USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Israel

Exporter Guide

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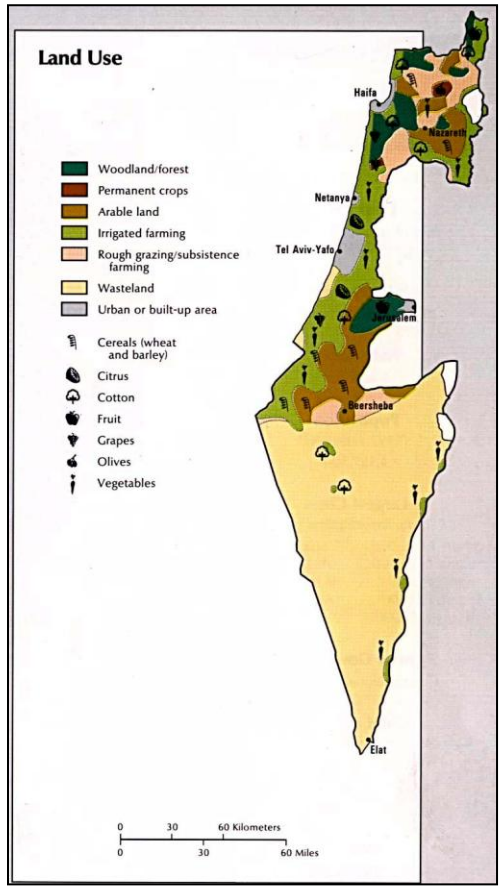
Report Highlights:
This report provides updated information for U.S. companies exporting food and agricultural products to Israel. The report highlights import custom duties changes signed into effect in July 2012, which may benefit a number of U.S.-origin products. However, where the United States has a tariff-rate quota these changes may erode trade preferences granted under the U.S.-Israel Free Trade Agreement. Best prospects for U.S. exports include grains, oilseeds, dried fruits, all kinds of tree nuts, and prepared food products. Israel's imports of U.S. agricultural products may fall in 2012 to $560 million, a drop of 27 percent. The Israeli economic slowdown, a strong dollar, and a reduction in U.S. corn exports combined with a good grain harvest in the countries of the Former Soviet Union have slowed imports.

Section I: Market Overview

Economic and Demographic Situation



Israel is a parliamentary democracy of 7.7 million people, of which 75 percent are Jewish (5.8 million) and 20 percent Arab (mainly Muslim). Israel hosts some 200,000 Southeast Asian guest workers. Israel's population growth rate is 1.8 percent.

Israel is a sophisticated, industrialized country with a diversified manufacturing base. However the global economy's weakness and economic malaise in the European Union (EU), Israel's main export market are contributing to an economic slowdown. The recession in the EU has slowed demand for Israeli exports and contributed to an increase in Israeli unemployment (currently 6.5 percent). Sources indicate that the global economy's sluggishness will not undermine Prime Minister Benjamin Netanyahu (Likud) and his coalition of right-wing and religious parties going into the January 2013 Knesset elections. Netanyahu enjoys a comfortable lead despite Israel's EU trade ties leaving it vulnerable to European financial difficulties. The EU and the United States account for one-third and one-quarter of Israel's trade activity.

Israeli policymakers are estimating gross domestic product (GDP) growth of 3.3 percent in 2012 and forecasting 3 percent growth in 2013 (see, table 1). Israel's GDP real growth rate is retreating from the 2011 level of 4.7 percent, due to EU economic and financial problems. Current growth assumptions are premised on the EU succeeding in pulling itself out of the current economic doldrums.

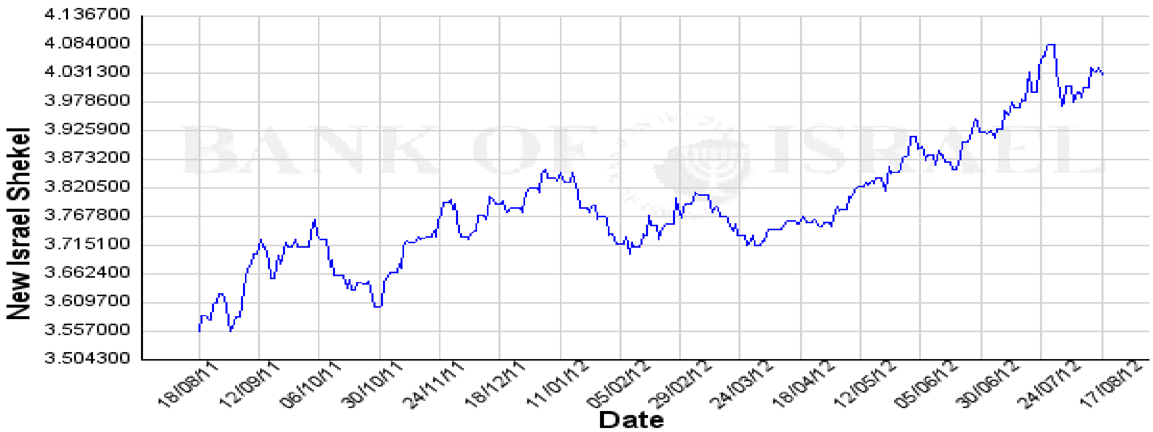
Table 1: Main Economic Indicators, Israel, Percentage

	Actual 2011	**2012 Estimation**	**2013 Forecast**
GDP	4.7	3.3	3.0
Civilian Imports (excl. diamonds, ships, and aircraft)	8.9	3.8	5.9
Private Consumption	3.7	1.6	3.2
Public Sector Consumption (excl. defense imports)	3.4	1.5	3.1
Exports (excl. diamonds and start-ups)	4.6	1.7	6.0
Unemployment Rate	5.7	6.8	6.7
Inflation Rate	2.5	2.8	2.2
Bank of Israel Interest Rate	2.9	2.25	2.25

Source: Bank of Israel

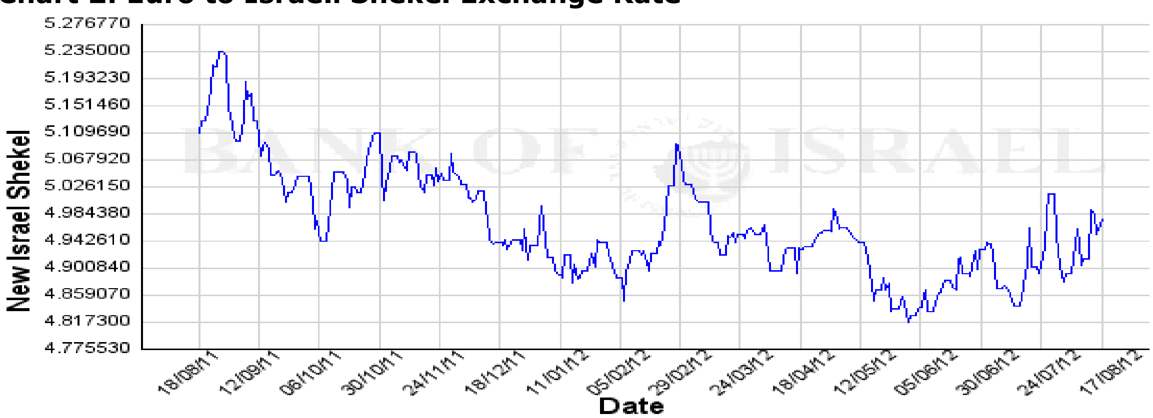
High international commodity prices, along with an increase in the value-added-tax (VAT) to 17 percent (up 1 percent) as of September 2012, are exerting inflationary pressure on the Israeli economy. Israeli policymakers are attempting to hold inflation at 2.8 percent in 2012 with varying degrees of success. Although the New Israeli Shekel (NIS) has weakened against the U.S. dollar by 13.3 percent since January of 2012, it has now strengthened by 3.3 percent versus the euro (see, chart 1 and 2). Post finds that while this makes imports of U.S. agricultural and food products more costly, it also undermines the competitiveness of Israeli exports to the EU member states. ($1 = ~NIS 3.868 and €1 = ~NIS 5.004).

Chart 1: U.S. Dollar to Israeli Shekel Exchange Rate



Source: Bank of Israel

Chart 2: Euro to Israeli Shekel Exchange Rate



Source: Bank of Israel

The Israeli Market, Food and Agricultural Products

Israel is a modern, technologically advanced market economy. Over the past decade Israel has undergone major structural changes, shifting from a traditional manufacturing base to an export-driven high-technology base. Similarly agricultural production now accounts for only about 2.5 percent of GDP; employing 2 percent of the labor force compared to industry (16 percent) and services (82 percent) sectors.

The Israeli agricultural sector remains dominated by the cooperative movement. The agricultural sector has sought to develop niche exporting capacities for avocados and exotic fruit along with cut flowers. While this has transformed Israel into a net importer of food, its food security is ensured by a combination of domestic production and trade with reliable commodity suppliers such as the United States.

Best prospects for U.S. exports include grains, oilseeds, dried fruits, all kinds of tree nuts, and prepared food products. Israel's imports of U.S. agricultural products may fall in 2012 to $560 million, a drop of 27 percent. Exports of U.S. agricultural products to Israel totaled $875 million in 2011. Leading categories include: coarse grains ($170 million), wheat ($146 million), and feeds and fodders ($106 million). United States imports of food and agricultural products from Israel totaled $284 million in 2011. Leading categories are Israeli snack foods (including chocolate) ($60 million) and processed fruits and vegetables ($25 million).

Agricultural production is concentrated in the northern coastal plain, the central highlands, and the Jordan River Valley region. Sources estimate that roughly 20 percent of the land is cultivated. Israel's agricultural potential is limited by water and weather pressures in addition to limited amounts of arable land. Agriculture subsequently has become more mechanized and intensive over the years. The Israeli agricultural sector however benefits from the Dead Sea's salinity which contributes to substantial fertilizer reserves of potash and phosphate.

Key Economic Developments in 2011

The Central Intelligence Agency (CIA) indicates that Israel has weathered better the global financial crisis (2008-09) and subsequent economic recession (2010) than most advanced, comparably sized economies. This is due to a combination of significant foreign investment inflows with tourism revenues and other service sector exports.

Inflows in 2011 help to compensate for Israel's large trade deficits that result from crude oil, coarse grains, raw materials, and military equipment imports. Israel grew at 4.8 percent in 2011 with a relatively low unemployment level of 5.7 percent. The Israeli economy benefits from strong fundamentals, prudent fiscal policies, and a resilient banking sector. Natural gas fields discovered off Israel's coast in the past two years are brightening the country's energy security outlook.

Israel however experienced a number of public protests in mid-2011 over growing income inequality and rising commodity prices and housing costs. Israeli consumers compared to their counterparts in the other Organization for Economic Cooperation and Development (OECD) economies pay on average 10 to 20 percent more for food. Although the Israeli government has formed committees such as the Kedmi Committee to address some of these grievances, it refuses to engage in deficit spending to satisfy populist demands. Israel acceded to the OECD in 2010.

The Kedmi Committee Report

Israeli consumer protests in 2011 against high living costs, including basic foodstuffs such as cottage cheese, spurred the formation of the inter-departmental Kedmi Committee. The Ministry of Industry, Trade, and Labor (MITL) and the Israeli Treasury are joint members of this committee. The Kedmi Committee reviews prices and competition in Israel's food and consumer goods industries. It has published several recommendations on regulation and competition in the Israeli food market.

The Kedmi committee finds that Israel's food and consumer industries are centralized, non-competitive, as well as generally consumer unfriendly. Reportedly high food prices are due to a combination of problematic supplier-retailer ties along with the over concentration of the supply and retail segments. A general lack of price transparency further compounds this situation.

The Israeli Finance Minister on July 11, 2012, signed orders to reduce or eliminate customs duties and purchase taxes on hundreds of commodities, including food, electronics, and textiles products. This ministerial order adopts three of the Kedmi Committee's January 2012 recommendations for the food industry:

- The gradual reduction of customs duties, over a four-year period, on products for which there is local production but for which duties are relatively high, such as, mutton, fresh and frozen poultry, sausages, and juices (see, GAIN Report Israel - Reduced Import Duties on Certain Food Products).
- Immediate reduction of customs duties on fresh-food products that are not manufactured locally, such as specific types of fish, flowers, herbs and nuts, dried fruits, seeds, mushrooms, and certain types of jams.
- Differential reduction of duties, over a three-year period, on a range of processed food, some of them raw materials used by local industry and some of them completed products used by consumers, such as starch, canned fish, halva, sweets, biscuits, ice cream, baking powder, bulgur and buckwheat.

The Kedmi Committee report finds that Israeli consumers compared to counterparts in the OECD economies paid on average 10 to 20 percent more for food in 2008-2010. The report highlights that Israelis paid 10 to 20 percent less for food than the OECD average in 2005. However, local food prices have risen more rapidly since 2005 than in the other OECD developed economies. The Kedmi Committee concludes that this price escalation results from the lack of competition within the local food industry.

The committee recommends a 40 to 100 percent reduction on import duties on food products for which no domestic competition exists. It calls for lowering duties on agricultural products for which current rates are excessive (e.g., fresh beef) and reducing duties on packaged goods such as tuna and fruit juice. Some of these recommendations are included in the new ministerial order.

The report also proposes a series of measures for dealing with the over-concentration of the supply and retail sectors. These include removing barriers to market entry and encouraging existing small businesses. The Kedmi Committee report besides recommending reducing import tariffs, also counsels adopting U.S. and EU standards for import licenses.

The Kedmi Committee report recommends instructing the country's antitrust authority to review whether the acquisition of smaller food manufacturers by larger suppliers reduces competition. Israel has the OECD's most over-concentrated supply sector in 16 out of 22 food categories. The report stresses that Israel's two largest retailers hold a 64 percent market share since Shufersal's 2009 purchase of Club Market – making the retail sector the fifth-most concentrated in the OECD.

Private labeling, the branding of retailers' food product purchases with their own label, affords small-to-medium size U.S. food exporters enhanced opportunities. The Kedmi report recommends that retailers with a market share of 25 percent or greater not be allowed to source product for their private labels from local food manufacturers commanding a market share of 30 percent or greater. The Kedmi Committee report concludes that retailers' private label products typically cost consumers 5 to 10 percent less than national brand name products. This recommendation, if fully implemented could increase the competitiveness of U.S. food manufactures produced in accordance with Israeli private labeling requirements.

Consumer Behavior, Tastes, and Preferences

Post's Findings:

- The 2011 consumer protests over high living costs are forcing local food companies and retail chains to cut prices.
- Consumers identify private labeling with lower prices, but nonetheless guaranteed product quality.
- Annual household consumption expenditure in 2011 totaled about $ 1,093 (up 1 percent from 2010), 16.3 percent or $6,713 is allocated for food purchases.
- Where do Israelis buy food? About 56 percent of Israelis recur to supermarket chains, 19 percent to grocery stores, 6 percent to open markets, and 20 percent make their purchases at other venues.
- Israeli consumers have become extremely health-conscious. Israelis are adopting a more balanced diet and increasing exercise levels.
- Kosher food products offer the greatest potential for U.S. exporters.

Rising Food Prices

The Ministry of Agriculture (MOAG) reported in August 2012, that the prices for basic food products will rise by the end of the year. Prices for dairy products are forecast to soar by 6 to 13 percent. While egg prices are expected to increase by 8 to 17 percent. Poultry will see price hikes ranging between 6 and 14 percent.

Price increases are due to rising international commodities prices. Prolonged droughts in the U.S. Midwest, Russia, the Ukraine, Kazakhstan, Australia, and India are increasing prices for wheat, corn, soybean, sorghum, and feed stuffs. High international commodity prices, along with an increase in the VAT to 17 percent (up 1 percent) as of September 2012, will exert inflationary pressure on the Israeli economy. We foresee 2013 being a tough year for Israelis in terms of food costs.

Competition: Israeli Imports of Agricultural and Food Products

Israel's import of agricultural and food products in 2011 totaled $5.4 billion, up $1.07 billion or 25 percent compared to the previous year (see, table 2). Improving local economic conditions in the first three quarters of 2011 strengthened Israeli demand for imports of agricultural and food products.

United States exporters benefited throughout 2011 from the shortage of exportable grains from Russia and Ukraine, and a continued weak dollar along with good economic growth in Israel. Imports of U.S.-origin agricultural and food products reached $761 million, up 40 percent compared to 2010 levels. Similar imports from the EU increased at a slower pace of 12 percent, but still reached $1.89 billion.

However, Post now estimates that imports from the United States in 2012 will drop to $560 million or by 27 percent. The anticipated drop is due to the Israeli economic slowdown combined with the strengthening of the U.S. dollar along with a reduction in U.S. corn exports and a good grain harvest in the countries of the Former Soviet Union (mainly Russia, Ukraine and Kazakhstan). Higher international commodity prices, combined with less competitive shipping rates from U.S. ports, will weaken demand for U.S.-origin commodities through 2012.

Table 2: Israel Imports of Agricultural and Food Products, $ Million, CY

	US	EU	Total

	2009	2010	2011	2009	2010	2011	2009	2010	2011
Live Animals	15	31	47	115	192	193	544	712	1,003
Vegetable Products	263	346	526	448	481	450	1,381	1,640	2,064
Animal and Vegetable Oils	4	4	4	61	59	78	137	142	186
Prepared Foods	145	164	183	893	949	1,170	1,613	1,832	2,147
Total	**428**	**545**	**761**	**1,517**	**1,681**	**1,891**	**3,676**	**4,327**	**5,400**

Source: Central Bureau of Statistics, Israel.

The U.S.-Israel FTA and the ATAP

This year, 2012, marks the twenty-seventh year of the U.S.-Israel Free Trade Agreement (FTA), which was the first FTA entered into by the United States. It continues to serve as the foundation for expanding trade and investment between the United States and Israel by reducing barriers and promoting regulatory transparency.

The Agreement on Trade in Agricultural Products (ATAP) between the United States and Israel offers good export opportunities for U.S. agricultural and food products. However, the United States and Israel are renegotiating the current ATAP agreement to increase U.S. product competiveness in the Israeli market.

The ATAP provides U.S. food and agricultural products access to the Israeli market under one of three different categories: unlimited duty free access, duty free tariff-rate quotas (TRQs), or preferential tariffs, which are set at least 10 percent below Israel's Most Favored Nation (MFN) rates. Approximately 90 percent of U.S. agricultural exports (by value) enter Israel duty and quota free as a result of Israel's implementation of its commitments under the World Trade Organization (WTO), the U.S.-Israel Free Trade Agreement (FTA), and the ATAP.

Israeli Imports of U.S. Agricultural and Food Products

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 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, 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. Negotiations on the new ATAP agreement are expected to be completed by the end of 2013.

Israeli import requirements are relatively stricter compared to other developed countries. In addition, Israel is increasingly adopting EU standards and requirements on imports, which sometimes differ compared with the U.S. standards.

Coarse grains and oilseeds, nuts, dried 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. tree nuts and dried fruits located in Chapter 8 of the Harmonized Commodity Description and Coding System (HS) enter duty-free or under reduced tariff rates. Shelled walnuts and pistachios from the United States enjoy duty-free access.

Exports of U.S.-origin beef face a difficult environment. Beside kosher restrictions there is beef ban due to veterinary restrictions. Lifting the ban on imports of live cattle, beef, and beef products is under advanced discussions.

Competing FTAs

1. **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.

1. **Israel-India FTA:** Israel is currently negotiating an FTA with India. India and Israel ended their fifth round of negotiations in August, 2012 in India. From 1992 to 2012 bilateral trade between the two countries experienced exponential growth, going from $180 million dollars to more than $5 billion. The bulk of trade is in chemical products, machinery, information, agricultural technology, and diamonds. India is one of Israel's major trading partners. There is increasing interest from both states to extend cooperation to other sectors, including water, energy, information technology, and agriculture.

1. **Israel-Mercosur FTA:** Israel is the first country outside South America to implement a free trade agreement with the regional trade bloc. Brazil is Israel's largest trade partner in Latin America. With the approval of this agreement, trade is expected to increase in agriculture, education, science, and medicine. The Mercosur-Israel agreement also contemplates animal and plant health measures, customs cooperation, safeguards and mechanisms to solve disputes, plus cooperation and technology transfer.

1. **Israel-European Free Trade Association (EFTA):** The FTA between the EFTA member states and Israel entered into force on January 1, 1993. The Agreement covers trade in industrial products as well as fish and marine products. Bilateral agricultural agreements concluded between the individual EFTA countries and Israel form part of the measures creating the free trade area. Total merchandise trade between EFTA and Israel amounted to $1.5 billion in 2011.

Table 3: Advantages and Challenge for U.S. Exporters to Israel

Advantages	Challenges
The Israeli economy grew at a rapid pace in 2011 (4.7 percent up) relative to other developed countries. The growth rate of per capita GDP was higher than the average in recent decades.	Since the end of 2011, the pace of growth in Israel has slowed. Israel's food and beverages market has shrank by 1.7 percent in the second quarter of 2012 compared to the same period last year. Israel's GDP is forecasted to grow by 3 percent in 2013, slowed by its trade partners' economic and financial problems The security situation remains precarious.
Israeli consumers' eagerness to pay a premium for brand-name imports.	Israel is a small market, only 7.7 million consumers.
Israeli protests in 2011 over high living costs, including the high price of basic foodstuffs led to the formation of the Kedmi Committee. One of the committee's key recommendations, the reduction or elimination of customs duties and purchase taxes on hundreds of commodities (including food), was approved by the Israeli Finance Minister on July 11, 2012.	The reduction or elimination of duties may benefit a number of U.S.-origin products. However, for products where the United States has a tariff-rate quota this ministerial order may erode trade preferences granted under the United States – Israel Free Trade Agreement. We anticipate increased competition from the EU, Eastern Europe, the Former Soviet Union, Turkey, South America, and the Far East.
The current exchange rate of the U.S. dollar versus the euro still largely favors U.S. export sales.	The distance to market keeps U.S. shipping costs high. Competition from Eastern Europe, the Former Soviet Union, Turkey, and the Far East is fierce.
The standard of living in Israel is expanding rapidly, increasing the demand for high quality food products.	Israel is increasingly adopting EU standards and requirements on imports. The Food Service – Hotel Restaurant Institutional sector mainly buys kosher food products. About half of institutional customers require the "Mehadrin" or "Badatz" high-kosher certification. For most other markets, OU kosher certification is sufficient. Even though half of all Israelis do not regularly maintain kosher, most supermarkets and institutional customers demand the high-kosher certification to accommodate more religiously observant Jews.
Strong consumer interest in new food products. About 3,000 new products are introduced to the local food market annually.	Import requirements are strict, and new-to-market products are sometimes detained at port. Access for U.S.-origin beef and poultry products face SPS and non-tariff barriers (kosher requirements).

Negotiations on the ATAP are expected to be completed in 2013.	In the past three years new agricultural agreements were signed between Israel, the EU, and MERCOSUR, increasing their market access. India and Israel are also negotiating an FTA.
Israel is a net food importer. Israel is highly dependent on grain and oilseed imports.	As a result of the U.S. drought, corn exports to Israel have decreased significantly compared to 2011. Also the good grain harvest in the countries of the Former Soviet Union in 2011 has lowered demand for imports of U.S.-origin milling wheat.

Section II: Exporter Business Tips

Kosher Certification

Except for beef and beef products, kosher certification is not an obligatory requirement for importing agricultural and food products into Israel. However, non-kosher products have a much smaller market share as the large supermarket chains, hotels, and institutional services refuse to carry them. Kosher requirements are becoming increasingly strict as the Israeli consumers demand high-level "Mehadrin" or "Badatz" kosher certification for their food products. Israel counts with about 300 (kosher and non-kosher) food and agricultural product importers.

General Customs Procedures: Valuation and the VAT

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 cost, insurance, and freight (CIF) price.

Israel's tariff classification is based on the Harmonized System (HS) Code. Israel's Customs and Purchase Tax Tariff is the main instrument used for the classification of imported goods. The correct classification of goods is the key to determining correct duty rates. It is also utilized for obtaining authorizations, permits, licenses, and meeting all other conditions for the import of goods.

1. **Value Added Tax:** Israel increased its VAT rate on September 1, 2012, from 16 percent to 17 percent. The VAT is imposed on all products and services, with the exception of fresh vegetables and fruits.

Venues and Consumer Trends

The food service industry is expanding and consumers' habits are changing. Israelis are increasingly opting to dine out more frequently and choosing premium food products. Approximately 20 percent of Israel's 7.6 million people are clustered in the Tel Aviv district, Israel's commercial and financial hub. Other major urban concentrations include the Haifa area (15 percent), a major port city and center for the petrochemical industry, and Jerusalem (12 percent). Most companies are headquartered in the Tel Aviv or Haifa metropolitan areas. Nonetheless a growing number of firms maintain branches, showrooms, or service facilities in Jerusalem and Beer Sheva.

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 have 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 consumers' preferences.

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. When marketing to these venues, the key to success is offering a variety of new products that meet Israeli taste preferences.

The institutional services, including the military, 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. Shufersal Ltd., (Super-Sal) and Alon Holding–Blue Square Ltd., are the two largest retail supermarket chains with hundreds of outlets throughout the country. Israel's other major supermarket retail chains include Rami Levy Hashikma, Hatzi Hinam, and Tiv Ta'am (Israel's largest retail producer and seller of pork and non-kosher products).

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 groceries serve the remainder of the food market. In recent years, specialty food stores have developed in all of the main metropolitan centers.

Food Standards and Regulations

See, GAIN Report – Israel FAIRS Country Report

In the current report the following sections have been updated:

- Request for permission to import biotic material and heavy metals in foodstuffs
- New Ingredients that were approved/not approved by the Israeli Ministry of Health (MOH) for use in dietary supplements
- In 2011, the following food color additives have been forbidden for use in morning cereals (E127) Erythrosine and Indigo carmine (E132)
- New amendment to Mandatory Standard SI 373, honey and honey products
- Draft on the restriction to advertising and marketing of alcoholic beverages law, initiated by the MOH
- List of the requirements for importing medical food
- Updated import list of "sensitive" food products
- Updated import requirements for organic food and agricultural products
- Summary of all technical barriers to trade (TBT) notifications that Israel submitted to the WTO
- Approved plants and mushrooms for use in food and food additives
- Labeling regulations for food products containing genetically modified (GM) ingredients are expected to be implemented by the end of 2012. According to the proposed law, it is suggested that labeling will be only required for food products that exceed the 0.9 percent of the food ingredients considered individually or of the total ingredients.

Sanitary and Phyto-Sanitary and Regulatory Systems

Four agencies oversee Israel's animal, plant, and food safety issues. These include: 1) the National Food Control Service (FCS), which is a part of the MOH; 2) the Standards Institution of Israel (SII); 3) the Israel Veterinary and Animal Health Services (IVAHS), and; 4) the Plant Protection and Inspection Services (PPIS). The latter two are agencies of the 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 MITL and the MOAG may share responsibility for managing quota allocations under the United States – Israel FTA.

The Standards Institute of Israel is responsible for product standards development, compliance testing, product certification, and industry quality assurance systems. The National Food Control Service enforces the food and food labeling standards.

Israel is increasingly turning to EU standards and requirements to guide its food and food supplements legislation (see, GAIN Report IS1106 - FAIRS Country Report). We find that this action is causing United States and Israeli food regulations to diverge. The consequence of this is growing import licensing difficulties for U.S. processed food products and needless port-of entry detentions. The import of some U.S. product is now prohibited (e.g., beef and poultry products and a number of fresh fruit and vegetables). 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 the U.S. system, and; 3) the substantial degree of Israel and EU regulatory agency interaction.

After identifying a market opportunity, Post recommends that a U.S. company contact an experienced importer, an agent or a wholesaler. This entity will facilitate custom clearance procedures. The same will also advise the exporter on ways of complying with product specific regulations, such as labeling, packaging, import duties, and sanitary and phyto-sanitary (SPS) regulations. Most Israeli food distributors acquire imported products through an importer or an agent. Specialized importers and agents are often also distributors who count with warehousing and transportation operations. Some supermarket chains and large Food Service - Hotel Restaurant Institutional (HRI) chains may import directly.

The Government of Israel requires that food and health products be registered with the MOH before they can be sold in the country. Food and Drug Administration (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 documentation is in order.

Import Licenses

With the exception of most agricultural and food products, all administrative import licensing requirements for U.S.-manufactured consumer and industrial goods have been eliminated under the U.S.-Israel FTA. In the case of products for which there is a TRQ, the MOAG or the MITL issues a license, which either totally exempts the bearer from duty or grants a reduction in customs duty on the quantity indicated in the license. Importers wishing to bring in goods without availing themselves of the TRQ are not required to obtain a license. All imported agricultural and food products must carry a health certificate or an import license for veterinary, phyto-sanitary or public health reasons. The Israel Veterinary and Animal Health Services, the PPIS, and the FCS of the MOH issue these licenses.

Israeli law requires that all beef and poultry imports be certified kosher by the Rabbinical Council of the Chief Rabbinate.

Exporter Business Tips

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

1. Obtaining a Certificate of Free Sale in the United States may ease the MOH import licensing procedures.
2. Given that Israel is adopting EU standards, U.S. exporters already familiar with the EU import requirements will have a better likelihood of success in gaining entry to the Israeli market.
3. Products certified as being manufactured under Good Manufacturing Practices (GMP) or HACCP will have greater ease of access to the Israeli market.
4. Listing 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 USDA.
5. Products must have a minimum shelf life of 6 months.
6. Only facilities exceeding a minimal production capacity and export experience should consider exporting to Israel.
7. Kosher certification is an advantage in the local market.
8. 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; yossi.barak@usda.gov ; http://www.fastelaviv.co.il/.

Israeli Food and Agricultural Trade Shows

1. ISRAFOOD: International food and beverages exhibition for professionals in the catering and food wholesale, retail, restaurants, hotels, institutional, and food business. November 20-22, 2012 – Tel Aviv (http://www.stier.co.il/english/fairs/israfood/conv_list.htm).

1. AGRO-MASHOV: Agro Mashov is Israel's largest international agriculture exhibition. June 11-12, 2012 – Tel Aviv (http://agro.mashovgroup.net/en).

1. WATEC: The WATEC exhibition is Israel's main trade show for showcasing technologies and expertise in water and environment technology fields. November 5-7, 2013 – Tel Aviv (http://www.watec-israel.com).

Foreign Food and Trade Shows Frequented by Israeli Buyers

1. Kosherfest is the world's largest kosher certified products trade event serving the retail and foodservice industries. Many Israeli buyers attend this show (http://www.kosherfest.com).

1. Israeli importers, distributors, and food manufacturers attend the main European food shows (i.e., ANUGA, SIAL) food trade shows in Europe (ANUGA http://www.anuga.de/de/anuga/home/index.php and SIAL http://www.sialparis.com/?reqCode=accueil).

Section III: Market Sector Structure and Trends

The Israeli Food Association reports that Israel's food and beverages market shrank by 1.7 percent in the second quarter of 2012 compared to 2011. This contraction is due to this year's general slowdown in the Israeli economy. As the market shrank in the second quarter, the Israeli food and beverages market grew even slower. The same grew only by 1.1 percent in the first half of 2012, reaching NIS 16.2 billion ($4 billion). We estimate that through 2012 the Israeli food and beverages market will grow at the slower pace of about 0.5 percent.

Food Processing Industry

The Israeli food processing industry counts with 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 Nestle, 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 for gauging the commercial viability of new product and health developments.

The local food processing industry is dominated by four groups (Tnuva, Osem-Nestle, Unilever, and Straus). This has contributed to reduce competition and increased consumer food prices.

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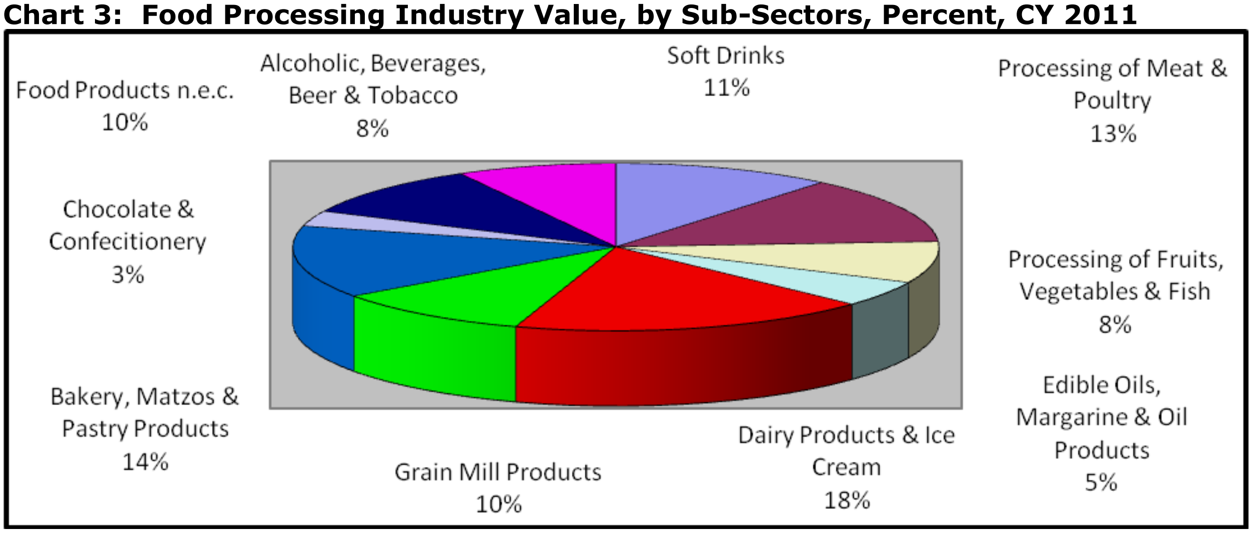
Chart 3: Food Processing Industry Value, by Sub-Sectors, Percent, CY 2011



Source: The Food Industries Association, The Manufactures' Association of Israel, Post estimates.

Israeli Market Trends

Israel's food culture is as diverse as its inhabitants. The country is a "melting pot" of different culinary traditions. Demand ranges from Eastern European to North African traditional Jewish cooking. Additionally there are strong Arab and Mediterranean influences. Middle Eastern foods are very popular in Israel

Israelis are increasingly demanding high-quality beef and seafood products when dining out. This has spurred the opening of more high-quality beef and seafood restaurants. Many of these restaurants can be located through Israel's Restaurant Guide, the country's restaurant and food sectors' major internet portal. The online guide has the most up-to-date information on restaurants, bars, cafes, and kosher restaurants in Israel.

Israeli consumers are increasingly health-conscious and better aware of the need to eat a balanced diet. However, many people still struggle finding 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.

Fruit yoghurt led foodservice volume growth in 2011, with sales increasing by 12 percent. Good performance is due to the fact that Israeli consumers are seeking more products that satisfy health and taste requirements simultaneously. In 2011, breakfast cereals fell out of favor with consumers after receiving negative press on its health aspects. Yoghurt is Israel's main breakfast alternative to breakfast cereals. Much like breakfast cereals, pastries are falling out of favor with consumers. Pastries were the weakest performers in 2011, with foodservice volume sales declining by 4 percent compared to 2010.

Kosher food products will continue to retain the biggest potential in the Israeli market for the foreseeable future. However, one of the areas where inroads can be made is with private labeling. Adoption of private labels is increasing as consumers demand lower retail prices with guarantees of product quality.

Baby food sales increased by 10 percent in 2011, rising to NIS 691 million ($173 million). Baby food remains a recession proof product. We do not see higher unit prices becoming a barrier to achieving market success.

Marketing Channels in Israel

Retail Supermarket Chains: In 2011, retail food and beverages sales by value increased by 1 percent compared to 2010. Previously sales by value had increased by 2.3 percent. The slower pace is due to price competition between the retail supermarket chains.

Today Israeli retail supermarket chains are confronting: 1) a slowdown in the Israeli economy; 2) the increase in international commodity prices, and; 3) the impact of the VAT increase on consumer spending. We estimate that 2012 retail food and beverages sales value will remain largely flat compared to 2011.

Shufersal has a market share of 38 percent. Its 248 stores and over 12,400 employees make it Israel's leading retail supermarket chain. Alon Holding-Blue Square follows with 22 percent market share and 215 stores. These two chains dominate food retailing, accounting for 60 percent or $5.6 billion of the market.

- About 90 percent of the retail channel buys only kosher food products.
- Large supermarket retail chains import, as well as purchase from importers and wholesalers. Smaller retailers purchase through importers and wholesalers.
- Shufersal's 2011 decision to scale back its hypermarket chain presence in favor of increasing discount store outlets has motivated Blue Square to do the same.
- There are 5,500 grocery stores and 1,700 convenience stores in Israel.
- Service stations with convenience stores attached are driving growth. Some 710 convenience stores are located at service stations in Israel.

Food Service - Hotel Restaurant Institutional: Large hotel chains and large caterers often have central purchasing offices. The HRI sector mostly buys kosher food products. The Israeli Defense Force (IDF), the Israeli Police, and Israeli Prision Service are a significant component of the HRI sector. The Food Service – Hotel Restaurant Institutional sales are estimated at $1.7 billion per annum. Over the past few years the sector has shown good growth. We estimate that the HRI sector will continue growing at a rate of about 2 per cent per year.
A key driver of growth in the HRI sector is the Israeli tourism industry. The Central Bureau of Statistics (CBS) informs that through the third quarter of 2012 some 2.6 million tourists visited Israel, a 7 percent increase compared to the same period in 2011. The Ministry of Tourism (MOT) reports that 3.4 million tourists visited Israel in 2011. Some 540,000 tourists, or 16 percent of all visitors, are single day cruise ship visitors from Eastern Europe. Tourism revenues reached a record high of NIS 35 billion ($8.8 billion) in 2011, up 2 percent compared to 2010. Sources indicate that the Israeli HRI sector produces about one million meals daily.
Post Findings:

- Food service volumes in 2011 increased thanks to improved economic conditions.
- Demand for healthy and indulgence foods is driving food service outlet sales.
- The HRI is demands mostly kosher products.
- Animosity between Israel and Turkey is forcing Israelis to forgo travel to latter. Domestic tourism and the Israeli HRI sector are benefitting at Turkey's expense.
- Roughly one million meals per day are provided.
- The HRI sector is characterized by significant competition combined with a high degree of concentration. Smaller companies specialize in single product market niches.

Tnuva-Chef is the largest food service provider in Israel. It provides customer-specific solutions for clients' vegetable, dairy, beef, fish, and bakery product needs. Nestlé Food Service is the second largest provider.

Consumer Foodservice Outlets

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.

Most consumer food service outlets are franchises. Local players use the franchise model to expand firm presence, profits, and bargaining power. Franchising is utilized by foreign and local players. Shefa Franchisers has had good success with its Aroma Espresso Bar franchise. It surpassed McDonald's in 2010 in sales volume.

Franchisees of international brands are corporate entities. Most of franchisees of Israeli brands are smaller franchise holders. Foreign consumer food service operators often enter the Israeli market through franchise agreements. Major global brands such as Yum! Brands Inc., Domino's Pizza Inc., McDonald's Corp., Burger King Holdings Inc., and Sbarro Inc., operate in Israel through local franchisees.

Israel has not enacted anti-foreign regulations. There are however kosher and Sabbath regulations. Indications are that Starbucks and Dunkin Donuts had limited success 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 consumers' preferences.

Section IV: Best Consumer-Oriented Product Prospects

- Baby food
- Non alcoholic drinks
- Organic and health/natural food products
- Dry grocery food products
- Specialty gourmet foods
- Frozen and canned vegetables and fruits
- Food industry ingredients
- Baking industry ingredients
- Frozen fish fillets
- Dried fruits
- Almonds, Pistachios and all kind of nuts
- DDGS and Corn Gluten Feed (animal feed)

Product Category	2011 Market Size (Volume)	2011 Imports ($Sales)	Annual Import Growth 5-Yr. Avg.	Import Tariff Rate	Key Constraints Over Market Development	Market for USA
Pistachios	$25 Mil	$25 Mil	Growth of 3 percent per annum.	U.S.- and EU-origin product face no import duties. Turkey has a 100 tons TRQ, and above that it faces a 23 percent duty of not less than NIS 3.65/kg.	Competition mainly from Turkey.	Demand for U.S.-origin pistachios is strong due to Turkish imports facing high import levies. U.S. pistachio enters Duty free.
Corn (Feed)	$346 Mil	$346 Mil	Dependent on supply levels of other grains (feed wheat and barley). Annual growth is 1.8 percent.	Duty free treatment for all origins.	Strong competition from the Former Soviet Union countries. The sector prefers to import from nearby countries. The U.S. market share is 20-60	Attractive to large U.S. suppliers (ADM, Cargill, CHS, etc.).

					percent, but dependent on corn harvest levels in the Ukraine and Russia.	
Wine	$83	$25 Mil	Imports have been consistent in recent years.	The United State and the EU enjoy TRQs of 200,000 and 430,000 liters. Above the TRQ the United States faces a charge of 75 percent of the MFN, and the EU pays the MFN duty.	About 70 percent of consumption is from local production, and the rest is mainly from France, Italy, South America, and the U.S. market share is about 5 percent.	This market is likely to become more dynamic as consumers prefer local and EU wines.
Frozen Fish Fillets	$250 Mil	$154 Mil	Growth of about 3 percent per annum.	0 percent to NIS 15 /kg depending on product.	Importers prefer to import from South America, African countries, and the far east countries.	The United States enjoys a 5 ton TRQ for frozen carp fillet.
Fresh Apples	Local production was record high in 2012 and totaled about 120,000 tons, in	$17 Mil	Growth of about 5 percent per annum.	The United States and the EU have a TRQ, and above it they face a MFN (NIS	The EU enjoys a 3,200 TONS TRQ and shipping costs are lower compared to the United States.	The United States has 4000 tons TRQ (duty free). Israeli importers like U.S.-origin apple

	addition Israel and imported about 14,000 tons apples.			2/kg). All other origins face MFN as well.		varieties.

Imports of U.S. Agricultural and Food Products to Israel

Chapter Code	Product Category	2010 Total $Thousands	2011 Total $Thousands
1	Live animals	989	2,097
2	Meat & edible meat offal	697	5,630
3	Fish, crustaceans and mollusca	4,379	5,559
4	Dairy produce; eggs, natural honey; edible products of animal origin	24,241	32,813
5	Products of animal origin n.e.c	703	490
6	Live trees and other plants, bulbs, roots and other garden plants	98	101
7	Edible vegetables, roots and tubers	3,896	5,391
8	**Edible fruits and nuts; peel of melons and other citrus fruit**	**99,206**	**118,276**
9	Coffee, tea, mate and spices	2,253	2,034
10	**Cereals**	**99,455**	**219,379**
11	Products of milling industry; malt and starches; wheat gluten	19,811	29,594
12	**Oil seeds, grains, fruits, industrial and medical plants. Straw and feed**	**117,511**	**148,242**
13	Tree gum; resins, other vegetable saps and extracts	3,760	3,396
14	Vegetable plaiting materials; vegetable products n.e.c	12	28

15	Animal or vegetable fats and oils; animal or vegetable waxes	3,491	4,430
16	Preparation of meat, fish, or of other aquatic invertebrates	7,800	6,166
17	Sugar and sugar confectionery	3,450	5,675
18	Cocoa and cocoa preparations	1,144	1,094
19	Preparations of cereals, flour starch or milk; pastry products	13,228	14,361
20	Preparations of vegetable, fruits, nuts and other plants	30,716	38,340
21	**Miscellaneous edible preparations**	**59,136**	**56,692**
22	Alcoholic beverages and vinegar	7,482	10,996
23	**Residues and waste from the food industries; prepared animal feed**	**33,848**	**49,393**
24	Tobacco and tobacco substitutes	7,304	509
	Grand total	**$545 million**	**$760 million**

Source: Central Bureau of Statistics, Israel.

Section V: Post Contact and Additional Information

Office of Agricultural Affairs, U.S. Embassy Tel Aviv, Israel
Web site: http://www.fastelaviv.co.il
Tel: 972-3-5197588 • Fax: 972-3-5102565
E-mail: gilad.shachar@usda.gov; yossi.barak@usda.gov; levylx@state.gov;

The Central Bureau of Statistics (CBS)
Web Site: http://www.cbs.gov.il/reader/?MIval=cw_usr_view_Folder&ID=141
66 Kanfei Nesharim Street
P.O.Box 34525, Jerusalem, Israel 91342
Tel: 972-2-6592666 • Fax: 972-2-6521340

Food Control Service - Ministry of Health
Web Site: http://www.health.gov.il/english/Pages/HomePage.aspx
12 Ha'arba'a Street
64739, Tel Aviv, Israel
Tel: 972-3-6270100 • Fax: 972-3-5619549

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

Plant Protection and Inspection Service (PPIS)
Web Site: http://www.ppiseng.moag.gov.il/ppiseng/

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

Standards Institution of Israel
Web Site: www.sii.org.il
42 H. Levanon Street
69977, Tel Aviv, Israel
Tel: 972-3-6465154 ● Fax: 972-3-6419683

Major Newspapers and Business Journals
- 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 /

GAIN Reports
http://gain.fas.usda.gov/Pages/Default.aspx
USDA'S Global Agriculture Information Network (GAIN) provides timely information on the agricultural economy, products and issues in foreign countries since 1995 that are likely to have an impact on United States agricultural production and trade. United States Foreign Service Officers working at posts overseas collect and submit information on the agricultural situation in more than 130 countries to USDA's Foreign Agricultural Service (FAS), which maintains the GAIN reports system.

Additional 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

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

Table A: Key Trade & Demographic Information, 2011

Agricultural Imports From All Countries ($Mil) / U.S. Market Share (%)	$5,400/14.1%
Consumer Food Imports From All Countries ($Mil) / U.S. Market Share (%)	$2,147/8.5%
Edible Fishery Imports From All Countries ($Mil) / U.S. Market Share (%)	$294/1.6%
Total Population (Millions) / Annual Growth Rate	7.7/1.8%
Number of Major Metropolitan Areas	3
Per Capita Gross Domestic Product (U.S. Dollars)	$31,000
Unemployment Rate (%), in the second quarter of 2012	6.5%
Per Capita Annual Food Expenditures (U.S. Dollars)	$4,634

Annual Average Exchange Rate for 10/2012 ($1 = X.X local currency)	$1 = ~NIS 3.868

Source: Central Bureau of Statistics, Israel; Economist Intelligence Unit

Map of Israel

Source: Central Intelligence Agency

Author Defined:

Disclaimer:

This report was prepared by the Foreign Agricultural Service in Tel Aviv for exporters of U.S. food and agricultural products, as well as 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 is unavailable. It is highly recommended that U.S. exporters verify the full set of certificate requirements with their foreign customers prior to the shipment of goods. Final import approval of any product is subject to the importing country's rules and regulations.