

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT POLICY

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Exporter Guide

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Report Highlights:

In 2013, imports of food and agricultural products by Israel totaled nearly \$5.5 billion, a 3.6 percent increase from 2012. The EU is Israel's main trading partner with nearly a 40 percent share, while the United States captures an 11 percent share. Food and agricultural product imports account for about eight percent of Israel's total import bill.

The Gaza-Israel conflict, which ended in August, 2014, is expected to slow down the Israeli economy. Although, businesses close to Gaza have been hit the worst, the fighting has also deterred tourists and dented consumer spending nationwide. Government officials have estimated the damage to the Israeli economy at more than 12 billion shekels (\$3.4 billion).

The OECD forecasts economic growth of 3.2 percent in 2014, while Israel's central bank latest estimate forecasts that growth will be 2.3 percent.

Negotiations between the U.S. Government and the Government of Israel on a permanent Agreement on Trade in Agricultural Products (ATAP) are set to recommence in the coming months. The new ATAP should improve the trade flow from the U.S. into Israel, as it will reduce non-tariff barriers for many U.S. commodities..

The Israeli Government recently approved one of the [Locker's committee](#) main recommendations: the "dry food import reform", opening the market easing the imports of non-sensitive food products, by eliminating the requirement of Health Ministry approval for each specific product.

Post:

Tel Aviv

SECTION I: MARKET OVERVIEW

Economic and Demographic Situation

Israel is a parliamentary democracy of 8.2 million people (Aug 2014 est.): 79 percent of which are Jewish (6.4 million) and 21 percent are Arabs (mainly Muslim). Population growth is 1.8 percent (Aug 2014).

Israel's population grew over the years from a little more than 800,000 at the end of 1948 to 8.2 million, nearly 10 times fold, having a vast effect on its workforce.

A fundamental factor of this rise is waves of immigration of Diaspora Jews to Israel (Aliyah). The massive immigration waves took place at the beginning of the 1950's, when Jews worldwide settled in Israel, and in the beginning of the 1990's, mainly by Jews from the former Soviet Union.

Israel is a sophisticated, industrialized country with a diversified manufacturing base. The global economy's weakness and economic malaise in the European Union (EU), Israel's main export market is a contributing factor to Israel's economic slowdown. The EU and the United States account for one-third and one-quarter of Israel's trade activity. Interestingly, economic concerns, not fears of conflict with Iran or the Palestinians, are the top priority for 43 percent of Israelis in 2013. The perennial political issue remains achieving a lasting peace agreement with the Palestinians and Arab countries.

The country's 120-member Knesset (parliament) is a unicameral legislature. Prime Minister Benjamin Netanyahu (Likud party) won the January 22, 2013 elections, but the unexpected surge of support for Yesh Atid (a new centrist party) has limited his coalition forming maneuvering. Additionally, the center-left, which is in control of 59 Knesset seats, is hampering Netanyahu's ability to deliver on his party's policy priorities.

The Likud-led government faces a challenging year in terms of ensuring security and economic growth. Israel needs to address public discontent about growing income inequality at a time when it has to make painful spending cuts needed to tackle its huge budget deficit. All ministerial budgets are facing cuts as a result of the recent Gaza-Israel conflict.

Gaza Conflict and its Impacts – Unlike previous conflicts with Hamas or Hezbollah, Israel entered the fighting in Gaza with an economy already losing steam. As a result, the Bank of Israel reduced its benchmark interest rate by a quarter-point to an all-time low of 0.25 percent in August 2014, the second consecutive surprise cut. This interest rate drop was a result of disappointing economic growth, low inflation, a still-limp recovery in Europe, and the war with Hamas in Gaza. Israel's Ministry of Tourism reports that tourism arrivals for July dropped by 26 percent from the same period last year. The sector, comprising about seven percent of the Israeli GDP, has lost at least \$566 million. Geographically, businesses in the south of the country were the hardest-hit from the war as they were targeted by the bulk of the rocket fire from Hamas. The agricultural sector also experienced significant physical damage from falling projectiles as thousands of rockets and mortars landed in open fields, many of them on farms. In addition to direct damage to crops caused by heavy Israeli defense force vehicles, there has also been indirect long-lasting damage caused by these vehicles to the soil structure. Experts believe this damage will take approximately 10 years to remediate, the cost of which could total between \$8,500 to \$14,000 per hectare out of

an estimated 10,000 ha that were damaged. On top of the crop damage, there have been incidents of injury and death of cattle, chicken, and other livestock. It is estimated that southern Israel's agriculture suffered damages of about \$350 million. The Ministry of Agriculture (MoA) and Ministry of Finance are receiving claims by the agricultural and food sectors in order to compensate businesses affected. Most of the compensation being provided by the Government of Israel applies only to businesses within a 40 km radius of Gaza.

Growth slowed in the second quarter of 2014 to 1.7 percent from 2.8 percent in the previous three months. The decline in growth is mainly the result of a contraction of 10.1 percent in exports (excluding diamonds and startups), and by a contraction in investment (1.6 percent, excluding ships and aircraft), primarily in housing.

The Bank of Israel assess that Israeli economic activity is experiencing a sort of contraction that began before the start of the Gaza operation. According to the Bank of Israel, this contraction will worsen in the current quarter, although some degree of rebound is expected as the hostilities ceased.

Government officials have estimated the damage to the Israeli economy at more than 12 billion shekels (\$3.4 billion).

Israel is seeking to meet its 2014 budget deficit target of 3 percent of GDP even as growth slows. The 12-month trailing deficit rose to 2.7 percent of GDP in July from 2.5 percent the previous month . As a result of the war and the expected increase of the budget deficit, the Israeli government is debating an across-the-board cut in most ministry budgets to provide more funding for defense and towns bordering the Gaza Strip, following the conflict with Hamas. Under the plan, ministry budgets, excluding salaries, would be cut by 2 percent to finance some of the one-time costs incurred by the military due to the Gaza fighting.

Credit rating agency Fitch said the fiscal and economic cost of Israel's incursion into Gaza may cause the government to narrowly miss its budget deficit target this year, but that better than expected performance in the first half of the year would help offset the impact. Fitch rates Israel as "A" with a positive outlook.

The Israeli central bank said that to meet a budget deficit target of 2.5 percent of GDP in 2015, the state needs to cut spending and bring in tax income of 20 billion shekels which is about \$5.3 billion . (1 US dollar = 3.75 Israeli shekel)

There was an additional decline in inflation in July 2014. Inflation measured over the preceding 12 months declined to 0.3 percent, and the decline in inflation expectations for all terms continues. Forecasters' projections for the coming year, and 1-year expectations derived from the capital markets, are very near the lower bound of the target range (1%), and expectations derived from banks' internal interest rates declined below the range.

According to the recent OECD report, at 6 percent in the last quarter, Israel's jobless rate is below the OECD's average. The report says the rate in Israel will remain stable for the rest of the year and decline to 5.7 percent in 2015. On the other hand, real wages rose 0.4 percent in the OECD on average in 2013, compared to a 0.2 percent decline in Israel. The OECD figures on declining real salaries are consistent with the Bank of Israel figures, which found that salaries declined 1 percent in real terms between 2000 and 2013, however, unemployment declined from 8.8 percent to 6.2 percent, and workforce participation has increased from 54 percent to 63 percent over that period as well.

The OECD forecasts economic growth in Israel of 3.2 percent in 2014, while Israel's central bank said growth will be just 2.3 percent.

2013 Economic Summary - According to the Central Bureau of Statistics Israel's economy grew by 3.3 percent in 2013. Israel's GDP for the fourth quarter of 2013 crossed the 1 trillion shekel mark for the first time ever, for a total of NIS 1.05 trillion (\$302 billion, compared to \$226 billion in the fourth quarter of 2010).

As a result, the GDP per capita also hit a record high 2013 -- NIS 130,700 (\$37,500). The Central Bureau of Statistics projected that Israel's GDP per capita will be NIS 134,600 (\$38,700) in 2014.

Table 1: Israel Key Statistics

	2012	2013	2014
Population	Was around 8 million	More than 8.1 million	More than 8.2 million
Nominal GDP	\$257.2 billion	\$290.5 billion	Not available
GDP Per Capita	\$32,534	\$36,065	Not available
Real GDP Growth	3.0%	3.2%	Q1 2.8%; Q2 1.7% First half 2.5%
Per Capita Growth	1.1%	1.3%	Q1 1%; Q2 -0.1% First half 0.6%
Deficit	3.8%	3.15%	Target of 2.9%
Debt to GDP ratio	68%	67% - 68%	
Inflation	1.6%	1.8%	0.1% (first 7 months)
Unemployment	6.9%	6.2%	6.2% current
Foreign Direct Investment in Israel	USD 8 billion	USD 11.8 billion	Q1 USD 2.9 billion
US direct investment in Israel	USD 1.8 billion	Not available	Not available
Israel direct investment in the US	USD 972 million	Not available	Not available
Israel direct investment abroad	USD 3.2 billion	\$ 4.7 billion	Q1 USD 1.5 billion
Private Consumption Growth	3.2%	3.4%	Q1 3.5%; Q2 3% First half 2.8%
Export of Goods and Services	0.9%	1.5%	Q1 0.1%; - 17.7%; First half 0.9%
Import of Goods and Services	2.5%	-0.1%	Q1 0.7%; Q2 -5.5% First half -0.1%
Total Exports	\$63.1 bio	USD 66.8 billion	USD 41.4 bil (first 7 month)
Exports to the U.S.	USD 17.5 billion	USD 17.5 billion	USD 11 bil (first 7 months)
Total Imports	\$ 73.1 bil	USD 72 billion	USD 43.1 bil (months)
Imports from the U.S.	USD 9.4 billion	USD 8.1 billion	USD 5.2 billion
Bank of Israel interest rate	1.75%	1% at end of 2013;	0.5% Aug 2014; 0.25% September 2014
Avg USD/Shekel Exchange Rate	3.8559	3.6107	3.54

Source: Bank of Israel and Israel's Central Bureau of Statistics

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 high living costs, Israelis remain willing to pay for what they want.

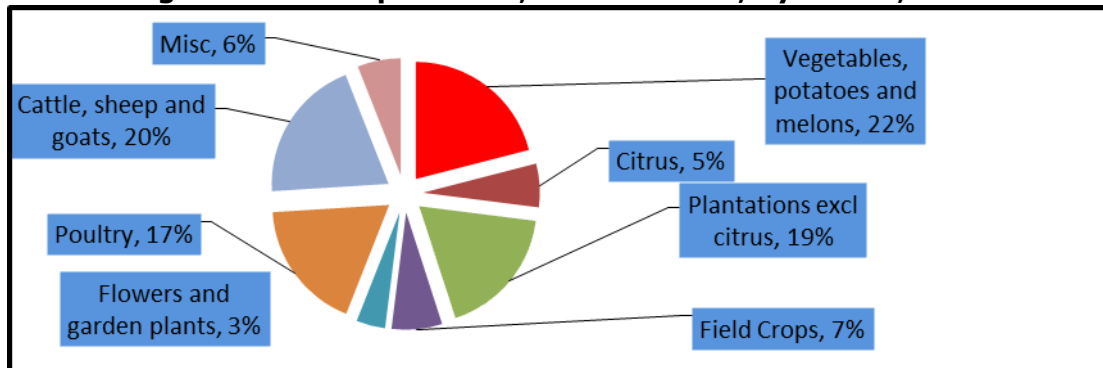
Israel's limited land and water resources preclude a high level of agricultural self-sufficiency, consequently influencing local production costs and consumer prices. The country posts sizeable trade deficits in food and agricultural products as well as other commodities. Israel partially covers its trade deficit with tourism and other service exports. Economically and politically entrenched in the West, Israel benefits from significant investment inflows.

Israel's Food and Agricultural Production

The domestic product of the agricultural sector in Israel (\$8.6 billion in 2013) remained unchanged from the previous year and represents approximately three percent of the national GDP with 18 percent of the agricultural production being exported. In 2013, the agricultural sector employed 52,000 persons, amounting to 1.2 percent of the total workforce. Foreign agricultural workers (primarily from Thailand and West Bank Palestinians) totaled over 29,000 persons, as well as 23,000 Israeli agricultural workers, who amount to just over 0.5 percent of the total workforce. Israel has long valued the ideal of self-sufficiency in agricultural production and also has a policy of supporting employment opportunities in the "periphery" - areas near Israel's borders and far from the major urban areas. In furtherance of these goals, the Government of Israel provides a variety of support and protection for a range of agricultural products. However, in recent years the commitment to self-sufficiency has waned somewhat and yielded an increased reliance on imports to supplement domestic production of a number of food products.

In 2012 and 2013, crop production accounted for 60 percent of total output value, with livestock products contributing the remaining 40 percent. Israeli agriculture benefits from significant investment in research and development, routinely exceeding the Organization for Economic Cooperation and Development (OECD) average. Research and development expenditures since 2004 account for about 17 percent of the budgetary allocation for agriculture. Therefore, the future of Israeli agriculture lays in its expertise in cutting edge agricultural technology.

Chart 1: Agricultural Output Value, Market Share, by Sector, CY 2013



Source: Central Bureau of Statistics.

The Israeli state, unlike the case of most other OECD economies, continues to retain title to most of the country's land and water resources. An added unique characteristic of Israeli agriculture is the dominance of cooperative communities (i.e., the kibbutz and moshav) that account for 80 percent of farm output.

Cost of Living

During June, 2014 a meeting of the U.S.-Israel Joint Economic Development Group (JEDG) held in Israel, focused on a discussion on reducing the cost of living in Israel. During the meeting it was mentioned that Government and Knesset (Israeli parliament) committees found that food prices in

Israel are 15 – 25 percent higher in Israel than OECD averages. Israeli Government officials claim that one reason for the difference is the high level of subsidies to agricultural production in the European countries, however, it was concluded that the lack of competition in Israel's food sector is the primary driving force. Leading to the establishment of special committees making policy proposals, which have been successfully implemented in legislation that reduces tariffs and non-tariff barriers on select products. While these changes have not specifically targeted products of interest to U.S. exporters, they do promote trade liberalization by reducing entry barriers into the Israeli market, which U.S. exporters could tap to increase market share in Israel's food sector.

One of the committees created over the 2011 protests over high living costs, the Kedmi Committee, published several recommendations to overhaul regulations and increase competition in the Israeli food market. The Government adopted the following recommendations:

- Live calves – HS codes 0102930, 0103930 and 0109030 will enter Israel duty free from 2014 until the end of 2021.
- Fresh and Chilled Beef Meat (HS Code 02010000) – In 2014, 2015, 2016, 2017 and 2018 a 2,500 tons, 3,000, 3,500, 4,000 and 5,000 tons duty free quota was approved, respectively. From 2019 and onwards a duty free quota of 5,7000 tons was granted.
- Milk and Cream (HS Codes 04014000, 04015000) – A duty free quota of 750 and 1,000 tons was granted. From 2016 and onwards a 1,250 tons duty free quota was approved.
- Buttermilk, Curdled Milk and Cream, Yogurt and Kephir (HS Code 0403) – A duty free quota of 1,250 and 1,500 tons was approved. From 2016 and onwards a 2,000 duty free quota will be in effect.
- Butter and other Fats and Oils derived from Milk (HS codes - 04051099, 04052000, 04059000) - A duty free quota of 750 and 1,000 tons was granted. From 2016 and onwards a 1,250 tons duty free quota was approved.
- Cheese and Curd (HS Codes – 04061090, 04062000, 04063000, 04064000, 04069020, 04069090) - In 2014, 2015, 2016 and 2017 a 4,200 tons, 4,800, 5,400 and 6,000 tons duty free quota was approved, respectively. From 2018 and onwards a duty free quota of 6,500 tons will be in effect.

On January 12, 2014, the Israeli Government approved the creation of a [committee headed by Harel Locker](#), the Director General of the Prime Minister's Office, focusing on bringing down food prices by advancing parallel imports of food products. The vote on the creation of the committee came as ministers heard a report by the Finance Ministry's budget division, which found that 60 percent of the food retail market is controlled by two supermarket chains. The committee is considering increasing the number of overseas food plants approved to export processed food to Israel by accepting quality-assurance certificates issued in the manufacturers' country of origin. That would do away with the need for certificates for each and every product. This new concession should spur food imports from the United States, as many documents requested by the Israeli food import licensing authority do not exist in the United States, while other documents that address food safety have not been recognized by the Israeli licensing authority.(it is possible that Israel will recognize FDA Certificates of Free Sale, Post will update once it has been established which certificates will be recognized).

Additionally, on May 18, 2014 one of the Locker committee's main recommendations regarding dry

food reform and opening the market to parallel imports was approved. The reform effectively opens the Israeli market to diverse imports of a range of non-sensitive food products, including pasta, breakfast cereals, cookies, crackers, snacks, rice, and beans, thus exposing the market to competition and lower consumer prices. The reform does not apply to sensitive goods, such as animal products and infant formula, for which the requirement of individual permits will stay in place. The list of sensitive foods will be periodically updated as needed. The decision was made following an agreement between Israel and the EU, in which Israel will adopt the European system of food imports. Under this system, imports of non-sensitive foods will be unrestricted, provided that they meet predetermined standards.

As in the EU, Israeli importers will undertake to meet the standards with manufacturers' declarations. This process will facilitate the import of sensitive foods, while increasing the penalties on importers who do not meet the standards and heightened enforcement and supervision. According to the Central Bureau of Statistics, non-sensitive foods account for half of Israel's food imports of \$4.3 billion a year.

Israel's Imports of Food and Agricultural Products

In 2013, Israel imported \$5.5 billion of agricultural products which represented just under 50 percent of its domestic agricultural consumption (as measured in dollars), up six percent from 2012's \$5.2 billion imports. Food and agricultural product imports account for about eight percent of Israel's total import bill. According to the Israeli Central Bureau of Statistics, imports of U.S.-origin food and agricultural products at \$608 million, up 2.3 percent compared to 2012. Imports of food and agricultural products from the EU in 2013 totaled \$2.06 billion, roughly a 3.5 percent increase compared to the previous year. The EU is Israel's biggest trade partner.

Israel reports importing significant amounts of the following food and agricultural products in 2013: cereals (\$1.04 billion); meat (mainly bovine) and edible beef offal (\$507 million); oilseeds (\$417 million); sugar and sugar confectionery (- \$310 million); miscellaneous edible preparations (HS 21 -\$312 million); fish (HS 03- \$287 million); edible fruits and nuts (\$200 million); beverage and alcoholic drinks (\$221 million); and live animals (\$148 million). Imports of cereals and sugar represent 90 percent of domestic use for these commodities; imported beef accounts for over 50 percent of local consumption.

Table 2: Israel, U.S.-Origin Commodity Exports (Thousands of U.S. dollars)

	2011	2012	2013	Jan - Jun 2013	Jan - Jun 2014	
Product	Value	Value	Value	Value	Value	Period/Period % Change (Value)
Bulk Total	431,031	184,795	168,571	81,994	145,147	77
Wheat	146,759	73,304	62,531	39,235	27,056	-31
Corn	158,567	7,145	28	28	80,510	288,281
Coarse Grains (ex. corn)	23,481	0	0	0	5	--
Rice	21,625	16,755	15,024	6,947	8,070	16
Soybeans	73,823	77,883	83,161	32,217	23,802	-26
Oilseeds (ex. soybean)	4,120	3,278	4,233	1,955	3,856	97

Cotton	124	1,898	98	98	597	508
Pulses	863	3,214	1,803	1,003	846	-16
Tobacco	24	437	334	0	0	--
Other Bulk Commodities	1,647	883	1,360	511	405	-21
Intermediate Total	186,212	209,674	212,444	88,249	103,219	17
Soybean Meal	38,707	58,163	53,842	21,747	13,590	-38
Soybean Oil	3,243	31	0	0	0	--
Vegetable Oils (ex. soybean)	7,643	10,176	12,836	7,180	3,305	-54
Animal Fats	6	46	67	61	0	--
Live Animals	605	507	368	139	634	357
Hides & Skins	1,500	1,178	1,089	600	643	7
Hay	155	105	52	27	35	30
Distillers Grains	53,521	51,487	40,377	20,161	28,374	41
Feeds & Fodders NESOI	55,166	57,849	52,319	25,189	39,462	57
Planting Seeds	4,527	5,640	5,960	3,660	2,874	-21
Sugar, Sweeteners, Bev. Bases	4,207	2,920	23,398	1,073	4,384	309
Other Intermediate Products	16,931	21,571	22,135	8,411	9,918	18
Consumer Oriented Total	270,014	234,139	247,791	118,325	151,335	28
Poultry Meat & Prods. (ex. eggs)	940	1,182	1,025	745	395	-47
Meat Products NESOI	90	16	0	0	114	--
Eggs & Products	5,490	4,413	4,030	2,178	1,104	-49
Dairy Products	31,731	15,206	15,415	6,045	14,072	133
Fresh Fruit	12,168	10,567	12,116	5,084	9,775	92
Processed Fruit	20,535	18,005	16,927	7,518	9,033	20
Fresh Vegetables	164	323	301	182	193	6
Processed Vegetables	7,291	7,483	7,569	2,951	4,004	36
Fruit & Vegetable Juices	12,713	4,895	7,441	4,299	3,898	-9
Tree Nuts	93,908	78,731	88,416	41,025	57,479	40
Chocolate & Cocoa Products	3,329	4,589	4,589	2,106	3,510	67
Snack Foods	12,597	17,664	18,038	9,595	9,384	-2

NESOI						
Breakfast Cereals	6,301	7,125	7,600	3,974	4,176	5
Condiments & Sauces	14,416	14,362	15,767	7,403	5,169	-30
Prepared Food	30,586	26,853	24,499	12,324	15,246	24
Wine & Beer	2,018	2,699	2,270	1,300	1,246	-4
Non-Alcoholic Bev. (ex. juices)	1,657	3,935	4,327	2,089	3,143	50
Dog & Cat Food	12,114	15,320	16,451	8,811	9,320	6
Other Consumer Oriented	390	111	216	141	77	-46
Agricultural Related Products	45,813	33,720	35,712	16,976	20,253	19
Distilled Spirits	4,472	4,688	4,381	2,184	3,325	52
Ethanol (non-bev.)	3,397	2,682	485	398	1,198	201
Biodiesel & Blends > B30	7,843	583	0	0	0	--
Forest Products	21,870	19,302	23,269	12,442	13,431	8
Fish Products	8,231	6,465	7,577	1,952	2,299	18
Grand Total	933,070	662,328	664,518	305,544	419,955	37

Source: BICO Trade Data.

NOTE: The difference between Bico statistics and the Israeli Central Bureau of Statistics statistics is due to several reasons: Bico is FOB while Israeli stats and CIF. And – Post found that some of the shipments that goes to Israel stop on the way in other import destinations ports (Italy, France, Greece, Turkey, etc) prior they arrive to Israel (mainly commodities, grains, oilseeds, etc), while in the origin export port data base (eg U.S.) the destination of the whole shipment is Israel, while practically part of the shipment is for other countries.

U.S. Food and Agricultural Products' Trade Position in Israel

Coarse grains, oilseeds, dried nuts, dried and fresh fruits, and prepared food products account for the bulk of U.S. food and agricultural exports to Israel; milling wheat, soybeans, and feed grains enter Israel duty-free. Tariff rate quotas (TRQ) and high import levies on U.S. products such as almonds (shelled and unshelled), raisins, and prunes limit imports. U.S.-origin shelled walnuts and pistachios do, however, enjoy duty-free access.

Israel continues to ban the import of U.S. beef, beef meat and products due to differences regarding the maximum residue limits of some veterinary drugs between the two countries, the lack of an agreed export certificate and Kosher Law restrictions. However, discussions to remedy these issues have advanced meaningfully and Post estimates that the Israeli market will be opened by the end of 2015. Post estimates the market potential for U.S. beef and beef products at about \$160 million annually.

In recent years, Israel has progressively lifted BSE restrictions for bovine genetics and live cattle. Unfortunately, the absence of a bilateral agreement on the live cattle trade's technical requirements precludes shipments at this point despite strong local interest for U.S.-origin cattle for fattening. FAS Tel Aviv estimates the Israeli market potential for U.S. cattle (tariff exempt) imports at about \$30-\$40 million annually.

Table 3: Israel, Commodity Import Values, U.S. and World Compared (\$ millions)

HS Chapter	Product Category Description	2012 U.S.	2012 World	2013 U.S.	2013 World
1	Live animals	1.4	126.4	1.4	148.4
2	Meat and edible meat offal	0.8	449.6	1.5	507.5
3	Fish, crustaceans and mollusks	3.4	267.1	3.1	286.3
4	Dairy produce; eggs, natural honey; edible products of animal origin	19.4	72.5	16.3	78.1
5	Products of animal origin NEC	0.3	9.7	0.4	6.8
6	Live trees and other plants, bulbs, roots and other garden plants	0.1	12.9	0.1	13.2
7	Edible vegetables, roots and tubers	4.4	82.6	6.2	106.2
8	Edible fruits and nuts; peel of melons and other citrus fruit	113.0	199.8	108.4	200.1
9	Coffee, tea, mate and spices	2.5	153.8	2.5	155.8
10	Cereals	80.4	1098.4	75.0	1042.2
11	Products of milling industry; malt and starches; wheat gluten	19.0	72.3	13.9	70.1
12	Oil seeds, grains, fruits, industrial and medical plants. Straw and feed	160.4	403.3	143.4	416.9
13	Tree gum; resins, other vegetable saps and extracts	2.0	35.2	2.7	36.0
14	Vegetable plaiting materials; vegetable products n.e.c	0.07	3.0	0.02	3.0
15	Animal or vegetable fats and oils; animal or vegetable waxes	8.9	205.3	12.3	212.7
16	Preparation of meat, fish, or of other aquatic invertebrates	5.4	109.5	7.1	157.8
17	Sugar and sugar confectionery	5.1	358.8	4.8	309.5
18	Cocoa and cocoa preparations	2.9	158.7	2.5	167.7
19	Preparations of cereals, flour starch or milk; pastry products	14.8	218.8	15.7	241.8
20	Preparations of vegetable, fruits, nuts and other plants	23.3	211.2	37.5	212.9
21	Miscellaneous edible preparations	45.6	289.2	47.0	312.4
22	Alcoholic beverages and vinegar	11.0	182.9	13.0	221.4
23	Residues and waste from the food industries; prepared animal feed	68.6	369.6	92.4	364.7
24	Tobacco and tobacco substitutes	0.5	204.8	0.4	216.2
Total		594.0	5,295	608.0	5,488
U.S. Share		11.2%		11.1%	

NOTE: For additional Israeli import data by HS codes, see Central Bureau of Statistics [2013 and 2012 import](#).
Source: Central Bureau of Statistics, Israel.

Israel's Trade Agreements

Prior to its World Trade Organization (WTO) accession in 1995, Israel signed its first free trade area agreement (FTAA) with the European Community in 1975. All new EU member states are included in the agreement. Over the years, Israel has signed free trade agreements (FTA) with the United States, Turkey, Jordan, Mexico, Canada, MERCOSUR (increasingly posing a challenge to U.S.-origin products), the European Free Trade Association (under revision), Colombia, (the agreement was signed in 2014) as well as with the Palestinian Authority. Free trade agreement negotiations with India is progressing.

Following the 1985 Free Trade Agreement (FTA) between the U.S. and Israel, a bilateral Agreement on Trade in Agricultural Products (ATAP) was signed in 1996. A successor agreement, effective through 2008, was signed in 2004. Since then, annual extensions have been issued to allow the parties to negotiate a permanent agreement. Though the FTA has been a success, the overall economic benefit has tilted substantially in Israel's favor with the balance of trade moving from the roughly balanced trade of 1985 to a recent norm of an \$8-9 billion annual trade deficit for the US. Moreover, 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. companies produce a number of agricultural products that could be competitive in Israel were it not for the high tariffs maintained by the Government of Israel. We believe that the renegotiated ATAP will increase U.S. product competitiveness in Israel, which are expected to continue by the end of the year.

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 TRQs; or 3) preferential tariffs set at least 10 percent below Israel's Most Favored Nation (MFN) rates. Approximately 90 percent of current U.S. food and agricultural product exports (by value) enter Israel duty- and quota-free due to Israel's implementation of its WTO, ATAP, and U.S.-Israel Free Trade Agreement (FTA) commitments. However, the remaining U.S. food and agricultural product tariff lines (mostly value-added consumer products) face a complicated TRQ system and high tariffs for imports above the quota. The average tariff on imported food and agricultural products is about 24 percent; with the average tariff on non-agricultural products averaging 4 percent. Notably we find that there is a lack of quota fill-rate and license allocation data.

Table 4: Advantage and Challenges for U.S. Suppliers

Advantage	Challenges
The ATAP offers the United States tariff rate	Most ATAP quotas are for products for which the

<p>quotas for several products and reduced duties for a number of others.</p>	<p>United States has no competitive advantage or for which Israel has no import needs. The average U.S. quota fill use is only 35 percent. Some fresh produce that lack PRAs (i.e., fresh cherries, table grapes, and blueberries) can't enter Israel. Israel remains unwilling to phase-out tariffs completely.</p>
<p>Kosher products have a much higher market share in Israel as the large supermarket chains and hotels buy only kosher products. Kosher food sales in the United States were about \$17 billion in 2013—two and a half times the amount 11 years ago (\$7.6 billion), so the United States is expected to have a competitive advantage in this area.</p>	<p>Lack of response of many U.S. companies to Israeli companies' business requests.</p>
<p>The possibility of a peace agreement between Israel and the Palestinians, led by U.S. Secretary of State John Kerry, would boost both economic growth in Israel and the PA if such an agreement is ever signed.</p>	<p>The recent Gaza war in conjunction with the slowdown in Europe, have resulted in a slowdown in the Israeli economy.</p>
<p>U.S. food product suppliers may benefit from the Israeli Knesset Economic Committee (August 2013) approval of the standardization reform bill. The Israeli Standards Institute is to now recognize "international standards" such as those of the United States and EU.</p>	<p>Israel is increasingly adopting EU standards, which are not international standards, in the basence of international standards. However, many of these are more restrictive and/or not scientifically justified.</p>
<p>Israeli consumer protests in 2011 over high living costs, prompted the formation of committees looking for ways to lower food costs. Among some of the recommendations implemented by the GOI are duty free quotas on milk and meat products to all WTO countries; temporary duty free quota for some fresh vegetables and fruits in 2014. Restrictions on large Israeli and companies with an annual turnover of more than \$285,000, by limiting their shelf space to 50 percent of the space at a supermarket chain. Implementation of the "dry food reform", opening the market to parallel imports and import process of non-sensitive products should be much easier and less expensive than the current import system such as: pasta, breakfast cereals, cookies, crackers, snacks, rice, and.</p> <p>The reform does not apply to sensitive goods, including animal products, infant formula, and foods about which there are food-safety concerns, for which the requirement of individual permits will stay in place</p>	<p>The EU is Israel's main trading partner. A new agricultural agreement was signed between Israel and the EU in November 2009, resulting in greater market access on both sides. India and Israel are presently working towards signing an FTA.</p> <p>In September 2013, <u>Colombia</u> formalized a bilateral free trade agreement with Israel. The agreement stipulates a reduction of tariffs on agricultural and industrial products traded between the two countries</p>
<p>The ban on U.S. beef is expected to be lifted in the coming months, once the Israeli and U.S. governments sign the health certificate and the kosher issue is resolved.</p>	<p>Most frozen beef imported by Israel originates in South America; prices are lower compared to U.S. prices.</p>
<p>The Israeli consumer is already familiar with U.S.</p>	<p>Kosher requirements are increasingly strict, and</p>

products, and is receptive to additional products.	consumers are demanding high-level kosher certification for their food products.
Israel and Palestine's economies are linked. U.S. exporters can use Israel as a gateway to the Palestinian market with its rapidly growing population.	According to the IMF, economic activity in the West Bank and Gaza in 2013 was weaker than expected and fiscal strains have continued. IMF estimates that real GDP increased by only 1.5 percent in West Bank and Gaza, reflecting the impact the Israeli-Palestinian conflict and a sharp deterioration of economic conditions in Gaza.
Negotiations on the new ATAP are expected to continue in November 2014	The security situation in Israel and in the region remains precarious.
	Import requirements are strict and new-to-market products are often detained at port.
Israel's per capita consumption of fresh fruits and vegetables is high and is expected to continue to increase.	Israel will not agree to the U.S. request for a complete phase-out of tariffs under the ATAP.
Israeli consumers are increasingly health-conscious and self-conscious of the need to eat a balanced diet. Supermarkets are making room on the shelves for gluten-free rolls, legumes, organic products and whole wheat pastas that were once only available at specialty stores. American suppliers are considered to be a reliable source for high quality, healthy food products.	The HRI sector generally prefers 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 Due to the uncertainty in Ukraine and Russia which are the main suppliers of grains into Israel, imports of U.S. grains are increasing (mainly corn). In recent years, protein use from a variety of sources including different oilseed meals, Dried Distillers Grain (DDG) and Corn Gluten Feed (CGF) imports have increased significantly	Many Israeli traders consider the Black Sea Basin (BSB), , a "natural" source for grains due to its proximity and the convenience of small and medium cargos..
	The MERCOSUR and the recent Colombian FTAs makes South America-origin agricultural products increasingly competitive, especially for bulk commodities.

SECTION II: EXPORTER BUSINESS TIPS

U.S. food exporter should focus on establishing their business relationship with a reliable and efficient importer and distributor. Identify the appropriate distribution and sales channels. U.S. exporters and Israeli importers could expand trade by strengthening confidence through visits of U.S. exporters/manufacturers to Israel, exploring opportunities firsthand, and meeting with relevant Israeli importers. The USDA/FAS is willing to facilitate exchanges groups of U.S./Israeli food exporters to Israeli /U.S. food shows and food conventions, however, U.S. companies must be willing to show interest and responsive to their Israeli counterparts.

Large food retail chains like Shufersal and Blue Square have their own purchasing/importing division to handle food imports directly. Major supermarkets are increasingly importing directly from foreign suppliers in order to reduce costs. U.S. suppliers should initially contact the

purchasing/importing divisions of these large food chains, especially for new-to-market food products. A list of contacts for Israel's major food supermarkets and importers is available from FAS Tel-Aviv Office upon request. U.S. exporters should consider the price sensitiveness of their customers, their product requirements, purchasing policies, and expected purchase volumes.

Additional Marketing tips:

- Direct marketing (phone/video calls, emails, meetings)
- Direct marketing is common also through mail order booklets
- 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. In recent years Israelis were ranked the second most active Internet users in the world, after Canada, according to a comScore survey on Internet usage
- Israel has an extensive road network that connects the entire country and advanced inland and international transport facilities. Rental cars, taxis and limousines with driver are readily available for U.S. 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 has been the modernization of the train system. Commuter trains run from Tel Aviv to most of the large cities from Nahariya in the north to Dimona in the south, including Jerusalem and Ben Gurion Airport. Extensive freight services are available and most often used between Haifa, the 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 city airport.
- Roughly 40 percent of Israel's 8.2 million people are concentrated in the greater Tel Aviv metropolitan area, Israel's commercial and financial center. Other major concentrations of the population are the Haifa metropolitan area (15percent), a major port city and center for the petrochemical and high tech industries, and Jerusalem (11percent).
- For first-time exporters to the market, 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 are advised not to assume that selling in Israel is the same as selling in the domestic U.S. market.
- [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 goods. The correct classification of goods is the key to determining tax rates, as well as obtaining various authorizations, permits and licenses, and all other conditions of importation, in accordance to the applicable laws, regulations and instructions. We recommend contacting a professional customs broker for consultation since classification of goods requires professional knowledge
- 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, U.S. Airways and Delta Airlines operate 10 daily direct flights from Tel Aviv to New York, Philadelphia, and Los Angeles. Most European airlines offer competitive prices and routes to the U.S. via Europe.
- 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 [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

Israel's business environment has no particular business protocols; it mainly follows western US style conventions, which makes most U.S. businesspeople feel very comfortable in doing business in Israel.

American business travelers will find the dress code in both the public and private sectors to be much less formal than in the U.S. "Business Suit" maybe appropriate in meetings with high level executives and government officials.

Appointments can be made on fairly short notice; however, reconfirming appointments is advised, given that most Israelis tend to have busy schedules. Israelis arrive well prepared for meetings and are very direct. It's desired to provide your hosts with an agenda outlining your objectives in advance. Exchange of business cards is common, although some may be less alert by this practice. Therefore, provide your business card early on and politely request one in return, if not offered.

In terms of language, English is widely spoken in the business community and in government offices, but knowing and using a few Hebrew words, especially introductory phrases and greetings, can be useful.

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

Working days and hours – Sunday – Thursday from 8:00a.m – 5:00 p.m. for most businesses and government offices. Occasionally, business people will be willing to hold meetings on Friday mornings.

Jewish Holidays in Israel are mainly in Sept and April. Please use the calendar to see the Jewish holidays, in which part of the holidays most local business are closed. There is no public transportation on the Jewish Sabbath (Friday sundown to Saturday sundown) and some of the Jewish holidays.

General Consumer Tastes and Preferences

During the last decade, an increasing share of consumers preferred to buy their products through supermarket chains (58percent) instead of through the traditional channels of open markets and small grocery stores.

The 2011 consumer protests over high living costs forced local food companies and retail chains to cut prices and, as a result, there is significant price competition in the food sector in Israel.

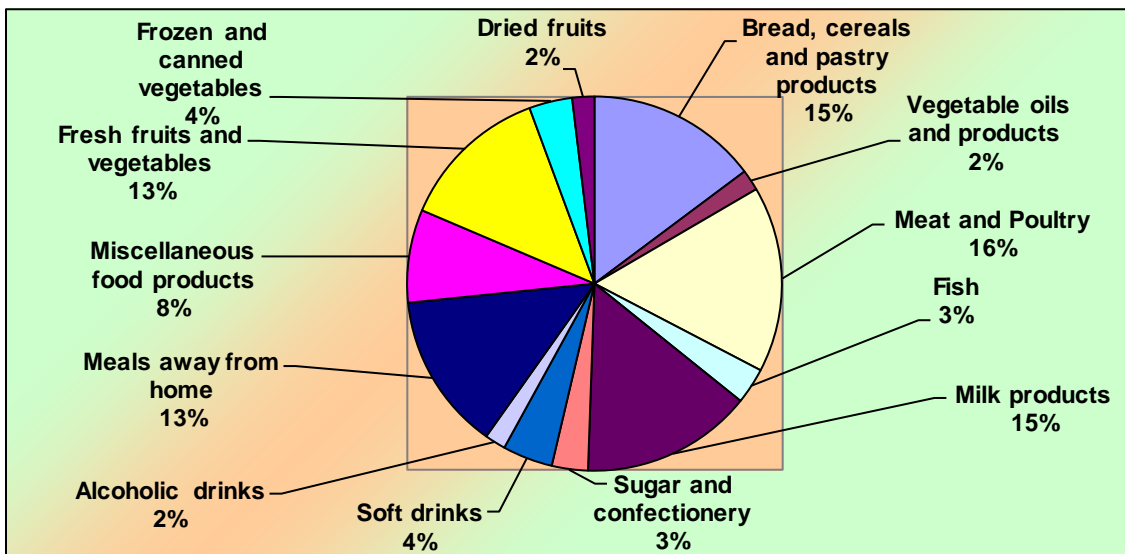
In recent years, local consumers identify private labeling with lower prices and with a guaranteed product quality. Currently, private labeling sales are about nearly 10 percent of total food products sell in Israel and the trend is extending .

Israeli consumers have become extremely health-conscious in recent years and are adopting a more balanced diet, as well as increasing exercise levels.

Kosher food products offer the greatest potential for U.S. exporters, as most of the retails food chains and HRI sector buy only kosher food products.

In 2013, purchasing food online continued to gain popularity, as retailers improved their websites to a more user-friendly and smarter shopping experience. Due to consumers' price-sensitivity, some websites, such as Shufersal, offer a button to present cheaper alternatives to products ordered, as well as the option to choose healthier alternatives in terms of calories, fat or sodium. In addition, retailers expanded their distribution zones thanks to the rising demand for online shopping for convenience reasons.

Chart 2: Israelis Spending on Food, by Category, 2012



Source: Household Expenditure Survey, 2012, CBS.

Annual average household consumption expenditure in 2012 totaled about \$48,240 (up 2.2 percent from 2011), of which 16.1 percent or \$7,767 is allocated for food purchases, including fruit and vegetables.

Kosher Certification

Israel's *Kashrut* law restrictions follow BSE concerns as the second main impediment to U.S. beef imports. Since December 1994, Israel bans the import of non-kosher beef and beef products. Israel does however permit the domestic production and marketing of non-kosher domestic beef

and pork. 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). These kosher certifications are costly, and unnecessarily drive up retail beef prices. While kosher certification poses a significant challenge to U.S. beef exporters, imports of non-kosher beef offal are permissible.

FAS Tel Aviv estimates that 95 percent of all meat products consumed in Israel are kosher. With the exception of beef, poultry (including turkeys), and mutton and products thereof, there is no legal requirement that imported food and agricultural products be kosher. However, non-kosher products struggle to make inroads into the local market since Israel's large supermarket chains and hotels normally opt not to carry such items.

New Possible Kosher Food Certification System in Israel - On February 3, 2014, Economy Minister Bennett announced plans to "revolutionize" Israel's kosher food regulations and to introduce a three-tier system that aims to make certification easier for restaurants and its customers. Kosher certifications for businesses in Israel are awarded by local state rabbinic bodies, known as kashrut committees, that are under the supervision of the Chief Rabbinate of Israel. Kashrut inspectors visit applicants and inspect their kitchens when preparing food to ensure they meet the Kashrut laws. However, the ultra-Orthodox community also operates a variety of stricter kashrut certification committees, known as the "Badatz". Currently, business owners pay the kashrut supervisor directly, which has been the cause of a conflict of interest in hiring supervisors. The plan is to establish independent companies, which will hire kashrut supervisors on behalf of the local religious councils, and then have them sent to supervise food operations on behalf of the company. The ministry states that the reforms will be implemented within 12 months.

Import Tariff Protection

Over the years the OECD has found that Israeli consumers are paying higher than global average prices for food and agricultural products. Israeli farmers and ranchers still continue to benefit from a number of official trade protectionist measures, which needlessly drive up local food prices. In this sense, many of the "2010 OECD Review of Agricultural Policies: Israel" report conclusions still hold; largely that, although government supports have fallen over time, not all market distorting policies have been removed.

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 often prohibitively high. 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

Refer to [GAIN Israel - FAIRS Country Report \(2013\)](#). This report is currently being updated for release in late 2014.

Import Licenses

All imported goods from all destinations, including food agricultural products, are subject to the Israeli import licensing requirements. For products that benefit from TRQs, the Ministry of Agriculture and Rural Development (MoAG) and/or the Ministry of Economy (MoE) will issue TRQ-specific import licenses, with zero or reduced duties. All imported food and agricultural products require an import license and or a sanitary/ phyto-sanitary certificate for public health reasons, in addition to other import requirements the Israeli authorities request (lab tests, Free Sale Certificate/GMP certificate, HACCP, certificate that the product was produced in the U.S. in order to enjoy the FTA and ATAP agreements terms between Israel and the US.). Import licenses are issued by the Israel Veterinary and Animal Health Services (IVAHS), the Plant Protection and

Inspection Services (PPIS), and the Food Control Service (FCS).

Sanitary and Phyto-Sanitary and Regulatory Systems

Four agencies are involved in Israel's food, livestock, and plant safety supervision. These include: 1) the FCS, which is part of the Ministry of Health (MoH); 2) the Standards Institution of Israel (SII); 3) IVAHS; and 4) the PPIS, (both IVAHS and PPIS are part of the MOAG. The Food Control Service handles imported food licensing, it is notorious for the onerous requirements it places on high-value food product imports. Depending on the product, the Ministry of Trade (MoT) and the MoAG share responsibility for managing quota allocations under the U.S.-Israel FTA.

Israel's stringent beef and poultry kosher requirement (there is no SPS import ban on poultry products), is the major barrier that prevents U.S. poultry products from entering Israel. U.S. live cattle imports also continue to face significant entry barriers.

At the same time PPIS has also been slow in conducting pest-risk-assessments (PRA) on U.S.-origin products. The Standards Institution of Israel is the agency responsible for the development of most product standards, compliance testing, product certification, and industry's quality assurance systems. The Food Control Service enforces food and food labeling standards. Although Israel is receptive to international standards, it is increasingly turning to EU standards that often vary and conflict with U.S. standards. Israel requires that food and health products be registered with the MoH before they can be sold. U.S. Food and Drug Administration (FDA) approval for food and health care products is not mandatory, but Israeli importers prefer FDA approval as it helps accelerate the product registration process and import license approvals. Product registration normally takes from 4-6 weeks if all documentation is in order.

Israeli consumer protests in 2011 against high living costs, including basic foodstuffs, spurred the formation of the inter-departmental Kedmi Committee. The committee published several recommendations on regulation and competition within the Israeli food market. One of the committee's key recommendations has been to ease import requirements. Subsequently the MoH has notified its intent to modify its food import licensing procedures. The food import licensing process acts as a trade barrier, unnecessarily increasing food prices in Israel.

Biotech Food - In October, 2013 new draft regulations announced by Israel's Ministry of Health called "Public Health Regulations (Food) (Novel foods) 5773 - 2013" (G/TBT/N/ISR/710) were notified to the WTO for comments by other members. The scope of the definition "novel food" is limited to food for human consumption only. The following are the major requirements introduced by the proposed regulations:

- Registration of novel foods which must go through a risk assessment process before being approved
- Prohibition of the manufacture, importation, storage or sale of a novel food unless it is registered in the official list of permitted novel foods
- Labeling of genetically modified pre-packaged food, fruits and vegetables

According to the Israeli Ministry of Health, genetically engineered food is defined as food that contains an ingredient produced through biotechnology. Regulation 12 of the Israeli Novel Foods regulation describes the terms for exemptions from mandatory labeling. When the ingredient containing a GMO:

1. Does not contain DNA and protein or 2. Less than 0.9 percent of the ingredient is of a GMO.

The new regulation has not been approved yet by the Israeli Government and FAS Tel Aviv estimates that the new regulations will be approved by the end of 2015. Once approved by the

Israeli Government, the new regulation will come into effect one year after the publication in Israel's Official Gazette.

Israeli law permits the development and growth of genetically engineered organisms for research purposes in accordance with requirements established by subsidiary legislation. Although genetically engineered seed and crop production is not permitted for commercial purposes, GE products may be imported, sold, and used in the production of food and pharmaceuticals in Israel. While Israeli scientists usually support the development of biotechnology, environmental activists have expressed concerns regarding what they see as potential harm resulting from their use. Israel's religious kashrut authority has determined that the use of GMO ingredients in food does not affect its kosher status because GMOs are only used in "microscopic" proportions.

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.

2. **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.

Recommendations for U.S. Food and Agricultural Product Exporters

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

1. A U.S. Certificate of Free Sale, obtained from the FDA, facilitates 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. 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

SECTION III: MARKET SECTOR STRUCTURE AND TRENDS

The Israeli Food Association reports that Israel's food and beverages market increased by 1.8 percent in 2013 compared to 2012, totaling about \$9.2 billion. We estimate that in 2014 the Israeli food and beverages market will grow at a lower rate than in 2013, due to the slowdown of the Israeli economy in conjunction with the increased imports of food products in 2014 compared to 2013.

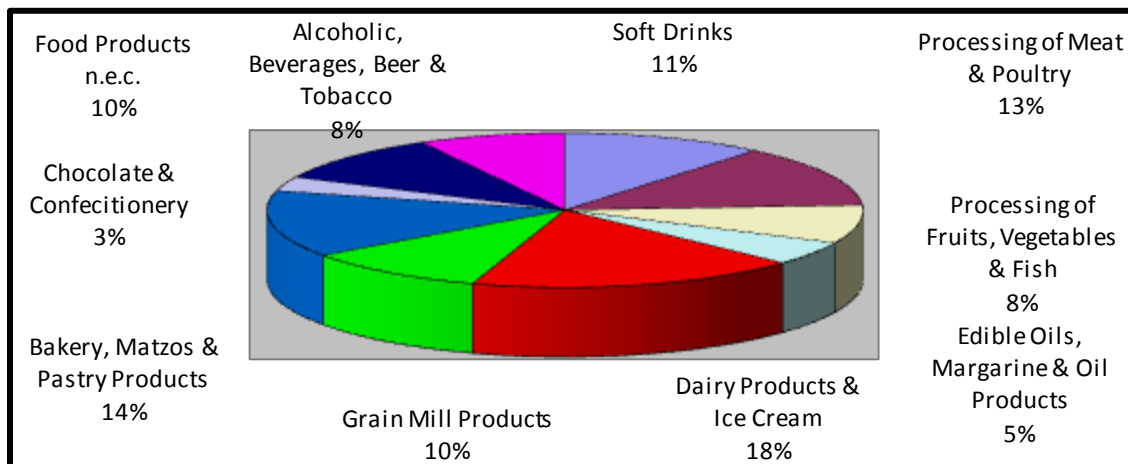
Food Processing Industry

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 (were bought recently by the largest Chinese food manufacture), Osem-Nestle, Unilever, and Straus). This has contributed to reduce competition and increased consumer food prices.

Chart 3: Food Processing Industry Value, by Sub-Sectors, Percent, CY 2013



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, making Middle Eastern foods a very popular cuisine.

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 self-conscious 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. The supermarkets are making room on the shelves for gluten-free rolls, organic products and whole wheat pastas that were once available at specialty stores for the true diehards. Cafes have also followed this trend — starting from low-calorie servings and onward to vegetarian menus and vegan dishes.

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.

Impulse and indulgence increased by about 2 percent in 2013, thanks to positive demand in most categories, but a slight slowdown compared to 2012. One of the reasons for the slowdown relates to a preference for value for money products such as private label products or products which are on sale, due to price-sensitivity prompted by decreasing purchasing power. In this context, indulgence food is expected to see only a moderate slowdown, thanks to frequent sales of such products. Sales of impulse products are typically different from indulgence products, which are not bought on impulse, such as family-sized ice cream or combo packs, as these are often sold only in larger stores, not in kiosks. They are also sold in less accessible areas of the store. Impulse products, on the other hand, are typically sold near the exit next to the cashiers, as this is where people are waiting to pay and are more likely to purchase.

Snack bars were up by about 6 percent in 2013 and see the fastest growth in impulse and indulgence, as the average unit price decreased, new competitors entered the market, and new products were launched. Another factor affecting growth was fast-paced lifestyles, as snack bars are perceived as a breakfast substitute, or a source of energy before and after a physical workout. Retail volume and value sales were also bolstered by new launches, marketing activities and improvements in distribution, as well as by price promotions. This product is becoming popular in accordance with fast lifestyles, and is considered one of the best examples of the success of on-the-go products.

Packaged/industrial pastries showed the poorest performance in 2013, with a current value decline of 4percent. This is due to a strong consumer preference for artisanal/unpackaged pastries, which are available in every retailer, and are perceived as fresher as they are renewed daily and enjoy higher quality. Packaged/industrial pastries suffer from a reputation of artificial flavor, despite an improvement in recent years, and face strong competition from home-made and artisanal pastries. The trend of premium-look packaging continued in 2013, such as the launch of Corny's "gold" pack snack bars, Joya's ice cream, and Habait's standard cakes, changing to a more luxurious package..

Another eating trend on the rise, is the popularity of meat substitutes. According to StoreNext (Israel's largest database for the local food sector), meat substitutes generate annual sales of NIS 254 million (\$71 mil) with 61percent in the form vegetarian schnitzel-style cutlets — 74percent

made from corn.

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.

Marketing and Distribution Channels in Israel

Retail Supermarket Chains: Grocery retailers saw sales increase of only 2 percent in 2013, reaching \$16.4 billion. Due to the impact of social protest, attributable in part to high food prices, discounters' sales continue to outpace supermarkets. Israel's retail food sector is dominated by two retailers Shufersal and Blue Square, however private supermarkets are becoming significant players in the market.

[Here is the recent Retail market report](#)

Food Service - Hotel Restaurant Institutional:

Tourism, which accounts for about seven percent of Israel's economy, has been among the hardest-hit industries due to the armed conflict between Israel and Gaza in summer 2014. The number of visitors declined in July by 26 percent from a year earlier. The conflict has cost the tourist industry at least \$566 million, according to the Israeli Ministry of Tourism.

Israel's \$13 billion Hotel, Restaurant and Institutional (HRI) sector is projected to grow by about 1 percent through 2014 compared to 3-4 percent growth in 2012 and 2013.

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 crowd, with 25-29 year-olds representing 12.5 percent of the Tel Aviv population. While 30-34 year-olds make up 11 percent of the city's population.

The food service sector is divided into two categories: commercial and institutional. The commercial sector is further divided into two main sub-sectors: hotels and restaurants. This sector includes 334 hotels (47,252 rooms). There are also some 1,200 rural tourism lodgings. Post estimates that Israel counts with about 15,000 commercial food businesses.

Commercial food businesses include restaurants, coffee shops, fast food, pubs, and kiosks. Sources indicate roughly 4,800, or 32 percent, are kosher certified. Many of the non-kosher certified restaurants, nevertheless utilize only kosher ingredients. In addition, there are about 700 banquet halls. Sources report that popular food service businesses include coffee shops (1,500), pubs and bars, steak houses, Asian- and Mediterranean-style restaurants.

Post finds that institutional food sales reach an estimated \$1.8 billion per annum, with the Israeli Defense Forces (IDF) being the single largest institutional food consumer. It is estimated that in Israel about one million meals per day are produced for the institutional sector, of which the Israeli Police and Prison Services consume about 55,000 meals per day.

Large hotel chains and large caterers often have central purchasing offices. The Israeli Defense Force (IDF), the Israeli Police, and Israeli Prison Service are a significant component of the HRI sector and also have central purchasing offices. This process is usually through a bidding system. Foreign companies can supply through a local representative.

Tourism Industry

In 2013, Israeli Tourism Ministry figures shows a new record in tourist entries to Israel with more than 3.5 million visitors, a 0.5 percent increase from 2012.

The number of tourist entries (excluding one-day visits) totaled 2.9 million in 2013 – a 3 percent increase compared to 2012 (an average rise of 2.5percent/year since 2008).

Of the 3.5 million visitors, about 2.6 million arrived by air (73percent) – a 4percent increase from 2012. Some 381,000 tourists came in through border crossings (11percent) – a 6percent drop from 2012, 578,000 entries (16percent) were made by one-day visitors – a 9percent drop, and 257,000 of them arrived as part of a cruise – a 2percent increase from 2012.

–Most tourist arrivals come from the United States – about 623,000 persons-, who make up 18 percent of Israel's incoming tourism (a 1percent increase from 2012). Russia came in second with 603,000 tourists (a 3percent increase from 2012), followed by France with some 315,000 tourists (a 5percent increase from 2012).

Table: Tourists Arrivals in 2013, by Main Country

Country	Number of Tourists
U.S.	623,000
Russia	603,000
France	315,000
Germany	254,000
UK	217,000
Italy	173,000
Ukraine	134,000
Poland	89,000
Canada	71,000

Source: Israeli Tourism Ministry

According to the Tourism Ministry, most tourists were highly satisfied with their visit (a score of 4.3 out of 5). Improvements were recorded in the public's attitude towards tourists, in recreational and nightlife activities and in accommodation facilities compared to 2012.

Tourism yielded the economy an estimated NIS 40 billion (\$11.5 billion) in 2013, an 8 percent drop from 2012. Incoming tourism brought in about \$5 billion in income.

Some 100,000 people were employed in the tourism industry in 2013, two-thirds of them in hotels. The total number of employees as a result of the tourism activity is estimated at some 195,000 – about 6percent of all employees in the Israeli economy.

The most visited city in Israel is Jerusalem, which was toured by 75 percent of tourists. Tel Aviv came in second with 64 percent, followed by the Dead Sea area (51percent), Tiberias and the Sea of Galilee (44percent) and Nazareth (35percent).

Israelis traveled a lot in 2013 too, with domestic tourism totaling 16.7 million stays (in all types of accommodation) – a 3 percent increase from 2012. Israel's hotels recorded 13.7 million stays by Israelis (a 3percent increase), rural guesthouses – 1.9 million stays (a 1percent drop), and field schools – 339,000 stays (a 1percent drop from 2012).

Israelis are not giving up on vacations abroad either as they took 4.7 million trips abroad in 2013 (a 9percent increase from 2012), 4.3 million of them by air (up 10percent), while trips through border crossings (to Jordan and Egypt) saw a 3 percent drop to 0.4 million trips.

Foodservice Sector

Due to the increasing popularity of fast food, and the rise of fast casual dining outlets in 2013, alongside upgrades in quality, there was higher demand for high-quality ingredients for foodservice outlets such as olive oil, other nutrition/staples, and dairy products, including some standard and premium brands. For example, the fast food chain Sbarro announced the use of real mozzarella cheese in its pizza, and included chilled pasta in its menu.

Olive oil is expected to continue to see the fastest growth in 2013, achieving growth of 8 percent in foodservice volume terms, as it is perceived as healthy, is common in local cuisine, and enjoys high awareness of its contribution to health. Foodservice outlets continue to emphasize the use of premium oil in order to be perceived as fine quality food outlets. Another explanatory factor is the continued popularity of Italian and Middle Eastern restaurants, which often use olive oil.

Long-life/UHT milk is expected to see the slowest foodservice volume performance in 2013, with a decline of 4 percent, due to its perceived value as artificial and unhealthy, since it contains preservatives. In addition, foodservice outlets favor using fresh milk for food and drinks for a better taste and due to their sufficient refrigeration capacity, making long-life milk redundant.

Tnuva Food Industries is expected to remain the largest foodservice supplier in 2013, with the company's success being attributed to its offering of customer-specific solutions. Tnuva operates in a wide range of areas, including vegetables, dairy, poultry, meat, fish and bakery products, and is able to offer consumers a complete and integrated range of services. Nestlé Food Service is expected to be the second largest player in 2013.

Bright Food Group, China's second largest food company which is controlled by the government in Beijing, bought all of the Tnuva shares controlled by Apax. Bright Food owns now 73 percent so they have a majority in Tnuva). The purchase of the Israeli dairy firm would be the Chinese group's latest potential foray overseas, since the company recently bought Australia's Manassen Foods and U.K.-based cereal maker Weetabix Food Co.

Domestic manufacturers dominate the market when comes to sales to foodservice, due to shelf-life considerations, shipping costs and kosher restrictions in many categories, which offer a competitive advantage to local brands. However, when comes to categories such as olive oil and pasta, international players have managed to gain a niche, especially in the premium segment.

Trends –foodservice

In 2013, consumer foodservice sales increased by 3 percent in volume terms. The reasons for growth are related to the growing experience of eating out, spurred by television cookery programs presenting popular chefs, alongside a rise in cheaper types of foodservice due to a decreasing purchasing power. In this context, the location of outlets slightly changed in favor of travel and lodging locations.

Consumer foodservice is currently growing at an acceptable pace, same as in the last 2-3 years, as awareness is growing on the one hand, but on the other hand the market is experiencing some saturation, caused by the growing competition and stagnant incomes.

There is some interplay between the retail and foodservice channels. In times of economic recession or decreasing purchasing power, as the current situation, consumers would rather purchase packaged food for home consumption instead of spending time and money at foodservice outlets, but eating out does not significantly affect packaged food.

Entry Strategy – HRI Sector

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

Visits by U.S. exporters, manufactures, and or investors to explore opportunities firsthand, and meet with Israeli importers and investors strengthens confidence with local partners. Visiting local HRI shows and exhibiting at the main food shows in Europe (i.e., ANUGA, SIAL), which most 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.

Many well-known American brands are present in Israel under a franchise agreement including McDonalds, Pizza Hut, Domino's Pizza, Ben Jerry's and others. Israel's franchise industry has been developing rapidly in recent years. The franchisers are local companies and families. Interested U.S. companies who are considering to enter the Israeli market should approach the DAS-Tel Aviv office for further information.

The food industry represents 12percent of total foreign franchises. 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, but a voluntary code, many franchisors have already provided their support and have used it to set new standards in the franchise industry. For more information about the 'Code of Ethics' please visit: www.franchise.org.il

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.

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 8.7 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. 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.

Israeli consumers are increasingly health-conscious and self-conscious 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.

In recent years, more microbreweries and boutique wineries have went into operation and the Israeli very much in favor of this trend.

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 25-27, 2014 – Tel Aviv
2. [AGRO-MASHOV](#): Agro Mashov is Israel's largest international agriculture exhibition. June 23-24, 2015 – Tel Aviv
3. [WATEC](#): The WATEC exhibition is Israel's main trade show for showcasing technologies and expertise in water and environment technology fields. Date for the 2015 show was not published yet.

Foreign Food and Trade Shows Frequented by Israeli Buyers

1. [Kosherfest](#) (November 11-12, 2014) is the world's largest kosher certified products trade event serving the retail and foodservice industries. Many Israeli buyers attend this show
2. Israeli importers, distributors, and food manufacturers attend the main European food shows (i.e., [ANUGA](#), [SIAL](#)) in Europe

SECTION IV: BEST CONSUMER-ORIENTED PRODUCT PROSPECTS

Table 5: Best Consumer-Oriented Prospects

Product Category	2013 Market Size (Volume)	2013 Israel Imports from the World (\$ millions)	5-YR Avg. Annual Import Growth	Import Tariff Rate	Key Constraints Facing Market Development	Market Attractiveness for U.S. Suppliers
Pistachios	\$29 Mil	\$29Mil	Growth of 3% per annum.	Product from the U.S face no import duties. Turkey has a 100 ton TRQ, and above that faces a 23% duty of not less than NIS 3.65/kg.	Competition mainly from Turkey.	Demand for U.S.-pistachios is strong due to Turkish imports facing high import levies. U.S. pistachio enters duty free.
Ice Cream	Ice cream market is \$05 Mil. Strauss and Nestle control about 82% of the market. Market increased 26% since 2006	Ice cream imports totaled \$6.4 million in 2013, up 28% versus 2012.	Average \$5.4 million per annum.	The U.S. is granted a duty-free TRQ of 113 tons. Above the quota tariff it's not less than NIS0.55/kg ~\$0.14/kg.	Israel imports ice cream from the EU, Russia, Ukraine and the U.S. The EU has a TRQ for 500 tons, Local ice cream industry is very strong.	In 2013, the US share was only 5% of total ice cream import value.
Wine	\$83	\$25 Mil	Imports have	The U.S. and the EU	70% of consumption is	This market is likely to become

			varied.	enjoy TRQs of 200,000 and 430,000 liters .	from local production, and the rest is mainly from France, Italy, South America, and the U.S. market share is about 5%.	more dynamic as consumers prefer local and EU wines.
Frozen Fish Fillets	\$270 Mil	\$165 Mil	Growth of 3% per annum.	0 percent to NIS 15 /kg depending on product.	Importers prefer South America, African countries, Norway and the far east imports.	The United States enjoys an 85ton TRQ for frozen carp fillet.
Fresh Apples	Production below average in 2014, of ca. 110,000 tons. Israel imported 3,100 tons apples in 2013 (about 2,400 were from the U.S.), compared to nearly 14,000 tons in 2012.	\$17 Mil	Growth of 5% per annum.	The United States and the EU have TRQs of 4,000; above it they face a MFN (NIS 2/kg). All other origins face MFN as well.	Local apple production is high in 2014. EU enjoys a 3,200 TONS TRQ and shipping costs are lower compared to the U.S. In addition, due to the fungi disease that the Israeli Plant and Protection Services discovered in U.S. apples and pears a few months ago, Israeli importers fear to import high quantities of U.S. apples and until APHIS and the U.S. packing houses will solve this problem, Israeli importers will prefer European apples on the account of American apples.	The United States has 4000 tons TRQ (duty free). Israeli importers like U.S.-origin apple varieties.

NOTE: Market Size (Volume) = Imports + Domestic Production - Exports.
Source: Central Bureau of Statistics, Israel

Section V: Post Contact and Additional Information

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The Central Bureau of Statistics (CBS)

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Israel Veterinary and Animal Health Services (IVAHS)

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Table A: Key Trade & Demographic Information, 2014

Agricultural Imports From All Countries (\$Mil) / U.S. Market Share (%)	\$5,295/11.1%
Consumer Food Imports From All Countries (\$Mil) / U.S. Market Share (%)	\$2,204/10.0%
Edible Fishery Imports From All Countries (\$Mil) / U.S. Market Share (%)	\$286/1.1%
Total Population (Millions) / Annual Growth Rate	8.2/1.8%
Urban Population (Millions)/ Annual growth Rate (%)	7.5/1.8%
Number of Major Metropolitan Areas	4
Size of Middle Class (Millions)/ Growth Rate (%)	3.5/1.8
Per Capita Gross Domestic Product (U.S. Dollars)	\$36,065
Unemployment Rate (%), in the third quarter of 2014	6.2%
Per Capita Annual Food Expenditures (U.S. Dollars)	\$2,387
Percent of Female Population Employed	53%
Annual Average Exchange Rate for 11/2014 (\$1 = X.X local currency)	\$1 = ~NIS 3.8

Source: Central Bureau of Statistics.

Table B: Consumer Food and Edible Fishery Product Imports (Million \$)

HS Code	Product	Imports from the World			Imports from the U.S.			U.S. Share 2013
		2011	2012	2013	2011	2012	2013	
2	Meat And Edible Meat Offal	483	450	507	6	1	2	0.4%
21	Miscellaneous Edible Preparations	333	289	312	57	46	47	15.1%
17	Sugars And Sugar Confectionery	388	359	309	6	5	5	1.6%
3	Fish And Crustaceans	294	267	286	6	3	3	1.0%
19	Cereal, Flour, Starch Or Milk Preparations	213	219	242	14	15	16	6.6%
22	Beverages, Spirits And Vinegar	198	183	221	11	11	13	5.9%
20	Vegetable, Fruit Or Nuts Preparations	253	211	213	38	23	38	17.8%
8	Edible Fruit And Nuts	190	200	200	118	113	108	54.0%
18	Cocoa And Cocoa Preparations	167	159	168	1	3	2	1.2%
16	Preparations Of Meat Or Fish	85	110	158	6	5	7	4.4%
9	Coffee, Tea, And Spices	144	154	154	2	3	2	1.3%
7	Edible Vegetables	91	83	106	5	4	6	5.7%
4	Dairy Products	86	72	78	33	19	16	20.5%
Grand Total		2,925	2,756	2,954	303	252	265	9.0%

Source: GATS UNTrade Database (HS 2-digit)

Table C: Israel's Top 15 Suppliers of Consumer Foods and Edible Fishery Products (\$ millions), CY

	2011	2012	2013	2013 Percent Change Compared to 2012
US	309	259	272	5.0%
Argentina	187	170	164	-3.5%
Netherlands	145	132	157	18.9%
China	136	137	152	10.9%
Uruguay	107	156	135	-13.5%
Italy	109	120	133	10.8%
Germany	92	85	98	15.3%
Paraguay	51	19	92	384.2%
Turkey	72	78	89	14.1%
Norway	96	83	88	6.0%
Ireland	95	69	86	24.6%
Brazil	92	78	86	10.3%
Poland	83	67	79	17.9%
UK	61	58	68	17.2%
Vietnam	34	43	58	34.9%
Total from the top 15 suppliers	1,669	1,554	1,757	13.1%

Source: GATS UNTrade Database