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Report Name: Food Processing Ingredients

Country: Israel

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Report Highlights:

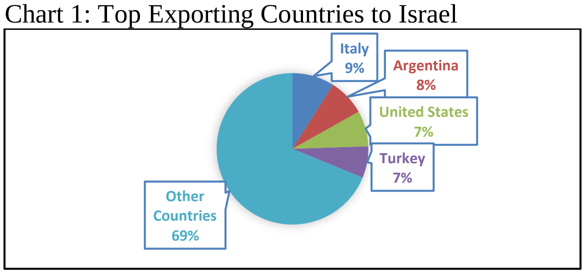
With over 2,500 facilities, the Israeli food processing sector is an important player in the domestic economy. In 2022, Israeli food processors' annual revenue stood at $23.19 billion. With limited land, resources, and a growing population, demand for ingredients by the Israeli food processing sector is high. However, with the regional conflict and the recent adoption of EU standards for agricultural products, Israeli processor and importers must navigate a challenging macroeconomic environment.

Executive Summary:

Israel is a technologically advanced, market-oriented economy. In 2023, Israel's annual GDP reached $462 billion. According to Israel's Central Bank, Israel's GDP grew by 2 percent in 2023 but is expected to have a slower growth at 1.5 percent in 2024, rebounding to 4.2 percent in 2025, if the Israel-Hamas conflict subsides. The inflation rate in September 2024 was 2.8 percent, but is expected to grow to 3.2 percent in 2024, partly due to taxation measures. In 2025, the inflation rate is expected to settle at 2.8 percent, if the conflict subsides.

Consumer-Oriented Agricultural Imports

Chart 1: Top Exporting Countries to Israel



Food Retail Industry:

Israeli food retail sales reached $20.7 billion in 2023, with 2 percent growth anticipated for 2024. The food retail market consists of supermarket chains, convenience stores, local grocery stores, and wet markets. The leading retail supermarkets in Israel are: Shufersal, Rami Levi and Merav-Mazon Kol/Osher Ad. They collectively have a revenue of $7.7 billion and represent 55 percent of Israel's top 24 food retail companies.

Food Processing Industry:

With more than 2,500 food processing facilities, the Israeli food processing sector is an important player in the domestic economy. Five groups dominate the local food processing industry: Tnuva, Osem-Nestlé, Strauss, Central Company for Beverages Distribution (Coca-Cola) and Soda Stream. In 2023, Israel imported $9.2 billion of food products, a large percentage of which were for the food processing industry. Almost all ingredients from horticultural sources are imported. In 2023, the annual revenue for Israel's largest food processors was $13.62 billion.

Food Service Industry:

Israeli food service sales reached $8.1 billion in 2023. However, after October 7, 2023, the food service industry suffered a severe drop in sales, with no growth forecasted for 2024. The expansion of sales is dependent upon the cessation of the regional conflict.

Quick Facts CY 2023

Imports of Consumer-Oriented Products*

$4.96 million (U.S. billion)

List of Top 10 Growth Products in Israel*

1) Dairy Products	2) Bakery Goods, Cereals & Pasta
3) Chewing Gum & Candy	4) Beer
5) Non-Alcoholic Bev.	6) Chocolate & Cocoa Products
7) Eggs & Products	8) Dogs and Cat Food
9) Condiments & Sauces	10) Poultry Meat & Products

Food Industry by Channels (U.S. billion)

Retail Food Industry	$20.7
Food Service-HRI	$8.1
Food Processing	$13.62
Food and Agriculture Exports**	$8.6

Top 10 Host Country Retailers

Shufersal Ltd; Rami Levy Shivuk Hashikma Ltd; Merav-Mazon Kol/ Osher Ad; Yohananov M and Sons (1988) Ltd; Victory Supermarket Chain Ltd; Hazi Hinam; Cohen Machsanei Hashuk Ltd; Freshmarket Ltd (PAZ Oil Co Ltd); Tiv Taam Holdings; Keshet Tastes Ltd.
*2023 Carrefour entered Israel.

GDP/Population

Population *(millions)*: 9.921 (as of June 2024)
GDP *(billions USD)*: 462 (2023)
GDP per capita *(USD)*: 48,300 (2023)
***BICO HS6 2021 – Consumer Oriented Agricultural Total**
****Ag Sector Total**
Sources: Euromonitor, Bank of Israel, The World Factbook, TDM, Duns 100, Israeli Centras Bureau of Statistic (CBS), FAS Tel Aviv office research.
1. https://www.boi.org.il/roles/statistics/real-economic-activity/national-accounts/
2. https://www.boi.org.il/media/bixo1v0q/full-anual2023.pdf
3.; 4. Duns100 (Hebrew Only)
5. Euromonitor

Strengths/Weaknesses/Opportunities/Threats

Strengths	***Weaknesses***
- Many markets are arguably well-known - U.S.-Israel Free Trade Agreement	- Different regulations from the United States - Geographical distance from the United States.
Opportunities	***Threats***
- Increasing consumer demand - Availability of kosher products	- Adoption of EU regulations - Strong competition in a highly branded market

Section I: Market Overview

The Israeli food and beverage processing industry consist of more than 2,500 food and beverage processing facilities. Some of these facilities are also registered as retailers and marketers, such as Shufersal, Rami Levi, Osher Add etc.[1] The industry's top 40 companies are estimated to employ over 41,000 workers.[2] In 2022, the Israeli food processing sector generated revenues of $23.19 billion.[3]

Israel's limited land and water resources preclude a high level of agricultural self-sufficiency which affects local production, costs, and consumer prices. The Government of Israel (GoI) 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. The latest effort by the GoI to address the high cost of living was the revision to the Israeli food legislation under the title "What is good for Europe is good for Israel," which will be implemented on January 1, 2025 (See GAIN report IS2-24-0020 "Israel Adopts Additional European Union Standards for Agricultural Imports").[4]

Israel's food and beverage processing industry is centralized, and a small number of large local companies supply most of the food sold in Israel. The largest food companies are the Central Company for Beverages Distribution (Coca-Cola), Strauss Group Ltd., Tnuva Ltd., Osem, SodaStream, Unilever Israel, and Tempo.

The food processing industry is currently navigating a challenging macroeconomic environment influenced by the escalating regional conflict. Post-pandemic inflation, rising interest rates, economic instability following the recent downgrade of Israel's credit rating, and the expansion of the regional conflict have led to a reduction in household disposable income. Despite these pressures, the demand for food remains relatively stable. If the conflict continues or expands it could lead to supply-side disruptions, including labor shortages affecting manufacturing output, and if demand remains high, it could lead to inflation.

Looking ahead, the stabilization of global food commodity prices could help moderate the cost of food production, although local conditions in Israel such as expected tax hikes, inflation, and a new food legislation may continue to challenge the market.

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[1] https://www.gov.il/he/Departments/DynamicCollectors/fcs-manufacturer?skip=0 (Hebrew only)

[2] https://www.duns100.co.il/rating/%D7%9E%D7%96%D7%95%D7%9F/%D7%99%D7%A6%D7%A8%D7%A0%D7%99%D7%95%D7%AA_%D7%9E%D7%96%D7%95%D7%9F/2023 (Hebrew Only)

[3] https://www.leumi.co.il/leumi-hebrew/s3fs-public/complex_link_file/05-24/Food_and_beverage_production_may_2024_acc_62688.pdf (Hebrew only), ExchangeRates

[4] https://apps.fas.usda.gov/newgainapi/api/Report/DownloadReportByFileName?fileName=Israel%20Adopts%20Additional%20European%20Union%20Standards%20for%20Agricultural%20Imports_Tel%20Aviv_Israel_IS2024-0020

Current Market Trends:[5]

- <u>Health and Wellness Products</u> - Consumers are shifting towards products such as natural, organic, reduced fat, reduced sugar, reduced salt, and gluten-free.
- <u>Sustainability</u> - Industry is focused on improving the nutritional value of its products including eco-friendly packaging, in order to promote healthy eating habits and lifestyle.
- <u>High-end Confectionery</u> -The consumption of quality food such as high-end chocolate, desserts and cheeses is growing.
- <u>Storable food</u> - Dry foods such as pasta and ready-made meals have increased in sales following the current regional conflict and is expected to continue if the conflict continues.
- <u>Private Label (PL)</u> - The 10 largest suppliers continue to trend downwards, while the PL continues to grow. With the new Food Reform aiming to shift liability to the markets, PL trends and the suppliers' market share will need to be re-examined (See Chart 1).

Chart 1: FMCG Market Share of Top 10 Suppliers

Source: StoreNext

- <u>Digitalization and Automation</u> - Industry is adopting advanced technology to streamline production and increase efficiency.
- <u>Impact of Regulatory Changes</u> – The Food Reform could change market dynamics. The complexity of the adopted regulations and its implementation on the manufacturing sector is not clear as there are different transition periods for implementation of such standards.

[5] FAS Tel-Aviv research

Advantages and Challenges

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

ADVANTAGES	CHALLENGES
U.S. commodities and products are known as high-quality.	Israeli food safety regulations are complex. Israel has adopted 40 new EU standards, many of which are more restrictive than the United States.
Many Israelis have lived in the United States and are familiar and receptive to new and emerging products from the United States.	Consumers demand high-level kosher certification.
U.S. commodities and products that are being sold in the EU market may have easier and faster access to the Israeli markets.	Import requirements are strict and differ from the United States.
Free trade agreement between the United States and Israel.	High shipping costs from the United States to Israel can be challenging.
Kosher commodities and products have a high market share in Israel - over 10,000 American companies produce kosher products.	Israel has some restricted food ingredients, including non-kosher meat.
The Israeli market is high-end oriented, with high benchmark prices.	Israeli buyers are less familiar with U.S. suppliers and producers.
The Palestinian Authority has a growing population, and most imports are routed through the Israeli border.	Low-cost competition from Europe and Asia.
Some commodities are dominated by the U.S. market or have a significant market share.	U.S. exporters lack knowledge of the Israeli market and are unaware of new opportunities.
Israel promotes innovation in food processing, including food-tech, agri-tech, and alternative protein. Although related regulations are not yet fully developed, it could provide opportunities for U.S suppliers of innovative ingredients.	The regional conflict may impact the supply chains and overall market stability, adding increased risk for exporters.

Section II: Roadmap for Market Entry

Entry Strategy

Food processing ingredient suppliers from the Unted States should establish business relationships with reliable, experienced, and professional importers or distributers and identify the appropriate distribution and sales channel. Commissioned agents are generally used for raw materials and commodities. Face-to-face meetings also help build relationships and create opportunities to explore business opportunities firsthand.

Large food processors like Strauss Group, Osem, and Sugat have their own purchasing and importing division to handle ingredient imports directly. Major food processors and retail companies are increasingly importing directly from foreign suppliers in order to reduce costs. Suppliers should initially contact business development divisions, as well as purchasing or importing divisions large food manufacturers, especially for new-to-market ingredients.

Exporters should consider the price sensitivity of their customers, their product requirements, purchasing policies, and expected purchase volumes. Further details on product standards and regulations are available in the Israel FAIRS Country Report.[6] For further information, U.S. exporters should review FAS/Tel Aviv policy and marketing reports[7] and private sector analyses.

Additional Entry Options:

- Direct marketing is mostly done through social media.
- Manufacturing under licensing agreements is common in Israel.
- The Government of Israel encourages both joint ventures and licensing.
- Participating or visiting ISRAFOOD,[8] an international food and beverages exhibition in Tel Aviv for professionals in catering, wholesale, retail, restaurants, hotels, institutional and food shops. This is the largest trade exhibition of its kind in Israel.

Import Procedure

Details on import procedures are available in the Israel FAIRS Country Report.[9]

Distribution Channels

Food processors sell their products to a variety of sectors, including hotel, restaurant, institutional food service sector, retail, and wholesale. More information on specific sectors is available in the Israeli HRI Food Service sector[10] and the Israeli Retail Food Market[11] reports.

While the use of an agent or distributor is not legally required, partnering with a local representative who has good industry contacts, proven reliability, loyalty, technical skills, and after-sales service capabilities is important for selling and maintaining a continued presence in Israel. U.S. companies need to be aggressive in their pursuit of business opportunities and maintain an active in-country presence.[12]

Market Structure

Raw food materials are imported either directly by food manufacturers, through importers, or agents. Importers and agents sell directly to food manufacturers or via distributors. Local

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6 https://apps.fas.usda.gov/newgainapi/api/Report/DownloadReportByFileName?fileName=FAIRS%20Country%20Report%20Annual_Tel%20Aviv_Israel_IS2024-0016.pdf

7 https://www.fas.usda.gov/data/search?search_api_views_fulltext=israel&=Apply

8 Food and Retail Week Stier group Initiating and producing international exhibitions and conferences (israfood.com)

9 https://apps.fas.usda.gov/newgainapi/api/Report/DownloadReportByFileName?fileName=FAIRS%20Country%20Report%20Annual_Tel%20Aviv_Israel_IS2024-0016.pdf

10 https://www.fas.usda.gov/data/israel-food-service-hotel-restaurant-institutional-3

11 https://www.fas.usda.gov/data/israel-retail-foods-1

12 https://www.trade.gov/country-commercial-guides/israel-distribution-and-sales-channels

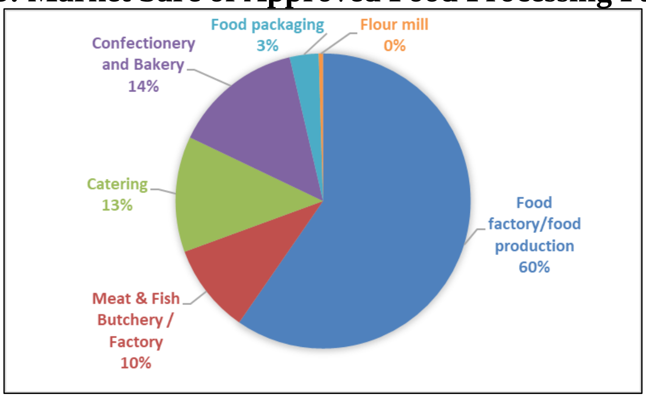
producers of raw food materials generally sell directly to food manufacturers but will use distributors to supply smaller food manufacturers as well.

Large food processing companies and some large distributors prefer to source their food ingredients directly from overseas suppliers. By removing local agents from the distribution chain, they can save costs and buy in bulk and repack as needed. The majority of large food processing companies in Israel have their own import departments.

Smaller Israeli food processors tend to prefer to purchase from agents because they can obtain better service from local agents. The local agents normally buy large quantities from overseas and distribute to smaller buyers. Small food processers are able to use local suppliers to protect themselves from some risk and better manage contract terms, quality issues, etc.

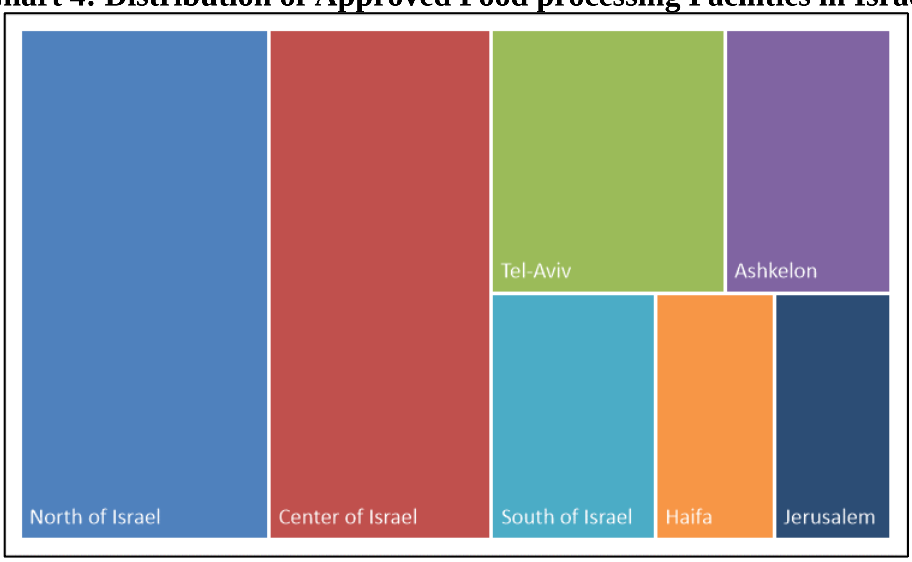
Share of Major Segments in the Food Processing Industry

Chart 3: Market Sare of Approved Food Processing Facilities



Source: Approved Food Manufacturers and Food Businesses with Manufacturer license (Hebrew only)

Chart 4: Distribution of Approved Food processing Facilities in Israel



Source: Approved Food Manufacturers and Food Businesses with Manufacturer license (Hebrew only)

Company Profiles & Company Products

- Company profiles are available on Dun's 100 Food Manufacturers ranking list[13]
- Company products are available on Ministry of Health Food Manufacturers and Food Businesses with Manufacturer license list[14]

Sector Trends

- Centralized Sector - The Israeli food industry is highly centralized and dominated by a few large companies: The Central Company for Beverages Distribution (Coca-Cola), Strauss Group Ltd., Tnuva Ltd., and Osem. Israeli companies produce some foreign brands of food products under licenses with the rights to market within specific geographical regions. Though small firms have been largely pushed out of the market, recent regulations designed to deconsolidate the market is giving them more favorable treatment.
- Digital Commerce and E-Grocery Growth – The Israeli food processing sector is increasing its use of digital platforms to reach consumers and developing a direct line to consumers providing home delivery. This trend has opened opportunities for the U.S. food processing industry, especially in niche products that are expensive and difficult to find in Israel.
- Convenience and Ready-to-Eat/Cook Meals – Israel has a growing demand for ready-made food, meal kits and stable shelf products. This trend is likely to grow with the growing need of a dual income household and urbanization that drives the need for convenience.
- Alternative Food and Health-Conscious Consumers – Israel has a growing rate of vegans and vegetarians which influence the market by demanding plant-based ingredient products, meat substitutes, dairy alternatives, and innovative protein sources. The packaging market has been influenced by this trend which has also led to a shift in using more sustainable packaging.
- Food Tech, Food Startups and Innovation – Startups in food tech are rapidly developing in Israel to align with the health and environmental concerns of Israeli consumers. R&D for innovative food solution such as packaging, food safety technologies, fermentation and biotech ingredients, have a favorable research environment.
- Food Reform – As of January 1, 2025, the new Food Reform will be implemented and will influence the entire food handler's chain. Food processing facilities must adapt to the new regulatory system that harmonizes the Israeli food legislation with the European Union food legislation.
- Multinational – There is an increasing interest for unique flavors and global cuisines.
- Kosher Food – The majority of the population in Israel prefers to buy Kosher food. Israeli manufacturing companies also export Kosher food to Jewish and Israeli communities worldwide.

[13] https://www.bdicode.co.il/en/category/eng_industry/eng_industry_food/
[14] https://www.gov.il/he/departments/dynamiccollectors/fcs-manufacturer?skip=0

Section III: Competition

While U.S. suppliers face high competition from European and regional players, the U.S. food industry has a positive image in Israel in terms of reliability and food safety. Exporters must be competitive in their pricing or focus on high-end products, which tend to be less price sensitive. Israel has a large food production industry of its own. There is also strong competition among food importers seeking to maintain or enlarge their market share. Nearby EU countries operate with relatively low shipping costs and have easier compliance as the Food Reform is harmonizes with EU food regulations and standards.

Market Dynamics - Local and EU suppliers remain U.S. exporters' main competitors. The U.S. industry's primary advantage is supplying reliability and product quality. Conversely, high shipping costs, the adoption of EU standards, import duties, and import licensing requirements remain major market barriers. U.S. exporters must also consider the longer freight time to Israel and the higher transport costs.

Advantages of U.S. products

- Many Israeli consumers are familiar with U.S. products and consider them to be high quality.
- There are many products in the United States which hold Kosher certificates.
- There is a free trade agreement (FTA) between the United States and Israel which gives an advantage for some products to be exported to Israel with lower tariffs and custom rates than other countries.
- The Palestinian Authority (PA) - Israel is a gateway to the PA, with a population of over three million people. Products imported to Israel may be destined for the PA food and beverage manufacturing sector.[15]

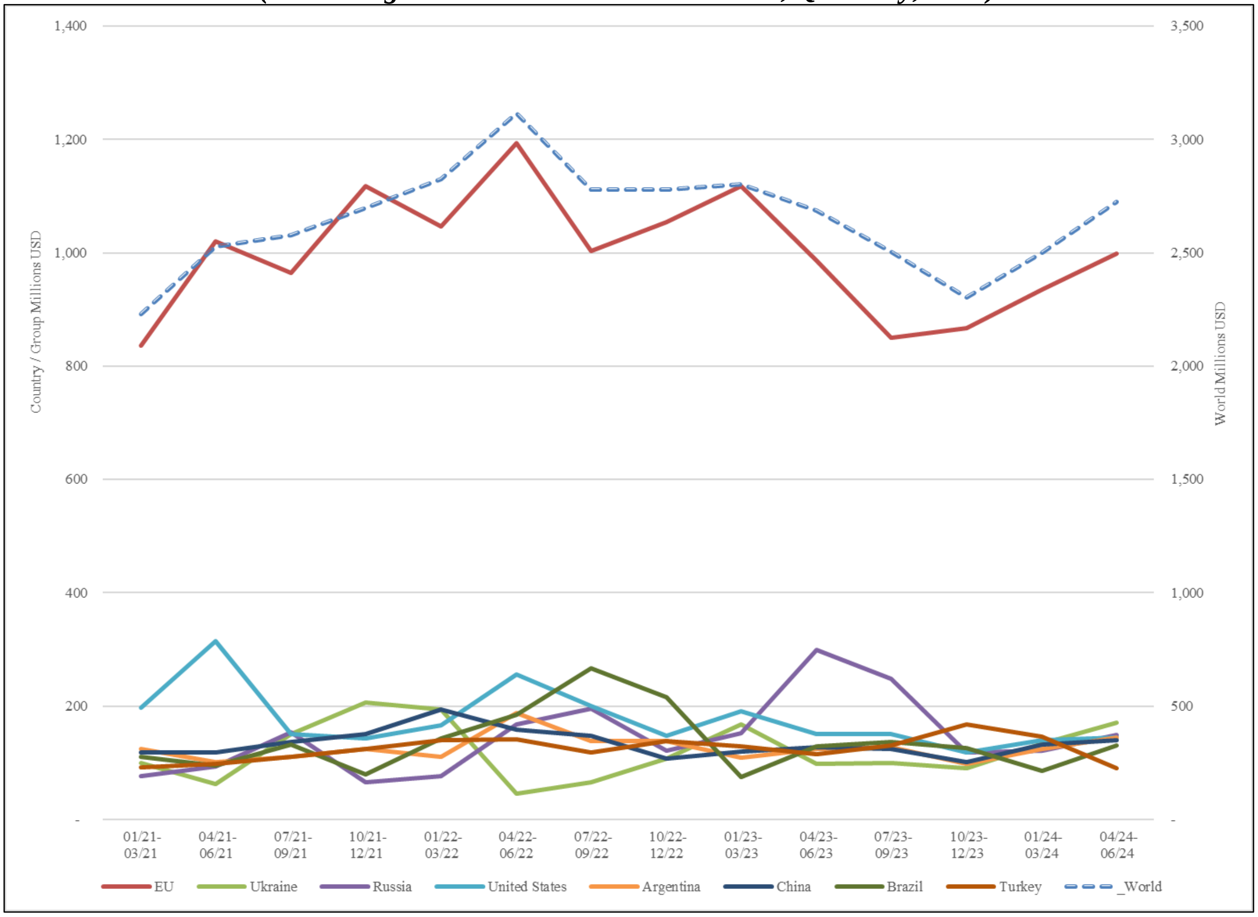
[15] http://www.pipa.ps/page.php?id=1ab350y1749840Y1ab350

Table 2: Top Competitors to U.S. Suppliers for Food Processing Ingredients

Category	U.S. Market Share in Category (Percent)	EU Market Share in Category (Percent)	Top 3 Country Market Share in Category (Percent)
08 - edible fruit and nuts; peel of citrus fruit or melons	39.9 %	15.1 %	Vietnam – 10.57 % Turkey – 8.05 % Italy – 7.55 %
23 - Residues And Waste from The Food Industries; Prepared Animal Feed	19.82 %	38.25 %	Brazil – 10.52 % Ukraine – 8.21 % Romania – 7.26 %
21 - Miscellaneous Edible Preparations	11.69 %	51.8 %	Ireland – 10.3 % Netherlands – 9.24 % Turkey – 7.46 %
19 - Preparations Of Cereals, Flour, Starch or Milk; Bakers' Wares	8.19 %	67.41 %	Italy – 20.71 % Turkey – 9.63 % Netherlands – 7.35 %
20 - Preparations Of Vegetables, Fruit, Nuts, Or Other Parts of Plants	7.56 %	44.15 %	Italy – 11.08 % China - 7.64 % Netherlands – 6.52 %
12 - Oil Seeds and Oleaginous Fruits; Miscellaneous Grains, Seeds and Fruits; Industrial or Medicinal Plants; Straw and Fodder	5.16 %	4.36 %	Brazil – 30.93 % Ethiopia – 17.61 % Canada – 12.66 %
02 - Meat And Edible Meat Offal	1.88 %	20.79 %	Argentina – 41.45 % Brazil – 19.33 % Poland – 14.19 %
22 - Beverages, Spirits and Vinegar	2.44 %	58.61 %	United Kingdom – 16.99 % Italy – 11.86 % France – 10.26 %
17 - Sugars And Sugar Confectionary	3.14 %	40.41 %	Poland – 13.9 % Morocco – 12.43 % Egypt – 11.55 %
16 - Edible Preparations of Meat, Fish, Crustaceans, Molluscs or Other Aquatic Invertebrates	6.85 %	9.7 %	Thailand – 36.19 % Vietnam – 18.74 % China – 14.88 %

Source: Trade Data Monitor ((BICO - Agricultural and Related Products, Year Ending: December 2023, Value)

Chart 5: Israeli Imports by Country/Group
(BICO - Agricultural and Related Products, Quarterly, USD)



Source: Trade Data Monitor

Section IV: Best Product Prospects

The food processing sector in Israel has shown consistent demand for raw materials and ingredients for fresh food products and packaging. Israel is a high-priced market with high benchmark prices for end products. It is still unclear the extent at which the new legislation will have over this market. The data listed below represents the most recent data available (2023) and does not reflect the impact from the regional conflict, nor the future impact of the recent legislation adopted to harmonize with many EU standards.

Products Present in the Market with Good Sales Potential

- Grain and Feed – The Israeli market is almost completely dependent upon imports to meet its grain and feed needs. U.S. rice, corn, wheat and other cereals are present in the market and have good market potential. However, the U.S. grain market share in Israel is declining and is being replaced by regional suppliers.
- Shelled Walnuts, Almonds and Pistachios – The demand for tree nuts in Israel remains strong, particularly for shelled varieties used in snacks, confectionery and bakery products. The rising demand for health snacks and ingredient makes these nuts particularly appealing.

Although the United States dominates this market (with almost 40 percent market share), it is unclear how the new legislation of adopting EU standards may impact such trade.

- Vegetable Oils – Oils such as sunflower, canola, avocado are essential ingredients in food processing and in domestic household use.
- Turkish Ban – Products in demand which were previously imported from Türkiye such as: vegetable oils, chilled or fresh fish, cereals.

Products Not Present in the Market with Good Sales Potential

- Frozen Fruits and Vegetables – There is market demand for frozen vegetables and fruits, especially berries. Prices for these products are high, and local production does not meet demand.
- Fish And Crustaceans, Molluscs and Other Aquatic Invertebrates (frozen or chilled) – Israel imports the majority of these from Norway and Chile. It is a growing category in which U.S. exporters hold a very small market share. Products present in the Israeli market without U.S. presence include seabream, seabass, Pacific salmon, and fish fillets.
- Orange Juice (frozen, whether or not sweetened) - Israel imports the majority of these from Bazil. It is a growing market in which the United States has no market share.
- Feeder Cattle – Israel imports most of its feeder cattle, of which the United States has no market share.

Products Not Present due to Significant Barriers

- Kosher Restrictions - Non-kosher meats are not permitted for importation.
- Phytosanitary Restrictions - Bananas, strawberries, cherries, and citrus are not allowed for importation due to phytosanitary restrictions.
- Standard – All goods imported into Israel must meet Israeli standards.

Links to Top Food Processing Companies

Strauss Group Ltd.: Strauss Website
Tnuva Ltd.: Tnuva Website
Osem-Nestlé: Osem Website (Hebrew)
Central Bottling Company (Coca-Cola Israel): Coca-Cola Israel Website (Hebrew)
SodaStream: SodaStream Website
Unilever Israel: Unilever Israel Website (Hebrew)

Section V: Key Contacts and Further Information

Links to Government Sources

- Israel Tax Authority – Customs Tariff Book
- Israel Central Bureau of Statistics (CBS) - Imports and Exports of Goods and Services
- The Standard Institution of Israel (SII)
- Ministry of Economy and Industry
    - Foreign Trade Administration (FTA)
- Ministry of Agricultural and Food Security
    - Veterinary Services and Animal Health
    - Plant Protection and Inspection Services
- Ministry of Health
    - National Food Services
        - List of approved Food manufacturers or food handlers with food manufacturing license

Trade Associations

- Israel - America Chamber of Commerce (AmCham Israel)
- Federation of Israeli Chamber of Commerce (FICC)
- Manufacturers Association of Israel (MAI)

Foreign Agriculture Service – Tel Aviv 71 Hayarkon Street Tel Aviv, Israel 63903	Phone: 03-519667/671 Email: agtelaviv@usda.gov http://www.fas.usda.gov

Attachments:

No Attachments.