

WHY IS DAIRY SO EXPENSIVE IN ISRAEL?

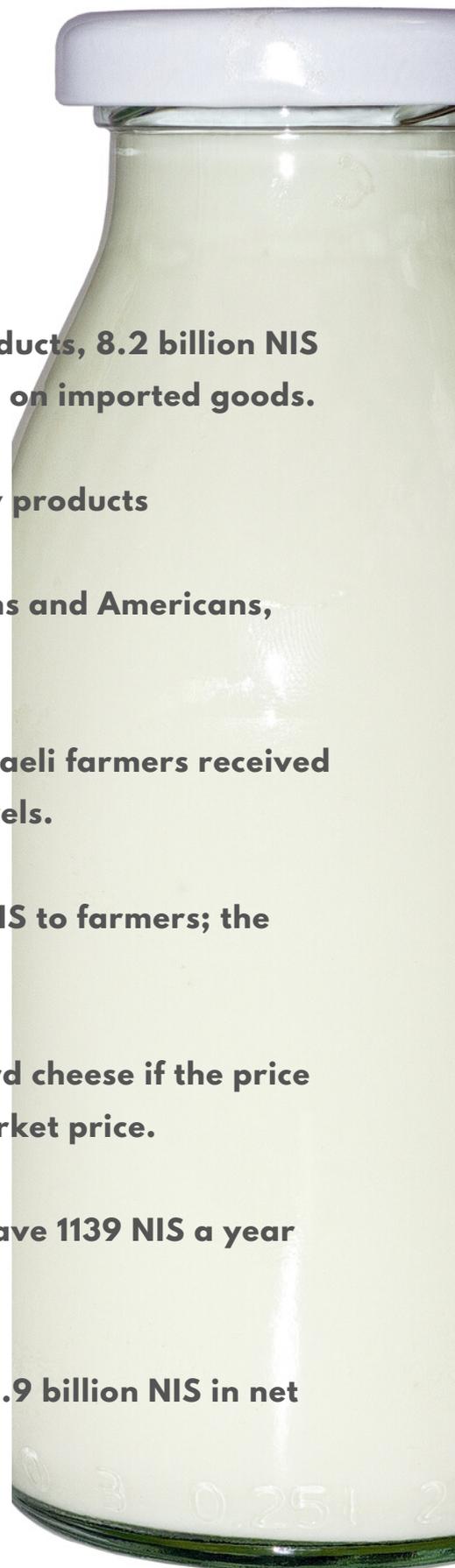
Protectionism costs Israeli families 1,139 NIS





Executive Summary

- **Households spend 8.6 billion NIS a year on dairy products, 8.2 billion NIS on locally produced dairy, and less than half a billion on imported goods.**
- **The average family spends 3,425 NIS a year on dairy products**
- **Israelis are paying more for their milk than Europeans and Americans, and the price differential is increasing over time.**
- **Because of import restrictions, from 2014 to 2018, Israeli farmers received prices that were 60% above international market levels.**
- **From 2014-2018, consumers transferred 5.3 billion NIS to farmers; the lowest income families paid over one billion.**
- **Consumers would save 34% for milk and 33% for hard cheese if the price of raw milk were a reflection of the international market price.**
- **In a Free Trade environment, Israeli families would save 1139 NIS a year on their dairy supermarket bill**
- **On the national level, Israelis would enjoy an extra 2.9 billion NIS in net income**



How much milk do we consume?

According to the Central Bureau of Statistics households survey, Israeli families spend more than 8.6 billion NIS a year buying milk and milk products, an average of 3,425 NIS per household a year, 13.% of the total food expenditures (excluding fruit and vegetables).

The most impoverished families spend relatively more of their food budget on dairy products than the most well off households.

The lowest quintile allocates approximately 4% of his total food bill on milk, four times more than the highest quintile.



**Israeli Families
spend 3,425 NIS
a year on dairy
products**

**Table 1: Monthly consumption expenditure of Milk and Milk Products
By income quintiles of households - CBS Israel - 2017**

	Milk product % of total food expenditures	Milk Drink of total food expenditures	Milk products expenditure in NIS per year	Total Household expenses expenses on milk products
All	13.06%	1.44%	₪3,425	₪8,675,596,800
Quantile 1	13.78%	3.80%	₪3,092	₪1,567,029,672
Quantile 2	13.21%	2.15%	₪3,079	₪1,564,017,312
Quantile 3	12.91%	1.62%	₪3,301	₪1,668,244,968
Quantile 4	13.16%	1.29%	₪3,649	₪1,849,589,040
Quantile 5	12.45%	0.83%	₪4,009	₪2,026,715,808

High prices in the dairy market affect the most deprived households more heavily than the well-off economically.

In 2017, Israeli households spent 8.6 billion NIS on dairy, an average of 3,425 NIS per household per year. Out of the total 3,425 NIS, families spent 29% on milk, 31% on white cheese, 27% on hard cheese, 12% on spreads and yogurts, and 1% on butter

An insular market with very limited imports

According to the Milk Organization 2017 report, the local dairy production amounted to the equivalent of 1549 million liters of milk in 2017 and imports for 288 million liters. (Non liquid dairy products are measured in liter equivalent in milk). However, out of those imports, only cheeses and butter are final dairy consumption goods. The other imported products are input used by producers (whey, milk powder, casein, and blends).

The OECD Agricultural Outlook database production and import data for 2019 estimates that only 20% of butter sold in Israel and 5.5% of cheese were imported last year. Other fresh dairy products and milk are under strict import quotas. Overall, Israeli households spent 95% of their dairy supermarket bill on domestic products and 5% on imported goods.

Are we paying a fair price for our milk?

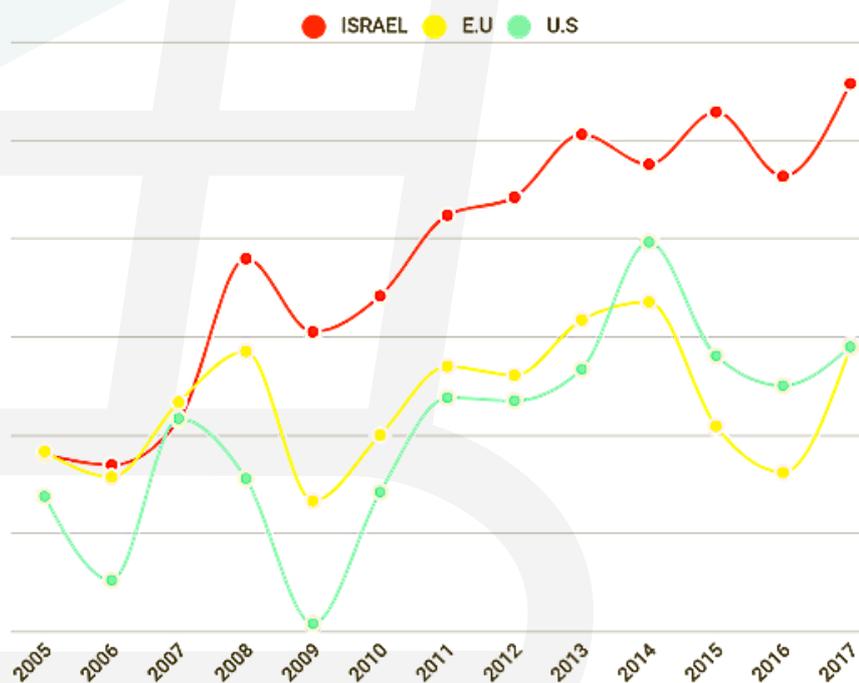
Graph 1 shows the price consumption of milk as published by the OECD for Israel, the European Union (28), and the United States.

From 2005 to 2017, milk prices in Israel grew at an annual rate of 4.6%; in the EU, it was only 2.1% and in the US 3.1%.

Not only Israelis are paying more for their milk than Europeans and Americans, but the price differential is increasing over time.

The insularity of the market allows local producers to charge higher prices without worrying about competition. They are protected internationally by import restrictions but also from new entrants on the local market.

Graph 1: Price of Milk - OECD Data



The Milk Organization, a collective of local chosen producers, controls the domestic supply of dairy products. They decide the industry quotas, they distribute them and set the wholesale price for milk countrywide. The Milk Organization operates as a monopoly, extracting extra profit from the consumers.

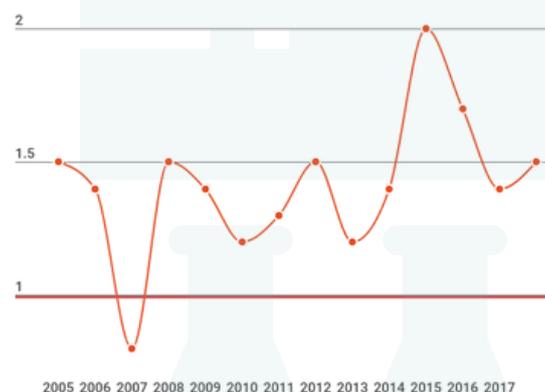
There is no economic reason why the price of milk would be 39% higher in Israel than in the E.U. or 27% higher than in the U.S., except for policies that protect the farmers from the competition on the market.

How protected is the Dairy Industry?

Graph 2 shows the level of protection received by milk producers in Israel using data published by the OECD from 2000 to 2018.

The “Producer protection” measures the difference between the average price received by producers and the price prevalent on the international market. For instance, a coefficient of 1.10 suggests that farmers received prices that were 10% above market levels.

Graph 2: Milk Producer Protection Ratio
Israel - OECD Data



Except for 2007, the milk producers protection coefficient was always above 1, indicating a price distortion in favor of the farmers.

In 2018, the last year of available data, the ratio averaged 1.5, meaning that Israeli farmers received prices 50% above international market levels for the milk they produce.

From 2014 to 2018, the protection level averaged 1.6. Protecting farmers by insulating them from competition hurts the consumers. Those policies are also regressive since they damage the poorest households more than the richest.

Consumers are subsidizing the farmers

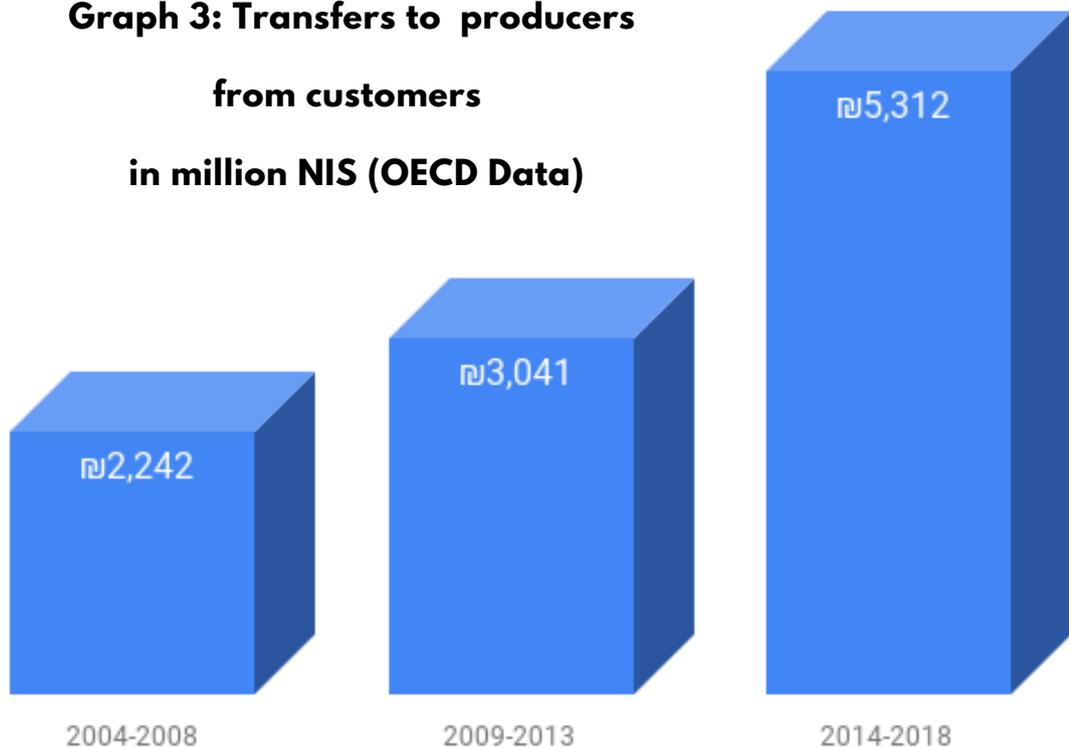
To estimate the monetary impact of the agricultural policies, the OECD calculates the annual monetary value of transfers to agriculture producers from consumers and taxpayers for a single commodity.

Graph 3 shows the total transfer of value from customers to milk producers since 2004. Besides the enormous amount transferred, it is even more worrisome that the amount transferred grew by 60% when comparing the last five years (2014 to 2018) to the five years prior (2009 to 2013).

**Consumers transferred
5.3 billion to farmers,
one billion by families
with lowest income**

In the latest years, 5.3 billion NIS were transferred from consumers to the farmers, one billion by families with the lowest income. Israel is one of the few countries left in the world, where consumers are the ones paying subsidies to the agriculture sector. As reported in the 2019 OECD report, "the share of potentially most market-distorting forms of support in Israel (91%) is much higher than the OECD average."

**Graph 3: Transfers to producers
from customers
in million NIS (OECD Data)**



Source: <https://www.oecd.org/agriculture/topics/agricultural-policy-monitoring-and-evaluation/>
https://www.moag.gov.il/yhidotmisrad/research_economy_strategy/publication/2019/Documents/Milk_Cheese_Comparison.pdf
 The price composition is assumed to be stable before and after free trade.

The Cost to Consumers

Today when a consumer buys a dairy product at the supermarket, the price reflects the product value chain from raw milk to the supermarket shelf. In 2018, the price of raw milk should have been 50% lower if market conditions had applied. Using the price composition of dairy products as published by The Ministry of Agriculture and Rural Development, we can simulate the consumption price of dairy products if the price of raw milk used in their production decreases by 50% to the international market level.

Graph 4: Price of a liter of Milk

Today vs. Free Trade



When government policies artificially support the domestic price of raw milk to level 60% higher than the market price, the whole dairy industry is affected.

Today, the consumer pays 5.42 NIS for a liter of milk, 1.94 represents the cost of raw milk as input, the wholesaler adds another 2.09 NIS (107%), the retailer .61 NIS , and the tax authority another .79 NIS. In a free trade environment, the price of raw milk will lower by 50%, leading to an overall decrease in the cost of dairy products.

Graph 4 shows the retail price components for milk sold in a bag or a box. In the current market conditions, Israeli consumers paid 5.42 NIS for a liter of milk. Under free trade conditions, with the cost of raw milk valued at market value, the price to consumers would have been 3.58 NIS, a discount of 34%.

In a free trade environment, families would have saved 306 NIS for their drinking milk a year. On the national level, Israelis would have saved 734 million NIS.



The same is true for hard cheese. Graph 5 shows the price components for yellow cheese. Today, the consumer pays 39.2 NIS for a kilogram of yellow cheese, 18.33 represents the cost of raw milk as input, the wholesaler adds another 10.3 NIS, the retailer 4.8 NIS, and the tax authority another 5.8 NIS. In a free trade environment, the price of raw milk would be 50% lower, leading to an overall decrease in the cost of dairy products. Today consumers pay 39.2 NIS for a kilo of Yellow cheese; in a free trade environment, the price would be 26.8, a discount of 33%.

Graph 5: Price of a Kilo of Yellow Cheese

Today vs. Free Trade

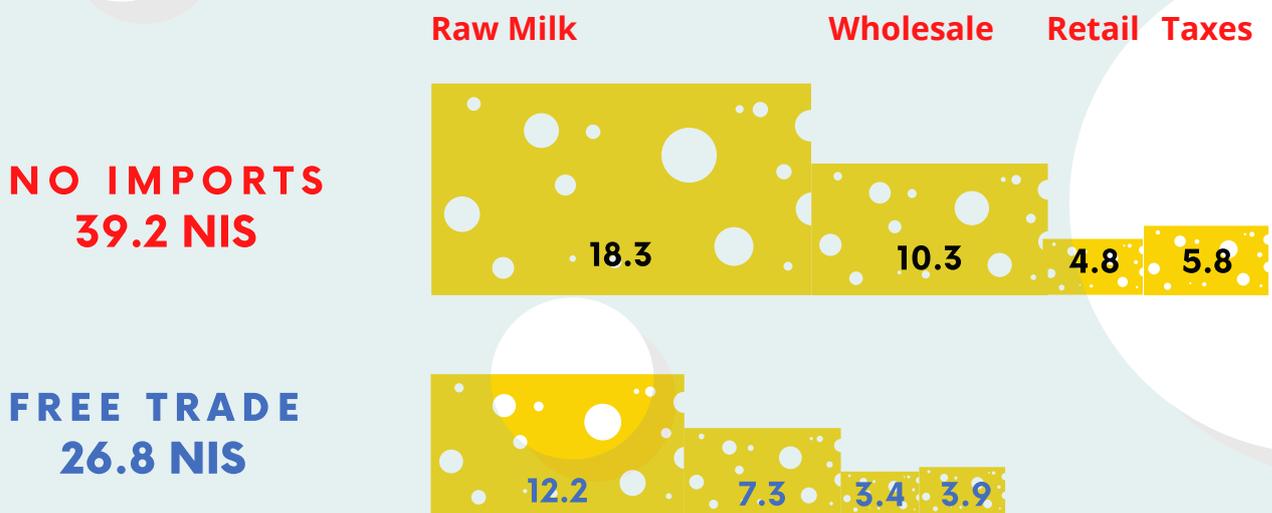


Table 2 shows the yearly amount spent by households on dairy products according to CBS 2017 Household survey. In order to calculate the potential savings for the consumers in a free trade environment, we used a saving rate of 34% for milk and 33% for cheese, as described in the previous section. The Ministry of Agriculture and Rural Development doesn't publish price components for other dairy products, we assumed a similar saving ratio of 33%.

**Table 2: Yearly Household Cost for Dairy Products
Today vs. Free Trade**

	Yearly Household Cost in Current Situation	Yearly Household Cost in Free Trade Situation	Discount
Milk drink	₪900	₪594	34%
Cheese	₪778	₪521	33%
White Cheese	₪955	₪640	33%
Butter	₪95	₪64	33%
Yogurt, Spreads, Ice cream	₪697	₪467	33%
Total Spend	₪3,425	₪2,286	₪1,139

What Free Trade would do for you?

In a free trade environment, the price of raw milk in Israel in 2018 would have been 50% lower than it was, and dairy products would have been 33% cheaper on average. Overall, each Israeli household would have saved a little over 1,139 NIS. On the national level, Israelis would have saved 2.9 billion NIS.

**Savings with
Free Trade**

**Country
2,900,000,000 NIS**

**Families
1,139 NIS**

