

**Voluntary Report** – Voluntary - Public Distribution

**Date:** March 22, 2022

**Report Number:** IS2022-0004

**Report Name:** Israeli Food Supply Chain

**Country:** Israel

**Post:** Tel Aviv

**Report Category:** Agricultural Situation

**Prepared By:** Oren Shaked , Agricultural Specialist, and Olutayo O. Akingbe, Agricultural Attaché

**Approved By:** Kurt Seifarth , Agricultural Minister Counselor for Agricultural Affairs

**Report Highlights:**

Israel is highly dependent on agricultural and food imports. Due to its limited arable land and water resources, the country's dependence will only increase. Israel's food supply chain is crucial for the stable availability of food, but various domestic and international events have had a substantial impact on it. Due to its unique geopolitical situation, Israel relies mainly on sea shipments.

**Executive Summary:**

FAS Tel Aviv is monitoring the market, economic activities, and trends in order to identify possible threats to Israel's food supply chain that can affect U.S. exports. Since the COVID-19 outbreak in early 2020, many new factors – which in the past did not have a major impact on the supply chain – are now playing a major role.

Israel is an advanced, market-oriented economy. However, its limited land and water resources preclude agricultural self-sufficiency. The country routinely posts sizeable trade deficits in food and agricultural products, importing large volumes of feed grains and consumer-oriented products, affecting local production costs and consumer prices. Israel is a net food importer – in 2020, food and agricultural product imports were valued at \$7.1 billion (\$501 million, or 7 percent, were from the United States) while exports totaled \$2.2 billion.

***Overview of Israel's Food Industry***

The COVID-19 pandemic has shaken the Israeli economy and Israel's GDP decreased by 2.61 percent in 2020. A strong and stable Israeli food industry is a priority for the government of Israel and of the local market. Both in normal days and in a time of crisis, this industry serves as an economic anchor, providing employment to tens of thousands of Israelis and supplies food security to Israel. The food industry is the second largest industry in Israel.

The Israeli agricultural sector is limited by a number of factors. Among them are lack of arable land, lack of water sources and high water prices, changing weather conditions, and now (for the past two years) COVID restrictions that affected production.

Israel's population has a stable annual growth of two percent, and together with an increasing quality of life, leads to consistent growth in food demands. The country is fully dependent on sugar, vegetable oils and oilseeds, feed, and grain imports. The local production of animal products relies on feed and live animal imports. Food sales in 2021 grew by two percent over 2020, following a growth of 13 percent in 2020.

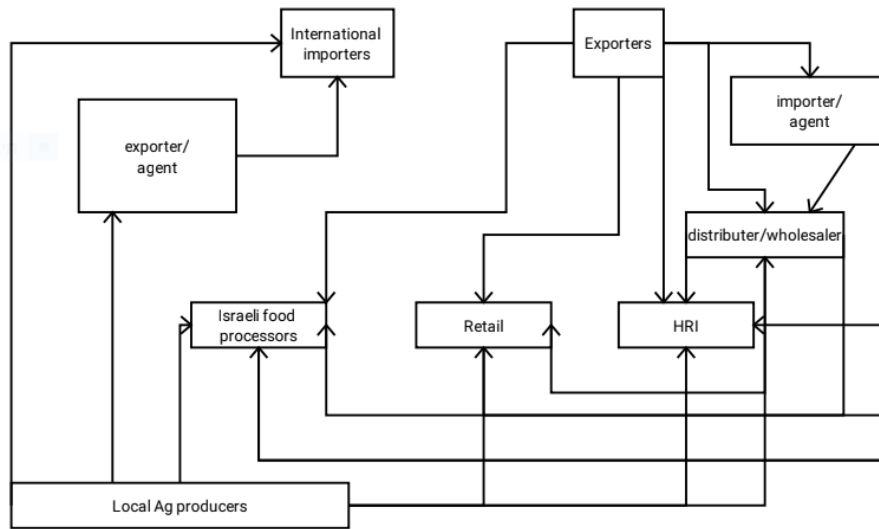
International commodity price increases affected Israel too, especially with the country being almost fully dependent on imported raw materials for the food industry. However, the local currency, the Shekel, has been strong and lessens the impact of rising prices on imported goods. As of mid-2021, more and more Israeli food suppliers have announced price increases for their goods.

In the past year, as part of the economy moving on from the pandemic, the significance of the local food industry became clearer. Despite restrictions placed on production due to COVID outbreaks and the lack of manpower due to quarantines, the food supply continued to function as usual. In addition, Israelis saw how vulnerable the local industry is and how challenging it can be to maintain a steady food supply under an unstable supply chain, especially with delays with imported products and commodities.

***Israeli Food Supply Chain Dynamics and Challenges***

In the past year, Israeli importers and ag-food distributors faced many challenges, some of which were new to the local supply chain.

**Chart 1: Flow Chart of the Israeli Supply Chain**



## Trade Challenges

### *Ports*

Israel operates three seaports – one in Eilat, one in Ashdod, and the largest one in Haifa. Haifa is one port but operates as three different ports, with different entities operating each one. Only the first two (Ashdod and Haifa) serve the ag-food industry. The rise in sea trade over the years was much faster than the growth in the availability of port services, thus significantly increasing the operational queue of vessels waiting to enter the ports.

In 2021, reports indicated that in some cases, vessels had to wait for weeks before entering the port, with operational queues of up to 60 vessels at a time. These delays led to additional demurrage charges for the importers. In addition to the lack of services, local unions limited port activities as a way to protect workers' rights. The unions also limited the recruitment of additional manpower needed to operate the ports around the clock.

### *Freight*

A global surge in the cost of sea freight in general, and of containers in particular, lead many importers to pay up to 700 percent more for their shipments. In some cases, a sea container arriving from China that once cost the importer \$2,000, has reached prices as high as \$14,000.

### *Limited Trade Through Land Crossings*

Due to Israel's geopolitical situation, Israel has overland trade routes with only two out of its four neighboring countries, Jordan and Egypt. With the other two countries, Lebanon and Syria, there is no trade or any economic relations. Political tensions and security restrictions has limited the land trade between Israel and Jordan to almost zero. Thus, local importers must rely only on sea trade and or much costlier air freight to acquire their goods.

### *Inland Transportation*

There are quite a few inland transportation challenges. Among them are high fuel prices – local fuel is imported and highly taxed. Fuel prices change on a monthly basis and are now at a ten-year high of around \$2.20/liter.

Furthermore, the increase in demand for professional heavy vehicle drivers exceeds their availability in Israel. Following the pandemic, Israel is witnessing an inexplicable trend in the labor force of workers quitting their jobs, and among them are truck drivers. Many drivers were also forced to stay home due to quarantines or illness and in many cases unable to find a replacement, thus having to cancel shipments.

Road congestion is becoming more problematic as well. Ports and most of the food industry are located in a highly populated areas causing domestic transportation to take much longer.

### **Government Challenges**

#### *Governmental Bureaucracy*

Food and agricultural imports face many regulations, put in place mainly by the Ministries of Agriculture and Health. A high percentage of imports go through port inspections and laboratory analysis. The long process and the lack of available inspectors cause significant delays in clearing shipments and high costs for laboratory analysis. The delays lead to demurrage charges placed on the importers and for some products that have a limited shelf life, also lead to issues with its marketing.

#### *Government Emergency Stocks*

Due to the sensitive security situation of Israel, there is a sophisticated plan for emergency stocks that is managed by the Government of Israel (GOI). These stocks of grains, feed, food and other commodities are managed by different ministries – Economy, Finance, Agriculture, and Homeland Security.

At a time of shortage, the emergency stocks are distributed to the market by local distributors. The size of the stocks is determined to last for a few weeks. Two years ago, when local consumers were stockpiling food, the emergency stocks were utilized to prevent market shortages. At that time, the GOI realized that supply barriers can also be international and not only due to domestic issues. This led the GOI to take the strategic decision to increase its emergency stocks.

In February 2022, the GOI announced for a second time that it will use its grain and feed emergency stocks following the challenges getting grain shipments from the Black Sea region due to the war in Ukraine.

#### *Currency*

Israel's currency, the Shekel, has been strong compared to other currencies. In the past two years, the exchange rate compared to the USD rose by almost 6 percent annually, making it more attractive for importers.

## **Supply Challenges**

### *Supply Uncertainty*

There is a world shortage of some products and commodities that Israel imports. The shortages not only having a direct effect on prices, but also cause uncertainty in supply timing when suppliers and shippers cannot commit to a tight schedule.

Geopolitical tensions such as the Ukraine war have an impact on supply, mainly of grain and feed, which Israel imports from that region. Grain importers already announced that they will not commit to new orders or the supply schedule. Israel's dairy and poultry industries which together supply more than 90 percent of domestic demand, rely on imported grain and feed which cannot be produced locally.

### *Industry and Consumer Stocks*

Local industry and many farmers – especially those raising livestock – tend to keep emergency and operational stocks, especially for imported commodities and products. Recent delays in the arrival and offloading of ships as well as the surge in commodity prices has pushed the industry to hold much larger stocks.

Local Israeli consumers are also driven to stockpile food products at home, though in much smaller volumes than during the last five COVID-19 outbreaks. This consumer psychology which did not exist before, has persisted even though local retail chains and stores were able to supply demand.

### *Climate Change*

The impact of climate change is becoming increasingly significant. Changing weather and harsh conditions lead to an unstable supply of many commodities as well as fluctuating prices. Harsh sea conditions also contribute to shipping delays and heavy snows delay production and imports in some cases.

The local agricultural sector which supplies domestic industry and retail sectors is also very vulnerable to changing weather conditions. In recent years, there were local market shortages of agricultural products that were a direct result of adverse weather conditions.

### *Consumer Behavior*

Online sales of food products have grown substantially over the last two years, now accounting for almost twenty percent of sales for large retail chains. As a result, many stores have increased their online sales teams, recruited cooling trucks and drivers, though facing some difficulties recruiting new workers.

### *Kosher and Religious Limitations*

Much of the Israeli food supply chain must operate under certain religious limitations and restrictions. Among them is the option to operate and manufacture on the Sabbath (Saturday, the Jewish holy day). This limits the industry and other sectors from working Friday afternoon until Saturday evening. Sea ports and inland transportation is also limited during this time. The need

to shut down food production lines during the weekend both creates higher production costs and in some cases shorter supplies.

Kosher requirements also limit the availability of different imported products and commodities making it extremely difficult to locate suppliers abroad (e.g., beef).

**Attachments:**

No Attachments.