

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

Voluntary Public

Date: 4/10/2012

GAIN Report Number:

Israel

Post: Tel Aviv

Custom Tariff Reductions in Israel

Report Categories:

Trade Policy Monitoring

Approved By:

Julio Maldonado

Prepared By:

Yossi Barak & Gilad Shachar

Report Highlights:

Following the public protests in Israel during the summer of 2011, the Israeli government decided to establish a food committee to review why the prices were so high and lead to massive public outcry. The Kedmi Committee was established and on April 2nd, 2012 a list of hundreds of food products for which the Food Committee advises lower or zero customs duties was published. Final approval by Finance Minister Yuval Steinitz is pending, but it is expected to be approved in the coming weeks making the Israeli food market more appealing to US exporters. However, it should be mentioned that some of the products which are expected to benefit from these tax reductions, already have quotas for tax-free imports from the U.S. due to the free trade agreement in place between the U.S. and Israel.

General Information:

A list of hundreds of goods for which the Food Committee advises lower or zero duties was published on April 2nd, 2012. Key foodstuffs like olive oil, chocolate and pickles are missing from the list, but gourmands can breathe easy, truffles are there.

The list, which was submitted to the Finance Ministry's customs division by the Ministry of Industry, Trade and Labor's (MOITAL) Food Committee, includes hundreds of items. Competition from overseas products that would likely ensue is designed to force Israeli manufacturers to keep their prices reasonable.

Final approval by Finance Minister Yuval Steinitz is pending, and the changes won't help Israelis this Passover, but the direction is clear.

If the list is rubber-stamped, aficionados of gefilte fish are in for relief, if not this Passover then next. All other things being equal, carp for Passover 2013 may be a little cheaper after the Food Committee, headed by MOITAL's Director General Sharon Kedmi, on Monday recommended canceling the 15 percent duty applicable to imported fish and at the same time nudged up the import amount from NIS 2.13 per kilo to NIS 2.50 (\$0.67). The change will be announced after Passover.

But the message to Israel's fishmongers is clear, you won't be able to repeat your old practices such as jacking up prices right before a major holiday, as was evident at Rosh Hashanah last year. If they don't keep their prices in-line with reality they'll face fierce competition from imports. The same goes for other manufacturers.

The government committees that studied consumer prices following the cost-of-living protests last summer reached the same conclusion which is that the cost of food grew more in Israel than it did in the West during the recent years.

The Trajtenberg Committee, headed by economic adviser Manual Trajtenberg, ruled that the food industry is too concentrated and recommended reducing or eliminating customs taxes to make imports more competitive. The Food Committee, which has been at work for the last ten months, was given the task of choosing which food items should have customs abolished and which ones lowered.

The committee members came under pressure from the Israeli manufacturers hoping to thwart competition from imports. Among their arguments were the global economic crisis, which has been depressing Israeli exports and made manufacturers more dependent on the local market. But then there were the importers, who urged the elimination of import levies and taxes for the sake of competition.

So far nothing has been done to ensure that tax cuts reach consumers, instead of the importers' bank accounts.

Opponents of the proposals were given a chance to voice their objections before the Finance Ministry's Customs Division before the lists went public. The list was designed to balance the interests of manufacturers versus the interests of the general public.

This week Israel's tuna canners asked the Israeli Labor Federation (Histadrut) to intervene and

support the local industry against foreign competition. So the 12 percent customs tax on canned tuna imports will remain. What has been canceled is the import levy of NIS 3.50 (\$0.93) per kilo for fish, and Histadrut Chairman Ofer Eini is not expected to meddle in the Finance Ministry decision.

Arie Zeif, former head of the customs and VAT division at the Finance Ministry and President of the Israeli Chamber of Commerce defended reducing taxes on luxury niche delicacies such as caviar and saffron, not to mention truffles and the more popular foods.

"The message is important," Zeif said on April 2nd, 2012. "That's the way to promote competition. Niche products aren't imported in large quantities, so they won't affect Israel's customs revenues. The direction is important because local manufacturers realize they have to keep their prices sane."

Zeif thinks however that the Food Committee erred in declining to lower the customs tax on imported olive oil, for the sake of protecting the local industry. He suspects however that these decisions will change in time.

The list of foods for which customs could be reduced or abolished includes fresh and preserved fish, sunflower seed oil, fruit and vegetables, beef and mutton, poultry, juice, cakes and other baked goods, fresh garlic, nuts and dried fruits, raw materials for food manufacturers and flowers.

If the list is approved, customs on imported beef will be slashed from 190 percent to 12 percent, but the Finance Ministry will start charging a tax of NIS 13 (\$3.47) per kilo. Customs on imported frozen chicken will drop by 50 percent, and the levy on mutton will fall from 50 percent to 30 percent.

By the way, while truffles will become more affordable, assuming Steinitz signs off on the list, other cheaper mushrooms such as shiitake and oysters won't in order to protect Israel's champignon farmers.

In some cases the tax relief will be seasonal. If approved, cauliflower for instance will be exempt from customs only from September to February, and watermelons from October to May, when Israeli farmers don't harvest them.

Moreover, some of the changes will be all but immediate, while others will take years-in order to give manufacturers time to adjust.

Zeif for one is confident that items left off the list this time, such as powdered milk, will get there eventually. "First of all you deliver the message," he said on Monday. "Now manufacturers realize they have to keep prices real."

Table 1: Proposed Custom Tariff Reductions on a Sample of Food Products

Product	Current Custom Tariff	Custom Tariff After Change
Fresh Beef Meat	190%	12% + NIS 13.00/kg (**)
Fresh Fish (trout)	15% + NIS 4.01/ kg	0% + NIS 2.50/kg
Fresh Fish (carps)	15% + NIS 2.13/kg	0% + NIS 2.50/kg
Preserved Tuna	12% + NIS 3.51/kg	12% (**)
Anchovi	12%	0%
Truffles	35%	10%
Walnuts	12%	4%
Dried Apricots	20%	8%
Dried Ginger	12%	4%
Dried Cherries	12%	8%
Oat Meal	8%	0% (***)
Sunflower Oil	7%	4% (****)
Halva	12%	4% (****)
Dried Yeast for Bakery	8%	0% (****)
Soya Sauce	12%	4% (****)
Beer	12%	0% (****)
Whisky	12% + NIS 2.50/liter	0% (****)

Source: Chamber of Commerce, \$1 USD= 3.75 New Israeli Shekel (NIS).

(*) Based on detailed press release by the Ministry of Finance, April 1, 2012. The Committee's recommendations will be submitted to the Minister of Finance for his signature on May 1, 2012.

(**) Starting January 2015 (***) Starting January 2013 (****) Starting January 2014

Attached is a table in which we evaluated the price difference as result of the expected coming tariff reductions.