Required Report - public distribution

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Retail Foods

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Report Highlights:
According to the Bank of Israel, Israel’s Gross domestic product (GDP) was projected to have grown by 3.5 percent in 2013 with the 2014 forecast at 3.4 percent. According to the International Monetary Fund (IMF), Israel's economy is strong, stable and is likely to outpace all Western economies throughout this two-year period. Imports of U.S. food and agricultural products at $594 million were down 22 percent in 2012 largely due to competitive Black Sea wheat and corn. Israel’s Customs Authority reports that the country imported $5.3 billion in food and agricultural products in 2012, of which 44 percent are levied duties of 20 percent or less. Food imports account for 7 percent of Israel’s total imports. The grocery retailers category saw sales increases of only 2 percent in 2012, reaching $16 billion. Due to the impact of social protest, attributable in part to high food prices, discounters’ sales continue to outpace supermarkets. Israeli consumers are increasingly health-conscious and better aware of the need to eat a balanced diet. Supermarkets are making room on the shelves for gluten-free rolls, different kinds of legumes, organic products and whole wheat pastas that were once only available at specialty stores for the true diehards. Israel's retail food sector is dominated by two retailers Shufersal and Blue Square, however private supermarkets are becoming significant players in the market. 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.

Section I: Market Summary

Economic and Demographic Situation

Israel is a parliamentary democracy of 8.1 million people: 79 percent of whom are Jewish (6.4 million) and 21 percent of whom are Arabs (mainly Muslim) and others. Annual population growth is 1.8 percent.

Israel's population has grown over the years from a little more than 800,000 at the end of 1948 to 8.1 million, a ten-fold increase, having a vast effect on its workforce.

The waves of immigration of Diaspora Jews to Israel (Aliyah) have been a fundamental factor in this rise. Looking at the rate of change in Israel's population, one can note peaks representing massive immigration, mainly in the beginning of the 1950s by many Jews worldwide, and in the beginning of the 1990s, 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 contributing to an Israeli slowdown. The EU and the United States account for one-third and one-quarter of Israel's trade activity. Economic concerns, not fears of conflict with Iran or the Palestinian, was 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 in the region.

GDP growth was estimated to have been 3.5 percent in 2013. Excluding the effect of natural gas production from the "Tamar" site, GDP in 2013 was expected to grow by 2.5 percent. In 2014, growth is projected to be 3.4 percent. Excluding the effect of natural gas production, the growth rate is expected to be 2.7 percent**.** In any event, Israel's economy will likely outpace all Western economies for the two years in question.

Table 1: Main Economic Indicators, Israel, Percentage

	Actual 2012	2013 Estimation	2014 Forecast
GDP Growth	3.4	3.5	3.4
Civilian Imports (excl. diamonds, ships, and aircraft)	5.2	-6.1	2.7
Private Consumption	3.2	3.7	2.3
Public Sector Consumption (excl. defense imports)	2.8	5.0	4.1
Exports (excl. diamonds and start-ups)	4.1	-1.1	2.6
Unemployment Rate	6.8	6.9	7.4
Inflation Rate	1.6	2.1	1.9
Bank of Israel Interest Rate	2.10	1.00	1.25

Source: Bank of Israel

Outlook for the Israeli Retail Food Market

- In 2012, the profitability level of most Israeli food market chains was eroded. The decrease is attributed to the growing competition in the local food retail market, the rise in raw materials prices and due to the impact of consumer protest in summer 2011 which are driving price sensitivity and cutting prices.

- Sales in the food sector retail category increased by only 2 percent in 2012, reaching $16 billion, which represented an 11.8 percent increase compared to 2008.

- About 11 percent of the food products that are sold in food retail chains in Israel are imported, while the rest is of local production.

- Discounters have increased their market share which has come at the expense of the two dominant food retail chains, Shufersal and Blue Square.

- Shufersal had 248 stores and about $3.2 billion turnover in 2012 making it Israel's leading retail supermarket chain. Alon Holding-Blue Square followed with $1.9 billion turnover in 2012 share and 206 stores. These two chains dominate food retailing, accounting for 32 percent or $5.1 billion of the market compared to a 40 percent share in 2007.

- The number of food retail outlets declined by 2 percent to 13,200 nationwide in 2012, with the industry comprised as follows:
  - 844 stores are retail food chains (supermarkets/hypermarkets/discounters)
  - about 820 convenience stores
  - about 7,500 grocery stores
  - the balance being minimarkets and mainly small kiosks.

- Out of the total 844 larger establishments, 27.6 percent are in the central part of the country, 9.3 percent in Jerusalem, 10 percent in the northern part of Israel, 24.2 percent in Tel Aviv area, 13.6 percent in Haifa area, 11.7 percent in the south of Israel and 3.6 percent in Judea and Samaria.

- The grocery retailers' category is expected to grow at a constant value of 2 percent over the forecast period, to reach $19.5 billion in 2017.

- Most food products sold in Israel are kosher products, as the large supermarket chains and hotels buy only kosher products. As kosher food sales in in the U.S. are expected to have topped $17 billion in 2013 —two and a half times the amount 10 years ago - the U.S product suppliers should have a competitive advantage in the Israeli market.

- The large supermarkets chains import directly and also buy from importers/wholesalers. Others, usually buy only through importers and wholesalers.

- Consumers identify private labeling with lower prices, but nonetheless guaranteed product quality.

- Israeli consumers have become extremely health-conscious. Israelis are adopting a more balanced diet and increasing exercise levels.

- Internet is emerging as the most effective channel for advertising and online advertising has evolved to become a standard means of promotion. The use of coupons and other means of online advertising have become important, given the high level of connectivity in the country and the “activist” nature of consumers as they seek attractive deals and discounts.

- According to the recent OECD Review of Agricultural Policies that was published in September, 2013, Israeli food prices are higher than global averages due to the protection the government offers local farmers against imports.

- 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 was allocated for food purchases.

- Table 2 below shows at the household level that there is a positive correlation between spending on food and income level. For the top 20%, , an average household spends about $810 per month on food (13.3% of total expenditure), while in the lowest quintile, the average household spends about $550 per month on food, (21.9% of total expenditure). Since most American processed food and beverages products are considered to be expensive goods, the main consumers of processed American food and beverages products are quintiles 3 through 5.

Table 2: Consumption Expenditure by Quintiles of Households

	Quintiles					**Total**
	Highest	**4**	**3**	**2**	**Lowest**	
Total Monthly Consumption expenditure per household	**$6,000**	**$4,610**	**$3,790**	**$3,250**	**$2,465**	**$4,020**
	Percentage					
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Food (incl vegetables & fruits)	**13.3**	**15.0**	**16.4**	**18.1**	**21.9**	**16.1**
Housing	23.9	25.9	26.8	26.5	25.1	**25.5**
Dwelling & household	9.8	9.9	9.4	9.4	10.5	**9.8**
Furniture & household equipment	3.6	3.8	3.5	3.8	3.9	**3.7**
Clothing & footwear	3.0	3.1	3.0	3.7	3.6	**3.2**
Health	6.3	5.6	5.2	4.9	4.5	**5.5**
Education	12.5	12.8	12.0	12.0	11.0	**12.2**
Transportation & communication	22.8	20.0	19.1	16.6	14.3	**19.4**
Misc good & services	4.8	3.9	4.6	5.0	5.2	**4.6**

Source: Household Expenditure Survey, 2012, CBS.

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

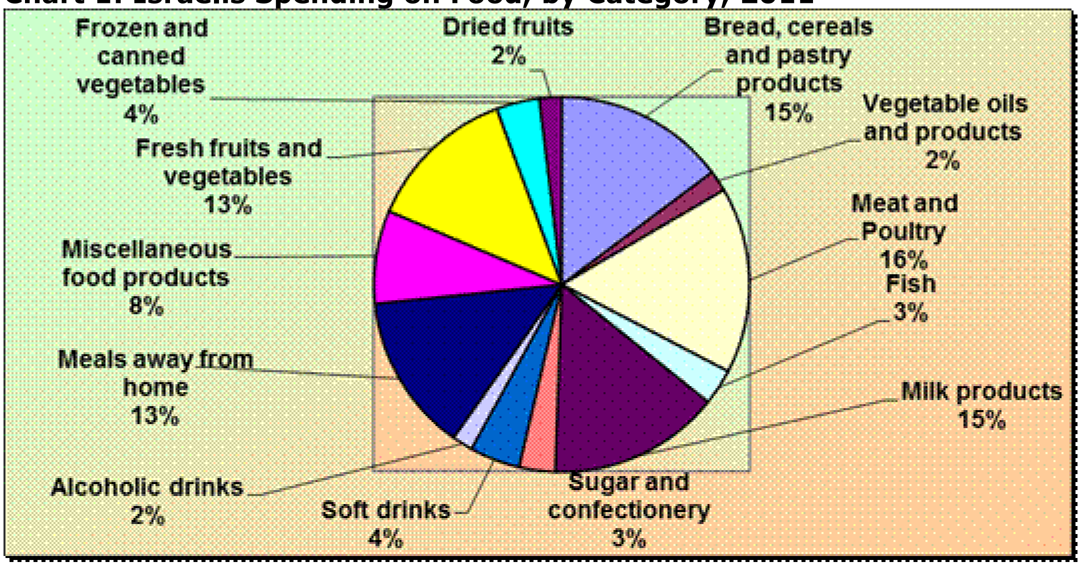
Table 3 Food- Household Purchase by Outlet Type - % of Total Expenditure (Excl. Meals Away From Home), 2011

	Grocery Stores	**Open Markets**	**Supermarket Chains**	**Others**
Food - Total	**16.3**	**4.8**	**58.2**	**20.7**
Bread, Cereals and Pastry Products	19.5	1.5	58.9	20.1

Meat, Poultry and Fish	8.9	2.6	48.9	39.6
Soft Drinks	25.0	1.1	64.4	9.5
Fresh Fruits and Vegetables	5.8	20.1	46.3	27.8
Dried Fruit	16.8	13.3	55.1	14.8

Source: Household Expenditure Survey, 2012, CBS.

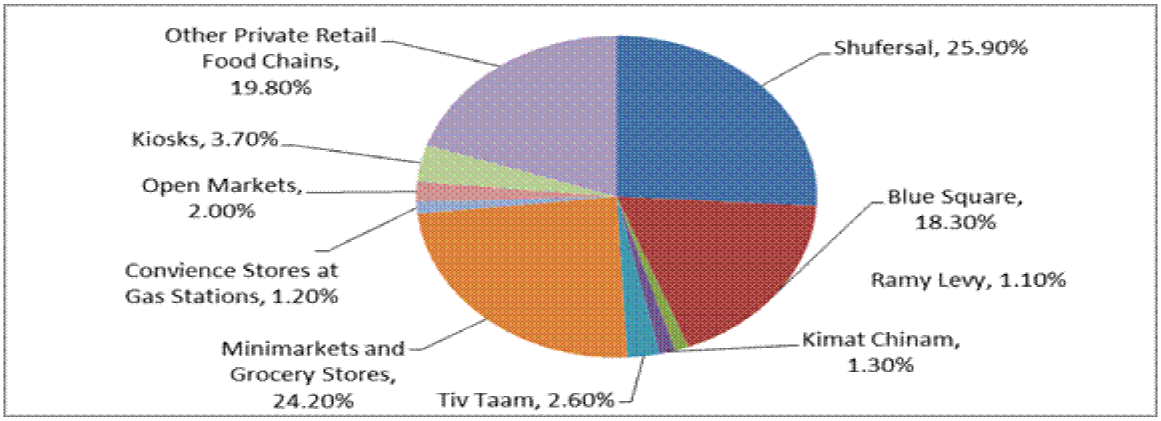
Chart 1: Israelis Spending on Food, by Category, 2011



Source: Household Expenditure Survey, 2012, CBS.

- At end of 2012, there were about 2,000,000 square meters (sqm) of food retail space in Israel, including supermarkets, grocery stores, minimarkets, convenience stores at gas stations, kiosks and open markets. About 70 percent of retail store space belongs to the 2 biggest food chains and the other private food retail chains, and the rest belongs mainly to the minimarkets and the grocery stores which are in the cities and very close to consumers. Area size of the food retail sector increases by an average of 3.2 percent per year.

Chart 2: Retail Food Sector, Store Size, Percentage of Total Area



Source: Storenext and Food Retail Companies Websites

Israeli Market Trends and its Sub-Sectors

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. It should come as no surprise that Middle Eastern food is very popular in Israel. 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.

Israeli consumers are increasingly health-conscious and better aware of the need to eat a balanced diet. 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 spoiling oneself in their marketing campaigns.

Local food manufacturers, importers, retailer and restaurants are adjusting product lines and menus for a growing population of vegans, vegetarians and the gluten-sensitive. Supermarkets are making room on the shelves for gluten-free rolls, special legumes, organic products and whole wheat pastas that were once only 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.

Another measure of current eating trends 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 61% in the form vegetarian schnitzel-style cutlets — 74% of that made from corn.

In recent years, the two largest retail food chains have opened health and organic stores and sections. Blue Square was the first to open these stores under the format of "Eden Teva Market" and currently they have 18 independent stores mainly in the central part of the country. While Shufersal has decided to not open independent health-organic stores, and they opened green and organic sections within their existing stores. The pricing of the health and organic food products is usually higher compared to the regular food products.

Kosher food products will continue to have 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. The p*rivate label category* at the food retail chain is increasing at a moderate pace, and it currently represents about 9 percent of food sales and is expected to increase to about 20 percent in the next 5-7 years. Israel's private label market is relatively small compared to European countries, but it is growing. The two largest local supermarket chains dominate the private label market, of which Shufersal has the largest private label number of products. Both Shufersal and Blue Square launched their private labels about 7 years ago, and both of them are largest local food private labels. Currently Shufersal and Blue Square have about 1,400, and 800 private label products (food and non-food products), respectively and about 11 and 9 percent of their sales are private label, respectively. They are aiming for levels similar to European benchmarks (20-40 percent). The third biggest private label brand is "Hamutag" ("the brand"), which is the private label of the following discounters "Ramy Levy", "Victory", "Machsaney Hashuk", "Machsaney Lahav" and "Super Dush", and about 5 percent of their sales are private label. The sales of "Hamutag" products reached about
NIS 250 million ($69 million) with about 500 products in 2012.

In the recent past, one could say that the Israeli consumer has become a "smarter" shopper by learning how to find value-for-money goods. While in previous years retailers changed the formats of their stores as they saw fit, those modifications weren't necessarily in response to consumer demand. Today, consumers are much more aware of the retail landscape and have thus become more powerful. In this context, the internet and social media have given domestic consumers the power to express their preferences and "vote with their feet", with the trend for online knowledge-sharing impacting retailers promotional activities and development.

During 2012 and 2013, sales of discounters surpassed the sales of supermarkets for the first time. This reflects the growing trend of price consciousness among consumers in the face of rising prices, bolstered by the social protests towards the end of the review period.

A key factor for the category was the decline registered by the hypermarkets format. In 2011 two major players, Mega Retail Ltd. and Shufersal Ltd. closed their hypermarkets to focus on supermarkets, convenience stores and discounter concepts. In 2012 the only retailer present in the hypermarkets channel was Tiv Taam, with 13 outlets. The decline of hypermarkets reflects increased price sensitivity, which has brought about changed consumer behavior.

In 2012, the biggest channel in terms of sales value was discounters, with sales reaching NIS20 billion ($5.55 billion), following an increase of 8 percent versus 2011. The channel also saw an 8 percent rise in outlet numbers, reaching 342 stores. The closing of most hypermarkets was in part a reflection of the strength that discounters gained over the last three years of the review period. Among the many reasons for the change were the social protests that were directed at the major retailers and their unit prices, with consumer purchasing decisions driven by value for money instead of comfort or luxury.

Modern grocery retailers saw an increase of 5 percent in terms of number of outlets, alongside a 7 percent increase in value terms; thus discounters, which saw outlet numbers and value sales increase by 8%, increased their lead.

Nevertheless, in 2012 and 2013 the fastest growing channel in sales terms was convenience stores. This kind of sales venue grew by 14 percent in terms of value in 2012. Post estimates that convenience stores sales will further increase in 2014 and 2015. This can be explained by the change in strategy made by different chains such as Shufersal Ltd., which opened 10 convenience stores named Shufersal Express (neighborhood format). The change reflects the fact that despite increased price consciousness, convenience is a separate growing trend. Although the consumer has become "smarter" in term of comparing prices, time is also an increasingly scarce commodity, prompting the search for retailers near home.

Convenience Stores at Gas Stations - About 820 convenience stores mainly at the gas stations, open from 18 to 24 hours per day, have gone into business since 1999 in Israel. The total turnover of these stores was $333 million in 2012, about 2 percent of the grocery retailers category sales. The largest players in this category are Paz Company with its "Yellow" chain (237 stores), Dor-Alon with 209 stores, Delek with its "Menta" chain (197 stores), and Sonol company with its "Sogood" chain (178 stores). In Israel there are about 1,100 gas stations, so currently 75 percent of the gas stations have convenience stores. It is estimated that store numbers at gas stations will increase to 1,200 stores by 2017. The main reason for the increase is the projected increase in gas stations in Israel. The new stores are expected to be bigger compared to the existing stores, which will mean higher sales. Average sales at these gas station stores is $6.7-$10, and cigarettes, as a product category, account for the biggest share of sales, about 50 percent of turnover, followed by beverages and snacks (33% of the turnover)and coffee and cakes with about 7 percent of turnover.

On-line Food Sales - Food sales through the internet are relatively small. It's estimated that about only 1 percent of retail food sales are being done through the internet and were valued at $133 million in 2012.The online sales are dominated by Shufersal (Israeli biggest food retail chain) with a 50 percent share and 25 percent is through Blue Square (Israel's 2nd largest food retail chain), so together these two companies control about 75 percent of the internet food sales. It is estimated that food sales through the internet will increase by about 15 percent per year over the next five years. About 17 percent of the Israeli consumers purchased food through the internet at least once. About 40 percent of the internet food consumers are in the age of 35-54, 31 percent are above 55 years and the rest are aged 18-34.

Kiosks - In 2012 this channel saw a decline of 1 percent in terms of number of outlets, while value sales posted a modest increase of 1 percent, reaching NIS2.1 billion ($583 million). This reflects the lack of dynamism in the category, which is facing stronger competition from discounters and convenience stores, amongst others.

There are approximately 7,500 grocery stores and minimarkets in Israel. Due to the intensive competition in the Israeli food sector, the grocery stores and minimarkets are operating at very small profit margins, therefore it's a high risk market.

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

Advantages	Challenges
The ATAP offers the United States tariff rate quotas for several important products and reduced duties for a number of others.	Most quotas offered under the ATAP are on products for which the U.S has no competitive advantage or for which Israel has no import needs; the average utilized quota fill from the U.S. is only 36 percent.
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 U.S are expected to have topped $17 billion in 2013, so the U.S should have a competitive advantage.	
The Israeli economy is expected to grow 3.5 % in 2013 and 3.4% in 2014 and Israel's economy to outpace all other Western economies.	The security situation in Israel and in the region remains somewhat unpredictable.
Israeli consumer protests in 2011 over high living costs, including basic foodstuffs , spurred the formation of the Kedmi Committee. The committee published several recommendations on regulation and competition in the Israeli food market. One of the key recommendations has been to ease import requirements. The Ministry of Health notified its planned policy changes to the food imports licensing process. The Committee also published its recommendations, and it is expected that some import tariffs will be reduced, potentially increasing the competitive advantage of agriculture and food exports	The EU is Israel’s main trading partner. A relatively 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.
Post believes that in 2014 the ban on U.S. beef products wil be lifted once Israel and the USDA reach an agreement.	Most frozen beef imported by Israel originates in South America; prices are lower compared to U.S. prices.
The Israeli consumer is already familiar with U.S. products, and is receptive to additional information.	Kosher requirements are increasingly strict, and 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. Judea, Samaria and the Gaza Strip saw annual economic growth of some 9% in 2008-2011	The Palestinian economy shrank for the first time in a decade in the first half of 2013. The World Bank blamed the 0.1% economic contraction on a decline in foreign budget support to the aid-reliant Palestinian government, saying it exposed the "distorted nature" of the economy.
Negotiations on the new ATAP reached an advanced stage and are expected to be completed by the end of 2014.	Israel will not agree to the U.S. request for a complete phase-out of tariffs under the ATAP.
The U.S seeks to have the Government of Israel recognize U.S. standards as compliant with Israeli standards on all U.S. products imported into Israel unless a convincing justification for requiring different standards or requiring additional tests is performed prior to importation into Israel. In August, 2013 the Israeli Knesset Economic Committee approved a standardization reform bill which promises to have the Standards Institute	Israel is adopting EU standards and requirements on imports. EU standards are not necessarily applicable to animal health conditions in the U.S. EU standards are often excessive and can be burdensome and result in increased costs for U.S. exporters. EU standards are not international standards:

recognize “international standards” such as those of the U.S. and European countries. The bill was derived from the recommendations of the 2011 Trajtenberg Committee.	

Section II: Road Map for Market Entry

Entry Strategy

U.S. food exporters should focus on establishing their business relationships with reliable and efficient importers and distributors. Identify the appropriate distribution and sales channels. U.S. exporters and Israeli importers could expand trade if confidence between them is strengthened. Trust is can be built by visits of U.S. exporters/manufacturers to Israel to explore opportunities firsthand, and meet with Israeli importers who handle the types of products that the U.S. exporter is marketing. USDA/FAS should organize groups of U.S./Israeli food exporters to Israeli /U.S. food shows and food conventions.

Large food retail chains like Shufersal and Blue Square have their own purchasing/importing divisions 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 listing of contacts for Israel’s major food supermarkets and importers is available from FAS Tel-Aviv upon request. U.S. exporters should consider the price sensitivity 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 increasing direct marketing avenue.

- Israel has a very competitive and dynamic telecommunications market with one of the highest mobile penetration rates in the world and one of the highest household broadband penetration rates as well. In recent years Israelis were ranked the second most active internet users in the world, after Canada.

- Roughly 40% of Israel's 8.1 million people are concentrated in the greater Tel Aviv metropolitan area, the commercial and financial center. Other major concentrations of the population are the Haifa metropolitan area (15%), a major port city and center for the petrochemical and high tech industries, and Jerusalem (11%).

- 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 to not automatically assume that selling in Israel is the same as selling in the domestic U.S. market. Companies should carefully research the implications of promotional activities prior to their implementation in Israel.

- 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 with the applicable laws, regulations and instructions. We recommend contacting a professional customs broker for consultation since classification of goods requires professional knowledge.

Local Business Practices and Customs

Israel's business environment has no particular business protocols; it mainly follows western U.S.-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" may be 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 wed to 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 (Hebrew, Arabic and English). Most Israelis are multilingual.

Work days and hours – Sunday – Thursday, 8:00 a.m through 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 April and September. Please consult a calendar or online sources to confirm 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.

Several airlines provide daily direct service between Tel Aviv and certain U.S. cities
A visa is not required for Americans traveling for tourism or short-term business.
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 into 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.

Israel has an extensive road network that connects the entire country and has 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.

Market Requirements

Kosher: It is estimated that about 90 percent of all retail food stores purchase and sell only kosher food products.

While BSE concerns have largely subsided, Israel's *Kashrut* law restrictions also present a challenge to U.S. beef imports. Since December 1994, Israel has banned the import of non-kosher beef, meat, turkey and other meat products. Israel does however permit the domestic production and marketing of non-kosher domestic beef, poultry, turkey 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 don't normally not to carry such items.

Food Standards and Labeling Requirements:

Refer to GAIN Israel - FAIRS Country Report (2013).

Import Licenses

Imported goods from all destinations, including food and agricultural products, are subject to 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, eliminating or reducing duties. All imported food and agricultural products require an import license and or a sanitary/ phyto-sanitary certificate for public health reasons and 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 U.S. etc). 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).

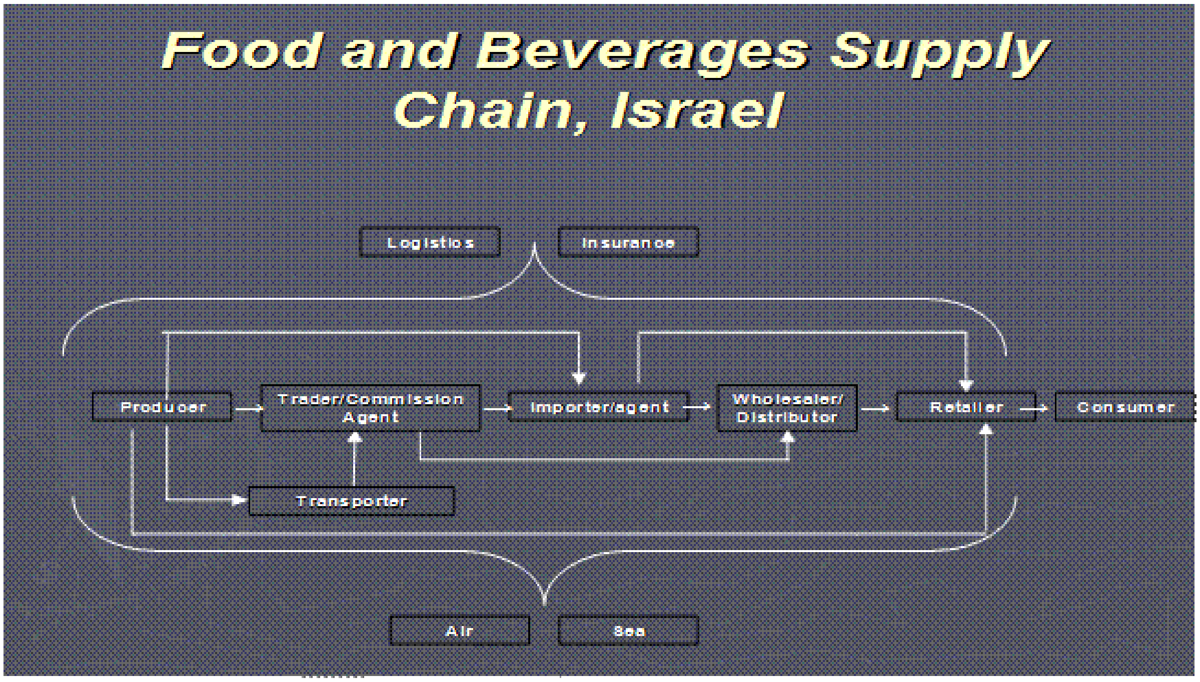
Four agencies are involved in Israel's food, livestock, and plant safety supervision. These include: 1) the FCS, which is part of the Ministry of Health (MoH); 2) the Standards Institution of Israel (SII); 3) IVAHS; and 4) the PPIS, which is part of the MOAG. The Food Control Service handles imported food licensing and 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.

The Standards Institute 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 between 4 and 6 weeks if all documentation is in order.

In August, 2013 the Israeli Knesset Economic Committee approved a standardization reform bill which promises to have the Standards Institute recognize 'international' standard such as those of the U.S. and European countries. The new law was derived from the recommendations of the 2011 Trajtenberg Committee.
The Knesset passage of the new law would greatly expand Government of Israel recognition of 'international' standards for imported products, including most U.S product standards, as well as European Union product standards. The new law would move from use of government inspection and testing to a system which provides broader recognition of exporter certification, that products have met the production standards of country of origin. The new standard regime is intended to facilitate import clearance and processing, thereby making more trade possible at lower prices through increased competition.

Market Structure

Chart 3: Distribution Channel



The large supermarket chains import directly and also buy from importers/wholesalers. Others usually buy only through importers/wholesalers, and they buy mainly kosher food products.

Food Importers – In addition to large supermarket chains which import directly, there are about 300 importers. These food importers buy kosher and non-kosher food products.

Almost all goods are imported through Israel's two Mediterranean ports, Haifa in the north and Ashdod in the south, as well as 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.

A. Super Stores, Supermarkets, Hyper Markets or Super Centers, Club and Warehouse Outlets

Company Profiles

Table 5: Top 10 Israeli Retail Food Chains, CY 2013

Retailer Name	Ownership	Sales ($Mil/Year)	No. of Outlets	Locations	Purchasing Agent Type
Shufersal - Israel's leading retail chain	Local	$3.2 billion	248	All around the country	Direct, agent, importer, wholesaler
Blue Square	Local	$1.9 billion	206	All around the	Direct, agent,

Coop				country	importer, wholesaler
Rami Levy	Local	$776 million	24	Mainly in the south and central Israel	Direct, agent, importer, wholesaler
Yeynot Bitan	Local	$458 million	31	Mainly in the south and central Israel	Direct, agent, importer, wholesaler
Kimat Chinam	Local	$376 million	32	Mainly in the south and central Israel	Direct, agent, importer, wholesaler
Chazi Chinam	Local	$333 million	7	Mainly in the central part of the country	Direct, agent, importer, wholesaler
Merav Mazon Kol	Local	$327 million	8	Mainly in the central part of the country	Direct, agent, importer, wholesaler
Tiv Taam (biggest non kosher food chain)	Local	$288 million	30	All around the country	Direct, agent, importer, wholesaler
Victory	Local	$197 million	20	Mainly in the south and central Israel	Direct, agent, importer, wholesaler
Group Total		**$7.86 billion**	**606**		

Source: Bdi-Code.

B. Main Convenience Stores at Gas Marts

Company Profiles

Table 6: Top Convenience Stores at Gas Marts, CY 2013

Retailer Name	Ownership	Sales ($Mil/Year)	No. of Outlets	Locations	Purchasing Agent Type
Menta	Delek Group	$77 million	197	In Delek gas stations all around the country	Agent, importer, wholesaler
Sogood	Azriaeli Group	$67 million	178	In Sonol gas stations all around the country	Agent, importer, wholesaler
Yellow	Paz Group	$194 million (incl income from rent)	237	In Paz gas stations all around the country	Agent, importer, wholesaler
Dor-Alon (Alonit)	Blue Sqaure Group	$200 million (incl income from the AM-PM in-city food stores)	209	In Dor-Alon gas stations all around the country	Direct, Agent, importer, wholesaler
Group Total		**$538 million**	**821**		

Source: Companies websites.

C. Traditional Markets – "Mom and Pop" Small Independent Grocery Stores

There are approximately 7,500 grocery stores and minimarkets in Israel. Due to the intensive competition in the Israeli food sector, the grocery stores and minimarkets are operating at very small profit margin, making it a high risk business.

The traditional retailers category is important for some product types, primarily for the purchase of fresh fruit and vegetables, cigarettes and other small items that do not require a substantial shopping trip. In traditional outlets, prices can be lower, but the range of products is likely to be much more limited, as are stock levels.

The traditional retailers category continues to see declines in share as shopping habits change and the public seeks a more sophisticated shopping experience. Modern chained operations are better equipped to meet the dynamic shifting demand of local consumers as innovation and change grow in importance as factors driving success.

In 2012 traditional retailers did not generally pursue particular strategies for growth, with the main factor behind activity remaining the "outlets" locations, their positioning meeting the need for impulse buying, and grocery purchases close to residential neighborhoods and workplaces.

Section III – Competition

Domestic and EU suppliers are the main competition for US exporters.

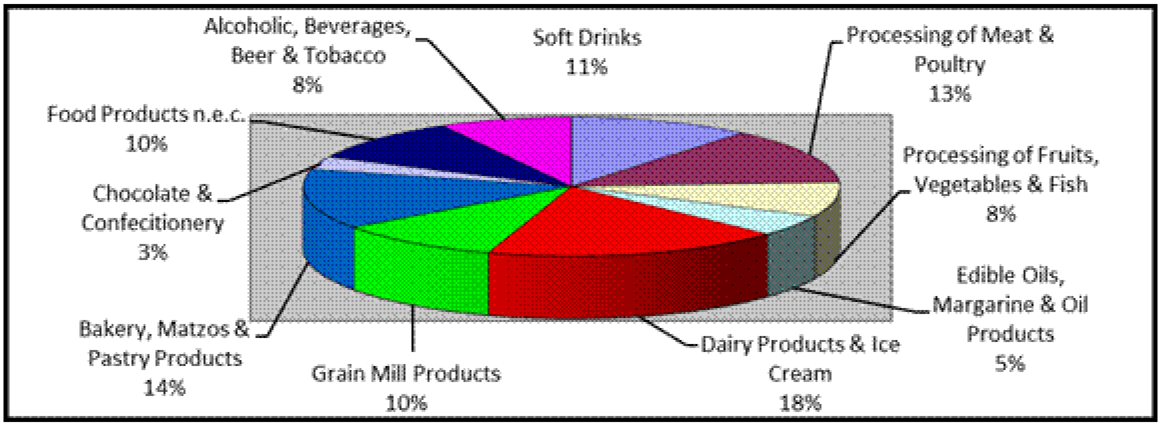
Israel Food Processing Industry

The Israeli food processing industry includes 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.

About 40 percent of the local food processing industry is dominated by three groups (Tnuva, Strauss and Osem-Nestle).

Chart 4: Food Processing Industry Value, by Sub-Sectors, Percent, CY 2012



Source: The Food Industries Association, The Manufactures' Association of Israel, Post estimates.

Table 7: Israeli Food and Beverage Suppliers, 2012

Supplier	**Market Share**
Tnuva Cooperation	17.4%
Strauss	11.8%
Osem-Nestle	9.9%
Coca-Cola Group	6.5%
Neto	4.8%
Uniliver Israel	3.7%
Diplomat	2.1%
Yifora Tavori	2.0%
Tempo	1.9%
Zoglowek	1.8%
Others	38.1%

Source: Storenext

Imports Into Israel

U.S. food and agricultural exports to Israel totaled $607.5 million in CY 2013 , up by 2.3 percent compared to 2012. In CY 2013, imports of processed U.S. food showed a 24 percent increase compared to 2012 totaling $220 million. The increase is attributed to the continued weak US dollar, as well as a growing consumer health conscious trend to eat a more balanced. American products are considered to be a reliable source for high quality food products.

Total imports of food and agricultural products to Israel totaled nearly $5.5 billion in CY 2013, a 3.6 percent increase compared to 2012. The EU is Israel's main trade partner with nearly a 40 percent share, while the U.S. captures only 11 percent share.

Table 8: Imports of Agricultural and Food Products in to Israel

	Total		**U.S.**		**EU**		**U.S. Share in 2012**
	2013	**2012**	**2013**	**2012**	**2013**	**2012**	
Live Animals & animal (HS 1-5)	1027.2	925.3	22.8	25.3	174.9	163.5	**2.2%**
Vegetables	2043.3	2061.5	352.0	382.2	568.1	588.1	**17.2%**

Products (HS 6-14)							
Animal and Veg. Oils (HS 15)	212.7	205.3	12.3	8.9	97.5	94.1	**5.8%**
Prepared Foods (HS 16-23)	2204.4	2103.5	220.4	177.4	1223.7	1145.4	**10.0%**
Total	**5487.6**	**5295.6**	**607.5**	**593.8**	**2064.2**	**1991.1**	**11.1%**

Source: Central Bureau of Statistics, Israel

Section IV: Best Product Prospects

Israel is a net food importer. It is a good market for U.S. food exports, such as dried fruits, nuts, fresh apples and pears, cereal products, cheese, powdered milk, butter and milk spreads, frozen and canned fruit and vegetable, food ingredients, and other prepared food products.

Demand for healthy/natural foods is increasing, such as organic food, lowfat, low salt, low in sugar, more grains and fibers or that contain added vitamins, probiotics and health benefits. Niche products that target a specific health issue like diabetes or celiac disease (gluten free food) are experiencing growth in demand.

Table 9: Products Present in the Market That Have Good Sales Potential

Product Category	2012 Market Size (Volume)	2012 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	$25 Mil	$25 Mil	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 $416 Mil. Strauss and Nestle control about 82% of the market. Market increased 25% since 2006	Ice cream imports totaled nearly $5 million in 2012, up 6% versus 2010.	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, within the TRQ the levy is NIS0.24/kg but not more than 85%.	In 2012, the US share was only 4.5% of total ice cream import value, compared to a 10% share in 2010.
Wine	$83	$25 Mil	Imports have varied.	The U.S. and the EU enjoy TRQs of 200,000 and 430,000 liters .	70% of consumption is from local production, and the rest is mainly from France, Italy, South America, and the U.S. market share is about 5%.	This market is likely to become more dynamic as consumers prefer local and EU wines.
Frozen Fish Fillets	$250 Mil	$154 Mil	Growth of 3% per annum.	0 percent to NIS 15 /kg depending on product.	Importers prefer South America, African countries, 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.	EU enjoys a 3,200 ton 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 have concerns with importing large quantities of U.S. apples and until APHIS and the U.S. packing houses 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 Contacts and Further Information

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E-mail: gilad.shachar@usda.gov; yossi.barak@usda.gov; levylx@state.gov;

USDA\FAS GAIN Reports
Website: http://gain.fas.usda.gov/Pages/Default.aspx

The Central Bureau of Statistics (CBS)
Website: www.cbs.gov.il/reader/?MIval=cw_usr_view_Folder&ID=141
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