Focus on Israel

Surge in imported wheat from Black Sea region in recent years has made life complicated for Israeli bakers

by David McKee

In the Book of Deuteronomy, God promises to lead the Israelites to "a land with wheat and barley, vines and fig trees…a land where bread will not be scarce and you will lack nothing."

Though almost all the wheat from which it is made is now imported, bread in many forms remains a staple of the modern diet in Israel. Recently a museum exhibition displayed traditional breads of Israel's ethnic communities from 120 countries. Despite a high standard of living, annual per capita wheat consumption is only 125 kg for a population of nearly 7 million.

In an average year, Israeli farmers produce just 20% of the country's wheat requirement on mostly non-irrigated land. Some recycled water (treated sewage) is used in agriculture in limited amounts including for wheat. But water is simply too scarce and precious to use extensively for grain crops. However, exceptional rainfall may result in local production meeting 30% of the national demand for wheat.

Whatever the harvest, farmers are guaranteed a market and a good price for their wheat, since flour millers receive wheat import quotas based on their prior purchases of local wheat. Up until five or six years ago, nearly all wheat imports came from the U.S. To make possible regular deliveries of the preferred hard red winter in Panamax-sized vessels of up to 60,000 tonnes, most of Israel's 14 milling companies have a long-standing arrangement for joint purchases from the U.S. through a trustee company.

This company, Yevulit, is not the country's leading grain

Key Facts

Capital: Jerusalem
Demography: 6.4 million population; Jewish 76.4% (of which Israel-born 67.1%, Europe/America-born 22.6%, Africa-born 5.9%, Asia-born 4.2%), non-Jewish 23.6% (mostly Arab); Languages: Hebrew, Arab. Religions: Jewish 76.4%, Muslim 16%, Arab Christians 1.7%, other Christian 0.4%, Druze 1.6%, unspecified 3.9% (2004); Languages: Hebrew (official), Arabic used officially for Arab minority, English most commonly used foreign language.
Geography: Middle East, bordering the Mediterranean Sea between Egypt and Lebanon.
Government: Parliamentary democracy; Head of government, Prime Minister Ehud Olmert (since May 2006)
Economy: Israel has a technologically advanced market economy with substantial government participation. It depends on imports of crude oil, grains, raw materials, and military equipment. Despite limited natural resources, Israel has intensively developed its agricultural and industrial sectors over the past 20 years. Israel imports substantial quantities of grain but is largely self-sufficient in other agricultural products. Cut diamonds, high-technology equipment and agricultural products (fruits and vegetables) are the leading exports. Israel usually posts sizable current account deficits, which are covered by large transfer payments from abroad and by foreign loans. Roughly half of the government's external debt is owed to the U.S., which is its major source of economic and military aid. The bitter Israeli-Palestinian conflict, difficulties in the high-technology, construction, and tourist sectors, and fiscal austerity in the face of growing inflation led to small declines in GDP in 2001 and 2002. The economy rebounded in 2003 and 2004, growing at a 4% rate each year, as the government tightened fiscal policy and implemented structural reforms to boost competition and efficiency in the markets. In 2005, rising consumer confidence, tourism and foreign direct investment — as well as higher demand for Israeli exports — boosted GDP by 4.7%.
GDP: U.S.$156.9 billion; U.S.$25,000 per capita (PPP, 2005 est.); Inflation 1.3%; Unemployment 9%.
Currency: New Israeli shekels, 4.5 per U.S. dollar (2005)
Exports: U.S.$40.1 billion (2005 est.); machinery and equipment, software, cut diamonds, agricultural products, chemicals, textiles and apparel
Imports: U.S.$43.2 billion (2005 est.); raw materials, military equipment, investment goods, rough diamonds, fuels, grain, consumer goods.
Agricultural products: Citrus, vegetables, cotton, beef, poultry, dairy products.
Transportation: 17,364 km highways; 853 km railroads.
Internet: Code .il; 1,251,881 hosts and 3.7 million users (2006)
(Source: CIA World Fact Book)

Israel Import Situation
(in 1,000 tonnes)

	Wheat	Maize	Soybeans
2006-07*	1,200	1,200	600
2005-06	1,600	1,000	450
2004-05	1,549	1,242	543
2003-04	951	1,377	494
2002-03	1,691	776	500
2001-02	1,553	1,021	735
2000-01	1,251	993	600

** estimated*
Source: U.S. Department of Agriculture

trader. Though it does no wheat milling, Shovrei-Bar accounts for over half of all grain imports for feed use, the biggest part of total annual grain imports exceeding 4 million tonnes.

Israel has two major grain ports: Haifa in the north and Ashdod in the south. The Haifa elevator, with 120,000 tonnes of storage, was first built in 1951, and was owned and operated by Dagon for 50 years, after which ownership went back to the government. The company still leases the elevator, but there are plans for a tender for a new long-term operating license at the port.

The surge in supply of Black Sea wheat has made the wheat import picture less tidy than when the U.S. was the dominant supplier. Up to two-thirds of Israeli imports now arrive from Bulgaria, Romania, Hungary, Ukraine, Russia and Kazakhstan in vessels of 3,000 to 25,000 tonnes, making feasible importation by individual mills or smaller groups of mills. Over 40% of total wheat imports of 1.5 million tonnes are for feed use, and 100% of this wheat now originates in the Black Sea.

This new wheat source has complicated life for Israeli bakers. Long accustomed to the consistently high quality of flour from U.S. wheat grown on vast fields, these bakers are having to adjust to variable flour from wheat originating on small farms in several countries. Large industrial bakers still use at least 50% U.S. origin for their big baking lines that demand homogeneous flour in quantity.

Black Sea wheat has made life difficult for Israel's farmers as well, since its low cost is undermining the current method

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for valuing domestic wheat. The country's wheat growers are paid a price pegged to the Galveston price of U.S. hard red winter plus the shipping cost to Israel at the time of harvest. Leading milling companies have challenged this system in court three times, claiming the existing pricing system for domestic wheat no longer reflects the true international market price for deliveries to Israel. A ruling is still awaited from the Supreme Court on the most recent case. The mill owners hope that the court will appoint a panel of experts from outside the country to create a fairer index for pricing Israeli wheat.

The courts are not an unfamiliar place for Israeli millers. Prior to 1992, flour mills were granted production quotas based on the total length of installed rollers, normally an accurate measure of production capacity, except that roll stands were put on the second and third floors of some mills. A legal challenge brought by certain companies resulted in a Supreme Court ruling to appoint a German milling expert to independently assess mill capacity for allocation of quotas.

The mill quota system was eliminated in 1992 and flour prices were completely deregulated in 2004, but five types of bread remain subject to government price controls. One is the very symbolic Challah bread often eaten on religious and other traditional occasions. Others include white and brown bread. Among them they account for about 35% of bread consumption.

Due to court battles and ongoing deregulation, the country's milling industry is subject to strong competition. There are 17 operating mills. One milling group, Stybel Flour Mills, controls four of these mills and 25% of installed capacity. The other 13 mills are independent companies usually in the second or third generation of family ownership. In some cases, private investors have minority shares in multiple mills but no management control. A steady rise in the country's population combined with modernization and capacity improvements have helped existing mills stay viable. About five mills have had to close in the 15 years since the start of deregulation.

An outcome of the Oslo Accords in 1993 was the construction with international development aid of large mills in Ramallah in the West Bank and in Gaza, resulting in a loss of 25% to 30% of the flour market for Israel's mills, though wheat for these Palestinian mills still must pass through Israeli ports.

FEED AND OILSEEDS

In contrast to flour milling, the feed industry is fairly concentrated. The largest player, Ambar Feed, has annual production of 750,000 tonnes at its two plants. The second and third companies, Miloubar Feed and Tadmir Feed, combine with Ambar to account for the majority of the 2.4 million tonnes of industrial feed production. The remainder comes from numerous small feed mills at the settlements.

Annual per capita poultry consumption of 38 kg, one of the highest in the world, is the basis for a technologically advanced feed industry. The avian flu hit Israel in 2004, but the reaction was swift with the culling of 1.3 million birds, or a loss of just 2,000 tonnes out of total monthly broiler production of 40,000 tonnes.

Israeli equipment companies have been successful in exporting integrated feed and poultry plants on a turnkey basis to a number of countries in the former Soviet Union and Africa.

Oilseed crushing is another sector dependent on imported raw materials. As with wheat, U.S. share of supply has dropped significantly in recent years. Out of total estimated soybean imports of 650,000 tonnes in 2006, U.S. shipments will account for less than a quarter, despite a 90% share as late as 2002. Soybean meal imports, mainly from Argentina, have doubled to over 200,000 tonnes in just a few years' time.

The three soybean crushing companies are Solbar Industries, Shemen Industries, and Teth-Beth. Their combined annual crush is about 660,000 tonnes.

In addition to edible oils and soybean meal for feed, Solbar Industries has focused heavily on value-added products like soy flour, soy proteins and soy isoflavones. The company now exports 90% of its soy food production and has global market share of about 5% for certain soy food categories. The market within Israel has provided a good platform for developing these product lines. Over 50% of the population is said to regularly consume soy-based foods including meat substitutes and soy milk.

Israeli society is both modern and traditional. Soybeans used in feed and human food could be taken to symbolize the modern, and wheat for bread the traditional. That nearly all of its soybeans, wheat, and feed grains must be imported more than symbolizes the sometimes precarious position of Israel in the world today. WG

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