EXPORTER BUSINESS TIPS

Potential U.S. exporters should establish business relationships with reliable and efficient Israeli importers and distributors. These will help identify the appropriate distribution and sales channels. Exporters are encouraged to meet with Israeli importers in person to explore business opportunities. Face-to-face meetings tend to build confidence and facilitate communication. FAS Tel Aviv can facilitate exchanges of U.S. exporters to Israel or of Israeli buyers to U.S. food shows or conventions.

Exporters able to supply in large quantities should approach large Israeli food retail chains. Food retailers like Shufersal and Rami Levi have their own purchasing and importing divisions. Suppliers should contact the purchasing or importing divisions of these large food chains, especially for new-to-

market food products as they have the most experience with branding and distribution. FAS Tel Aviv has a list of local importers and can help with contact information. Exporters should consider customers' price sensitivity, product requirements, purchasing policies, and volumes.

Additional Marketing Tips:

- Direct marketing is common through mail, phone, email, etc.
- Telephone marketing is increasingly common, but with mixed results.
- The internet is widely used in Israel, and an increasingly direct marketing avenue as Israel has a very competitive and dynamic telecommunications market with one of the highest mobile and household broadband penetration rates in the world.
- Israel has an extensive road network that connects the entire country, as well as advanced inland and international transport facilities. Rental cars, taxis and limousines with drivers are readily available for visitors. U.S. drivers may rent cars with a valid U.S. or international driver's license. One of the most notable advances in transport in Israel in recent years is the modernization of the train system. Commuter trains run from Tel Aviv to most of the large cities, including Jerusalem and Ben Gurion Airport. Extensive freight services are available and most often used between Haifa, the main port in the north, and Ashdod, Israel's primary port in the south.
- Ben Gurion International Airport offers connections to major international destinations. Ben Gurion is the country's center of air passenger and cargo operations. Several companies still provide internal flights between Tel Aviv, Haifa, and Eilat from Sde Dov airport.
- Roughly 40 percent of Israel's 8.5 million people are concentrated in the greater Tel Aviv metropolitan area, Israel's commercial and financial center. Other major concentrations of population are the Haifa metropolitan area (15 percent), a major port city and center for the petrochemical and high tech industries, and Jerusalem (11 percent).
- For first-time exporters, it is important to note that distinct cultural differences between Israel and the United States may in some cases dictate changes in selling, advertising, and marketing. Although many strategies used by firms in the United States can be equally effective in Israel, U.S. companies should understand that selling in Israel is not the same as selling in the domestic U.S. market.
- [Israel's tariff classification](#) is based on the Harmonized Tariff System (HS). Israel's Customs and Purchase Tax Tariff is the main instrument used for the classification of goods. The correct classification of goods is the key to determining tax rates, as well as obtaining various authorizations, permits and licenses. It is recommended to contact a professional customs broker prior to export.
- Almost all goods are imported through Israel's two Mediterranean ports, Haifa in the north and Ashdod in the south, and through Ben Gurion International Airport. These ports have good transportation links to the rest of the country. 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 Be'er Sheva.
- El Al Airlines, United Airlines and Delta Airlines operate daily direct flights from Tel Aviv to New York, Philadelphia, and Los Angeles.
- A visa is not required for U.S. citizens traveling for tourism or short-term business projects. Visitors are entitled to remain in Israel up to three months from the date of their arrival, in accordance with the conditions of the visa issued to them upon their entrance to Israel.

- U.S. travelers can refer to the Department of State's [International Travel Information](#) for the most up-to-date information on Travel Warnings and Visa Requirements for Israel.

Local Business Practices and Customs

Hebrew and Arabic are the two official languages of Israel. English is the third and principal international language; the use of Russian is also prevalent. Many signs in public places are in all three languages and most Israelis are multilingual.

Business hours are Sunday through Thursday from 8:00 a.m. to 5:00 p.m. for most businesses and government offices. Occasionally, business people will be willing to hold meetings on Friday mornings. Most business and restaurants close on the Jewish Sabbath, Friday sundown until Saturday sundown.

Jewish Holidays in Israel are mainly in September, October, and April. Exporters should take note of Israeli holidays, as their Israeli counterparts will be closed on those dates. Additionally, there is no public transportation on the Jewish Sabbath and some Jewish holidays.

General Consumer Tastes and Preferences

Israeli consumers tend to demand kosher products and many of the larger supermarket chains only carry kosher foods. Similarly, many hotels, restaurants and industrial buyers only source kosher products. As Israeli incomes have increased, consumers have also become more health-conscious thereby further shifting food demand toward products considered wholesome or healthy.

During the last decade, an increasing share of consumers, as many as 61 percent, preferred to buy their products through supermarket chains, instead of through the traditional channels of open markets and small grocery stores. This trend is combined with marked improvements in price competition, resulting from the 2011 consumer protests.

Israeli consumers identify private label brands good quality at a lower price. Supermarket chains tout private labeling as a growth engine and as a way to compete with well-known brands. The total market share of private label products is increasing. Shufersal is Israel's largest supermarket chain, private brand products accounted for 20 percent of all its retail sales in 2016 compared to 15 percent in 2015.

Online shopping is continuing to gain popularity, as retailers improve websites and create more user-friendly platforms. Due to consumer price-sensitivity, some websites, such as Shufersal, offer a button to present more affordable alternatives to selected products. A second button allows consumers to see healthier alternatives in terms of calories, fat or sodium to those selected. These advances, along with improved distribution and delivery are encouraging growth in online shopping.

Kosher Certification

Since December 1994, Israel has banned the import of non-kosher meat and meat products. The Chief Rabbinate of Israel retains exclusive jurisdiction over the Kashrut law and kosher certification, including the recognition of kosher certifying bodies outside of Israel. Kosher certifications are costly and drive up retail beef prices. While kosher certification poses a significant challenge to many U.S. beef exporters, imports of non-kosher beef offal are permissible. With the exception of meat (beef, poultry, mutton and products thereof) there is no legal requirement that imported food and agricultural products to be kosher. However, non-kosher products struggle to make inroads into the local market

since Israel's large supermarket chains and hotels normally opt to not to carry such items.

Tariff Protection

Over the years the OECD has found that Israeli consumers are paying higher than global average prices for food and agricultural products. Indirect support programs designed to help Israeli farmers and ranchers are based on trade protectionism. These measures needlessly drive up local food prices. Many of the [OECD Review of Agricultural Policies: Israel 2010](#) report's conclusions still hold. Although government supports have fallen over time, some market distorting policies remain.

FAS Tel Aviv finds that Israel's tariff profile for some agricultural products (i.e., dairy, meat, eggs, and some fruits and vegetables) continues to remain prohibitively high on many product lines. Indicative of the uneven nature of Israel's tariff profile are the low tariffs, even sometimes duty-free status, for certain coarse grains and oilseeds.

Israel Import Documentation and Requirements and Food Standards and Regulations

Specifics on Israel's import documentation requirements are in the latest [FAIRS – Israel 2017](#) reports.

Customs Procedures: Valuation and the VAT

1. **Customs Valuation and Tax:** Israel has implemented the WTO Customs Valuation Agreement. Under WTO regulations, the basis for valuation is the transaction value. In most cases the cost, insurance, and freight (CIF) price are included.
Israel's tariff classification is based on the Harmonized Tariff System. Israel's Customs and Purchase Tax Tariff is the main instrument used for classifying imports. The correct classification of goods is the key to determining correct duty rates. It is utilized for obtaining authorizations, permits, licenses, and meeting all other conditions for the import of goods.
2. **Value Added Tax:** As of October 1, 2015, the value added tax (VAT) was lowered from 18 percent to 17 percent. The tax is imposed on all products and services, with the exception of fresh vegetables and fruits.

Recommendations for U.S. Food and Agricultural Product Exporters

Exporters that adhere to following recommendations will stand a better chance of success in accessing the Israeli agricultural and food market:

1. A U.S. Certificate of Free Sale, obtained from the U.S. Food and Drug Administration (FDA), facilitates the Israeli Ministry of Health's import licensing procedures.
2. Given that Israel is adopting EU-28 standards, U.S. exporters already familiar with EU-28 import requirements will have better success in gaining entry to the Israeli market.
3. Products certified as being manufactured under Good Manufacturing Practices (GMP) or Hazard Analysis and Critical Control Points (HACCP) will have greater ease of access to the Israeli market.
4. Being included on the FDA's list of registered facilities is viewed favorably by Israel's import licensing authority. It provides confirmation that the exporting manufacturer's facility has been inspected by the FDA and or U.S. Department of Agriculture.
5. Products must have a minimum shelf life of six months upon port arrival.

SECTION III: MARKET SECTOR STRUCTURE AND TRENDS

Retail Food Market

In 2016, over 60 percent of the sales of the total retail food market were from supermarket chains. The food retail market is made up of supermarket chains, as well as urban convenience stores and gas stations, neighborhood grocery stores; and markets. Convenience stores generally operate with continuous opening hours, throughout the entire week.

There are ten leading supermarket retailers. Large supermarket facilities are located in the outskirts of the large cities near major roads and tend to offer parking. Smaller neighborhood supermarkets are conveniently located, but tend to be more expensive.

The leading retail supermarkets in Israel are: Shufersal, Yenot Bitan, Rami Levi, Hasikma Distribution, and Osher Add. Israel's largest retail producer and seller of pork and non-kosher products is Tiv Ta'am.

Online Food Market

E-commerce in Israel has grown 25 percent over the past three years. The online food market is the largest online market in Israel. The Israeli online food market is expected to grow 20 percent annually until 2020. E-commerce food sales total \$631 million today.

Food Processing Industry

The Israeli food processing industry is innovative; marketing approximately 5,000 new products per year. The industry includes a number of technologically sophisticated companies. Many of these have joined forces with international companies to improve access to raw materials and overseas markets. Many also operate in foreign markets on their own. Multi-national food manufacturers like Nestlé, Unilever, Danone, and Pepsi partner with well-known Israeli food companies such as Osem and Strauss. These partnerships capitalize on the size and sophistication of the Israeli market. They utilize the local market and its manufacturing practices to gauge the commercial viability of new product and health developments. The local food processing industry is dominated by four groups (Tnuva, Osem-Nestlé, Unilever, and Straus). Limited competition in the food processing sector has increased consumer food prices.

Leading Food and Beverages Suppliers

The leading food and beverages suppliers in Israel are Tnuva Ltd., Strauss Group Ltd. and Osem, controlling nearly one third of the market. The top ten suppliers' market share accounts for over 56 percent of the total market.

Table 4: Israel, Top 10 Food and Beverages Suppliers, (YTD October 2017)

Food Supplier	Market Share 2016 YTD	Market Share 2017 YTD
Tnuva Ltd.	13.6%	13.7%
Strauss Group Ltd	9.9%	10.0%
Osem	8.6%	8.4%
Central Company for Beverage Distribution Ltd.	6.4%	6.3%
Unilever Israel Diplomat	4.4%	4.3%
Neto Trade Ltd. (ex. fresh meat and fish)	3.1%	3.3%
Diplomat	3.1%	3.0%
Sano	2.8%	2.8%
Hogla Kimberly	2.4%	2.4%
Tempo	2.1%	2.0%

Source: FAS Tel Aviv office research.

Israeli Market Trends

The food service industry is expanding and consumer habits are changing. Israelis are dining out more frequently and choosing more premium food products.

Culinary Traditions: Israel’s food culture is as diverse as its inhabitants. The country is a melting pot of different culinary traditions, which ranges from Eastern European to North African traditional Jewish cooking. Additionally, there are strong Arab and Mediterranean influences, making Middle Eastern foods very popular.

Beef and Seafood: Israelis are increasingly demanding high-quality beef and seafood products when dining out. This has spurred the opening of more high-end beef and seafood restaurants. Many of these restaurants can be located through [Israel’s restaurant guide](#), the country’s restaurant and food sector’s major internet portal. The online guide has the most up-to-date information on restaurants, bars, cafes, and kosher restaurants in Israel.

Health Trend: Israeli consumers are increasingly health-conscious and aware of the need to eat a balanced diet. Local food manufacturers, importers, retailer and restaurants are adjusting product lines and menus for a growing population of vegans, vegetarians, and the gluten-sensitive. Supermarkets are beginning to carry gluten-free rolls, organic products and whole wheat pastas that were once available at specialty stores. Cafes have also followed this trend – starting from low-calorie servings and onward to vegetarian menus and vegan dishes.

In spite of these trends, many people still struggle to find the right balance between health and indulgence, unwilling to compromise on taste. Many local manufacturers are pitching the notion of balanced health and indulgence in their marketing campaigns.

Private Labeling: Adoption of private labels is increasing as consumers demand lower retail prices with guarantees of product quality. Consumers are increasingly identifying private labeling with lower prices and reasonable product quality. Supermarket chains hail private labeling as a growth engine and as a tool to fight the market power of the major manufacturers.

Israeli Consumer Priorities: Based on a survey conducted by Nielsen Israel in March 2016, “taste” is the most influential factor in purchasing food, followed by “health” and “price,” at 34 percent, 28 percent and 27 percent, respectively. Six percent of survey participants indicated that the country of origin is an influential factor; four percent indicated that the brand is an influential factor, and only one percent indicated that the “packaging design” is an influential factor.

This survey finds that 50 percent of consumers prefer to buy locally produced products; three percent prefer imported products, while the remaining 47 percent do not hold a preference. Of the participants 87 percent stated that they prefer Israeli products for nationalist reasons, 41 percent find that the taste and quality of Israeli products is superior, and 17 percent buy Israeli products out of habit.

Food Service - Hotel Restaurant Institutional

According to the most recent publications, the value of Israel’s service sector in 2015 stood at \$136 billion. Israel’s hotel, restaurant and institutional (HRI) accounts for nine percent, or \$12.2 billion, of that service sector.

The Israeli HRI food service sector is highly complex and diverse. Setting local culinary trends is Tel Aviv, Israel’s food and cultural hub. The city benefits from a young urban population, with 25-29 year-olds representing eight percent of the total, while 30-34 year-olds make up nine percent of the city’s population.

In Israel there are approximately 20,000 companies active in the HRI sector. The sector includes accommodation services (hotels, guesthouses, rural lodging) and food services (restaurants, coffee shops, catering companies and pubs). This includes 383 hotels with around 51,316 rooms and an additional 6,434 rooms in the rural lodging sub-category. The larger hotel chains tend to have central purchasing offices, as do large caterers.

Sources indicate that roughly 35 percent of food service businesses are kosher certified. Nevertheless many of the non-kosher certified restaurants utilize only kosher ingredients.

The Israeli Defense Force (IDF), the Israeli Police, and Israeli Prison Service are a significant component of the HRI sector; they count with central purchasing offices. Their purchases are usually handled through a competitive bidding system. Foreign companies can bid to supply the sector using a local representative.

FAS Tel Aviv recommends that U.S. exporters focus on establishing business relationships with a reliable and efficient importer, agent, distributor or the final HRI customer. It is advisable to identify efficient distribution and sales channels.

Firsthand visits by U.S. exporters, manufacturers, and investors to explore opportunities and meet with Israeli importers and investors strengthen confidence with local partners. Visiting local HRI shows and exhibiting at the main food shows in Europe (i.e., ANUGA, SIAL), which leading Israeli firms attend, is a quick means of obtaining a broad overview of the sector. Such visits also assist in establishing a broad network of contacts.

Large HRI firms have their own purchasing or importing division to handle food imports directly. Suppliers from the United States should initially contact the purchasing or importing divisions of these large hotel and restaurants chains.

Well-known American brands are present in Israel under a franchise agreement including McDonalds, Pizza Hut, Domino's Pizza, Ben and Jerry's, and others. Israel's franchise industry has been developing rapidly in recent years. The franchisees are local companies. Interested U.S. companies who are considering entering the Israeli market should contact FAS Tel Aviv for further information.

Israel has no official centralized legislation for franchises. The industry's rules and regulations are primarily derived from Israeli contract law and intellectual property legislation. In 2006, the [Franchise Promotion Center](#), a public institution that promotes franchising in Israel, published a 'Code of Ethics' for the franchise industry. Though not a binding law, many franchisees have already provided their support and have used it to set new standards in the franchise industry.

Israel does not have specific regulations applicable exclusively to foreign companies. Nevertheless, there are important cultural and religious factors which foreign firms must consider, including kosher and Sabbath regulations. Sources indicate that Starbucks and Dunkin' Donuts met with limited success in Israel due to differences in consumer tastes and pricing issues. Locale ambiance is extremely important. An establishment's management and product variety must be tailored to blend in with the local environment and consumer preferences.

Venues

Shopping malls and centers are popular in Israel. Over 200 shopping centers exist and others are planned. American specialty shops, chain stores, and franchises have outlets in malls and shopping centers. When marketing to these venues, the key to success is offering a variety of new products that meet Israeli taste preferences.

The average floor size of a supermarket is 600 square meters. Some of the larger stores have areas of 1,000 - 3,000 square meters. Typical Middle Eastern-style open-air markets and small groceries serve the remainder of the food market. In recent years, specialty food stores have developed in all of the main metropolitan centers.

SECTION IV: BEST HIGH-VALUE PRODUCT PROSPECTS

Table 5: Best Consumer-Oriented Prospects (Metric Tons and \$ million)

Product Category	2016 Market Size (Volume)	2016 Imports (\$ million)	5-YR Avg. Annual Import Growth	Import Tariff Rate	Key Constraints Over Market Development	Market Attractiveness for USA
Pistachios (Shelled & in shell)	3,204 MT	\$31.5	Growth of 8% per annum in terms of value, 3% in terms of quantity	Pistachios from the U.S face no import duties.	Competition mainly from Turkey.	Demand for U.S.-pistachios is strong due to Turkish imports facing high import levies. U.S. pistachios enter duty free.
Almonds (Shelled & in shell)	3,577 MT	\$27.6	Growth of 76% per annum in terms of value, 65% in terms of quantity	WTO TRQ of 1,700 MT for shelled almonds where a 100% duty is paid on the first container and 0% on the second. U.S. duty on shelled almonds is NIS 6.91/kg. The U.S duty on in-shell almonds is NIS 5.21/kg, while worldwide the duty is NIS 8.52/kg.	Local production is protected by high duties	Lower duties than worldwide duties, U.S almond production industry is strong
Cashew (Shelled & in shell)	3,805 MT	\$29.3	Growth of 7% per annum in terms of value, 7% in terms of quantity	Duty is 4%. The U.S. EU-28, Brazil, Uruguay, Paraguay and Argentina are exempt from duty	Competition mainly from Vietnam and India.	U.S. cashew enter duty free
Walnuts (Shelled & in shell)	5,921 MT	\$33.2	Growth of 2% per annum in terms of value, 13% in terms of quantity	Duty is 4%. U.S. walnuts enter duty free.		U.S. walnuts enter duty free
Raisins	2,393 MT	\$6.7	Growth of -3% per annum in terms of value, 1% in terms of quantity	General duty for bulk is NIS 6.62/ kg, but no more than 340%. WTO TRQ 600 tons. US 90% of general duty. General duty for non-bulk is NIS 6.62/ kg, but no	Local production is protected by high duties	

				more than 340%. US TRQ of 1,294 tons. Over the U.S TRQ no less than NIS 2/kg.		
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Table 5: Best Consumer-Oriented Prospects (Metric Tons and \$ million) (continued)

Product Category	2016 Market Size (Volume)	2016 Imports (\$ million)	5-YR Avg. Annual Import Growth	Import Tariff Rate	Key Constraints Over Market Development	Market Attractiveness for USA
Prunes	2,154 MT	\$7.6	Growth of 13% per annum in terms of value, 2% in terms of quantity	The general duty for bulk is NIS 0.98/ kg but no more than 30%. The general duty for non-bulk is NIS 4.17/kg but no more than 102%. WTO of 1,500 tons, over the TRQ NIS 2/kg. The U.S. is granted a duty-free TRQ of 2,000 tons which applies to all prunes. Over the U.S TRQ. 90% of general duty.	Argentina and Chile are offering significantly lower prices	
Ice Cream	2,769 MT	\$8.4	Growth of 18% per annum in terms of value, 21% in terms of quantity	General duty is 4%. The U.S. is granted a duty-free TRQ of 113 tons. Above the quota the tariff is no less than NIS 0.55/kg.	Local ice cream industry is very strong.	There is a growing demand for high quality ice cream. The US is a good source for special quality ice cream products
Wine	6,880 thousand liters	\$29.7	Growth of 5% per annum in terms of value, 4% in terms of quantity	General duty varies according to wine: NIS 1.15-3.59/liter. The U.S. has a TRQ of 200,000 liters.	80% of consumption is from local production, and the rest is mainly from France, Italy, Spain, and the U.S.	This market is likely to become more dynamic
Grape Juice	6,310 MT	\$6.14	Growth of 14% per annum in terms of value,	General duty- 12-30% f U.S. duty 85% of general duty. The Israeli Government	High tariffs	There is a big demand for grape juice from the US (the US grape juice is considered better in quality than the

			35% in terms of quantity	annually opens voluntary TRQs to the US.		juice from competing sources). Local production is very small and part of it is based on imported concentrates.
Frozen fish (excluding fish fillets and other fish meat of heading 0304)	12,775 MT	\$53.7	Growth of 7% per annum in terms of value, 2% in terms of quantity	General duty between NIS 0-6.3/kg depending on product. U.S duty 85%-90% of general duty rate, and various TRQs depending on the product		The US is Israel's largest exporter of frozen fish livers and roes

Table 5: Best Consumer-Oriented Prospects (Metric Tons and \$ million) (continued)

Product Category	2016 Market Size (Volume)	2016 Imports (\$ million)	5-YR Avg. Annual Import Growth	Import Tariff Rate	Key Constraints Over Market Development	Market Attractiveness for USA
Cheese and Curd	8,493 MT	\$46.4	Growth of 25% per annum in terms of value, 33% in terms of quantity	General duty- between NIS 4.17/kg-13.49/kg depending on product Limited U.S. TRQs of 649 tons. Over TRQ 90% of general duty. WTO TRQs 6,000 tons.	High tariffs and limited TRQs. The Israeli Ministry of Economy is now allocating voluntary TRQs based on maximum consumer prices, as a result there has been a significant increase in the importation of inexpensive hard cheese from Poland	In the U.S there are a number of dairies that produce Kosher cheese
Beef- fresh or chilled	6,391 MT	\$52.84	No imports prior to 2015.	General duty- 12% + NIS 9.75/kg. U.S TRQ of 1,424 tons, over TRQ 90% of general duty. Other TRQs: WTO 10,000 tons.	The market's willingness to pay a premium for a quality product. Limited quota for fresh U.S. beef. WTO TRQ filled by low-cost producers.	In 2016 the Israeli veteran services opened the market to U.S beef. U.S. beef is considered superior and of better quality. The Ministry of Agriculture is promoting the transition from the importation of feeder cattle to chilled beef.
Fresh	26,254	\$22.15	Growth of	General duty:	Low TRQs.	Israeli importers

Apples	MT		30% per annum in terms of value, 37% in terms of quantity	NIS 1.88/kg though no more than 553%. U.S TRQ of 4,000 tons, over TRQ 90% of general duty.	The EU-28 has lower shipping than the U.S. In 2014 a fungal disease was discovered in U.S. apples and pears by the Israeli Plant and Protection Services.	like U.S.-origin apple varieties.
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SECTION V: KEY CONTACTS AND FURTHER INFORMATION

USDA/FAS/Office of Agricultural Affairs

U.S. Embassy Tel Aviv
Foreign Agriculture Service
71 Hayarkon Street
Tel Aviv, Israel 63903
agtelaviv@fas.usda.gov

The Central Bureau of Statistics

www.cbs.gov.il
Tel: +972-2-6592666
Fax: +972-2-6521340
66 Kanfei Nesharim Street
P.O. Box 34525
91342 Jerusalem, Israel

Food Control Service - Ministry of Health

www.health.gov.il/english/Pages/HomePage.aspx
Tel: +972-3-6270100
Fax: +972-3-5619549
12 Ha'arba'a Street
64739 Tel Aviv, Israel

Israel Veterinary and Animal Health Services

P.O. Box 12
50250 Bet Dagan, Israel

Plant Protection and Inspection Service

Tel: +972-3-9681560
Fax: +972-3-9681582
P.O. Box 78
50250 Bet Dagan, Israel

Standards Institution of Israel

Tel: +972-3-6465154
 Fax: +972-3-6419683
 42 H. Levanon Street
 69977 Tel Aviv, Israel

Ministry of Agricultural and Rural Development

www.moag.gov.il

Tel: +972-3-9485436

Fax: +972-3-9485782

Maccabim Road, Rishon le Zion, P.O. Box 30

50250 Beit Dagan, Israel

Appendix I: STATISTICAL DATA

Table A: Israel, Key Trade and Demographic Information

Agricultural Imports from all Countries (\$Mil) / US Market Share (%)*	\$5,630/8.64%
Consumer Food Imports from all Countries (\$Mil) / US Market Share (%)*	\$2,971/9.24%
Edible Fishery imports from all Countries (\$Mil) / US Market Share*	\$403/0.99%
Total Population (Millions) / Annual Growth Rate (%)	8.75/1.8%
Urban Population (Millions) / Annual Growth Rate (%)	7.98/1.8%
Number of Major Metropolitan Areas	4
Size of the Middle Class** (Millions) / Growth Rate (%)	2.62/1.8%
Per Capita Gross Domestic Product (US Dollars)*	\$37,292
Unemployment Rate (%)	4.1%
Per Capita Annual Food Expenditures (US Dollars)*	\$2,868
Percent of Female Population Employed	59.2%
Exchange Rate	Average exchange rate in 2017 [1] \$1 = ~NIS 3.6
Average exchange rate in 2016, \$1.00 = ~NIS 3.84	

*2016 figure

**Population whose income is between 75-125 percent than the median income

Source: Israeli Central Statistics Bureau, FAS Tel Aviv office research.

Table B: Israel, Consumer Food & Edible Fishery Product Imports (\$ million)

Product code	Product label	Israel's imports from the world			Israel's imports from the United States			U.S. share 2016
		2014	2015	2016	2014	2015	2016	
'02	Meat and edible meat offal	428.7	455.2	577.0	0.0	0.5	0.44	0.08%
'03	Fish and crustaceans, mollusks and other aquatic invertebrates	368.7	355.7	403.0	4.0	3.1	4.00	0.99%
'04	Dairy produce; birds' eggs; natural honey; edible products of animal origin, not elsewhere	104.9	106.7	107.3	15.4	11.0	7.91	7.37%
'07	Edible vegetables and certain roots and tubers	103.4	145.8	140.3	3.7	5.9	5.85	4.17%

'08	Edible fruit and nuts; peel of citrus fruit or melons	271.3	267.1	260.4	143.7	143.3	119.52	45.89%
'09	Coffee, tea, mate and spices	133.1	146.8	145.4	2.3	1.8	2.06	1.41%
'16	Preparations of meat, of fish or of crustaceans, mollusks or other aquatic invertebrates	104.5	80.2	97.4	6.9	6.6	7.27	7.46%
'17	Sugars and sugar confectionery	293.0	246.4	276.8	3.9	4.9	4.90	1.77%
'18	Cocoa and cocoa preparations	182.9	185.4	200.3	2.7	3.5	3.76	1.88%
'19	Preparations of cereals, flour, starch or milk; pastry cooks' products	251.3	245.0	275.0	15.6	20.0	20.22	7.35%
'20	Preparations of vegetables, fruit, nuts or other parts of plants	216.4	224.5	256.4	36.2	40.1	35.29	13.76%
'21	Miscellaneous edible preparations	362.5	337.0	335.6	51.8	51.7	52.81	15.74%
'22	Beverages, spirits and vinegar	252.3	273.6	298.8	9.5	9.2	14.49	4.85%
	Total	3,072.8	3,069.3	3,373.7	295.5	301.7	278.50	8.26%

Source: Israeli Central Statistics Bureau, FAS Tel Aviv office research.

Table C: Israel, 15 Suppliers of Consumer Foods & Edible Fishery Products (\$ million)

	2013	2014	2015	2016
U.S.	266	296	302	279
United Kingdom	254	265	245	259
Italy	146	164	157	184
Netherlands	144	151	165	179
Uruguay	145	141	135	155
Poland	78	85	101	154
Norway	89	118	123	154
China	158	146	136	148
Turkey	94	110	121	135
Argentina	170	123	137	133
Germany	95	105	94	104
Paraguay	93	86	87	99
Brazil	78	86	70	98
France	79	83	96	95
Belgium	71	69	79	81
Total from the top 15 suppliers	1,960	2,028	2,048	2,258

Source: UN Comtrade Database, FAS Tel Aviv office research.

Appendix II: SENSITIVE FOOD PRODUCTS

1. Milk products, and milk products substitutes, including canned products
2. Meat and poultry products, and their substitutes, including canned products
3. Fish products and their substitutes, sea food, including canned products
4. Food supplements: vitamins, minerals and herbs
5. Baby food, including; infant formula, follow-up formula, baby porridge, puree baby food, biscuits baby food and fruit juice baby food
6. Food products for people with metabolic disorders (for people with PKU; Gluten-free food products; Lactose-free food products; Low calorie food products; Free of sugar food products)
7. Canned food (pH \geq 4.5)
8. Eggs products, including confectionery products that contain eggs
9. Gelatin products, including products that contain gelatin
10. Honey products according to the Israeli Honey Standards (SI 373)
11. Other food products that have to be storage in low temperature
12. Mineral water and other bottled water
13. Beverages that are based on mineral water
14. Mushroom products, which mushroom is a main ingredient
15. Food products for athletes
16. Color additives for the retail market
17. Mayonnaise and spreads that contain eggs
18. Food products containing caffeine above 150 ppm (excluding coffee and tea)
19. Fresh fruit and vegetables
20. Vitamins, minerals and amino acids, which is consumed by the food industry
21. Other kind of foods that the food and nutrition services decided that it's a "sensitive" food product

Source: Israeli Ministry of Health, FAS Tel Aviv office research.

