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Reduced Import Duties on Certain Food Products

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Trade Policy Monitoring

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Report Highlights:
On July 11, 2012, Israel's Finance Minister signed a ministerial order to reduce or eliminate customs duties and purchase taxes on hundreds of commodities, including food. This 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 U.S.-Israel Free Trade Agreement. This ministerial action is in response to Israeli consumer protests against high living costs. Compared to their counterparts in the other OECD developed economies, Israeli consumers pay on average 10 to 20 percent more for food.

General Information

Israel is a net food importer. Best prospects for U.S. agricultural exports include grains, oilseeds, dried fruits, all kinds of walnuts, and prepared food products.

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.

Trade

The Kedmi Committee Report:

Israeli protests in 2011 over the high price of living including high price of basic foodstuffs (i.e., cottage cheese) led to the formation of the interdepartmental Kedmi Committee. The committee is a joint venture between the Ministry of Industry, Trade, and Labor and the Treasury. The Kedmi Committee is responsible for examining prices and competition in Israel's food and consumer goods industries. It published several recommendations on regulation and competition in Israel's food market.

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

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. The 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 table 1).

• 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 (see table 2).

• 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 (see table 3).

The Kedmi Committee report finds that Israeli consumers compared to their counterparts in the other OECD developed economies paid on average 10 to 20 percent more for food in 2008-2010. The report also highlights that Israelis paid 10 to 20 percent less for food than the OECD average in 2005. However, food prices in Israel since 2005 have risen more rapidly than in the other developed economies due to decreased competition within the local food industry.

The Kedmi Committee report recommends imposing a 40 to 100 percent reduction on import duties on food products for which no competition exists in Israel. It also calls for lowering duties on agricultural products for which current rates are excessively high (i.e., 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 over-concentration in 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 advises ordering the country's Antitrust Authority to examine whether the acquisition of smaller food manufacturers by larger suppliers reduces competition. Israel has the OECD's most or second-most over-concentrated supply sector in 16 out of 22 food categories.

The report highlights that Israel's two largest retailers hold a 64 percent market share since Shufersal's 2009 purchase of Clubmarket – making the retail sector the fifth-most concentrated in the OECD.

Private labeling, the branding of retailers' bulk 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 will not be allowed sourcing 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 it will be approved by the Israeli Government may increase the competitiveness of U.S. bulk food manufacturers and product exporters which agree to produce for private Israeli food labels.

Impact of Tariff Reduction and Elimination on U.S. Exports

Post estimates that due to the over-concentration in the Israeli supply and retail sectors, the new tariff reduction and elimination ministerial order will have a limited effect on retail food prices. Post believes that the supply and retail sectors will use market leverage to exploit tariff reduction and elimination to reduce operational expenses. Post assumes consumers will not enjoy the full measure of savings envisioned by the July 2012 ministerial order. i.e. Post estimates that a $0.5 per kilogram tariff reduction will only decrease retail prices by $0.3 per kilogram.

Mutton, poultry and sausages products - It is unlikely that the tariff reduction will increase U.S. imports, as currently access for these U.S. products faces SPS and non-tariff barriers (kosher issue). Evan if the SPS and the Kosher issues will be resolved, due to high freight cost combined with high pricing for U.S. mutton and poultry and products and with a high local supply volumes of poultry, it is unlikely there will be any imports of U.S. origin mutton and poultry products into Israel.

Fresh Beef - Access for U.S.-origin beef also currently faces SPS and non-tariff barriers (kosher issue). However, it is expected that the market will be reopen in 2013.
Frozen beef enters Israel duty free from all origins. All frozen beef (about 60,000 tons per year) is imported from South America (mainly Brazil, Paraguay, Argentina and Uruguay).
When the U.S. market will be opened for exports into Israel, most exports will be of frozen beef. It is unlikely that any fresh or chilled beef will be imported from the U.S., therefore the tariff reduction on fresh beef will almost not impact U.S. exports.

Juices – The U.S. has TRQs for orange, apple, grapefruit and other juices, but these TRQs are almost never fully utilized. The U.S. market share for frozen concentrated orange juice is about 17 percent, and the remainder is coming mainly from Brazil, Uruguay and Mexico. As a result of the tariff reduction for frozen orange juice, Post estimates that the market share of the Brazilin orange juice will increase on the account of the American share. The American share for orange juice may decrease from 17 percent to about 14 percent. In addition, the U.S. has a temporary 100,000 liters TRQ of grape juice, and this quota is fully utilized. The EU also has a 230,000 liters TRQ of grape juice. However, for grape juice the import tariff is 12 percent and it was not reduced in the recent order, so no impact on American grape juice imports.

Nuts - U.S.-origin peanuts benefit from a 284 tons duty free quota, and above this threshold enjoy 10 percent discount on the MFN rate. On the other hand, Argentina market share is about 70 percent, and this tariff reduction may not benefit U.S. peanuts exporters as they will face a stronger competition from Argentina. The U.S. share for walnuts is about 94 percent, and the remainder is coming mainly from Turkey. As a result of the new tariff reduction, the Turkish share may increase by 5-10 percent on the account of the U.S. share.

Ice Cream - U.S.-origin ice cream enjoys a TRQ of 113 tons. For above quota imports there is a NIS0.55/kg rate. However, the U.S. TRQ is almost not fully utilized. In addition, the EU enjoys a TRQ of 500 tons. All in all, if the U.S. will fully utilized its TRQ, than U.S.-origin ice cream may benefit from this tariff reduction.

Sweets - U.S.-origin confectionery products enjoy duty free treatment. In addition, confectionery products from the EU, Canada, Mexico, Turkey, and EFTA countries enjoy duty free treatment as well. Import tariff reduction may erode FTA preferences, increasing competition for U.S. exports mainly from countries which are subject to import tariff (Ukraine, Russia, Eastern European countries, and MERCOSUR).

Potato Starch – Although U.S.-origin potato starch enjoys duty free treatment, the U.S. share is only 2 percent. All imports are from EU countries. All in all, the import tariff elimination in 2014, may erode FTA preferences, increasing competition for U.S. exports and U.S. exports may will reach nearly 0 percent.

Halva - U.S.-origin halva products enjoy duty free treatment, but the U.S. share is less than 1%. In addition, halva products from the EU, Canada, Mexico and EFTA countries enter Israel duty free. Turkey has a TRQ and the Mercosur countries have four percent import tariff. All in all, the tax reduction is not expected to impact the small U.S. halva exports to Israel.

Jams - U.S, EU, Mexico and Canadian origin jams enter Israel duty-free (also some jams from Mercosur countries), while others origins pay the MFN rate or reduced tariffs. The U.S. share is about two percent of total jam imports. For U.S.-origin jams, tariff reduction may erode FTA preferences, increasing competition for U.S. exports (mainly from eastern European countries). *Buckwheat* - Although the U.S. enjoys duty free treatment, no U.S. buckwheat imports were recorded in the past. All buckwheat is imported from Turkey.

Table 1: Gradual reduction of customs duties on food products for which there is local competition

	Current MFN	Proposed MFN	Time Period	Benefit to U.S. Exports
Fresh and Chilled beef	190 percent	90 percent	Over four years	Access for U.S.-origin beef currently faces SPS and non-tariff barriers (kosher issue). It is expected that the market will be reopen in 2013.
Mutton	50 percent	30 percent	Over two years	Access for U.S.-origin mutton faces SPS and non-tariff barriers (kosher issue). Decreased tariffs may expand the market, mainly in the more price sensitive Arab sector.
Fresh poultry	NIS5-9 per Kg	NIS3.75-6 per Kg	One year	Access for U.S.-origin poultry faces SPS and non-tariff barriers (kosher issue). Local supplies of fresh poultry are high, resulting in low fresh poultry prices. The existing U.S. TRQ of 350 tons has never been filled.
Frozen poultry	NIS5-9 per Kg	NIS2.5-4.5 per Kg	One year	Same as fresh poultry.
Sausages	50 percent	22 percent	Over four years	Pricing, Kosher, and logistics issues, inhibit Israeli importers importing U.S.-origin sausages.
Juices	12 to 45 percent	12 percent	Over four years	Most U.S.-origin juices benefit from duty free quota treatment. Above the quota these enjoy a 10 percent discount on the MFN rate. Tariff reduction for juices from all origins (mainly Brazil) may reduce the U.S.-origin juices competitiveness.

Table 2: Immediate reduction of customs duties on fresh-food products that are not manufactured locally

	Current MFN	2012	Benefit to U.S. Exports
Fish	NIS5 per Kg	NIS3 per Kg	The United States has a large duty free quota for U.S.-origin fish. However, the quota is seldom utilized. This is mainly due to pricing, taste of the Israeli consumers,

			and Kosher issues. The only fish that may benefit from this tariff reduction is frozen carp fillets.
Flowers	30 percent	20 percent	U.S.-origin flowers face SPS barriers. In addition, it is not economically viable to import U.S.-origin flowers.
Spices	8 to15 percent	4 percent	U.S.-origin spices are imported. Some enter Israel duty free, while others pay the MFN rate. U.S.-origin spices currently subject to the MFN rate will benefit from tariff reduction.
Nuts	12 to 16 percent	4 percent	U.S.-origin peanuts benefit from a 284 tons duty free quota, and above this threshold enjoy 10 percent discount on the MFN rate. On the other hand, Argentina market share is about 70 percent, and this tariff reduction may not benefit U.S. peanuts exporters as they will face a stronger competition from Argentina. U.S.-origin nut exporters stand to benefit from tariff reduction for amounts above the duty free quota.
Dried Fruits	25 percent	8 percent	U.S.-origin raisins (1,277 tons), prunes (1,323 tons) and quinces (775 tons) enjoy a duty free quota. For above quota imports there is a 10 percent discount on the MFN rate. U.S. exporters stand to benefit from tariff reductions for amounts above the duty free quota. Note that due to the significant reduction in import tariffs, U.S.-origin dried fruits may now face stronger competition from other suppliers (i.e., Turkey, China, MERCOSUR).
Raspberry	30 percent	20 percent	No fresh U.S.-origin raspberries are imported. U.S.-origin fresh raspberries face SPS barriers. It is not economically viable at present to import fresh U.S.-origin raspberries.
Berries (other kinds)	94 percent	75 percent	Same as Raspberry
Seeds	8 to 25 percent	4 percent	U.S.-origin sunflower seeds enjoy a 3,000 tons duty free quota. For above quota imports there is a 10 percent discount on the MFN rate. U.S.-origin seed exporters stand to benefit from tariff reduction for amounts above the duty free quota. Note that due to the significant reduction in import tariffs, U.S.-origin sunflower seed exporters may face increased competition from other suppliers (i.e., Eastern Europe, MERCOSUR).
Mushrooms	12 percent	8 percent	No U.S.-origin mushrooms are imported. U.S.-origin fresh mushrooms face SPS barriers. It is not economically viable to import U.S.-origin fresh mushrooms.
Jams	12 percent	4 to 8 percent	U.S, EU, Mexico and Canadian origin jams enter Israel duty-free, while others origins pay the MFN rate or reduced tariffs. The U.S. share is about 2% of total jam

			imports. For U.S.-origin jams, tariff reduction may erode FTA preferences, increasing competition for U.S. exports (mainly from eastern European countries)
Coconut	12 percent	4 percent	U.S.-origin fresh coconut faces SPS barriers. It is not economically viable to import U.S.-origin fresh coconut.

Table 3: Differential reduction of duties, over a three-year period, on a range of processed food which are produced locally

	Current MFN	2012	2013	2014	benefit to US exports
Starch flakes	14 percent	0	0	0	U.S.-origin starch flakes enjoy duty free treatment. Import tariff elimination may erode FTA preferences, increasing competition for U.S. exports.
Potato starch	8 percent	8 percent	6 percent	0	U.S.-origin potato starch enjoys duty free treatment. Import tariff elimination in 2014, may erode FTA preferences, increasing competition for U.S. exports.
Canned fish	12 percent	0	0	0	U.S.-origin stuffed preparations or cutlets of fish (HS 1604-2030) enjoy a 35 ton TRQ. For

					above quota imports there is a 10 percent discount on the MFN rate. U.S. exporters of canned tuna stand to benefit from tariff elimination. Note that U.S. exporters of HS code 1604-2030 increased competition from other sources.
Halva	12 percent	8 percent	8 percent	4 percent	U.S.-origin halva products enjoy duty free treatment, but imports are very limited. In addition, halva products from the EU, Canada, Mexico and EFTA countries enter Israel duty free. Turkey has a TRQ and the Mercosur countries have 4% import tariff.
sweets	NIS0.11/kg+10	8 percent	5 percent	5	U.S.-origin

	percent			percent	confectionery products enjoy duty free treatment. In addition, confectionery products from the EU, Canada, Mexico, Turkey, and EFTA countries enjoy duty free treatment as well. Import tariff reduction may erode FTA preferences, increasing competition for U.S. exports mainly from countries which pay import tariff (Ukraine, Russia, MERCOSUR)
buckwheat	8 percent	8 percent	4 percent	0	Although the U.S. enjoys duty free, no U.S. buckwheat imports were recorded in the past.
biscuits	12 to 18 percent	8 percent	8 percent	4 percent	U.S.-origin biscuit products enjoy duty free treatment. Import tariff reduction may erode FTA

					preferences, increasing competition for U.S. exports.
Ice cream	NIS0.7/kg+12 percent	NIS0.58/kg+10 percent	NIS0.7/kg+6 percent	4 percent	U.S.-origin ice cream enjoys a TRQ of 113 tons. For above quota imports there is a NIS0.55/kg rate. U.S.-origin ice cream stands to benefit from tariff reduction.
Baking powder	12 percent	10 percent	6 percent	0 percent	U.S.-origin baking powder enjoys duty free treatment. However, most baking powder is from local production, and total baking powder imports is very small ($15,000 per year).