

Voluntary Report – Voluntary - Public Distribution

Date: May 18,2020

Report Number: IS2020-0010

Report Name: The Israeli Food and Agriculture Sector Post COVID-19

Country: Israel

Post: Tel Aviv

Report Category: Agricultural Situation, Agriculture in the Economy, National Plan

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

Approved By: Ali Abdi, Minister Counselor for Agricultural Affairs

Report Highlights:

The suddenness of the COVID-19 outbreak caught Israel unprepared in many aspects. New regulations and restrictions were put in place daily to combat the disease, sending people home and shutting down economic sectors. As the government now begins to kickstart the economy, Israel will gradually return to normal day-to-day business. However, the memory of the 2020 COVID-19 outbreak will surely remain and will have an impact on the food and agriculture sector, and society overall.

The Israeli Food and Agriculture Sector after COVID-19

It is still too early to tell if the global outbreak of COVID-19 that suddenly disrupted the way of life for so many this year is here to stay or will eventually disappear. What can be said, however, is that the impact of this pandemic will remain for some time and may bring with it vast changes similar to the post-9/11 period.

The Immediate Impact of COVID-19 in Israel

The suddenness of the COVID-19 outbreak swept Israeli society and its economy and caught it unprepared in many aspects. Although the Israeli media reported daily the virus spreading in Southeast Asia since January 2020, many believed that it would be endemic and stay 5,000 miles away from Israel, similar to the Ebola outbreak in West Africa in 2014.

However, in March 2020, COVID-19 reached Israeli borders and spread across the country. Israel was now facing an enemy it did not know how to tackle and in many ways was not prepared for such an attack, particularly economically.

Like other countries around the world, Israel, was suddenly facing the need to establish restrictive measures such as curfews, personal restrictions, and home detentions in response to the pandemic. Its steadily growing tourism sector was now closing its borders to foreigners. New regulations and restrictions were put in place daily, sending people home and shutting down more economic sectors. The immediate impact of the COVID-19 outbreak in Israel was that more than 1.1 million Israelis are now unemployed. Israeli leaders that once boasted about the country's lowest ever unemployment rate of less than 4 percent, are now facing a rate of over 26 percent.

Impacts on Supply

The Israeli Hotel Restaurant and Institutional service (HRI) sector was one of the first to be adversely hit by the pandemic. Most hotels and all restaurants were shut down by government orders. This action created a snowball effect, impacting the institutional food suppliers, some of which were supplying solely to the HRI sector.

Following the HRI closures, malls and wet markets were ordered to shut down which impacted the farmers supplying fresh produce to these outlets. In addition, the months of March and April are the high season for the Israeli farmers exporting to the European Union, Israel's largest trading partner. Market closures across Europe due to the COVID-19 outbreak put an end to most Israeli fresh exports and some farmers had to halt their harvest almost completely.

Impacts on Demand

Widespread fear and uncertainty led many Israeli consumers stock their homes with products. The first food items to be cleared from store shelves were tuna and vegetable conserves followed by flour, rice, dry beans, and pulses. The only sector that did not see an increase in sales was the soft drink sector, excluding mineral water.

The significant increase in supermarket mail orders led the largest Israeli retail chain, Shufersal, to decrease their total stock keeping units by 10 percent in their physical stores and by 30 percent in their online stores in order to shorten the pickup time. Large supermarket chains were not prepared for such

high demand and some grocery mail orders were supplied 10 days after they were ordered. The retail sector reported weekly sales were up significantly over the same period in 2019, making this sector the sole benefiter of this crisis.

As the crisis continued, an unusually high demand for table eggs led to market shortages and even a black market for eggs. The egg sector is highly regulated in Israel in that producers are issued production quotas and they are also restricted from selling directly to the public but must instead contract with egg distributors. Egg prices are also regulated and there is a set maximum price. In response to the high demand for eggs, stores had to limit the quantity of eggs each consumer purchased at a time and liquidized eggs was introduced for the first time as a new product to the Israeli market. The government of Israel (GOI) also issued egg import quotas to distributors and paid them to ship eggs by air from Europe.

Overall, markets did not show a sharp price inflation. The only product that experienced a significant price increase was poultry meat, and suppliers attributed the increase to the limited slaughterhouse operations which could only operate – as well as all other essential workplaces – with 30 percent of their workforce. Although overall market prices did not significantly go up, seasonal store promotions which normally occur in March and April were halted.

Impacts on Stocks

Israel is almost completely dependent on imports to meet its supply of ingredients. Sugar, grains, feed, oilseeds and also a large ratio of the demand for beef and fish comes from abroad. Due to the country's sensitive security situation, GOI manages a sophisticated plan for emergency stocks. Throughout the COVID-19 crisis, there were no reports indicating a lack of inputs, and moreover, on March 24, 2020, the Minister of Economy announced that Israel's emergency stocks are sufficient and would last for a few months, even with high market demands. A rare publication that week reported that the GOI purchased 16,000 MT of sugar, 2,600 MT of vegetable oil, 150 MT of baby formula, and thousands of tons of flour. It also reported that an additional stock of oil and dry food products would be purchased in order to ensure no shortages in the markets, build public confidence, and prevent personal food stocking.

The Food and Agriculture Sector after COVID-19

As the GOI begins to kickstart the economy, Israel will gradually return to normal day-to-day business. However, the memory of the 2020 COVID-19 outbreak will surely remain and the fear of a future outbreaks will have an impact on the food and agriculture sector, and society overall.

Logistic Centers: Israel will likely see a future redesign of its food logistic centers with larger storage capacities and computerized systems that can respond to demand with less manpower and more efficiency.

Stocks: Stocks of food items and ingredients will be much larger at all levels;

Government – Government emergency stocks will likely expand with the realization that these stocks would be needed not only in a case of war, but also for an extended crisis that might impact production and import capacities. Furthermore, the items kept in these stocks in the future may be different than what is in stock today to include more items that are not produced domestically.

Retailers – Retailers discovered that it is more economically beneficial to manage larger stocks which could put them at an advantage in the case of future crises.

Processing Industry – Processors realized that larger stocks of ingredients and production material will be needed. For example, in the current crisis, the milling sector found itself with a sufficient supply of grain but lacking packing material.

Consumers – Normally, Israeli consumers do not stock food but only purchase what is needed on weekly basis. However, households are now realizing the need to keep an emergency stock of basic products at home.

Mail orders: Large retailers will likely build up their mail order infrastructure. A high percentage of Israeli consumers (especially the elderly) encountered this purchase option for the first time during this crisis. Fear of public places and large unnecessary gatherings will drive consumers to continue using this option.

Furthermore, producers and suppliers who in the past sold only to retailers or in the HRI sector began to reach out directly to the end consumer through social media, offering their goods directly via mail orders. Although in some cases it is not profitable for these suppliers to conduct direct sales, more suppliers and manufacturers will likely keep this as an open marketing channel.

Price surges: The COVID-19 crisis will give suppliers and retailers the opportunity to increase food prices in the near future, attributing it to the disease outbreak. The rise in commodity prices as a result of export restrictions will also support this trend.

HRI sector: Consumer considerations for booking hotels and dining out will now include the overall cleanliness of the venue in regards to sanitization against the coronavirus. The HRI sector will need to invest significant funds in hygiene procedures and governmental restrictions on social distancing. FAS Tel Aviv forecasts that the HRI sector will dramatically shrink, leaving behind fewer hotels, resorts, and restaurants. The economic crisis that accompanied the COVID-19 outbreak will also reduce consumer activity in this sector in the near future.

In addition, international tourism in Israel will likely decline dramatically due to travel fears amidst the threat of COVID-19, and the local HRI sector that was extremely oriented to tourism from abroad will now focus on domestic tourism. Some tourists might also now prefer alternative lodging options due to social distancing measures.

Food Consumption Trends: Israel has seen a consistent growth in the high-quality food sector – including, specialty cheeses, chocolates, high protein drinks, and imported snacks. However, this sector is generally more expensive and the unemployment and economic instability that many Israeli consumers are facing might change personal consumption trends away from this sector to more basic and less expensive products.

In-home Dining: Home cooking will likely become a growing trend due to consumers' desire to limit social exposure to others and the need to reduce expenses. On the other hand, takeaway food orders from restaurants will be more common for those who want to enjoy restaurant cuisine without social

exposure. In addition, future government restrictions demanding social distancing might also dramatically shrink the coffeeshop sector that has been increasingly popular in Israel in recent years.

Moreover, social distancing requirements in restaurants will lead to profit losses due to the inability to utilize full seating options. For some restaurants, this might lead to a larger focus on takeaway options and home food deliveries. For others, it could lead to mass closures due to the lack of profitability. This sector will also suffer due to the reluctance of the financial sector to invest in it in order to avoid economic risk. Lastly, another obstacle that restaurant owners might face is higher food production costs due to commodity price increases.

Shopping Centers and Malls: In recent years, indoor shopping malls – protected from harsh weather and the availability of nearby coffeeshops and food courts – became very popular in Israel. However, fear of social exposure in closed places, the desire to avoid large crowds, and the need for higher standards of hygiene and sanitized spaces may drive consumers to smaller and more intimate street shops.

Pre-Packaged Food Items: Israeli consumers are accustomed to purchasing many of their food items unpackaged and personally select their products from the shelves. Among these items are fresh fruits and vegetables, dried fruit and nuts, beans and pulses and even candy in some cases. For hygiene reasons, in the future food items might be required to be pre-packaged. This can lead to labeling requirements and a change in-store or market arrangements.

New Import Markets: The closure of some export markets (i.e. wheat from the Black Sea Basin) could encourage Israeli importers to seek new alternative origins. If today most importers consider commodity price as a major factor for imports, in the future they may instead consider reliability and stability.

Supporting Local Industry and Local Production: In order to boost the local economy in the post COVID-19 days, the government may lead a call for private consumers to support local industry products over imports. Some supermarkets have already voluntarily placed signs within their stores indicating which products are locally produced, by labeling them "blue and white" local. Consumers in the future may develop a solidarity with the local industry.

Trade Agreements: As the new Israeli government is being formed, it might create additional guidelines for signing trade agreements. For example, if in the past the government supported a few sectors in an industry, in the future the government might add additional sectors to support. This can lead to higher tariffs for imported goods in order to safeguard local production.

Attachments:

No Attachments.