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Voluntary Public

Date: 10/21/2011

GAIN Report Number: IS1112

Israel

Post: Tel Aviv

Trajtenberg Committee Report Likely to Enhance Export Opportunities

Report Categories:

Trade Policy Monitoring

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Report Highlights:

The recent approval of the Trajtenberg report by the Israeli Government will allow the decrease of import tariffs on some processed food products and as well as agricultural products. In addition, some current Tariff Rate Quotas (TRQ) will likely be increased. It is expected that some new food and agricultural items will be added as TRQs. The actual list of processed food products and agricultural products has not yet been approved. Post expects that the GOI will publish the list within the next few months. All in all, more opportunities for American food and agricultural products are expected to be available in the near future.

The Trajtenberg committee presented its recommendations to Prime Minister Benjamin Netanyahu on 9/26/11, and on Oct 9th, the Israeli Government approved the report. The recommendations deal with a wide range of issues and problems in many sectors – from economic issues related to increasing competition and reducing the cost of living, to issues related to public services, local

food market, the tax system, the housing market, and others.

General Information

The Trajtenberg report is 267-page, outlining a wide array of policy recommendations in 4 main areas: Housing, Competition and cost of living (incl the local food and agricultural market), Social services, and Taxation.

These recommendations are expected to bring significant change in the economic agenda in Israel in the coming years, including reducing trade barriers for imported food and agricultural products into Israel.

Netanyahu addressed the Trajtenberg Report: "Approval of the report will allow lowering the cost of living, substantially easing parental education spending and lowering the value of properties. The government under me is committed to taking the necessary actions for Israeli citizens and for lowering the cost of living."

Trajtenberg and Local Food Market

Despite the liberalization and privatization of the Israeli economy, which has increased in the past thirty years, a relatively high number of agricultural and food products are still protected by tariff and non-tariff barriers. But, the recent approval of the Trajtenberg report by the Israeli Government will allow the decrease of tariffs on some kinds of processed food and agricultural products. In addition, some current TRQs (duty free) will probably be increased, and it is expected that some new food and agricultural items will be added as TRQs. The list of processed food products and agricultural products that will benefit from the recent approval of the Trajtenberg report has not yet been approved. Post expects that GOI will publish the list of approved products within the next few months.

In addition, it is estimated that due to the recent approval of the Trajtenberg report, some Sanitary and Phyto-Sanitary (SPS) and Technical Barriers to Trade (TBT) issues relating to the import of processed food products and agricultural products into Israel will be eased, making it easier for American exporters to enter the Israeli food and agricultural market and lowering costs.

Food prices, including of staples, have become a flash point. Here and elsewhere, the answer lies in competition from imports, says the Trajtenberg Committee.

Privately owned monopolies that do most of their business within Israel must be forced to publish financial statements like publicly traded companies, determines the panel. This would force fresh-foods giant Tnuva (among others) to reveal its financials, if the government accepts the idea. Tnuva is controlled by international investments fund Apax Partners, which has been adamant that the company, which has the biggest dairy business in Israel, keep its figures confidential. Tnuva was also a trigger behind the "social protest," which began when the company (and its two main rivals) raised the price of cottage cheese once too often.

The Committee states that the food industry is the sector with the greatest failures of competition. According to the Committee, this is due to the high dominance of a few companies that are controlling the local food market, both producers and retails chains

The Committee recommends a reduction in the price of the basic food products under the supervision of such eggs and milk.

The report noted that expenditure on food component rose by 33 percent over the last decade when the price increases observed in most of the items is extremely high.

Antitrust Authority raids Israeli Dairy Giant Tnuva's Offices; Tnuva Lowers Prices after Chairwoman Resigns

In mid September, 2011 the Israeli Antitrust Authority has opened an investigation against Tnuva Food Industries (Tnuva controls about 70 percent of the Israeli dairy market).

As part of the authority's investigation into the dairy market, it asked Tnuva and other dairy companies for information. Tnuva provided information, but the authority concluded that Tnuva was concealing information and that it had not provided everything demanded. Antitrust Authority investigators confiscated documents and apparently intend to question senior Tnuva executives under caution.

As a result of the continued protest against Tnuva's high prices, combined with the recent Antitrust Authority investigation against Tnuva, Zehavit Cohen, head of the Israeli dairy giant Tnuva, resigned on Oct 2nd. Shortly after her resignation, Tnuva announced that the company would be lowering the prices of its products by 15 percent on Oct 4th.

According to Tnuva, the cumulative worth of the price reductions will be 125 million shekels (\$33 million), 62 percent of which will be paid for by the company.

The products that will be affected by the price-cut include white cheeses, hard yellow cheeses and Tnuva pudding. The newly decreased price of white cheese, for example, will now be 6.33 NIS instead of the previous price of 7.45 NIS (15 percent down), and the cost of 200 grams of sliced hard yellow cheese will now be 14.58 NIS instead of 17.15 NIS (15 percent down).

The CEO of Tnuva, Arik Shor, said on Oct 2nd that "Tnuva listens to the voice of the consumer. We call on marketing chains to adopt our recommendations and do their part to lower prices." Tnuva has been the target of several boycott campaigns, starting with the cottage cheese boycott earlier this summer that led to the lowering of cottage cheese prices throughout Israel. The supermarket chains are also worried that Tnuva will force them to absorb much of its products' price cuts - even if it denies it will do this. The supermarkets have yet to receive the new official price lists from Tnuva, but executives say they have already been informed over the phone that they will have to cut their own profit margins.

Late last month, students called for an overall boycott of Tnuva products, leading to a heightened demand for products made by competing companies Strauss and Tara despite aggressive discounts.

Tnuva attempted to combat the boycott with reduced prices on several of its dairy products, including an offer of two tubs of cottage cheese or soft white cheese for NIS 10, in containers that hold a free extra 10% or 20% of the cheese. Tnuva has also offered 50 percent off the second product for a wide range of products.

In addition, initiators of cottage cheese boycott send letter to Osem, Telma, Strauss, Unilever Israel food companies' CEOs, demanding a 30 percent price reduction across the board. In

response to the threat of a consumer boycott, food company Strauss announced on Oct 5 that it will extend the Jewish New Year holiday discounts until the end of December, essentially accepting a temporary reduction in prices in exchange for consumer quiet. The move comes after the company announced permanent price cuts on some products on Oct 2nd, after Tnuva announced a similar measure.