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Israel

Retail Foods 2018

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Report Highlights:
Israel is a net importer of all major categories of food products. The retail food market faces slow growth, limited competition, and high prices. Israeli food prices are 19 percent higher than the OECD average. Israeli citizens spend more than 16.7 percent of their income on food and beverages. In general, consumers choose to shop at supermarkets over traditional markets due to competitive prices and longer hours of operation. Over 61 percent of consumers buy their food at supermarkets.

Market Fact Sheet: Israel

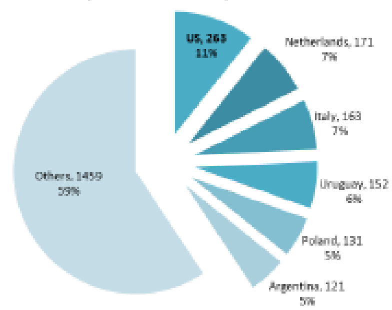
Executive Summary

Israel is a technologically advanced, market-oriented economy. The Israeli Central Bureau of Statistics (CBS) calculated Israel's GDP at US$318 billion in 2016, with 2017 growth expected to reach 3.5 percent. Consumers are sophisticated and enjoy cosmopolitan food tastes. Currently, 16.7 percent of household expenditures are dedicated to food products. Producers, food processors, wholesalers, retailers, food service operators, and food importers are all part of a well-developed agribusiness sector, contributing to a domestic scenario that is competitive and dynamic. In 2017, imports of agricultural products reached US$6.1 billion.

Imports of Consumer-Oriented Products

Israel's limited land and water resources preclude a high level of agricultural self-sufficiency; this affects local production costs and consumer prices. The country posts sizeable trade deficits in food and agricultural products, importing large volumes of feed grains and sizable volumes of consumer oriented products. According to CBS in 2016, Israel's import of consumer oriented agriculture[1] stood at US$2.5 billion. Approximately 11 percent of imports were sourced from the United States.

Imports of Consumer-Oriented Agriculture (US$ million)



Food Retail Industry

Israeli fast-moving consumer goods (FMCG) sales reached US$11.89 billion in 2017. Of which, US$8.9 billion were from food products. Over 60 percent of the sales of the total retail market are from supermarket chains. The food retail market is made up of supermarket chains, as well as urban convenience stores and gas stations, neighborhood grocery stores, and wet markets. Large supermarket facilities are located in the outskirts of the large cities near major thoroughfares, while smaller neighborhood supermarkets are located in urban centers.

There are ten leading supermarket retailers. The leading retail supermarkets in Israel are: Shufersal, Yenot Bitan, Rami Levi, Hasikma Distribution, and Osher Add. Israel's largest retail producer and seller of non-kosher products is Tiv Ta'am.

[1] Note: Henceforth the group will be defined as Consumer Oriented Agriculture - BICO-HS6, in previous reports the group was defined as the sum of HS codes 2-4 , 7-9 and 16-22

Quick Facts CY 2017

Imports of Consumer-Oriented Products *(US $million)*
$2,971 (2016 data)

List of Top Growth Products
1) Premium coffee 2) Premium popsicles and ice cream
3) Specialty cheeses 4) Premium dark chocolate 70% cocoa
5) Milk alternatives 6) Products with higher levels of protein

Top Trends:
Organic, Vegan, Gluten-free, Online Food Shopping, Home Delivery and Private Label

Food Industry Overview (U.S. billion) 2017

Food Processing Industry Revenue	$15.9 (2016 data)
Food and Agricultural Products* Exports	$2.12
Food and Agricultural Products* Imports	$6.1
Private Food Consumption Expenditure (not including drinks)	$27.63(2016 data)
Bar-coded Retail Food Market	$8.9
Bar-coded Retail Drinks Market	$1.25
Consumer Foodservice	$5.9

*Harmonized Tariff Schedule Chapters 1-24

Top 10 Host Country Retailers
Shufersal, Yenot Bitan, Rami Levi – Hasikma Distribution, Merav-Mazon Kol/Osher Add, Tiv Taam, Chazi Hinam Kol-bow, Victory, Yohanannov Super Shuk, Machsanei Hashuk, and Coop Israel-Jerusalem.

GDP/Population (CBS)
Population *(millions)*: 8.79
GDP *(billions USD)*: $318 (2016)
GDP per capita *(USD)*: $37,292 (2016)

Strengths/Weaknesses/Opportunities/Challenges

Strengths	***Weaknesses***
-U.S. products are perceived as high quality products; -The Israeli consumer values US products. -Many U.S. suppliers are kosher certified.	-Cost of shipping from the U.S. is high; -Israel's standards tend to follow EU standards and not U.S. standards; -U.S. exporters lack knowledge of the Israeli market and are unaware of new opportunities.
Opportunities	***Challenges***
-Free trade agreement between the U.S. and Israel; -The Israeli Ministry of Economy is determined to open the market for more imports in order to lower the cost of living; -Israel has the potential to be a bridge to the Palestinian Authority with its rapidly growing population.	-Low-cost competition from Eastern Europe, Turkey, former Soviet Union, South America, and Asia; -Israel is a small market

Data and Information Sources: Israeli Central Bureau of Statistics, Storenext, Euromonitor, Bank of Israel, FAS Tel Aviv office research, UN Comtrade Database

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SECTION I. MARKET SUMMARY

Israel is a net importer of all major categories of food products. In 2017, imports of agricultural products[1] reached $6.1 billion, while imports of consumer-oriented agricultural products[2] totaled $2.5 billion in 2016[3].

The retail food market faces slow growth, limited competition, and high prices. Israeli food prices are 19 percent higher than the OECD average; Israeli citizens spend more than 16.7 percent of their income on food and beverages. As a result, the Government of Israel is pursuing lower custom fees, increasing import quotas for specific food products, and implementing new regulations to promote competition in the sector and mitigate the high cost of living.

There are three main retail food channels in Israel, supermarkets, traditional markets, and convenience stores. A few large companies control a majority of the market, limiting competition and putting upward pressure on prices. The retail channels are:

- *Supermarkets:* Ten large supermarket chains dominate the Israeli market. Large supermarket facilities are generally located in the outskirts of the major cities near major highways, in order to service multiple geographic locations. Smaller neighborhood supermarkets located in cities tend to carry many of the same goods at higher prices. Most supermarkets are open only six days a week, with Saturday being a mandatory day of rest. Tiv Taam is the only supermarket chain open seven days per week. It is also the only large supermarket selling non-kosher products. Large food retail chains have their own purchasing or importing division to handle food imports. Major supermarkets are now importing directly from foreign suppliers to reduce costs. The top ten chains have over 700 outlets.
- *Convenience stores:* Convenience stores are normally located on major thoroughfares or in gas stations. Convenience stores inside cities tend to cater to the local neighborhood residents, as parking is difficult or unavailable. Convenience stores within gas stations typically offer parking for commuting consumers. The top eight chains have over 890 outlets.
- *Traditional markets:* Small independent neighborhood grocery stores still dominate the market in terms of number of outlets. These small grocers offer a narrower product selection than supermarkets. Similarly, they have shorter hours then the supermarkets and convenience stores. There are over 7,500 outlets.

In general, consumers choose to shop at supermarkets over traditional markets due to competitive prices and longer hours of operation. Over 61 percent of consumers buy their food at supermarkets. Concurrently, the share of food/drink/tobacco specialty shops is rising, creating outlets for specific high quality goods. While many consumers are very price sensitive, others are willing to pay a premium for high quality products.

For a general overview of Israeli economics, politics, legal and regulatory systems refer to the 2017 Investment Climate Statement and Israel Country Commercial Guide published by the U.S. Department of State and the U.S. Department of Commerce, respectively.

[1] Note: HS code 1-24

[2] Note: Consumer Oriented Agriculture - BICO-HS6

[3] Note: Latest available data. Data Source: UN Comtrade Database

Trends in Distribution Channels

- Supermarkets are gaining market share over small stores. In the past, large retail food chains focused on expansion through acquisitions. Multiple small retail chains sold to larger retail chains as they became less profitable. In an increasingly competitive market, retailers are seeking efficiencies and opportunities to gain market share. Acquisition of competitors creates economies of scale and increases efficiencies.
- Convenience stores are growing in number. Convenience stores in gas stations have become common food and beverage providers. According to consumer behavior experts, the number of convenience stores is expected to grow as consumption behavior continues to change. Israelis households are shrinking and consumers are increasingly pressed for time. As such, Israeli consumers are buying less, more frequently, and closer to their homes, making convenience stores a logical option.
- E-commerce is expanding. Internet retail sales continued to increase as consumers enjoy the ease and convenience of shopping from their homes. E-commerce in Israel had an annual growth of 25 percent, during the past three years. Food products sold online reached $631 million in the last year, making online food sales the largest online market in Israel. The Israeli online food market is expected to grow by an annual rate of 20 percent through 2020.

Trends in Services by Retailers

- During 2016, online food purchasing continued to expand as retailers improved their websites, providing a more user-friendly and smarter shopping experience. New online ventures are promising deliveries of food and other basic household goods within four hours of placing an order. Orders are delivered at no charge with a minimum purchase of $56. Competitors promise only same-day service with a higher minimum charge for free delivery.
- Organic foods and perceived healthier options are on the rise. Increasingly, Israeli consumers are willing to pay a premium for organic food items. As a result, supermarkets are giving greater priority to healthy and organic foods. Organic products are gaining larger shares of shelf space than in the past and the variety of products is expanding. In some cases, supermarkets have opened healthy and organic sections, or specialty health stores within supermarkets.
- Sales in private label products are growing. More supermarket chains are offering private label branded products. The share of private label products in Israel’s largest retailer increased by three percent in 2017, accounting for 23 percent of all retail sales. Many of the large chains offering private label products are importing directly to access prices that are more competitive.
- Fruits and vegetables remain a staple in the Israeli diet. Even with growth in other retail sectors, supermarkets are still dedicating a large portion of their sales area to fruits and vegetables. Most are grown locally, with limited imports during the September and April holiday seasons.
- Sales of vegetarian and vegan products grew 17.7% in 2017. Current year sales exceeded the previous year's sales by $9.7 million. Following the trend, some specialty supermarkets are establishing vegan departments in branches throughout Israel.

Table 1: U.S. Supplier’s Advantages and Challenges Facing the Israeli Retail Food Sector

Advantages	**Challenges**
Israeli consumers are paying higher than global average prices for food and agricultural products	Cost of transportation from the US are high

The Ministry of Economy is determined to open the market for more imports in order to lower the cost of living	Israel's standards tend to follow EU standards and not U.S. standards
Products certified as being manufactured under Good Manufacturing Practices (GMP) or HACCP will have greater ease of access to the Israeli market	Many products are yet to be approved for entry by local entities, for example U.S. gluten-free products are not always considered gluten-free in Israel
The U.S. food and Drug Administration's (FDA) list of registered facilities is viewed favorably by Israel's import licensing authority as it provides confirmation that the exporting manufacturer's facility has been inspected by U.S. regulators.	Registration fees and procedures adding to product cost
Kosher certification is an advantage in the local market and many U.S. manufacturers are already koshered certified	Local market may recognize the quality and thus be willing to pay higher price
U.S. products offer high quality	

SECTION II: ROAD MAP FOR MARKET ENTRY

Entry Strategy

U.S. exporters should review FAS Tel Aviv policy and market reports and private sector analyses.

Find a Local Partner

Exporters should establish business relationships with reliable, experienced and professional importers and distributers. These will offer advice on issues related to the product positioning, packaging, labeling, and custom clearance procedures. Face-to-face meeting or visits of U.S. firms to Israeli facilities will build relationships and create opportunities to explore business opportunities firsthand.

Exporters able to supply sufficient quantities should consider approaching large Israeli food retail chains. Large supermarket chains have their own purchasing and importing divisions to handle food imports. U.S. suppliers should first contact the purchasing or importing divisions of these large food chains, especially for new-to-market food products as they have the most experience with branding and distribution. FAS Tel Aviv has a list of local importers and can help with contact information. U.S. exporters should consider the price sensitivity of their customers, product requirements, purchasing policies, and purchase volumes.

Learn Regulations and Market Requirements

Israeli regulations, standards and market requirements have to be considered (see, FAIRS - Israel Country Report). Exporters need to consider kashrut or kosher certification. Certification is not a legal requirement for importing food into Israel (except for meat, and meat products). However, non-kosher products have a smaller market; most supermarkets and hotels refuse to carry them.

Market Structure

Large supermarket chains import directly, as well as buy from importers or wholesalers. Others usually buy only through importers or wholesalers. In addition to large supermarket chains, which import directly, there are about 300 importers.

Distribution Channel Flow Diagram

Company Profiles & Top Israeli Retailers

Israel's top food retailers have been ranked by two separate entities, BDi Code and DUN'S 100. See BDi Code's 2017 Supermarket Chains Rankings and DUN'S 100 2017 Food Retail Rankings.

SECTION III: COMPETITION

The main competitors for U.S. suppliers are EU member states. The U.S. industry's advantages include a good reputation for consistent quality and stable supply. The main advantages of competitors are proximity and price.

Table 2: Israel's Top Ten Imported Consumer-Oriented Product Groups, 2016[4]

Product Group	Total Imports ($ millions)	Percent of Total Imported Consumer-Oriented Products	Main Suppliers in percentage
Beef & Beef Products	$548	22.3%	1. Uruguay 27.4% 2. Argentina 18.4% 12. U.S 0.1%
Food Preps. & Misc. Bev	$371	15.1%	1. Ireland 17% 2. U.S 14% 3. Italy 12%
Chocolate & Cocoa Products	$200	8.1%	1. Luxembourg 16.4% 2. Switzerland 15.7% 14. U.S. 2%
Tree Nuts	$190	7.7%	1. U.S 53% 2. Vietnam 14% 3. Turkey 12%
Processed Vegetables	$138	5.6%	1. Netherlands 12% 2. China 11% 3. U.S 10%
Snack Foods NESOI	$137	5.6%	1.Italy 14% 2.Spain 12% 10. U.S. 3%
Dairy Products	$131	5.3%	1. Netherlands 26% 2. Germany 16% 5. U.S. 6%
Coffee, Roasted and Extracts	$115	4.7%	1. Switzerland 30% 2. Italy 19% 15. U.S. 0.4%
Processed Fruit	$115	4.7%	1. U.S 24% 2. Turkey 11% 3. Argentina 7%
Wine & Beer	$84	3.4%	1.Belgium 13% 2.Germany 12% 8. U.S. 4%

[4] Note: Latest available data

Consumer Oriented Agricultural Total	$2,459	100%	1. U.S. 11% 2. Netherlands 7% 3. Italy 7%

Notes:
1. Data Source: United Nations Commodity Trade Statistics, United Nations Statistics Division
2. Product Group : BICO-HS6

SECTION IV: BEST PRODUCT PROSPECTS CATEGORIES

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 or natural foods is increasing, such as organic food. Niche products that target a specific health issue like diabetes or celiac disease (gluten-free food) are experiencing growth in demand, as well as vegetarian and vegan products. An additional growing food category is high quality, higher end food products.

Table 3: Top Ten Consumer-Oriented Products Imported from the World

	HS Code	Product	Total Imports ($ millions) 2014	Total Imports ($ millions) 2015	Total Imports ($ millions) 2016
1	020230	Frozen Beef (Boneless)	$391	$403	$476
2	210690	Food Preps, Nesoi	$232	$216	$205
3	180690	Chocolate, Nesoi	$84	$87	$89
4	230910	Dog Or Cat Food	$63	$64	$67
5	090121	Coffee, Roasted	$50	$48	$56
6	020130	Fresh Beef (Boneless)	$0	$13	$52
7	210111	Coffee Extracts	$59	$49	$50
8	170490	Sugar Confectionery	$48	$46	$50
9	220300	Beer	$36	$37	$48
10	190532	Waffles And Wafers	$39	$38	$40

Table 4: Top Ten Consumer-Oriented Products Imported from the United States

	HS Code	Product	Total Imports ($ millions) 2014	Total Imports ($ millions) 2015	Total Imports ($ millions) 2016
1	210690	Food Preps, Nesoi	$37	$35	$36
2	080232	Walnuts, No Shell	$34	$38	$28
3	080212	Almonds, No Shell	$19	$28	$24
4	080251	Pistachios , In Shell	$30	$28	$21
5	080290	Nuts Edible, Nesoi	$15	$15	$17
6	230910	Dog or Cat Food	$18	$16	$16

	HS Code	Product	Total Imports ($ millions) 2014	Total Imports ($ millions) 2015	Total Imports ($ millions) 2016
7	200893	Cranberries, Prepared or preserved	$4	$5	$8
8	080810	Apples, Fresh	$12	$7	$8
9	190410	Cereal Foods Roast	$9	$10	$7
10	210390	Sauces Nesoi	$ 6	$7	$7

Note:
1. Data Source: United Nations Commodity Trade Statistics, United Nations Statistics Division
2. Nesoi- Not Elsewhere Specified or Indicated

Table 5: United States Products Presence

In the market and have good sales potential	Not present in significant quantities, but which have good sales potential	Not present because they face significant barriers
• Nuts • Processed fruit • Dairy products • Alcohol • Grape juice • Pears and apples • Snacks • Sauces • Pet food	• Chilled kosher beef • Frozen cherries and berries • Premium dessert products such as premium chocolate bars, cookies, ice cream, and cheese • Functional drinks • Frozen kosher appetizers • Vegan and vegetarian products • Organic food • Gluten free products	• Non-kosher meats are not permitted for importation • Kosher barriers on Crustaceans and Mollusks. They are not kosher and most supermarkets will not sell them as well as the major hotels and restaurants • Banana, fresh cherries and citrus are not allowed for importation due to phytosanitary restrictions

SECTION VI: KEY CONTACTS AND FURTHER INFORMATION

Links to government sources

Israel Tax Authority - Customs Tariff Book
Israel Central Bureau of Statistics (CBS) - Exports and Imports
The Standard Institution of Israel (SII) – SII Shop
Ministry of Economy and Industry- Foreign Trade Administration (FTA)
Ministry of Agriculture
Ministry of Health- Food Control Administration: Telephone: +972-3-6270100

For questions or comments regarding this report, or assistance exporting to Israel, please contact the Foreign Agricultural Service in Tel Aviv. Importer listings are available from the Foreign Agricultural Service for use by U.S. exporters of U.S. food and beverage products.

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