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## **Israel**

### **Kosher Foods**

## **The World's Largest Kosher Market**

### **2001**

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#### **Report Highlights:**

**Israel's market for kosher food is over \$13 billion, with imports accounting for about \$2 billion. The U.S. holds about 30% of the import share, with a variety of value-added processed food products from the U.S. increasing their sales. While commodity sales to Israel may be very price sensitive and dependent on growth rates in the Israeli economy, specialty and branded products can develop and hold market share, if they meet the taste preferences of the Israeli public.**



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## **Executive Summary**

The Israeli market for kosher food is essentially the whole market, since supermarket chains, most institutions, and most households demand kosher products exclusively. With the exception of meat and poultry and their products, it is not a legal requirement that food imported into Israel be kosher, however it is commercially expedient to provide a kosher product. This ensures the exporter that he can reach as large a market segment as possible.

Annual volume of food and agricultural products is valued at \$13 billion, of which \$2 billion worth are imported. The U.S. holds a 30 percent share of food and agricultural imports.

By law, the Chief Rabbinate of Israel is the sole body authorized to determine what is kosher within Israel. It can delegate this responsibility to others, including kosher supervision bodies in the U.S.A. through which it regulates kosher certification for imports. Products that are not produced specifically to their standards generally are not considered kosher for Israel, regardless of their status abroad. Furthermore, some consumers demand specific kosher authorities in addition to Israel's Chief Rabbinate's approval.

Most feedgrains and animal feeds do not require any kosher certification, although generally the products of rendering plants can prove problematic. Kosher requirements are stringent for meat, cheese, poultry and their products. Fish, fresh or frozen, is generally considered kosher if it has fins and scales. For the majority of the \$100 million of U.S. value added food products exported annually to Israel, rabbinical supervision and certification is required but generally the specifications can be met fairly easily. Most bulk commodities and fresh and dried fruits and vegetables are "inherently" kosher and usually either do not require approval or else kosher certification can be obtained easily.

Trade policy import restrictions have been relaxed considerably over the past decade, but still pose an obstacle to products which compete with Israeli agricultural production. The food and feedgrain markets are highly price sensitive but specialty and branded products can develop and hold market share if they meet the taste preferences of the Israeli consumer. Exporter experience in this sophisticated and discerning market indicates that investment in market development and sales promotion are important factors in winning market share.

Supermarket chains are the major marketing channels for most imports, but the marketing activities of manufacturers and importers are essential for successful market penetration. Branding and market development have succeeded in creating stable and growing markets for many American products, but more than a few U.S. food items have not been able to catch hold in Israel, apparently because of taste preferences.

In recent years, imports of value added products such as soups, sauces, herbal teas and other extracts have seen the greatest growth from the U.S.

## **The World's Largest Kosher Market**

The State of Israel probably constitutes the largest market for kosher food in the world. Over 60 percent of the Jewish population of over 5 million people maintains some degree of kosher observance in the home. Almost all institutional kitchens, from schools to the army to senior citizen housing, are kosher. Moreover, the major supermarket chains and many independent retailers will only stock kosher products. In addition, Israel's Moslem population of one million also provides a market for kosher food that meets the Moslem *halal* dietary requirements.

Thus, an analysis of the market for kosher food in Israel is *de facto* a review of the overall Israeli market for food, worth over \$13 billion. Although some non-kosher products are produced in Israel and some are imported, their marketing channels are limited and their volume is estimated to be less than 5% of the total market, and even a smaller percentage of imports.

### **Consumption and Supply**

Israel's overall food, feed, beverage, and tobacco market was estimated at over \$12 billion in 2000 and appears to have stabilized after a spurt of growth in the mid-nineties, brought on by rapid population growth. Over 70% of this market value is supplied by Israel's own food manufacturers who reported receipts from the local market of \$ 8.5 billion in 2000. Domestic fresh fruit, vegetables, meat and fish account for another \$1.5 billion. Imports are close to \$2 billion.

Imports from the U.S. in 2000 totaled \$ 590 million, up 3% from the previous year, and represented 30% of all food, feed, beverage, and tobacco imports.

Households' expenditure accounts for 70% of the food market. According to the 1999 national survey of household expenditure, the 1.7 million households in Israel each spends on average \$4,935 annually on food products – an 8.5 billion dollar retail market. An additional amount, estimated at \$4 billion per year, is spent on institutional consumption.

**Table 1. Average Household Expenditure on Food - 1999**

	<b>Outlay Per Household in 1999 \$</b>	<b>Food as Percentage of Total Expenditure</b>
<b>Total Household Expenditure</b>	<b>27,485</b>	<b>18%</b>
		<b>Percentage Breakdown of Food Expenditure</b>
<b>Total Food Expenditure:</b>	<b>4,935</b>	<b>100%</b>
Bread	669	14%
Vegetable oils and margarine	97	2%
Meat and poultry	751	15%
Fish	150	3%
Milk products and eggs	726	15%
Sugar and sugar products	170	3%
Soft drinks	209	4%
Alcoholic beverages	70	1%
Miscellaneous food products	361	7%
Potatoes and sweet potatoes	57	1%
Fresh vegetables	321	6%
Fresh fruit	291	6%
Frozen vegetables	27	1%

Pickled vegetables	145	3%
Fruit, preserved and frozen	6	0%
Fruit, dried	82	2%
Fruit juices	24	0%
Meals away from home	539	11%
Tobacco	243	5%

Source: Central Bureau of Statistics, Household Expenditure Survey 1999

### Israel's Economic Growth

Israel's \$100 billion economy slowed down considerably in 2001 from the strong 6% growth level of 2000. Estimated GDP growth in 2001 is below 1%. Since October of 2000, the disturbed security situation between Israel and the Palestinian Authority has impacted on the Israeli economy in tandem with the slowdown in the world economy. Israel's high-tech sector, which had been a strong engine of growth in the economy in recent years, was dampened by world market conditions, while tourism and other traditional industries also suffered.

While the food sector as a whole tends to be less sensitive to the overall economy than others, many retailers do note a greater consumer sensitivity to prices, and reduced purchasing of what consumers may feel to be "luxury items."

**Table 2. Key Indicators in the Economy of Israel**

	1998	1999	2000
GDP Growth	2.7%	2.6%	6.2%
GDP Per Capita	\$16,470	\$16,310	\$17,500
Total Imports	\$21.3 million	\$22.8 million	\$28.3 million
Total Exports	\$27.0 million	\$30.6 million	\$35.2 million

Source: Israel Finance Ministry

### Imports

Total imports of food, beverages, feedstuffs and tobacco were close to \$2 billion in 2000, of which the U.S. supplied about \$590 million, or 30%. The European Community and Canada are the other major suppliers.

**Table 3. Total Food Imports and US Share 1996-2000**

\$ million

	1996	1997	1998	1999	2000
Total food, beverages, feedstuffs, and tobacco	2,098.7	2,119.5	1,987.7	1,977.9	1,959.0

From U.S.	633.0	598.1	519.7	574.8	590.0
Percent from U.S.	30%	28%	26%	29%	30%

Total imports of food products into Israel increased sharply (12%) in 1996 following Israel's adoption of WTO liberalization requirements. But as economic growth slowed in Israel, total food and feed import levels leveled off and declined in subsequent years so that in 2000 the sector's imports are still below the 1997 peak. Preliminary figures for the first half of 2001 show an increase in import growth for prepared food and beverages.

In 2000, the \$590 of agricultural imports from the U.S. is more than \$40 million below the 1996 peak. Some of this performance is explained by the reduced value of the Euro since 2000, which has diverted some sourcing of Israeli commodity and processed food imports to European suppliers.

The largest categories for imported products are feedgrains, oilseeds, and miscellaneous edible preparations of HS Chapter 20, and in these categories the US is by far the leading supplier. But in several large import categories, particularly meat, sugar and sugar confectionary, and prepared fruit and vegetables US suppliers have small market shares. Figures for all food import groups appear at the end of this report as Appendix A. Of the food, beverages, feedstuffs and tobacco imports total of \$1.959 billion in 2000, \$743 million were prepared food and beverages, \$825 million were raw materials for the food industry, and another \$209 million represented feedstuffs for agriculture.

**Table 4. Total Food and Agriculture Imports by Groups**  
\$ millions

	1996	1997	1998	1999	2000
<b>Consumer Goods:</b>					
Prepared Food	717.9	706.8	718.9	701.0	703.2
Beverages	28.7	25.5	28.4	29.5	40.6
Tobacco & Products	78.1	78.6	77.4	94.7	97.4
Subtotal	824.7	810.9	824.7	825.2	841.2
<b>Raw Material for Food Industry:</b>					
Milling Wheat	189.7	184.4	187.5	184.7	191.2
Soybeans for Oil Industry	139.4	184.8	136.7	126.1	119.7
Other Unprocessed Food Inputs	507.8	574.2	574.4	552.0	514.2
Subtotal	836.9	943.4	898.6	862.8	825.1
<b>Raw Material for Agriculture</b>					
Fodder	360.7	273.9	176.3	201.5	208.9

Other Agricultural Raw Material Inputs	76.4	91.3	88.1	88.4	83.8
Subtotal	437.1	365.2	264.4	289.9	292.7
<b>Total Food and Agriculture</b>	<b>2,098.7</b>	<b>2,119.5</b>	<b>1,987.7</b>	<b>1,977.9</b>	<b>1,959.0</b>

In 2000, the highest values of imports from the U.S. were recorded for cereals, oilseeds, tobacco, miscellaneous edible preparations, and fresh and dried fruits and nuts. In all five of these categories the U.S. is also the largest single supplier to Israel.

**Table 5. Most Valuable Imports from the U.S. in 2000**

<b>Product Category</b>	<b>U.S. Origin \$ '000</b>	<b>US as % of Category</b>	<b>Details</b>
Cereals	173,058	45	749,000 tons of wheat; 485,000 tons of corn
Oilseeds	95,560	54	524,000 tons of soybeans
Tobacco	88,386	78	\$82 million of cigarettes
Miscellaneous edible preparations	76,252	44	
Fresh and dried fruits and nuts.	43,372	51	Walnuts, almonds, strawberry paste, prunes, raisins, pecans, apples etc.

## **Kosher Distinctions**

### **Israeli Law and Practice**

Except for meat and poultry and their products, Israeli law does not require imports to be kosher. However, the major supermarket chains, most independent retailers, and almost all institutional purchasers, do require kosher certification for all products they buy. Thus, from the commercial point of view the market for products without kosher certification is very limited.

### **The Chief Rabbinate**

Under Israeli law, the sole authority for determining whether food can be labeled and sold as "kosher," is the Council of the Chief Rabbinate of Israel. Even if a product has been certified kosher by a rabbinical authority overseas, the manufacturer or the importer must obtain the agreement of Israel's Chief Rabbinate to be able to call it kosher in the Israeli market. For U.S. producers, this means that kosher in America is not always identical to kosher in Israel.

Jewish religious tradition has long allowed local autonomy in determining religious practice. As a result, rabbis in Jewish communities throughout the world (and even within Israel) have established and accepted sometimes-differing rules for kosher certification. In an attempt to standardize the meaning of kosher within the State of Israel, the Chief Rabbinate requires that imported products meet the same kosher standards that Israeli producers meet in order to be labelled “kosher with the agreement of the Chief Rabbinate.”

There are several kosher conditions which the Israeli Chief Rabbinate requires for Israeli and foreign producers alike which are not always required by U.S. kosher supervision organizations, even the most respected of them. A partial list of requirements for general products which may vary between Israeli and U.S. kosher supervision would include:

- a. The Israeli requirement that cooked (boiled) food be in fact cooked by Jews, "cooked" meaning, at a minimum, turning on the steam equipment (Bishul Yisrael)
  - b. The Israeli requirement that baked goods be baked by Jews (Afiat Yisrael)
  - c. The Israeli requirement that fresh milk products incorporated into products be milk produced by Jews. (Halav Yisrael). Milk powder produced by non-Jews may be incorporated into products, if it is labeled as such.
  - d. The Israeli requirement that cereal products do not come from grain which has sprouted after Passover in the spring (Hashash Hadash). For U.S. crops, this applies primarily to spring crops of wheat, barley and oats.
  - e. Additional specific Israeli requirements apply for wine and for meat and poultry.
- This list is not complete, nor may the explanations be considered authoritative.

Thus products certified as “kosher” in the U.S. do not automatically meet the Israeli criterion, (although many in fact do.) In most cases, kosher U.S. producers can arrange the “kosher with the agreement of the Chief Rabbinate” conditions with the same U.S. organizations which supervise their production on a regular basis, using U.S.-based rabbinical inspectors. Except for meat and poultry products, receiving the agreement of the Israeli Chief Rabbinate does not necessarily require bringing a rabbi from Israel.

The largest orthodox U.S. kosher supervisory organizations, such as OU, OK Labs, Kof - K, Star-K and many others are aware of the specific Israeli requirements, and are used to cooperating with the Israeli Rabbinate. Several other organizations, including many local rabbinical organizations, are also able to provide on-site supervision acceptable to Israel's Chief Rabbinate if arrangements are made in advance. The Israeli Chief Rabbinate states that it is prepared to cooperate with a wide variety of Orthodox kosher supervision organizations throughout the U.S. to coordinate recognition of kosher certification in Israel. While there are many individual Rabbis in the States whose supervision may be acceptable to the Chief Rabbinate, there is a preference to work with organizations which can insure continuity of contacts.

Under supervision, products destined for Israel are usually produced in specific lots in specific

production runs to meet the Israeli demands. The on-site rabbi or supervision organization will then attest to the Israeli Chief Rabbinate exactly what requirements have been met, and the Israeli Chief Rabbinate will issue a kosher agreement. *Israeli Rabbinate kosher agreements are for the specific shipment of product, defined by production dates, production codes, or lot numbers. They are not blanket approvals for the product.*

The attestation of the local supervision and the agreement of the Israeli Chief Rabbinate will also include information regarding the specific attributes of the kosher product. It may be Kosher for Passover, Kosher for Passover with Legumes, it may include kosher milk or non-Jewish milk powder, it may be Kosher L'Mehadrin, etc.

In cases where producers repeatedly ship products to Israel, but also manufacture products which do not meet the Israeli criteria, there may be need for repeated supervision, repeated agreement, and repeated documentation, between the U.S. supervision and the Israeli Chief Rabbinate, on a shipment-by-shipment basis. The Israeli Chief Rabbinate does not charge for this service. The on-site kosher inspection is at the cost of the manufacturer.

The Israeli importer generally specifies what type of kosher authorization he requires, and plays a large role in coordinating the contacts between the U.S. producer, the U.S. supervisor, and the Israeli Chief Rabbinate. The Chief Rabbinate will often not issue a kosher agreement to importers who also import non-kosher products. Kosher issues should be discussed and agreed with the importer before finalizing sales agreements. Manufacturers should be aware that products produced without specific and agreed supervision for sale to Israel cannot be authorized as kosher for Israel after the fact.

Imported products which have obtained the agreement of the Chief Rabbinate will generally show the kosher label of the overseas authority which actually supervises the kosher production, with the additional phrase in Hebrew “with the agreement of the Chief Rabbinate.” On occasions where the Chief Rabbinate has found products in the Israeli market with “un-agreed” kosher labels, the Chief Rabbinate has published notices in the religious and secular press warning religiously observant consumers not to purchase the product. Kosher supervisors in the retail outlets will remove such items from store shelves. The Rabbinate does not have the authority to stop such products from entering Israel.

Obviously, this system is not without occasional misunderstandings and not without costs. But even if the procedures may at first glance seem like obstacles to American exports, in fact they are not so onerous: witness some \$600 million of annual Israeli imports from the U.S.

## **Special Products:**

### **Wine**

Because of the ritual significance of wine, and the special kosher conditions for its production, export of kosher wine to Israel requires particular commitment and effort on the part of American wineries. Among other conditions, for wine to be considered kosher in Israel it must be handled only by observant Jews throughout the production and aging process, it must be branded, marked and labeled so as to be clearly differentiated from non-kosher wine, it must be imported by importers who do not import non-kosher wine, and any additives must be certified as kosher. Yet a few U.S. wineries have made the effort, and the U.S. supplies over 10% of Israeli imported wine, not all of it kosher, for over \$1 million revenue. (Adding to the difficulty of exporting wine to Israel is the fact that U.S. wines are deprived of any customs preference in Israel since January, 2001, as explained below.)

### **Meat and Poultry**

Until 1993 the Government Supply Authority of Israel was the sole purchaser of all imported meat. When this centralized buying organization was finally dismantled, the Knesset legislated that private importers may only import meat and poultry that meet the kosher requirements of the Chief Rabbinate of Israel. (See discussion of Trade Policy Issues.) In practice, this has meant that all imported beef and lamb (\$150 million annually) is inspected and slaughtered abroad by ritual slaughterers sent especially by the Chief Rabbinate of Israel.

Several U.S. processors of kosher beef have tried to come to terms with the slaughter procedures of the Israeli rabbinate. At times they have come into conflict between U.S. humane slaughter requirements and Israel's ritual requirements, despite the U.S. exemptions given to kosher slaughtering. In other cases physical plant limitations and logistic difficulties have been stumbling blocks. Two U.S. slaughtering plants, however, seem to have reconciled the issue by using a specially designed turn-and-lift box to raise the animal and drain the carcass immediately after slaughter. This committed effort to service the Israeli market has resulted in U.S. beef sales to Israel of 880 tons, over \$1.5 million, in 2000, which may be expected to grow.

Further information regarding Kosher slaughter for Israel can be found in the FAS Report #IS1007 of July 10, 2001, on the internet at :

<http://www.fas.usda.gov/gainfiles/200107/120681187.pdf>

Regarding all products other than meat, the Chief Rabbinate's Import Division can be contacted at the following address:

Rabbi Yitzhak Cohen Arazi  
Director, Import Division  
The Chief Rabbinate of Israel  
30 Yermiyahu St.  
POB 36016  
Jerusalem, Israel  
Tel: 972 -02 -5313137  
Fax: 972- 02 -5377875

### **Special Ultra-Orthodox Kosher Certification**

While Israeli law authorizes the Chief Rabbinate to determine what is kosher in Israel, the Chief Rabbinate's word is respected, but not sufficient for a growing number of orthodox and ultra-orthodox consumers. Particularly, some are reluctant to accept the "regular" local rabbinate supervision on Israeli manufacturers and eating establishments, and see positive religious value in seeking out more exacting kosher supervision, know as "Kashrut Mehuderet". The varieties of these special ultra-kosher certifications are as varied as the large number of religious sects that compose the ultra-orthodox community, including the "Badatz" of Jerusalem, the Hatam Sofer organizations, the Belz Hassidic organization, Agudat Yisrael and at least a dozen other highly respected rabbinical certifications in Israel.

For the most part, these voluntary Israeli certifications from Israeli rabbis are available only to Israeli manufacturers. With some exceptions, such as products which are not available at all in Israel and for which the ultra-orthodox community has a special need, most Israeli ultra-orthodox authorities are not eager to certify products produced abroad. However, parallels to these ultra-orthodox kosher supervisions do exist in the U.S. (and Europe) as well, where certain communities seek the certification of specific rabbis for their kosher concerns. And some of these foreign ultra-orthodox kosher certifications are known and highly respected by the ultra-orthodox in Israel

Thus on some products where the importer believes there is an especially strong market among the ultra-orthodox, the importer may direct the manufacturer to seek the kosher certificate of a particular rabbi or organization in the U.S. To some extent, different authorities are known and respected by different communities in Israel, but some U.S. authorities are more widely accepted than others throughout the ultra-orthodox population.

Usually, these ultra-orthodox authorities will cooperate with and be "agreed to" by the Chief Rabbinate. However, a few cases have come into dispute, with the importer facing the choice of trying to resolve the issue with the Chief Rabbinate or, in extreme cases, selling the product without the agreement of the Chief Rabbinate. However, for some communities in the West Bank, which are both very orthodox and very dedicated to the state religious institutions, the agreement of the Chief Rabbinate is necessary for market acceptance. The market in the West Bank and Gaza is estimated at between 150 and 200 thousand consumers.

The specific requirements of some of the West Bank communities highlight another aspect of Kashrut Mehuderet marketing. In many cases, the orthodox consumers of imported products are immigrants born outside of Israel, often in the U.S., England, or France. They are willing and often eager to buy specific products and brands which they knew and trusted as acceptable to their standards of kashrut in their native lands. They are willing even to pay a premium price to maintain their traditions. Importers have noted that often a familiar special kosher brand name is as important as the name of the rabbi supervising the kashrut. For American manufacturers who have developed product lines well-known in American orthodox communities, the Israeli market may be especially attractive to penetrate, even if demand is limited.

One Israeli importer specializing in special Kashrut Mehuderet imports reports that over 50% of its business is in specialty items that are Kosher for Passover. The ultra-orthodox community is naturally an important part of the Kosher for Passover market, and the special degree of kashrut plays a critical role in their buying decisions.

### **Ultra-Orthodox Consumers**

As the number of ultra-orthodox consumers increases in Israel, all of the supermarket chains and some importers are paying more attention to their buying preferences. The ultra-orthodox sector includes over half a million consumers in 80 thousand households. Their numbers are increasing more rapidly than the overall Israeli population, as the ultra-orthodox have large families and tend to marry at an earlier age. The majority of this population buys only in stores that cater specifically to their needs by conforming to strict religious regulations. Average food expenditure in the religious sector reaches 45% of disposable income, almost double the national average of 25%, although disposable income in these families tends to be below the national average.

The major supermarket chains are making considerable effort to develop the market potential seen in the ultra-orthodox. In the last few years all of the large chains have opened subsidiary chains designed to cater specifically to their needs. Primarily, this involves stocking products with specific kosher certification of the ultra-orthodox “Kashrut Mehuderet” discussed above. The variety of products in these chains tends to be more limited than in the general supermarkets. And more of the products are lower-cost, high-turnover items, attuned to the higher overall expenditure for food of these families. But the stores cater to other needs of their customers: the newest have areas set aside for prayer, and areas for baby-sitting.

The supermarket chains, in areas where there are high concentrations of ultra-orthodox, are putting pressure on smaller independent stores which had traditionally served this market. With independents and chains together, the ultra-orthodox stores account for about 6% of all food expenditure, and this figure is expected to grow.

As always, a clear understanding between the manufacturer or exporter and the importer regarding specific kosher certification should be negotiated at the time of sale.

Importers of Kashrut Mehuderet products include:

Shaked Tevel Ltd  
Tel 972-9-7488153  
Fax 972 9 7428046  
Email 1shaked@aquanet.co.il

Paul Wimpfheimer  
Opus Ltd.  
Tel. 972-2-5864241  
E-mail: paulw@netvision.net.il

Zvi Zur  
Zur Agencies  
Tel: 972-3-6183937  
Mobile: 050-301248

## **Trade Policy Issues**

For the most part, Israel's isolationist economy is becoming a thing of the past. Since the early 90's there has been a significant growth in imports of food to Israel. While some of the growth is due to population growth, and recently to the drastic water shortage affecting domestic agricultural production, much of the liberalization of imports is due to Israel's participation in a number of bilateral and multilateral trade agreements which reduce both tariff and non-tariff barriers in the agricultural and food sectors. The most significant are Israel's Free Trade Area Agreements with the United States and with the European Union, and Israel's adoption of the Uruguay Round disciplines of the World Trade Organization (WTO).

Israel has also abolished rigid packaging standards for food products which, based on the metric system, had excluded package sizes in multiples of half pounds or pints. This change, in September 1998, provided an opportunity for American manufacturers to capture a segment of the market previously controlled mainly by European exporters.

Yet trade policy restrictions or tariff preferences to competitors continue to limit imports from the U.S. of a long list of key food products, particularly dairy products, honey, poultry, fresh and dried fruit, almonds and canned corn. Moreover, all of these restrictions on U.S. agricultural products should have been eliminated in 1995 as a result of trade agreements to which Israel is a partner.

In late 1996, a five-year framework agreement was developed in which Israel undertook to grant all U.S. food and agricultural products gradual and continuously improving access to its markets.

Because agricultural rules of the Israel-U.S. FTAA allow imposition of "fees" and "levies" but not "tariffs" or "duties", Israel implements the 1996 Agreement on Trade in Agricultural Products (ATAP) by showing all agricultural products of U.S. origin as being "exempt" of duty in the Israel Customs Tariff. However, a separate Government Order indicates the fees and levies imposed on a long list of imports from the U.S., many of them exceeding 100%.

The 1996 agreement divides agricultural imports to Israel from the U.S. into three product lists:

- A: Products enjoying unimpeded access to the Israeli market - no duty, no fees, no levies and no quotas.
- B: Products subject to Tariff Rate Quotas (TRQs) under which tariffs generally are zero for limited quantities. On additional imports beyond the TRQ amounts, importers pay the duties or fees appearing in List C - i.e. the "General" tariff, less ten percent.
- C: Products subject to duties for which American exporters enjoy special preferential rates compared to the "General" - MFN tariffs. The discount for American products ranges from ten percent to as much as 50 or 60 percent of the MFN rate, and in most cases the discount has improved annually over the five-year life of the agreement.

Details of the products and the individual lists can be obtained from the Foreign Agricultural Service's Office of Agricultural Affairs, U.S. Embassy, Tel Aviv. Fax: 972-3-510-2565; e-mail: [ZuckermanE@fas.usda.gov](mailto:ZuckermanE@fas.usda.gov).

The consequence of this arrangement is that some fresh fruits and vegetables, and a number of other agricultural products which in the past had been totally banned, are now importable, albeit some with payment of significant fees. Since 1996, fresh U.S. apples, pears, cream cheese, and a variety of frozen and dried fruit and vegetables have found a considerable market in Israel. Yet many other products of export interest are effectively restricted in the Israeli market by high "fee" levels.

The 1996 agreement is currently being re-negotiated. The United States maintains its position that the combination of the FTAA and the WTO requires Israel to dismantle all tariff and non-tariff barriers on imports from the U.S. The Israeli position suggests a willingness to discuss and improve access for specific products of interest, in light of their domestic agricultural sensitivity. Other products probably will continue to enjoy significant import protection in the market.

The United States also notes that the Israeli ban on all imports of non-kosher meat is in violation of Israel's national treatment obligation under the WTO and the U.S.-Israel FTAA, since non-kosher meat is produced and sold in Israel.

As far as U.S. manufacturers are concerned, the trade agreements do create a wide range of opportunities to penetrate the Israeli food market. Additionally, and not less significantly, exporters can take advantage of the wide diversity of the agreements by establishing businesses in Israel - directly or in partnership with Israeli manufacturers - and, in this manner, penetrate other markets such as the European Union with which Israel has a free trade area agreement. Of course, any exportable products resulting from joint processing must comply with the appropriate rules of origin.

## Marketing Channels

### Supermarket Chains

Supermarket chains have about a 48% share of the total retail food market. While there are a few small chains with less than 20 stores each, the 3 majors, SuperSol, Coop Blue Square, and Clubmarket essentially control the extremely competitive market. Consumer expenditure continues its long shift from neighborhood grocery stores and open-air markets to supermarkets. Security concerns have especially hurt the open-air markets since October 2000, since they are perceived as being less secure than the large supermarket outlets.

**Table 6. Household Expenditure on Food by Type of Outlet - 1999**

Percent of Total Outlay

Product Group	Local Grocery Stores	Open Air Markets	Supermarket Chains	Green Grocers	Butcher Shops	Other Specialty Stores
Total Food	24.3	9.9	46.8	4.2	7.4	7.4
Bread, cereal and pastry	30.2	3.3	49.5			17.0
Vegetable oils and products	31.4	3.9	54.1			10.6
Meat and poultry	10.7	6.9	40.1		37.1	5.1
Fish	11.9	16.9	44.0	0.5	13.1	13.7
Milk, dairy products, eggs	39.8	2.5	54.8	0.2	0.1	2.5
Sugar and sugar products	31.2	4.2	54.6			10.0
Soft drinks	41.5	2.8	52.5			3.2
Alcoholic beverages	26.5	3.6	56.4		0.2	13.3
Miscellaneous foods	27.9	3.2	57.7	0.2	0.2	10.9
Fresh vegetables	9.4	36.1	28.1	25.1		1.3
Fresh Fruit	9.0	35.2	27.8	25.9		2.0
Frozen/pickled vegetables	23.2	4.3	67.0	0.9	0.9	3.6
Dried fruit	24.5	17.5	36.0	2.1		19.9

Source: Central Bureau of Statistics, Household Expenditure Survey 1999

The increased concentration of the market enhances opportunities for U.S. exporters of kosher foods. All the major supermarket chains and hotels adhere strictly to the kosher requirements set out by Israel's Chief Rabbinate, and employ their own rabbis for supervision.

Israeli supermarkets are becoming more and more full-service. On-site bakeries are very common, larger outlets have substantial non-food displays and eat-in-the-store sections with seating. In-store ATM's, photo-developing, pharmacies, and even bank branches also have appeared. Israeli supermarkets tend to be somewhat more service-intensive than many American stores, with meat sections, bakeries, deli counters, and produce sections all heavily staffed.

In past years Israeli supermarket chains occasionally organized month-long events to promote products typical of certain countries such as the United States, Greece, Holland and the Far East. To some extent, the "festivals" were also a means for the stores to get exemptions from import restrictions. Today, imported products (and locally produced international brands) are far more common on the shelves, and "foreign food festivals" have lost their attraction as a marketing device, at least for the time being,

According to one study, approximately 20 percent of the brands found in the supermarkets are foreign. Many international brands are produced domestically under license. Companies such as Coca Cola, Pepsi Cola, R.C. Cola, Carlsberg and Tuborg, Pillsbury, Nestle, Del Monte, Unilever/Bestfood, 3i, Knorr, Heinz/StarKist, BumbleBee, Philip Morris, Proctor and Gamble, Ben and Jerry's, Hagedazs Danone and others all operate locally, either with marketing offices, partnerships with Israeli manufacturers or through licensing agreements.

SuperSol, the highest revenue earner of the 3 major supermarket chains, has a total of 143 stores and a turnover of \$1.4 billion, giving it 41% of the total supermarket turnover. They operate the Cosmos and Universe Club hypermarkets, the large HyperNeto stores, and smaller SuperSols. The chain, like all of the leaders, also operates 6 stores particularly for the ultra-orthodox community, under the trading name of Birkat Rahel (Rachel's Blessing).

SuperSol devotes a relatively large portion of its store area to fresh produce and meat. It also is the only chain which continues to operate its own private label "Super Class" on its own, sourcing some 900 products from both domestic and foreign suppliers. SuperSol purchases most of its imports from Israeli importers, but the company subsidiary, HaNetz Trading, imports many products directly. The chain has also introduced extensive ready-to eat sections with on-site kitchens and chefs in its larger outlets.

The chain also operates its own major distribution center, to which suppliers can deliver products destined for all stores in the chain. Depending on the agreement with the supplier, products are delivered in large order to the distribution center and trucked by the chain to stores as they order, or it may order from the supplier per store, and take delivery of individually packed orders at their central location (cross-docking.) Other distribution systems also are used, including restocking directly from the supplier to the store.

The Coop Blue Square chain has the largest number of outlets, 171 in total, and the largest total store area. Its annual turnover is \$1.3 billion. The chain trades under the name of Mega for its hypermarkets, SuperCenter, its large store mark, and SuperCenter City and Coop for other stores. Like its competitors, the Coop's Shefa Mehadrin operates 6 stores aimed at the ultra-orthodox market. Coop Blue Square also runs a central distribution facility, but it is not as large or central to its operations as the SuperSol facility.

Coop Blue Square was the first chain to develop its own private label, Select. But recently, the chain has decided to phase out the Select brand and has concluded a cooperation agreement with Leader Price, the private label unit of the French Casino chain. Coop will import price-attractive products through Leader Price, and may use the Leader Price brand for its Israeli purchased goods. The firm also intends to continue its connection with foreign suppliers who sold under the Select brand, and believes that it has a valuable asset in its access to suppliers from Chicago to China.

Coop purchases most of its imports from Israeli importers, and carries a wide variety of foreign brands along with its domestic source goods. A small part of their turnover, about 3-5% is imported directly by Galaxy, the chain's direct import unit. The products it imports directly are high-volume, high turnover items, which do not demand a long warehousing period. For slower moving lots, the Chain prefers to buy from Israeli importers.

Fresh and dried fruit and nuts from the U.S. have found ready access to Israeli consumers through both Coop and Supersol, and the chains hope to see increased supplies in the future. Marketing methods have changed in recent years and more of these products are being sold in polythene bags, instead of in bulk bins from which the consumer was free to take whatever quantity desired, scooping the freely piled product into the bags to be weighed and priced at the checkout counter.

Clubmarket is the third of the large supermarket chains, with a turnover of \$775 million. The company was formed in 1999 as a result of a series of mergers and sales and again changed ownership in 2001. Clubmarket has 160 outlets including the hypermarkets Metro and Jumbo, as well as stores with HyperZol, Coop1, and the Clubmarket names. Like its competitors, the chain has an ultra-orthodox division, Glatt Market, with 8 stores. The chain is more heavily concentrated in the North of the country and in smaller towns, but its management has recommended efforts to push into the center of the country.

The Clubmarket chain this year has increased its emphasis on its own private label President's Choice, which is the private label of the Canadian retailer Loblaw. A large range of products is imported with the PC brand, mostly of Canadian origin, but a substantial volume of Texas-made ice cream, U.S. popcorn, and some sauces are sourced from the U.S.

**Other Retail Food Outlets**

Typical Middle Eastern style open-air markets, and small neighborhood groceries and specialty stores also serve the Israeli food consumer.

Open-air markets sell a wide variety of goods, but are especially known for their fresh fruit and vegetables, dried fruit, pickled vegetables, and fresh meat and fish. In the fresh fruit and vegetable trade, the open markets still account for over a third of all sales, more than the chain stores (28%) or the greengrocer specialists (25%). But their share of all other categories is less than 5%.

Neighborhood grocery stores offer a wide variety of packaged goods and are important outlets especially for fresh dairy products and bread. Typical groceries will offer a very limited selection of brands and will try to stock the most common names. As a result, imported goods tend to be minimal.

In the cities and in some suburban areas, the number of specialty stores is growing: chocolates and sweets, fancy baked goods, liquor stores, and delicatessens. Some of the delicatessen stores do make an effort to stock a very wide variety of imported products – sauces, preserves, caviar and fish specialties, baked goods, and snacks. Some of these stores serve specific clientele who have emigrated to Israel from other countries: South African products in Raanana, Russian brands in Ashdod, Nazareth Elite, and elsewhere, Far Eastern products in South Tel Aviv, U.S. brands available only in certain neighborhoods of Jerusalem. In some cases, the storeowners will import small quantities of specific products on their own or through specialist importers.

For supermarket sales and all retail marketing, the American producer must be aware of the strong competition in the market from domestic, European and other suppliers. A wide variety of food products from around the world is available on Israeli supermarket shelves, and new products must fight for consumer acceptance to win shelf space and sales. Price competitiveness is important, but market penetration by U.S. brand name products is equally dependent on investment in sales promotion and market development. Traders believe that imported products which succeed in providing quality and taste appealing to Israeli consumers can overcome a price gap with competing products, particularly for low unit-price items.

Traders also note that the Israeli food market often demands more “special treatment” than other markets, beginning with kosher arrangements, Hebrew (and often additional language) labeling, health regulations etc. But even beyond these substantive issues, Israeli traders (and of course, manufacturers) flaunt their belief that Israeli tastes in food are quite unique, and that products popular in the United States are not necessarily popular in Israel. The list of food products that have been imported to Israel and have *not* been widely accepted by consumers is long: fresh and frozen cakes, canned soups, specific brands of sauces, some chocolates, etc. Israelis point out that only in Israel did McDonald’s agree to change the way its hamburgers are prepared (grilled, not fried) in order to accommodate Israeli tastes!

However, once successful in finding a niche for their products, American suppliers who demonstrate consistent quality and reliability accompanied by responsiveness to importer needs, will find the Israeli market will reward them with a high degree of loyalty and increasing consumer demand for their products.

### **The Institutional Market**

Between 30% to 40 % of the food market is in institutional sales. Imported products such as beef, preserved mushrooms, pineapple, other preserved fruit, and tuna fish play an important role in this market.

The army, hospitals, hotels, restaurants, universities, wedding halls, kiosks, kibbutzim and large places of employment are all included in this market. Since many places of employment provide low-cost or subsidized kosher lunches to employees, either at on-site cafeterias or in nearby restaurants, brown-bagging lunch from home is less appealing for many employees. However, most public schools in Israel do not provide a full-meal cafeteria, and kiosks providing sandwiches are the norm.

For all institutional buyers, price of supplies is a major consideration. With the exception of some hotel and up-scale restaurants, they will not purchase an imported product if it is more expensive than an alternative. Since kitchen labor is relatively inexpensive, and most institutional kitchens try to provide fresh-cooked foods, convenience of preparation is of less importance. Price is critical.

The institutional market is served by specialized distributors who usually deal in institutional pack items. While a few of these institutional distributors import products on their own, most work through brokers and/or general food importers.

The Israeli Defense Forces (IDF) often purchase directly from food manufacturers. The Ministry of Defense has indicated a serious interest in purchasing kosher U.S. food products.

### **Importers**

The food import business is a very dynamic sector in Israel, with over 300 food importers listed by the Tel Aviv – Jaffa Chamber of Commerce. The nationwide list is available from

The Federation Of Israeli Chambers Of Commerce

84 Hahashmonaim St.

Tel Aviv 67011, Israel

P. O. Box 20027, Tel Aviv 61200, Israel

Tel.: 972-3-563-1010

Fax: 972-3-562-3274, 561-9025

E-Mail: Chamber@tlv-chamber.org.il

and on their website: <http://www.chamber.org.il/>.

Importers range from small 2-3 person sales operations that contract out distribution, to larger companies who distribute with their own fleet of trucks and may have their own employees who arrange products on supermarket shelves. There is a trend toward consolidation of larger importers. According to one industry leader, importers with annual turnover of under \$25 million or so may find it hard to provide the marketing and logistics needed for success. On the other hand, the trend toward more centralized distribution, cross-docking facilities, and shelf stocking services offered by the supermarket chains themselves, do make it easier for smaller operations with effective management to thrive.

Because of the small size of the country, Israeli importers, particularly of newly introduced products, will all want exclusivity. The occasional exceptions are those international firms that have their own marketing office in Israel, and choose to use multiple importers for distribution. Another exception is for products which are imported under tariff rate quotas. Since the authorities will not grant all of a TRQ to a sole importer, exclusivity is impossible. (U.S. cream cheese is an example.)

Many Israeli importers believe that there is room for more American products in the Israeli market. They note that while European products have a longer history on the Israeli market, some U.S. companies have done well in recent years. Many of the leading U.S. brand names, who aggressively seek worldwide markets, are already represented in Israel by an exclusive importer. But importers point out that many of the second-tier and regional American brands are not seen.

Importers mention several common points for introducing products into Israel:

1. Most importers seek a brand name that they can develop.
2. All want multi-year exclusivity on the brand line.
3. They believe that promotion is essential for developing sales
4. They want exporters to share the costs of market promotion and development..
5. They can be flexible, with a variety of cost-sharing systems used.
6. Depending on the product, they use trade PR, in-store promotions, and general advertising for product introduction.
7. A few use formal taste testing and focus groups in choosing a product. This is particularly true for products for private label.

Many large Israeli food manufacturers are also large importers, not only of raw material, but of consumer products. The Nestle-owned Osem baked goods company imports Nestle chocolate and coffee, as well as pasta products. Carmel Wineries import European and California wine under its own "Carmel's Choice" label. Strauss Dairies has imported some yogurt and ice cream products. The Meir Ezra group, which for 50 years was a meat importer, is now a major processor of meat, fish and poultry in Israel. The Meir Ezra group is unusual in that it is developing its own brand names for imported products from a variety of sources: Williger for canned goods, Tibon-Veal for meat, and Deli-Dag for fish.

## **Sector by Sector - Prospects for US Kosher Exporters**

### **Frozen Beef**

Israel's Kosher Meat and Poultry Imports Law of 1994 requires that all meat and poultry and their products, imported to Israel be accompanied by a kosher certificate from the Chief Rabbinate of Israel or a body authorized by it. A key requirement for slaughter abroad to be considered kosher for Israel, is the presence in the slaughter team of slaughterers and/or supervisors who have been approved by the Chief Rabbinate. Generally, the importer puts together an Israeli slaughter team, transports it to the slaughter site and maintains it there at his expense until the work is completed. Representatives of the Chief Rabbinate will agree to employ some local staff on the slaughter team. This is a matter for negotiation with the Kashrut and/or Import departments of the Rabbinate.

The Palestinian Authority (PA) is not bound by the Kosher Meat and Poultry Import Law. They do require that meat imported into the Authority be certified as having undergone halal slaughter. In many cases kosher U.S. slaughter satisfies the Moslem halal requirements, thus there is a fairly good market for U.S. kosher beef, lamb and poultry among the 3 million Palestinians of the PA.

Israel annually imports between 45,000 and 55,000 mt of frozen beef, to supplement its domestic production of 80,000 mt. Until recently, frozen beef imports came primarily from Argentina, Uruguay, Brazil, and recently Eastern Europe. All frozen beef from all sources enters Israel duty free.

Domestic production has increased in recent years as the result of imports of close to 100,000 young calves in 2001 for fattening and slaughter. This helps avoid the difficulties of arranging kosher slaughter abroad. Calf imports were from Australia, Germany and Poland before the outbreak of Foot and Mouth Disease (FMD) limited the sources almost exclusively to Australia. The majority of calves were for fattening, but Palestinian livestock merchants imported close to 20,000 head for immediate slaughter.

Imports from the U.S. in 2000 were only about 900 tons. Many traders believe that American beef can significantly increase its share of the market to 5000 or more tons, if U.S. meat packers would dedicate one or more plants to production of kosher beef according to the specifications of Israel's rabbinate.

Price will play an important role in determining the U.S. market share, but studies indicate that the Israeli consumer appreciates quality and is willing to pay a premium of up to ten percent or more for a high quality product. There is need for an investment in market development to educate the public which over many years has become used to inferior beef, mainly from South America. Israeli producers share this belief, and are currently planning several efforts to upgrade and promote Israeli beef over imports. These efforts include new packaging and

distribution systems.

In the wake of the BSE (Mad Cow Disease) crisis, the Israel Veterinary Service banned all imports of organs and associated bones from all countries that do not prohibit the use of protein meal and flour of animal origin in livestock feeds. U.S. beef is licensed for bone-in sales but products from the central nervous system are banned. The combination of BSE threats and FMD triggered a ban in the spring of 2001 on meat from Israel's traditional suppliers including some countries of Europe and all of Latin America except parts of Brazil. As a result, an excellent opportunity exists for American suppliers to enter the market. Recently, Uruguay was reinstated as a supplier.

### **Frozen Poultry**

The section above on the Kosher Meat and Poultry Import Law applies to frozen poultry as well (the relatively short shelf life of fresh or chilled poultry precludes it from competing successfully in the Israeli market). Here too there may be a good market for halal slaughtered frozen poultry or otherwise processed poultry products. Under the 1996 ATAP, duty-free quotas exist for close to 300 mt each of frozen and processed poultry which Israeli importers cannot utilize but which could be made available to the Palestinian market.

A few years ago, some traders and officials believed that Israel could become a significant market for U.S. frozen chicken, even at a premium price, since domestic prices for fresh chickens were high and domestic quality and packaging norms for fresh and frozen chickens were low. The \$2 billion Israeli poultry market, however, has changed radically in the last few years. The quality, cleanliness and packaging of fresh chickens on the market have improved, and a variety of semi-processed products has been introduced. Since 1994, the number of chicken farmers has been reduced by two-thirds, the average size of poultry runs has quadrupled, and real prices have dropped by over 20%. Retail prices for fresh kosher chicken are close to U.S. levels: about \$2/lb. Consumption of fresh chickens has doubled.

Domestic frozen chickens are sold below the full price of fresh chickens. At current price levels, import duties of over \$1 per kilo are prohibitive, outside of a duty-free TRQ of 290 tons. The small TRQ would not justify the cost of the specific kosher requirements to serve this market. To date no kosher supplier has been able to conform to Israel's requirements to obtain kosher approval from the Chief Rabbinate.

### **Fresh, Frozen and Prepared Fish**

To be kosher, fish (and other seafood) must have fins and scales. It is relatively easy to obtain kosher certification for any fresh or frozen product which complies with that specification. Although small amounts of shellfish and other nonkosher seafood are imported, the market is limited and generally, Israel's Chief Rabbinate will not grant an importer who imports nonkosher products kosher certification for products which otherwise might be considered kosher.

Israel imports the majority of the fish and seafood it consumes. Annual imports for all products in 2000 totaled about \$120 million with the market share of U.S. exporters at 14%. The leading item is tuna fish, over \$11 million, which is imported both in consumer cans, and more recently, for packing in Israel under both the StarKist and BumbleBee brands.

Per capita fish consumption is low relative to other populations, but it is growing. Under the U.S.-Israel 1996 Agreement on Trade in Agricultural Products (ATAP) there is an annual duty-free quota of frozen salt-water fish of more than 4,000 mt. The quota was almost fully utilized by American exporters for the first time in 2000. The ex-quota duty is 15 percent. Frozen filets of sea fish are duty free from all sources. Imports in the medium term can be expected to grow faster than population and in the next five years could show an increase of as much as 20 percent.

One constraint in the market is lack of consumer recognition of the U.S. as a source of quality fish, other than tuna (and, in the non-kosher market segment, fresh Maine lobsters!) Norwegian salmon has become a popular entry on restaurant menus and in supermarkets, and Dutch herring is well known. There is no reason why U.S. exporters could not capture a share of these markets, provided they offer a quality product and are willing to invest in market development and sales promotion. Any medium and long-term market development strategy should aim to introduce a larger variety of U.S. frozen fish to the Israeli markets.

There may also be market potential for other kosher prepared fish specialties. U.S. gefilite fish is imported duty-free under a 160 ton TRQ (it must be made of fish other than carp), and there are sporadic imports of herring specialties.

### **Dried Fruits**

Kosher certification for dried fruits and nuts is easily obtained because, as relatively unprocessed products, they are not subjected to materials and substances to which kashrut supervisors and inspectors might take exception. The body issuing the certificate would want to know the source of materials such as sorbitol or sulphur used as preservatives.

Israel imports over 4,800 tons of dried fruit per year, over 95% of its consumption. The only significant domestic production is of raisins and some prunes. With the expansion of fresh grape production, (table grapes for export and wine grapes), the Israeli government protects its farmers' outlet for second quality grapes.

Israel's annual raisin and prune imports from the U.S. are governed by tariff rate quotas of 550 and 750 metric tons respectively. Some ex-quota imports do take place, mainly of prunes. Consumers demonstrate preference for U.S. Jumbo Golden Seedless raisins.

The procedure for distribution of the tariff quota between importers has caused some concern, and since past trade is not the sole criterion for receiving the use of the quota, it is difficult for exporters to establish on-going relationships with importers for developing brand

names, or for market development in general. Nevertheless, this market is expected to grow as demand for imports continues to put pressure on the tariff quota and on the Israeli authorities.

### **Tree Nuts**

As was indicated above for dried fruits, there are few problems, if any, to obtain kosher certification for tree nuts, either shelled or unshelled.

Market promotion in Israel by the California Walnut Commission demonstrates that a well-designed campaign can yield good dividends in market share and absolute quantities. Today's exports total some \$11 million, essentially the entire amount imported by Israel. U.S. nuts – with the exception of almonds - enter Israel without quota restrictions and with a significant customs advantage. As of January 1, 1995 all duties on imports from the U.S. were canceled while those from the European Union are close to 15 percent and from third countries (e.g. Turkey) as much as 22.5 percent.

The market for pistachios is more than \$13 million in Israel. In the first half of 1998, the U.S. provided some 40 percent of total imports. This share sank back to less than one-quarter in 1999 and in the first half of 2001 U.S. packers shipped less than 100 mt. With appropriate market development activities, U.S. market share could grow significantly in spite of a significant price gap between the U.S. and Iranian products.

### **Tree Nuts (Metric tons, shelled basis)**

	<b>1999</b>	<b>2000</b>	<b>2001</b>
Total Domestic Market	17,100	15,000	14,000
Total Local Production	2,600	2,200	2,000
Total Exports	0	0	0
Total Imports	14,500	13,300	12,000
Imports from the U.S.	8,000	7,000	7,000

The above statistics are unofficial estimates.

### **Bakery Goods**

It is difficult to generalize with respect to kosher certification for the many products in this category. In many cases, companies obtain U.S. certification in order to expand their American markets. With few exceptions, this should suffice to obtain approval for the Israeli market. The presence of eggs in the product may require some additional effort in obtaining certification. As the products and the raw materials which participate in the production process are so varied, it is important to consult with the potential importers and have them provide the specific guidance on a product by product basis.

The \$1 billion baked goods market has increased considerably in recent years, and reported growth of 15% in 2000. Large food concerns such as Tnuva Dairies (owner of Maadanot frozen baked goods) and Zoglowek meats have entered the field with frozen oven-ready specialties. Pillsbury is an active player in the market, with their refrigerated dough for consumers and products for in-store bakeries. Pillsbury products are both imported and produced in Israel through their local joint venture.

Observers of the market have noted that Israeli firms have developed the market for popular Israeli-style savory baked items: filled filo-pastries (bourekas), moist traditional Yemenite layered pastry leaves known as jakhnun and malawah, spicy North African style meat filled “cigars”, blintzes, etc. Bakery items perceived as “foreign”, such as croissants, English muffins, some cakes, even American-style bagels, have not fared as well in Israeli supermarkets, although all of these products are accepted in Israeli cafes. The exception, as in many markets, is frozen pizza which is a staple in most Israeli households with young children. Israel's frozen pizza market is estimated at over \$ 5 million.

Breakfast cereal is an important category for U.S. suppliers, with \$6 million in imports out of a total \$18 million market. However, price competition with European supplies (often of the same brand product) makes this market very sensitive to exchange rates. The large volume-to-value ratio which makes the long haul from the U.S. relatively costly, reduces the competitiveness of the American product.

There are approximately 30 modern, commercial bakeries in Israel. These represent a significant market for exporters of kosher raw materials, additives, fillings and other baking inputs.

Estimated revenue in the bakery market is US\$ 250 million per year, with sales of 190,000 tons.

Other categories such as cookies and crackers can also offer opportunities to American manufacturers who are able to develop market awareness of their brands. Competition from Israeli producers and European imports is, however, vigorous.

Noodle products, including pasta, have a market of about \$90 million annually in Israel. Insofar as eggs are an important ingredient in pasta production, kosher certification may prove slightly more difficult than for other bakery products. However, there are several brands of noodles and pasta on the U.S. market which already have kosher certification. These may not encounter serious difficulties in entering the kosher market in Israel. Manufacturers should consult with their agents or importers to ascertain what is required.

As import restrictions and levies declined over the last decade, imported products, primarily from Italy, have taken about 15% of the market share. Very little pasta has been imported from the US. Until 1998 American manufacturers had difficulty conforming to Israeli packaging regulations. By the time these standards were abolished, Israeli importers had already established Italian sources (including Israeli ownership of plants) which provided a price advantage that American producers could not overcome. Some observers believe that imported

prepared pasta meals could have a market in Israel. While tomato sauce, beef, and pasta are all imported, there is almost no imported presence in the frozen meal category which Israeli producers dominate with a variety of ready-to-heat pasta-based selections. One trader believes that such items can succeed only if the sauce is adapted to the Israeli palate.

### **Sauces**

The Kosher Meat and Poultry Imports Law would apply to soups and sauces which contain meat/poultry products or extracts. Importation of such products without kosher certification from the Chief Rabbinate would be against the law. To be considered kosher, the meat or poultry component would have to come from an animal which had undergone kosher slaughter according to the Rabbinate of Israel. Some producers of products containing meat or meat extracts, import meat obtained from Israeli-kosher slaughter, mainly from Latin American suppliers. At present there is no American slaughter facility which is approved by the Chief Rabbinate of Israel.

The growing sauce market in Israel is estimated at 2,400 tons a year and valued at US\$ 19 million. Osem is the leading manufacturer of sauces, controlling over 50 percent of the market. The other leading companies are Vita, Segal and Strauss.

The share of imported goods in this market is over 25 percent, and most sauces from the U.S. are duty free. A number of popular American brand names are found on the local shelves, including Heinz, French's, Paul Newman, La Choy, Ken's, Hellmann's and several more. The categories include salad dressings - 25 percent, pasta sauces - 18 percent, soy sauce - 18 percent, cooking sauces - 18 percent, dry mixes - 17 percent, and chilled sauces - 4 percent.

### **Snacks**

Determination of the requirements for obtaining kosher certification in this category would probably require investigation on a product by product basis, or at least on groups of raw materials. Exporters interested in selling their product as kosher should consult with their potential importer or their agent in Israel.

Snacks, particularly savory snacks, are among the most highly competitive sectors in the food market. Two major firms, Elite and Osem dominate and compete vigorously in this sector. Estimates place annual consumption at more than \$100 million: 4,500 tons of wheat snacks and 8,500 tons of peanut snacks. In the summer, the consumption of snacks increases by approximately 20-30 percent. Osem controls 67 percent of the snack market, but only 32 percent of the potato chip market. Elite-Strauss produces salty snacks in a partnership agreement with Pepsico's Frito Lay. Pringles is also a popular brand.

Peanut snacks in Israel are unique. In many countries these snacks have a cheese coating. However, the Israeli consumer did not accept this taste, as was discovered in the 1960's when Osem unsuccessfully tried to sell cheese-coated snacks. They then coated the snack with

peanut butter which has remained a popular children's' snack to the present.

Popcorn is another important snack, much of it duty-free imports of microwave popcorn from the U.S. In the last few years there has been a significant annual increase of 10-15 percent for this product.

### **Raw Products**

Kashrut requirements for certain products are less stringent than for others. Products that are sold in their natural state and which may be eaten in their natural state may require certification as to their kosher origin, but since there is no cooking in the preparation of the product, the procedure is simpler than for prepared or processed products. Thus fresh fruits and vegetables, grains and oilseeds, and some dried and canned fruits, can be certified as kosher even though they were not specifically produced as kosher product for Israel. Thus as a practical matter, most fresh fruit packers and grain suppliers are able to ship products from their general production supply, and can arrange Kosher certification in the U.S. even after the crop has been harvested.

For dried and frozen products which do not go through a cooking process, the processing plant can sometimes be certified as kosher on a "standing basis", thus not requiring more than annual inspection.

Even for these products where the kosher certification process is simpler than for processed foods, it is strongly advised to consult with the importer and with local kashrut supervision authorities before planning shipments.

### **Niche Markets**

There are several smaller product categories in which imported products, some from the US, have maintained a lasting market. While these items do not have a large enough volume to stand out in export figures, the consistency of the market makes them attractive for manufacturers. In some cases, the market may be small enough and specialized enough to be ignored by major Israeli manufacturers. A tour of Israeli supermarkets reveals a full line of US-made edible products for cake decoration; a wide variety of low-calorie and sugar-free sweets; products for special diets from weight-loss to lactose intolerance to macrobiotic. Health foods have always enjoyed a stable share of the Israeli market (in supermarkets and in specialty stores) and producers who are able to combine kosher with another specialized product attribute can find an appreciative, if small, Israeli market.

### **Beverages**

In the Israeli soft drink market of some \$600 million, international brands dominate the carbonated category, but domestic brands still survive and do lead in non-carbonated fruit drinks. Both carbonated and non-carbonated U.S. soft drinks and U.S. beer have come in and out of the market over the past few years. Lately, imported "power" drinks seem to be catching on.

Of particular interest has been the strong growth in consumption of mineral water. Initially the market was based primarily on tourist demand but local use of mineral water has been increasing steadily. Four large Israeli bottlers compete in the market, but this year imported water, primarily from Italy and France, has captured as much as 20% of the market. This growth in imports is attributed both to the price competitiveness of the Italian supplier, and the distribution strength of the importer, a major Israeli bottler.

Natural fruit juices are also popular in Israel, about a \$60 million market. This year saw the introduction of fresh bottled Tropicana juice into Israel, and American cranberry juice and cranberry mix juices retain a stable spot on supermarket shelves. V8 juice also has found a continuing market, and has even inspired Israeli copies.

Consumption of alcoholic beverages is still relatively low due to Israeli drinking habits. Wine and beer are not an integral part of the daily meals, although social drinking, particularly among Israel's disco-age population, does appear to be increasing. Immigration from the former USSR and the large number of foreign workers in Israel have also been cited as spurs for increased demand.

Wine consumption in Israel is increasing, but from a very low per capita base of 4 - 6 liters per year, most of it low quality semi-sweet and sweet types used for sacramental purposes. Yet consumption of red wine has tripled and the growth has been in quality wines. This demand also induced significant plantings of quality red varieties. Wine imports have grown from less than half a million dollars to over 12 million dollars in less than a decade. There is definitely room for quality kosher wine of U.S. origin. At present the US accounts for \$1 million of the total, making it the 4<sup>th</sup> largest supplier after Chile, France and Italy. As detailed in an earlier section, kosher requirements for wine are particularly rigorous, but once wineries have made the effort to achieve kosher certification, it is likely that they will invest in market development to increase demand.

### **Trade with Palestinian Authority**

In the Paris Accord of 1994 and subsequent agreements, representatives of the Palestinians and the Government of Israel agreed to create a single customs union between the two entities. Accordingly, tariffs for the two areas are identical and all Israeli food standards and import regulations apply also to goods destined for the Palestinian Authority. One exception is with respect to meat and poultry. Meat imports to Israel by law require kosher certification by the Chief Rabbinate whereas for the PA a halal certificate suffices.

A year ago many traders were getting used to looking at Israel and the Palestinian Authority as one trading unit, with some differences between them. It was expected Israeli-Palestinian peace would lead to the area becoming a hub for regional trade. With the violence which broke out in October 2000 continuing for more than a year, trade between the two has slowed, and Israeli importers are no longer counting on the Palestinian market. As personal income in the

Palestinian Authority has also been deeply affected by the violence, imports have been reduced to necessities alone.

## **Tariffs, Taxes and other Regulations**

### **Tariffs and Fees**

Full information regarding fees applicable to food imports from the U.S. can be obtained from the Israel Customs Authority by completing the on-line request for information form by typing the following URL: [www.mof.gov.il/preruling](http://www.mof.gov.il/preruling).

### **Taxes**

All imports, including those from the U.S., are subject to Value Added Tax (VAT) of 17 percent. The VAT is levied on the CIF landed cost plus purchase tax. VAT is recovered by the importer upon resale of the goods and is ultimately paid by the consumer on the basis of the retail price. Purchase taxes are levied on alcohol and alcoholic beverages, excluding table wine, and on cigarettes.

### **Regulatory Issues**

In order to import food products into Israel, products must conform to the standards set by one or more of the following official bodies: the Ministry of Health Food Control Services, the Standards Institution of Israel and, in the Ministry of Agriculture, the Israel Veterinary Service and Animal Health and the Plant Protection and Inspection Service. Import licenses for most products subject to Tariff Rate Quotas (TRQs) are provided to Israeli resident importers by the Ministry of Industry and Trade or the Ministry of Agriculture.

### **Licensing Procedures - TRQ**

Import licensing requirements for U.S.-made consumer and industrial goods have been eliminated under the FTAA, including for most food and agricultural products. However, in the case of products for which there is a tariff rate quota (TRQ), the Ministry of Agriculture or of Industry and Trade issues an import license exempting the bearer from duty on the quantity indicated in the license.

The list of U.S. products that are subject to Tariff Rate Quotas can be obtained from the American Embassy-Tel Aviv at fax: 972-3-510-2565 or e-mail: [ZuckermanE@fas.usda.gov](mailto:ZuckermanE@fas.usda.gov).

Importers wishing to bring in goods without use of a TRQ are not required to obtain a license except for veterinary or phytosanitary purposes, and from the Food Control Services of the Ministry of Health.

### **Health Regulations**

In principle, the Ministry of Health requires that all food products entering the country be accompanied by an import license indicating any limiting conditions the Food Control Services may deem necessary to impose. The Ministry has strict regulations for imported food products

and thoroughly inspects each product entering the country. Authorization to import food products requires a battery of laboratory tests and compliance with packaging and labeling standards. Importers have complained about the lack of transparency of the Health Ministry regulations, and about the costs involved with product testing. The food importers of the Tel Aviv Chamber of Commerce have recently petitioned the Israeli courts to remedy the situation, and this case will be watched with great interest in the trade.

Approval of the food products by American regulatory authorities such as the F.D.A. for free sale in the U.S. makes entry to the Israeli market easier, but does not guarantee it. The Ministry has quarantine stations in the ports where food products are inspected for a fee. This inspection takes place after the importer receives preliminary approval by the Ministry as being importable and an import license has been issued. Only then can the importer contract to bring the product. Any limiting conditions or special requirements are specified on the import license.

Israel has strict marking and labeling requirements which frequently differ from those of other countries. It is recommended that U.S. exporters consult with their Israeli importer prior to shipping. All imports into Israel must have a label indicating the country of origin, the name and address of the producer, the name and address of the Israeli importer, the contents, and the weight and volume in metric units. In all instances, Hebrew must be used; English may be added provided the printed letters are no larger than those in Hebrew. As of September 1998, consumer packages which do not conform to the Israeli weights and measures standards are admissible provided that, in the shop, they bear a label indicating price per unit. Nutritional labeling is compulsory on all packaged foods.

For information on entry procedures and requirements for processed and packaged food, direct inquiries to:

Dr. Brian Couzzin, Director,  
Food Control Services  
Ministry of Health  
12-14 Ha'Arba'a St.  
61070 Tel Aviv, Israel  
Phone: 972-3-563 4782; Fax: 972-3-561-9549

### **Standards**

The Standards Institution of Israel (S.I.I.) and the Food Control Services stipulate specific requirements which must be met by the imported products. These standards include restrictions on labeling and packaging of food, as well as technical specifications with respect to chemical and physical attributes. A list of official standards, with an indication of what is available in English, can be obtained from the Office of Agricultural Affairs, U.S. Embassy, Tel Aviv, fax: 972-3-510-2565; e-mail: ZuckermanE@fas.usda.gov or directly from the Standards Institution of Israel at [www.sii.org.il](http://www.sii.org.il).

It is the declared policy of the Government of Israel to adopt international standards wherever possible, and to implement mandatory standards related only to safety, health, and the environment. In general, the government tends to follow European requirements in its regulations and in some instances these differ from FDA and other U.S. regulatory agencies' standards. Israel has not officially adopted ISO-9000 standards, although there is a growing preference for ISO-9000 standard products among Israeli importers. Manufacturers who export food products to the EU often require ISO-9000 certification (or better) on raw materials for food processing, in order to comply with the specifications of their European buyers.

The S.I.I. is the agency responsible for the development of most product standards, compliance testing, and certification of products and industry quality assurance systems. In the case of foods the Food Control Services play the leading role.

**For further information, interested firms should contact:**

The Standards Institution of Israel,  
42 Levanon Street, Tel Aviv 69977, Israel  
Tel: 972-3-646-5154; Fax: 972-3-641-9683.

or

The Food Control Service  
Ministry of Health  
12-14 Ha'Arba'a Street  
64739, Tel Aviv  
Tel: 972-3-563-4780; Fax: 972-3-561-9549

**Phytosanitary Regulations**

Fruit and vegetables require a phytosanitary certificate. The Plant Protection and Inspection Service of the Ministry of Agriculture determines import conditions for fresh fruit and vegetables and regularly inspects grain and fodder shipments for aflatoxin, micotoxins, and residues of pesticides and heavy metals prior to authorizing their discharge at the ports of entry.

**For further information:**

Mrs. Miriam Freund, Deputy Director  
Plant Protection and Inspection Service  
Ministry of Agriculture  
P.O. Box 78  
50250, Bet Dagan  
Phone: 972-3-968 1561; Fax: 972-3-968 1571  
E-mail: miriamf@moag.gov.il

**Customs Documentation**

U.S. exporters to Israel must follow U.S. Government requirements regarding export control documentation. The Israeli Customs Services prefer that exporters use their own commercial invoice forms containing all required information including name and address of supplier, general nature of the goods, country of origin of the goods, name and address of the customer in Israel, name of the agent in Israel, terms, rate of exchange (if applicable), Israel import license number (if applicable), shipping information, and a full description of all goods in the shipment including shipping marks, quantity or measure, composition of goods (by percentage if mixed), tariff heading number, gross weight of each package, net weight of each package, total weight of shipment, price per unit as sold, and total value of shipment. The total value of the shipment includes packing, shipping, dock and agency fees, and insurance charges incurred in the exportation of the goods to Israel. The commercial invoice must be signed by the manufacturer, consignor, owner, or authorized agent. U.S. exporters should also double-check with their freight forwarder, shipping company or importer as to what other documentation, including bill of lading and packing list, is required.

In order to benefit from the provisions of the FTAA and the exemptions from duties embodied in it, a special "U.S. Certificate of Origin for Exporting to Israel" (CO) must be presented to Israel Customs. To be of U.S. origin, a product must be shipped directly from a U.S. location to an Israeli port of entry. Products which transit other countries and remain in bond for any length of time must obtain a certificate of nonmanipulation from the customs authority of the country of storage. Thus, goods shipped from unbonded warehouses in third countries will not be considered to be of U.S. origin even if they have not entered commerce in the third country.

The actual forms are printed by a number of commercial printing houses in the U.S. For further information on how to obtain them, U.S. exporters may wish to contact the U.S. Department of Commerce (DOC) Israel Desk Officer or the nearest regional DOC office.

The best advice for someone interested in exporting to Israel is to approach one of the large customs agents, the majority of whom are knowledgeable on the subject of importing to Israel. As a rule, exports to Israel are carried out through, or in partnership with, an importer who is also a distributor in the country. These firms are familiar with all the steps that must be taken in order to export to Israel.

## Appendix A

### Total and U.S. Imports by HS Chapter – 1999 - 2000

\$ millions

Ch	Description	Total Imports \$1000			Imports from US \$1000			US Share %		
		1998	1999	2000	1998	1999	2000	1998	1999	2000
01	Live animals	21.5	20.7	29.2	1.5	2.8	1.8	7%	13%	6%
02	Meat and edible meat offal	147.2	129.7	149.4	0.9	0.7	1.7	1%	1%	1%
03	Fish, crustaceans and mollusks	105.2	87.4	89.3	3.9	4.6	4.4	4%	5%	5%
04	Dairy produce; eggs, natural honey; edible products of animal origin	18.8	19.6	24.6	3.6	3.5	8.7	19%	18%	35%
05	Products of animal origin n.e.c.	4.1	3.1	3.4	0.2	0.2	0.4	5%	7%	10%
06	Live trees and other plants, bulbs, roots and other garden plants	5	5.5	6	0.7	0.1	0.1	1%	3%	1%
7	Edible vegetables, roots and tubers	36.2	36.4	31.7	4.2	3.1	3.2	12%	9%	10%
8	Edible fruits and nuts; peel of melons and other citrus fruit	84	88.4	84.3	42.3	43.8	43.4	50%	50%	51%
09	Coffee, tea, mate and spices	73	64.8	52.7	3.7	3.9	3.3	5%	6%	6%
10	Cereals	353.9	380.2	386.9	132.7	157.8	173.1	38%	42%	45%
11	Products of the milling industry; malt and starches; inulin; wheat gluten	40.8	41.6	42.3	12	12.4	7.6	30%	30%	18%
12	Oil seeds, grains, fruits, industrial and medical plants, straw and fodder	186.3	192.9	178.4	99.3	126.7	95.6	53%	66%	54%
13	Tree gum; resins, other vegetable saps and extracts	16.2	17.4	14	1.5	3.2	1.8	9%	18%	13%
14	Vegetable plaiting materials; vegetable products n.e.c.	4.8	5.3	7.2	0.5	2.8	3.2	11%	13%	45%
15	Animal or vegetable fats and oils; animal or vegetable waxes	79.3	72.7	60	20.2	0.7	8.2	25%	1%	14%

Ch	Description	Total Imports \$1000			Imports from US \$1000			US Share %		
		1998	1999	2000	1998	1999	2000	1998	1999	2000
16	Preparation of meat, of fish, or of other aquatic invertebrates	27.1	36.6	32.4	15	10	12.8	55%	27%	39%
17	Sugar and sugar confectionery	180	157.8	141.1	3.9	4.7	3.4	2%	3%	2%
18	Cocoa and cocoa preparations	58.5	57.8	52	2.2	2.3	1.8	4%	4%	3%
19	Preparations of cereals, flour starch or milk; pastry products	76	74.4	71.1	17.7	14.3	14	23%	19%	20%
20	Preparations of vegetables, fruits, nuts and other plants	91	85.7	93.6	14.7	14.8	13.3	16%	17%	14%
21	Miscellaneous edible preparations	184.1	183.8	174.6	48.7	42.9	76.3	26%	23%	44%
22	Alcoholic beverages and vinegar	37.1	41.4	53.1	3.6	3.3	4.8	10%	8%	9%
23	Residues and waste from the food industries; prepared animal fodder	57.4	56.6	67.4	17.8	16.2	19	31%	29%	28%
24	Tobacco and tobacco substitutes	93.7	112.4	113.9	69.5	83.3	88.4	74%	74%	78%
	Total Food and Agriculture	1981	1972.2	1959.4	519.8	574.8	590.1	26%	29%	30%

## Appendix B

### Average Retail Prices of Selected Foods NS/Unit including 17% VAT

		December 2000	June 2001
Product	Quantity	Price - NS \$1 = NS4.08	Price - NS \$1 = NS4.16
<b>Bread, cereals and bakery products</b>			
White bread	750 grams	2.63	2.64
Petit-Beurre biscuits	250 grams	5.48	5.42
White wheat flour	1 kg	2.14	2.1
Noodles	250 grams	2.77	2.63
Macaroni, spaghetti	250 grams	3.7	3.7
Brown rice (packed)	1 kg	6.89	6.58
<b>Fats and Margarine</b>			
Soybean oil (in plastic bottle)	1000 cc	5.84	5.72
Margarine (packed)	200 grams	1.56	1.58
<b>Meat, Poultry and Fish</b>			
Beef ribs, fresh	1 kg	39.35	41.9
Beef steak - shoulder, fresh	1 kg	53.16	53.1
Beef ribs, frozen	1 kg	19.49	22.99
Beef liver, frozen	1 kg	16.9	18.81
Chicken breast	1 kg	25.9	24.06
Tuna fish (canned)	170 grams	5.71	5.95
<b>Milk and Dairy Products</b>			

Butter,unsalted, locally produced	100 grams	2.52	2.52
Cured cheese, from cows milk	100 grams	5.4	4.92
		<b>December 2000</b>	<b>June 2001</b>
<b>Product</b>	<b>Quantity</b>	<b>Price - NS \$1 = NS4.08</b>	<b>Price - NS \$1 = NS4.16</b>
<b>Miscellaneous Food Products</b>			
Tea bags (1 gram)	100 bags	16.44	16.61
Instant coffee	200 grams	21.39	20.78
Cocoa powder	150 grams	4.46	4.46
<b>Beverages</b>			
Beer, regular	330 ml	-	4.15
Soda, in plastic bottle	1.5 liters	5.11	5.24
Citrus juice, pasteurized	2 liters	4.1	3.97
White sugar	1 kg	2.5	2.56
Jam	900 grams	9.87	10.24
Fruit confitures	330 grams	8.98	11
Toffee candies (packed)	200 grams	6.17	6.33
Milk chocolate bar	100 grams	4.51	4.52
<b>Canned Fruit and Vegetables</b>			
Garden peas, canned	550 grams	4.69	4.86
Tomato paste	100 grams	1.9	1.86

## Appendix C

### Useful e-mail Addresses

#### **Importers of kashrut mehuderet product**

Shaked Tevel Ltd.

1shaked@aquanet.co.il

Paul Wimpfheimer

paulw@netvision.net.il

#### **Office of Agricultural Affairs, U.S. Embassy, Tel Aviv**

Eve Zuckerman

ZuckermanE@fas.usda.gov

#### **The Israel Federation of Chambers of Commerce**

Chamber@tlv-chamber.org.il

#### **Israel Customs Authority**

Customs Tariff Inquiries:

[www.mof.gov.il/preruling](http://www.mof.gov.il/preruling)

#### **Ministry of Health**

**Food Control Administration**

**Dr. Brian Cuzzin, Director**

fcsbrian@matat.health.gov.il

#### **Standards Institution of Israel**

[www.sii.org.il](http://www.sii.org.il)

#### **Ministry of Agriculture**

**Plant Protection and Inspection Service (PPIS)**

Ms. Miriam Freund

Deputy Director

miriamf@moag.gov.il

Mr. Meir Mizrachi  
Director, Plant Quarantine  
meirm@moag.gov.il

**Israel Veterinary Services**

Dr. Ronnie Ozari  
Chief Import/Export Veterinary Officer  
ronio@moag.gov.il

**USDA**

**Food Safety and Inspection Services (FSIS)  
International Trade Policy Division**

**Dr. Rick Harries**  
rick.harries.usda.gov

**Animal and Plant Health Inspection Service (APHIS)**

**Plant Protection**

**International Support Services**

**Riverdale MD**

**Mr. Wilmer E. Snell**  
wilmer.e.snell@aphis.usda.gov

**Veterinary Services**

**National Center for Import and Export**

**Dr. Ted R. Williams**  
Ted.R.Williams@usda.gov